

ZIONS BANCORPORATION /UT/
 Form 10-Q
 May 08, 2014

UNITED STATES
 SECURITIES AND EXCHANGE COMMISSION
 Washington, D.C. 20549
 FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
 OF 1934

For the quarterly period ended March 31, 2014

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
 OF 1934

For the transition period from to
 COMMISSION FILE NUMBER 001-12307

ZIONS BANCORPORATION

(Exact name of registrant as specified in its charter)

UTAH

87-0227400

(State or other jurisdiction of
 incorporation or organization)

(I.R.S. Employer
 Identification No.)

One South Main, 15th Floor
 Salt Lake City, Utah

84133

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: (801) 524-4787

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock, without par value, outstanding at April 30, 2014 184,895,233 shares

ZIONS BANCORPORATION AND SUBSIDIARIES
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PART I. FINANCIAL INFORMATION
 ITEM 1. FINANCIAL STATEMENTS (Unaudited)
 ZIONS BANCORPORATION AND SUBSIDIARIES
 CONSOLIDATED BALANCE SHEETS

(In thousands, except shares)	March 31, 2014 (Unaudited)	December 31, 2013
ASSETS		
Cash and due from banks	\$1,341,319	\$1,175,083
Money market investments:		
Interest-bearing deposits	8,157,837	8,175,048
Federal funds sold and security resell agreements	379,947	282,248
Investment securities:		
Held-to-maturity, at adjusted cost (approximate fair value \$635,379 and \$609,547)	606,279	588,981
Available-for-sale, at fair value	3,423,205	3,701,886
Trading account, at fair value	56,172	34,559
	4,085,656	4,325,426
Loans held for sale	126,344	171,328
Loans and leases, net of unearned income and fees	39,198,136	39,043,365
Less allowance for loan losses	736,953	746,291
Loans, net of allowance	38,461,183	38,297,074
Other noninterest-bearing investments	848,775	855,642
Premises and equipment, net	785,519	726,372
Goodwill	1,014,129	1,014,129
Core deposit and other intangibles	33,562	36,444
Other real estate owned	39,248	46,105
Other assets	807,325	926,228
	\$56,080,844	\$56,031,127
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Noninterest-bearing demand	\$19,257,889	\$18,758,753
Interest-bearing:		
Savings and money market	23,097,351	23,029,928
Time	2,528,735	2,593,038
Foreign	1,648,111	1,980,161
	46,532,086	46,361,880
Federal funds and other short-term borrowings	279,837	340,348
Long-term debt	2,158,701	2,273,575
Reserve for unfunded lending commitments	88,693	89,705
Other liabilities	435,311	501,056
Total liabilities	49,494,628	49,566,564
Shareholders' equity:		

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Preferred stock, without par value, authorized 4,400,000 shares	1,003,970	1,003,970
Common stock, without par value; authorized 350,000,000 shares; issued and outstanding 184,895,182 and 184,677,696 shares	4,185,513	4,179,024
Retained earnings	1,542,195	1,473,670
Accumulated other comprehensive income (loss)	(145,462)	(192,101)
Total shareholders' equity	6,586,216	6,464,563
	\$56,080,844	\$56,031,127

See accompanying notes to consolidated financial statements.

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ZIONS BANCORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

(In thousands, except shares and per share amounts)	Three Months Ended	
	March 31, 2014	2013
Interest income:		
Interest and fees on loans	\$434,344	\$453,433
Interest on money market investments	5,130	5,439
Interest on securities	28,094	25,876
Total interest income	467,568	484,748
Interest expense:		
Interest on deposits	12,779	15,642
Interest on short- and long-term borrowings	38,324	50,991
Total interest expense	51,103	66,633
Net interest income	416,465	418,115
Provision for loan losses	(610	) (29,035
Net interest income after provision for loan losses	417,075	447,150
Noninterest income:		
Service charges and fees on deposit accounts	42,594	43,580
Other service charges, commissions and fees	43,519	42,731
Wealth management income	7,077	6,994
Capital markets and foreign exchange	5,000	7,486
Dividends and other investment income	7,864	12,724
Loan sales and servicing income	6,474	10,951
Fair value and nonhedge derivative loss	(8,539	) (5,445
Equity securities gains, net	912	2,832
Fixed income securities gains, net	30,914	3,299
Impairment losses on investment securities:		
Impairment losses on investment securities	(27	) (31,493
Noncredit-related losses on securities not expected to be sold (recognized in other comprehensive income)	—	21,376
Net impairment losses on investment securities	(27	) (10,117
Other	2,531	6,184
Total noninterest income	138,319	121,219
Noninterest expense:		
Salaries and employee benefits	233,406	229,789
Occupancy, net	28,305	27,389
Furniture, equipment and software	27,944	26,074
Other real estate expense	1,607	1,977
Credit-related expense	6,906	10,482
Provision for unfunded lending commitments	(1,012	) (6,354
Professional and legal services	10,995	10,471
Advertising	6,398	5,893
FDIC premiums	7,922	9,711
Amortization of core deposit and other intangibles	2,882	3,819

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Other	72,710	78,097
Total noninterest expense	398,063	397,348
Income before income taxes	157,331	171,021
Income taxes	56,121	60,634
Net income	101,210	110,387
Net loss applicable to noncontrolling interests	—	(336)
Net income applicable to controlling interest	101,210	110,723
Preferred stock dividends	(25,020)	(22,399)
Net earnings applicable to common shareholders	\$76,190	\$88,324
Weighted average common shares outstanding during the period:		
Basic shares	184,440	183,396
Diluted shares	185,123	183,655
Net earnings per common share:		
Basic	\$0.41	\$0.48
Diluted	0.41	0.48
See accompanying notes to consolidated financial statements.		

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ZIONS BANCORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

(In thousands)	Three Months Ended	
	March 31, 2014	2013
Net income	\$101,210	\$110,387
Other comprehensive income (loss), net of tax:		
Net unrealized holding gains on investment securities	71,066	48,796
Noncredit-related impairment losses on securities not expected to be sold	—	(12,754)
Reclassification to earnings for realized net fixed income securities gains	(24,840)	(2,037)
Reclassification to earnings for net credit-related impairment losses on investment securities	17	5,999
Accretion of securities with noncredit-related impairment losses not expected to be sold	286	209
Net unrealized holding gains (losses) on derivative instruments	320	(2)
Reclassification adjustment for increase in interest income recognized in earnings on derivative instruments	(210)	(957)
Other comprehensive income	46,639	39,254
Comprehensive income	147,849	149,641
Comprehensive loss applicable to noncontrolling interests	—	(336)
Comprehensive income applicable to controlling interest	\$147,849	\$149,977
See accompanying notes to consolidated financial statements.		

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ZIONS BANCORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Unaudited)

(In thousands, except shares and per share amounts)	Preferred stock	Common stock		Retained earnings	Accumulated other comprehensive income (loss)	Noncontrolling interests	Total shareholders' equity
		Shares	Amount				
Balance at December 31, 2013	\$1,003,970	184,677,696	\$4,179,024	\$1,473,670	\$(192,101)	\$—	\$6,464,563
Net income for the period				101,210		—	101,210
Other comprehensive income, net of tax					46,639		46,639
Net activity under employee plans and related tax benefits		217,486	6,489				6,489
Dividends on preferred stock				(25,020)			(25,020)
Dividends on common stock, \$0.04 per share				(7,436)			(7,436)
Change in deferred compensation				(229)			(229)
Balance at March 31, 2014	\$1,003,970	184,895,182	\$4,185,513	\$1,542,195	\$(145,462)	\$—	\$6,586,216
Balance at December 31, 2012	\$1,128,302	184,199,198	\$4,166,109	\$1,203,815	\$(446,157)	\$(3,428)	\$6,048,641
Net income (loss) for the period				110,723		(336)	110,387
Other comprehensive income, net of tax					39,254		39,254
Issuance of preferred stock	171,827		(3,076)				168,751
Subordinated debt converted to preferred stock	1,160		(169)				991
Net activity under employee plans and related tax benefits		47,273	7,438				7,438
Dividends on preferred stock				(22,399)			(22,399)
Dividends on common stock, \$0.01 per share				(1,833)			(1,833)
Change in deferred compensation				(175)			(175)
Other changes in noncontrolling interests			586			(988)	(402)
Balance at March 31, 2013	\$1,301,289	184,246,471	\$4,170,888	\$1,290,131	\$(406,903)	\$(4,752)	\$6,350,653

See accompanying notes to consolidated financial statements.

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ZIONS BANCORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(In thousands)	Three Months Ended March 31,	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the period	\$ 101,210	\$ 110,387
Adjustments to reconcile net income to net cash provided by operating activities:		
Net impairment losses on investment securities	27	10,117
Provision for credit losses	(1,622	) (35,389
Depreciation and amortization	32,404	38,258
Fixed income securities gains, net	(30,914	) (3,299
Deferred income tax expense	78,278	1,282
Net increase in trading securities	(21,862	) (11
Net decrease in loans held for sale	41,195	89,996
Change in other liabilities	(77,580	) (48,477
Change in other assets	3,086	51,580
Other, net	2,336	(12,153
Net cash provided by operating activities	126,558	202,291
CASH FLOWS FROM INVESTING ACTIVITIES		
Net decrease (increase) in money market investments	(80,488	) 628,887
Proceeds from maturities and paydowns of investment securities held-to-maturity	18,935	53,612
Purchases of investment securities held-to-maturity	(35,750	) (45,800
Proceeds from sales, maturities, and paydowns of investment securities available-for-sale	847,288	359,223
Purchases of investment securities available-for-sale	(452,123	) (486,975
Proceeds from sales of loans and leases	6,142	6,011
Net loan and lease originations	(168,628	) (126,862
Net purchases of premises and equipment	(76,916	) (15,800
Proceeds from sales of other real estate owned	11,825	27,974
Other, net	5,617	7,388
Net cash provided by investing activities	75,902	407,658
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase (decrease) in deposits	170,206	(1,642,878
Net change in short-term funds borrowed	(60,511	) (25,853
Proceeds from issuance of long-term debt	—	19,362
Repayments of long-term debt	(124,755	) (18,398
Proceeds from issuances of common and preferred stock	2,880	169,399
Dividends paid on common and preferred stock	(23,741	) (24,232
Other, net	(303	) (439
Net cash used in financing activities	(36,224	) (1,523,039
Net increase (decrease) in cash and due from banks	166,236	(913,090
Cash and due from banks at beginning of period	1,175,083	1,841,907

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Cash and due from banks at end of period	\$1,341,319	\$928,817
Cash paid for interest	\$40,849	\$62,131
Net cash paid (refunds received) for income taxes	(81) 3,565
See accompanying notes to consolidated financial statements.		

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ZIONS BANCORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

March 31, 2014

1. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements of Zions Bancorporation (“the Parent”) and its majority-owned subsidiaries (collectively “the Company,” “Zions,” “we,” “our,” “us”) have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. References to GAAP, including standards promulgated by the Financial Accounting Standards Board (“FASB”), are made according to sections of the Accounting Standards Codification (“ASC”) and to Accounting Standards Updates (“ASU”), which include consensus issues of the Emerging Issues Task Force (“EITF”). Certain prior period amounts have been reclassified to conform with the current period presentation.

Operating results for the three months ended March 31, 2014 and 2013 are not necessarily indicative of the results that may be expected in future periods. The consolidated balance sheet at December 31, 2013 is from the audited financial statements at that date, but does not include all of the information and footnotes required by GAAP for complete financial statements. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company’s 2013 Annual Report on Form 10-K.

The Company provides a full range of banking and related services through subsidiary banks in 10 Western and Southwestern states as follows: Zions First National Bank (“Zions Bank”), in Utah and Idaho; California Bank & Trust (“CB&T”); Amegy Corporation (“Amegy”) and its subsidiary, Amegy Bank, in Texas; National Bank of Arizona (“NBAZ”); Nevada State Bank (“NSB”); Vectra Bank Colorado (“Vectra”), in Colorado and New Mexico; The Commerce Bank of Washington (“TCBW”); and The Commerce Bank of Oregon (“TCBO”). The Parent and its subsidiary banks also own and operate certain nonbank subsidiaries that engage in financial services.

2. CERTAIN RECENT ACCOUNTING PRONOUNCEMENTS

In January 2014, the FASB issued ASU 2014-04, Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure. This new guidance under ASU 310-40, Receivables – Troubled Debt Restructurings by Creditors, clarifies that a creditor should be considered to have physical possession of a residential real estate property collateralizing a residential mortgage loan and thus would reclassify the loan to other real estate owned when certain conditions are satisfied. The new amendments will require additional financial statement disclosures and may be applied on either a prospective or a modified retrospective basis, with early adoption permitted. For public companies, adoption is required for interim or annual periods beginning after December 15, 2014. Management is currently evaluating the impact this new guidance may have on its financial statement disclosures.

In January 2014, the FASB issued ASU 2014-01, Accounting for Investments in Qualified Affordable Housing Projects. This new accounting guidance under ASC 323, Investments – Equity Method and Joint Ventures, revised the conditions that an entity must meet to elect to use the effective yield method when accounting for qualified affordable housing project investments. The final consensus of the EITF changed the method of amortizing a Low Income Housing Tax Credit (“LIHTC”) investment from the effective yield method to a proportional amortization method. The amortization would be proportional to the tax credits and tax benefits received but, under a practical expedient that would be available in certain circumstances, amortization could be proportional to only the tax credits. Reporting entities that invest in LIHTC investments through a limited liability entity could elect the proportional amortization

method if certain conditions are met. The guidance would not extend to other types of tax

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credit investments. The final consensus would be applied retrospectively with early adoption and other adjustments permitted. For public companies, adoption is required for interim or annual periods beginning after December 15, 2014. Management is currently evaluating the impact this new guidance may have on its financial statements.

3. SUPPLEMENTAL CASH FLOW INFORMATION

Noncash activities are summarized as follows:

(In thousands)	Three Months Ended	
	March 31, 2014	2013
Loans transferred to other real estate owned	\$6,338	\$23,442
Loans held for sale transferred to loans and leases	3,789	96
Beneficial conversion feature transferred from common stock to preferred stock as a result of subordinated debt conversions	—	169
Subordinated debt converted to preferred stock	—	991

4. CASH AND MONEY MARKET INVESTMENTS

Gross and net information for selected financial instruments in the balance sheet is as follows:

(In thousands)	March 31, 2014			Gross amounts not offset in the balance sheet		
	Gross amounts recognized	Gross amounts offset in the balance sheet	Net amounts presented in the balance sheet	Financial instruments	Cash collateral received/pledged	Net amount
Assets:						
Federal funds sold and security resell agreements	\$379,947	\$—	\$379,947	\$—	\$ —	\$379,947
Derivatives (included in other assets)	57,683	—	57,683	(8,646)	760	49,797
	\$437,630	\$—	\$437,630	\$(8,646)	\$ 760	\$429,744
Liabilities:						
Federal funds and other short-term borrowings	\$279,837	\$—	\$279,837	\$—	\$ —	\$279,837
Derivatives (included in other liabilities)	62,589	—	62,589	(8,646)	(29,260)	24,683
	\$342,426	\$—	\$342,426	\$(8,646)	\$(29,260)	\$304,520

December 31, 2013

(In thousands)	December 31, 2013			Gross amounts not offset in the balance sheet		
	Gross amounts recognized	Gross amounts offset in the balance sheet	Net amounts presented in the balance sheet	Financial instruments	Cash collateral received/pledged	Net amount
Description						

sheet

Assets:

Federal funds sold and security resell agreements	\$282,248	\$—	\$282,248	\$—	\$ —	\$282,248
Derivatives (included in other assets)	65,683	—	65,683	(11,650)	2,210	56,243
	\$347,931	\$—	\$347,931	\$(11,650)	\$ 2,210	\$338,491

Liabilities:

Federal funds and other short-term borrowings	\$340,348	\$—	\$340,348	\$—	\$ —	\$340,348
Derivatives (included in other liabilities)	68,397	—	68,397	(11,650)	(26,997)	29,750
	\$408,745	\$—	\$408,745	\$(11,650)	\$ (26,997)	\$370,098

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ZIONS BANCORPORATION AND SUBSIDIARIES

Security resell and repurchase agreements are offset, when applicable, in the balance sheet according to master netting agreements. Security repurchase agreements are included with “Federal funds and other short-term borrowings.” Derivative instruments may be offset under their master netting agreements; however, for accounting purposes, we present these items on a gross basis in the Company’s balance sheet. See Note 7 for further information regarding derivative instruments.

5. INVESTMENT SECURITIES

Investment securities are summarized below. Note 10 discusses the process to estimate fair value for investment securities.

