

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, 15th 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

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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

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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

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| | | | |
|----------------|--|------------|---|
| 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

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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 % |

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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) ¹ | (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 |

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| | | | | | | | | | | |
|-----------------------------|-------|--------|--------|--------|--------|--------|--------|--|--|--|
| 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 % | | | |

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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.

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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

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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

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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.

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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 ¹ | Average yield/rate ¹ | Average balance | Amount of interest ¹ | Average yield/rate ¹ |
| ASSETS | | | | | | |
| 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 ² | 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 ³ | | | | | | |
| 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 | | |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | | | |
| 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 % |
|---|--------|--------|--------|--------|

¹ 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.

² 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.

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

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| (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 | Average balance | Amount of interest 1 | Average yield/rate |
| ASSETS | | | | | | |
| 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 ² | 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 ³ | | | | | | |
| 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 | | |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | | | |
| 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 % |

- ¹ 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.
- ² 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.
- ³ Net of unearned income and fees, net of related costs. Loans include nonaccrual and restructured loans.

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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.

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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.

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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 ¹ | \$420 | \$399 | \$ 21 | 5 | \$839 | \$811 | \$ 28 | 3 |

¹ 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

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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.

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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

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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

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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.

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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 ¹ | 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 ² | 938 | 4 | 905 | 4 |
| Professional, scientific, and technical services | 882 | 4 | 879 | 4 |
| Other Services (except Public Administration) | 881 | 4 | 896 | 4 |
| Other ³ | 3,694 | 16 | 3,562 | 15 |
| Total | \$23,245 | 100 % | \$22,926 | 100 % |

¹ 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.

² Includes primarily utilities, power, and renewable energy.

³ No other industry group exceeds 3.5%.

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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 ¹ | | | |
| 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 ² : | | | | | | | | | | | | |
| 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 ² : | | | | | | | | | | | | |
| 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 | \$— | \$— | \$— | \$— | \$— | \$— | \$— | \$— | \$— | | |

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| | 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 ² : | | | | | | | | | | | | |
| 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 | % |

¹ No other geography exceeds \$90 million for all three loan types.

² 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

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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

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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 ¹ | \$ 342 | \$ 414 |
| Other real estate owned | 5 | 4 |
| Total nonperforming assets | \$ 347 | \$ 418 |
| Ratio of nonperforming assets to net loans and leases ¹ 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 ¹ | 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 ¹ | 0.77 % | 0.97 % |
| Accruing loans past due 30-89 days | \$ 119 | \$ 120 |
| Nonaccrual loans ¹ current as to principal and interest payments | 63.8 % | 65.9 % |

¹ 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 ⁷⁷ | 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.

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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

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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

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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) ¹ | | | | |
| | -100 | 0 | +100 | +200 | +300 |
| Earnings at Risk | (3.2)% | 3.0% | 3.0% | 5.8% | 8.6% |

¹ Assumes rates cannot go below zero in the negative rate shift.

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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) ¹ | | | | |
| Repricing scenario | -100 | 0 | +100 | +200 | +300 |

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

¹ 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) ¹ | | | | |
| Repricing scenario | -100 | 0 | +100 | +200 | +300 |

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

¹ 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) ¹ | | | | |
| Repricing scenario | -100 | 0 | +100 | +200 | +300 |
| | bps | bps | bps | bps | bps |

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

¹ 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.

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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

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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.

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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 |
|---|---------------|-------------------|---------------|
| ASSETS | | | |
| 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 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| 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.

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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

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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.

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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.

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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 ¹ | 9.2 | % | 9.3 | % | 9.6 | % |
| Tangible equity ratio ¹ | 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 ² : | | | | | | |
| 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) ¹ | 12.4 | % | 7.4 | % | 10.2 | % |

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

² 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.

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

| (In millions, shares in thousands) | June 30, 2018 (Unaudited) | December 31, 2017 |
|---|---------------------------------|----------------------|
| ASSETS | | |
| 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 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| 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. | | |

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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.

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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) |

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| | | | | | | |
|---|--------|---------|---------|---------|----------|----------|
| 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.

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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 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| 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 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| 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) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | |
| 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. | | | | |

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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.

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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.

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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"> – 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. – 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”). – 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. | 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.

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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 | |
| ASSETS | | | | |
| Investment securities: | | | | |
| Available-for-sale: ¹ | | | | |
| 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 |
| LIABILITIES | | | | |
| 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 |

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

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ZIONS BANCORPORATION AND SUBSIDIARIES

| (In millions) | December 31, 2017 | | | Total |
|---|-------------------|----------|---------|----------|
| | Level 1 | Level 2 | Level 3 | |
| ASSETS | | | | |
| Investment securities: | | | | |
| Available-for-sale: ¹ | | | | |
| 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 |
| LIABILITIES | | | | |
| 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 |

¹ 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.

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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 investments | Ag loan | Private equity investments | Ag loan | Private equity investments | Ag loan | Private equity 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 3 | | Level 1 | | Level 3 | | |
| | 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 |

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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.

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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

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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 |

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| | | | | |
|--|-------|--------|----------|-----------|
| 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 |

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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 |
| | losses | value | losses | value | losses | 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 | |