

ZIONS BANCORPORATION /UT/

Form 10-Q

August 08, 2018

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 June 30, 2018

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, 15<sup>th</sup> Floor  
Salt Lake City, Utah 84133

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (801) 844-7637

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

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 July 31, 2018 194,402,811 shares



ZIONS BANCORPORATION AND SUBSIDIARIES

Table of Contents

	Page
<u>PART I. FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements (Unaudited)</u>	<u>36</u>
<u>Consolidated Balance Sheets</u>	<u>36</u>
<u>Consolidated Statements of Income</u>	<u>37</u>
<u>Consolidated Statements of Comprehensive Income</u>	<u>38</u>
<u>Consolidated Statements of Changes in Shareholders' Equity</u>	<u>38</u>
<u>Consolidated Statements of Cash Flows</u>	<u>39</u>
<u>Notes to Consolidated Financial Statements</u>	<u>40</u>
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>3</u>
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>75</u>
Item 4. <u>Controls and Procedures</u>	<u>75</u>
<u>PART II. OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	<u>75</u>
Item 1A. <u>Risk Factors</u>	<u>76</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>76</u>
Item 6. <u>Exhibits</u>	<u>77</u>
<u>Signatures</u>	<u>78</u>

Table of Contents

ZIONS BANCORPORATION AND SUBSIDIARIES

PART I. FINANCIAL INFORMATION

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

FORWARD-LOOKING INFORMATION

This Quarterly Report on Form 10-Q includes forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. 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, targets, commitments, designs, 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," "target," "commit," "design," "plan," "projects," and the negative thereof and similar words and 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 by their nature address matters that are, to different degrees, uncertain, such as statements about future financial and operating results, the potential timing or consummation of the proposed merger of Zions Bancorporation with and into its wholly-owned bank subsidiary, ZB, National Association, ("ZB, N.A." or the "Bank") (the "restructuring"), receipt of the final report from the Financial Stability Oversight Council ("FSOC"), actions to be taken by Zions or receipt of any required approvals, or the anticipated benefits thereof, including without limitation, future financial and operating results. 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. Important risk factors that may cause such material differences include, but are not limited to:

- the Company's ability to successfully execute its business plans, manage its risks, and achieve its objectives, including its operating leverage goals and its capital plan;
- risks and uncertainties related to the ability to obtain shareholder and regulatory approvals, or the possibility that such approvals may be delayed;
- the ability of Zions Bancorporation to achieve anticipated benefits from the restructuring and from regulatory approvals;
- legislative, regulatory and economic developments that may diminish or eliminate the anticipated benefits of the restructuring;
- changes in local, national and international political and economic conditions, including without limitation the political and economic effects of the economic and fiscal imbalance in the United States ("U.S.") and other countries, potential or actual downgrades in ratings 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 and commodity market prices and conditions, either internationally, nationally or locally in areas in which the Company conducts its operations, including without limitation rates of business formation and growth, commercial and residential real estate development, real estate prices, and oil and gas-related commodity prices;
- changes in markets for equity, fixed income, commercial paper and other securities, commodities, including availability, market liquidity levels, and pricing;
- any impairment of our goodwill or other intangibles, or any adjustment of valuation allowances on our deferred tax assets due to adverse changes in the economic environment, declining operations of the reporting unit, or a

Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

change to the corporate statutory tax rate or other similar changes if and as implemented by local and national governments, or other factors;

- changes in interest rates, the quality and composition of the loan and securities portfolios, demand for loan products, deposit flows and competition;
- the impact of acquisitions, dispositions, and corporate restructurings;
- 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 United States Department of Treasury, the Office of the Comptroller of the Currency (“OCC”), the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation (“FDIC”), the Securities and Exchange Commission, and the Consumer Financial Protection Bureau (“CFPB”);
- the impact of executive compensation rules under the Dodd-Frank Wall Street Reform and Consumer Protection Act (“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 Basel III, and rules and regulations thereunder, on our required regulatory capital and liquidity levels, governmental assessments on us (including, but not limited to, the Federal Reserve reviews of our annual capital plan), 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;
- 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

ACL	Allowance for Credit Losses	BHC	Bank Holding Company
AFS	Available-for-Sale	bps	basis points
ALCO	Asset/Liability Committee	CB&T	California Bank & Trust, a division of ZB, N.A.
ALLL	Allowance for Loan and Lease Losses	CCAR	Comprehensive Capital Analysis and Review
Amegy	Amegy Bank, a division of ZB, N.A.	CFPB	Consumer Financial Protection Bureau
AOCI	Accumulated Other Comprehensive Income	CLTV	Combined Loan-to-Value Ratio
ASC	Accounting Standards Codification	CRE	Commercial Real Estate
ASU	Accounting Standards Update	DFAST	Dodd-Frank Act Stress Test
ATM	Automated Teller Machine		

Dodd-Frank  
Act

Dodd-Frank Wall Street Reform and Consumer  
Protection Act

Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

DTA	Deferred Tax Asset	OCI	Other Comprehensive Income
EaR	Earnings at Risk	OREO	Other Real Estate Owned
ERM	Enterprise Risk Management	OTTI	Other-Than-Temporary Impairment
EVE	Economic Value of Equity at Risk	PAGA	Private Attorney General Act
FAMC	Federal Agricultural Mortgage Corporation, or “Farmer Mac”	Parent	Zions Bancorporation
FDIC	Federal Deposit Insurance Corporation	PEI	Private Equity Investment
FTP	Funds Transfer Pricing	PPNR	Pre-provision Net Revenue
FHLB	Federal Home Loan Bank	ROC	Risk Oversight Committee
FRB	Federal Reserve Board	RULC	Reserve for Unfunded Lending Commitments
GAAP	Generally Accepted Accounting Principles	S&P	Standard and Poor's
HECL	Home Equity Credit Line	SBA	Small Business Administration
HTM	Held-to-Maturity	SBIC	Small Business Investment Company
IMG	International Manufacturing Group	TCBW	The Commerce Bank of Washington, a division of ZB, N.A.
LCR	Liquidity Coverage Ratio	TDR	Troubled Debt Restructuring
LIBOR	London Interbank Offered Rate	Tier 1	Common Equity Tier 1 (Basel III)
Municipalities	State and Local Governments	Topic 606	ASC Topic 606, “Revenue from Contracts with Customers”
NBAZ	National Bank of Arizona, a division of ZB, N.A.	U.S.	United States
NIM	Net Interest Margin	Vectra	Vectra Bank Colorado, a division of ZB, N.A.
NM	Not Meaningful	ZB, N.A.	ZB, National Association
NSB	Nevada State Bank, a division of ZB, N.A.	Zions Bank	Zions Bank, a division of ZB, N.A.
OCC	Office of the Comptroller of the Currency		

## 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 2017 Annual Report on Form 10-K.

## GAAP to NON-GAAP RECONCILIATIONS

This Form 10-Q presents non-GAAP financial measures, in addition to generally accepted accounting principles (“GAAP”) financial measures, to provide investors with additional information. The adjustments to reconcile from the applicable GAAP financial measures to the non-GAAP financial measures are presented in the following schedules. The Company considers these adjustments to be relevant to ongoing operating results and provide a meaningful base for period-to-period and company-to-company comparisons. These non-GAAP financial measures are used by management to assess the performance and financial position of the Company and for presentations of Company performance to investors. The Company further believes that presenting these non-GAAP financial measures will permit investors to assess the performance of the Company on the same basis as that applied by management. Non-GAAP financial measures have inherent limitations, and are not required to be uniformly applied by individual entities. Although non-GAAP financial measures are frequently used by stakeholders to evaluate a company, they

have limitations as an analytical tool and should not be considered in isolation or as a substitute for analysis of results reported under GAAP.

The following are non-GAAP financial measures presented in this Form 10-Q and a discussion of why management uses these non-GAAP measures:

Return on Average Tangible Common Equity – this schedule also includes “net earnings applicable to common shareholders, excluding the effects of the adjustment, net of tax” and “average tangible common equity.” Return on average tangible common equity is a non-GAAP financial measure that management believes provides useful information about the Company’s use of shareholders’ equity. Management believes the use of ratios that



Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

utilize tangible equity provides additional useful information because they present measures of those assets that can generate income.

Tangible Equity Ratio, Tangible Common Equity Ratio, and Tangible Book Value per Common Share – this schedule also includes “tangible equity,” “tangible common equity,” and “tangible assets.” Tangible equity ratio, tangible common equity ratio, and tangible book value per common share are non-GAAP financial measures that management believes provides additional useful information about the levels of tangible assets and tangible equity between each other and in relation to outstanding shares of common stock. Management believes the use of ratios that utilize tangible equity provides additional useful information because they present measures of those assets that can generate income.

Efficiency Ratio – this schedule also includes “adjusted noninterest expense,” “taxable-equivalent net interest income,” “adjusted taxable-equivalent revenue,” and “adjusted pre-provision net revenue (“PPNR”).” The methodology of determining the efficiency ratio may differ among companies. Management makes adjustments to exclude certain items as identified in the subsequent schedule which it believes allows for more consistent comparability among periods. Management believes the efficiency ratio provides useful information regarding the cost of generating revenue. Adjusted noninterest expense provides a measure as to how well the Company is managing its expenses, and adjusted PPNR enables management and others to assess the Company’s ability to generate capital to cover credit losses through a credit cycle. Taxable-equivalent net interest income allows management to assess the comparability of revenue arising from both taxable and tax-exempt sources.

## RETURN ON AVERAGE TANGIBLE COMMON EQUITY (NON-GAAP)

(Dollar amounts in millions)	Three Months Ended			
	June 30, 2018	March 31, 2018	December 31, 2017	June 30, 2017
Net earnings applicable to common shareholders (GAAP)	\$187	\$231	\$114	\$154
Adjustment, net of tax:				
Amortization of core deposit and other intangibles	—	—	1	1
Net earnings applicable to common shareholders, excluding the effects of the adjustment, net of tax (non-GAAP) (a)	\$187	\$231	\$115	\$155
Average common equity (GAAP)	\$7,072	\$7,061	\$7,220	\$7,143
Average goodwill and intangibles	(1,016)	(1,016)	(1,017)	(1,020)
Average tangible common equity (non-GAAP) (b)	\$6,056	\$6,045	\$6,203	\$6,123
Number of days in quarter (c)	91	90	92	91
Number of days in year (d)	365	365	365	365
Return on average tangible common equity (non-GAAP) (a/b/c)*d	12.4 %	15.5 %	7.4 %	10.2 %

Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

## TANGIBLE EQUITY (NON-GAAP) AND TANGIBLE COMMON EQUITY (NON-GAAP)

(Dollar amounts in millions, except per share amounts)	June 30, 2018	March 31, 2018	December 31, 2017	June 30, 2017
Total shareholders' equity (GAAP)	\$7,621	\$7,644	\$ 7,679	\$7,749
Goodwill and intangible	(1,015 )	(1,016 )	(1,016 )	(1,019 )
Tangible equity (non-GAAP)	(a) 6,606	6,628	6,663	6,730
Preferred stock	(566 )	(566 )	(566 )	(566 )
Tangible common equity (non-GAAP)	(b) \$6,040	\$6,062	\$ 6,097	\$6,164
Total assets (GAAP)	\$66,457	\$66,481	\$ 66,288	\$65,446
Goodwill and intangible	(1,015 )	(1,016 )	(1,016 )	(1,019 )
Tangible assets (non-GAAP)	(c) \$65,442	\$65,465	\$ 65,272	\$64,427
Common shares outstanding (thousands)	(d) 195,392	197,050	197,532	202,131
Tangible equity ratio (non-GAAP)	(a/c) 10.09 %	10.12 %	10.21 %	10.45 %
Tangible common equity ratio (non-GAAP)	(b/c) 9.23 %	9.26 %	9.34 %	9.57 %
Tangible book value per common share (non-GAAP)	(b/d) \$30.91	\$30.76	\$ 30.87	\$30.50

## EFFICIENCY RATIO (NON-GAAP) AND ADJUSTED PRE-PROVISION NET REVENUE (NON-GAAP)

(Dollar amounts in millions)	Three Months Ended			Six Months Ended		Year Ended
	June 30, 2018	March 31, 2018	June 30, 2017	June 30, 2018	June 30, 2017	December 31, 2017
Noninterest expense (GAAP)	(a) \$428	\$ 412	\$ 405	\$840	\$819	\$ 1,649
Adjustments:						
Severance costs	1	—	—	(1 )	5	7
Other real estate expense, net	—	—	—	1	—	(1 )
Provision for unfunded lending commitments	7	(7 )	3	—	(2 )	(7 )
Amortization of core deposit and other intangibles	—	—	2	1	3	6
Restructuring costs	—	—	1	—	2	4
Total adjustments	(b) 8	(7 )	6	1	8	9
Adjusted noninterest expense (non-GAAP)	(a-b)= (c) \$420	\$ 419	\$ 399	\$839	\$811	\$ 1,640
Net interest income (GAAP)	(d) \$548	\$ 542	\$ 528	\$1,090	\$1,017	\$ 2,065
Fully taxable-equivalent adjustments	5	5	9	10	17	35
Taxable-equivalent net interest income (non-GAAP) <sup>1</sup>	(d+e)=f553	547	537	1,100	1,034	2,100
Noninterest income (GAAP)	g 138	138	132	276	264	544
Combined income (non-GAAP)	(f+g)= (h) 691	685	669	1,376	1,298	2,644
Adjustments:						
Fair value and nonhedge derivative income (loss)	—	1	—	2	(1 )	(2 )
Securities gains, net	1	—	2	1	7	14
Total adjustments	(i) 1	1	2	3	6	12
Adjusted taxable-equivalent revenue (non-GAAP)	(h-i)= (j) \$690	\$ 684	\$ 667	\$1,373	\$1,292	\$ 2,632
Pre-provision net revenue	(h)-(a) \$263	\$ 273	\$ 264	\$536	\$479	\$ 995

Edgar Filing: ZIONS BANCORPORATION /UT/ - Form 10-Q

Adjusted PPNR (non-GAAP)	(j-c)	270	265	268	534	481	992			
Efficiency ratio (non-GAAP)	(c/j)	60.9 %	61.3 %	59.8 %	61.1 %	62.8 %	62.3 %			

7

---

Table of Contents

ZIONS BANCORPORATION AND SUBSIDIARIES

RESULTS OF OPERATIONS

Executive Summary

The Company reported net earnings applicable to common shareholders of \$187 million, or \$0.89 per diluted common share for the second quarter of 2018, compared with net earnings applicable to common shareholders of \$154 million, or \$0.73 per diluted common share for the second quarter of 2017, and \$231 million, or \$1.09 per diluted common share for the first quarter of 2018. The financial performance in the second quarter of 2018 reflects strong net interest income, customer-related fee income growth, progress on key initiatives and continued strong credit quality; the effect of these factors was tempered by modest linked-quarter loan growth.

Net income in the second quarter of 2018 increased from the second quarter of 2017 primarily due to a \$20 million increase in net interest income and a \$24 million decrease in income taxes, partially offset by a \$23 million increase in noninterest expense. Net income also increased due to moderate noninterest income growth. Net income in the second quarter of 2018 decreased from the first quarter of 2018 primarily due to a negative provision for loan losses of \$40 million in the first quarter and a \$16 million increase in noninterest expense.

Net interest income increased from the second quarter of 2017 to the second quarter of 2018 due to increases in short-term interest rates that positively impacted loan yields and growth in our lending portfolio, partially offset by an increase in interest expense. When comparing the second quarter of 2018 to the second quarter of 2017, customer-related fees increased by 3%. During this same period comparison, salaries and employee benefits increased by \$26 million due to increased incentive compensation resulting from stronger financial performance and increased salaries from higher headcount and annual merit increases.

Highlights from the Second Quarter of 2018

Net interest income, which is more than three-quarters of our revenue, improved by \$20 million from \$528 million in the second quarter of 2017, and by \$6 million from \$542 million in the first quarter of 2018, to \$548 million in the second quarter of 2018. The increase from both prior periods was due to increases in short-term interest rates that positively impacted loan yields and growth in consumer and commercial loans, partially offset by an increase in interest expense. Net Interest Margin (“NIM”) was 3.56% in both the second and first quarters of 2018 compared with 3.52% in the second quarter of 2017. For more discussion on the changes in net interest income and NIM, including the positive impact of interest income recoveries, see “Net Interest Income” and “Net Interest Margin and Interest Rate Spreads.”

Adjusted PPNR of \$270 million for the second quarter of 2018 was up \$2 million, or 1%, from the second quarter of 2017. The prior year period included \$16 million of interest income recoveries of at least \$1 million per loan, while the current period included only \$1 million of such recoveries. Adjusted for these interest income recoveries, the increase in adjusted PPNR would be 7%. The increase in PPNR reflects operating leverage improvement resulting from moderate loan growth and increases in short-term interest rates, partially offset by increased interest expense and noninterest expense from increased salaries and employee benefits. See “Noninterest Expense” for a discussion regarding the increased salary and employee benefits expense. The Company’s efficiency ratio was 60.9% in the second quarter of 2018 compared with 59.8% in the second quarter of 2017 and 61.3% in the first quarter of 2018. See “GAAP to Non-GAAP Reconciliations” on page 5 for more information regarding the calculation of adjusted PPNR. Our average loan portfolio increased \$2.0 billion, or 5%, since the second quarter of 2017. We have seen widespread growth across most products and geographies, with particular strength in municipal, 1-4 family residential and owner-occupied lending. We saw a decline in our commercial real estate (“CRE”) term portfolio, primarily due to payoffs and a decline in originations.

Asset quality has continued to improve during the past several quarters. Credit quality in the oil and gas-related portfolio continues to strengthen and it has remained strong in the rest of the lending portfolio. Overall, from the second quarter of 2017 to the second quarter of 2018, criticized, classified, and nonaccrual loans declined by \$488 million, \$370 million, and \$144 million, respectively.



Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

We continue to increase the return on- and of- capital. Return on average tangible common equity was 12.4% for the second quarter of 2018, up 220 basis points (“bps”) from the same prior year period. Regarding the return of capital, during the second quarter of 2018, the Company repurchased 2.1 million shares of common stock for \$120 million, and has repurchased a total of 9.2 million shares of common stock for \$465 million over the last 12 months. Dividends per common share were \$0.24 in the second quarter of 2018, compared with \$0.08 for the second quarter of 2017. In July 2018, the Company announced that its board of directors declared a regular quarterly dividend of \$0.30 per common share, payable August 23, 2018 to shareholders of record on August 16, 2018. This represents an increase of 150% from the dividend paid in the year ago period, and a 25% increase over the dividend paid in the second quarter of 2018. Additionally, the Board approved a plan to repurchase \$185 million of common shares during the third quarter of 2018. See “Capital Management” on page 33 for more information regarding the Company’s capital plan. On July 18, 2018, the Company issued a press release announcing that it has been notified of the proposed decision by FSOC to grant its appeal for relief from the designation of Zions or its successor as a systemically important financial institution under the Dodd-Frank Act. Also, it announced that the Company has received approval from the OCC and FDIC to merge its holding company with and into its bank, ZB, N.A. The merger is expected to result in the elimination of duplicative regulatory efforts, leaving the OCC as the Company’s primary federal banking regulator. See “Capital Management” on page 33 for more information regarding the merger.

## Areas of focus for 2018

In 2018, we are focused on ongoing initiatives related to Company profitability, including returns on equity. Both our profitability and returns on equity have improved in the second quarter of 2018 when compared with the second quarter of 2017, but declined slightly when compared with the first quarter of 2018. The decline was primarily a result a of the Company recording a negative \$47 million provision for credit losses in the first quarter of 2018, compared with a \$12 million provision in the second quarter of 2018. We continue to implement technology upgrades and process simplification to ensure current and future performance. See “Areas of focus for 2018” in our 2017 Annual Report on Form 10-K for a discussion of the major areas of emphasis in 2018.

## Net Interest Income

Net interest income is the difference between interest earned on interest-earning assets and interest paid on interest-bearing liabilities. Net interest income increased to \$548 million in the second quarter of 2018 from \$528 million in the second quarter of 2017. The \$20 million, or 4%, increase in net interest income was primarily due to a \$45 million increase in interest and fees on loans resulting from increases in short-term interest rates and loan growth in consumer and commercial loans, partially offset by an increase to interest expense. Interest income in the second quarter of 2018 was positively impacted by \$1 million of interest income recoveries of at least \$1 million per loan compared with \$16 million of such recoveries in the second quarter of 2017. Adjusting for these interest income recoveries, net interest income would have increased by \$35 million, or 7%.

Interest expense increased \$28 million from the second quarter of 2017 to the second quarter of 2018 due to a \$15 million increase in interest on deposits due to higher rates paid and a \$13 million increase in interest on short-term borrowings. We have remained disciplined in our deposit pricing, as over the past twelve months the Federal Reserve has increased the overnight benchmark Federal Funds rate by 75 bps, while the rate paid on the Company’s interest-bearing deposits increased 19 bps and the rate paid on total deposits increased 11 bps.

## Net Interest Margin and Interest Rate Spreads

The NIM was 3.56% and 3.52% for the second quarters of 2018 and 2017, respectively, and 3.56% for the first quarter of 2018. Excluding the effect of the previously mentioned interest income recoveries and adjusting for the effect of the change to the corporate tax rate on fully taxable equivalent yields, the yield on interest-earning assets would have increased 34 bps from the same prior year period. Adjusting for the same items and \$11 million of similar interest income recoveries in the first quarter of 2018 the NIM would have been 3.55% for the second quarter of 2018 compared with 3.39% for the second quarter of 2017 and 3.49% for the first quarter of 2018. The NIM for the second quarter of 2018, compared with the same prior year period, benefited from the recent increases



Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

in short-term interest rates and deposit pricing discipline. Average interest-earning assets increased \$1.2 billion from the second quarter of 2017 to the second quarter of 2018, with average rates improving 21 bps. Additionally, the NIM was negatively impacted 3 bps by the decrease in the corporate tax rate from 35% to 21%.

Average interest-bearing liabilities increased \$1.4 billion in the second quarter of 2018 compared with the second quarter of 2017 as a result of increased interest-bearing deposits and wholesale borrowings to fund some of the balance sheet growth. The average rate on interest-bearing liabilities increased 31 bps during this same period due to rising interest rates and increased rates paid on deposits.

The average loan portfolio increased \$2.0 billion, or 5%, between the second quarter of 2017 and the second quarter of 2018. Most of this growth was in municipal, 1-4 family residential, commercial and industrial, and owner-occupied loans. The average loan yield increased 19 bps over the same period, with increases in the average rates for commercial, CRE, and consumer loans of 24 bps, 20 bps, and 15 bps, respectively. Benchmark interest rates have increased several times beginning in the fourth quarter of 2015, which has had a positive impact on NIM and spreads, as our earning assets generally reprice quicker than our funding sources. A portion of our variable-rate loans were not affected by these changes primarily due to having longer reset frequencies, or because a substantial portion of our earning assets are tied to longer-term rate indices. The longer-term rates were impacted by a relatively flat yield curve during the last several quarters. We expect overall loan growth to be moderate.

Average available-for-sale (“AFS”) securities balances decreased \$0.6 billion from the second quarter of 2017 to the second quarter of 2018. Yields on average AFS securities increased slightly by 3 bps over the same period, despite an increase in prepayments on Small Business Administration (“SBA”) loan-backed securities purchased at a premium. The increased yield was a result of rising market interest rates on variable-rate and recently purchased fixed-rate agency mortgage-backed securities.

Average noninterest-bearing demand deposits provided us with low cost funding and comprised approximately 45% of average total deposits for both the second quarters of 2017 and 2018. Average total deposits were \$52.9 billion for the second quarter of 2018 compared with \$52.3 billion for the second quarter of 2017. Average interest-bearing deposits were \$29.3 billion in the second quarter of 2018, compared with \$28.5 billion for the same prior year period, and the average rate paid increased 19 bps. We have been selectively increasing deposit pricing, but we have not generally experienced significant pressure to increase all deposit rates. Although we consider a wide variety of sources when determining our funding needs, we benefit from access to deposits from a significant number of small to mid-sized business customers, particularly noninterest-bearing deposits, that provide us with a low cost of funds and have a positive impact on our NIM. Further information regarding deposit assumptions is discussed in “Interest Rate and Market Risk Management” on page 26.