(In thousands)	March 31, 2014						
	Amortized cost	Recognized in OCI ¹			Not recognized in OCI		
		Gross unrealized gains	Gross unrealized losses	Carrying value	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Held-to-maturity							
Municipal securities	\$567,935	\$—	\$—	\$567,935	\$14,429	\$1,707	\$580,657
Asset-backed securities:							
Trust preferred securities – banks and insurance	79,351	—	41,107	38,244	17,603	1,225	54,622
Other debt securities	100	—	—	100	—	—	100
	647,386	—	41,107	606,279	32,032	2,932	635,379
Available-for-sale							
U.S. Treasury securities	1,471	75	—	1,546			1,546
U.S. Government agencies and corporations:							
Agency securities	561,153	2,595	5,997	557,751			557,751
Agency guaranteed mortgage-backed securities	301,020	10,662	844	310,838			310,838
Small Business Administration loan-backed securities	1,366,783	19,964	4,868	1,381,879			1,381,879
Municipal securities	150,897	1,213	704	151,406			151,406
Asset-backed securities:							
Trust preferred securities – banks and insurance	934,353	13,578	188,520	759,411			759,411
Auction rate securities	6,508	87	35	6,560			6,560
Other	1,462	290	—	1,752			1,752
	3,323,647	48,464	200,968	3,171,143			3,171,143
Mutual funds and other	257,643	180	5,761	252,062			252,062
	3,581,290	48,644	206,729	3,423,205			3,423,205
Total	\$4,228,676	\$48,644	\$247,836	\$4,029,484			\$4,058,584

¹ Other comprehensive income

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ZIONS BANCORPORATION AND SUBSIDIARIES

(In thousands)	December 31, 2013						
	Amortized cost	Recognized in OCI			Not recognized in OCI		
		Gross unrealized gains	Gross unrealized losses	Carrying value	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Held-to-maturity							
Municipal securities	\$551,055	\$—	\$—	\$551,055	\$11,295	\$4,616	\$557,734
Asset-backed securities:							
Trust preferred securities – banks and insurance	79,419	—	41,593	37,826	15,195	1,308	51,713
Other debt securities	100	—	—	100	—	—	100
	630,574	—	41,593	588,981	26,490	5,924	609,547
Available-for-sale							
U.S. Treasury securities	1,442	104	—	1,546			1,546
U.S. Government agencies and corporations:							
Agency securities	517,905	1,920	901	518,924			518,924
Agency guaranteed mortgage-backed securities	308,687	9,926	1,237	317,376			317,376
Small Business Administration loan-backed securities	1,202,901	21,129	2,771	1,221,259			1,221,259
Municipal securities	65,425	1,329	490	66,264			66,264
Asset-backed securities:							
Trust preferred securities – banks and insurance	1,508,224	13,439	282,843	1,238,820			1,238,820
Trust preferred securities – real estate investment trusts	22,996	—	—	22,996			22,996
Auction rate securities	6,507	118	26	6,599			6,599
Other	27,540	359	—	27,899			27,899
	3,661,627	48,324	288,268	3,421,683			3,421,683
Mutual funds and other	287,603	21	7,421	280,203			280,203
	3,949,230	48,345	295,689	3,701,886			3,701,886
Total	\$4,579,804	\$48,345	\$337,282	\$4,290,867			\$4,311,433

The amortized cost and estimated fair value of investment debt securities are shown subsequently as of March 31, 2014 by expected maturity distribution for collateralized debt obligations (“CDOs”) and by contractual maturity for other debt securities. Actual maturities may differ from expected or contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

(In thousands)	Held-to-maturity		Available-for-sale	
	Amortized cost	Estimated fair value	Amortized cost	Estimated fair value
Due in one year or less	\$77,395	\$56,283	\$510,870	\$497,041
Due after one year through five years	195,088	161,077	1,212,400	1,205,205

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Due after five years through ten years	135,308	138,806	709,151	697,454
Due after ten years	239,595	279,213	891,226	771,443
	\$647,386	\$635,379	\$3,323,647	\$3,171,143

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ZIONS BANCORPORATION AND SUBSIDIARIES

The following is a summary of the amount of gross unrealized losses for investment securities and the estimated fair value by length of time the securities have been in an unrealized loss position:

(In thousands)	March 31, 2014					
	Less than 12 months		12 months or more		Total	
	Gross unrealized losses	Estimated fair value	Gross unrealized losses	Estimated fair value	Gross unrealized losses	Estimated fair value
Held-to-maturity						
Municipal securities	\$ 1,414	\$ 43,060	\$ 293	\$ 5,721	\$ 1,707	\$ 48,781
Asset-backed securities:						
Trust preferred securities – banks and insurance	56	71	42,276	54,551	42,332	54,622
	1,470	43,131	42,569	60,272	44,039	103,403
Available-for-sale						
U.S. Government agencies and corporations:						
Agency securities	5,936	326,547	61	5,803	5,997	332,350
Agency guaranteed mortgage-backed securities	792	48,560	52	3,054	844	51,614
Small Business Administration loan-backed securities	3,537	347,883	1,331	37,832	4,868	385,715
Municipal securities	57	7,127	647	2,824	704	9,951
Asset-backed securities:						
Trust preferred securities – banks and insurance	1,280	52,845	187,240	624,501	188,520	677,346
Auction rate securities	11	1,603	24	889	35	2,492
	11,613	784,565	189,355	674,903	200,968	1,459,468
Mutual funds and other	—	—	5,761	124,331	5,761	124,331
	11,613	784,565	195,116	799,234	206,729	1,583,799
Total	\$ 13,083	\$ 827,696	\$ 237,685	\$ 859,506	\$ 250,768	\$ 1,687,202

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(In thousands)	December 31, 2013		12 months or more		Total Gross unrealized losses	Estimated fair value
	Less than 12 months Gross unrealized losses	Estimated fair value	Gross unrealized losses	Estimated fair value		
Held-to-maturity						
Municipal securities	\$4,025	\$70,400	\$591	\$9,103	\$4,616	\$79,503
Asset-backed securities:						
Trust preferred securities – banks and insurance	—	—	42,901	51,319	42,901	51,319
	4,025	70,400	43,492	60,422	47,517	130,822
Available-for-sale						
U.S. Government agencies and corporations:						
Agency securities	828	47,862	73	5,874	901	53,736
Agency guaranteed mortgage-backed securities	1,231	64,533	6	935	1,237	65,468
Small Business Administration loan-backed securities	1,709	187,680	1,062	39,256	2,771	226,936
Municipal securities	73	8,834	417	3,179	490	12,013
Asset-backed securities:						
Trust preferred securities – banks and insurance	2,539	51,911	280,304	847,990	282,843	899,901
Auction rate securities	5	1,609	21	892	26	2,501
	6,385	362,429	281,883	898,126	288,268	1,260,555
Mutual funds and other	943	24,057	6,478	103,614	7,421	127,671
	7,328	386,486	288,361	1,001,740	295,689	1,388,226
Total	\$11,353	\$456,886	\$331,853	\$1,062,162	\$343,206	\$1,519,048

At March 31, 2014 and December 31, 2013, respectively, 126 and 157 held-to-maturity (“HTM”) and 334 and 317 available -for-sale (“AFS”) investment securities were in an unrealized loss position.

Other-Than-Temporary Impairment

Ongoing Policy

We conduct a formal review of investment securities on a quarterly basis for the presence of other-than-temporary impairment (“OTTI”). We assess whether OTTI is present when the fair value of a debt security is less than its amortized cost basis at the balance sheet date (the vast majority of the investment portfolio are debt securities). Under these circumstances, OTTI is considered to have occurred if (1) we intend to sell the security; (2) it is “more likely than not” we will be required to sell the security before recovery of its amortized cost basis; or (3) the present value of expected cash flows is not sufficient to recover the entire amortized cost basis.

Noncredit-related OTTI in securities we intend to sell is recognized in earnings as is any credit-related OTTI in securities, regardless of our intent. Noncredit-related OTTI on AFS securities not expected to be sold is recognized in OCI. The amount of noncredit-related OTTI in a security is quantified as the difference in a security’s amortized cost after adjustment for credit impairment, and its lower fair value. Presentation of OTTI is made in the statement of income on a gross basis with an offset for the amount of OTTI recognized in OCI. For securities classified as HTM, the amount of noncredit-related OTTI recognized in OCI is accreted using the effective interest rate method to the credit-adjusted expected cash flow amounts of the securities over future periods.

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Effect of Volcker Rule and Interim Final Rule

On December 10, 2013, the final Volcker Rule (“VR”) was published pursuant to the Dodd-Frank Act. The VR significantly restricted certain activities by covered bank holding companies, including restrictions on certain types of securities, proprietary trading, and private equity investing. On January 14, 2014, the VR’s application to certain CDO securities was revised by an Interim Final Rule (“IFR”) related primarily to bank trust preferred CDO securities.

Certain of the Company’s CDO securities backed primarily by insurance trust preferred securities, real estate investment trust (“REIT”) securities, and asset-backed securities (“ABS”) became disallowed to be held effective July 21, 2015 under the VR and the IFR. This regulatory change resulted in the Company no longer being able to hold these securities to maturity. Further, to reduce the risk profile of the portfolio, we determined as of December 31, 2013, an intent to sell certain disallowed as well as other allowed CDO securities.

During the first quarter of 2014, we recorded a total of \$993 million par amount of sales and paydowns of CDO securities. Total sales proceeds were \$607 million and, together with approximately \$5 million of gains on paydowns, resulted in net gains of \$31 million. Sales made reflected price improvement during the first quarter of 2014.

The sales included those announced on February 12, 2014 of \$631 million par amount of CDO securities resulting in pretax gains of \$65 million. These securities had been identified for sale as of December 31, 2013 and their amortized cost was adjusted to fair value as of that date.

Late in the first quarter, we sold an additional \$301 million par amount of primarily insurance CDOs. These sales resulted in net realized pretax losses of \$39 million. Unrealized losses on these securities were approximately \$65 million at December 31, 2013. Their amortized cost was not adjusted to fair value at December 31, 2013 because the Company did not, at that date, intend to sell these securities.

OTTI Conclusions

Our 2013 Annual Report on Form 10-K describes in more detail our OTTI evaluation process. The following summarizes the conclusions from our OTTI evaluation for the security type that has significant gross unrealized losses at March 31, 2014:

OTTI – Asset-Backed Securities

Trust preferred securities – banks and insurance – These CDO securities are interests in variable rate pools of trust preferred securities issued by trusts related to bank holding companies and insurance companies (“collateral issuers”). They are rated by one or more Nationally Recognized Statistical Rating Organizations (“NRSROs”), which are rating agencies registered with the Securities and Exchange Commission (“SEC”). The more junior securities were purchased generally at par, while the senior securities were purchased from Lockhart Funding LLC (“Lockhart”), a previously consolidated qualifying special-purpose entity securities conduit, at their carrying values (generally par) and then adjusted to their lower fair values. The primary drivers that have given rise to the unrealized losses on CDOs with bank and insurance collateral are listed below:

1) Market yield requirements for bank CDO securities remain elevated. The financial crisis and economic downturn resulted in significant utilization of both the unique five-year deferral option, which each collateral issuer maintains during the life of the CDO, and the payment in kind (“PIK”) feature described subsequently. The resulting increase in the rate of return demanded by the market for trust preferred CDOs remains substantially higher than the contractual interest rates. CDO tranches backed by bank trust preferred securities continue to be characterized by uncertainty surrounding collateral behavior, specifically including, but not limited to, prepayments; the future number, size and timing of bank failures; holding company bankruptcies; and allowed deferrals and subsequent resumption of payment or default due to nonpayment of contractual interest.

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Structural features of the collateral make these CDO tranches difficult for market participants to model. The first feature unique to bank CDOs is the interest deferral feature previously noted. Throughout the crisis starting in 2008, 2) certain banks within our CDO pools have exercised this prerogative. The extent to which these deferrals are likely to either transition to default or, alternatively, come current prior to the five-year deadline is extremely difficult for market participants to assess.

A second structural feature that is difficult to model is the PIK feature, which provides that upon reaching certain levels of collateral default or deferral, certain junior CDO tranches will not receive current interest but will instead have the interest amount that is unpaid capitalized or deferred. The delay in payment caused by PIKing results in lower security fair values even if PIKing is projected to be fully cured.

The ratings from one NRSRO remain below-investment-grade for even some of the most senior tranches that originally were rated AAA or the equivalent. Ratings on a number of CDO tranches vary significantly among rating 3) agencies. The presence of a below-investment-grade rating by even a single rating agency will severely limit the pool of buyers, which causes greater illiquidity and therefore most likely a higher implicit discount rate/lower price with regard to that CDO tranche.

Our ongoing review of these securities determined that OTTI should be recorded for the three months ended March 31, 2014.

The following is a tabular rollforward of the total amount of credit-related OTTI:

(In thousands)	Three Months Ended March 31, 2014			Three Months Ended March 31, 2013		
	HTM	AFS	Total	HTM	AFS	Total
Balance of credit-related OTTI at beginning of period	\$ (9,052)	\$ (176,833)	\$ (185,885)	\$ (13,549)	\$ (394,494)	\$ (408,043)
Additions recognized in earnings during the period:						
Credit-related OTTI on securities not previously impaired	—	—	—	(403)	—	(403)
Additional credit-related OTTI on securities previously impaired	(27)	—	(27)	—	(9,714)	(9,714)
Subtotal of amounts recognized in earnings	(27)	—	(27)	(403)	(9,714)	(10,117)
Reductions for securities sold or paid off during the period	—	12,919	12,919	—	—	—
Balance of credit-related OTTI at end of period	\$ (9,079)	\$ (163,914)	\$ (172,993)	\$ (13,952)	\$ (404,208)	\$ (418,160)

To determine the credit component of OTTI for all security types, we utilize projected cash flows. These cash flows are credit adjusted using, among other things, assumptions for default probability and loss severity. Certain other unobservable inputs such as prepayment rate assumptions are also utilized. In addition, certain internal and external models may be utilized. See Note 10 for further discussion. To determine the credit-related portion of OTTI in accordance with applicable accounting guidance, we use the security specific effective interest rate when estimating the present value of cash flows.

For those securities with credit-related OTTI recognized in the statement of income, the amounts of pretax noncredit-related OTTI recognized in OCI were as follows:

(In thousands)

	Three Months Ended March 31, 2014	2013
HTM	\$—	\$16,114
AFS	—	5,262
	\$—	\$21,376

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The following summarizes gains and losses, including OTTI, that were recognized in the statement of income:

	Three Months Ended		March 31, 2013	
	March 31, 2014			
(In thousands)	Gross gains	Gross losses	Gross gains	Gross losses
Investment securities:				
Held-to-maturity	\$—	\$27	\$24	\$403
Available-for-sale	72,561	41,647	3,276	9,715
Other noninterest-bearing investments:				
Nonmarketable equity securities	912	—	2,857	25
	73,473	41,674	6,157	10,143
Net gains (losses)		\$31,799		\$(3,986)
Statement of income information:				
Net impairment losses on investment securities		\$(27)		\$(10,117)
Equity securities gains, net		912		2,832
Fixed income securities gains, net		30,914		3,299
Net gains (losses)		\$31,799		\$(3,986)

Interest income by security type was as follows:

	Three Months Ended			March 31, 2013		
	March 31, 2014					
(In thousands)	Taxable	Nontaxable	Total	Taxable	Nontaxable	Total
Investment securities:						
Held-to-maturity	\$3,828	\$2,836	\$6,664	\$5,073	\$2,901	\$7,974
Available-for-sale	20,424	524	20,948	17,173	539	17,712
Trading	482	—	482	190	—	190
	\$24,734	\$3,360	\$28,094	\$22,436	\$3,440	\$25,876

Securities with a carrying value of \$1.5 billion at March 31, 2014 and December 31, 2013 were pledged to secure public and trust deposits, advances, and for other purposes as required by law. Securities are also pledged as collateral for security repurchase agreements.

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6. LOANS AND ALLOWANCE FOR CREDIT LOSSES

Loans and Loans Held for Sale

Loans are summarized as follows according to major portfolio segment and specific loan class:

(In thousands)	March 31, 2014	December 31, 2013
Loans held for sale	\$ 126,344	\$ 171,328
Commercial:		
Commercial and industrial	\$ 12,511,630	\$ 12,481,083
Leasing	389,576	387,929
Owner occupied	7,347,813	7,437,195
Municipal	482,074	449,418
Total commercial	20,731,093	20,755,625
Commercial real estate:		
Construction and land development	2,263,920	2,182,821
Term	8,080,348	8,005,837
Total commercial real estate	10,344,268	10,188,658
Consumer:		
Home equity credit line	2,165,285	2,133,120
1-4 family residential	4,795,484	4,736,665
Construction and other consumer real estate	330,215	324,922
Bankcard and other revolving plans	360,389	356,240
Other	186,089	197,864
Total consumer	7,837,462	7,748,811
FDIC-supported loans	285,313	350,271
Total loans	\$ 39,198,136	\$ 39,043,365

Loan balances are presented net of unearned income and fees, which amounted to \$144.5 million at March 31, 2014 and \$141.7 million at December 31, 2013.

Owner occupied and commercial real estate (“CRE”) loans include unamortized premiums of approximately \$44.1 million at March 31, 2014 and \$47.2 million at December 31, 2013.

Municipal loans generally include loans to municipalities with the debt service being repaid from general funds or pledged revenues of the municipal entity, or to private commercial entities or 501(c)(3) not-for-profit entities utilizing a pass-through municipal entity to achieve favorable tax treatment.

Land development loans included in the construction and land development loan class were \$589.1 million at March 31, 2014 and \$561.3 million at December 31, 2013.

FDIC-supported loans were acquired during 2009 and are indemnified by the Federal Deposit Insurance Corporation (“FDIC”) under loss sharing agreements. The FDIC-supported loan balances presented in the accompanying schedules include purchased credit-impaired (“PCI”) loans accounted for at their carrying values rather than their outstanding balances. See subsequent discussion under Purchased Loans.

Loans with a carrying value of approximately \$23.5 billion at March 31, 2014 and \$23.0 billion at December 31, 2013 have been pledged at the Federal Reserve and various Federal Home Loan Banks (“FHLB”) as collateral for current and potential borrowings.

We sold loans totaling \$337.6 million and \$447.6 million for the three months ended March 31, 2014, and 2013, respectively, that were classified as loans held for sale. Loans classified as loans held for sale primarily consist of

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conforming residential mortgages. Amounts added to loans held for sale during these periods were \$295.5 million and \$358.9 million, respectively. Income from loans sold, excluding servicing, for these same periods was \$3.5 million and \$8.5 million.

Allowance for Credit Losses

The allowance for credit losses (“ACL”) consists of the allowance for loan and lease losses (“ALLL”) (also referred to as the allowance for loan losses) and the reserve for unfunded lending commitments (“RULC”).

Allowance for Loan and Lease Losses

The ALLL represents our estimate of probable and estimable losses inherent in the loan and lease portfolio as of the balance sheet date. Losses are charged to the ALLL when recognized. Generally, commercial loans are charged off or charged down at the point at which they are determined to be uncollectible in whole or in part, or when 180 days past due unless the loan is well secured and in the process of collection. Consumer loans are either charged off or charged down to net realizable value no later than the month in which they become 180 days past due. Closed-end consumer loans that are not secured by residential real estate are either charged off or charged down to net realizable value no later than the month in which they become 120 days past due. We establish the amount of the ALLL by analyzing the portfolio at least quarterly, and we adjust the provision for loan losses so the ALLL is at an appropriate level at the balance sheet date.

We determine our ALLL as the best estimate within a range of estimated losses. The methodologies we use to estimate the ALLL depend upon the impairment status and portfolio segment of the loan. The methodology for impaired loans is discussed subsequently. For the commercial and CRE segments, we use a comprehensive loan grading system to assign probability of default (“PD”) and loss given default (“LGD”) grades to each loan. The credit quality indicators discussed subsequently are based on this grading system. PD and LGD grades are based on both financial and statistical models and loan officers’ judgment. We create groupings of these grades for each subsidiary bank and loan class and calculate historic loss rates using a loss migration analysis that attributes historic realized losses to these loan grade groupings over the period of January 2008 through the most recent full quarter. For the consumer loan segment, we use roll rate models to forecast probable inherent losses. Roll rate models measure the rate at which consumer loans migrate from one delinquency category to the next worse delinquency category, and eventually to loss. We estimate roll rates for consumer loans using recent delinquency and loss experience by segmenting our consumer loan portfolio into separate pools based on common risk characteristics and separately calculating historical delinquency and loss experience for each pool. These roll rates are then applied to current delinquency levels to estimate probable inherent losses. Roll rates incorporate housing market trends inasmuch as these trends manifest themselves in charge-offs and delinquencies. In addition, our qualitative and environmental factors discussed subsequently incorporate the most recent housing market trends. For FDIC-supported loans purchased with evidence of credit deterioration, we determine the ALLL according to separate accounting guidance. The accounting for these loans, including the allowance calculation, is described in the Purchased Loans section following.

The current status and historical changes in qualitative and environmental factors may not be reflected in our quantitative models. Thus, after applying historical loss experience, as described above, we review the quantitatively derived level of ALLL for each segment using qualitative criteria and use those criteria to determine our estimate within the range. We track various risk factors that influence our judgment regarding the level of the ALLL across the portfolio segments. These factors primarily include:

- ▲Asset quality trends
- ▲Risk management and loan administration practices
- ▲Risk identification practices

Effect of changes in the nature and volume of the portfolio

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- Existence and effect of any portfolio concentrations
- National economic and business conditions
- Regional and local economic and business conditions
- Data availability and applicability
- Effects of other external factors

The magnitude of the impact of these factors on our qualitative assessment of the ALLL changes from quarter to quarter according to the extent these factors are already reflected in historic loss rates and according to the extent these factors diverge from one to another. We also consider the uncertainty inherent in the estimation process when evaluating the ALLL.

