

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			Carrying value	Not recognized in OCI		Estimated fair value
Gross unrealized gains		Gross unrealized losses		Gross unrealized gains		Gross unrealized losses		
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	
Available-for-sale	630,574	—	41,593	588,981	26,490	5,924	609,547	