As mentioned previously, the Company has used short-term Federal Home Loan Bank (“FHLB”) borrowings to fund some of its balance sheet growth. Average short-term borrowings increased \$0.6 billion compared with the same prior year period and the average interest rate paid increased by 98 bps as a result of rising short-term interest rates.

The rate paid on total deposits and interest-bearing liabilities increased 19 bps from 0.21% for the second quarter of 2017 to 0.40% for the second quarter of 2018, primarily due to an increase in both the amount of wholesale funding and the rate paid on wholesale funding and deposits. The total cost of deposits for the second quarter of 2018 was 0.22%, compared with 0.11% for the second quarter of 2017.

The NIM was 3.56% and 3.45% for the first six months of 2018 and 2017, respectively. The increase in the year-to-date NIM was also due to the recent increases in short-term interest rates and deposit pricing discipline. The spread on average interest-bearing funds was 3.26% and 3.36% for the second quarters of 2018 and 2017, respectively, and 3.29% and 3.30% for the first six months of 2018 and 2017, respectively. The spread on average interest-bearing funds for these periods was affected by the same factors that had an impact on the NIM. Although the spread on interest-bearing funds decreased from the second quarter of 2017 to the second quarters of 2018, the



Table of Contents

ZIONS BANCORPORATION AND SUBSIDIARIES

NIM still increased over the same period. This is because as interest rates continue to increase, the value of the noninterest-bearing deposits on the NIM also increases.

We expect the mix of interest-earning assets to continue to change over the next several quarters primarily due to growth in commercial loans, including municipal loans, in addition to growth in both CRE and non-oil and gas-related commercial and industrial loans. We anticipate this growth will be partially offset by continued modest reduction in the National Real Estate portfolio.

Interest rate spreads and margin are impacted by the mix of assets we hold, the composition of our loan and securities portfolios and the type of funding used. Assuming no additional increases in the Federal Funds rate or prepayment speeds of securities purchased at a premium, we expect the yield on the securities portfolio to increase slightly, as the cash flow from the portfolio is redeployed into securities with yields that are slightly accretive to the overall portfolio. Our estimates of the Company's 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. Further detail on interest rate risk is discussed in "Interest Rate and Market Risk Management" on page 26.

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.

Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

## CONSOLIDATED AVERAGE BALANCE SHEETS, YIELDS AND RATES

(Unaudited)

(Dollar amounts in millions)	Three Months Ended June 30, 2018			Three Months Ended June 30, 2017		
	Average balance	Amount of interest <sup>1</sup>	Average yield/rate <sup>1</sup>	Average balance	Amount of interest <sup>1</sup>	Average yield/rate <sup>1</sup>
<b>ASSETS</b>						
Money market investments	\$1,317	\$ 7	2.02 %	\$1,572	\$ 5	1.20 %
Securities:						
Held-to-maturity	780	7	3.60	788	8	3.97
Available-for-sale	14,745	78	2.14	15,386	81	2.11
Trading account	179	2	4.06	79	—	3.43
Total securities <sup>2</sup>	15,704	87	2.23	16,253	89	2.20
Loans held for sale	72	1	4.18	100	1	3.24
Loans and leases <sup>3</sup>						
Commercial	23,275	272	4.68	21,885	242	4.44
Commercial real estate	11,075	136	4.94	11,236	133	4.74
Consumer	10,892	108	3.98	10,122	97	3.83
Total loans and leases	45,242	516	4.57	43,243	472	4.38
Total interest-earning assets	62,335	611	3.93	61,168	567	3.72
Cash and due from banks	546			795		
Allowance for loan losses	(480 )			(546 )		
Goodwill and intangibles	1,016			1,020		
Other assets	3,088			2,974		
Total assets	\$66,505			\$65,411		
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>						
Interest-bearing deposits:						
Savings and money market	\$25,479	17	0.26 %	\$25,467	9	0.14 %
Time	3,807	12	1.27	3,048	5	0.66
Total interest-bearing deposits	29,286	29	0.39	28,515	14	0.20
Borrowed funds:						
Federal funds purchased and other short-term borrowings	4,927	24	1.92	4,302	10	0.94
Long-term debt	383	5	5.77	383	6	5.77
Total borrowed funds	5,310	29	2.19	4,685	16	1.34
Total interest-bearing liabilities	34,596	58	0.67	33,200	30	0.36
Noninterest-bearing deposits	23,610			23,819		
Total deposits and interest-bearing liabilities	58,206	58	0.40	57,019	30	0.21
Other liabilities	661			565		
Total liabilities	58,867			57,584		
Shareholders' equity:						
Preferred equity	566			684		
Common equity	7,072			7,143		
Total shareholders' equity	7,638			7,827		
Total liabilities and shareholders' equity	\$66,505			\$65,411		
Spread on average interest-bearing funds			3.26 %			3.36 %

Taxable-equivalent net interest income and net yield on interest-earning assets	\$ 553	3.56 %	\$ 537	3.52 %
---	--------	--------	--------	--------

<sup>1</sup> Rates are calculated using amounts in thousands and taxable-equivalent rates used where applicable. The taxable-equivalent rates used are the rates that were applicable at the time of each respective reporting period.

<sup>2</sup> Quarter-to-date interest on total securities includes \$36 million and \$35 million of premium amortization, as of June 30, 2018 and June 30, 2017, respectively.

<sup>3</sup> Net of unearned income and fees, net of related costs. Loans include nonaccrual and restructured loans.

Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

(Dollar amounts in millions)	Six Months Ended June 30, 2018			Six Months Ended June 30, 2017		
	Average balance	Amount of interest 1	Average yield/rate 1	Average balance	Amount of interest 1	Average yield/rate 1
<b>ASSETS</b>						
Money market investments	\$1,406	\$ 13	1.85 %	\$1,777	\$ 9	1.05 %
Securities:						
Held-to-maturity	784	14	3.57	817	16	3.93
Available-for-sale	14,846	159	2.16	14,709	155	2.12
Trading account	141	3	4.03	70	1	3.57
Total securities <sup>2</sup>	15,771	176	2.24	15,596	172	2.22
Loans held for sale	62	1	4.08	116	2	3.23
Loans and leases <sup>3</sup>						
Commercial	23,158	538	4.69	21,747	467	4.33
Commercial real estate	11,070	264	4.81	11,238	251	4.50
Consumer	10,826	212	3.96	9,921	189	3.83
Total loans and leases	45,054	1,014	4.54	42,906	907	4.26
Total interest-earning assets	62,293	1,204	3.90	60,395	1,090	3.64
Cash and due from banks	569			884		
Allowance for loan losses	(501 )			(556 )		
Goodwill and intangibles	1,016			1,021		
Other assets	3,059			2,963		
Total assets	\$66,436			\$64,707		
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>						
Interest-bearing deposits:						
Savings and money market	\$25,388	28	0.22 %	\$25,680	19	0.14 %
Time	3,545	20	1.15	2,953	9	0.63
Total interest-bearing deposits	28,933	48	0.34	28,633	28	0.19
Borrowed funds:						
Federal funds purchased and other short-term borrowings	5,315	45	1.71	3,617	15	0.85
Long-term debt	383	11	5.80	451	13	5.85
Total borrowed funds	5,698	56	1.99	4,068	28	1.40
Total interest-bearing liabilities	34,631	104	0.61	32,701	56	0.34
Noninterest-bearing deposits	23,514			23,641		
Total deposits and interest-bearing liabilities	58,145	104	0.36	56,342	56	0.19
Other liabilities	658			598		
Total liabilities	58,803			56,940		
Shareholders' equity:						
Preferred equity	566			697		
Common equity	7,067			7,070		
Total shareholders' equity	7,633			7,767		
Total liabilities and shareholders' equity	\$66,436			\$64,707		
Spread on average interest-bearing funds			3.29 %			3.30 %
Taxable-equivalent net interest income and net yield on interest-earning assets		\$ 1,100	3.56 %		\$ 1,034	3.45 %

- <sup>1</sup> Rates are calculated using amounts in thousands and taxable-equivalent rates used where applicable. The taxable-equivalent rates used are the rates that were applicable at the time of each respective reporting period.
- <sup>2</sup> Quarter-to-date interest on total securities includes \$68 million and \$66 million of premium amortization, as of June 30, 2018 and June 30, 2017, respectively.
- <sup>3</sup> Net of unearned income and fees, net of related costs. Loans include nonaccrual and restructured loans.

Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

## Provision for Credit Losses

The provision for credit losses is the combination of both the provision for loan losses and the provision for unfunded lending commitments. Note 6 of our 2017 Annual Report on Form 10-K and “Credit Risk Management” on page 20 contains information on how we determine the appropriate level for the allowance for loan and lease losses (“ALLL”) and the reserve for unfunded lending commitments (“RULC”).

The provision for loan losses was \$5 million in the second quarter of 2018, compared with \$7 million in the same prior year period, and a negative provision of \$40 million in the first quarter of 2018. The \$5 million provision primarily reflects qualitative adjustments related to enhancements to our internal risk-grading system, increased economic uncertainty related to potential trade disruptions, and the potential credit impacts of rising interest rates, offset by net recoveries and improved credit quality metrics in the entire loan portfolio. During the first quarter of 2018, the provision for loan losses was negative as a result of improving credit quality, particularly in the oil and gas-related portfolio, and minimal incurred losses-to-date from Hurricane Harvey. Asset quality during the second quarter of 2018 continued to improve for the entire loan portfolio when compared with the second quarter of 2017, primarily due to improvements in the oil and gas-related portfolio and decreases in overall classified and nonperforming assets. Classified and nonaccrual loans in the total portfolio declined by \$370 million and \$144 million, respectively, from the second quarter of 2017. During the second quarter of 2018, there were net recoveries of \$12 million, compared with net charge-offs of \$7 million during the second quarter of 2017.

The provision for loan losses was a negative \$35 million during the first six months of 2018, compared with \$30 million during the first six months of 2017. This decrease was primarily as a result of the previously mentioned improving credit quality, particularly in the oil and gas-related portfolio, and minimal incurred losses-to-date from Hurricane Harvey during the first six months of 2018, as well as charge-offs related to an isolated event with a single, non-oil and gas-related borrower during the first six months of 2017. We have since had a partial recovery on the charge-off related to the isolated event from 2017.

During the second quarter of 2018, we recorded a \$7 million provision for unfunded lending commitments, compared with a \$3 million provision in the second quarter of 2017. This increase was due to increased unfunded lending commitments and a change in the mix of the portfolio. From quarter to quarter, the provision for unfunded lending commitments may be subject to sizable fluctuations due to changes in the timing and volume of loan commitments, originations, fundings, and changes in credit quality.

The allowance for credit losses (“ACL”), which is the combination of both the ALLL and the RULC, decreased \$59 million, when compared with the second quarter of 2017. This was mainly due to improved credit quality metrics and decreased net charge-offs in the total loan portfolio.

## Noninterest Income

Noninterest income represents revenues we earn for products and services that have no associated interest rate or yield. For the second quarter of 2018, noninterest income increased \$6 million, or 5%, compared with the second quarter of 2017. We believe a subtotal of customer-related fees provides a better view of income over which we have more direct control. It excludes items such as dividends, insurance-related income, mark-to-market adjustments on certain derivatives, and securities gains and losses. The following schedule presents a comparison of the major components of noninterest income.

Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

## NONINTEREST INCOME

(Dollar amounts in millions)	Three Months Ended June 30,		Amount Percent change change		Six Months Ended June 30,		Amount Percent change change	
	2018	2017			2018	2017		
Service charges and fees on deposit accounts	\$42	\$43	\$ (1 )	(2 )%	\$84	\$85	\$ (1 )	(1 )%
Other service charges, commissions and fees	55	56	(1 )	(2 )	110	105	5	5
Wealth management and trust income	14	10	4	40	25	20	5	25
Loan sales and servicing income	7	6	1	17	13	13	—	—
Capital markets and foreign exchange	7	6	1	17	15	13	2	15
Customer-related fees	125	121	4	3	247	236	11	5
Dividends and other investment income	11	10	1	10	22	22	—	—
Securities gains, net	1	2	(1 )	(50 )	1	7	(6 )	(86 )
Other	1	(1 )	2	NM	6	(1 )	7	NM
Total noninterest income	\$138	\$132	\$ 6	5	\$276	\$264	\$ 12	5

Customer-related fees increased \$4 million, or 3%, from the second quarter of 2017 to the second quarter of 2018 primarily due to increased wealth management and trust income, loan syndication fees, and investment service fees. Wealth management and trust income increased by \$4 million, or 40%, due to both increased corporate and personal trust income. Improvements in platform and product simplifications contributed to this increase. We have experienced a decrease in mortgage fees due to higher interest rates resulting in less originations and mortgage-related activity. Customer-related fees increased \$11 million, or 5% from the first six months of 2017 to the first six months of 2018. This increase was a result of the same factors as the increase from the second quarter of 2017 to the second quarter of 2018. Other noninterest income increased by \$7 million from the first six months of 2017 to the first six months of 2018, primarily due to favorable credit valuations on client-related derivatives and net gains on sales of assets. Relative to second quarter results, we expect moderate growth in customer-related fees over the next twelve months.

## Noninterest Expense

Noninterest expense increased by \$23 million, or 6%, from the second quarter of 2017 to the second quarter of 2018. The Company remains focused on expense control efforts, while continuing to invest in technology and simplification initiatives; however, due to a lower-than-normal incentive compensation expense accrual in the same prior year period, as well as a higher than expected accrual in the current period due in part to stronger than expected credit quality performance, revenue growth, and overall profitability, the increase in noninterest expense was above our targeted growth rate of low single-digit percentage range relative to the prior year.

The following schedule presents a comparison of the major components of noninterest expense.

Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

## NONINTEREST EXPENSE

(Dollar amounts in millions)	Three Months Ended June 30,		Amount Percent change change		Six Months Ended June 30,		Amount Percent change change	
	2018	2017			2018	2017		
Salaries and employee benefits	\$266	\$240	\$ 26	11 %	\$535	\$502	\$ 33	7 %
Occupancy, net	32	32	—	—	63	66	(3 )	(5 )
Furniture, equipment and software, net	32	32	—	—	65	64	1	2
Other real estate expense, net	—	—	—	NM	1	—	1	NM
Credit-related expense	7	8	(1 )	(13 )	13	15	(2 )	(13 )
Provision for unfunded lending commitments	7	3	4	(133)	—	(2 )	2	100
Professional and legal services	14	14	—	—	26	28	(2 )	(7 )
Advertising	7	6	1	17	13	11	2	18
FDIC premiums	14	13	1	8	26	25	1	4
Other	49	57	(8 )	(14 )	98	110	(12 )	(11 )
Total noninterest expense	\$428	\$405	\$ 23	6	\$840	\$819	\$ 21	3
Adjusted noninterest expense <sup>1</sup>	\$420	\$399	\$ 21	5	\$839	\$811	\$ 28	3

<sup>1</sup> For information on non-GAAP financial measures see “GAAP to Non-GAAP Reconciliations” on page 5

Salary and employee benefits expense was up \$26 million in the second quarter of 2018 compared with the second quarter of 2017 primarily due to an \$11 million increase in incentive compensation due to stronger financial performance relative to 2017, an \$8 million increase in base salaries due to increased headcount and annual merit increases, and \$3 million increases in base salaries and bonuses to be paid to certain employees as a result of the recent tax reform. The provision for unfunded lending commitments increased by \$4 million, primarily due to increased unfunded lending commitments and a change in the mix of the portfolio. For further information see “Provision for Credit Losses” on page 14. Other noninterest expense decreased by \$8 million, primarily due to reduced revenue sharing with the FDIC for certain loans purchased in 2009 as the agreement with the FDIC ended in the first quarter of 2018.

Net occupancy decreased by \$3 million from the first six months of 2017 to the first six months of 2018 as additional rental income was received on a newly constructed building in Houston. Both credit-related fees and professional and legal services decreased by \$2 million over the same year-to-date period as a result of lower fees related to repossessions and a decrease in consulting fees, respectively. Other changes between the first six months of 2018 and 2017 are due to the same factors as for the changes between the second quarters of 2018 and 2017.

Adjusted noninterest expense for the second quarter of 2018 increased \$21 million, or 5%, to \$420 million, compared with \$399 million for the same prior year period. To arrive at adjusted noninterest expense, GAAP noninterest expense is adjusted to exclude certain expense items, which are the same as those items excluded in arriving at the efficiency ratio (see “GAAP to Non-GAAP Reconciliations” on page 5 for more information regarding the calculation of the efficiency ratio). The main variance between noninterest expense and adjusted noninterest expense for the second quarters of 2018 and 2017 is the provision for unfunded lending commitments, which were \$7 million and \$3 million, respectively. We still expect adjusted noninterest expense for 2018 to experience an increase in the low single-digit percentage range relative to the prior year.

## Income Taxes

Income tax expense for the second quarter of 2018 was \$56 million, compared with \$80 million for the same prior year period. The effective tax rates were 22.1% and 32.3% for the second quarters of 2018 and 2017, respectively. Income tax expense for the first six months of 2018 was \$126 million compared with \$124 million for the first six months of 2017. The effective tax rates for these year-to-date periods were 22.5% and 28.7%, respectively. The tax



rates for 2018 and 2017 were reduced by nontaxable municipal interest income and nontaxable income from certain bank-owned life insurance. The income tax rate for 2018 was positively impacted by the decrease in the corporate federal income tax rate to 21% from 35% due to the Tax Cuts and Jobs Act, which was effective January 1, 2018. This rate benefit was partially reduced by the non-deductibility of FDIC premiums and certain fringe benefits as

Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

enacted by the new tax law. The tax rate for 2017 was also driven by a one-time \$14 million benefit to tax expense related to state tax adjustments and a one-time \$4 million benefit due to changes in the carrying value of various state deferred tax items.

We had a net deferred tax asset (“DTA”) balance of \$149 million at June 30, 2018, compared with \$93 million at December 31, 2017. The increase in the net DTA resulted primarily from the increase of accrued compensation, unrealized losses in other comprehensive income (“OCI”) related to securities, the decrease in deferred tax liabilities related to premises and equipment, and the deferred gain on a prior period debt exchange. Net charge-offs exceeding the provision for loan losses offset some of the overall increase in DTA.

**Preferred Dividends**

Preferred dividends of \$10 million during the second quarter of 2018 decreased \$2 million when compared with the second quarter of 2017. This decrease was a result of our redemption of all outstanding shares of our 7.9% Series F preferred stock during the second quarter of 2017. The total one-time reduction to net earnings applicable to common shareholders associated with the preferred stock redemption was \$2 million. The preferred stock redemption was also the reason for preferred dividends decreasing by \$6 million from the first six months of 2017 to the first six months of 2018. Preferred dividends are expected to be \$34 million for all of 2018.

**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, while maintaining adequate levels of highly liquid assets. As a result of this goal we redeployed funds from lower-yielding money market investments, in addition to using wholesale borrowings, to purchase agency securities. For information regarding the average balances of our interest-earning assets, the amount of revenue generated by them, and their respective yields, see the average balance sheet on page 12.

Average interest-earning assets were \$62.3 billion for the first six months of 2018, compared with \$60.4 billion for the first six months of 2017. Average interest-earning assets as a percentage of total average assets for the first six months of 2018 and 2017 were 94% and 93%, respectively.

Average loans were \$45.1 billion and \$42.9 billion for the first six months of 2018 and 2017, respectively. Average loans as a percentage of total average assets for the first six months of 2018 were 68%, compared with 66% in the same prior year period.

Average money market investments, consisting of interest-bearing deposits, federal funds sold, and security resell agreements, decreased by 21% to \$1.4 billion for the first six months of 2018, compared with \$1.8 billion for the first six months of 2017. Average securities increased by 1% for the first six months of 2018, compared with the first six months of 2017.

**Investment Securities Portfolio**

We invest in securities to actively manage liquidity and interest rate risk, in addition to generating revenue for the Company. Refer to the “Liquidity Risk Management” section on page 29 for additional information on management of liquidity and funding and compliance with Basel III and Liquidity Coverage Ratio (“LCR”) requirements. The following schedule presents a profile of our investment securities portfolio. The amortized cost amounts represent the 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 Note 3 of our 2017 Annual Report on Form 10-K.

Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

## INVESTMENT SECURITIES PORTFOLIO

(In millions)	June 30, 2018			December 31, 2017		
	Par value	Amortized cost	Estimated fair value	Par value	Amortized cost	Estimated fair value
Held-to-maturity						
Municipal securities	\$ 878	\$ 878	\$ 866	\$ 771	\$ 770	\$ 762
Available-for-sale						
U.S. Treasury securities	25	25	25	25	25	25
U.S. Government agencies and corporations:						
Agency securities	1,683	1,683	1,657	1,830	1,830	1,818
Agency guaranteed mortgage-backed securities	9,667	9,831	9,538	9,605	9,798	9,666
Small Business Administration loan-backed securities	1,919	2,115	2,071	2,007	2,227	2,222
Municipal securities	1,197	1,333	1,312	1,193	1,336	1,334
Other debt securities	25	25	24	25	25	24
Total available-for-sale debt securities	14,516	15,012	14,627	14,685	15,241	15,089
Money market mutual funds and other	—	—	—	72	72	72
Total available-for-sale	14,516	15,012	14,627	14,757	15,313	15,161
Total	\$ 15,394	\$ 15,890	\$ 15,493	\$ 15,528	\$ 16,083	\$ 15,923

The amortized cost of investment securities at June 30, 2018 decreased by 1% from the balances at December 31, 2017.

The investment securities portfolio includes \$496 million of net premium that is distributed across various asset classes as illustrated in the preceding schedule. The purchase premiums and discounts for both held-to-maturity (“HTM”) and AFS securities are amortized and accreted at a constant effective yield to the contractual maturity date and no assumption is made concerning prepayments. As principal prepayments occur, the portion of the unamortized premium or discount associated with the principal reduction is recognized as interest income in the period the principal is reduced. For the six months ended June 30, 2018, premium amortization reduced the yield on securities by 93 bps compared with a 91 bps impact for the same period in 2017.

As of June 30, 2018, under the GAAP fair value accounting hierarchy, 0.2% of the \$14.6 billion fair value of the AFS securities portfolio was valued at Level 1, 99.8% was valued at Level 2, and there were no Level 3 AFS securities. At December 31, 2017, 1% of the \$15.2 billion fair value of AFS securities portfolio was valued at Level 1, 99% was valued at Level 2, and there were no Level 3 AFS securities. See Note 3 of our 2017 Annual Report on Form 10-K for further discussion of fair value accounting.

## Exposure to State and Local Governments

We provide multiple products and services to state and local governments (referred to collectively as “municipalities”), including deposit services, loans, and investment banking services, and we invest in securities issued by the municipalities.

The following schedule summarizes our exposure to state and local municipalities:

## MUNICIPALITIES

(In millions)	June 30, 2018	December 31, 2017
Loans and leases	\$ 1,388	\$ 1,271
Held-to-maturity – municipal securities	878	770
Available-for-sale – municipal securities	1,312	1,334
Trading account – municipal securities	108	146
Unfunded lending commitments	153	152

Total direct exposure to municipalities \$ 3,839 \$ 3,673

18

---

Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

At June 30, 2018, one municipal loan with a balance of \$1 million was on nonaccrual. A significant amount of the municipal loan and lease portfolio is secured by real estate and equipment, and 79% of the outstanding loans and leases were originated by California Bank & Trust (“CB&T”), Zions Bank, and Vectra Bank Colorado (“Vectra”). See Note 6 of the Notes to Consolidated Financial Statements for additional information about the credit quality of these municipal loans.

## Foreign Exposure and Operations

Our credit exposure to foreign sovereign risks and total foreign credit exposure is not significant. We also do not have significant foreign exposure to derivative counterparties. We had no foreign deposits at June 30, 2018 and December 31, 2017.

## Loan Portfolio

For the first six months of 2018 and 2017, average loans accounted for 68% and 66%, respectively, of total average assets. As presented in the following schedule, the largest category was commercial and industrial loans, which constituted 31% of our loan portfolio at June 30, 2018.