Reserve for Unfunded Lending Commitments

We also estimate a reserve for potential losses associated with off-balance sheet commitments, including standby letters of credit. We determine the RULC using the same procedures and methodologies that we use for the ALLL. The loss factors used in the RULC are the same as the loss factors used in the ALLL, and the qualitative adjustments used in the RULC are the same as the qualitative adjustments used in the ALLL. We adjust the Company's unfunded lending commitments that are not unconditionally cancelable to an outstanding amount equivalent using credit conversion factors, and we apply the loss factors to the outstanding equivalents.

Changes in the allowance for credit losses are summarized as follows:

(In thousands)	Three Months Ended March 31, 2014				Total
	Commercial	Commercial real estate	Consumer	FDIC-supported ¹	
Allowance for loan losses:					
Balance at beginning of period	\$465,145	\$213,363	\$60,865	\$6,918	\$746,291
Additions:					
Provision for loan losses	11,682	(1,567)	(8,868)	(1,857)	(610)
Adjustment for FDIC-supported loans	—	—	—	(817)	(817)
Deductions:					
Gross loan and lease charge-offs	(9,124)	(7,854)	(3,114)	(703)	(20,795)
Recoveries	6,845	2,604	2,197	1,238	12,884
Net loan and lease charge-offs	(2,279)	(5,250)	(917)	535	(7,911)
Balance at end of period	\$474,548	\$206,546	\$51,080	\$4,779	\$736,953
Reserve for unfunded lending commitments:					
Balance at beginning of period	\$48,345	\$37,485	\$3,875	\$—	\$89,705
Provision charged (credited) to earnings	1,525	(2,212)	(325)	—	(1,012)
Balance at end of period	\$49,870	\$35,273	\$3,550	\$—	\$88,693
Total allowance for credit losses at end of period:					
Allowance for loan losses	\$474,548	\$206,546	\$51,080	\$4,779	\$736,953
Reserve for unfunded lending commitments	49,870	35,273	3,550	—	88,693
Total allowance for credit losses	\$524,418	\$241,819	\$54,630	\$4,779	\$825,646

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(In thousands)	Three Months Ended March 31, 2013				Total
	Commercial	Commercial real estate	Consumer	FDIC-supported ¹	
Allowance for loan losses:					
Balance at beginning of period	\$510,908	\$276,976	\$95,656	\$12,547	\$896,087
Additions:					
Provision for loan losses	(3,229)	(18,628)	(5,020)	(2,158)	(29,035)
Adjustment for FDIC-supported loans	—	—	—	(7,429)	(7,429)
Deductions:					
Gross loan and lease charge-offs	(18,100)	(7,224)	(9,937)	(206)	(35,467)
Recoveries	7,351	5,297	3,923	1,054	17,625
Net loan and lease charge-offs	(10,749)	(1,927)	(6,014)	848	(17,842)
Balance at end of period	\$496,930	\$256,421	\$84,622	\$3,808	\$841,781
Reserve for unfunded lending commitments:					
Balance at beginning of period	\$67,374	\$37,852	\$1,583	\$—	\$106,809
Provision charged (credited) to earnings	(1,742)	(4,612)	—	—	(6,354)
Balance at end of period	\$65,632	\$33,240	\$1,583	\$—	\$100,455
Total allowance for credit losses at end of period:					
Allowance for loan losses	\$496,930	\$256,421	\$84,622	\$3,808	\$841,781
Reserve for unfunded lending commitments	65,632	33,240	1,583	—	100,455
Total allowance for credit losses	\$562,562	\$289,661	\$86,205	\$3,808	\$942,236

¹ The Purchased Loans section following contains further discussion related to FDIC-supported loans.

The ALLL and outstanding loan balances according to the Company's impairment method are summarized as follows:

(In thousands)	March 31, 2014				Total
	Commercial	Commercial real estate	Consumer	FDIC-supported	
Allowance for loan losses:					
Individually evaluated for impairment	\$41,739	\$7,409	\$10,137	\$—	\$59,285
Collectively evaluated for impairment	432,809	199,137	40,943	528	673,417
Purchased loans with evidence of credit deterioration	—	—	—	4,251	4,251
Total	\$474,548	\$206,546	\$51,080	\$4,779	\$736,953
Outstanding loan balances:					
Individually evaluated for impairment	\$329,389	\$240,384	\$100,680	\$1,218	\$671,671
Collectively evaluated for impairment	20,401,704	10,103,884	7,736,782	35,128	38,277,498
Purchased loans with evidence of credit deterioration	—	—	—	248,967	248,967
Total	\$20,731,093	\$10,344,268	\$7,837,462	\$285,313	\$39,198,136

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(In thousands)	December 31, 2013				Total
	Commercial	Commercial real estate	Consumer	FDIC-supported	
Allowance for loan losses:					
Individually evaluated for impairment	\$39,288	\$12,510	\$10,701	\$—	\$62,499
Collectively evaluated for impairment	425,857	200,853	50,164	392	677,266
Purchased loans with evidence of credit deterioration	—	—	—	6,526	6,526
Total	\$465,145	\$213,363	\$60,865	\$6,918	\$746,291
Outstanding loan balances:					
Individually evaluated for impairment	\$315,604	\$262,907	\$101,545	\$1,224	\$681,280
Collectively evaluated for impairment	20,440,021	9,925,751	7,647,266	37,963	38,051,001
Purchased loans with evidence of credit deterioration	—	—	—	311,084	311,084
Total	\$20,755,625	\$10,188,658	\$7,748,811	\$350,271	\$39,043,365

Nonaccrual and Past Due Loans

Loans are generally placed on nonaccrual status when payment in full of principal and interest is not expected, or the loan is 90 days or more past due as to principal or interest, unless the loan is both well secured and in the process of collection. Factors we consider in determining whether a loan is placed on nonaccrual include delinquency status, collateral value, borrower or guarantor financial statement information, bankruptcy status, and other information which would indicate that the full and timely collection of interest and principal is uncertain.

A nonaccrual loan may be returned to accrual status when all delinquent interest and principal become current in accordance with the terms of the loan agreement; the loan, if secured, is well secured; the borrower has paid according to the contractual terms for a minimum of six months; and analysis of the borrower indicates a reasonable assurance of the ability and willingness to maintain payments. Payments received on nonaccrual loans are applied as a reduction to the principal outstanding.

Closed-end loans with payments scheduled monthly are reported as past due when the borrower is in arrears for two or more monthly payments. Similarly, open-end credit such as charge-card plans and other revolving credit plans are reported as past due when the minimum payment has not been made for two or more billing cycles. Other multi-payment obligations (i.e., quarterly, semiannual, etc.), single payment, and demand notes are reported as past due when either principal or interest is due and unpaid for a period of 30 days or more.

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Nonaccrual loans are summarized as follows:

(In thousands)	March 31, 2014	December 31, 2013
Commercial:		
Commercial and industrial	\$108,618	\$97,960
Leasing	684	757
Owner occupied	127,140	136,281
Municipal	9,947	9,986
Total commercial	246,389	244,984
Commercial real estate:		
Construction and land development	29,061	29,205
Term	59,202	60,380
Total commercial real estate	88,263	89,585
Consumer:		
Home equity credit line	9,624	8,969
1-4 family residential	48,023	53,002
Construction and other consumer real estate	3,424	3,510
Bankcard and other revolving plans	882	1,365
Other	944	804
Total consumer loans	62,897	67,650
FDIC-supported loans	4,117	4,394
Total	\$401,666	\$406,613

Past due loans (accruing and nonaccruing) are summarized as follows:

(In thousands)	March 31, 2014					Total loans	Accruing loans 90+ days past due	Nonaccrual loans that are current ¹
	Current	30-89 days past due	90+ days past due	Total past due	Total past due			
Commercial:								
Commercial and industrial	\$12,403,866	\$53,684	\$54,080	\$107,764	\$12,511,630	\$826	\$45,137	
Leasing	389,201	181	194	375	389,576	—	490	
Owner occupied	7,262,832	44,218	40,763	84,981	7,347,813	130	71,445	
Municipal	473,263	—	8,811	8,811	482,074	—	1,136	
Total commercial	20,529,162	98,083	103,848	201,931	20,731,093	956	118,208	
Commercial real estate:								
Construction and land development	2,246,891	5,518	11,511	17,029	2,263,920	—	16,934	
Term	8,023,737	31,597	25,014	56,611	8,080,348	3,992	21,690	
Total commercial real estate	10,270,628	37,115	36,525	73,640	10,344,268	3,992	38,624	
Consumer:								
Home equity credit line	2,151,938	6,305	7,042	13,347	2,165,285	—	2,145	
1-4 family residential	4,765,571	11,351	18,562	29,913	4,795,484	702	25,889	
Construction and other consumer real estate	326,297	3,035	883	3,918	330,215	—	2,100	
	357,596	1,722	1,071	2,793	360,389	1,008	739	

Bankcard and other
revolving plans

Other	184,687	625	777	1,402	186,089	3	127
Total consumer loans	7,786,089	23,038	28,335	51,373	7,837,462	1,713	31,000
FDIC-supported loans	247,399	4,390	33,524	37,914	285,313	31,530	1,572
Total	\$38,833,278	\$162,626	\$202,232	\$364,858	\$39,198,136	\$38,191	\$189,404

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(In thousands)	December 31, 2013					Total loans	Accruing loans 90+ days past due	Nonaccrual loans that are current ¹
	Current	30-89 days past due	90+ days past due	Total past due	Total loans			
Commercial:								
Commercial and industrial	\$12,387,546	\$48,811	\$44,726	\$93,537	\$12,481,083	\$1,855	\$52,412	
Leasing	387,526	173	230	403	387,929	36	563	
Owner occupied	7,357,618	36,718	42,859	79,577	7,437,195	744	82,072	
Municipal	440,608	3,307	5,503	8,810	449,418	—	1,176	
Total commercial	20,573,298	89,009	93,318	182,327	20,755,625	2,635	136,223	
Commercial real estate:								
Construction and land development	2,162,018	8,967	11,836	20,803	2,182,821	23	17,311	
Term	7,971,327	15,362	19,148	34,510	8,005,837	5,580	42,624	
Total commercial real estate	10,133,345	24,329	30,984	55,313	10,188,658	5,603	59,935	
Consumer:								
Home equity credit line	2,122,549	8,001	2,570	10,571	2,133,120	98	2,868	
1-4 family residential	4,704,852	8,526	23,287	31,813	4,736,665	667	27,592	
Construction and other consumer real estate	322,807	1,038	1,077	2,115	324,922	—	2,232	
Bankcard and other revolving plans	353,060	2,093	1,087	3,180	356,240	900	1,105	
Other	196,327	827	710	1,537	197,864	54	125	
Total consumer loans	7,699,595	20,485	28,731	49,216	7,748,811	1,719	33,922	
FDIC-supported loans	305,709	12,026	32,536	44,562	350,271	30,391	1,975	
Total	\$38,711,947	\$145,849	\$185,569	\$331,418	\$39,043,365	\$40,348	\$232,055	

¹ Represents nonaccrual loans that are not past due more than 30 days; however, full payment of principal and interest is still not expected.

Credit Quality Indicators

In addition to the past due and nonaccrual criteria, we also analyze loans using loan risk grading systems, which vary based on the size and type of credit risk exposure. The internal risk grades assigned to loans follow our definitions of Pass, Special Mention, Substandard, and Doubtful, which are consistent with published definitions of regulatory risk classifications.

Definitions of Pass, Special Mention, Substandard, and Doubtful are summarized as follows:

Pass – A Pass asset is higher quality and does not fit any of the other categories described below. The likelihood of loss is considered remote.

Special Mention – A Special Mention asset has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the bank's credit position at some future date.

Substandard – A Substandard asset is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Assets so classified have well defined weaknesses and are characterized by the distinct possibility that the bank may sustain some loss if deficiencies are not corrected.

Doubtful – A Doubtful asset has all the weaknesses inherent in a Substandard asset with the added characteristics that the weaknesses make collection or liquidation in full highly questionable and improbable.

We generally assign internal risk grades to commercial and CRE loans with commitments equal to or greater than \$750,000 based on financial and statistical models, individual credit analysis, and loan officer judgment. For these

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larger loans, we assign one of multiple grades within the Pass classification or one of the following four grades: Special Mention, Substandard, Doubtful, and Loss. Loss indicates that the outstanding balance has been charged off. We confirm our internal risk grades quarterly, or as soon as we identify information that affects the credit risk of the loan.

For consumer loans or certain small commercial loans with commitments equal to or less than \$750,000, we generally assign internal risk grades similar to those described previously based on automated rules that depend on refreshed credit scores, payment performance, and other risk indicators. These are generally assigned either a Pass or Substandard grade and are reviewed as we identify information that might warrant a grade change.

Outstanding loan balances (accruing and nonaccruing) categorized by these credit quality indicators are summarized as follows:

(In thousands)	March 31, 2014				Total loans	Total allowance
	Pass	Special Mention	Sub-standard	Doubtful		
Commercial:						
Commercial and industrial	\$11,722,928	\$340,409	\$436,572	\$11,721	\$12,511,630	
Leasing	383,454	992	5,130	—	389,576	
Owner occupied	6,762,002	167,655	417,828	328	7,347,813	
Municipal	472,127	—	9,947	—	482,074	
Total commercial	19,340,511	509,056	869,477	12,049	20,731,093	\$474,548
Commercial real estate:						
Construction and land development	2,192,237	14,181	57,502	—	2,263,920	
Term	7,675,747	149,016	253,739	1,846	8,080,348	
Total commercial real estate	9,867,984	163,197	311,241	1,846	10,344,268	206,546
Consumer:						
Home equity credit line	2,140,762	—	24,523	—	2,165,285	
1-4 family residential	4,732,423	—	63,061	—	4,795,484	
Construction and other consumer real estate	321,328	—	8,887	—	330,215	
Bankcard and other revolving plans	358,045	—	2,344	—	360,389	
Other	184,863	—	1,226	—	186,089	
Total consumer loans	7,737,421	—	100,041	—	7,837,462	51,080
FDIC-supported loans	181,100	19,366	84,847	—	285,313	4,779
Total	\$37,127,016	\$691,619	\$1,365,606	\$13,895	\$39,198,136	\$736,953

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(In thousands)	December 31, 2013				Total loans	Total allowance
	Pass	Special Mention	Sub- standard	Doubtful		
Commercial:						
Commercial and industrial	\$11,807,825	\$303,598	\$360,391	\$9,269	\$12,481,083	
Leasing	380,268	2,050	5,611	—	387,929	
Owner occupied	6,827,464	184,328	425,403	—	7,437,195	
Municipal	439,432	—	9,986	—	449,418	
Total commercial	19,454,989	489,976	801,391	9,269	20,755,625	\$465,145
Commercial real estate:						
Construction and land development	2,107,828	15,010	59,983	—	2,182,821	
Term	7,569,472	172,856	263,509	—	8,005,837	
Total commercial real estate	9,677,300	187,866	323,492	—	10,188,658	213,363
Consumer:						
Home equity credit line	2,111,475	—	21,645	—	2,133,120	
1-4 family residential	4,668,841	—	67,824	—	4,736,665	
Construction and other consumer real estate	313,881	—	11,041	—	324,922	
Bankcard and other revolving plans	353,618	—	2,622	—	356,240	
Other	196,770	—	1,094	—	197,864	
Total consumer loans	7,644,585	—	104,226	—	7,748,811	60,865
FDIC-supported loans	232,893	22,532	94,846	—	350,271	6,918
Total	\$37,009,767	\$700,374	\$1,323,955	\$9,269	\$39,043,365	\$746,291

Impaired Loans

Loans are considered impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due in accordance with the contractual terms of the loan agreement, including scheduled interest payments. For our non-purchased credit impaired loans, if a nonaccrual loan has a balance greater than \$1 million or if a loan is a troubled debt restructuring (“TDR”), including TDRs that subsequently default, we individually evaluate the loan for impairment and estimate a specific reserve for the loan for all portfolio segments under applicable accounting guidance. Smaller nonaccrual loans are pooled for ALLL estimation purposes. PCI loans in our FDIC-supported portfolio segment are included in impaired loans and are accounted for under separate accounting guidance. See subsequent discussion under Purchased Loans.

When a loan is impaired, we estimate a specific reserve for the loan based on the projected present value of the loan’s future cash flows discounted at the loan’s effective interest rate, the observable market price of the loan, or the fair value of the loan’s underlying collateral. The process of estimating future cash flows also incorporates the same determining factors discussed previously under nonaccrual loans. When we base the impairment amount on the fair value of the loan’s underlying collateral, we generally charge off the portion of the balance that is impaired, such that these loans do not have a specific reserve in the ALLL. Payments received on impaired loans that are accruing are recognized in interest income, according to the contractual loan agreement. Payments received on impaired loans that are on nonaccrual are not recognized in interest income, but are applied as a reduction to the principal outstanding. The amount of interest income recognized on a cash basis during the time the loans were impaired within the three months ended March 31, 2014 and 2013 was not significant.

Information on impaired loans individually evaluated is summarized as follows, including the average recorded investment and interest income recognized for the three months ended March 31, 2014 and 2013:

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(In thousands)	March 31, 2014				Related allowance
	Unpaid principal balance	Recorded investment with no allowance	Recorded investment with allowance	Total recorded investment	
Commercial:					
Commercial and industrial	\$201,765	\$36,155	\$140,988	\$177,143	\$31,319
Owner occupied	146,504	59,435	71,281	130,716	8,487
Total commercial	348,269	95,590	212,269	307,859	39,806
Commercial real estate:					
Construction and land development	70,088	28,680	30,460	59,140	2,865
Term	175,713	70,196	62,043	132,239	3,634
Total commercial real estate	245,801	98,876	92,503	191,379	6,499
Consumer:					
Home equity credit line	18,145	13,095	2,177	15,272	67
1-4 family residential	94,639	39,589	39,841	79,430	9,790
Construction and other consumer real estate	4,241	2,341	986	3,327	179
Other	630	630	—	630	—
Total consumer loans	117,655	55,655	43,004	98,659	10,036
FDIC-supported loans	321,798	91,487	158,698	250,185	4,251
Total	\$1,033,523	\$341,608	\$506,474	\$848,082	\$60,592
(In thousands)	December 31, 2013				Related allowance
	Unpaid principal balance	Recorded investment with no allowance	Recorded investment with allowance	Total recorded investment	
Commercial:					
Commercial and industrial	\$178,281	\$30,092	\$126,692	\$156,784	\$23,687
Owner occupied	151,499	50,361	88,584	138,945	13,900
Total commercial	329,780	80,453	215,276	295,729	37,587
Commercial real estate:					
Construction and land development	85,440	19,206	50,744	69,950	3,483
Term	171,826	34,258	112,330	146,588	7,981
Total commercial real estate	257,266	53,464	163,074	216,538	11,464
Consumer:					
Home equity credit line	17,547	12,568	2,200	14,768	178
1-4 family residential	95,613	38,775	42,132	80,907	10,276
Construction and other consumer real estate	4,713	2,643	933	3,576	175
Bankcard and other revolving plans	726	726	—	726	—
Other	—	—	—	—	—
Total consumer loans	118,599	54,712	45,265	99,977	10,629
FDIC-supported loans	404,308	83,917	228,392	312,309	6,526
Total	\$1,109,953	\$272,546	\$652,007	\$924,553	\$66,206

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(In thousands)	Three Months Ended March 31, 2014		Three Months Ended March 31, 2013	
	Average recorded investment	Interest income recognized	Average recorded investment	Interest income recognized
Commercial:				
Commercial and industrial	\$ 175,155	\$ 1,024	\$ 177,745	\$ 856
Owner occupied	137,175	752	182,825	806
Total commercial	312,330	1,776	360,570	1,662
Commercial real estate:				
Construction and land development	62,548	552	147,225	664
Term	149,425	1,294	289,103	1,836
Total commercial real estate	211,973	1,846	436,328	2,500
Consumer:				
Home equity credit line	14,952	135	11,455	59
1-4 family residential	80,154	448	99,191	382
Construction and other consumer real estate	3,332	35	6,122	46
Other	704	—	1,816	—
Total consumer loans	99,142	618	118,584	487
FDIC-supported loans	283,782	22,305	¹ 447,841	25,153
Total	\$ 907,227	\$ 26,545	\$ 1,363,323	\$ 29,802

¹ The balance of interest income recognized results primarily from accretion of interest income on impaired FDIC-supported loans.

