ZIONS BANCORPORATION /UT/
Form 10-Q
August 08, 2018

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

ý 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 ý 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 ý 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 ý	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 ý

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

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

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)=f	553	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

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.

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

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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ZIONS BANCORPORATION AND SUBSIDIARIES

CONSOLIDATED AVERAGE BALANCE SHEETS, YIELDS AND RATES
(Unaudited)

(Dollar amounts in millions)	Three Months Ended June 30, 2018			Three Months Ended June 30, 2017		
	Average balance	Amount of interest [1]	Average yield/rate	Average balance	Amount of interest [1]	Average yield/rate
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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ZIONS BANCORPORATION AND SUBSIDIARIES

(Dollar amounts in millions)	Six Months Ended June 30, 2018			Six Months Ended June 30, 2017		
	Average balance	Amount of interest [1]	Average yield/rate	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.

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, 2018	2017	Amount change	Percent change	Six Months Ended June 30, 2018	2017	Amount change	Percent change
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, 2018	2017	Amount change	Percent change	Six Months Ended June 30, 2018	2017	Amount change	Percent change
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

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

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

	June 30, 2018			December 31, 2017		
(Dollar amounts in millions)	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

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

	June 30, 2018		December 31, 2017	
(Dollar amounts in millions)	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)		Collateral Location									
Loan type	As of date	Arizona	California	Colorado	Nevada	Texas	Utah/ Idaho	Wash-ington	Other [1]	Total	% of total CRE
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	$—	$—	$—	$—	$—	$—	$—	$—	$—	

	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

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, 2018	December 31, 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, 2018	December 31, 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, 2018	2017	Six Months Ended June 30, 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	$43,683
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

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

	June 30, 2018	
Product	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

	June 30, 2018				
	Parallel shift in rates (in bps)[1]				
Repricing scenario	-100	0	+100	+200	+300
Earnings at Risk	(3.2)%	—%	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 bps	0 bps	+100 bps	+200 bps	+300 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

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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ZIONS BANCORPORATION AND SUBSIDIARIES

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

Rating agency	Company Outlook	ZB, N.A.	Company Long-term issuer/senior debt rating	ZB, N.A.	Company Subordinated debt rating	ZB, N.A. 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.

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

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.

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 Bancorporation Common Stock Market Price	Diluted Shares (000s)
$ 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.

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 Ended June 30,		Six Months Ended June 30,	
	2018	2017	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, 2018	2017	Six Months Ended June 30, 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)	Preferred stock	Common stock Shares (in thousands)	Common stock Amount	Retained earnings	Accumulated other comprehensive income (loss)	Total shareholders' equity
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		