## LOAN PORTFOLIO

(Dollar amounts in millions)	June 30, 2018		December 31, 2017	
	Amount	% of total loans	Amount	% of total loans
Commercial:				
Commercial and industrial	\$14,134	31 %	\$14,003	31 %
Leasing	358	1	364	1
Owner-occupied	7,365	16	7,288	16
Municipal	1,388	3	1,271	3
Total commercial	23,245	51	22,926	51
Commercial real estate:				
Construction and land development	2,202	5	2,021	5
Term	8,771	20	9,103	20
Total commercial real estate	10,973	25	11,124	25
Consumer:				
Home equity credit line	2,825	6	2,777	6
1-4 family residential	6,861	15	6,662	15
Construction and other consumer real estate	661	2	597	1
Bankcard and other revolving plans	490	1	509	1
Other	175	—	185	1
Total consumer	11,012	24	10,730	24
Total net loans	\$45,230	100 %	\$44,780	100 %

Loan portfolio growth during the first six months of 2018 was widespread across loan products and geographies with particular strength in municipal, 1-4 family residential, commercial and industrial, and owner-occupied loans. The impact of these increases was partially offset by a decrease in the CRE term portfolio.

Commercial owner-occupied loans also increased during the first six months of 2018; however, we experienced continued runoff and attrition of the National Real Estate portfolio. The National Real Estate business is a wholesale business that depends on loan referrals from other community banking institutions. Due to generally soft loan demand nationally, many community banking institutions are retaining, rather than selling, their loan production.

## Other Noninterest-Bearing Investments

During the first six months of 2018, the Company increased its short-term borrowings with the FHLB by \$50 million. This increase required a further investment in FHLB activity stock, which consequently increased by \$31



Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

million during the year. Aside from this increase, other noninterest-bearing investments remained relatively stable as set forth in the following schedule.

## OTHER NONINTEREST-BEARING INVESTMENTS

(In millions)	June 30, 2018	December 31, 2017
Bank-owned life insurance	\$ 513	\$ 506
Federal Home Loan Bank stock	185	154
Federal Reserve stock	156	184
Farmer Mac stock	50	43
SBIC investments	136	127
Non-SBIC investment funds	11	12
Other	3	3
Total other noninterest-bearing investments	\$ 1,054	\$ 1,029

## Premises, Equipment and Software

Net premises, equipment and software increased \$5 million, or 0.5%, during the first six months of 2018. The Company continues to capitalize certain costs related to its technology initiatives, but associated depreciation has also increased following the successful implementation, in 2017, of the first phase of our core lending and deposit systems replacement project.

## Deposits

Deposits, both interest-bearing and noninterest-bearing, are a primary source of funding for the Company. Average total deposits for the first six months of 2018 increased by 0.3%, compared with the first six months of 2017, with average interest-bearing deposits increasing by 1.0% and average noninterest-bearing deposits decreasing by 0.5%. The average interest rate paid for interest-bearing deposits was 15 bps higher during the first six months of 2018, compared with the first six months of 2017.

Demand and savings and money market deposits were 93% and 94% of total deposits at June 30, 2018 and December 31, 2017, respectively. At June 30, 2018 and December 31, 2017, total deposits included \$2.3 billion and \$1.6 billion, respectively, of brokered deposits.

See “Liquidity Risk Management” on page 29 for additional information on funding and borrowed funds.

## RISK ELEMENTS

Since risk is inherent in substantially all of the Company’s operations, management of risk is an integral part of its operations and is also a key determinant of its overall performance. The Board of Directors has appointed a Risk Oversight Committee (“ROC”) that consists of appointed Board members who oversee the Company’s risk management processes. The ROC meets on a regular basis to monitor and review Enterprise Risk Management (“ERM”) activities. As required by its charter, the ROC performs oversight for various ERM activities and approves ERM policies and activities as detailed in the ROC charter.

Management applies various strategies to reduce the risks to which the Company’s operations are exposed, including credit, interest rate and market, liquidity, and operational risks. These risks are overseen by the various management committees of which the Enterprise Risk Management Committee is the focal point for the monitoring and review of enterprise risk.

## Credit Risk Management

Credit risk is the possibility of loss from the failure of a borrower, guarantor, or another obligor to fully perform under the terms of a credit-related contract. Credit risk arises primarily from our lending activities, as well as from off-balance sheet credit instruments. For a more comprehensive discussion of credit risk management, see “Credit Risk Management” in our 2017 Annual Report on Form 10-K.





Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

## Government Agency Guaranteed Loans

We participate in various guaranteed lending programs sponsored by U.S. government agencies, such as the SBA, Federal Housing Authority, Veterans' Administration, Export-Import Bank of the U.S., and the U.S. Department of Agriculture. As of June 30, 2018, the principal balance of these loans was \$570 million, and the guaranteed portion of these loans was \$433 million. Most of these loans were guaranteed by the SBA.

The following schedule presents the composition of government agency guaranteed loans.

## GOVERNMENT GUARANTEES

(Dollar amounts in millions)	June 30, 2018	Percent guaranteed	December 31, 2017	Percent guaranteed
Commercial	\$547	76 %	\$ 507	75 %
Commercial real estate	14	79	14	75
Consumer	9	100	16	92
Total loans	\$570	76	\$ 537	76

## Commercial Lending

The following schedule provides selected information regarding lending concentrations to certain industries in our commercial lending portfolio.

## COMMERCIAL LENDING BY INDUSTRY GROUP

(Dollar amounts in millions)	June 30, 2018		December 31, 2017	
	Amount	Percent	Amount	Percent
Real estate, rental and leasing	\$2,637	11 %	\$2,807	12 %
Retail trade <sup>1</sup>	2,376	10	2,257	10
Manufacturing	2,217	9	2,116	9
Finance and insurance	1,848	8	2,026	9
Wholesale trade	1,630	7	1,543	7
Healthcare and social assistance	1,581	7	1,556	7
Transportation and warehousing	1,308	6	1,343	6
Construction	1,201	5	1,094	5
Mining, quarrying, and oil and gas extraction	1,105	5	1,010	4
Hospitality and food services	947	4	932	4
Utilities <sup>2</sup>	938	4	905	4
Professional, scientific, and technical services	882	4	879	4
Other Services (except Public Administration)	881	4	896	4
Other <sup>3</sup>	3,694	16	3,562	15
Total	\$23,245	100 %	\$22,926	100 %

<sup>1</sup> At June 30, 2018, 83% of retail trade consist of motor vehicle and parts dealers, gas stations, grocery stores, building material suppliers, and direct-to-consumer retailers.

<sup>2</sup> Includes primarily utilities, power, and renewable energy.

<sup>3</sup> No other industry group exceeds 3.5%.

Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

## Commercial Real Estate Loans

Selected information indicative of credit quality regarding our CRE loan portfolio is presented in the following schedule.

## COMMERCIAL REAL ESTATE PORTFOLIO BY LOAN TYPE AND COLLATERAL LOCATION

(Dollar amounts in millions)

Loan type	As of date	Collateral Location								Total	% of total CRE	
		Arizona	California	Colorado	Nevada	Texas	Utah/ Idaho	Wash-in	Other <sup>1</sup>			
Commercial term												
Balance outstanding	6/30/2018	\$1,072	\$2,811	\$508	\$542	\$1,483	\$1,388	\$444	\$523	\$8,771	79.9	%
% of loan type		12.2	% 32.0	% 5.8	% 6.2	% 16.9	% 15.8	% 5.1	% 6.0	% 100.0	%	
Delinquency rates <sup>2</sup> :												
30-89 days	6/30/2018	2.4	% 0.1	% 0.2	% —	% 0.1	% 0.1	% 0.2	% 0.4	% 0.4	%	
	12/31/2017	0.2	% 0.1	% 0.1	% 0.2	% —	% 0.2	% —	% 0.8	% 0.1	%	
≥ 90 days	6/30/2018	—	% 0.1	% —	% —	% 0.2	% 0.1	% —	% 0.2	% 0.1	%	
	12/31/2017	0.2	% 0.1	% 0.1	% —	% —	% 0.1	% —	% 0.7	% 0.1	%	
Accruing loans past due 90 days or more	6/30/2018	\$—	\$1	\$—	\$—	\$—	\$—	\$—	\$—	\$1		
	12/31/2017	1	1	—	—	—	—	—	—	2		
Nonaccrual loans	6/30/2018	\$3	\$10	\$—	\$—	\$18	\$2	\$—	\$20	\$53		
	12/31/2017	4	7	1	2	17	1	4	—	36		
Residential construction and land development												
Balance outstanding	6/30/2018	\$44	\$293	\$54	\$3	\$200	\$34	\$2	\$7	\$637	5.8	%
% of loan type		6.9	% 46.0	% 8.5	% 0.5	% 31.4	% 5.3	% 0.3	% 1.1	% 100.0	%	
Delinquency rates <sup>2</sup> :												
30-89 days	6/30/2018	—	% —	% —	% —	% —	% —	% —	% —	% —	%	
	12/31/2017	—	% —	% 0.2	% —	% 0.7	% —	% —	% —	% 0.2	%	
≥ 90 days	6/30/2018	—	% —	% —	% —	% —	% —	% —	% —	% —	%	
	12/31/2017	—	% —	% —	% —	% 0.1	% —	% —	% —	% —	%	
Accruing loans past due 90 days or more	6/30/2018	\$—	\$—	\$—	\$—	\$—	\$—	\$—	\$—	\$—		
	12/31/2017	—	—	—	—	—	—	—	—	—		
Nonaccrual loans	6/30/2018	\$—	\$—	\$—	\$—	\$—	\$—	\$—	\$—	\$—		

Edgar Filing: ZIONS BANCORPORATION /UT/ - Form 10-Q

	12/31/2017	—	—	—	—	—	—	—	—	—	—	—
Commercial construction and land development												
Balance outstanding	6/30/2018	\$176	\$324	\$46	\$89	\$427	\$336	\$121	\$46	\$1,565	14.3	%
% of loan type		11.3	% 20.7	% 2.9	% 5.7	% 27.3	% 21.5	% 7.7	% 2.9	% 100.0	%	
Delinquency rates <sup>2</sup> :												
30-89 days	6/30/2018	—	% —	% —	% —	% 0.2	% —	% —	% —	% 0.1	%	
	12/31/2017	0.1	% 0.2	% —	% —	% 0.2	% 0.1	% —	% —	% 0.1	%	
≥ 90 days	6/30/2018	—	% —	% —	% —	% 0.2	% 1.2	% —	% —	% 0.3	%	
	12/31/2017	—	% —	% —	% —	% —	% 1.3	% —	% —	% 0.3	%	
Accruing loans past due 90 days or more	6/30/2018	\$—	\$—	\$—	\$—	\$—	\$—	\$—	\$—	\$—		
	12/31/2017	—	—	—	—	—	—	—	—	—		
Nonaccrual loans	6/30/2018	\$—	\$—	\$—	\$—	\$1	\$4	\$—	\$—	\$5		
	12/31/2017	—	—	—	—	—	4	—	—	4		
Total construction and land development	6/30/2018	\$220	\$617	\$100	\$92	\$627	\$370	\$123	\$53	\$2,202		
Total commercial real estate	6/30/2018	\$1,292	\$3,428	\$608	\$634	\$2,110	\$1,758	\$567	\$576	\$10,973	100.0	%

<sup>1</sup> No other geography exceeds \$90 million for all three loan types.

<sup>2</sup> Delinquency rates include nonaccrual loans.

Approximately 17% of the CRE term loans consist of mini-perm loans as of June 30, 2018. For such loans, construction has been completed and the project has stabilized to a level that supports the granting of a mini-perm loan in accordance with our underwriting standards. Mini-perm loans generally have initial maturities of three to

Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

seven years. The remaining 83% of CRE loans are term loans with initial maturities generally of 5 to 20 years. The stabilization criteria for a project to qualify for a term loan differ by product type and include criteria related to the cash flow generated by the project, loan-to-value ratio, and occupancy rates.

Approximately \$169 million, or 11%, of the commercial construction and land development portfolio at June 30, 2018 consists of acquisition and development loans. Most of these acquisition and development loans are secured by specific retail, apartment, office, or other projects.

For a more comprehensive discussion of commercial real estate loans, see the “Commercial Real Estate Loans” section in our 2017 Annual Report on Form 10-K.

**Consumer Loans**

We have mainly been an originator of first and second mortgages, generally considered to be of prime quality. We generally hold variable-rate loans in our portfolio and sell “conforming” fixed-rate loans to third parties, including Federal National Mortgage Association and Federal Home Loan Mortgage Corporation, for which we make representations and warranties that the loans meet certain underwriting and collateral documentation standards.

We are engaged in Home Equity Credit Line (“HECL”) lending. At both June 30, 2018 and December 31, 2017, our HECL portfolio totaled \$2.8 billion. The following schedule describes the composition of our HECL portfolio by lien status.

**HECL PORTFOLIO BY LIEN STATUS**

(In millions)	June 30, 2018	December 31, 2017
Secured by first deeds of trust	\$1,429	\$ 1,406
Secured by second (or junior) liens	1,396	1,371
Total	\$2,825	\$ 2,777

At June 30, 2018, loans representing less than 1% of the outstanding balance in the HECL portfolio were estimated to have combined loan-to-value ratios (“CLTV”) above 100%. An estimated CLTV ratio is the ratio of our loan plus any prior lien amounts divided by the estimated current collateral value. At origination, underwriting standards for the HECL portfolio generally include a maximum 80% CLTV with high credit scores at origination.

Approximately 92% of our HECL portfolio is still in the draw period, and approximately 25% of those loans are scheduled to begin amortizing within the next five years. We regularly analyze the risk of borrower default in the event of a loan becoming fully amortizing and the risk of higher interest rates. The analysis indicates that the risk of loss from this factor is minimal in the current economic environment. The ratio of net charge-offs to average balances for the first six months of 2018 and 2017 for the HECL portfolio was 0.16% and (0.02)%, respectively. See Note 6 of the Notes to Consolidated Financial Statements for additional information on the credit quality of this portfolio.

**Nonperforming Assets**

Nonperforming assets as a percentage of loans and leases and other real estate owned (“OREO”) decreased to 0.77% at June 30, 2018, compared with 0.93% at December 31, 2017.

Total nonaccrual loans at June 30, 2018 decreased \$72 million from December 31, 2017, primarily in the commercial and industrial loan portfolio. However, nonaccrual loans slightly increased in the commercial real estate term loan portfolios. The largest total decrease in nonaccrual loans occurred at Amegy Bank (“Amegy”).

The balance of nonaccrual loans can decrease due to paydowns, charge-offs, and the return of loans to accrual status under certain conditions. If a nonaccrual loan is refinanced or restructured, the new note is immediately placed on nonaccrual. If a restructured loan performs under the new terms for at least a period of six months, the loan can be considered for return to accrual status. See “Restructured Loans” following for more information. Company policy

Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

does not allow for the conversion of nonaccrual construction and land development loans to CRE term loans. See Note 6 of the Notes to Consolidated Financial Statements for more information on nonaccrual loans.

The following schedule sets forth our nonperforming assets:

## NONPERFORMING ASSETS

(Dollar amounts in millions)	June 30, December 31,	
	2018	2017
Nonaccrual loans <sup>1</sup>	\$ 342	\$ 414
Other real estate owned	5	4
Total nonperforming assets	\$ 347	\$ 418
Ratio of nonperforming assets to net loans and leases <sup>1</sup> and other real estate owned	0.77 %	0.93 %
Accruing loans past due 90 days or more	\$ 5	\$ 22
Ratio of accruing loans past due 90 days or more to loans and leases <sup>1</sup>	0.01 %	0.05 %
Nonaccrual loans and accruing loans past due 90 days or more	\$ 347	\$ 436
Ratio of nonaccrual loans and accruing loans past due 90 days or more to loans and leases <sup>1</sup>	0.77 %	0.97 %
Accruing loans past due 30-89 days	\$ 119	\$ 120
Nonaccrual loans <sup>1</sup> current as to principal and interest payments	63.8 %	65.9 %

<sup>1</sup> Includes loans held for sale.

## Restructured Loans

Troubled debt restructurings (“TDRs”) are loans that have been modified to accommodate a borrower who is experiencing financial difficulties, and for whom we have granted a concession that we would not otherwise consider. TDRs decreased \$45 million, or 20%, during the first six months of 2018. Commercial loans may be modified to provide the borrower more time to complete the project, to achieve a higher lease-up percentage, to sell the property, or for other reasons. Consumer loan TDRs represent loan modifications in which a concession has been granted to the borrower who is unable to refinance the loan with another lender, or who is experiencing economic hardship. Such consumer loan TDRs may include first-lien residential mortgage loans and home equity loans.

If the restructured loan performs for at least six months according to the modified terms, and an analysis of the customer’s financial condition indicates that we are reasonably assured of repayment of the modified principal and interest, the loan may be returned to accrual status. The borrower’s payment performance prior to and following the restructuring is taken into account to determine whether a loan should be returned to accrual status.

## ACCRUING AND NONACCRUING TROUBLED DEBT RESTRUCTURED LOANS

(In millions)	June 30, December 31,	
	2018	2017
Restructured loans – accruing	\$ 104	\$ 139
Restructured loans – nonaccruing <sup>77</sup>	87	
Total	\$ 181	\$ 226

In the periods following the calendar year in which a loan was restructured, a loan may no longer be reported as a TDR if it is on accrual, is in compliance with its modified terms, and yields a market rate (as determined and documented at the time of the modification or restructure). See Note 6 of the Notes to Consolidated Financial Statements for additional information regarding TDRs.

Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

## TROUBLED DEBT RESTRUCTURED LOANS ROLLFORWARD

(In millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Balance at beginning of period	\$229	\$298	\$226	\$251
New identified TDRs and principal increases	18	70	69	156
Payments and payoffs	(54 )	(49 )	(88 )	(72 )
Charge-offs	(2 )	(10 )	(3 )	(13 )
No longer reported as TDRs	(7 )	(3 )	(18 )	(4 )
Sales and other	(3 )	(2 )	(5 )	(14 )
Balance at end of period	\$181	\$304	\$181	\$304

## Allowance for Credit Losses

In analyzing the adequacy of the ALLL, we utilize a comprehensive loan grading system to determine the risk potential in the portfolio and also consider the results of independent internal credit reviews. To determine the adequacy of the allowance, our loan and lease portfolio is broken into segments based on loan type.

The following schedule shows the changes in the allowance for loan losses and a summary of loan loss experience:

## SUMMARY OF LOAN LOSS EXPERIENCE

(Dollar amounts in millions)	Six Months Ended June 30, 2018	Twelve Months Ended December 31, 2017	Six Months Ended June 30, 2017
	Loans and leases outstanding (net of unearned income)	\$45,230	\$44,780
Average loans and leases outstanding (net of unearned income)	\$45,054	\$43,501	\$42,906
Allowance for loan losses:			
Balance at beginning of period	\$518	\$567	\$567
Provision for loan losses	(35 )	24	30
Charge-offs:			
Commercial	30	118	82
Commercial real estate	—	9	2
Consumer	9	17	7
Total	39	144	91
Recoveries:			
Commercial	38	46	23
Commercial real estate	5	14	11
Consumer	3	11	4
Total	46	71	38
Net loan and lease charge-offs (recoveries)	(7 )	73	53
Balance at end of period	\$490	\$518	\$544
Ratio of annualized net charge-offs to average loans and leases	(0.03 )%	0.17 %	0.25 %
Ratio of allowance for loan losses to net loans and leases, at period end	1.08 %	1.16 %	1.25 %
Ratio of allowance for loan losses to nonaccrual loans, at period end	143 %	129 %	115 %
	141 %	122 %	110 %

Ratio of allowance for loan losses to nonaccrual loans and accruing loans past due  
90 days or more, at period end

The total ALLL decreased during the first six months of 2018 by \$28 million as a result of credit quality improvements in the total loan portfolio.

The RULC represents a reserve for potential losses associated with off-balance sheet commitments and standby letters of credit. The reserve is separately shown in the balance sheet and any related increases or decreases in the

25

---

Table of Contents

ZIONS BANCORPORATION AND SUBSIDIARIES

reserve are shown separately in the statement of income. At June 30, 2018, the reserve remained the same as at December 31, 2017, and decreased by \$5 million from June 30, 2017.

See Note 6 of the Notes to Consolidated Financial Statements for additional information related to the ACL and credit trends experienced in each portfolio segment.

Interest Rate and Market Risk Management

Interest rate and market risk are managed centrally. Interest rate risk is the potential for reduced net interest income and other rate sensitive income resulting from adverse changes in the level of interest rates. Market risk is the potential for loss arising from adverse changes in the fair value of fixed income securities, equity securities, other earning assets, and derivative financial instruments as a result of changes in interest rates or other factors. As a financial institution that engages in transactions involving an array of financial products, we are exposed to both interest rate risk and market risk.

The Company's Board of Directors is responsible for approving the overall policies relating to the management of the financial risk of the Company, including interest rate and market risk management. The Board has established the Asset/Liability Committee ("ALCO") consisting of members of management, to which it has delegated the responsibility of managing interest rate and market risk for the Company. ALCO establishes and periodically revises policy limits and reviews with the ROC the limits and limit exceptions reported by management.

Interest Rate Risk

Interest rate risk is one of the most significant risks to which we are regularly exposed. In general, our goal in managing interest rate risk is to manage balance sheet sensitivity to reduce net income volatility due to changes in interest rates.

Over the course of the last several years, we have actively reduced the level of asset-sensitivity through the purchase of short-to-medium duration agency pass-through securities and funding these purchases by reducing money market investments and increasing short-term borrowings. This repositioning of the investment portfolio has increased current net interest income while dampening the impact of higher rates on net interest income growth. We continue to anticipate moderately higher net interest income in a rising rate environment as our assets reprice more quickly than our liabilities.

Interest Rate Risk Measurement

We monitor interest rate risk through the use of two complementary measurement methods: net interest income simulation, or Earnings at Risk ("EaR"), and Economic Value of Equity at Risk ("EVE"). EaR analyzes the expected change in near term (one year) net interest income in response to changes in interest rates. In the EVE method, we measure the expected changes in the fair value of equity in response to changes in interest rates.

EaR is an estimate of the change in total net interest income that would be recognized under different rate environments over a one-year period. EaR is measured simulating net interest income under several different scenarios including parallel and nonparallel interest rate shifts across the yield curve, taking into account deposit repricing assumptions and estimates of the possible exercise of embedded options within the portfolio (e.g., a borrower's ability to refinance a loan under a lower-rate environment). Our policy contains a trigger for a 10% decline in rate sensitive income as well as a risk capacity of a 13% decline if rates were to immediately rise or fall in parallel by 200 bps.

EVE is calculated as the fair value of all assets minus the fair value of liabilities. We measure changes in the dollar amount of EVE for parallel shifts in interest rates. Due to embedded optionality and asymmetric rate risk, changes in EVE can be useful in quantifying risks not apparent for small rate changes. Examples of such risks may include out-of-the-money interest rate caps (or limits) on loans, which have little effect under small rate movements but may become important if large rate changes were to occur, or substantial prepayment deceleration for low-rate mortgages in a higher-rate environment. Our policy contains a trigger for an 8% decline in EVE as well as a risk capacity of a



Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

10% decline if rates were to immediately rise or fall in parallel by 200 bps. Exceptions to the EVE limits are subject to notification and approval by the ROC.

Estimating the impact on net interest income and EVE requires that we assess a number of variables and make various assumptions in managing our exposure to changes in interest rates. The assessments address deposit withdrawals and deposit product migration (e.g., customers moving money from checking accounts to certificates of deposit), competitive pricing (e.g., existing loans and deposits are assumed to roll into new loans and deposits at similar spreads relative to benchmark interest rates), loan and security prepayments, and the effects of other similar embedded options. As a result of uncertainty about the maturity and repricing characteristics of both deposits and loans, we also calculate the sensitivity of EaR and EVE results to key assumptions. As most of our liabilities are comprised of indeterminate maturity and managed rate deposits, the modeled results are highly sensitive to the assumptions used for these deposits, such as checking, savings and money market accounts, and also to prepayment assumptions used for loans with prepayment options. We use historical regression analysis as a guide for setting such assumptions; however, due to the current low interest rate environment, which has little historical precedent, estimated deposit behavior may not reflect actual future results. Additionally, competition for funding in the marketplace has and may again result in changes to deposit pricing on interest-bearing accounts that are greater or less than changes in benchmark interest rates such as the London Interbank Offered Rate (“LIBOR”) or the federal funds rate.

Under most rising interest rate environments, we would expect some customers to move balances from demand deposits to interest-bearing accounts such as money market, savings, or certificates of deposit. The models are particularly sensitive to the assumption about the rate of such migration.