Modified and Restructured Loans

Loans may be modified in the normal course of business for competitive reasons or to strengthen the Company's position. Loan modifications and restructurings may also occur when the borrower experiences financial difficulty and needs temporary or permanent relief from the original contractual terms of the loan. These modifications are structured on a loan-by-loan basis and, depending on the circumstances, may include extended payment terms, a modified interest rate, forgiveness of principal, or other concessions. Loans that have been modified to accommodate a borrower who is experiencing financial difficulties, and for which the Company has granted a concession that it would not otherwise consider, are considered TDRs.

We consider many factors in determining whether to agree to a loan modification involving concessions, and seek a solution that will both minimize potential loss to the Company and attempt to help the borrower. We evaluate borrowers' current and forecasted future cash flows, their ability and willingness to make current contractual or proposed modified payments, the value of the underlying collateral (if applicable), the possibility of obtaining additional security or guarantees, and the potential costs related to a repossession or foreclosure and the subsequent sale of the collateral.

TDRs are classified as either accrual or nonaccrual loans. A loan on nonaccrual and restructured as a TDR will remain on nonaccrual status until the borrower has proven the ability to perform under the modified structure for a minimum of six months, and there is evidence that such payments can and are likely to continue as agreed. Performance prior to the restructuring, or significant events that coincide with the restructuring, are included in assessing whether the borrower can meet the new terms and may result in the loan being returned to accrual at the time of restructuring or after a shorter performance period. If the borrower's ability to meet the revised payment schedule is uncertain, the loan remains classified as a nonaccrual loan. A TDR loan that specifies an interest rate that at the time of the restructuring is greater than or equal to the rate the bank is willing to accept for a new loan with comparable risk may not be

reported as a TDR or an impaired loan in the calendar years subsequent to the restructuring if it is in compliance with its modified terms.

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Selected information on TDRs that includes the recorded investment on an accruing and nonaccruing basis by loan class and modification type is summarized in the following schedules:

(In thousands)	March 31, 2014						Total
	Interest rate below market	Maturity or term extension	Principal forgiveness	Payment deferral	Other ¹	Multiple modification types ²	
Recorded investment resulting from the following modification types:							
Accruing							
Commercial:							
Commercial and industrial	\$640	\$8,738	\$21	\$3,553	\$4,214	\$64,547	\$81,713
Owner occupied	22,484	1,072	980	1,282	9,573	21,437	56,828
Total commercial	23,124	9,810	1,001	4,835	13,787	85,984	138,541
Commercial real estate:							
Construction and land development	—	8,003	—	1,077	562	23,328	32,970
Term	8,603	8,980	188	3,695	4,151	59,215	84,832
Total commercial real estate	8,603	16,983	188	4,772	4,713	82,543	117,802
Consumer:							
Home equity credit line	742	34	10,158	—	164	426	11,524
1-4 family residential	2,608	55	6,966	638	1,437	37,323	49,027
Construction and other consumer real estate	123	326	49	—	—	1,494	1,992
Total consumer loans	3,473	415	17,173	638	1,601	39,243	62,543
Total accruing	35,200	27,208	18,362	10,245	20,101	207,770	318,886
Nonaccruing							
Commercial:							
Commercial and industrial	1,881	6,412	—	412	409	18,800	27,914
Owner occupied	2,678	1,184	1,037	1,558	6,917	16,599	29,973
Total commercial	4,559	7,596	1,037	1,970	7,326	35,399	57,887
Commercial real estate:							
Construction and land development	11,555	1,075	—	—	1,645	11,895	26,170
Term	2,311	84	—	1,867	392	15,577	20,231
Total commercial real estate	13,866	1,159	—	1,867	2,037	27,472	46,401
Consumer:							
Home equity credit line	—	—	793	—	217	69	1,079
1-4 family residential	4,249	48	1,784	—	3,257	14,581	23,919
Construction and other consumer real estate	4	1,105	—	—	—	139	1,248
Bankcard and other revolving plans	—	—	—	—	—	—	—
Total consumer loans	4,253	1,153	2,577	—	3,474	14,789	26,246
Total nonaccruing	22,678	9,908	3,614	3,837	12,837	77,660	130,534
Total	\$57,878	\$37,116	\$21,976	\$14,082	\$32,938	\$285,430	\$449,420

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(In thousands)	December 31, 2013						
	Recorded investment resulting from the following modification types:						
	Interest rate below market	Maturity or term extension	Principal forgiveness	Payment deferral	Other ¹	Multiple modification types ²	Total
Accruing							
Commercial:							
Commercial and industrial	\$ 1,143	\$ 9,848	\$ 11,491	\$ 3,217	\$ 4,308	\$ 53,117	\$ 83,124
Owner occupied	22,841	1,482	987	1,291	9,659	23,576	59,836
Total commercial	23,984	11,330	12,478	4,508	13,967	76,693	142,960
Commercial real estate:							
Construction and land development	1,067	8,231	—	1,063	4,119	28,295	42,775
Term	7,542	9,241	190	3,783	14,932	61,024	96,712
Total commercial real estate	8,609	17,472	190	4,846	19,051	89,319	139,487
Consumer:							
Home equity credit line	743	—	9,438	—	323	332	10,836
1-4 family residential	2,628	997	6,814	643	3,083	35,869	50,034
Construction and other consumer real estate	128	329	11	—	—	1,514	1,982
Total consumer loans	3,499	1,326	16,263	643	3,406	37,715	62,852
Total accruing	36,092	30,128	28,931	9,997	36,424	203,727	345,299
Nonaccruing							
Commercial:							
Commercial and industrial	2,028	6,989	—	473	8,948	10,395	28,833
Owner occupied	3,020	1,489	1,043	1,593	10,482	14,927	32,554
Total commercial	5,048	8,478	1,043	2,066	19,430	25,322	61,387
Commercial real estate:							
Construction and land development	11,699	1,555	—	—	5,303	8,617	27,174
Term	2,126	—	—	1,943	315	14,861	19,245
Total commercial real estate	13,825	1,555	—	1,943	5,618	23,478	46,419
Consumer:							
Home equity credit line	—	—	1,036	—	221	—	1,257
1-4 family residential	4,315	1,396	1,606	—	3,901	14,109	25,327
Construction and other consumer real estate	4	1,260	—	—	—	229	1,493
Bankcard and other revolving plans	—	252	—	—	—	—	252
Total consumer loans	4,319	2,908	2,642	—	4,122	14,338	28,329
Total nonaccruing	23,192	12,941	3,685	4,009	29,170	63,138	136,135
Total	\$ 59,284	\$ 43,069	\$ 32,616	\$ 14,006	\$ 65,594	\$ 266,865	\$ 481,434

¹ Includes TDRs that resulted from other modification types including, but not limited to, a legal judgment awarded on different terms, a bankruptcy plan confirmed on different terms, a settlement that includes the delivery of collateral in exchange for debt reduction, etc.

² Includes TDRs that resulted from a combination of any of the previous modification types.

Unused commitments to extend credit on TDRs amounted to approximately \$3.8 million at March 31, 2014 and \$5.6 million at December 31, 2013.

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The total recorded investment of all TDRs in which interest rates were modified below market was \$186.2 million at March 31, 2014 and \$172.6 million at December 31, 2013. These loans are included in the previous table in the columns for interest rate below market and multiple modification types.

The net financial impact on interest income due to interest rate modifications below market for accruing TDRs is summarized in the following schedule:

(In thousands)	Three Months Ended	
	March 31, 2014	2013
Commercial:		
Commercial and industrial	\$212	\$(181)
Owner occupied	(1,709)	(1,060)
Total commercial	(1,497)	(1,241)
Commercial real estate:		
Construction and land development	(666)	(416)
Term	(1,778)	(2,659)
Total commercial real estate	(2,444)	(3,075)
Consumer:		
Home equity credit line	(24)	(39)
1-4 family residential	(3,601)	(3,860)
Construction and other consumer real estate	(105)	(109)
Total consumer loans	(3,730)	(4,008)
Total decrease to interest income ¹	\$(7,671)	\$(8,324)

¹Calculated based on the difference between the modified rate and the premodified rate applied to the recorded investment.

On an ongoing basis, we monitor the performance of all TDRs according to their restructured terms. Subsequent payment default is defined in terms of delinquency, when principal or interest payments are past due 90 days or more for commercial loans, or 60 days or more for consumer loans.

The recorded investment of accruing and nonaccruing TDRs that had a payment default during the period listed below (and are still in default at period-end) and are within 12 months or less of being modified as TDRs is as follows:

(In thousands)	Three Months Ended			Three Months Ended		
	March 31, 2014			March 31, 2013		
	Accruing	Nonaccruing	Total	Accruing	Nonaccruing	Total
Commercial:						
Commercial and industrial	\$—	\$—	\$—	\$—	\$25	\$25
Owner occupied	—	—	—	—	135	135
Total commercial	—	—	—	—	160	160
Commercial real estate:						
Term	—	84	84	—	1,071	1,071
Total commercial real estate	—	84	84	—	1,071	1,071
Consumer:						
Home equity credit line	—	217	217	—	85	85
Construction and other consumer real estate	—	26	26	—	—	—
Total consumer loans	—	243	243	—	85	85
Total	\$—	\$327	\$327	\$—	\$1,316	\$1,316

Note: Total loans modified as TDRs during the 12 months previous to March 31, 2014 and 2013 were \$142.4 million and \$181.5 million, respectively.

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Concentrations of Credit Risk

We perform an ongoing analysis of our loan portfolio to evaluate whether there is any significant exposure to any concentrations of credit risk. These potential concentrations include, but are not limited to, individual borrowers, groups of borrowers, industries, geographies, collateral types, sponsors, etc. Such credit risks (whether on- or off-balance sheet) may occur when groups of borrowers or counterparties have similar economic characteristics and are similarly affected by changes in economic or other conditions. Credit risk also includes the loss that would be recognized subsequent to the reporting date if counterparties failed to perform as contracted. See Note 7 for a discussion of counterparty risk associated with the Company's derivative transactions.

Purchased Loans

Background and Accounting

We purchase loans in the ordinary course of business and account for them and the related interest income based on their performing status at the time of acquisition. PCI loans have evidence of credit deterioration at the time of acquisition and it is probable that not all contractual payments will be collected. Interest income for PCI loans is accounted for on an expected cash flow basis. Certain other loans acquired by the Company that are not credit-impaired include loans with revolving privileges and are excluded from the PCI tabular disclosures following. Interest income for these loans is accounted for on a contractual cash flow basis. Upon acquisition, in accordance with applicable accounting guidance, the acquired loans were recorded at their fair value without a corresponding ALLL. Certain acquired loans with similar characteristics such as risk exposure, type, size, etc., are grouped and accounted for in loan pools.

During 2009, CB&T and NSB acquired failed banks from the FDIC as receiver and entered into loss sharing agreements with the FDIC for the acquired loans and foreclosed assets. In general, the FDIC assumed 80% of credit losses up to a specified threshold and 95% above that threshold. The five-year agreements for commercial loans, which comprised the major portion of the covered portfolio, expire in 2014 through September 30. The ten-year agreements for single family residential loans, which are a small portion of the covered portfolio, will expire in 2019. Due to their declining balances, the "FDIC-supported loans" are included with "Loans and leases" in the Company's balance sheet. However, they continue to be shown separately in this footnote and in other disclosures, and include both PCI and certain other acquired loans.

Outstanding Balances and Accretable Yield

The outstanding balances of all required payments and the related carrying amounts for PCI loans are as follows:

(In thousands)	March 31, 2014	December 31, 2013
Commercial	\$ 130,834	\$ 150,191
Commercial real estate	173,714	233,720
Consumer	23,724	28,608
Outstanding balance	\$ 328,272	\$ 412,519
Carrying amount	\$ 249,563	\$ 311,797
ALLL	4,203	6,478
Carrying amount, net	\$ 245,360	\$ 305,319

At the time of acquisition of PCI loans, we determine the loan's contractually required payments in excess of all cash flows expected to be collected as an amount that should not be accreted (nonaccretable difference). With respect to the cash flows expected to be collected, the portion representing the excess of the loan's expected cash flows over our initial investment (accretable yield) is accreted into interest income on a level yield basis over the remaining expected

life of the loan or pool of loans. The effects of estimated prepayments are considered in estimating the expected cash flows.

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Certain PCI loans are not accounted for as previously described because the estimation of cash flows to be collected involves a high degree of uncertainty. Under these circumstances, the accounting guidance provides that interest income is recognized on a cash basis similar to the cost recovery methodology for nonaccrual loans. The net carrying amounts in the preceding schedule also include the amounts for these loans, which were not significant at March 31, 2014 and December 31, 2013.

Changes in the accretable yield for PCI loans were as follows:

(In thousands)	Three Months Ended	
	March 31, 2014	2013
Balance at beginning of period	\$77,528	\$134,461
Accretion	(22,307	) (25,266
Reclassification from nonaccretable difference	8,920	14,872
Disposals and other	1,624	2,292
Balance at end of period	\$65,765	\$126,359

Note: Amounts have been adjusted based on refinements to the original estimates of the accretable yield. Because of the estimation process required, we expect that additional adjustments to these amounts may be necessary in future periods.

The primary drivers of reclassification to accretable yield from nonaccretable difference and increases in disposals and other resulted primarily from (1) changes in estimated cash flows, (2) unexpected payments on nonaccrual loans, and (3) recoveries on zero balance loans pools. See subsequent discussion under changes in cash flow estimates.

ALLL Determination

For all acquired loans, the ALLL is only established for credit deterioration subsequent to the date of acquisition and represents our estimate of the inherent losses in excess of the book value of acquired loans. The ALLL for acquired loans is determined without giving consideration to the amounts recoverable from the FDIC through loss sharing agreements. These amounts recoverable were separately accounted for in the FDIC indemnification asset ("IA") and are thus presented "gross" in the balance sheet. The FDIC IA is included in other assets in the balance sheet and is discussed subsequently. The ALLL for acquired loans is included in the overall ALLL in the balance sheet. The provision for loan losses is reported net of changes in the amounts recoverable under the loss sharing agreements.

During the three months ended March 31, 2014, and 2013, we adjusted the ALLL for acquired loans by recording a negative provision for loan losses of \$(2.7) million and \$(9.6) million, respectively. The negative provision is net of the ALLL reversals discussed subsequently. As separately discussed and in accordance with the loss sharing agreements, portions of the provision reductions result in a corresponding decrease of the FDIC IA. For the three months ended March 31, 2014, and 2013, these adjustments resulted in net recoveries of \$1.2 million and \$0.9 million, respectively.

Changes in the provision for loan losses and related ALLL are driven in large part by the same factors that affect the changes in reclassification from nonaccretable difference to accretable yield, as discussed under changes in cash flow estimates.

Changes in Cash Flow Estimates

Over the life of the loan or loan pool, we continue to estimate cash flows expected to be collected. We evaluate quarterly at the balance sheet date whether the estimated present values of these loans using the effective interest rates have decreased below their carrying values. If so, we record a provision for loan losses.

For increases in carrying values that resulted from better-than-expected cash flows, we use such increases first to reverse any existing ALLL. During the three months ended March 31, total reversals to the ALLL were \$2.9 million

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in 2014 and \$9.7 million in 2013, respectively. When there is no current ALLL, we increase the amount of accretable yield on a prospective basis over the remaining life of the loan and recognize this increase in interest income. Any related decrease to the FDIC IA is recorded through a charge to other noninterest expense. Changes that increase cash flows have been due primarily to (1) the enhanced economic status of borrowers compared to original evaluations, (2) improvements in the Southern California market where the majority of these loans were originated, and (3) efforts by our credit officers and loan workout professionals to resolve problem loans.

For the three months ended March 31, the impact of increased cash flow estimates recognized in the statement of income for acquired loans with no ALLL was approximately \$18.5 million in 2014 and \$19.0 million in 2013, respectively, of additional interest income; and \$16.0 million in 2014 and \$20.3 million in 2013, respectively, of additional other noninterest expense due to the reduction of the FDIC IA.

FDIC Indemnification Asset

The balance of the FDIC IA was 13.2 million at March 31, 2014 and 26.4 million at December 31, 2013. In accordance with applicable accounting guidance, the balance will reduce to a de minimus level by September 30, 2014 when the final commercial loan loss sharing agreement expires. The remaining amount of the FDIC IA will relate to the residential loan loss sharing agreements and to in-process amounts with the FDIC.

7. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

We record all derivatives on the balance sheet at fair value. Note 10 discusses the process to estimate fair value for derivatives. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative and the resulting designation. Derivatives used to hedge the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives used to hedge the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges.

For derivatives designated as fair value hedges, the effective portion of changes in the fair value of the derivative are recognized in earnings together with changes in the fair value of the related hedged item. The net amount, if any, representing hedge ineffectiveness, is reflected in earnings. In previous periods, we used fair value hedges to manage interest rate exposure to certain long-term debt. These hedges have been terminated and their remaining balances are being amortized to earnings, as discussed subsequently.

For derivatives designated as cash flow hedges, the effective portion of changes in the fair value of the derivative is recorded in OCI and recognized in earnings when the hedged transaction affects earnings. The ineffective portion of changes in the fair value of cash flow hedges is recognized directly in earnings.

No derivatives have been designated for hedges of investments in foreign operations.

We assess the effectiveness of each hedging relationship by comparing the changes in fair value or cash flows on the derivative hedging instrument with the changes in fair value or cash flows on the designated hedged item or transaction. For derivatives not designated as accounting hedges, changes in fair value are recognized in earnings.

Our objectives in using derivatives are to add stability to interest income or expense, to modify the duration of specific assets or liabilities as we consider advisable, to manage exposure to interest rate movements or other identified risks, and/or to directly offset derivatives sold to our customers. To accomplish these objectives, we use interest rate swaps as part of our cash flow hedging strategy. These derivatives are used to hedge the variable cash flows associated with designated loans.

Exposure to credit risk arises from the possibility of nonperformance by counterparties. These counterparties primarily consist of financial institutions that are well established and well capitalized. We control this credit risk through credit approvals, limits, pledges of collateral, and monitoring procedures. No losses on derivative

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instruments have occurred as a result of counterparty nonperformance. Nevertheless, the related credit risk is considered and measured when and where appropriate.

Our derivative contracts require us to pledge collateral for derivatives that are in a net liability position at a given balance sheet date. Certain of these derivative contracts contain credit-risk-related contingent features that include the requirement to maintain a minimum debt credit rating. We may be required to pledge additional collateral if a credit-risk-related feature were triggered, such as a downgrade of our credit rating. However, in past situations, not all counterparties have demanded that additional collateral be pledged when provided for under their contracts. At March 31, 2014, the fair value of our derivative liabilities was \$62.6 million, for which we were required to pledge cash collateral of approximately \$38.5 million in the normal course of business. If our credit rating were downgraded one notch by either Standard & Poor's or Moody's at March 31, 2014, the additional amount of collateral we could be required to pledge is approximately \$1.4 million. Since July 2013, as required by the Dodd-Frank Act, all new eligible derivatives entered into are cleared through a central clearinghouse. Derivatives that are centrally cleared do not have credit-risk-related features that require additional collateral if our credit rating were downgraded.

Interest rate swap agreements designated as cash flow hedges involve the receipt of fixed-rate amounts in exchange for variable-rate payments over the life of the agreements without exchange of the underlying principal amount. Derivatives not designated as accounting hedges, including basis swap agreements, are not speculative and are used to economically manage our exposure to interest rate movements and other identified risks, but do not meet the strict hedge accounting requirements.

Selected information with respect to notional amounts and recorded gross fair values at March 31, 2014 and December 31, 2013, and the related gain (loss) of derivative instruments for the three months ended March 31, 2014 and 2013 is summarized as follows:

(In thousands)	March 31, 2014			December 31, 2013		
	Notional amount	Fair value Other assets	Other liabilities	Notional amount	Fair value Other assets	Other liabilities
Derivatives designated as hedging instruments						
Asset derivatives						
Cash flow hedges:						
Interest rate swaps	\$ 150,000	\$ 298	\$ 492	\$ 100,000	\$ 202	\$ 583
Total derivatives designated as hedging instruments	150,000	298	492	100,000	202	583
Derivatives not designated as hedging instruments						
Interest rate swaps	60,967	332	286	65,850	420	421
Interest rate swaps for customers ²	2,900,444	50,644	51,000	2,902,776	55,447	54,688
Foreign exchange	434,058	6,409	5,412	751,066	9,614	8,643
Total return swap	1,159,686	—	5,399	1,159,686	—	4,062
Total derivatives not designated as hedging instruments	4,555,155	57,385	62,097	4,879,378	65,481	67,814
Total derivatives	\$ 4,705,155	\$ 57,683	\$ 62,589	\$ 4,979,378	\$ 65,683	\$ 68,397

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(In thousands)	Three Months Ended March 31, 2014				Three Months Ended March 31, 2013			
	Amount of derivative gain (loss) recognized/reclassified							
	OCI	Reclassified from AOCI to interest income ³	Noninterest income (expense)	Offset to interest expense	OCI	Reclassified from AOCI to interest income ³	Noninterest income (expense)	Offset to interest expense
Derivatives designated as hedging instruments								
Asset derivatives								
Cash flow hedges ¹ :								
Interest rate swaps	\$ 538	\$ 351	\$ —		\$(4)	\$ 1,605	\$ —	
	538	351	—		(4)	1,605	—	
Liability derivatives								
Fair value hedges:								
Terminated swaps on long-term debt				\$ 718				\$ 766
Total derivatives designated as hedging instruments	538	351	—	718	(4)	1,605	—	766
Derivatives not designated as hedging instruments								
Interest rate swaps			6				(67)	
Interest rate swaps for customers ²			(549)				1,458	
Futures contracts			—				1	
Foreign exchange			1,711				2,754	
Total return swap			(7,427)				(5,558)	
Total derivatives not designated as hedging instruments			(6,259)				(1,412)	
Total derivatives	\$ 538	\$ 351	\$(6,259)	\$ 718	\$(4)	\$ 1,605	\$(1,412)	\$ 766

Note: These schedules are not intended to present at any given time the Company's long/short position with respect to its derivative contracts.

¹ Amounts recognized in OCI and reclassified from accumulated OCI ("AOCI") represent the effective portion of the derivative gain (loss).

² Amounts include both the customer swaps and the offsetting derivative contracts.

³ Amounts for the three months ended March 31 2014 and 2013 of \$0.4 million and \$1.6 million, respectively, are the amounts of reclassification to earnings from AOCI presented in Note 8.

At March 31, the fair values of derivative assets and liabilities were reduced (increased) by net credit valuation adjustments of \$1.6 million and \$1.2 million in 2014, and \$3.0 million and \$(0.1) million in 2013, respectively. These adjustments are required to reflect both our own nonperformance risk and the respective counterparty's nonperformance risk.

We offer interest rate swaps to our customers to assist them in managing their exposure to changing interest rates. Upon issuance, all of these customer swaps are immediately "hedged" by offsetting derivative contracts, such that the Company minimizes its net risk exposure resulting from such transactions. Fee income from customer swaps is

included in other service charges, commissions and fees. As with other derivative instruments, we have credit risk for any nonperformance by counterparties.

The remaining balances of any derivative instruments terminated prior to maturity, including amounts in AOCI for swap hedges, are accreted or amortized to interest income or expense over the period corresponding to their previously stated maturity dates.

Amounts in AOCI are reclassified to interest income as interest is earned on variable rate loans and as amounts for terminated hedges are accreted or amortized to earnings. For the 12 months following March 31, 2014, we estimate that an additional \$1.3 million will be reclassified.

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Total Return Swap

Since July 28, 2010, we had a total return swap and related interest rate swaps (“TRS”) with Deutsche Bank AG (“DB”) relating to a portfolio of \$1.16 billion par amount of our bank and insurance trust preferred CDOs. As a result of the TRS, DB had assumed all of the credit risk of this CDO portfolio, providing timely payment of all scheduled payments of interest and principal when contractually due to the Company (without regard to acceleration or deferral events). The transaction reduced regulatory risk-weighted assets and improved the Company’s risk-based capital ratios.

The fair value of the TRS derivative liability was \$5.4 million at March 31, 2014 and \$4.1 million at December 31, 2013.

Effective April 28, 2014, we canceled the TRS and will recognize approximately \$0.5 million of TRS expenses during the second quarter of 2014 beyond that already accrued. At March 31, 2014, the par amount of the portfolio covered by the TRS was \$545 million, or less than half of the original balance. This significant decrease was due to intervening CDO sales, paydowns and payoffs, as discussed in Note 5, and led to our cancellation of the TRS. At March 31, 2014, the TRS reduced risk-weighted assets by approximately \$1 billion. We expect that, absent significant additional sales or paydowns, this cancellation will increase risk weighted assets by a similar amount at the end of the second quarter of 2014.

8. DEBT AND SHAREHOLDERS’ EQUITY

Debt Redemptions

During the three months ended March 31, 2014 under our senior medium-term note program, we redeemed \$125 million of long-term notes. At March 31, 2014, the outstanding notes in this program amounted to \$210.8 million, with interest rates from 2.55% to 5.50% and maturities through November 2019.

Accumulated Other Comprehensive Income

Changes in AOCI by component are as follows:

(In thousands)	Net unrealized gains (losses) on investment securities	Net unrealized gains (losses) on derivative instruments	Pension and post-retirement	Total
Three Months Ended March 31, 2014				
Balance at December 31, 2013	\$(167,032)	\$(217)	\$ (24,852)	\$(192,101)
Other comprehensive income before reclassifications, net of tax	71,066	320	—	71,386
Amounts reclassified from AOCI, net of tax	(24,537)	(210)	—	(24,747)
Other comprehensive income	46,529	110	—	46,639
Balance at March 31, 2014	\$(120,503)	\$(107)	\$ (24,852)	\$(145,462)
Income tax expense included in other comprehensive income	\$38,636	\$77	\$ —	\$38,713
Three Months Ended March 31, 2013				
Balance at December 31, 2012	\$(397,616)	\$1,794	\$ (50,335)	\$(446,157)

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Other comprehensive income (loss) before reclassifications, net of tax	36,042	(2)	—	36,040
Amounts reclassified from AOCI, net of tax	4,171	(957)	—	3,214
Other comprehensive income (loss)	40,213	(959)	—	39,254
Balance at March 31, 2013	\$(357,403)	\$835	\$(50,335)	\$(406,903)
Income tax expense (benefit) included in other comprehensive income (loss)	\$23,853	\$(650)	\$—	\$23,203

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(In thousands)	Amounts reclassified from AOCI ¹ Three Months Ended March 31,		Statement of income (SI) Balance sheet (BS)	Affected line item
	2014	2013		
Details about AOCI components				
Net realized gains on investment securities	\$30,914	\$3,299	SI	Fixed income securities gains, net
Income tax expense	6,074	1,262		
	24,840	2,037		
Net unrealized losses on investment securities	(27)	(9,714)	SI	Net impairment losses on investment securities
Income tax benefit	(10)	(3,715)		
	(17)	(5,999)		
Accretion of securities with noncredit-related impairment losses not expected to be sold	(482)	(344)	BS	Investment securities, held-to-maturity
Deferred income taxes	196	135	BS	Other assets
	\$24,537	\$(4,171)		
Net unrealized gains on derivative instruments	\$351	\$1,605	SI	Interest and fees on loans
Income tax expense	141	648		
	\$210	\$957		

¹ Negative reclassification amounts indicate decreases to earnings in the statement of income and increases to balance sheet assets. The opposite applies to positive reclassification amounts.

Basel III Capital Framework

The Federal Reserve has published final rules establishing a new capital framework for U.S. banking organizations. These new rules implement the Basel Committee's December 2010 framework, commonly referred to as Basel III, which will become effective for the Company on January 1, 2015, with the fully phased-in requirements becoming effective in 2018.

Among other things, the new rules revise capital adequacy guidelines and the regulatory framework for prompt corrective action, and they modify specified quantitative measures of our assets, liabilities, and capital. The impact of these new rules will require the Company to maintain capital in excess of current "well-capitalized" regulatory standards, and in excess of historical levels.

9. INCOME TAXES

Income tax expense for the three months ended March 31, 2014 and 2013 was lower than the blended statutory rate of 38.25% primarily because of the non-taxability of certain income items.

Net deferred tax assets were approximately \$187 million at March 31, 2014 and \$304 million at December 31, 2013. We evaluate net deferred tax assets on a regular basis to determine whether an additional valuation allowance is required. Based on this evaluation, and considering the weight of the positive evidence compared to the negative evidence, we have concluded that an additional valuation allowance is not required as of March 31, 2014.

10. FAIR VALUE

Fair Value Measurement

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. To measure fair value, a hierarchy has been established that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs. This hierarchy uses three levels of inputs to measure the fair value of assets and liabilities as follows:

Level 1 – Quoted prices in active markets for identical assets or liabilities in active markets that the Company has the ability to access;

Level 2 – Observable inputs other than Level 1 including quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in less active markets, observable inputs other than quoted prices that are used in the valuation of an asset or liability, and inputs that are derived principally from or corroborated by observable market data by correlation or other means; and

Level 3 – Unobservable inputs supported by little or no market activity for financial instruments whose value is determined by pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

The level in the fair value hierarchy within which the fair value measurement is classified is determined based on the lowest level input that is significant to the fair value measure in its entirety. Market activity is presumed to be orderly in the absence of evidence of forced or disorderly sales, although such sales may still be indicative of fair value.

Applicable accounting guidance precludes the use of blockage factors or liquidity adjustments due to the quantity of securities held by an entity.

We use fair value to measure certain assets and liabilities on a recurring basis when fair value is the primary measure for accounting. Fair value is used on a nonrecurring basis to measure certain assets when adjusting carrying values, such as the application of lower of cost or fair value accounting, including recognition of impairment on assets. Fair value is also used when providing required disclosures for certain financial instruments.

Fair Value Policies and Procedures

We have various policies, processes and controls in place to ensure that fair values are reasonably developed, reviewed and approved for use. These include a Securities Valuation and Securitization Oversight Committee (“SOC”) comprised of executive management that reports directly to the Board of Directors. The SOC reviews and approves on a quarterly basis the key components of fair value estimation, including critical valuation assumptions for Level 3 modeling. Attribution analyses are completed when significant changes occur between quarters. The SOC also requires quarterly back testing of certain significant assumptions. A Model Risk Management Group conducts model validations, including the internal model, and sets policies and procedures for revalidation, including the timing of revalidation.

Third Party Service Providers

We use a third party pricing service to provide pricing for approximately 89% of our AFS Level 2 securities, and an internal model to estimate fair value for approximately 98% of our AFS Level 3 securities. Fair values for the remaining AFS Level 2 and Level 3 securities generally use standard form discounted cash flow modeling with certain inputs corroborated by market data.

For Level 2 securities, the third party pricing service provides documentation on an ongoing basis that presents market corroborative data, including detail pricing information and market reference data. The documentation includes benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, and reference data, including information from the vendor trading platform. We review, test and validate this information as appropriate.

For Level 3 securities, we review and evaluate on a quarterly basis the relevant third party modeling assumptions. These include PDs, loss-given-default rates, over-collateralization levels, and rating transition probability matrices from ratings agencies. In addition, we also compare the results and valuation with our information about market trends and trading data. This includes information regarding trading prices, implied discounts, outlier information, valuation

assumptions, etc.

Absent observable trade data, we do not adjust prices from our third party sources. The procedures described help ensure that resulting fair value estimates were determined in accordance with applicable accounting guidance.

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The following describes the hierarchy designations, valuation methodologies, and key inputs to measure fair value on a recurring basis for designated financial instruments:

Available-for-Sale and Trading

U.S. Treasury, Agencies and Corporations

U.S. Treasury securities are measured under Level 1 using quoted market prices. U.S. agencies and corporations are measured under Level 2 generally using the previously-discussed third party pricing service.

Municipal Securities

Municipal securities are measured under Level 2 using the third party pricing service, or under Level 3 using a discounted cash flow approach. Valuation inputs include BBB and Baa municipal curves, as well as FHLB and London Interbank Offered Rate (“LIBOR”) swap curves. Additional valuation inputs include internal credit scoring, and security- and client-type groupings.

Asset-Backed Securities: Trust Preferred Collateralized Debt Obligations

The majority of the CDO portfolio is measured under Level 3 primarily with the internal model using an income-based cash flow modeling approach incorporating several methodologies. The Company inputs its own key valuation assumptions:

Trust preferred – banks and insurance – We primarily use an internal model for our bank and insurance CDO securities. Our “ratio-based approach” utilizes a statistical regression of regulatory ratios we have identified as predictive of future bank failures and bank holding company defaults to create a credit-specific PD for each bank issuer. The approach generally references trailing quarter regulatory data, financial ratios and macroeconomic factors.

The PDs used depend on whether the collateral is performing or deferring. Deferring PDs increase, all else being equal, as the deferral ages and approaches the end of its allowable five-year deferral period. The internal model includes the expectation that deferrals that do not default will pay their contractually required back interest and return to a current status at the end of five years. Estimates of loss for the individual pieces of underlying collateral are aggregated to arrive at a pool-level loss rate for each CDO. These loss assumptions are applied to the CDO’s structure to generate cash flow projections for each tranche of the CDO.

We utilize a present value technique to identify both the OTTI present in the CDO tranches and to estimate fair value. To estimate fair value, we discount the credit-adjusted cash flows of each CDO tranche at a tranche-specific discount rate derived from trading data and a measure of the credit risk in the CDO tranche. Because these securities are not traded on exchanges and trading prices are not posted on the TRACE[®] system (Trade Reporting and Compliance Engine[®]), we seek information from market participants to obtain trade price information.

Trading data is generally limited and may include trades of tranches within our same CDO. We use this limited trade data along with our modeled expected credit adjusted cash flows to determine a relationship between the market required yield and the downside variability of the returns of each CDO security. The loss/downside variability for this purpose is a measure of the downside variability of cash flows from the mean estimate of cash flow.

During the three months ended March 31, 2014, as shown in the Level 3 reconciliation schedules following, two insurance CDO securities and two single-name bank trust preferred securities, were transferred from Level 3 to Level 2 primarily due to the increasing ability to utilize fair value inputs corroborated by observed market data. The securities constitute the Company’s entire holding of each asset class.

Trust preferred – REITS, Other – During the three months ended March 31, 2014, substantially all of these securities were sold, as discussed in Note 5.

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Auction Rate Securities

Auction rate securities are measured under Level 3 primarily using valuation inputs that include AAA corporate bond yield curves, municipal yield curves, credit ratings and leverage of each closed-end fund, market yields for commercial paper, and any observable trade commentaries.

Bank-Owned Life Insurance

Bank-owned life insurance is measured under Level 2 according to cash surrender values (“CSVs”) of the insurance contracts that are provided by a third party service. Nearly all CSVs are computed based on valuations and earnings of the underlying assets in the insurance companies’ general accounts. The underlying investments include predominantly fixed income securities consisting of investment grade corporate bonds and various types of mortgage instruments. Average duration ranges from five to eight years. Management regularly reviews investment performance, including concentrations of investments and regulatory restrictions.

Private Equity Investments

Private equity investments are measured under Level 2 or Level 3. The Other Equity Investments Committee, consisting of executives familiar with the investments, reviews periodic financial information, including audited financial statements when available. The amount of unfunded commitments to these partnerships is disclosed in Note 11. Certain restrictions apply for the redemption of these investments. Approximately \$59 million of private equity investments at March 31, 2014 are prohibited by the Volcker Rule.

Private equity investments under Level 2 include partnerships that invest in certain financial services and real estate companies, some of which are publicly traded. Fair values are determined from net asset values, or their equivalents, provided by the partnerships. These fair values are determined on the last business day of the month using values from the primary exchange. In the case of illiquid or nontraded assets, the partnerships obtain fair values from independent sources.

Private equity investments are measured under Level 3 primarily using current and projected financial performance, recent financing activities, economic and market conditions, market comparables, market liquidity, sales restrictions, and other factors.

Agriculture Loan Servicing

This asset results from our servicing of agriculture loans approved by the Federal Agricultural Mortgage Corporation (“FAMC,” or “Farmer Mac”) and funded by them. We provide this servicing under an agreement with Farmer Mac for loans they own. The asset’s fair value represents our projection of the present value of future cash flows measured under Level 3 using discounted cash flow methodologies.

Interest-Only Strips

Interest-only strips are created as a by-product of the securitization process. When the guaranteed portion of Small Business Administration (“SBA”) 7(a) loans are pooled, interest-only strips may be created in the pooling process. The asset’s fair value represents our projection of the present value of future cash flows measured under Level 3 using discounted cash flow methodologies.

Deferred Compensation Plan Assets and Obligations

Invested assets in the deferred compensation plan consists of shares of registered investment companies. These mutual funds are valued under Level 1 at quoted market prices, which represents the net asset value of shares held by the plan at the end of the period.

Derivatives

Derivatives are measured according to their classification as either exchange-traded or over-the-counter (“OTC”). Exchange-traded derivatives consist of forward currency exchange contracts measured under Level 1 because they are traded in active markets. OTC derivatives, including those for customers, consist of interest rate swaps and options. These derivatives are measured under Level 2 using third party services. Observable market inputs include yield curves (the LIBOR swap curve and applicable basis swap curves), foreign exchange rates, commodity prices,

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option volatilities, counterparty credit risk, and other related data. Credit valuation adjustments are required to reflect nonperformance risk for both the Company and the respective counterparty. These adjustments are determined generally by applying a credit spread to the total expected exposure of the derivative.