In addition, we assume certain correlation rates, often referred to as a “deposit beta,” of interest-bearing deposits, wherein the rates paid to customers change at a different pace when compared with changes in benchmark interest rates. Generally, certificates of deposit are assumed to have a high correlation rate, while interest-on-checking accounts are assumed to have a lower correlation rate. Actual results may differ materially due to factors including competitive pricing, money supply, credit worthiness of the Company, and so forth; however, we use our historical experience as well as industry data to inform our assumptions.

The aforementioned migration and correlation assumptions result in deposit durations presented in the following schedule.

## DEPOSIT ASSUMPTIONS

Product	June 30, 2018	
	Effective duration (unchanged)	Effective duration (+200 bps)
Demand deposits	3.0 %	3.0 %
Money market	1.4 %	1.2 %
Savings and interest-on-checking	2.6 %	2.3 %

As of the dates indicated and incorporating the assumptions previously described, the following schedule shows EaR, or percentage change in net interest income, based on a static balance sheet size, in the first year after the interest rate change if interest rates were to sustain immediate parallel changes ranging from -100 bps to +300 bps.

## INCOME SIMULATION – CHANGE IN NET INTEREST INCOME

Repricing scenario	June 30, 2018				
	Parallel shift in rates (in bps) <sup>1</sup>				
	-100	0	+100	+200	+300
Earnings at Risk	(3.2)%	<del>3.0%</del>	3.0%	5.8%	8.6%

<sup>1</sup> Assumes rates cannot go below zero in the negative rate shift.



Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

For non-maturity interest-bearing deposits, the weighted average modeled beta is 36%. If the weighted average deposit beta increased to 46% it would decrease the EaR in the +200bps shock from 5.8% to 3.4%.

The EaR analysis focuses on parallel rate shocks across the term structure of rates. The yield curve typically does not move in a parallel manner. During the past year, an increase in short-term rates has led to a flatter yield curve as longer-term rates have not increased at the same pace as short-term rates. If we consider a flattening rate shock where the short-term rate moves +200bps but the ten-year rate only moves +30bps, the increase in earnings is 43% lower over 12 months compared with the parallel +200bps rate shock.

For comparative purposes, the December 31, 2017 measures are presented in the following schedule.

	December 31, 2017				
	Parallel shift in rates (in bps) <sup>1</sup>				
Repricing scenario	-100	0	+100	+200	+300

Earnings at Risk (2.7)% ~~%~~ 2.8% 5.4% 7.8%

<sup>1</sup> Assumes rates cannot go below zero in the negative rate shift.

The asset-sensitivity as measured by EaR increased slightly quarter-over-quarter due to changes in the deposit composition.

## CHANGES IN ECONOMIC VALUE OF EQUITY

As of the dates indicated, the following schedule shows our estimated percentage change in EVE under parallel interest rate changes ranging from -100 bps to +300 bps. For non-maturity interest-bearing deposits, the weighted average modeled beta is 36%. If the weighted average deposit beta increased to 46% it would decrease the EVE in the +200bps shock from -3.9% to -6.0%.

	June 30, 2018				
	Parallel shift in rates (in bps) <sup>1</sup>				
Repricing scenario	-100	0	+100	+200	+300

Economic Value of Equity 0.8% ~~%~~ (2.2)% (3.9)% (5.5)%

<sup>1</sup> Assumes rates cannot go below zero in the negative rate shift.

For comparative purposes, the December 31, 2017 measures are presented in the following schedule. The changes in EVE measures are driven by a slight increase in the runoff assumption for noninterest-bearing deposits.

	December 31, 2017				
	Parallel shift in rates (in bps) <sup>1</sup>				
Repricing scenario	-100	0	+100	+200	+300
	bps	bps	bps	bps	bps

Economic Value of Equity 0.2% ~~%~~ 0.5% 0.3% 0.2%

<sup>1</sup> Assumes rates cannot go below zero in the negative rate shift.

Our focus on business banking also plays a significant role in determining the nature of the Company's asset-liability management posture. At June 30, 2018, \$20 billion of the Company's commercial lending and CRE loan balances were scheduled to reprice in the next six months. Of these variable-rate loans approximately 93% are tied to either the prime rate or LIBOR. For these variable-rate loans we have executed \$1.0 billion of cash flow hedges by receiving fixed rates on interest rate swaps. Additionally, asset-sensitivity is reduced due to \$87 million of variable-rate loans being priced at floored rates at June 30, 2018, which were above the "index plus spread" rate by an average of 50 bps. At June 30, 2018, we also had \$3.3 billion of variable-rate consumer loans scheduled to reprice in the next six months. Of these variable-rate consumer loans approximately \$19 million were priced at floored rates, which were above the "index plus spread" rate by an average of 74 bps.

See Notes 3 and 7 of the Notes to Consolidated Financial Statements for additional information regarding derivative instruments.



Table of Contents

ZIONS BANCORPORATION AND SUBSIDIARIES

Market Risk – Fixed Income

We engage in the underwriting and trading of municipal securities. This trading activity exposes us to a risk of loss arising from adverse changes in the prices of these fixed income securities.

At June 30, 2018, we had a relatively small amount, \$207 million, of trading assets and \$44 million of securities sold, not yet purchased, compared with \$148 million and \$95 million, respectively, at December 31, 2017.

We are exposed to market risk through changes in fair value. We are also exposed to market risk for interest rate swaps used to hedge interest rate risk. Changes in the fair value of AFS securities and in interest rate swaps that qualify as cash flow hedges are included in accumulated other comprehensive income (“AOCI”) for each financial reporting period. During the second quarter of 2018, the after-tax change in AOCI attributable to AFS securities decreased by \$50 million, due largely to changes in the interest rate environment, compared with a \$61 million increase in the same prior year period.

Market Risk – Equity Investments

Through our equity investment activities, we own equity securities that are publicly-traded. In addition, we own equity securities in companies and governmental entities, e.g., the Federal Reserve Bank and an FHLB, that are not publicly-traded. The accounting for equity investments may use the cost, fair value, equity, or full consolidation methods of accounting, depending on our ownership position and degree of involvement in influencing the investees’ affairs. Regardless of the accounting method, the value of our investment is subject to fluctuation. Because the fair value of these securities may fall below our investment costs, we are exposed to the possibility of loss. Equity investments in private and public companies are approved, monitored and evaluated by the Company’s Equity Investment Committee consisting of members of management.

We hold both direct and indirect investments in predominantly pre-public companies, primarily through various Small Business Investment Company (“SBIC”) venture capital funds. Our equity exposure to these investments was approximately \$136 million and \$127 million at June 30, 2018 and December 31, 2017, respectively. On occasion, some of the companies within our SBIC investments may issue an initial public offering. In this case, the fund is generally subject to a lockout period before liquidating the investment, which can introduce additional market risk. Additionally, Amegy has an alternative investments portfolio. These investments are primarily directed towards equity buyout and mezzanine funds with a key strategy of deriving ancillary commercial banking business from the portfolio companies. Early stage venture capital funds are generally not a part of the strategy because the underlying companies are typically not creditworthy. The carrying value of Amegy’s equity investments was \$11 million and \$12 million at June 30, 2018 and December 31, 2017, respectively.

These private equity investments (“PEIs”) are subject to the provisions of the Dodd-Frank Act. The Volcker Rule of the Dodd-Frank Act prohibits banks and bank holding companies from holding PEIs, except for SBIC funds and certain other permitted exclusions, beyond a required deadline. The Federal Reserve Board (“FRB”) announced in December 2016 that it would allow banks to apply for an additional five-year extension beyond the July 21, 2017 deadline to comply with the Dodd-Frank Act requirement for these investments. The Company applied for and was granted an extension for its eligible PEIs. All positions in the remaining portfolio of PEIs are subject to the extended deadline or other applicable exclusions.

As of June 30, 2018, such prohibited PEIs amounted to \$3 million, with an additional \$3 million of unfunded commitments (see Note 5 of the Notes to Consolidated Financial Statements for more information). We currently do not believe that this divestiture requirement will ultimately have a material impact on our financial statements.

Liquidity Risk Management

Overview

Liquidity risk is the possibility that our cash flows may not be adequate to fund our ongoing operations and meet our commitments in a timely and cost-effective manner. Since liquidity risk is closely linked to both credit risk and market risk, many of the previously discussed risk control mechanisms also apply to the monitoring and



Table of Contents

ZIONS BANCORPORATION AND SUBSIDIARIES

management of liquidity risk. The management of liquidity and funding is performed centrally for the Parent and jointly by the Parent and bank management for its subsidiary bank.

Liquidity Regulation

Upon passage of the Economic Growth, Regulatory Relief, and Consumer Protection Act, the Company is no longer subject to the Enhanced Prudential Standards for liquidity management (Reg. YY). However, the Company continues to perform liquidity stress tests and assess its portfolio of highly liquid assets (sufficient to cover 30-day funding needs under the stress scenarios).

Liquidity Management Actions

Consolidated cash, interest-bearing deposits held as investments, and security resell agreements at the Parent and its subsidiaries was \$1.5 billion at June 30, 2018, compared with \$1.6 billion at December 31, 2017 and \$2.0 billion at June 30, 2017. During the first six months of 2018, sources of cash were primarily from (1) a net increase in deposits, (2) net cash provided by operating activities, and (3) a net decrease in investment securities. The primary uses of cash during the same period were (1) repayment of short-term debt, (2) loan originations, (3) repurchases of our common stock, and (4) dividends on common and preferred stock.

Parent Company Liquidity

The Parent's cash requirements consist primarily of debt service, investments in and advances to subsidiaries, operating expenses, income taxes, and dividends to preferred and common shareholders. The Parent's cash needs are usually met through dividends from its subsidiaries, interest and investment income, subsidiaries' proportionate shares of current income taxes, and long-term debt and equity issuances.

Cash and interest-bearing deposits held as investments at the Parent was \$322 million at June 30, 2018, compared with \$332 million at December 31, 2017 and \$351 million at June 30, 2017. The primary uses of cash during the first six months of 2018 were repurchases of our common stock and dividends on our common and preferred stock. The primary sources of cash during the same period were from common dividends and return of common equity and preferred dividends received by the parent from its subsidiary bank.

During the first six months of 2018 and 2017, the Parent received common dividends and return of common equity totaling \$325 million and \$247 million, respectively, and preferred dividends totaling \$26 million for both periods. At June 30, 2018, ZB, N.A had approximately \$344 million available for the payment of dividends to the Parent under current capital regulations. The dividends that ZB, N.A. can pay are restricted by current and historical earning levels, retained earnings, and risk-based and other regulatory capital requirements and limitations.

General financial market and economic conditions impact our access to, and cost of, external financing. Access to funding markets for the Parent and its subsidiary bank is also directly affected by the credit ratings received from various rating agencies. The ratings not only influence the costs associated with the borrowings, but can also influence the sources of the borrowings. On March 29, 2018, Kroll upgraded the Company's senior unsecured debt rating to BBB+ from BBB, the Company's subordinated debt rating to BBB from BBB-, and ZB, N.A.'s senior unsecured debt rating to A- from BBB+; after the upgrade, Kroll revised its outlook for both the Company and ZB, N.A. to stable from positive. On April 25, 2018, Standard and Poor's ("S&P") upgraded the Company's senior unsecured debt rating to BBB from BBB-, the Company's subordinated debt rating to BBB- from BB+, and ZB, N.A.'s senior unsecured debt rating to BBB+ from BBB; after the upgrade, S&P revised its outlook for both the Company and ZB, N.A. to stable from positive. All the credit rating agencies rate the Company's and ZB, N.A.'s senior unsecured debt and subordinated debt at an investment-grade level.

Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

The following schedule presents the Company's and ZB, N.A.'s credit ratings as of July 31, 2018.

## CREDIT RATINGS

Rating agency	Company ZB, N.A.		Company ZB, N.A.		Company	ZB, N.A.
	Outlook		Long-term issuer/senior debt rating		Subordinated debt rating	Short-term debt rating
S&P	Stable	Stable	BBB	BBB+	BBB-	A-2
Moody's	Stable	Stable	Baa3	Baa3		P-2
Kroll	Stable	Stable	BBB+	A-	BBB	K2

The following schedule presents the Parent's balance sheets as of June 30, 2018, December 31, 2017, and June 30, 2017.

## PARENT ONLY CONDENSED BALANCE SHEETS

(In millions)	June 30, 2018	December 31, 2017	June 30, 2017
<b>ASSETS</b>			
Cash and due from banks	\$—	\$ —	\$—
Interest-bearing deposits	322	332	351
Investment securities:			
Available-for-sale, at fair value	28	30	37
Other noninterest-bearing investments	42	36	34
Investments in subsidiaries:			
Commercial bank	7,551	7,620	7,688
Other subsidiaries	41	41	6
Other assets	50	32	73
Total assets	\$8,034	\$ 8,091	\$8,189
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Other liabilities	\$30	\$ 30	\$58
Long-term debt:			
Due to others	383	382	382
Total liabilities	413	412	440
Shareholders' equity:			
Preferred stock	566	566	566
Common stock	4,231	4,445	4,660
Retained earnings	3,139	2,807	2,572
Accumulated other comprehensive income (loss)	(315 )	(139 )	(49 )
Total shareholders' equity	7,621	7,679	7,749
Total liabilities and shareholders' equity	\$8,034	\$ 8,091	\$8,189

The Parent's cash payments for interest, reflected in operating expenses, decreased to \$11 million during the first six months of 2018 from \$15 million during the first six months of 2017 due to the maturity of long-term debt during 2017. Additionally, the Parent paid approximately \$104 million of total dividends on preferred stock and common stock for the first six months of 2018 compared with \$55 million for the first six months of 2017. Dividends paid per common share have increased gradually from \$0.08 in the second quarter of 2017 to \$0.24 in the second quarter of 2018. In July 2018, the Board approved an increase of the quarterly common dividend to \$0.30 per share.

At June 30, 2018, maturities of our long-term senior and subordinated debt ranged from June 2023 to September 2028.





Table of Contents

ZIONS BANCORPORATION AND SUBSIDIARIES

Subsidiary Bank Liquidity

ZB, N.A.'s primary source of funding is its core deposits, consisting of noninterest-bearing demand deposits, savings and money market deposits, and time deposits under \$250,000. On a consolidated basis, the Company's loan to total deposit ratio has remained consistent, and was 84% at June 30, 2018 compared with 85% at December 31, 2017, and 83% at June 30, 2017.

Total deposits increased by \$1.0 billion to \$53.6 billion at June 30, 2018, compared with \$52.6 billion at December 31, 2017. This increase was a result of a \$896 million and \$121 million increase in time deposits and noninterest-bearing demand deposits, respectively, partially offset by a \$58 million decrease in savings and money market deposits.

The FHLB system and Federal Reserve Banks have been and are a source of back-up liquidity, and from time to time, have been a significant source of funding. ZB, N.A. is a member of the FHLB of Des Moines. The FHLB allows member banks to borrow against their eligible loans and securities to satisfy liquidity and funding requirements. The Bank is required to invest in FHLB and Federal Reserve stock to maintain their borrowing capacity.

At June 30, 2018, the amount available for additional FHLB and Federal Reserve borrowings was approximately \$13.9 billion, compared with \$14.7 billion at December 31, 2017. Loans with a carrying value of approximately \$24.4 billion at June 30, 2018 have been pledged at the FHLB of Des Moines and the Federal Reserve as collateral for current and potential borrowings compared with \$25.6 billion at December 31, 2017. At June 30, 2018, we had \$3.7 billion of short-term FHLB borrowings outstanding and no long-term FHLB or Federal Reserve borrowings outstanding, compared with \$3.6 billion of short-term FHLB borrowings and no long-term FHLB or Federal Reserve borrowings outstanding at December 31, 2017. At June 30, 2018, our total investment in FHLB and Federal Reserve stock was \$185 million and \$156 million, respectively, compared with \$154 million and \$184 million at December 31, 2017.

Our investment activities can provide or use cash, depending on the asset-liability management posture taken. During the first six months of 2018, HTM and AFS investment securities' activities resulted in a net decrease in investment securities and a net \$120 million increase in cash, compared with a net \$2.2 billion decrease in cash for the first six months of 2017.

Maturing balances in ZB, N.A.'s loan portfolios also provide additional flexibility in managing cash flows. Lending activity for the first six months of 2018 resulted in a net cash outflow of \$431 million compared with a net cash outflow of \$1.0 billion for the first six months of 2017.

A more comprehensive discussion of liquidity risk management, including liquidity risk oversight, liquidity regulation, and certain contractual obligations, is contained in our 2017 Annual Report on Form 10-K.

Operational Risk Management

Operational risk is the risk to current or anticipated earnings or capital arising from inadequate or failed internal processes or systems, human errors or misconduct, or adverse external events. In our ongoing efforts to identify and manage operational risk, we have an ERM department whose responsibility is to help employees, management and the Board of Directors to assess, understand, measure, manage, and monitor risk in accordance with our Risk Appetite Framework. We have documented both controls and the Control Self-Assessment related to financial reporting under the 2013 framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and the Federal Deposit Insurance Corporation Improvement Act.

Periodic reviews, which include aspects of operational risk, are conducted by the Company's Compliance Risk Management, Internal Audit and Credit Examination departments on a regular basis, and the Data Governance department also provide key data integrity and availability oversight. We are continually improving our oversight of operational risk, including enhancement of risk identification, risk and control self-assessments, and antifraud measures, which are reported on a regular basis to enterprise management committees. As part of this process, and as a result of the number and sophistication of attempts to disrupt or penetrate our critical systems, we have



Table of Contents

ZIONS BANCORPORATION AND SUBSIDIARIES

designated cyber risk a level one risk in our risk taxonomy, which places it at the highest level of oversight with our other top risks. For a more comprehensive discussion of operational risk management see our 2017 Annual Report on Form 10-K.

**CAPITAL MANAGEMENT**

We believe that a strong capital position is vital to continued profitability and to promoting depositor and investor confidence.

**Stress Testing**

As a bank holding company (“BHC”) with assets greater than \$50 billion, prior to the enactment of the Economic Growth, Regulatory Relief and Consumer Protection Act of 2018 (described in the next paragraph), we were required by the Dodd-Frank Act to participate in annual stress tests known as the Dodd-Frank Act Stress Test (“DFAST”). In addition, we were required to participate in the Federal Reserve Board’s annual horizontal capital review/comprehensive capital analysis and review (“CCAR”) for large and non-complex firms (generally, BHCs, with assets between \$50 billion and \$250 billion). In our capital plan, we were required to forecast, under a variety of economic scenarios, our estimated regulatory capital ratios and our GAAP tangible common equity ratio. Under the implementing regulations for CCAR, BHCs may generally raise and redeem capital, pay dividends, and repurchase stock and take similar capital-related actions only under a capital plan as to which the FRB has not objected. We timely submitted our stress test results and 2018 capital plan (which spans the timeframe of July 2018 to June 2019) to the FRB on April 5, 2018. A detailed discussion of CCAR/DFAST requirements is contained on page 11 of the “Capital Planning and Stress Testing” section under Part 1, Item 1 in our 2017 Annual report on Form 10-K.

On June 21, 2018, the Company issued a press release stating that in accordance with the Economic Growth, Regulatory Relief and Consumer Protection Act of 2018, which was signed into law on May 24, 2018, Zions Bancorporation and other bank holding companies with assets of less than \$100 billion are at this point in time no longer subject to the Federal Reserve's DFAST protocols. The Federal Reserve determined, accordingly, that it will not publicly release the results of its stress test for Zions Bancorporation, but authorized Zions to publish the Federal Reserve's results as communicated to the Company. The results of both stress tests reflect DFAST capital actions as defined in relevant regulations. The results of the Company’s stress tests demonstrate that the Company believes it has sufficient capital to withstand a severe hypothetical economic downturn, demonstrate the Company’s ample capital position, and are supportive of the Company’s ability to increase its total capital payout. Detailed disclosure of the stress test results can be found on the Company’s website. We expect to continue to utilize stress testing as the primary mechanism to inform our decisions on the appropriate level of capital, based upon actual and potentially adverse economic conditions.

On April 5, 2018, as part of an internal corporate restructuring to streamline and simplify its corporate structure, Zions Bancorporation and its wholly-owned bank subsidiary, ZB, N.A., entered into an Agreement and Plan of Merger, as amended and restated on July 10, 2018, pursuant to which the Company will be merged with and into the Bank, with the Bank continuing as the surviving entity. Following the restructuring, the Bank will be renamed “Zions Bancorporation, N.A.” Before the restructuring can be completed, holders of the Company’s common stock must approve the plan of merger. A special meeting of the holders of the Company’s common stock will be held on September 14, 2018, for that purpose.

Assuming the merger is approved by the Company’s shareholders and the restructuring is completed, the resulting banking organization would no longer be subject to duplicative examinations and other overlapping regulatory requirements, or the enhanced prudential standards established by the Board of Governors of the Federal Reserve System under Section 165 of the Dodd-Frank Act. The Company’s primary federal banking regulator would be the OCC. The Company would continue to be subject to examinations by the CFPB with respect to consumer financial regulations.

Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

## Capital Management Actions

During the second quarter of 2018, the Company repurchased 2.1 million shares of common stock for \$120 million, and has repurchased a total of 9.2 million shares of common stock for \$465 million over the last 12 months at an average price of \$50.81 per share. In July 2018, the Company announced that the Board approved a plan to repurchase \$185 million of common stock during the third quarter of 2018 and began the repurchases. However, the timing and amount of additional common share repurchases will be subject to various factors, including the Company's financial performance, business needs, and prevailing economic conditions. Shares may be purchased occasionally in the open market, through privately negotiated transactions, utilizing Rule 10b5-1 plans or otherwise.

As planned, our quarterly dividend on common stock increased to \$0.24 per share during the second quarter of 2018. We paid \$87 million in dividends on common stock during the first six months of 2018 compared with \$32 million during the first six months of 2017. In July 2018, the Board of Directors declared a quarterly dividend of \$0.30 per common share payable on August 23, 2018 to shareholders of record on August 16, 2018. We paid dividends on preferred stock of \$17 million for the first six months of 2018 compared with \$23 million during the first six months of 2017. The Company's recently announced capital actions were reflected in the results of both the Company's internal stress test results as well as the results communicated to the Company by the FRB with respect to the Federal Reserve's stress test of Zions' financial and capital strength. See Note 8 for additional detail about capital management transactions during the first six months of 2018.

Total shareholders' equity remained consistent and was \$7.6 billion at June 30, 2018 compared with \$7.7 billion at both December 31, 2017 and June 30, 2017. Total shareholders' equity decreased from December 31, 2017 by (1) \$235 million from repurchases of Company common stock, (2) \$176 million from a decrease in the fair value of our AFS securities due largely to changes in the interest rate environment, and (3) \$104 million from common and preferred dividends. These decreases were offset by net income of \$435 million.

Despite the previously mentioned share repurchases, the weighted average diluted shares increased by 1.1 million compared with the second quarter of 2017, primarily due to the dilutive impact of warrants that have been outstanding since 2008 ("TARP" warrants - NASDAQ: ZIONZ) and 2010 (NASDAQ: ZIONW) and employee equity grants. During 2017 and the first six months of 2018, the market price of our common stock was higher than the exercise price of common stock warrants on our common stock and had a dilutive effect upon earnings per share. During the first six months of 2018, 1.1 million shares of common stock were issued from the cashless exercise of 3.3 million common stock warrants which would have expired on November 14, 2018. As of June 30, 2018, the Company had 2.5 million and 29.3 million warrants outstanding of ZIONZ (TARP) and ZIONW warrants, respectively. The ZIONZ warrants expire on November 14, 2018 and the ZIONW warrants expire on May 22, 2020.

The following schedule presents the diluted shares from the remaining common stock warrants at various Zions Bancorporation common stock market prices as of July 31, 2018, excluding the effect of changes in exercise cost and warrant share multiplier from the future payment of common stock dividends.

## IMPACT OF COMMON STOCK WARRANTS

Assumed

Zions

Bancorp ~~Diluted~~

Common Shares

Stock (000s)

Market

Price

\$ 35.00	0
40.00	4,900
45.00	8,014
50.00	10,506

55.00 12,545

60.00 14,244

65.00 15,682

See Note 8 of the Notes to Consolidated Financial Statements for more information on our common stock warrants.