Securities Sold, Not Yet Purchased

Securities sold, not yet purchased, are measured under Level 1 using quoted market prices. If not available, quoted prices under Level 2 for similar securities are used.

Quantitative Disclosure of Fair Value Measurements

Assets and liabilities measured at fair value by class on a recurring basis are summarized as follows:

(In thousands)	March 31, 2014			
	Level 1	Level 2	Level 3	Total
ASSETS				
Investment securities:				
Available-for-sale:				
U.S. Treasury, agencies and corporations		\$2,252,014		\$2,252,014
Municipal securities		141,222	\$10,184	151,406
Asset-backed securities:				
Trust preferred – banks and insurance		69,194	690,217	759,411
Trust preferred – real estate investment trusts			—	—
Auction rate			6,560	6,560
Other		1,722	30	1,752
Mutual funds and stock	\$231,405	20,657		252,062
	231,405	2,484,809	706,991	3,423,205
Trading account		56,172		56,172
Other noninterest-bearing investments:				
Bank-owned life insurance		469,241		469,241
Private equity		4,923	81,052	85,975
Other assets:				
Agriculture loan servicing and interest-only strips			11,207	11,207
Deferred compensation plan assets	88,606			88,606
Derivatives:				
Interest rate related and other		630		630
Interest rate swaps for customers		50,644		50,644
Foreign currency exchange contracts	6,409			6,409
	6,409	51,274		57,683
	\$326,420	\$3,066,419	\$799,250	\$4,192,089
LIABILITIES				
Securities sold, not yet purchased	\$1,340			\$1,340
Other liabilities:				
Deferred compensation plan obligations	88,606			88,606
Derivatives:				
Interest rate related and other		\$778		778
Interest rate swaps for customers		51,000		51,000
Foreign currency exchange contracts	5,412			5,412
Total return swap			\$5,399	5,399
	5,412	51,778	5,399	62,589
Other			233	233
	\$95,358	\$51,778	\$5,632	\$152,768

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(In thousands)	December 31, 2013			Total
	Level 1	Level 2	Level 3	
ASSETS				
Investment securities:				
Available-for-sale:				
U.S. Treasury, agencies and corporations	\$—	\$2,059,105		\$2,059,105
Municipal securities		55,602	\$10,662	66,264
Asset-backed securities:				
Trust preferred – banks and insurance		—	1,238,820	1,238,820
Trust preferred – real estate investment trusts			22,996	22,996
Auction rate			6,599	6,599
Other		2,099	25,800	27,899
Mutual funds and stock	259,750	20,453		280,203
	259,750	2,137,259	1,304,877	3,701,886
Trading account		34,559		34,559
Other noninterest-bearing investments:				
Bank-owned life insurance		466,428		466,428
Private equity		4,822	82,410	87,232
Other assets:				
Agriculture loan servicing and interest-only strips			8,852	8,852
Deferred compensation plan assets	86,184			86,184
Derivatives:				
Interest rate related and other		622		622
Interest rate swaps for customers		55,447		55,447
Foreign currency exchange contracts	9,614			9,614
	9,614	56,069		65,683
	\$355,548	\$2,699,137	\$1,396,139	\$4,450,824
LIABILITIES				
Securities sold, not yet purchased	\$73,606			\$73,606
Other liabilities:				
Deferred compensation plan obligations	86,184			86,184
Derivatives:				
Interest rate related and other		\$1,004		1,004
Interest rate swaps for customers		54,688		54,688
Foreign currency exchange contracts	8,643			8,643
Total return swap			\$4,062	4,062
	8,643	55,692	4,062	68,397
Other			241	241
	\$168,433	\$55,692	\$4,303	\$228,428

The fair value of the Level 3 bank and insurance CDO portfolio would generally be adversely affected by significant increases in the constant default rate (“CDR”) for performing collateral, the loss percentage expected from deferring collateral, and the discount rate used. The fair value of the portfolio would generally be positively affected by increases in interest rates and prepayment rates. For a specific tranche within a CDO, the directionality of the fair value change for a given assumption change may differ depending on the seniority level of the tranche. For example, faster prepayment may increase the fair value of a senior most tranche of a CDO while decreasing the fair value of a more junior tranche.

Reconciliation of Level 3 Fair Value Measurements

The following reconciles the beginning and ending balances of assets and liabilities that are measured at fair value by class on a recurring basis using Level 3 inputs:

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(In thousands)	Level 3 Instruments Three Months Ended March 31, 2014							
	Municipal securities	Trust preferred – banks and insurance	Trust preferred – REIT	Auction rate	Other asset-backed	Private equity investments	Ag loan svcg and int-only strips	Derivatives and other liabilities
Balance at December 31, 2013	\$10,662	\$1,238,820	\$22,996	\$6,599	\$ 25,800	\$ 82,410	\$8,852	\$(4,303)
Net gains (losses) included in:								
Statement of income:								
Accretion of purchase discount on securities available-for-sale	10	720		1				
Dividends and other investment income						(1,695)		
Fair value and nonhedge derivative loss								(7,427)
Fixed income securities gains, net	16	18,582	1,399		10,917			
Other noninterest income							481	
Other noninterest expense								8
Other comprehensive income	(274)	94,462		(40)	(15)			
Purchases						1,356	2,077	
Sales		(546,388)	(24,395)		(36,669)	(824)		
Redemptions and paydowns	(230)	(46,786)			(3)	(195)	(203)	6,090
Transfers to Level 2		(69,193)						
Balance at March 31, 2014	\$10,184	\$690,217	\$—	\$6,560	\$ 30	\$ 81,052	\$11,207	\$(5,632)

(In thousands)	Level 3 Instruments Three Months Ended March 31, 2013							
	Municipal securities	Trust preferred – banks and insurance	Trust preferred – REIT	Auction rate	Other asset-backed	Private equity investments	Ag loan svcg and int-only strips	Derivatives and other liabilities
Balance at December 31, 2012	\$16,551	\$949,271	\$16,403	\$6,515	\$ 15,160	\$ 64,223	\$8,334	\$(5,251)
Net gains (losses) included in:								
Statement of income:								

Accretion of purchase discount on securities available-for-sale	21	815	63	1	5							
Dividends and other investment income						2,989						
Fair value and nonhedge derivative loss								(5,558)			
Equity securities gains, net						2,399						
Fixed income securities gains, net	21	3,226			30							
Net impairment losses on investment securities		(9,714)									
Other noninterest income							119					
Other noninterest expense								(71)			
Other comprehensive income	725	78,650	840	8	2,651							
Purchases						959						
Sales						(733)					
Redemptions and paydowns	(275)	(19,146)		(2,453)	(131)	(201)	5,810
Balance at March 31, 2013	\$17,043	\$1,003,102	\$17,306	\$6,524	\$ 15,393	\$ 69,706	\$8,252	\$ (5,070)			

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The preceding reconciling amounts using Level 3 inputs include the following realized gains:

(In thousands)	Three Months Ended March 31,	
	2014	2013
Dividends and other investment income	\$34	\$15
Fixed income securities gains, net	30,914	3,277

Except as previously discussed, no other transfers of assets or liabilities occurred among Levels 1, 2 or 3 for the three months ended March 31, 2014 and 2013. Transfers are considered to have occurred as of the end of the reporting period.

Following is a summary of quantitative information relating to the principal valuation techniques and significant unobservable inputs for Level 3 instruments measured on a recurring basis:

(Dollar amounts in thousands)	Level 3 Instruments			Range of inputs (% annually)
	Quantitative information at March 31, 2014	Principal valuation techniques	Significant unobservable inputs	
Asset-backed securities:				
Trust preferred – predominantly banks ¹	\$744,840	Discounted cash flow Market comparables	Constant prepayment rate	until 2016 – 5.50% to 23.30%
			Constant default rate	2016 to maturity – 3.0% yr 1 – 0.30% to 2.17% yrs 2-5 – 0.48% to 0.82% %
			Loss given default	100%
			Loss given deferral	13.56% to 100%
			Discount rate (spread over forward LIBOR)	5.3% to 5.6%

¹ Amount consists of \$690.2 million AFS and \$54.6 million HTM.

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(Dollar amounts in thousands)	Level 3 Instruments			Range of inputs (% annually)
	Quantitative information at December 31, 2013	Principal valuation techniques	Significant unobservable inputs	
Asset-backed securities:				
Trust preferred – predominantly banks	\$921,819	Discounted cash flow Market comparables	Constant prepayment rate Constant default rate Loss given default Loss given deferral Discount rate (spread over forward LIBOR)	until 2016 – 5.50% to 20.73% 2016 to maturity – 3.0% yr 1 – 0.30% to 1.94% yrs 2-5 – 0.49% to 1.14% yrs 6 to maturity – 0.58% to 0.65% 100% 14.39% to 100% 5.6% to 7.7%
Trust preferred – predominantly insurance	346,390	Discounted cash flow Market comparables	Constant prepayment rate Constant default rate Loss given default Loss given deferral Discount rate (spread over forward LIBOR)	until maturity – 5.0% yr 1 – 0.38% to 1.03% yrs 2-5 – 0.53% to 0.89% yrs 6 to maturity – 0.50% to 0.55% 100% 2.18% to 30.13% 3.72% to 6.49%
Trust preferred – individual banks	22,324	Market comparables	Yield Price	6.6% to 7.8% 81.25% to 109.6%
Trust preferred – real estate investment trust	22,996	Discounted cash flow Market comparables	Constant prepayment rate Constant default rate Loss given default	until maturity – 0.0% yr 1 – 4.1% to 10.6% yrs 2-3 – 4.6% to 5.5% yrs 4-6 – 1.0% yrs 7 to maturity – 0.50% 60% to 100%

			Discount rate (spread over forward LIBOR)	5.5% to 15%
Other (predominantly ABS CDOs)	25,800	Discounted cash flow	Constant default rate	0.01% to 100%
			Loss given default	70% to 92%
			Discount rate (spread over forward LIBOR)	9% to 22%

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Nonrecurring Fair Value Measurements

Included in the balance sheet amounts are the following amounts of assets that had fair value changes measured on a nonrecurring basis.

(In thousands)	Fair value at March 31, 2014				Fair value at December 31, 2013			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
ASSETS								
HTM securities adjusted for OTTI	\$—	\$—	\$71	\$71	\$—	\$—	\$8,483	\$8,483
Private equity investments, carried at cost	—	—	—	—	—	—	13,270	13,270
Impaired loans	—	21,943	—	21,943	—	11,765	—	11,765
Other real estate owned	—	13,720	—	13,720	—	24,684	—	24,684
	\$—	\$35,663	\$71	\$35,734	\$—	\$36,449	\$21,753	\$58,202

The previous fair values may not be current as of the dates indicated, but rather as of the date the fair value change occurred, such as a charge for impairment. Accordingly, carrying values may not equal current fair value.

(In thousands)	Gains (losses) from fair value changes Three Months Ended	
	March 31, 2014	2013
ASSETS		
HTM securities adjusted for OTTI	\$(27	) \$(403
Private equity investments, carried at cost	—	) (820
Impaired loans	(2,177	) (883
Other real estate owned	(2,234	) (4,691
	\$(4,438	) \$(6,797

During the three months ended March 31, we recognized net gains of \$1.0 million in 2014 and \$3.9 million in 2013 from the sale of other real estate owned (“OREO”) properties that had a carrying value at the time of sale of approximately \$10.0 million and \$22.0 million, respectively. Previous to their sale in these periods, we recognized impairment on these properties of \$0.2 million in 2014 and \$0.1 million in 2013.

HTM securities adjusted for OTTI were measured at fair value using the same methodology for trust preferred CDO securities.

Private equity investments carried at cost were measured at fair value for impairment purposes according to the methodology previously discussed for these investments. Amounts of private equity investments carried at cost were \$50.4 million at March 31, 2014 and \$53.6 million at December 31, 2013. Amounts of other noninterest-bearing investments carried at cost were \$243.1 million at March 31, 2014 and \$248.4 million at December 31, 2013, which were comprised of Federal Reserve, Federal Home Loan Bank, and Farmer Mac stock.

Impaired (or nonperforming) loans that are collateral-dependent were measured at fair value based on the fair value of the collateral. OREO was measured at fair value at the lower of cost or fair value based on property appraisals at the time the property is recorded in OREO and as appropriate thereafter.

Measurement of fair value for collateral-dependent loans and OREO was based on third party appraisals that utilize one or more valuation techniques (income, market and/or cost approaches). Any adjustments to calculated fair value

were made based on recently completed and validated third party appraisals, third party appraisal services, automated valuation services, or our informed judgment. Evaluations were made to determine that the appraisal process met the relevant concepts and requirements of applicable accounting guidance.

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Automated valuation services may be used primarily for residential properties when values from any of the previous methods were not available within 90 days of the balance sheet date. These services use models based on market, economic, and demographic values. The use of these models has only occurred in a very few instances and the related property valuations have not been significant to consider disclosure under Level 3 rather than Level 2.

Impaired loans not collateral-dependent were measured at fair value based on the present value of future cash flows discounted at the expected coupon rates over the lives of the loans. Because the loans were not discounted at market interest rates, the valuations do not represent fair value and have been excluded from the nonrecurring fair value balance in the preceding schedules.

Fair Value of Certain Financial Instruments

Following is a summary of the carrying values and estimated fair values of certain financial instruments:

(In thousands)	March 31, 2014			December 31, 2013		
	Carrying value	Estimated fair value	Level	Carrying value	Estimated fair value	Level
Financial assets:						
HTM investment securities	\$606,279	\$635,379	3	\$588,981	\$609,547	3
Loans and leases (including loans held for sale), net of allowance	38,587,527	38,333,815	3	38,468,402	38,088,242	3
Financial liabilities:						
Time deposits	2,528,735	2,536,904	2	2,593,038	2,602,955	2
Foreign deposits	1,648,111	1,647,876	2	1,980,161	1,979,805	2
Long-term debt (less fair value hedges)	2,155,606	2,301,239	2	2,269,762	2,423,643	2

This summary excludes financial assets and liabilities for which carrying value approximates fair value. For financial assets, these include cash and due from banks and money market investments. For financial liabilities, these include demand, savings and money market deposits, and federal funds purchased and security repurchase agreements. The estimated fair value of demand, savings and money market deposits is the amount payable on demand at the reporting date. Carrying value is used because the accounts have no stated maturity and the customer has the ability to withdraw funds immediately. Also excluded from the summary are financial instruments recorded at fair value on a recurring basis, as previously described.

HTM investment securities primarily consist of municipal securities and bank and insurance trust preferred CDOs. They were measured at fair value according to the methodologies previously discussed for these investment types.

Loans are measured at fair value according to their status as nonimpaired or impaired. For nonimpaired loans, fair value is estimated by discounting future cash flows using the LIBOR yield curve adjusted by a factor which reflects the credit and interest rate risk inherent in the loan. These future cash flows are then reduced by the estimated “life-of-the-loan” aggregate credit losses in the loan portfolio. These adjustments for lifetime future credit losses are derived from the methods used to estimate the ALLL for our loan portfolio and are adjusted quarterly as necessary to reflect the most recent loss experience. Impaired loans are already considered to be held at fair value, except those whose fair value is determined by discounting cash flows, as discussed previously. See Impaired Loans in Note 6 for details on the impairment measurement method for impaired loans. Loans, other than those held for sale, are not normally purchased and sold by the Company, and there are no active trading markets for most of this portfolio.

Time and foreign deposits, and any other short-term borrowings, are measured at fair value by discounting future cash flows using the LIBOR yield curve to the given maturity dates.

Long-term debt is measured at fair value based on actual market trades (i.e., an asset value) when available, or discounting cash flows to maturity using the LIBOR yield curve adjusted for credit spreads.

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These fair value disclosures represent our best estimates based on relevant market information and information about the financial instruments. Fair value estimates are based on judgments regarding current economic conditions, future expected loss experience, risk characteristics of the various instruments, and other factors. These estimates are subjective in nature, involve uncertainties and matters of significant judgment, and cannot be determined with precision. Changes in these methodologies and assumptions could significantly affect the estimates.

11. COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES

Commitments and Guarantees

Contractual amounts of off-balance sheet financial instruments used to meet the financing needs of our customers are as follows:

(In thousands)	March 31, 2014	December 31, 2013
Unfunded commitments to extend credit	\$ 16,443,367	\$ 16,174,326
Standby letters of credit:		
Financial	812,011	779,811
Performance	180,453	159,485
Commercial letters of credit	72,806	80,218
Total unfunded lending commitments	\$ 17,508,637	\$ 17,193,840

The Company's 2013 Annual Report on Form 10-K contains further information about these commitments and guarantees including their terms and collateral requirements. At March 31, 2014, the Company had recorded approximately \$10.6 million as a liability for the guarantees associated with the standby letters of credit, which consisted of \$7.9 million attributable to the RULC and \$2.7 million of deferred commitment fees.

At March 31, 2014, the Parent has guaranteed \$15 million of debt of affiliated trusts issuing trust preferred securities.

At March 31, 2014, we had unfunded commitments for private equity and other noninterest-bearing investments of \$27.8 million. These obligations have no stated maturity. However, at March 31, 2014, substantially all of the private equity investments related to these commitments are prohibited by the Volcker Rule. See further discussions in Notes 5 and 10.

Legal Matters

We are subject to litigation in court and arbitral proceedings, as well as proceedings, investigations, examinations and other actions brought or considered by governmental and self-regulatory agencies. At any given time, litigation may relate to lending, deposit and other customer relationships, vendor and contractual issues, employee matters, intellectual property matters, personal injuries and torts, regulatory and legal compliance, and other matters. While most matters relate to individual claims, we are also subject to putative class action claims and similar broader claims. Current putative class actions and similar claims include the following:

a complaint relating to our banking relationships with customers that allegedly engaged in wrongful telemarketing practices in which the plaintiff seeks a trebled monetary award under the federal RICO Act, *Reyes v. Zions First National Bank, et. al.*, brought in the United States District Court for the Eastern District of Pennsylvania; and a complaint arising from our banking relationships with Frederick Berg and a number of investment funds controlled by him using the "Meridian" brand name, in which the liquidating trustee for the funds seeks an award from us, on the basis of aiding and abetting and other claims, for monetary damages suffered by victims of a fraud allegedly perpetrated by Berg, *In re Consolidated Meridian Funds a/k/a Meridian Investors Trust*,

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Mark Calvert as Liquidating Trustee, et. al. vs. Zions Bancorporation and The Commerce Bank of Washington, N.A., pending in the United States Bankruptcy Court for the Western District of Washington.

In the third quarter of 2013, the District Court denied the plaintiff's motion for class certification in the Reyes case. In the first quarter of 2014, the Third Circuit Court of Appeals approved the plaintiff's motion to appeal the District Court decision.

Discovery has been completed in the Reyes case and is in process in the Meridian Funds case.

In the third quarter of 2013, we entered into definitive settlement agreements with respect to complaints relating to allegedly wrongful acts in our processing of overdraft fees on debit card transactions, Barlow, et. al. v. Zions First National Bank and Zions Bancorporation. The settlement agreements, which cover all of our affiliates alleged to have engaged in wrongful processing, were approved by the court and paid into escrow in the first quarter of 2014.

At any given time, proceedings, investigations, examinations and other actions brought or considered by governmental and self-regulatory agencies may relate to our banking, investment advisory, trust, securities, and other products and services; our customers' involvement in money-laundering, fraud, securities violations and other illicit activities or our policies and practices relating to such customer activities; and our compliance with the broad range of banking, securities and other laws and regulations applicable to us. At any given time, we may be in the process of responding to subpoenas, requests for documents, data and testimony relating to such matters and engaging in discussions to resolve the matters. Significant investigations and similar inquiries to which we are currently subject relate to: possible money laundering activities of a customer of one of our subsidiary banks and the anti-money laundering practices of that bank (conducted by the United States Attorneys Office for the Southern District of New York); and the practices of our subsidiary, Zions Bank; our former subsidiary, NetDeposit, LLC; and possibly other of our affiliates relating primarily to payment processing for allegedly fraudulent telemarketers and other customer types (conducted by the Department of Justice).

These two matters appear to be ongoing.

At least quarterly, we review outstanding and new legal matters, utilizing then available information. In accordance with applicable accounting guidance, if we determine that a loss from a matter is probable and the amount of the loss can be reasonably estimated, we establish an accrual for the loss. In the absence of such a determination, no accrual is made. Once established, accruals are adjusted to reflect developments relating to the matters.

In our review, we also assess whether we can determine the range of reasonably possible losses for significant matters in which we are unable to determine that the likelihood of a loss is remote. Because of the difficulty of predicting the outcome of legal matters, discussed subsequently, we are able to meaningfully estimate such a range only for a limited number of matters. We currently estimate the aggregate range of reasonably possible losses for those matters to be from \$0 million to roughly \$50 million in excess of amounts accrued. This estimated range of reasonably possible losses is based on information currently available as of March 31, 2014. The matters underlying the estimated range will change from time to time, and actual results may vary significantly from this estimate. Those matters for which an estimate is not possible are not included within this estimated range and, therefore, this estimated range does not represent our maximum loss exposure.

Based on our current knowledge, we believe that our current estimated liability for litigation and other legal actions and claims, reflected in our accruals and determined in accordance with applicable accounting guidance, is adequate and that liabilities in excess of the amounts currently accrued, if any, arising from litigation and other legal actions and claims for which an estimate as previously described is possible, will not have a material impact on our

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financial condition, results of operations, or cash flows. However, in light of the significant uncertainties involved in these matters, and the very large or indeterminate damages sought in some of these matters, an adverse outcome in one or more of these matters could be material to our financial condition, results of operations, or cash flows for any given reporting period.

Any estimate or determination relating to the future resolution of litigation, arbitration, governmental or self-regulatory examinations, investigations or actions or similar matters is inherently uncertain and involves significant judgment. This is particularly true in the early stages of a legal matter, when legal issues and facts have not been well articulated, reviewed, analyzed, and vetted through discovery, preparation for trial or hearings, substantive and productive mediation or settlement discussions, or other actions. It is also particularly true with respect to class action and similar claims involving multiple defendants, matters with complex procedural requirements or substantive issues or novel legal theories, and examinations, investigations and other actions conducted or brought by governmental and self-regulatory agencies, in which the normal adjudicative process is not applicable. Accordingly, we usually are unable to determine whether a favorable or unfavorable outcome is remote, reasonably likely, or probable, or to estimate the amount or range of a probable or reasonably likely loss, until relatively late in the course of a legal matter, sometimes not until a number of years have elapsed. Accordingly, our judgments and estimates relating to claims will change from time to time in light of developments and actual outcomes will differ from our estimates. These differences may be material.

12. RETIREMENT PLANS

The following discloses the net periodic benefit cost (credit) and its components for the Company's pension and postretirement plans:

(In thousands)	Pension benefits		Supplemental retirement benefits		Postretirement benefits	
	Three Months Ended March 31,					
	2014	2013	2014	2013	2014	2013
Service cost	\$—	\$—	\$—	\$—	\$8	\$8
Interest cost	1,880	1,739	113	101	12	10
Expected return on plan assets	(3,326)	(3,027)				
Amortization of prior service cost (credit)			13	31	—	(37)
Amortization of net actuarial (gain) loss	797	2,157	5	17	(18)	(19)
Net periodic benefit cost (credit)	\$(649)	\$869	\$131	\$149	\$2	\$(38)

As disclosed in the Company's 2013 Annual Report on Form 10-K, the Company has frozen its participation and benefit accruals for the pension plan and its contributions for individual benefit payments in the postretirement benefit plan.

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13. OPERATING SEGMENT INFORMATION

We manage our operations and prepare management reports and other information with a primary focus on geographical area. As of March 31, 2014, we operate eight community/regional banks in distinct geographical areas. Performance assessment and resource allocation are based upon this geographical structure. Zions Bank operates 98 branches in Utah and 26 branches in Idaho. CB&T operates 95 branches in California. Amegy operates 84 branches in Texas. NBAZ operates 71 branches in Arizona. NSB operates 48 branches in Nevada. Vectra operates 37 branches in Colorado and one branch in New Mexico. TCBW operates one branch in the state of Washington. TCBO operates one branch in Oregon.

The operating segment identified as “Other” includes the Parent, Zions Management Services Company (“ZMSC”), certain nonbank financial service subsidiaries, TCBO, and eliminations of transactions between segments. The Parent’s operations are significant to the Other segment. Net interest income is substantially affected by the Parent’s interest on long-term debt. Net impairment losses on investment securities relate to the Parent. ZMSC provides internal technology and operational services to affiliated operating businesses of the Company. ZMSC charges most of its costs to the affiliates on an approximate break-even basis.

The accounting policies of the individual operating segments are the same as those of the Company. Transactions between operating segments are primarily conducted at fair value, resulting in profits that are eliminated for reporting consolidated results of operations. Operating segments pay for centrally provided services based upon estimated or actual usage of those services.

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The following table presents selected operating segment information for the three months ended March 31, 2014 and 2013:

(In millions)	Zions Bank		CB&T		Amegey		NBAZ		NSB	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
CONDENSED INCOME STATEMENT										
Net interest income	\$142.5	\$151.5	\$109.2	\$114.6	\$94.7	\$95.4	\$40.3	\$40.5	\$27.9	\$27.4
Provision for loan losses	(8.7)	1.8	(2.1)	(6.8)	16.9	(13.8)	(3.0)	—	(2.6)	(0.2)
Net interest income after provision for loan losses	151.2	149.7	111.3	121.4	77.8	109.2	43.3	40.5	30.5	27.6
Net impairment losses on investment securities	—	—	—	—	—	—	—	—	—	—
Other noninterest income	44.0	50.3	5.8	21.6	32.0	38.4	8.3	8.2	4.9	8.9
Noninterest expense	121.5	115.0	85.3	90.3	87.0	84.2	37.3	34.2	32.1	31.7
Income (loss) before income taxes	73.7	85.0	31.8	52.7	22.8	63.4	14.3	14.5	3.3	4.8
Income tax expense (benefit)	26.8	31.0	12.1	20.8	7.3	21.3	5.2	5.4	1.0	1.6
Net income (loss)	\$46.9	\$54.0	\$19.7	\$31.9	\$15.5	\$42.1	\$9.1	\$9.1	\$2.3	\$3.2
AVERAGE BALANCE SHEET DATA										
Total assets	\$18,275	\$17,055	\$10,889	\$10,922	\$13,467	\$12,690	\$4,612	\$4,592	\$3,991	\$4,052
Cash and due from banks	340	350	166	175	322	321	73	69	89	86
Money market investments	3,545	2,507	1,129	1,327	2,503	2,183	288	479	699	994
Total securities	1,596	1,239	327	344	242	412	365	274	781	742
Total loans	12,247	12,357	8,538	8,275	9,362	8,595	3,696	3,552	2,306	2,098
Total deposits	15,980	14,743	9,272	9,309	11,099	10,291	3,952	3,894	3,598	3,593
Shareholder's equity:										
Preferred equity	280	280	162	162	153	251	120	180	50	139
Common equity	1,538	1,509	1,350	1,327	1,849	1,744	422	401	318	298
Noncontrolling interests	—	—	—	—	—	—	—	—	—	—

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Total shareholder's equity	1,818	1,789	1,512	1,489	2,002	1,995	542	581	368	437
	Vectra		TCBW		Other		Consolidated Company			
	2014	2013	2014	2013	2014	2013	2014	2013		
CONDENSED INCOME STATEMENT										
Net interest income	\$25.3	\$25.6	\$7.0	\$6.5	\$(30.4)	\$(43.4)	\$416.5	\$418.1		
Provision for loan losses	(1.8)	(8.6)	0.7	(0.9)	—	(0.5)	(0.6)	(29.0)		
Net interest income after provision for loan losses	27.1	34.2	6.3	7.4	(30.4)	(42.9)	417.1	447.1		
Net impairment losses on investment securities	—	—	—	—	—	(10.1)	—	(10.1)		
Other noninterest income	3.8	7.0	(1.0)	1.0	40.5	(4.1)	138.3	131.3		
Noninterest expense	25.3	25.1	4.5	4.9	5.1	11.9	398.1	397.3		
Income (loss) before income taxes	5.6	16.1	0.8	3.5	5.0	(69.0)	157.3	171.0		
Income tax expense (benefit)	1.8	5.8	0.3	1.2	1.6	(26.5)	56.1	60.6		
Net income (loss)	\$3.8	\$10.3	\$0.5	\$2.3	\$3.4	\$(42.5)	\$101.2	\$110.4		
AVERAGE BALANCE SHEET DATA										
Total assets	\$2,569	\$2,463	\$873	\$880	\$758	\$1,207	\$55,434	\$53,861		
Cash and due from banks	47	52	21	19	(17)	(9)	1,041	1,063		
Money market investments	14	46	118	181	(159)	395	8,137	8,112		
Total securities	164	184	90	101	552	519	4,117	3,815		
Total loans	2,280	2,092	631	565	65	64	39,125	37,598		
Total deposits	2,168	2,107	742	735	(1,033)	(262)	45,778	44,410		
Shareholder's equity:										
Preferred equity	70	70	3	3	166	145	1,004	1,230		
Common equity	247	227	88	82	(217)	(598)	5,595	4,990		
Noncontrolling interests	—	—	—	—	—	(4)	—	(4)		
Total shareholder's equity	317	297	91	85	(51)	(457)	6,599	6,216		

equity

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ZIONS BANCORPORATION AND SUBSIDIARIES

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD-LOOKING INFORMATION

Statements in this Quarterly Report on Form 10-Q that are based on other than historical data are forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements provide current expectations or forecasts of future events and include, among others:

statements with respect to the beliefs, plans, objectives, goals, guidelines, expectations, anticipations, and future financial condition, results of operations and performance of Zions Bancorporation ("the Parent") and its subsidiaries (collectively "the Company," "Zions," "we," "our," "us"); and

- statements preceded by, followed by or that include the words "may," "could," "should," "would," "believe," "anticipate," "estimate," "expect," "intend," "plan," "projects," or similar expressions.

These forward-looking statements are not guarantees of future performance, nor should they be relied upon as representing management's views as of any subsequent date. Forward-looking statements involve significant risks and uncertainties and actual results may differ materially from those presented, either expressed or implied, including, but not limited to, those presented in Management's Discussion and Analysis. Factors that might cause such differences include, but are not limited to:

- the Company's ability to successfully execute its business plans, manage its risks, and achieve its objectives;
- changes in local, national and international political and economic conditions, including without limitation the political and economic effects of the recent economic crisis, delay of recovery from that crisis, economic conditions and fiscal imbalances in the United States and other countries, potential or actual downgrades in rating of sovereign debt issued by the United States and other countries, and other major developments, including wars, military actions, and terrorist attacks;
- changes in financial market conditions, either internationally, nationally or locally in areas in which the Company conducts its operations, including without limitation reduced rates of business formation and growth, commercial and residential real estate development and real estate prices;
- fluctuations in markets for equity, fixed-income, commercial paper and other securities, including availability, market liquidity levels, and pricing;
- changes in interest rates, the quality and composition of the loan and securities portfolios, demand for loan products, deposit flows and competition;
- acquisitions and integration of acquired businesses;
- increases in the levels of losses, customer bankruptcies, bank failures, claims, and assessments;
- changes in fiscal, monetary, regulatory, trade and tax policies and laws, and regulatory assessments and fees, including policies of the U.S. Department of Treasury, the OCC, the Board of Governors of the Federal Reserve Board System, the FDIC, the SEC, and the CFPB;
- the impact of executive compensation rules under the Dodd-Frank Act and banking regulations which may impact the ability of the Company and other American financial institutions to retain and recruit executives and other personnel necessary for their businesses and competitiveness;
- the impact of the Dodd-Frank Act and of new international standards known as Basel III, and rules and regulations thereunder, many of which have not yet been promulgated or are not yet effective, on our required regulatory capital and liquidity levels, governmental assessments on us, the scope of business activities in which we may engage, the manner in which we engage in such activities, the fees we may charge for certain products and services, and other matters affected by the Dodd-Frank Act and these international standards;
- continuing consolidation in the financial services industry;
- new legal claims against the Company, including litigation, arbitration and proceedings brought by governmental or self-regulatory agencies, or changes in existing legal matters;
- success in gaining regulatory approvals, when required;

•changes in consumer spending and savings habits;

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ZIONS BANCORPORATION AND SUBSIDIARIES

increased competitive challenges and expanding product and pricing pressures among financial institutions;
 inflation and deflation;
 technological changes and the Company's implementation of new technologies;
 the Company's ability to develop and maintain secure and reliable information technology systems;
 legislation or regulatory changes which adversely affect the Company's operations or business;
 the Company's ability to comply with applicable laws and regulations;
 changes in accounting policies or procedures as may be required by the Financial Accounting Standards Board or regulatory agencies; and
 costs of deposit insurance and changes with respect to FDIC insurance coverage levels.

Except to the extent required by law, the Company specifically disclaims any obligation to update any factors or to publicly announce the result of revisions to any of the forward-looking statements included herein to reflect future events or developments.

GLOSSARY OF ACRONYMS

ABS	Asset-Backed Security	FASB	Financial Accounting Standards Board
ACL	Allowance for Credit Losses	FDIC	Federal Deposit Insurance Corporation
AFS	Available-for-Sale	FHLB	Federal Home Loan Bank
ALCO	Asset/Liability Committee	FRB	Federal Reserve Board
ALLL	Allowance for Loan and Lease Losses	FTE	Full-Time Equivalent
Amegy	Amegy Corporation	GAAP	Generally Accepted Accounting Principles
AOCI	Accumulated Other Comprehensive Income	HECL	Home Equity Credit Line
ASC	Accounting Standards Codification	HTM	Held-to-Maturity
ASU	Accounting Standards Update	IA	Indemnification Asset
BOLI	Bank-Owned Life Insurance	IFR	Interim Final Rule
bps	basis points	ISDA	International Swap Dealer Association
CB&T	California Bank & Trust	LCR	Liquidity Coverage Ratio
CCAR	Comprehensive Capital Analysis and Review	LGD	Loss Given Default
CDO	Collateralized Debt Obligation	LIBOR	London Interbank Offered Rate
CDR	Constant Default Rate	LIHTC	Low-Income Housing Tax Credit
CET1	Common Equity Tier 1 (Basel III)	Lockhart	Lockhart Funding LLC
CFPB	Consumer Financial Protection Bureau	MVE	Market Value of Equity
CLTV	Combined Loan-to-Value Ratio	NBAZ	National Bank of Arizona
CRE	Commercial Real Estate	NRSRO	Nationally Recognized Statistical Rating Organization
CSV	Cash Surrender Value	NSFR	Net Stable Funding Ratio
DB	Deutsche Bank AG	NSB	Nevada State Bank
DBRS	Dominion Bond Rating Service	OCC	Office of the Comptroller of the Currency
DFAST	Dodd-Frank Act Stress Test	OCI	Other Comprehensive Income
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act	OREO	Other Real Estate Owned
DTA	Deferred Tax Asset	OTC	Over-the-Counter
EITF	Emerging Issues Task Force	OTTI	Other-Than-Temporary Impairment
FAMC	Federal Agricultural Mortgage Corporation, or "Farmer Mac"	Parent	Zions Bancorporation

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PCI	Purchased Credit Impaired	T1C	Tier 1 Common (Basel I)
PD	Probability of Default	TCBO	The Commerce Bank of Oregon
PIK	Payment in Kind	TCBW	The Commerce Bank of Washington
REIT	Real Estate Investment Trust	TDR	Troubled Debt Restructuring
RULC	Reserve for Unfunded Lending Commitments	TRS	Total Return Swap
SBA	Small Business Administration	Vectra	Vectra Bank Colorado
SBIC	Small Business Investment Company	VR	Volcker Rule
SEC	Securities and Exchange Commission	Zions Bank	Zions First National Bank
SOC	Securitization Oversight Committee	ZMSC	Zions Management Services Company

CRITICAL ACCOUNTING POLICIES AND SIGNIFICANT ESTIMATES

The Company has made no significant changes in its critical accounting policies and significant estimates from those disclosed in its 2013 Annual Report on Form 10-K.

RESULTS OF OPERATIONS

The Company reported net earnings applicable to common shareholders of \$76.2 million, or \$0.41 per diluted common share for the first three months of 2014, compared to \$88.3 million, or \$0.48 per diluted common share for the same prior year period. The following notable changes had a negative impact on net earnings applicable to common shareholders:

- \$28.4 million decrease in the negative provision for loan losses;
- \$5.3 million increase in provision for unfunded lending commitments;
- \$4.9 million decline in dividends and other investment income;
- \$4.5 million decrease in loan sales and servicing income;
- \$3.6 million increase in salaries and employee benefits; and
- \$3.1 million increase in fair value and nonhedge derivative loss.

The impact of these items was partially offset by the following positive items:

- \$27.6 million increase in net gains from fixed income securities;
- \$10.1 million decrease in net impairment losses on investment securities;
- \$5.4 million reduction in other noninterest expense; and
- \$4.5 million decline in income tax expense.

Net Interest Income, Margin and Interest Rate Spreads

Net interest income is the difference between interest earned on interest-earning assets and interest paid on interest-bearing liabilities; net interest income is the largest portion of the Company's revenue. For the first quarters of 2014 and 2013, taxable-equivalent net interest income was \$420.3 million and \$422.3 million, respectively, and \$435.7 million in the fourth quarter of 2013. The tax rate used for calculating all taxable-equivalent adjustments was 35% for all periods presented.

Net interest margin in 2014 vs. 2013

The net interest margin was 3.31% and 3.44% for the first quarters of 2014 and 2013, respectively, and 3.33% for the fourth quarter of 2013. The decreased net interest margin for the first quarter of 2014 compared to the same prior year period resulted primarily from:

- decreased income from FDIC-supported loans due to lower average balances; and

Lower yields on loans held for investment.

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The impact of these items was partially offset by the following favorable developments:

- decreased average balance and lower yields on long-term debt;
- lower costs of deposit funding; and
- higher average balance and higher yields on securities available for sale.

The average balance of the FDIC-supported portfolio at March 31, 2014 was 35.9% lower than at March 31, 2013, yet the yield was 7.9% higher. The decline in the balance is primarily due to paydowns and payoffs; no new loans were added to this portfolio during the period. The yield on this portfolio was 29.4% in the first quarter of 2014, generating approximately \$23 million of interest income. The higher yield is attributed primarily to certain loans paying off at amounts exceeding our modeled expectations. The amount of accretable yield for PCI loans at March 31, 2014, which is the major portion of the FDIC-supported loans, is approximately \$66 million. This amount is currently estimated to approximate the interest income that would be recognized over the remaining life of the loans based on our experience with these loans as adjusted by our changes in estimates of cash flows. See further discussion in Note 6 of the Notes to Consolidated Financial Statements.