34

---

Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

## Basel III

In 2013, the FRB, FDIC, and OCC published final rules (the “Basel III Capital Rules”) establishing a new comprehensive capital framework for U.S. banking organizations. The rules implemented the Basel Committee’s December 2010 framework, commonly referred to as Basel III, for strengthening international capital standards as well as certain provisions of the Dodd-Frank Act. The Basel III capital rules became effective for the Company on January 1, 2015 and were subject to phase-in periods for certain of their components. In November 2017, the FRB, FDIC and OCC published a final rule for non-advanced approaches banks that extends the regulatory capital treatment applicable during 2017 under the regulatory capital rules for certain items.

A detailed discussion of Basel III requirements, including implications for the Company, is contained on page 9 in “Capital Standards – Basel Framework” under Part 1, Item 1 in our 2017 Annual Report on Form 10-K.

We met all capital adequacy requirements under the Basel III Capital Rules based upon phase-in rules as of June 30, 2018, and believe that we would meet all capital adequacy requirements on a fully phased-in basis if such requirements were currently effective.

## Capital Ratios

Banking organizations are required by capital regulations to maintain adequate levels of capital as measured by several regulatory capital ratios. The following schedule shows the Company’s capital and performance ratios as of June 30, 2018, December 31, 2017, and June 30, 2017.

## CAPITAL RATIOS

	June 30, 2018		December 31, 2017		June 30, 2017	
Tangible common equity ratio <sup>1</sup>	9.2	%	9.3	%	9.6	%
Tangible equity ratio <sup>1</sup>	10.1	%	10.2	%	10.4	%
Average equity to average assets (three months ended)	11.5	%	11.9	%	12.0	%
Basel III risk-based capital ratios <sup>2</sup> :						
Common equity tier 1 capital	12.2	%	12.1	%	12.3	%
Tier 1 leverage	10.5	%	10.5	%	10.5	%
Tier 1 risk-based	13.3	%	13.2	%	13.4	%
Total risk-based	14.8	%	14.8	%	15.1	%
Return on average common equity (three months ended)	10.6	%	6.3	%	8.6	%
Return on average tangible common equity (three months ended) <sup>1</sup>	12.4	%	7.4	%	10.2	%

<sup>1</sup> See “GAAP to Non-GAAP Reconciliations” on page 5 for more information regarding these ratios.

<sup>2</sup> Based on the applicable phase-in periods.

At June 30, 2018, Basel III regulatory tier 1 risk-based capital and total risk-based capital was \$6.9 billion and \$7.7 billion, respectively, compared with \$6.8 billion and \$7.6 billion, respectively, at December 31, 2017. A more comprehensive discussion of our capital management is contained in our 2017 Annual Report on Form 10-K.

Consistent with its previous public statements on the matter, and subject to results of ongoing internal stress testing, we intend to reduce our capital ratios to levels similar to or slightly stronger than the median levels of our peer group. Assuming economic conditions remain generally stable, we intend to accomplish the reduction of our capital ratios in an orderly fashion over the next six to eight quarters. We expect to continue to utilize stress testing as the primary mechanism to inform our decisions on the appropriate level of capital, based upon actual and potentially adverse economic conditions.

Table of Contents

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

(In millions, shares in thousands)	June 30, 2018 (Unaudited)	December 31, 2017
<b>ASSETS</b>		
Cash and due from banks	\$ 468	\$ 548
Money market investments:		
Interest-bearing deposits	698	782
Federal funds sold and security resell agreements	558	514
Investment securities:		
Held-to-maturity, at amortized cost (approximate fair value \$866 and \$762)	878	770
Available-for-sale, at fair value	14,627	15,161
Trading account, at fair value	207	148
Total investment securities	15,712	16,079
Loans held for sale	84	44
Loans and leases, net of unearned income and fees	45,230	44,780
Less allowance for loan losses	490	518
Loans held for investment, net of allowance	44,740	44,262
Other noninterest-bearing investments	1,054	1,029
Premises, equipment and software, net	1,099	1,094
Goodwill and intangibles	1,015	1,016
Other real estate owned	5	4
Other assets	1,024	916
Total Assets	\$ 66,457	\$ 66,288
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Deposits:		
Noninterest-bearing demand	\$ 24,007	\$ 23,886
Interest-bearing:		
Savings and money market	25,562	25,620
Time	4,011	3,115
Total deposits	53,580	52,621
Federal funds purchased and other short-term borrowings	4,158	4,976
Long-term debt	383	383
Reserve for unfunded lending commitments	58	58
Other liabilities	657	571
Total liabilities	58,836	58,609
Shareholders' equity:		
Preferred stock, without par value; authorized 4,400 shares	566	566
Common stock, without par value; authorized 350,000 shares; issued and outstanding 195,392 and 197,532 shares	4,231	4,445
Retained earnings	3,139	2,807
Accumulated other comprehensive income (loss)	(315)	(139)
Total shareholders' equity	7,621	7,679
Total liabilities and shareholders' equity	\$ 66,457	\$ 66,288
See accompanying notes to consolidated financial statements.		





Table of Contents

ZIONS BANCORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME  
(Unaudited)

(In millions, except shares and per share amounts)	Three Months		Six Months		
	Ended June 30, 2018	2017	Ended June 30, 2018	2017	
Interest income:					
Interest and fees on loans	\$514	\$ 469	\$1,011	\$ 902	
Interest on money market investments	7	5	13	9	
Interest on securities	85	84	170	162	
Total interest income	606	558	1,194	1,073	
Interest expense:					
Interest on deposits	29	14	48	28	
Interest on short- and long-term borrowings	29	16	56	28	
Total interest expense	58	30	104	56	
Net interest income	548	528	1,090	1,017	
Provision for loan losses	5	7	(35	) 30	
Net interest income after provision for loan losses	543	521	1,125	987	
Noninterest income:					
Service charges and fees on deposit accounts	42	43	84	85	
Other service charges, commissions and fees	55	56	110	105	
Wealth management and trust income	14	10	25	20	
Loan sales and servicing income	7	6	13	13	
Capital markets and foreign exchange	7	6	15	13	
Customer-related fees	125	121	247	236	
Dividends and other investment income	11	10	22	22	
Securities gains, net	1	2	1	7	
Other	1	(1	) 6	(1	)
Total noninterest income	138	132	276	264	
Noninterest expense:					
Salaries and employee benefits	266	240	535	502	
Occupancy, net	32	32	63	66	
Furniture, equipment and software, net	32	32	65	64	
Other real estate expense, net	—	—	1	—	
Credit-related expense	7	8	13	15	
Provision for unfunded lending commitments	7	3	—	(2	)
Professional and legal services	14	14	26	28	
Advertising	7	6	13	11	
FDIC premiums	14	13	26	25	
Other	49	57	98	110	
Total noninterest expense	428	405	840	819	
Income before income taxes	253	248	561	432	
Income taxes	56	80	126	124	
Net income	197	168	435	308	
Preferred stock dividends	(10	) (12	) (17	) (23	)
Preferred stock redemption	—	(2	) —	(2	)
Net earnings applicable to common shareholders	\$ 187	\$ 154	\$ 418	\$ 283	

Weighted average common shares outstanding during the period:

Basic shares (in thousands)	195,583	201,822	196,149	202,083
Diluted shares (in thousands)	209,247	208,183	209,859	209,353
Net earnings per common share:				
Basic	\$0.95	\$0.76	\$2.11	\$1.39
Diluted	0.89	0.73	1.97	1.34

See accompanying notes to consolidated financial statements.

Table of Contents

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

(In millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income for the period	\$197	\$168	\$435	\$308
Other comprehensive income (loss), net of tax:				
Net unrealized holding gains (losses) on investment securities	(50 )	61	(175 )	73
Net unrealized gains on other noninterest-bearing investments	2	1	3	2
Net unrealized holding gains (losses) on derivative instruments	—	1	(3 )	—
Reclassification adjustment for increase in interest income recognized in earnings on derivative instruments	(1 )	(1 )	(1 )	(2 )
Other comprehensive income (loss)	(49 )	62	(176 )	73
Comprehensive income	\$148	\$230	\$259	\$381

See accompanying notes to consolidated financial statements.

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

(In millions, except shares and per share amounts)	Common stock		Retained earnings	Accumulated other comprehensive income (loss)	Total shareholders' equity
	Preferred stock	Shares (in thousands)			
Balance at December 31, 2017	\$ 566	197,532	\$4,445	\$ 2,807	\$ (139 ) \$ 7,679
Net income for the period				435	435
Other comprehensive loss, net of tax				(176 )	(176 )
Cumulative effect adjustment, adoption of ASU 2014-09, Revenue from Contracts with Customers				1	1
Company common stock repurchased		(4,301 )	(235 )		(235 )
Net shares issued from stock warrant exercises		1,095			—
Net activity under employee plans and related tax benefits		1,066	21		21
Dividends on preferred stock				(17 )	(17 )
Dividends on common stock, \$0.44 per share				(87 )	(87 )
Balance at June 30, 2018	\$ 566	195,392	\$4,231	\$ 3,139	\$ (315 ) \$ 7,621
Balance at December 31, 2016	\$ 710	203,085	\$4,725	\$ 2,321	\$ (122 ) \$ 7,634
Net income for the period				308	308
Other comprehensive income, net of tax				73	73
Preferred stock redemption	(144 )		2	(2 )	(144 )
Company common stock repurchased		(2,158 )	(90 )		(90 )
Net activity under employee plans and related tax benefits		1,204	23		23
Dividends on preferred stock				(23 )	(23 )

Edgar Filing: ZIONS BANCORPORATION /UT/ - Form 10-Q

Dividends on common stock, \$0.16 per share				(32 )		(32 )
Balance at June 30, 2017	\$ 566	202,131	\$4,660	\$2,572	\$ (49 )	\$ 7,749

See accompanying notes to consolidated financial statements.

38

---

Table of Contents

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

(In millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Net income for the period	\$ 197	\$ 168	\$ 435	\$ 308
Adjustments to reconcile net income to net cash provided by operating activities:				
Provision for credit losses	12	10	(35 )	28
Depreciation and amortization	49	47	92	84
Share-based compensation	5	5	18	17
Deferred income tax expense (benefit)	(11 )	(5 )	2	8
Net decrease (increase) in trading securities	(63 )	(22 )	(59 )	54
Net decrease (increase) in loans held for sale	(1 )	53	(34 )	89
Change in other liabilities	81	(63 )	85	(21 )
Change in other assets	(100 )	12	(52 )	33
Other, net	(6 )	(10 )	(14 )	(24 )
Net cash provided by operating activities	163	195	438	576
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Net decrease in money market investments	157	530	40	385
Proceeds from maturities and paydowns of investment securities held-to-maturity	55	75	114	166
Purchases of investment securities held-to-maturity	(165 )	(66 )	(222 )	(73 )
Proceeds from sales, maturities, and paydowns of investment securities available-for-sale	735	630	1,404	1,160
Purchases of investment securities available-for-sale	(564 )	(353 )	(1,176 )	(3,466 )
Net change in loans and leases	(120 )	(919 )	(431 )	(1,036 )
Net change in other noninterest-bearing investments	27	(29 )	(4 )	(103 )
Purchases of premises and equipment	(26 )	(44 )	(54 )	(94 )
Other, net	1	3	—	8
Net cash provided by (used in) investing activities	100	(173 )	(329 )	(3,053 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Net increase (decrease) in deposits	618	(1,099 )	965	(858 )
Net change in short-term funds borrowed	(709 )	205	1,181	2,015
Proceeds from debt over 90 days and up to one year	—	1,250	—	1,750
Repayments of debt over 90 days and up to one year	—	(250 )	(2,000 )	(250 )
Cash paid for preferred stock redemption	—	(144 )	—	(144 )
Repayment of long-term debt	—	—	—	(153 )
Proceeds from the issuance of common stock	7	9	17	18
Dividends paid on common and preferred stock	(55 )	(26 )	(104 )	(55 )
Company common stock repurchased	(126 )	(52 )	(248 )	(102 )
Net cash provided by (used in) financing activities	(265 )	(107 )	(189 )	2,221
Net decrease in cash and due from banks	(2 )	(85 )	(80 )	(256 )
Cash and due from banks at beginning of period	470	566	548	737
Cash and due from banks at end of period	\$ 468	\$ 481	\$ 468	\$ 481
Cash paid for interest	\$ 55	\$ 30	\$ 100	\$ 52
Net cash paid for income taxes	90	128	91	122

Noncash activities are summarized as follows:

Loans held for investment transferred to other real estate owned	3	2	6	4
Loans held for investment reclassified to loans held for sale, net	24	(12	) 39	11
See accompanying notes to consolidated financial statements.				

39

---

Table of Contents

ZIONS BANCORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

June 30, 2018

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 United States (“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, are made according to sections of the Accounting Standards Codification (“ASC”). Changes to the ASC are made with Accounting Standards Updates (“ASU”) that include consensus issues of the Emerging Issues Task Force. In certain cases, ASUs are issued jointly with International Financial Reporting Standards.

Operating results for the six months ended June 30, 2018 and 2017 are not necessarily indicative of the results that may be expected in future periods. In preparing the consolidated financial statements, we are required to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The consolidated balance sheet at December 31, 2017 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 2017 Annual Report on Form 10-K. Certain prior period amounts have been reclassified to conform with the current period presentation. These reclassifications did not affect net income or shareholders’ equity.

Zions Bancorporation is a financial holding company headquartered in Salt Lake City, Utah, which owns and operates a commercial bank. The Parent and its subsidiaries (collectively “the Company”) provide a full range of banking and related services in 11 Western and Southwestern states through 7 separately managed and branded units as follows: Zions Bank, in Utah, Idaho and Wyoming; Amegy Bank (“Amegy”), in Texas; California Bank & Trust (“CB&T”); National Bank of Arizona (“NBAZ”); Nevada State Bank (“NSB”); Vectra Bank Colorado (“Vectra”), in Colorado and New Mexico; and The Commerce Bank of Washington (“TCBW”) which operates under that name in Washington and under the name The Commerce Bank of Oregon in Oregon. The Parent also owns and operates certain nonbank subsidiaries that engage in financial services.



Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

## 2. RECENT ACCOUNTING PRONOUNCEMENTS

Standard	Description	Date of adoption	Effect on the financial statements or other significant matters
Standards not yet adopted by the Company			
ASU 2016-02, Leases (Topic 842) and subsequent related ASUs	The standard requires that a lessee recognize assets and liabilities for leases on the balance sheet. For leases with a term of 12 months or less, however, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee will depend primarily on its classification as a finance or operating lease. The standard also requires disclosures to better understand the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative requirements, providing additional information about the amounts recorded in the financial statements.	January 1, 2019	Upon adoption of the standard, we currently estimate the right-of-use asset to be between \$200-\$250 million. This estimate may change depending on the Company's lease activity. The implementation team is working on gathering all key lease data elements to meet the requirements of the new guidance. Additionally, we are implementing new lease software that will accommodate the new accounting requirements.
ASU 2017-08, Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities	The amendments in this ASU shorten the amortization period for certain callable debt securities held at a premium. The standard requires the premium to be amortized to the earliest call date. The update does not change the accounting for securities held at a discount.	January 1, 2019	Our analysis suggests this guidance will not have a material impact on the Company's financial statements, but we will continue to monitor its impact as we move closer to implementation.
ASU 2016-13, Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments	The standard significantly changes how entities will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. The standard replaces today's "incurred loss" approach with an "expected loss" model for instruments such as loans and held-to-maturity ("HTM") securities that are measured at amortized cost. The standard requires credit losses relating to available-for-sale ("AFS") debt securities to be recorded through an allowance for credit loss ("ACL") rather than a reduction of the carrying amount. It also changes the accounting for purchased credit-impaired debt securities and loans. The standard retains many of the current disclosure requirements in US GAAP and expands certain	January 1, 2020	We have formed an implementation team led jointly by Credit, Treasury, and the Corporate Controller's group, that also includes other lines of business and functions within the Company. The implementation team is developing models that can meet the requirements of the new guidance. While this standard may potentially have a material impact on the Company's financial statements, we are still in process of conducting our evaluation.

disclosure requirements. Early adoption of the guidance is permitted as of January 1, 2019.

ASU 2017-04,  
Intangibles –  
Goodwill and  
Other (Topic 350):  
Simplifying the  
Test for Goodwill  
Impairment

The standard eliminates the requirement to calculate the implied fair value of goodwill (i.e. Step 2 of the current goodwill impairment test) to measure a goodwill impairment charge. Instead, entities would record an impairment charge based on the excess of a reporting unit's carrying amount over its fair value (i.e., measure the charge based on Step 1 of the current guidance). The standard does not change the guidance on completing Step 1 of the goodwill impairment test. The standard also continues to allow entities to perform the optional qualitative goodwill impairment assessment before determining whether to proceed to Step 1. The standard is effective for the Company as of January 1, 2020. Early adoption is allowed for any goodwill impairment test performed after January 1, 2017.

We do not currently expect this guidance will have a material impact on the Company's financial statements since the fair values of our reporting units were not lower than their respective carrying amounts at the time of our goodwill impairment analysis for 2017.

Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

Standard	Description	Date of adoption	Effect on the financial statements or other significant matters
Standards adopted by the Company			
ASU 2014-09, Revenue from Contracts with Customers (Topic 606) and subsequent related ASUs	The core principle of the new guidance is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. The banking industry does not expect significant changes because major sources of revenue are from financial instruments that have been excluded from the scope of the new standard, (including loans, derivatives, debt and equity securities, etc.). However, these new standards affect other fees charged by banks, such as asset management fees, credit card interchange fees, deposit account fees, etc. Adoption may be made on a full retrospective basis with practical expedients, or on a modified retrospective basis with a cumulative effect adjustment. Additionally, the new guidance significantly increases the disclosures related to revenue recognition practices.	January 1, 2018	We adopted this guidance using the modified retrospective transition method. There was no material impact at adoption to the Company's consolidated financial statements. New disclosures are found in Footnote 10.
ASU 2016-01, Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities	The standard provides revised accounting guidance related to the accounting for and reporting of financial instruments. Some of the main provisions include: <ul style="list-style-type: none"> <li>– Equity investments that do not result in consolidation and are not accounted for under the equity method would be measured at fair value through net income.</li> <li>– Changes in instrument-specific credit risk for financial liabilities that are measured under the fair value option would be recognized in other comprehensive income (“OCI”).</li> <li>– Elimination of the requirement to disclose the methods and significant assumptions used to estimate the fair value of financial instruments carried at amortized cost. However, it will require the use of exit price when measuring the fair value of financial instruments measured at amortized cost for disclosure purposes.</li> </ul>	January 1, 2018	The transition adjustment upon adoption of this guidance was not material. We refined our valuation models to better account for an exit price, which does not impact our financial statements, but does have an impact on our disclosures, as provided in Footnote 3.
ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to	The purpose of this standard is to better align a company's financial reporting for hedging activities with the economic objectives of those activities. The standard is effective for public business entities for fiscal years beginning after December 15, 2018, with early adoption, including adoption	January 1, 2018	We early adopted this guidance in the first quarter. The adoption of this guidance did not have a material impact

Accounting for Hedging Activities	in an interim period, permitted. The standard requires a modified retrospective transition method that requires recognition of the cumulative effect of the change on the opening balance of each affected component of equity in the statement of financial position as of the date of adoption.	on our consolidated financial statements at transition.
-----------------------------------	---	---

3. 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. For a discussion of the Company's valuation methodologies for assets and liabilities measured at fair value and the fair value hierarchy, see Note 3 of our 2017 Annual Report on Form 10-K.

Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

## Quantitative Disclosure by Fair Value Hierarchy

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

(In millions)	June 30, 2018			Total
	Level 1	Level 2	Level 3	
<b>ASSETS</b>				
Investment securities:				
Available-for-sale: <sup>1</sup>				
U.S. Treasury, agencies and corporations	\$25	\$13,266	\$—	\$13,291
Municipal securities		1,312		1,312
Other debt securities		24		24
Total Available-for-sale	25	14,602	—	14,627
Trading account	89	118		207
Other noninterest-bearing investments:				
Bank-owned life insurance		513		513
Private equity investments			102	102
Other assets:				
Agriculture loan servicing and interest-only strips			18	18
Deferred compensation plan assets	108			108
Derivatives:				
Interest rate swaps and forwards		1		1
Interest rate swaps for customers		22		22
Foreign currency exchange contracts	6			6
Total Assets	\$228	\$15,256	\$120	\$15,604
<b>LIABILITIES</b>				
Securities sold, not yet purchased	\$44	\$—	\$—	\$44
Other liabilities:				
Deferred compensation plan obligations	108			108
Derivatives:				
Interest rate swaps for customers		65		65
Foreign currency exchange contracts	5			5
Total Liabilities	\$157	\$65	\$—	\$222

<sup>1</sup> We used a third-party pricing service to measure fair value for approximately 95% of our AFS Level 2 securities.

Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

(In millions)	December 31, 2017			Total
	Level 1	Level 2	Level 3	
<b>ASSETS</b>				
Investment securities:				
Available-for-sale: <sup>1</sup>				
U.S. Treasury, agencies and corporations	\$25	\$13,706	\$—	\$13,731
Municipal securities		1,334		1,334
Other debt securities		24		24
Money market mutual funds and other	71	1		72
Total Available-for-sale	96	15,065	—	15,161
Trading account		148		148
Other noninterest-bearing investments:				
Bank-owned life insurance		507		507
Private equity investments			95	95
Other assets:				
Agriculture loan servicing and interest-only strips			18	18
Deferred compensation plan assets	102			102
Derivatives:				
Interest rate swaps and forwards		1		1
Interest rate swaps for customers		28		28
Foreign currency exchange contracts	9			9
Total Assets	\$207	\$15,749	\$113	\$16,069
<b>LIABILITIES</b>				
Securities sold, not yet purchased	\$95	\$—	\$—	\$95
Other liabilities:				
Deferred compensation plan obligations	102			102
Derivatives:				
Interest rate swaps for customers		33		33
Foreign currency exchange contracts	7			7
Total Liabilities	\$204	\$33	\$—	\$237

<sup>1</sup> We used a third-party pricing service to measure fair value for approximately 92% of our AFS Level 2 securities.

## Level 3 Valuations

## Private Equity Investments

Private equity investments (“PEIs”) are generally measured under Level 3. Certain investments that have converted to being publicly-traded are measured under Level 1. The majority of these PEIs are held in Zions’ Small Business Investment Company (“SBIC”) and are early-stage venture investments. The fair value measurements of these investments are updated at least on a quarterly basis, including whenever a new round of financing occurs. Certain of these investments are measured using multiples of operating performance. The fair value measurements of PEIs are reviewed on a quarterly basis by the Securities Valuation Committee. The Equity Investments Committee, consisting of executives familiar with the investments, reviews periodic financial information, including audited financial statements when available.

Certain valuation analytics may be employed that include current and projected financial performance, recent financing activities, economic and market conditions, market comparables, market liquidity, sales restrictions, and other factors. A significant change in the expected performance of the individual investment would result in a change in the fair value measurement of the investment. The amount of unfunded commitments to invest is disclosed in Note 5. Certain restrictions apply for the redemption of these investments and certain investments are prohibited by the

Volcker Rule. See discussions in Note 5.

44

---

Table of Contents

ZIONS BANCORPORATION AND SUBSIDIARIES

Agriculture Loan Servicing

This asset results from our servicing of agriculture loans approved and funded by Federal Agricultural Mortgage Corporation (“FAMC”). We provide this servicing under an agreement with FAMC 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 portions 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.

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:

(In millions)	Level 3 Instruments								
	Three Months Ended				Six Months Ended				
	June 30, 2018		June 30, 2017		June 30, 2018		June 30, 2017		
	Ag loan	Private equity and investments	Ag loan	Private equity and investments	Ag loan	Private equity and investments	Ag loan	Private equity and investments	
	svcg	and	interest-only strips	svcg	and	interest-only strips	svcg	and	interest-only strips
Balance at beginning of period	\$ 100	\$ 18	\$ 78	\$ 20	\$ 95	\$ 18	\$ 73	\$ 20	
Securities gains (losses), net	1	—	(1 )	—	1	—	2	—	
Other noninterest income	—	—	—	(1 )	—	—	—	(1 )	
Purchases	1	—	5	—	6	—	12	—	
Redemptions and paydowns	—	—	—	—	—	—	(5 )	—	
Balance at end of period	\$ 102	\$ 18	\$ 82	\$ 19	\$ 102	\$ 18	\$ 82	\$ 19	

No transfers of assets or liabilities occurred among Levels 1, 2 or 3 for the three and six months ended June 30, 2018 and 2017.

The reconciliation of Level 3 instruments includes the following realized gains and losses in the statement of income:

(In millions)	Three Months Ended		Six Months Ended	
	June 30, 2018		June 30, 2017	
	2018	2017	2018	2017
	2018	2017	2018	2017
Securities gains (losses), net	\$ —	\$ —	\$(3)	\$ 3

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 millions)	Fair value at June 30, 2018				Fair value at December 31, 2017			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	1	2	3	Total	1	2	3	Total
	1	2	3	Total	1	2	3	Total
ASSETS								
Private equity investments	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 1	\$ 1



Impaired loans	—24	—	24	—9	—	9
Other real estate owned	—1	—	1	—	—	—
Total	\$—25	\$	—\$ 25	\$—9	\$ 1	\$ 10

45

---

Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

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 millions)	Gains (losses) from fair value changes			
	Three Months Ended June 30, 2018		Six Months Ended June 30, 2017	

## ASSETS

Private equity investments	\$—	\$—	\$—	\$(1)
Impaired loans	(1)	(6)	(5)	(7)
Other real estate owned	—	—	(1)	—
Total	\$(1)	\$(6)	\$(6)	\$(8)

During the three months ended June 30, we recognized an insignificant amount of net gains in 2018 and 2017 from the sale of other real estate owned (“OREO”) properties. During the six months ended June 30, we recognized approximately \$1 million of net gains in 2018 and an insignificant amount in 2017 from the sale of OREO properties that had a carrying value at the time of sale of approximately \$2 million and \$3 million during the six months ended June 30, 2018 and 2017, respectively. Previous to their sale in these periods, we recognized impairment on these properties of an insignificant amount in 2018 and 2017.

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 PEIs carried at cost were \$10 million at both June 30, 2018 and December 31, 2017. Amounts of other noninterest-bearing investments carried at cost were \$341 million at June 30, 2018 and \$338 million at December 31, 2017, which were comprised of Federal Reserve and Federal Home Loan Bank (“FHLB”) stock. Private equity investments accounted for using the equity method were \$38 million at June 30, 2018 and \$36 million at December 31, 2017.

Impaired (or nonperforming) loans that are collateral-dependent were measured at fair value based on the fair value of the collateral. OREO was measured initially at fair value based on collateral appraisals at the time of transfer and subsequently at the lower of cost or fair value. For additional information regarding the measurement of fair value for impaired loans, collateral-dependent loans, and OREO, see Note 3 of our 2017 Annual Report on Form 10-K.

## Fair Value of Certain Financial Instruments

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

(In millions)	June 30, 2018			December 31, 2017		
	Carrying value	Estimated fair value	Level	Carrying value	Estimated fair value	Level
Financial assets:						
HTM investment securities	\$878	\$ 866	2	\$770	\$ 762	2
Loans and leases (including loans held for sale), net of allowance	44,824	43,715	3	44,306	44,226	3
Financial liabilities:						
Time deposits	4,011	3,985	2	3,115	3,099	2
Other short-term borrowings	3,650	3,650	2	3,600	3,600	2
Long-term debt	383	390	2	383	402	2

This summary excludes financial assets and liabilities for which carrying value approximates fair value and financial instruments that are recorded at fair value on a recurring basis. With the adoption of ASU 2016-01, we have updated our process for estimating the fair value for our loans and leases, net of allowance. Our updated process identifies an exit price using current origination rates, making certain adjustments based on credit and utilizing publicly available rates and indices. For additional information regarding the financial instruments within the scope of this disclosure,

and the methods and significant assumptions used to estimate their fair value, see Note 3 of our 2017 Annual Report on Form 10-K.

Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

## 4. OFFSETTING ASSETS AND LIABILITIES

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

June 30, 2018

(In millions)	Description	Gross amounts recognized	Gross amounts offset in the balance sheet	Net amounts presented in the balance sheet	Gross amounts not offset in the balance sheet		Net amount
					Financial instruments	Cash collateral received/pledged	
Assets:							
	Federal funds sold and security resell agreements	\$607	\$ (49 )	\$ 558	\$ —	\$ —	\$ 558
	Derivatives (included in other assets)	29	—	29	(4 )	(9 )	16
	Total assets	\$636	\$ (49 )	\$ 587	\$ (4 )	\$ (9 )	\$ 574
Liabilities:							
	Federal funds and other short-term borrowings	\$4,207	\$ (49 )	\$ 4,158	\$ —	\$ —	\$ 4,158
	Derivatives (included in other liabilities)	70	—	70	(4 )	(1 )	65
	Total Liabilities	\$4,277	\$ (49 )	\$ 4,228	\$ (4 )	\$ (1 )	\$ 4,223

December 31, 2017

(In millions)	Description	Gross amounts recognized	Gross amounts offset in the balance sheet	Net amounts presented in the balance sheet	Gross amounts not offset in the balance sheet		Net amount
					Financial instruments	Cash collateral received/pledged	
Assets:							
	Federal funds sold and security resell agreements	\$809	\$ (295 )	\$ 514	\$ —	\$ —	\$ 514
	Derivatives (included in other assets)	38	—	38	(9 )	(1 )	28
	Total assets	\$847	\$ (295 )	\$ 552	\$ (9 )	\$ (1 )	\$ 542
Liabilities:							
	Federal funds and other short-term borrowings	\$5,271	\$ (295 )	\$ 4,976	\$ —	\$ —	\$ 4,976
	Derivatives (included in other liabilities)	40	—	40	(9 )	(6 )	25
	Total Liabilities	\$5,311	\$ (295 )	\$ 5,016	\$ (9 )	\$ (6 )	\$ 5,001

Security repurchase and reverse repurchase (“resell”) 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. INVESTMENTS

## Investment Securities

Securities are classified as HTM, AFS or trading. HTM securities, which management has the intent and ability to hold until maturity, are carried at amortized cost. AFS securities are carried at fair value and unrealized gains and

losses are reported as net increases or decreases to accumulated other comprehensive income (“AOCI”). Realized gains and losses on AFS securities are determined by using the cost basis of each individual security. Trading securities are carried at fair value with gains and losses recognized in current period earnings. The purchase premiums and discounts for both HTM and AFS securities are amortized and accreted at a constant effective yield to the contractual maturity date and no assumption is made concerning prepayments. As principal prepayments occur, the portion of the unamortized premium or discount associated with the principal reduction is recognized in interest

Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

income in the period the principal is reduced. Note 3 of our 2017 Annual Report on Form 10-K discusses the process to estimate fair value for investment securities.

(In millions)	June 30, 2018			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Held-to-maturity				
Municipal securities	\$878	\$ 4	\$ 16	\$ 866
Available-for-sale				
U.S. Treasury securities	25	—	—	25
U.S. Government agencies and corporations:				
Agency securities	1,683	—	26	1,657
Agency guaranteed mortgage-backed securities	9,831	8	301	9,538
Small Business Administration loan-backed securities	2,115	1	45	2,071
Municipal securities	1,333	2	23	1,312
Other debt securities	25	—	1	24
Total available-for-sale	15,012	11	396	14,627
Total investment securities	\$15,890	\$ 15	\$ 412	\$ 15,493

(In millions)	December 31, 2017			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Held-to-maturity				
Municipal securities	\$770	\$ 5	\$ 13	\$ 762
Available-for-sale				
U.S. Treasury securities	25	—	—	25
U.S. Government agencies and corporations:				
Agency securities	1,830	1	13	1,818
Agency guaranteed mortgage-backed securities	9,798	9	141	9,666
Small Business Administration loan-backed securities	2,227	10	15	2,222
Municipal securities	1,336	9	11	1,334
Other debt securities	25	—	1	24
Total available-for-sale debt securities	15,241	29	181	15,089
Money market mutual funds and other	72	—	—	72
Total available-for-sale	15,313	29	181	15,161
Total investment securities	\$16,083	\$ 34	\$ 194	\$ 15,923

## Maturities

The amortized cost and estimated fair value of investment debt securities are shown subsequently as of June 30, 2018, by expected timing of principal payments. Actual principal payments may differ from contractual or expected principal payments because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

(In millions)	June 30, 2018			
	Amortized cost	Estimated fair value	Amortized cost	Estimated fair value
Due in one year or less	\$295	\$ 294	\$1,773	\$ 1,738

Edgar Filing: ZIONS BANCORPORATION /UT/ - Form 10-Q

Due after one year through five years	380	376	4,444	4,330
Due after five years through ten years	147	143	4,565	4,445
Due after ten years	56	53	4,230	4,114
Total	\$878	\$ 866	\$15,012	\$ 14,627

48

---

Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

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

(In millions)	June 30, 2018					
	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	\$4	\$ 259	\$12	\$ 306	\$16	\$ 565
Available-for-sale						
U.S. Government agencies and corporations:						
Agency securities	16	899	10	655	26	1,554
Agency guaranteed mortgage-backed securities	118	4,531	183	4,175	301	8,706
Small Business Administration loan-backed securities	21	1,427	24	585	45	2,012
Municipal securities	14	860	9	216	23	1,076
Other	—	—	1	13	1	13
Total available-for-sale	169	7,717	227	5,644	396	13,361
Total	\$173	\$ 7,976	\$239	\$ 5,950	\$412	\$ 13,926
	December 31, 2017					
(In millions)	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	\$3	\$ 263	\$10	\$ 292	\$13	\$ 555
Available-for-sale						
U.S. Government agencies and corporations:						
Agency securities	6	808	7	808	13	1,616
Agency guaranteed mortgage-backed securities	29	3,609	112	4,721	141	8,330
Small Business Administration loan-backed securities	3	408	12	649	15	1,057
Municipal securities	6	554	5	230	11	784
Other	—	—	1	14	1	14
Total available-for-sale	44	5,379	137	6,422	181	11,801
Total	\$47	\$ 5,642	\$147	\$ 6,714	\$194	\$ 12,356

At June 30, 2018 and December 31, 2017, respectively, 653 and 667 HTM and 4,317 and 2,262 AFS investment securities were in an unrealized loss position.

**Other-Than-Temporary Impairment**

The Company did not recognize any other-than-temporary impairment (“OTTI”) on its investment securities portfolio during the first six months of 2018. We review investment securities on a quarterly basis for the presence of OTTI. Unrealized losses relate to changes in interest rates subsequent to purchase and are not attributable to credit. At June 30, 2018, we did not have an intent to sell identified securities with unrealized losses or initiate such sales, and we believe it is not more likely than not we would be required to sell such securities before recovery of their amortized cost basis. For additional information on our policy and evaluation process relating to OTTI, see Note 5 of our 2017 Annual Report on Form 10-K.





Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
(In millions)	2018	2017	2018	2017
	Gross	Gross	Gross	Gross
	gains	losses	gains	losses
Investment securities:				
Other noninterest-bearing investments	\$4	\$ 3	\$6	\$ 5
Net gains <sup>1</sup>	\$ 1	\$ 2	\$ 1	\$ 7

<sup>1</sup> Net gains were recognized in securities gains, net in the statement of income.

Interest income by security type is as follows:

	Three Months Ended June 30,			Six Months Ended June 30,		
	2018			2017		
(In millions)	Taxable	Nontaxable	Total	Taxable	Nontaxable	Total
Investment securities:						
Held-to-maturity	\$3	\$ 3	\$ 6	\$2	\$ 3	\$ 5
Available-for-sale	70	7	77	71	7	78
Trading	2	—	2	1	—	1
Total	\$75	\$ 10	\$ 85	\$74	\$ 10	\$ 84
(In millions)	2018			2017		
	Taxable	Nontaxable	Total	Taxable	Nontaxable	Total
Investment securities:						
Held-to-maturity	\$5	\$ 7	\$12	\$5	\$ 7	\$12
Available-for-sale	142	13	155	137	12	149
Trading	3	—	3	1	—	1
Total	\$150	\$ 20	\$170	\$143	\$ 19	\$162

Investment securities with a carrying value of \$2.1 billion at both June 30, 2018 and December 31, 2017 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.

## Private Equity Investments

## Effect of Volcker Rule

The Company's PEIs are subject to the provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act"). The Volcker Rule of the Dodd-Frank Act prohibits banks and bank holding companies from holding PEIs, except for SBIC funds and certain other permitted exclusions, beyond a required deadline. The Federal Reserve Board ("FRB") announced in December 2016 that it would allow banks to apply for an additional five-year extension beyond the July 21, 2017 deadline to comply with the Dodd-Frank Act requirement for these investments. The Company applied for and was granted an extension for its eligible PEIs. All positions in the remaining portfolio of PEIs are subject to the extended deadline or other applicable exclusions.

Of the recorded PEIs of \$151 million at June 30, 2018, approximately \$3 million remain prohibited by the Volcker Rule. At June 30, 2018, we have \$32 million of unfunded commitments for PEIs, of which approximately \$3 million relate to prohibited PEIs. We currently do not believe that this divestiture requirement will ultimately have a material impact on our financial statements. See other discussions related to private equity investments in Note 3.

Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

## 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 millions)	June 30, 2018	December 31, 2017
Loans held for sale	\$84	\$ 44
Commercial:		
Commercial and industrial	\$ 14,134	\$ 14,003
Leasing	358	364
Owner-occupied	7,365	7,288
Municipal	1,388	1,271
Total commercial	23,245	22,926
Commercial real estate:		
Construction and land development	2,202	2,021
Term	8,771	9,103
Total commercial real estate	10,973	11,124
Consumer:		
Home equity credit line	2,825	2,777
1-4 family residential	6,861	6,662
Construction and other consumer real estate	661	597
Bankcard and other revolving plans	490	509
Other	175	185
Total consumer	11,012	10,730
Total loans	\$45,230	\$ 44,780

Loan balances are presented net of unearned income and fees, which amounted to \$62 million at June 30, 2018 and \$65 million at December 31, 2017.

Owner-occupied and commercial real estate loans include unamortized premiums of approximately \$15 million at June 30, 2018 and \$16 million December 31, 2017.

Municipal loans generally include loans to state and local governments (“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 \$243 million at June 30, 2018 and \$220 million at December 31, 2017.

Loans with a carrying value of approximately \$24.4 billion at June 30, 2018 and \$25.6 billion at December 31, 2017 have been pledged at the Federal Reserve or the FHLB of Des Moines as collateral for current and potential borrowings.

We sold loans totaling \$206 million and \$312 million for the three and six months ended June 30, 2018 and \$234 million and \$550 million for the three and six months ended June 30, 2017, respectively, that were classified as loans held for sale. The sold loans were derecognized from the balance sheet. Loans classified as loans held for sale primarily consist of conforming residential mortgages and the guaranteed portion of SBA loans. The loans are mainly sold to U.S. government agencies or participated to third parties. At times, we have continuing involvement in the transferred loans in the form of servicing rights or a guarantee from the respective issuer. Amounts added to loans held for sale during these same periods was \$235 million and \$400 million for the three and six months ended June 30, 2018 and \$176 million and \$479 million for the three and six months ended June 30, 2017, respectively. See Note 5 for further information regarding guaranteed securities.



Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

The principal balance of sold loans for which we retain servicing was approximately \$2.2 billion at both June 30, 2018 and December 31, 2017. Income from loans sold, excluding servicing, was \$4 million and \$7 million for the three and six months ended June 30, 2018, and \$4 million and \$8 million for the three and six months ended June 30, 2017, respectively.

**Allowance for Credit Losses**

The allowance for credit losses (“ACL”) consists of the allowance for loan and lease losses (“ALLL”) and the reserve for unfunded lending commitments (“RULC”). The ALLL represents our estimate of probable and estimable losses inherent in the loan and lease portfolio as of the balance sheet date. 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.

For additional information regarding our policies and methodologies used to estimate the ACL, see Note 6 of our 2017 Annual Report on Form 10-K.

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

(In millions)	Three Months Ended June 30, 2018			Total
	Commercial	Commercial real estate	Consumer	
Allowance for loan losses				
Balance at beginning of period	\$329	\$ 104	\$ 40	\$473
Provision for loan losses	(18 )	15	8	5
Gross loan and lease charge-offs	10	—	3	13
Recoveries	20	3	2	25
Net loan and lease charge-offs (recoveries)	(10 )	(3 )	1	(12 )
Balance at end of period	\$321	\$ 122	\$ 47	\$490
Reserve for unfunded lending commitments				
Balance at beginning of period	\$40	\$ 11	\$ —	\$51
Provision for unfunded lending commitments	3	4	—	7
Balance at end of period	\$43	\$ 15	\$ —	\$58
Total allowance for credit losses at end of period				
Allowance for loan losses	\$321	\$ 122	\$ 47	\$490
Reserve for unfunded lending commitments	43	15	—	58
Total allowance for credit losses	\$364	\$ 137	\$ 47	\$548

Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

(In millions)	Six Months Ended June 30, 2018			
	Commercial	Commercial real estate	Consumer	Total
Allowance for loan losses				
Balance at beginning of period	\$371	\$ 103	\$ 44	\$518
Provision for loan losses	(58 )	14	9	(35 )
Gross loan and lease charge-offs	30	—	9	39
Recoveries	38	5	3	46
Net loan and lease charge-offs (recoveries)	(8 )	(5 )	6	(7 )
Balance at end of period	\$321	\$ 122	\$ 47	\$490
Reserve for unfunded lending commitments				
Balance at beginning of period	\$48	\$ 10	\$ —	\$58
Provision for unfunded lending commitments	(5 )	5	—	—
Balance at end of period	\$43	\$ 15	\$ —	\$58
Total allowance for credit losses at end of period				
Allowance for loan losses	\$321	\$ 122	\$ 47	\$490
Reserve for unfunded lending commitments	43	15	—	58
Total allowance for credit losses	\$364	\$ 137	\$ 47	\$548
	Three Months Ended June 30, 2017			
(In millions)	Commercial	Commercial real estate	Consumer	Total
Allowance for loan losses				
Balance at beginning of period	\$397	\$ 114	\$ 33	\$544
Provision for loan losses	9	(5 )	3	7
Gross loan and lease charge-offs	31	1	3	35
Recoveries	18	8	2	28
Net loan and lease charge-offs (recoveries)	13	(7 )	1	7
Balance at end of period	\$393	\$ 116	\$ 35	\$544
Reserve for unfunded lending commitments				
Balance at beginning of period	\$51	\$ 9	\$ —	\$60
Provision for unfunded lending commitments	3	—	—	3
Balance at end of period	\$54	\$ 9	\$ —	\$63
Total allowance for credit losses at end of period				
Allowance for loan losses	\$393	\$ 116	\$ 35	\$544
Reserve for unfunded lending commitments	54	9	—	63
Total allowance for credit losses	\$447	\$ 125	\$ 35	\$607

Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

(In millions)	Six Months Ended June 30, 2017			
	Commercial	Commercial real estate	Consumer	Total
Allowance for loan losses				
Balance at beginning of period	\$420	\$ 116	\$ 31	\$567
Provision for loan losses	32	(9	) 7	30
Gross loan and lease charge-offs	82	2	8	92
Recoveries	23	11	5	39
Net loan and lease charge-offs (recoveries)	59	(9	) 3	53
Balance at end of period	\$393	\$ 116	\$ 35	\$544
Reserve for unfunded lending commitments				
Balance at beginning of period	\$54	\$ 11	\$ —	\$65
Provision for unfunded lending commitments	—	(2	) —	(2
Balance at end of period	\$54	\$ 9	\$ —	\$63
Total allowance for credit losses at end of period				
Allowance for loan losses	\$393	\$ 116	\$ 35	\$544
Reserve for unfunded lending commitments	54	9	—	63
Total allowance for credit losses	\$447	\$ 125	\$ 35	\$607

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

(In millions)	June 30, 2018			
	Commercial	Commercial real estate	Consumer	Total
Allowance for loan losses:				
Individually evaluated for impairment	\$9	\$ 5	\$ 3	\$17
Collectively evaluated for impairment	312	117	44	473
Purchased loans with evidence of credit deterioration	—	—	—	—
Total	\$321	\$ 122	\$ 47	\$490
Outstanding loan balances:				
Individually evaluated for impairment	\$217	\$ 77	\$ 76	\$370
Collectively evaluated for impairment	23,028	10,896	10,936	44,860
Purchased loans with evidence of credit deterioration	—	—	—	—
Total	\$23,245	\$ 10,973	\$ 11,012	\$45,230
(In millions)	December 31, 2017			
	Commercial	Commercial real estate	Consumer	Total
Allowance for loan losses:				
Individually evaluated for impairment	\$26	\$ 1	\$ 4	\$31
Collectively evaluated for impairment	345	102	40	487
Purchased loans with evidence of credit deterioration	—	—	—	—
Total	\$371	\$ 103	\$ 44	\$518
Outstanding loan balances:				
Individually evaluated for impairment	\$314	\$ 69	\$ 76	\$459
Collectively evaluated for impairment	22,598	11,048	10,648	44,294
Purchased loans with evidence of credit deterioration	14	7	6	27
Total	\$22,926	\$ 11,124	\$ 10,730	\$44,780





Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

## 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. For further discussion of our policies and processes regarding nonaccrual and past due loans, see Note 6 of our 2017 Annual Report on Form 10-K.

Nonaccrual loans are summarized as follows:

(In millions)	June 30, December 31,	
	2018	2017
Loans held for sale	\$ —	\$ 12
Commercial:		
Commercial and industrial	\$ 142	\$ 195
Leasing	7	8
Owner-occupied	63	90
Municipal	1	1
Total commercial	213	294
Commercial real estate:		
Construction and land development	5	4
Term	53	36
Total commercial real estate	58	40
Consumer:		
Home equity credit line	14	13
1-4 family residential	56	55
Construction and other consumer real estate	1	—
Bankcard and other revolving plans	—	—
Other	—	—
Total consumer loans	71	68
Total	\$ 342	\$ 402

Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

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

(In millions)	June 30, 2018				Total past due	Total loans	Accruing loans 90+ days past due	Nonaccrual loans that are current <sup>1</sup>
	Current	30-89 days past due	90+ days past due					
Loans held for sale	\$84	\$—	\$—	\$—	\$84	\$ —	\$ —	
Commercial:								
Commercial and industrial	\$14,030	\$59	\$45	\$104	\$14,134	\$ 3	\$ 93	
Leasing	356	1	1	2	358	—	7	
Owner-occupied	7,324	19	22	41	7,365	—	36	
Municipal	1,388	—	—	—	1,388	—	1	
Total commercial	23,098	79	68	147	23,245	3	137	
Commercial real estate:								
Construction and land development	2,196	1	5	6	2,202	—	—	
Term	8,726	36	9	45	8,771	1	43	
Total commercial real estate	10,922	37	14	51	10,973	1	43	
Consumer:								
Home equity credit line	2,814	4	7	11	2,825	—	5	
1-4 family residential	6,830	11	20	31	6,861	—	32	
Construction and other consumer real estate	657	4	—	4	661	—	1	
Bankcard and other revolving plans	486	3	1	4	490	1	—	
Other	174	1	—	1	175	—	—	
Total consumer loans	10,961	23	28	51	11,012	1	38	
Total	\$44,981	\$139	\$110	\$249	\$45,230	\$ 5	\$ 218	
	December 31, 2017							
(In millions)	Current	30-89 90+		Total past due	Total loans	Accruing loans 90+ days past due	Nonaccrual loans that are current <sup>1</sup>	
		days past due	days past due					
Loans held for sale	\$44	\$—	\$—	\$—	\$44	\$ —	\$ 12	
Commercial:								
Commercial and industrial	\$13,887	\$60	\$56	\$116	\$14,003	\$ 13	\$ 146	
Leasing	363	1	—	1	364	—	8	
Owner-occupied	7,219	29	40	69	7,288	4	49	
Municipal	1,271	—	—	—	1,271	—	1	
Total commercial	22,740	90	96	186	22,926	17	204	
Commercial real estate:								
Construction and land development	2,014	3	4	7	2,021	—	—	
Term	9,079	13	11	24	9,103	2	25	
Total commercial real estate	11,093	16	15	31	11,124	2	25	
Consumer:								
Home equity credit line	2,763	9	5	14	2,777	—	5	
1-4 family residential	6,621	16	25	41	6,662	1	27	
Construction and other consumer real estate	590	6	1	7	597	1	—	

Edgar Filing: ZIONS BANCORPORATION /UT/ - Form 10-Q

Bankcard and other revolving plans	506	2	1	3	509	1	—
Other	184	1	—	1	185	—	—
Total consumer loans	10,664	34	32	66	10,730	3	32
Total	\$44,497	\$ 140	\$ 143	\$ 283	\$44,780	\$ 22	\$ 261

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

56

---

Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

## 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, Sub-standard, and Doubtful, which are consistent with published definitions of regulatory risk classifications. For further discussion of our policies and processes regarding credit quality indicators and internal loan risk-grading, see Note 6 of our 2017 Annual Report on Form 10-K.