Even though the Company's average loan portfolio, excluding FDIC-supported loans, was \$1.7 billion higher during the first quarter of 2014, compared to the first quarter of 2013, the average interest rate earned on those assets was 7.9% (37 bps) lower. This decline in interest income was primarily caused by (1) adjustable rate loans originated in the past resetting to lower rates due to the current repricing index being lower than the rate when the loans were originated, and (2) loans originated at lower rates than the weighted average rate of the existing portfolio. The primary reason for the narrowing of credit and interest rate spreads is believed to be competitive pricing pressures, which are the result of a more stable economic environment than a few years ago; a portion of the narrowing of the spreads may be attributed to the improved fundamental condition of the Company's borrowers, such as a stronger earnings and improved leverage ratios, as asset values have appreciated in the recent several quarters.

The average HTM securities portfolio was \$587.5 million during the first quarter of 2014, compared to \$756.7 during the same prior year period. During the fourth quarter of 2013, the Company reclassified a substantial portion of its CDO securities from HTM to AFS as a result of the impact of the Volcker Rule. The average yield earned during the first quarter of 2014 on HTM securities was 54 bps higher than the yield in the same prior year period, primarily due to the reclassification of low-yielding CDO securities into the AFS portfolio during the fourth quarter of 2013.

The average balance of AFS securities for the first quarter of 2014 was 14.3% higher and the average yield was 7 bps higher than in the corresponding prior year period. The increased average yield is primarily due to improved yields on SBA and asset-backed securities, partially offset by lower yields from agency securities due in part to lower benchmark interest rates. Additionally, the fair values of many securities increased due to higher market prices.

The CDO portfolio has a \$244 million difference between par amount and amortized cost of which 47% was estimated by the Company at March 31, 2014 to be recoverable through maturity. This potential resulting benefit amount will be recognized over time through accretion into income or, upon prepayment, will produce realized gains on the CDOs.

Average noninterest-bearing demand deposits provided the Company with low cost funding and comprised 40.5% of average total deposits for the first quarter of 2014, compared to 38.8% for the same prior year period. Average interest-bearing deposits were essentially unchanged from the year ago period; however, the rate paid declined by 4 bps to 19 bps, thus continuing the difficulty to reduce deposit costs further as these costs approach zero.

During 2013, the Company refinanced a portion of its long-term debt by repurchasing higher cost debt while issuing lower cost debt. During the first quarter of 2014, the average balance of long-term debt was \$93.9 million, or 4% lower than during the same prior year period, and the average interest rate paid on long-term debt decreased by 192 bps, or 22%. Refer to the "Liquidity Management Actions" section for more information.

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During the first quarter of 2014, most of the Company's cash in excess of that needed to fund earning assets was invested in money market assets, primarily deposits with the Federal Reserve Bank. Average money market investments were 15.8% of total interest-earning assets, compared to 16.3% in the same prior year period.

See "Interest Rate and Market Risk Management" for further discussion of how we manage the portfolios of interest-earning assets, interest-bearing liabilities, and the associated risk.

The spread on average interest-bearing funds was 3.01% and 3.08% for the first quarters of 2014 and 2013, respectively. The spread on average interest-bearing funds for the first quarter was affected by the same factors that impacted the net interest margin.

We expect the mix of interest-earning assets to change over the next several quarters due to further decreases in the FDIC-supported loan portfolio, and slight-to-moderate loan growth. Loan yields are likely to continue to experience downward pressure due to competitive pricing and lower benchmark indices (such as LIBOR). The expected decline in income from FDIC-supported loans is likely to reduce the net interest margin by approximately 18 bps, although this decline will take several quarters to fully manifest. We believe that some of the downward pressure on the net interest margin will be mitigated by the lower interest expense on long-term debt resulting from the 2013 refinancing transactions. We expect to further reduce interest expense in 2014 by using cash on deposit at the Federal Reserve to pay down debt maturities; much of this debt carries very high interest costs, and in isolation, the elimination of this debt would add approximately 12-14 bps to the net interest margin. We also believe we can offset some of the pressure on the net interest margin through loan growth. However, excluding the effects of the declining income from FDIC-supported loans, we expect net interest income to increase modestly over the next several quarters.

The Company expects to remain "asset-sensitive" with regard to interest rate risk. The current period of low interest rates has lasted for several years. During this time, the Company has maintained an interest rate risk position that is more asset-sensitive than it was prior to the economic crisis, and it expects to maintain this more asset-sensitive position for what may be a prolonged period. With interest rates at low levels, there is a reduced need to protect against falling interest rates. Our estimates of the Company's actual interest rate risk position are highly dependent upon a number of assumptions regarding the repricing behavior of various deposit and loan types in response to changes in both short-term and long-term interest rates, balance sheet composition, and other modeling assumptions, as well as the actions of competitors and customers in response to those changes. In addition, our modeled projections for noninterest-bearing demand deposits, a substantial portion of our deposit balances, are particularly reliant on assumptions for which there is little historical experience. Further detail on interest rate risk is discussed in "Interest Rate Risk."

The following schedule summarizes the average balances, the amount of interest earned or incurred and the applicable yields for interest-earning assets and the costs of interest-bearing liabilities that generate taxable-equivalent net interest income.

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CONSOLIDATED AVERAGE BALANCE SHEETS, YIELDS AND RATES

(Unaudited)

(In thousands)	Three Months Ended March 31, 2014			Three Months Ended March 31, 2013		
	Average balance	Amount of interest ¹	Average rate	Average balance	Amount of interest ¹	Average rate
ASSETS						
Money market investments	\$8,137,123	\$5,130	0.26 %	\$8,111,798	\$5,439	0.27 %
Securities:						
Held-to-maturity	587,473	8,191	5.65 %	756,739	9,536	5.11 %
Available-for-sale	3,470,983	21,230	2.48 %	3,035,592	18,002	2.41 %
Trading account	58,543	482	3.34 %	22,620	190	3.41 %
Total securities	4,116,999	29,903	2.95 %	3,814,951	27,728	2.95 %
Loans held for sale	157,170	1,400	3.61 %	204,597	1,764	3.50 %
Loans ² :						
Loans and leases	38,805,192	411,840	4.30 %	37,099,182	427,605	4.67 %
FDIC-supported loans	319,695	23,135	29.35 %	498,654	26,349	21.43 %
Total loans	39,124,887	434,975	4.51 %	37,597,836	453,954	4.90 %
Total interest-earning assets	51,536,179	471,408	3.71 %	49,729,182	488,885	3.99 %
Cash and due from banks	1,040,906			1,063,314		
Allowance for loan losses	(745,671)			(884,363)		
Goodwill	1,014,129			1,014,129		
Core deposit and other intangibles	35,072			49,069		
Other assets	2,552,965			2,889,354		
Total assets	\$55,433,580			\$53,860,685		
LIABILITIES AND SHAREHOLDERS' EQUITY						
Interest-bearing deposits:						
Savings and money market	\$22,908,201	8,852	0.16 %	\$22,735,258	10,412	0.19 %
Time	2,560,283	3,083	0.49 %	2,935,316	4,475	0.62 %
Foreign	1,751,910	844	0.20 %	1,528,665	755	0.20 %
Total interest-bearing deposits	27,220,394	12,779	0.19 %	27,199,239	15,642	0.23 %
Borrowed funds:						
Federal funds and other short-term borrowings	249,043	67	0.11 %	294,249	92	0.13 %
Long-term debt	2,237,457	38,257	6.93 %	2,331,314	50,899	8.85 %
Total borrowed funds	2,486,500	38,324	6.25 %	2,625,563	50,991	7.88 %
Total interest-bearing liabilities	29,706,894	51,103	0.70 %	29,824,802	66,633	0.91 %
Noninterest-bearing deposits	18,577,992			17,211,214		
Other liabilities	569,361			608,206		
Total liabilities	48,854,247			47,644,222		
Shareholders' equity:						
Preferred equity	1,003,970			1,229,708		
Common equity	5,595,363			4,990,317		
Controlling interest shareholders' equity	6,599,333			6,220,025		
Noncontrolling interests	—			(3,562)		

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Total shareholders' equity	6,599,333			6,216,463		
Total liabilities and shareholders' equity	\$55,453,580			\$53,860,685		
Spread on average interest-bearing funds			3.01 %			3.08 %
Taxable-equivalent net interest income and net yield on interest-earning assets		\$420,305	3.31 %		\$422,252	3.44 %

¹ Taxable-equivalent rates used where applicable.

² Net of unearned income and fees, net of related costs. Loans include nonaccrual and restructured loans.

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Provisions for Credit Losses

The provision for loan losses is the amount of expense that, in our judgment, is required to maintain the allowance for loan losses at an adequate level based upon the inherent risks in the loan portfolio. The provision for unfunded lending commitments is used to maintain the reserve for unfunded lending commitments at an adequate level based upon the inherent risks associated with such commitments. In determining adequate levels of the allowance and reserve, we perform periodic evaluations of the Company's various loan portfolios, the levels of actual charge-offs, credit trends, and external factors. See Note 6 of the Notes to Consolidated Financial Statements and "Credit Risk Management" for more information on how we determine the appropriate level for the ALLL and the RULC.

The provision for loan losses for the first quarter of 2014 was \$(0.6) million compared to \$(29.0) million for the same prior year period. During the past few years, the Company has experienced a significant improvement in credit quality metrics, including lower realized loss rates in most loan segments. Net loan and lease charge-offs declined to \$7.9 million in the first quarter of 2014 from \$17.8 million in the same prior year period. During the first quarter of 2014, the annualized ratio of net loan and lease charge-offs to average loans declined to 0.08%. See "Nonperforming Assets" and "Allowance and Reserve for Credit Losses" for further details.

Most measures of credit quality continued to show improvement during the first quarter of 2014; however, levels of criticized and classified loans slightly increased during the first quarter. At March 31, 2014, classified loans were \$1.4 billion, compared to \$1.3 billion at December 31, 2013 and \$1.9 billion at March 31, 2013. The Company continues to exercise caution with regard to the appropriate level of the ALLL, given the slow economic recovery. Barring any significant economic downturn, we expect the Company's credit costs to remain low for the foreseeable future.

During the first quarter of 2014, the Company recorded a \$(1.0) million provision for unfunded lending commitments compared to \$(6.4) million for the same prior year period. Similar to the conditions reducing the ALLL, the Company has also experienced some improvement in credit quality metrics for unfunded lending commitments. These improvements are offset by increases in levels of unfunded loan commitments. From period to period, the expense related to the reserve for unfunded lending commitments may be subject to sizable fluctuations due to changes in the timing and volume of loan commitments, originations, and funding, as well as changes in credit quality.

A significant portion of net earnings in recent periods is attributable to the reduction in the allowance for credit losses. This is primarily attributable to continued reduction in both the quantity of problem loans and their loss severity. Although we currently expect further reductions in the allowance based on expected improvements in credit quality, this source of earnings is not sustainable into perpetuity; furthermore, a deterioration in economic conditions within our footprint would likely result in net additions to the allowance, which could result in a significant change in profitability.

Noninterest Income

Noninterest income represents revenues the Company earns for products and services that have no associated interest rate or yield. For the first quarter of 2014, noninterest income was \$138.3 million compared to \$121.2 million for the same prior year period. The \$17.1 million increase was primarily attributable to the \$27.6 million increase in fix income securities gains. The following are major components of noninterest income line items impacting the first quarter change.

Capital markets and foreign exchange income includes trading income, public finance fees, foreign exchange income, and other capital market related fees. In the first quarter of 2014, capital markets and foreign exchange income decreased by \$2.5 million from the same period in 2013. The decrease was primarily caused by lower income from trading fixed income corporate bonds, decreased foreign exchange income, and decreased fees from municipal bond

transactions.

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Dividends and other investment income consists of revenue from the Company's bank-owned life insurance ("BOLI") program and revenues from other investments. Revenues from other investments include dividends on FHLB and Federal Reserve Bank stock, and earnings from other equity investments, including Federal Agricultural Mortgage Corporation ("FAMC") and certain alternative venture investments. For the first quarter of 2014, this income was \$7.9 million, compared to \$12.7 million in the first quarter of 2013. The decrease is mostly caused by lower income from alternative venture investments, primarily at Amegy Bank, and lower BOLI income.

Loan sales and servicing income declined \$4.5 million during the first quarter, or 41%, compared to the prior year period. The decrease is primarily caused by decreased income from loan sales, partly offset by increased servicing fees. In first quarter of 2014, the Company originated fewer mortgages and retained more loans in its portfolio than in the same period of 2013.

Fair value and nonhedge derivative losses were \$8.5 million in the first quarter of 2014 and \$5.4 million in the comparable period in 2013. Approximately \$2 million of the increased losses in 2014 was mainly due to higher payments related to the TRS agreement. The TRS was terminated on April 28, 2014 and the expected cost of the TRS in the second quarter of 2014 will be approximately \$0.5 million, after which it will be zero.

Fixed income securities gains were \$30.9 million in the first quarter of 2014, compared to gains of \$3.3 million in the first quarter of 2013. The net gain recorded in the first quarter was primarily due to sales of CDOs whose amortized cost was written down to fair value at December 31, 2013. See "Investment Securities Portfolio" on page 61 for additional information.

The Company recognized net impairment losses on investment securities of \$27 thousand in the first quarter of 2014, compared to \$10.1 million in the first quarter of 2013. See "Investment Securities Portfolio" on page 61 for additional information.

Noninterest Expense

Noninterest expense increased by 0.2% or \$0.7 million to \$398.1 million in the first quarter of 2014 compared to the same prior year period. The increase was primarily caused by increased salaries and employee benefits and a higher provision for unfunded lending commitments, offset by a lower credit-related expense and other expenses. The following are major components of noninterest expense line items impacting the first quarter change.

Salaries and employee benefits increased by 1.6% during the first quarter of 2014, compared to the same prior year period. Most of the increase can be attributed to higher base salaries and bonuses driven by an increase of 182 in FTEs from the first quarter of 2013.

Credit-related expense declined \$3.6 million to \$6.9 million in the first quarter of 2014, compared to the same prior year period. The decrease in 2014 is primarily attributable to lower workout costs and legal expenses, which was a result of lower levels of problem credits compared to 2013.

Professional and legal services were \$11.0 million in the first quarter of 2014, compared to \$10.5 million in the first quarter of 2013. Most of these costs are attributed to higher consulting expenses for projects to replace and/or upgrade the Company's core loan, deposit, and accounting systems.

Other noninterest expense for the first quarter of 2014 was \$72.7 million, compared to \$78.1 million for first quarter of 2013. The decrease is mostly the result of decreased write-downs of the FDIC indemnification asset. The balance of FDIC-supported loans has declined significantly since the first quarter of 2013, primarily due to pay-downs and

pay-offs.

As of March 31, 2014, the Company had 10,482 full-time equivalent employees, compared to 10,300 at March 31, 2013.

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Income Taxes

The Company's income tax expense for the first quarter of 2014 was \$56.1 million, compared to \$60.6 million for the first quarter of 2013. The effective income tax rates, including the effects of noncontrolling interests for the first quarters of 2014 and 2013, were 35.7% and 35.4%, respectively. The tax expense rate for the first quarters of 2014 and 2013 were both benefited primarily by the non-taxability of certain income items. The tax rate for the first quarter of 2014 was slightly higher compared to the same period in 2013 due to a slight decrease in the amount of nontaxable items relative to pretax income as well as a reduction of tax credits available to the Company in 2014.

The Company had a net deferred tax asset ("DTA") balance of \$187 million at March 31, 2014, compared to \$304 million at December 31, 2013. The decrease in the DTA during the first quarter of 2014 resulted primarily from the sale of CDO securities, loan charge-offs in excess of loan loss provisions, and the payout of accrued compensation. The decrease in the deferred tax liability related to premises and equipment. The deferred gain on the Company's 2009 debt exchange offset some of the overall decrease in DTA.

BALANCE SHEET ANALYSIS

Interest-Earning Assets

Interest-earning assets are those assets that have interest rates or yields associated with them. One of our goals is to maintain a high level of interest-earning assets relative to total assets, while keeping nonearning assets at a minimum. Interest-earning assets consist of money market investments, securities, loans, and leases. Another goal is to maintain a higher-yielding mix of interest-earning assets, such as loans, relative to lower-yielding assets, such as money market investments or securities, while maintaining adequate levels of highly liquid assets. The current period of slow economic growth accompanied by the moderate loan demand experienced in recent quarters has made it difficult to achieve these goals.

Average interest-earning assets were \$51.5 billion for the first quarter of 2014, compared to \$49.7 billion in first quarter of 2013. Average interest-earning assets as a percentage of total average assets for the first quarter of 2014 was 93.0%, compared to 92.3% for the same prior year period.

Average total loans, including FDIC-supported loans, were \$39.1 billion and \$37.6 billion for the first quarters of 2014 and 2013, respectively. Average loans as a percentage of total average assets for the first quarter of 2014 was 70.6% compared to 69.8% in the corresponding prior year period.

Average money market investments, consisting of interest-bearing deposits, federal funds sold, and security resell agreements, increased by 0.3% to \$8.1 billion for the first quarter of 2014, essentially unchanged from the same period in 2013. Average securities increased by 7.9% from the first quarter of 2013. Average total deposits increased by 3.1% while average total loans increased by 4.1% for the first quarter of 2014 compared to the same prior year period. Increased deposits combined with moderate loan growth resulted in higher balances of excess cash that were deployed in money market investments.

Investment Securities Portfolio

We invest in securities to generate revenues for the Company; portions of the portfolio are also available as a source of liquidity. The following schedules present a profile of the Company's investment securities portfolio. The amortized cost amounts represent the Company's original cost of the investments, adjusted for related accumulated amortization or accretion of any yield adjustments, and for impairment losses, including credit-related impairment. The estimated fair value measurement levels and methodology are discussed in detail in Note 10 of the Notes to Consolidated Financial Statements.

We have included selected credit rating information for certain of the investment securities schedules because this information is one indication of the degree of credit risk to which we are exposed, and significant declines in ratings

for our investment portfolio could indicate an increased level of risk for the Company.

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INVESTMENT SECURITIES PORTFOLIO

(In millions)	March 31, 2014			December 31, 2013		
	Amortized cost	Carrying value	Estimated fair value	Amortized cost	Carrying value	Estimated fair value
Held-to-maturity						
Municipal securities	\$568	\$568	\$581	\$551	\$551	\$558
Asset-backed securities:						
Trust preferred securities – banks and insurance	79	38	54	80	38	51
	647	606	635	631	589	609
Available-for-sale						
U.S. Treasury securities	1	1	1	1	2	2
U.S. Government agencies and corporations:						
Agency securities	561	558	558	518	519	519
Agency guaranteed mortgage-backed securities	301	311	311	309	317	317
Small Business Administration loan-backed securities	1,367	1,382	1,382	1,203	1,221	1,221
Municipal securities	151	151	151	65	66	66
Asset-backed securities:						
Trust preferred securities – banks and insurance	934	759	759	1,508	1,239	1,239
Trust preferred securities – real estate investment trusts	—	—	—	23	23	23
Auction rate securities	7	7	7	7	7	7
Other	2	2	2	28	28	28