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

(In millions)	June 30, 2018					Total loans	Total allowance
	Pass	Special Mention	Sub- standard	Doubtful			
Commercial:							
Commercial and industrial	\$ 13,361	\$ 288	\$ 484	\$ 1	\$ 14,134		
Leasing	339	5	14	—	358		
Owner-occupied	7,077	59	229	—	7,365		
Municipal	1,367	2	19	—	1,388		
Total commercial	22,144	354	746	1	23,245	\$ 321	
Commercial real estate:							
Construction and land development	2,190	7	5	—	2,202		
Term	8,551	110	110	—	8,771		
Total commercial real estate	10,741	117	115	—	10,973	122	
Consumer:							
Home equity credit line	2,807	—	18	—	2,825		
1-4 family residential	6,799	—	62	—	6,861		
Construction and other consumer real estate	659	—	2	—	661		
Bankcard and other revolving plans	488	—	2	—	490		
Other	174	—	1	—	175		
Total consumer loans	10,927	—	85	—	11,012	47	
Total	\$ 43,812	\$ 471	\$ 946	\$ 1	\$ 45,230	\$ 490	
December 31, 2017							
(In millions)	Pass	Special Mention	Sub- standard	Doubtful	Total loans	Total allowance	
Commercial:							
Commercial and industrial	\$ 13,001	\$ 395	\$ 606	\$ 1	\$ 14,003		
Leasing	342	6	16	—	364		
Owner-occupied	6,920	93	275	—	7,288		
Municipal	1,257	13	1	—	1,271		
Total commercial	21,520	507	898	1	22,926	\$ 371	
Commercial real estate:							
Construction and land development	2,002	15	4	—	2,021		
Term	8,816	138	149	—	9,103		
Total commercial real estate	10,818	153	153	—	11,124	103	
Consumer:							
Home equity credit line	2,759	—	18	—	2,777		
1-4 family residential	6,602	—	60	—	6,662		
Construction and other consumer real estate	596	—	1	—	597		
Bankcard and other revolving plans	507	—	2	—	509		

Edgar Filing: ZIONS BANCORPORATION /UT/ - Form 10-Q

Other	185	—	—	—	185
Total consumer loans	10,649	—	81	—	10,730 44
Total	\$42,987	\$ 660	\$ 1,132	\$ 1	\$44,780 \$ 518

57

---

Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

## 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. 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 June 30, 2018 and 2017 was not significant. For additional information regarding our policies and methodologies used to evaluate impaired loans, see Note 6 of our 2017 Annual Report on Form 10-K.

Information on impaired loans individually evaluated is summarized as follows, including the average recorded investment and interest income recognized for the three and six months ended June 30, 2018 and 2017:

(In millions)	June 30, 2018			Total recorded investment	Related allowance
	Unpaid principal balance	Recorded investment with allowance	Total recorded investment		
Commercial:					
Commercial and industrial	\$ 189	\$ 84	\$ 53	\$ 137	\$ 8
Owner-occupied	64	39	18	57	1
Municipal	1	1	—	1	—
Total commercial	254	124	71	195	9
Commercial real estate:					
Construction and land development	7	4	1	5	—
Term	63	33	24	57	4
Total commercial real estate	70	37	25	62	4
Consumer:					
Home equity credit line	18	13	2	15	—
1-4 family residential	70	27	32	59	3
Construction and other consumer real estate	2	1	1	2	—
Other	—	—	—	—	—
Total consumer loans	90	41	35	76	3
Total	\$ 414	\$ 202	\$ 131	\$ 333	\$ 16
	December 31, 2017				
(In millions)	Unpaid principal balance	Recorded investment with allowance	Total recorded investment	Related allowance	
Commercial:					
Commercial and industrial	\$ 293	\$ 80	\$ 142	\$ 222	\$ 24
Owner-occupied	120	79	23	102	2
Municipal	1	1	—	1	—
Total commercial	414	160	165	325	26
Commercial real estate:					
Construction and land development	8	4	2	6	—
Term	56	36	12	48	—

Edgar Filing: ZIONS BANCORPORATION /UT/ - Form 10-Q

Total commercial real estate	64	40	14	54	—
Consumer:					
Home equity credit line	25	13	9	22	—
1-4 family residential	67	28	29	57	4
Construction and other consumer real estate	2	1	1	2	—
Other	1	1	—	1	—
Total consumer loans	95	43	39	82	4
Total	\$573	\$243	\$ 218	\$ 461	\$ 30

58

---

Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

(In millions)	Three Months Ended June 30, 2018		Six Months Ended June 30, 2018	
	Average investment recorded	Interest income recognized	Average investment recorded	Interest income recognized
Commercial:				
Commercial and industrial	\$ 138	\$ —	\$ 126	\$ —
Owner-occupied	54	—	55	8
Municipal	1	—	1	—
Total commercial	193	—	182	8
Commercial real estate:				
Construction and land development	5	—	5	—
Term	58	—	53	—
Total commercial real estate	63	—	58	—
Consumer:				
Home equity credit line	15	—	14	—
1-4 family residential	57	—	55	—
Construction and other consumer real estate	2	—	1	—
Other	—	—	—	—
Total consumer loans	74	—	70	—
Total	\$ 330	\$ —	\$ 310	\$ 8

(In millions)	Three Months Ended June 30, 2017		Six Months Ended June 30, 2017	
	Average investment recorded	Interest income recognized	Average investment recorded	Interest income recognized
Commercial:				
Commercial and industrial	\$ 398	\$ 4	\$ 356	\$ 4
Owner-occupied	109	1	102	4
Municipal	1	—	1	—
Total commercial	508	5	459	8
Commercial real estate:				
Construction and land development	11	—	11	—
Term	59	7	60	9
Total commercial real estate	70	7	71	9
Consumer:				
Home equity credit line	21	—	21	—
1-4 family residential	58	1	56	1
Construction and other consumer real estate	2	—	3	—
Other	1	—	1	—
Total consumer loans	82	1	81	1
Total	\$ 660	\$ 13	\$ 611	\$ 18

**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. 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 troubled debt restructurings (“TDRs”). For further discussion of our policies and processes regarding TDRs, see Note 6 of our 2017 Annual Report on Form 10-K.

Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

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 millions)	June 30, 2018						
	Recorded investment resulting from the following modification types:						
	Interest rate market	Maturity extension	Principal forgiveness	Payment deferral	Other <sup>1</sup>	Multiple modification types <sup>2</sup>	Total
Accruing							
Commercial:							
Commercial and industrial	\$ —	\$ 4	\$ —	\$ —	\$ 4	\$ 6	\$ 14
Owner-occupied	2	—	—	—	10	9	21
Municipal	—	—	—	—	—	2	2
Total commercial	2	4	—	—	14	17	37
Commercial real estate:							
Construction and land development	—	—	—	—	—	1	1
Term	4	2	—	1	—	6	13
Total commercial real estate	4	2	—	1	—	7	14
Consumer:							
Home equity credit line	—	2	7	—	—	3	12
1-4 family residential	1	—	7	—	1	30	39
Construction and other consumer real estate	—	1	—	—	—	1	2
Total consumer loans	1	3	14	—	1	34	53
Total accruing	7	9	14	1	15	58	104
Nonaccruing							
Commercial:							
Commercial and industrial	—	6	1	1	10	29	47
Owner-occupied	1	2	—	1	1	5	10
Municipal	—	1	—	—	—	—	1
Total commercial	1	9	1	2	11	34	58
Commercial real estate:							
Term	3	—	—	—	—	3	6
Total commercial real estate	3	—	—	—	—	3	6
Consumer:							
Home equity credit line	—	—	2	—	—	—	2
1-4 family residential	—	—	1	—	2	8	11
Total consumer loans	—	—	3	—	2	8	13
Total nonaccruing	4	9	4	2	13	45	77
Total	\$ 11	\$ 18	\$ 18	\$ 3	\$ 28	\$ 103	\$ 181

<sup>1</sup> 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.

<sup>2</sup> Includes TDRs that resulted from a combination of any of the previous modification types.

Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

(In millions)	December 31, 2017						
	Recorded investment resulting from the following modification types:						
	Interest rate below market	Maturity extension	Principal forgiveness	Payment deferral	Other <sup>1</sup>	Multiple modification types <sup>2</sup>	Total
Accruing							
Commercial:							
Commercial and industrial	\$ —	\$ 2	\$ —	\$ —	\$ 12	\$ 33	\$47
Owner-occupied	1	1	—	—	7	14	23
Total commercial	1	3	—	—	19	47	70
Commercial real estate:							
Construction and land development	—	—	—	—	—	2	2
Term	6	—	—	1	—	7	14
Total commercial real estate	6	—	—	1	—	9	16
Consumer:							
Home equity credit line	—	2	9	—	1	3	15
1-4 family residential	1	—	6	1	2	26	36
Construction and other consumer real estate	—	1	—	—	—	1	2
Total consumer loans	1	3	15	1	3	30	53
Total accruing	8	6	15	2	22	86	139
Nonaccruing							
Commercial:							
Commercial and industrial	—	3	5	2	28	24	62
Owner-occupied	1	2	—	1	1	5	10
Municipal	—	1	—	—	—	—	1
Total commercial	1	6	5	3	29	29	73
Commercial real estate:							
Term	2	—	—	—	—	3	5
Total commercial real estate	2	—	—	—	—	3	5
Consumer:							
Home equity credit line	—	—	1	—	—	—	1
1-4 family residential	—	—	2	—	1	5	8
Total consumer loans	—	—	3	—	1	5	9
Total nonaccruing	3	6	8	3	30	37	87
Total	\$11	\$ 12	\$ 23	\$ 5	\$ 52	\$ 123	\$226

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.

<sup>2</sup> Includes TDRs that resulted from a combination of any of the previous modification types.

Unfunded lending commitments on TDRs amounted to approximately \$27 million at June 30, 2018 and \$22 million at December 31, 2017.

The total recorded investment of all TDRs in which interest rates were modified below market was \$93 million at June 30, 2018 and \$120 million at December 31, 2017. These loans are included in the previous schedule 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 for the three and six months ended June 30, 2018 and 2017 was not significant.

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.

Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

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 millions)	Three Months Ended June 30, 2018			Six Months Ended June 30, 2018		
	Accruing	Nonaccruing	Total	Accruing	Nonaccruing	Total
Commercial:						
Commercial and industrial	\$—	\$ 5	\$ 5	\$—	\$ 5	1,291 \$ 5
Owner-occupied	—	—	—	—1	—	5,405 1
Total commercial	—5	5	5	—6	—	6
Commercial real estate:						
Term	—2	—	2	—2	—	2
Total commercial real estate	—2	—	2	—2	—	2
Consumer:						
1-4 family residential	—1	—	1	—1	—	1
Total consumer loans	—1	—	1	—1	—	1
Total	\$—	\$ 8	\$ 8	\$—	\$ 9	\$ 9

(In millions)	Three Months Ended June 30, 2017			Six Months Ended June 30, 2017		
	Accruing	Nonaccruing	Total	Accruing	Nonaccruing	Total
Commercial:						
Commercial and industrial	\$—	\$ —	\$ —	\$—	\$ —	1,291 \$ —
Owner-occupied	—3	—	3	—3	—	5,405 3
Total commercial	—3	—	3	—3	—	3
Total	\$—	\$ 3	\$ 3	\$—	\$ 3	\$ 3

Note: Total loans modified as TDRs during the 12 months previous to June 30, 2018 and 2017 were \$73 million and \$123 million, respectively.

At June 30, 2018 and December 31, 2017, the amount of foreclosed residential real estate property held by the Company was approximately \$2 million and less than \$1 million, and the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure was approximately \$9 million and \$10 million, respectively.

**Concentrations of Credit Risk**

Credit risk is the possibility of loss from the failure of a borrower, guarantor, or another obligor to fully perform under the terms of a credit-related contract. We perform an ongoing analysis of our loan portfolio to evaluate whether there is any significant exposure to any concentrations of credit risk. See Note 6 of our 2017 Annual Report on Form 10-K for further discussion of our evaluation of credit risk concentrations. See also Note 7 of our 2017 Annual Report on Form 10-K for a discussion of counterparty risk associated with the Company's derivative transactions.

**7. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES****Objectives and Accounting**

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. For a detailed discussion of the use of and accounting policies regarding derivative instruments, see Note 7 of our 2017 Annual Report on Form 10-K.

Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

## Collateral and Credit Risk

Exposure to credit risk arises from the possibility of nonperformance by counterparties. No significant losses on derivative instruments have occurred as a result of counterparty nonperformance. For a more detailed discussion of collateral and credit risk related to our derivative contracts, see Note 7 of our 2017 Annual Report on Form 10-K. 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 June 30, 2018, the fair value of our derivative liabilities was \$70 million, for which we were required to pledge cash collateral of approximately \$47 million in the normal course of business. If our credit rating were downgraded one notch by either Standard & Poor's or Moody's at June 30, 2018, there would likely be no additional collateral required to be pledged. As a result of the Dodd-Frank Act, all newly 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.

## Derivative Amounts

Selected information with respect to notional amounts and recorded gross fair values at June 30, 2018 and December 31, 2017, and the related gain (loss) of derivative instruments for the three and six months ended June 30, 2018 and 2017 is summarized as follows:

(In millions)	June 30, 2018			December 31, 2017		
	Notional amount	Fair value Other assets	Other liabilities	Notional amount	Fair value Other assets	Other liabilities
Derivatives designated as hedging instruments:						
Interest rate swaps	\$1,038	\$—	\$ —	\$1,138	\$—	\$ —
Total derivatives designated as hedging instruments	1,038	—	—	1,138	—	—
Derivatives not designated as hedging instruments:						
Interest rate swaps and forwards	243	1	—	223	1	—
Interest rate swaps for customers <sup>1</sup>	5,302	22	65	4,550	28	33
Foreign exchange	354	6	5	913	9	7
Total derivatives not designated as hedging instruments	5,899	29	70	5,686	38	40
Total derivatives	\$6,937	\$29	\$ 70	\$6,824	\$38	\$ 40

<sup>1</sup> Notional amounts include both the customer swaps and the offsetting derivative contracts.

(In millions)	Amount of derivative gain (loss) recognized/reclassified							
	Three Months Ended June 30, 2018				Six Months Ended June 30, 2018			
	OCI	Reclassified from AOCI to interest income	Noninterest income (expense)	Offset to interest expense	OCI	Reclassified from AOCI to interest income	Noninterest income (expense)	Offset to interest expense
Derivatives designated as hedging instruments:								
Cash flow hedges <sup>1</sup> :								
Interest rate swaps	\$ (2)	\$ (1)			\$ (7)	\$ (2)		
Derivatives not designated as hedging instruments:								
Interest rate swaps for customers			\$ 4				\$ 9	

Foreign exchange				5					10								
Total derivatives	\$	(2)	\$	(1)	)	\$	9	\$	—	(7)	\$	(2)	)	\$	19	\$	—

Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

(In millions)	Amount of derivative gain (loss) recognized/reclassified						
	Three Months Ended June 30, 2017			Six Months Ended June 30, 2017			
	Reclassified from OCI to interest income	AOCI to interest (expense)	Noninterest income	Offset to interest expense	Reclassified from OCI to interest income	Noninterest income (expense)	Offset to interest expense
Derivatives designated as hedging instruments:							
Cash flow hedges <sup>1</sup> :							
Interest rate swaps	\$2	\$ 1			\$—	\$ 3	
Derivatives not designated as hedging instruments:							
Interest rate swaps for customers			\$ 3			\$ 4	
Foreign exchange			4			7	
Total derivatives	\$2	\$ 1	\$ 7	\$ —	\$—	\$ 3	\$ 11

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

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

<sup>1</sup> For the 12 months following June 30, 2018, we estimate that \$(7) million will be reclassified from AOCI into interest income.

The fair value of derivative assets was reduced by a net credit valuation adjustment of \$1 million and \$2 million at June 30, 2018 and 2017, respectively. The adjustment for derivative liabilities was a decrease of \$2 million and \$1 million at June 30, 2018 and 2017, respectively. These adjustments are required to reflect both our own nonperformance risk and the respective counterparty's nonperformance risk.

**8. LONG-TERM DEBT AND SHAREHOLDERS' EQUITY**

Long-term debt is summarized as follows:

(In millions)	June 30, 2018	December 31, 2017
Subordinated notes	\$ 247	\$ 247
Senior notes	135	135
Capital lease obligations	1	1
Total	\$ 383	\$ 383

The preceding carrying values represent the par value of the debt adjusted for any unamortized premium or discount or unamortized debt issuance costs.

**Repurchases of Company Common Stock**

During the second quarter of 2018, we continued our common stock buyback program and repurchased 2.1 million shares of common stock outstanding with a fair value of \$120 million at an average price of \$55.82 per share. During the first six months of 2018, we repurchased 4.3 million common shares outstanding with a fair value of \$235 million at an average price of \$54.64 per share. As of June 30, 2018, we had repurchased \$465 million of our common stock at an average price of \$50.81 per share, which was the total planned common stock repurchases in our 2017 capital plan (which spans the timeframe of July 2017 to June 2018). During the first six months of 2017, we repurchased 2.2 million shares of common stock outstanding with a fair value of \$90 million, at an average price of \$41.70 per share. In July 2018, the Company announced that the Board approved a plan to repurchase \$185 million of common stock during the third quarter of 2018 and began the repurchases.

**Common Stock Warrants**



During the first six months of 2018, 1.1 million shares of common stock were issued from the cashless exercise of 3.3 million common stock ZIONZ warrants. As of June 30, 2018, 2.5 million common stock ZIONZ warrants with an exercise price of \$36.27 per share, were outstanding. These warrants expire on November 14, 2018 and were associated with the preferred stock issued under the Troubled Asset Relief Program, which was redeemed in 2012.

Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

Additionally, as of June 30, 2018, 29.3 million common stock ZIONW warrants, with an exercise price of \$35.22, were outstanding. These warrants expire on May 22, 2020.

## Accumulated Other Comprehensive Income

Accumulated other comprehensive income (loss) was \$(315) million at June 30, 2018 compared with \$(139) million at December 31, 2017. Changes in AOCI by component are as follows:

(In millions)	Net unrealized gains (losses) on investment securities	Net unrealized gains (losses) on derivatives and other	Pension and post-retirement	Total
<b>Six Months Ended June 30, 2018</b>				
Balance at December 31, 2017	\$ (114 )	\$ (2 )	\$ (23 )	\$(139 )
OCI (loss) before reclassifications, net of tax	(175 )	—	—	(175 )
Amounts reclassified from AOCI, net of tax	—	(1 )	—	(1 )
OCI (loss)	(175 )	(1 )	—	(176 )
Balance at June 30, 2018	\$ (289 )	\$ (3 )	\$ (23 )	\$(315 )
Income tax benefit included in OCI (loss)	\$ (58 )	\$ —	\$ —	\$(58 )
<b>Six Months Ended June 30, 2017</b>				
Balance at December 31, 2016	\$ (93 )	\$ 2	\$ (31 )	\$(122 )
OCI before reclassifications, net of tax	73	2	—	75
Amounts reclassified from AOCI, net of tax	—	(2 )	—	(2 )
OCI	73	—	—	73
Balance at June 30, 2017	\$ (20 )	\$ 2	\$ (31 )	\$(49 )
Income tax expense included in OCI	\$ 45	\$ —	\$ —	\$45

(In millions)	Amounts reclassified from AOCI <sup>1</sup> Three Months Ended June 30, 2018	Amounts reclassified from AOCI <sup>1</sup> Six Months Ended June 30, 2017	Statement of income (SI) Balance sheet (BS)	Affected line item		
Net unrealized gains on derivative instruments	\$ 1	\$ 1	\$ 2	\$ 3	SI	Interest and fees on loans
Income tax expense	—	—	1	1		
Amounts Reclassified from AOCI	\$ 1	\$ 1	\$ 1	\$ 2		

<sup>1</sup> Positive reclassification amounts indicate increases to earnings in the statement of income and decreases to balance sheet assets.

## 9. 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 millions)	June 30, 2018	December 31, 2017
---------------	------------------	----------------------

Net unfunded commitments to extend credit <sup>1</sup>	\$20,312	\$ 19,583
Standby letters of credit:		
Financial	699	721
Performance	183	196
Commercial letters of credit	15	31
Total unfunded lending commitments	\$21,209	\$ 20,531

<sup>1</sup> Net of participations

65

---

Table of Contents

ZIONS BANCORPORATION AND SUBSIDIARIES

The Company's 2017 Annual Report on Form 10-K contains further information about these commitments and guarantees including their terms and collateral requirements. At June 30, 2018, the Company had recorded approximately \$5 million as a liability for the guarantees associated with the standby letters of credit, which consisted of \$1 million attributable to the RULC and \$4 million of deferred commitment fees.

At June 30, 2018, we had unfunded commitments for PEIs of approximately \$32 million. These obligations have no stated maturity. PEIs related to these commitments that are prohibited by the Volcker Rule were \$3 million at June 30, 2018. See related discussions about these investments in Note 5.

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. 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. 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.

As of June 30, 2018, we were subject to the following material litigation or governmental inquiries:

a civil suit, *Shou-En Wang v. CB&T*, brought against us in the Superior Court for Los Angeles County, Central District in April 2016. The case relates to our depositor relationships with customers who were promoters of an investment program that allegedly misappropriated investors' funds. This case is in an early phase, with initial motion practice having been completed and discovery being underway.

- a civil suit, *McFarland as Trustee for International Manufacturing Group v. CB&T, et. al.*, brought against us in the United States Bankruptcy Court for the Eastern District of California in May 2016. The Trustee seeks to recover loan payments previously repaid to us by our customer, International Manufacturing Group ("IMG"), alleging that IMG, along with its principal, obtained loans and made loan repayments in furtherance of an alleged Ponzi scheme. Initial motion practice has been completed and discovery is underway.

a civil suit, *JTS Communities, Inc. et. al v. CB&T, Jun Enkoji and Dawn Satow*, brought against us in the Superior Court for Sacramento County, California in June 2017. In this case four investors in IMG seek to hold us liable for losses arising from their investments in that company, alleging that we conspired with and knowingly assisted IMG and its principal in furtherance of an alleged Ponzi scheme. This case is in an early phase with initial motion practice having been completed but discovery not having been commenced.

a civil class action lawsuit, *Evans v. CB&T*, brought against us in the United States District Court for the Eastern District of California in May 2017. This case was filed on behalf of a class of up to 50 investors in IMG and seeks to hold us liable for losses of class members arising from their investments in IMG, alleging that we conspired with and knowingly assisted IMG and its principal in furtherance of an alleged Ponzi scheme. In December 2017, the District Court dismissed all claims against the Company. In January 2018, the plaintiff filed an appeal with the Court of Appeals for the Ninth Circuit. The appellate briefing process is underway and is scheduled to be completed in the third quarter of 2018.

a Private Attorney General Act ("PAGA") claim under California law, *Lawson v. CB&T*, brought against us in the Superior Court for the County of San Diego, California, in February 2016. In this case, the plaintiff alleges, on behalf of herself and other current or former employees of the Company who worked in California on a non-exempt basis, violations by the Company of California wage and hour laws. The case remains in the early stages of motion practice, to date mainly involving questions of venue and scope of employees covered by the PAGA



Table of Contents

ZIONS BANCORPORATION AND SUBSIDIARIES

claims. In March 2018, the Supreme Court of California granted review of an appeal from the intermediate appellate court decision requiring all aspects of the case to be heard in state court, rather than in arbitration.

a civil case, Lifescan Inc. and Johnson & Johnson Health Care Services v. Jeffrey Smith, et al., brought against us in the United States District Court for the District of New Jersey in December 2017. In this case, certain manufacturers and distributors of medical products seek to hold us liable for allegedly fraudulent practices of a borrower of the Company which filed for bankruptcy protection in 2017. The case is in early phase, with initial motion practice underway.

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. Based on information available as of June 30, 2018, we estimated that the aggregate range of reasonably possible losses for those matters to be from \$0 million to roughly \$15 million in excess of amounts accrued. 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 a meaningful 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 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.

#### 10. REVENUE RECOGNITION

Adoption of ASC Topic 606, “Revenue from Contracts with Customers”

On January 1, 2018, we adopted the accounting guidance in ASC Topic 606, “Revenue from Contracts with Customers” (“Topic 606”) using the modified retrospective method applied to those contracts with customers which were not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance



Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

with our historic accounting under Topic 605, “Revenue Recognition.” Upon adoption, the Company has elected to use the following optional exemptions that are permitted under the Topic 606, which have been applied consistently to all contracts within all reporting periods presented:

The Company recognizes the incremental cost of obtaining a contract as an expense, when incurred, if the amortization period of the asset that the Company would have recognized is one year or less.

For performance obligations satisfied over time, if the Company has a right to consideration from a customer in an amount that corresponds directly with the value to the customer of the Company’s performance completed to date, the Company will generally recognize revenue in the amount to which the Company has a right to invoice.

The Company does not generally disclose information about its remaining performance obligations for those performance obligations that have an original expected duration of one year or less, or where the Company recognizes revenue in the amount to which the Company has a right to invoice.

The cumulative effect of adopting Topic 606 did not have a material impact to retained earnings as of January 1, 2018. The adoption of Topic 606 resulted in changes to our accounting policies, business processes, and internal controls to support the recognition, measurement and disclosure requirements under Topic 606.

**Revenue Recognition**

We derive our revenue primarily from Interest Income on Loans and Securities, which was more than three-quarters of our revenue in the second quarter of 2018. Only noninterest income is considered to be revenue from contracts with customers in scope of ASC 606. Revenue from contracts with customers is recognized when control of the promised goods or services is transferred to our customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services. In addition, U.S. GAAP requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The following is a description of revenue from contracts with customers:

**Service charges and fees on deposit accounts**

Service charges and fees on deposit accounts typically consist of fees charged for providing customers with deposit services. These fees are primarily comprised of account analysis fees, insufficient funds fees, and other various fees on deposit accounts. Service charges on deposit accounts include fees earned in lieu of compensating balances, and fees earned for performing cash management services and other deposit account services. Service charges on deposit accounts in this revenue category are recognized over the period in which the related service is provided. Treasury Management fees are billed monthly based on services rendered for the month.

**Other Service charges, commissions, and fees**

Other service charges, commissions, and fees primarily consist of credit and debit card interchange fees, automated teller machine (“ATM”) services, and various account services such as wires, safe deposit box, check issuance and cashing services. Revenue is recognized as the services are rendered or upon completion of services.

Zions card fee income includes interchange income from credit and debit cards and net fees earned from processing card transactions for merchants. Card income is recognized as earned. Reward program costs are recorded when the rewards are earned by the customer and presented as a reduction to interchange income.

The following schedule provides the major income categories within “Other Service charges, commissions and fees” that are in scope of ASC 606 for the three months ended June 30, 2018:

	Three Months Ended June 30, 2018		Six Months Ended June 30, 2018	
(In millions)	2018	2017	2018	2017
Card Fee Income	\$34	\$33	\$67	\$67
ATM Fees	3	3	5	5
Other service charges	4	4	7	7



Other Commissions and fees	5	4	10	7
Ending balance	\$46	\$44	\$89	\$86

68

---

Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

## Wealth management and trust income

Wealth management and trust income is comprised of a variety of products, including but not limited to: corporate and personal trust income, wealth management commissions, portfolio services, and advisory services. Revenue is recognized as the services are rendered or upon completion of services. Financial planning and estate services typically have performance obligations that are greater than 12 months, although the amount of future performance obligations are not significant.

## Capital markets and foreign exchange

Capital markets and foreign exchange fees primarily consist of mutual fund distribution fees, municipal advisory services, and foreign exchange services provided to customers. Revenue is recognized as the services are rendered or upon completion of services.

## Other noninterest income from contracts with customers

Other noninterest income from customers primarily consists of trust operations outsourcing and other various income streams. Revenue is recognized as the services are rendered or upon completion of services.

## Disaggregation of Revenue

We provide services across different geographical areas, primarily in 11 Western U.S. States, under banking operations that have their own individual brand names, including Zions Bank, Amegy Bank, California Bank & Trust, National Bank of Arizona, Nevada State Bank, Vectra Bank Colorado, and The Commerce Bank of Washington. The operating segment listed as "Other" includes the Parent, Zions Management Services Company, certain nonbank financial services subsidiaries, centralized back-office functions, and eliminations of transactions between the segments.

The following schedule sets forth the noninterest income and net revenue by operating segments for the three months ended June 30, 2018 and 2017:

(In millions)	Zions Bank		Amegy		CB&T	
	2018	2017	2018	2017	2018	2017
Service charges and fees on deposit accounts	\$15	\$16	\$11	\$11	\$7	\$7
Other service charges, commissions, and fees	18	18	9	9	6	6
Wealth management and trust income	4	4	3	2	1	1
Capital markets and foreign exchange	1	1	(1)	(1)	1	1
Total noninterest income from contracts with customers (ASC 606)	38	39	22	21	15	15
Other noninterest income (Non-ASC 606 customer related)	—	(1)	9	10	4	5
Total customer-related fees	38	38	31	31	19	20
Other noninterest income (non-customer related)	—	—	—	—	—	—
Total non-interest income	38	38	31	31	19	20
Net interest income	170	165	126	122	129	122
Total income less interest expense	\$208	\$203	\$157	\$153	\$148	\$142

Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

(In millions)	NBAZ		NSB		Vectra	
	2018	2017	2018	2017	2018	2017
Service charges and fees on deposit accounts	\$3	\$3	\$4	\$4	\$2	\$2
Other service charges, commissions, and fees	3	3	3	3	2	2
Wealth management and trust income	—	—	1	1	—	—
Capital markets and foreign exchange	—	—	—	—	—	—
Total noninterest income from contracts with customers (ASC 606)	6	6	8	8	4	4
Other noninterest income (Non-ASC 606 customer related)	3	4	2	3	2	3
Total customer-related fees	9	10	10	11	6	7
Other noninterest income (non-customer related)	—	—	—	—	—	—
Total non-interest income	9	10	10	11	6	7
Net interest income	57	50	38	33	34	31
Total income less interest expense	\$66	\$60	\$48	\$44	\$40	\$38

(In millions)	TCBW		Other		Consolidated Company	
	2018	2017	2018	2017	2018	2017
Service charges and fees on deposit accounts	\$—	\$—	\$—	\$—	\$42	\$43
Other service charges, commissions, and fees	1	1	4	2	46	44
Wealth management and trust income	—	—	4	2	13	10
Capital markets and foreign exchange	—	—	2	1	3	2
Total noninterest income from contracts with customers (ASC 606)	1	1	10	5	104	99
Other noninterest income (Non-ASC 606 customer related)	—	—	1	(2)	21	22
Total customer-related fees	1	1	11	3	125	121
Other noninterest income (non-customer related)	—	—	13	11	13	11
Total non-interest income	1	1	24	14	138	132
Net interest income	13	11	(19)	(6)	548	528
Total income less interest expense	\$14	\$12	\$5	\$8	\$686	\$660

The following schedule sets forth the noninterest income and net revenue by operating segments for the six months ended June 30, 2018 and 2017:

(In millions)	Zions Bank		Amegy		CB&T	
	2018	2017	2018	2017	2018	2017
Service charges and fees on deposit accounts	\$29	\$30	\$22	\$22	\$14	\$14
Other service charges, commissions, and fees	35	34	18	19	12	12
Wealth management and trust income	7	7	5	4	2	1
Capital markets and foreign exchange	3	2	(3)	(3)	2	2
Other non-interest income from contracts with customers	—	—	—	—	—	—
Total noninterest income from contracts with customers (ASC 606)	74	73	42	42	30	29
Other noninterest income (Non-ASC 606 customer related)	(2)	(2)	21	17	9	7
Total customer-related fees	72	71	63	59	39	36
Other noninterest income (non-customer related)	—	—	—	—	1	1
Total non-interest income	72	71	63	59	40	37
Other real estate owned income	—	—	—	—	—	—
Net interest income	337	318	253	235	260	231
Total income less interest expense	\$409	\$389	\$316	\$294	\$300	\$268



Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

(In millions)	NBAZ		NSB		Vectra	
	2018	2017	2018	2017	2018	2017
Service charges and fees on deposit accounts	\$6	\$6	\$7	\$7	\$4	\$4
Other service charges, commissions, and fees	6	6	6	6	3	3
Wealth management and trust income	1	1	2	1	1	1
Capital markets and foreign exchange	—	—	—	—	—	—
Other non-interest income from contracts with customers	—	—	—	—	—	—
Total noninterest income from contracts with customers (ASC 606)	13	13	15	14	8	8
Other noninterest income (Non-ASC 606 customer related)	6	6	4	5	3	4
Total customer-related fees	19	19	19	19	11	12
Other noninterest income (non-customer related)	—	—	—	—	—	—
Total non-interest income	19	19	19	19	11	12
Other real estate owned income	—	—	—	—	—	—
Net interest income	111	100	74	64	66	61
Total income less interest expense	\$130	\$119	\$93	\$83	\$77	\$73
	TCBW		Other		Consolidated Company	
(In millions)	2018	2017	2018	2017	2018	2017
Service charges and fees on deposit accounts	\$1	\$1	\$1	\$1	\$84	\$85
Other service charges, commissions, and fees	1	1	8	5	89	86
Wealth management and trust income	—	—	6	4	24	19
Capital markets and foreign exchange	—	—	3	3	5	4
Other non-interest income from contracts with customers	—	—	—	1	—	1
Total noninterest income from contracts with customers (ASC 606)	2	2	18	14	202	195
Other noninterest income (Non-ASC 606 customer related)	1	—	3	4	45	41
Total customer-related fees	3	2	21	18	247	236
Other noninterest income (non-customer related)	—	—	28	27	29	28
Total non-interest income	3	2	49	45	276	264
Other real estate owned income	—	—	(1)	—	(1)	—
Net interest income	25	22	(36)	(14)	1,090	1,017
Total income less interest expense	\$28	\$24	\$12	\$31	\$1,365	\$1,281

Revenue from contracts with customers did not generate significant contract assets and liabilities. Contract receivables are included in Other Assets. Payment terms vary by services offered, and the timing between completion of performance obligations and payment is typically not significant.

**11. RETIREMENT PLANS**

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

(In millions)	Three Months Ended June 30, 2018		Six Months Ended June 30, 2018	
	2018	2017	2018	2017
Interest cost	\$1	\$2	\$3	\$4
Expected return on plan assets	(3)	(3)	(6)	(6)

Partial settlement loss	—	1	1	1
Amortization of net actuarial loss	1	1	1	2
Net periodic benefit cost (benefit)	\$(1)	\$ 1	\$(1)	\$ 1

As disclosed in our 2017 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.

Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

## 12. INCOME TAXES

The effective income tax rate of 22.1% for the second quarter of 2018 was lower than the 2017 second quarter rate of 32.3%. The effective tax rates for the first six months of 2018 and 2017 were 22.5% and 28.7%, respectively. The tax rates for 2018 and 2017 were reduced by nontaxable municipal interest income and nontaxable income from certain bank-owned life insurance. The income tax rate for 2018 was positively impacted by the decrease in the corporate federal income tax rate to 21% from 35% due to the Tax Cuts and Jobs Act, which was effective January 1, 2018. This rate benefit was partially reduced by the non-deductibility of Federal Deposit Insurance Corporation (“FDIC”) premiums and certain fringe benefits as enacted by the new tax law. The tax rate for 2017 was also impacted by a one-time \$14 million benefit to tax expense related to state tax adjustments and a one-time \$4 million benefit due to changes in the carrying value of various state deferred tax items.

We had a net deferred tax asset (“DTA”) balance of \$149 million at June 30, 2018, compared with \$93 million at December 31, 2017. The increase in the net DTA resulted primarily from the increase of accrued compensation and unrealized losses in OCI related to securities, and the decrease in deferred tax liabilities related to premises and equipment and the deferred gain on a prior period debt exchange. Net charge-offs exceeding the provision for loan losses offset some of the overall increase in DTA.

## 13. NET EARNINGS PER COMMON SHARE

Basic and diluted net earnings per common share based on the weighted average outstanding shares are summarized as follows:

(In millions, except shares and per share amounts)	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Basic:				
Net income	\$ 197	\$ 168	\$ 435	\$ 308
Less common and preferred dividends	57	30	104	57
Undistributed earnings	140	138	331	251
Less undistributed earnings applicable to nonvested shares	1	1	3	3
Undistributed earnings applicable to common shares	139	137	328	248
Distributed earnings applicable to common shares	47	16	86	32
Total earnings applicable to common shares	\$ 186	\$ 153	\$ 414	\$ 280
Weighted average common shares outstanding (in thousands)	195,583	201,822	196,142	202,083
Net earnings per common share	\$ 0.95	\$ 0.76	\$ 2.11	\$ 1.39
Diluted:				
Total earnings applicable to common shares	\$ 186	\$ 153	\$ 414	\$ 280
Weighted average common shares outstanding (in thousands)	195,583	201,822	196,142	202,083
Dilutive effect of common stock warrants (in thousands)	12,640	5,351	12,627	6,159
Dilutive effect of stock options (in thousands)	1,024	1,010	1,083	1,111
Weighted average diluted common shares outstanding (in thousands)	209,247	208,183	209,852	209,353
Net earnings per common share	\$ 0.89	\$ 0.73	\$ 1.97	\$ 1.34

The following schedule presents the weighted average shares of stock awards that were anti-dilutive and not included in the calculation of diluted earnings per share.

Three Months Ended June 30,	Six Months Ended June 30,
-----------------------------	---------------------------

(In thousands)

2018 2017 2018 2017

Restricted stock and restricted stock units 1,709 2,094 1,733 2,108

72

---



Table of Contents

ZIONS BANCORPORATION AND SUBSIDIARIES

14. OPERATING SEGMENT INFORMATION

We manage our operations and prepare management reports and other information with a primary focus on geographical area. Our banking operations are managed under their own individual brand names, including Zions Bank, Amegy Bank, California Bank & Trust, National Bank of Arizona, Nevada State Bank, Vectra Bank Colorado, and The Commerce Bank of Washington. Performance assessment and resource allocation are based upon this geographical structure. We use an internal funds transfer pricing (“FTP”) allocation system to report results of operations for business segments. This process continues to be refined. Prior period amounts have been reclassified to reflect these changes. Total average loans and deposits presented for the banking segments do not include intercompany amounts between banking segments, but may include deposits with the Other segment.

As of June 30, 2018, our banking business is conducted through 7 locally managed and branded segments in distinct geographical areas. Zions Bank operates 97 branches in Utah, 23 branches in Idaho, and one branch in Wyoming. Amegy operates 73 branches in Texas. CB&T operates 91 branches in California. NBAZ operates 58 branches in Arizona. NSB operates 50 branches in Nevada. Vectra operates 36 branches in Colorado and one branch in New Mexico. TCBW operates one branch in Washington and one branch in Oregon.

The operating segment identified as “Other” includes the Parent, certain nonbank financial service subsidiaries, centralized back-office functions, and eliminations of transactions between segments. The major components of net interest income at the Bank’s back-office include the revenue associated with the investments securities portfolio and the offset of the FTP costs and benefits provided to the business segments.

The following schedule does not present total assets or income tax expense for each operating segment, but instead presents average loans, average deposits and income before income taxes because these are the metrics that management uses when evaluating performance and making decisions pertaining to the operating segments. The Parent’s net interest income includes interest expense on borrowed funds. The condensed statement of income identifies the components of income and expense which affect the operating amounts presented in the Other segment. 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.

Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

The following schedule presents selected operating segment information for the three months ended June 30, 2018 and 2017:

(In millions)	Zions Bank		Amegy		CB&T		NBAZ		NSB	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
<b>SELECTED INCOME STATEMENT DATA</b>										
Net interest income	\$170	\$165	\$126	\$122	\$129	\$122	\$57	\$50	\$38	\$33
Provision for loan losses	4	(2)	(11)	7	2	(1)	7	(1)	—	—
Net interest income after provision for loan losses	166	167	137	115	127	123	50	51	38	33
Noninterest income	38	37	31	30	19	19	10	10	10	10
Noninterest expense	118	109	91	89	77	76	38	36	36	35
Income (loss) before income taxes	\$86	\$95	\$77	\$56	\$69	\$66	\$22	\$25	\$12	\$8
<b>SELECTED AVERAGE BALANCE SHEET DATA</b>										
Total average loans	\$12,633	\$12,483	\$11,387	\$10,856	\$9,908	\$9,476	\$4,640	\$4,246	\$2,349	\$2,372
Total average deposits	15,983	15,982	11,060	11,218	11,181	10,917	4,942	4,762	4,314	4,233
(In millions)	Vectra		TCBW		Other		Consolidated Company			
	2018	2017	2018	2017	2018	2017	2018	2017		
<b>SELECTED INCOME STATEMENT DATA</b>										
Net interest income	\$34	\$31	\$13	\$11	\$(19)	\$(6)	\$548	\$528		
Provision for loan losses	2	3	1	—	—	1	5	7		
Net interest income after provision for loan losses	32	28	12	11	(19)	(7)	543	521		
Noninterest income	6	7	1	1	23	18	138	132		
Noninterest expense	26	25	5	5	37	30	428	405		
Income (loss) before income taxes	\$12	\$10	\$8	\$7	\$(33)	\$(19)	\$253	\$248		
<b>SELECTED AVERAGE BALANCE SHEET DATA</b>										
Total average loans	\$2,881	\$2,603	\$1,117	\$911	\$363	\$296	\$45,278	\$43,243		
Total average deposits	2,784	2,728	1,048	1,094	1,584	1,400	52,896	52,334		

Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

The following schedule presents selected operating segment information for the six months ended June 30, 2018 and 2017:

(In millions)	Zions Bank		Amegy		CB&T		NBAZ		NSB	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
<b>SELECTED INCOME STATEMENT DATA</b>										
Net interest income	\$337	\$318	\$253	\$235	\$260	\$231	\$111	\$100	\$74	\$64
Provision for loan losses	2	33	(56)	8	4	(6)	9	1	—	(5)
Net interest income after provision for loan losses	335	285	309	227	256	237	102	99	74	69
Noninterest income	73	72	64	59	40	36	19	20	20	20
Noninterest expense	232	221	170	173	154	151	76	73	73	70
Income (loss) before income taxes	\$176	\$136	\$203	\$113	\$142	\$122	\$45	\$46	\$21	\$19
<b>SELECTED AVERAGE BALANCE SHEET DATA</b>										
Total average loans	\$12,543	\$12,486	\$11,379	\$10,747	\$9,919	\$9,391	\$4,591	\$4,254	\$2,349	\$2,355
Total average deposits	15,848	16,117	10,938	11,268	11,150	10,919	4,863	4,712	4,269	4,222
(In millions)	Vectra		TCBW		Other		Consolidated Company			
	2018	2017	2018	2017	2018	2017	2018	2017		
<b>SELECTED INCOME STATEMENT DATA</b>										
Net interest income	\$66	\$61	\$25	\$22	\$(36)	\$(14)	\$1,090	\$1,017		
Provision for loan losses	5	—	2	(1)	(1)	—	(35)	30		
Net interest income after provision for loan losses	61	61	23	23	(35)	(14)	1,125	987		
Noninterest income	12	12	3	2	45	43	276	264		
Noninterest expense	53	50	11	10	71	71	840	819		
Income (loss) before income taxes	\$20	\$23	\$15	\$15	\$(61)	\$(42)	\$561	\$432		
<b>SELECTED AVERAGE BALANCE SHEET DATA</b>										
Total average loans	\$2,837	\$2,569	\$1,101	\$894	\$370	\$210	\$45,089	\$42,906		
Total average deposits	2,748	2,759	1,060	1,097	1,571	1,180	52,447	52,274		

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Interest rate and market risks are among the most significant risks regularly undertaken by us, and they are closely monitored as previously discussed. A discussion regarding our management of interest rate and market risk is included in the section entitled "Interest Rate and Market Risk Management" in this Form 10-Q.

**ITEM 4. CONTROLS AND PROCEDURES**

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures as of June 30, 2018. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of June 30, 2018. There were no changes in the Company's internal control over financial reporting during the second quarter of 2018 that have materially affected, or

are reasonably likely to materially affect, the Company's internal control over financial reporting.

**PART II. OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

The information contained in Note 9 of the Notes to Consolidated Financial Statements is incorporated by reference herein.

75

---

Table of Contents

## ZIONS BANCORPORATION AND SUBSIDIARIES

## ITEM 1A. RISK FACTORS

We believe there have been no material changes in the risk factors included in Zions Bancorporation's 2017 Annual Report on Form 10-K.

## ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following schedule summarizes the Company's share repurchases for the second quarter of 2018:

## SHARE REPURCHASES

Period	Total number of shares repurchased <sup>1</sup>	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Approximate dollar value of shares that may yet be purchased under the plan
April	224,844	\$ 55.47	216,093	\$ 108,000,798
May	2,029,125	55.92	1,933,714	811
June	10,976	56.49	—	811
Second quarter	2,264,945	55.88	2,149,807	

<sup>1</sup> Represents common shares acquired from employees in connection with our stock compensation plan in addition to shares acquired under previously reported share repurchase plans. Shares were acquired from employees to pay for their payroll taxes and stock option exercise cost upon the vesting of restricted stock and restricted stock units, and the exercise of stock options, under provisions of an employee share-based compensation plan.

Table of Contents

ZIONS BANCORPORATION AND SUBSIDIARIES

ITEM 6. EXHIBITS

a) Exhibits

Exhibit Number	Description
-------------------	-------------

<u>3.1</u>	Restated Articles of Incorporation of Zions Bancorporation dated July 8, 2014, incorporated by reference to Exhibit 3.1 of Form 8-K/A filed on July 18, 2014. *
------------	---

<u>3.2</u>	Restated Bylaws of Zions Bancorporation dated February 27, 2015, incorporated by reference to Exhibit 3.2 of Form 10-Q for the quarter ended March 31, 2015. *
------------	--

<u>10.1</u>	Zions Bancorporation 2018-2020 Value Sharing Plan (filed herewith).
-------------	---

<u>10.2</u>	Zions Bancorporation Restated Pension Plan effective January 1, 2009, including amendments adopted through December 31, 2013 (filed herewith).
-------------	--

<u>10.3</u>	Zions Bancorporation Payshelter 401(k) and Employee Stock Ownership Plan, Restated and Amended effective January 31, 2007 (filed herewith).
-------------	---

<u>31.1</u>	Certification by Chief Executive Officer required by Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934 (filed herewith).
-------------	--

<u>31.2</u>	Certification by Chief Financial Officer required by Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934 (filed herewith).
-------------	--

<u>32</u>	Certification by Chief Executive Officer and Chief Financial Officer required by Sections 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 (15 U.S.C. 78m) and 18 U.S.C. Section 1350 (furnished herewith).
-----------	--

101	Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Consolidated Balance Sheets as of June 30, 2018 and December 31, 2017, (ii) the Consolidated Statements of Income for the three months ended June 30, 2018 and June 30, 2017 and the six months ended June 30, 2018 and June 30, 2017, (iii) the Consolidated Statements of Comprehensive Income for the three months ended June 30, 2018 and June 30, 2017 and the six months ended June 30, 2018 and June 30, 2017, (iv) the Consolidated Statements of Changes in Shareholders' Equity for the six months ended June 30, 2018 and June 30, 2017, (v) the Consolidated Statements of Cash Flows for the three months ended June 30, 2018 and June 30, 2017 and the six months ended June 30, 2018 and June 30, 2017 and (vi) the Notes to Consolidated Financial Statements (filed herewith).
-----	--

\* Incorporated by reference

Table of Contents

ZIONS BANCORPORATION AND SUBSIDIARIES

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ZIONS BANCORPORATION

/s/ Harris H. Simmons  
Harris H. Simmons, Chairman and  
Chief Executive Officer

/s/ Paul E. Burdiss  
Paul E. Burdiss, Executive Vice President and Chief Financial Officer  
Date: August 7, 2018