ZIONS BANCORPORATION /UT/
Form 10-Q
August 08, 2017

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, 2017
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, 2017 202,172,188 shares

ZIONS BANCORPORATION AND SUBSIDIARIES
Table of Contents

		Page
PART I. FINANCIAL INFORMATION		
Item 1.	Financial Statements (Unaudited)	42
	Consolidated Balance Sheets	42
	Consolidated Statements of Income	43
	Consolidated Statements of Comprehensive Income	44
	Consolidated Statements of Changes in Shareholders' Equity	45
	Consolidated Statements of Cash Flows	46
	Notes to Consolidated Financial Statements	47
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	3
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	79
Item 4.	Controls and Procedures	79
PART II. OTHER INFORMATION		
Item 1.	Legal Proceedings	79
Item 1A.	Risk Factors	80
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	80
Item 6.	Exhibits	81
Signatures		82

Table of Contents

ZIONS BANCORPORATION AND SUBSIDIARIES

PART I. FINANCIAL INFORMATION

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

FORWARD-LOOKING INFORMATION

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," or similar expressions.

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

- the Company's ability to successfully execute its business plans, manage its risks, and achieve its objectives, including its restructuring and efficiency initiatives;
- changes in local, national and international political and economic conditions, including without limitation the political and economic effects of the economic and fiscal imbalances in the United States 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, including availability, market liquidity levels, and pricing, including the actual amount and duration of declines in the price of oil and gas;
- 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;
- acquisitions and integration of acquired businesses;
- increases in the levels of losses, customer bankruptcies, bank failures, claims, and assessments;
- changes in fiscal, monetary, regulatory, trade and tax policies and laws, and regulatory assessments and fees, including policies of the U.S. Department of Treasury, the OCC, the Board of Governors of the Federal Reserve Board System, the FDIC, the SEC, and the CFPB;
- the impact of executive compensation rules under the Dodd-Frank Act and banking regulations which may impact the ability of the Company and other American financial institutions to retain and recruit executives and other personnel necessary for their businesses and competitiveness;

Table of Contents
ZIONS BANCORPORATION AND SUBSIDIARIES

- 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 FASB 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	ERM	Enterprise Risk Management
AFS	Available-for-Sale	ERMC	Enterprise Risk Management Committee
ALCO	Asset/Liability Committee	EVE	Economic Value of Equity at Risk
ALLL	Allowance for Loan and Lease Losses	FAMC	Federal Agricultural Mortgage Corporation, or "Farmer Mac"
Amegy	Amegy Bank, a division of ZB, N.A.	FASB	Financial Accounting Standards Board
AOCI	Accumulated Other Comprehensive Income	FDIC	Federal Deposit Insurance Corporation
ASC	Accounting Standards Codification	FDICIA	Federal Deposit Insurance Corporation Improvement Act
ASU	Accounting Standards Update	FHLB	Federal Home Loan Bank
BHC	Bank Holding Company	FHLMC	Federal Home Loan Mortgage Corporation, or "Freddie Mac"
bps	basis points	FRB	Federal Reserve Board
CB&T	California Bank & Trust, a division of ZB, N.A.	FTP	Funds Transfer Pricing
CCAR	Comprehensive Capital Analysis and Review	GAAP	Generally Accepted Accounting Principles
CET1	Common Equity Tier 1 (Basel III)	GNMA	Government National Mortgage Association, or "Ginnie Mae"
CFPB	Consumer Financial Protection Bureau	HCR	Horizontal Capital Review
CLTV	Combined Loan-to-Value Ratio	HCR	Horizontal Capital Review
COSO	Committee of Sponsoring Organizations of the Treadway Commission	HECL	Home Equity Credit Line
CRE	Commercial Real Estate	HQLA	High-Quality Liquid Assets
DFAST	Dodd-Frank Act Stress Test	HTM	Held-to-Maturity
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act	IFRS	International Financial Reporting Standards

DTA	Deferred Tax Asset	LCR	Liquidity Coverage Ratio
EITF	Emerging Issues Task Force	LIBOR	London Interbank Offered Rate

Table of Contents
ZIONS BANCORPORATION AND SUBSIDIARIES

NBAZ	National Bank of Arizona, a division of ZB, N.A.	RULC	Reserve for Unfunded Lending Commitments
NIM	Net Interest Margin	S&P	Standard and Poor's
NM	Not Meaningful	SBA	Small Business Administration
NSB	Nevada State Bank, a division of ZB, N.A.	SBIC	Small Business Investment Company
NSFR	Net Stable Funding Ratio	SEC	Securities and Exchange Commission
OCC	Office of the Comptroller of the Currency	SNC	Shared National Credit
OCI	Other Comprehensive Income	TCBO	The Commerce Bank of Oregon, a division of ZB, N.A.
OREO	Other Real Estate Owned	TCBW	The Commerce Bank of Washington, a division of ZB, N.A.
OTTI	Other-Than-Temporary Impairment	TDR	Troubled Debt Restructuring
Parent	Zions Bancorporation	Vectra	Vectra Bank Colorado, a division of ZB, N.A.
PCI	Purchased Credit-Impaired	ZB, N.A.	ZB, National Association
PEI	Private Equity Investment	Zions Bank	Zions Bank, a division of ZB, N.A.
PPNR	Pre-provision Net Revenue	ZMSC	Zions Management Services Company
ROC	Risk Oversight Committee		

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 2016 Annual Report on Form 10-K.

GAAP to NON-GAAP RECONCILIATIONS

This Form 10-Q presents non-GAAP financial measures, in addition to 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 the non-GAAP financial measures presented in this Form 10-Q and a discussion of why management uses these non-GAAP measures:

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

5

ZIONS BANCORPORATION AND SUBSIDIARIES

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. The efficiency ratio and adjusted noninterest expense are the key metrics to which the Company announced it would hold itself accountable in its June 1, 2015 efficiency initiative, and to which executive compensation is tied.

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

		Three Months Ended			
(Dollar amounts in millions)		June 30, 2017	March 31, 2017	December 31, 2016	June 30, 2016
Net earnings applicable to common shareholders (GAAP)		$154	$129	$ 125	$91
Adjustment, net of tax:					
Amortization of core deposit and other intangibles		1	1	1	1
Net earnings applicable to common shareholders, excluding the effects of the adjustment, net of tax (non-GAAP)	(a)	$155	$130	$ 126	$92
Average common equity (GAAP)		$7,143	$6,996	$ 6,998	$6,883
Average goodwill		(1,014)	(1,014)	(1,014)	(1,014)
Average core deposit and other intangibles		(6)	(8)	(10)	(14)
Average tangible common equity (non-GAAP)	(b)	$6,123	$5,974	$ 5,974	$5,855
Number of days in quarter	(c)	91	90	92	91
Number of days in year	(d)	365	365	366	366
Tangible return on average tangible common equity (non-GAAP)	(a/b/c)*d	10.2 %	8.8 %	8.4 %	6.3 %

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

(Dollar amounts in millions, except per share amounts)		June 30, 2017	March 31, 2017	December 31, 2016	June 30, 2016
Total shareholders’ equity (GAAP)		$7,749	$7,730	$ 7,634	$7,626
Goodwill		(1,014)	(1,014)	(1,014)	(1,014)
Core deposit and other intangibles		(5)	(7)	(8)	(12)
Tangible equity (non-GAAP)	(a)	6,730	6,709	6,612	6,600
Preferred stock		(566)	(710)	(710)	(710)
Tangible common equity (non-GAAP)	(b)	$6,164	$5,999	$ 5,902	$5,890
Total assets (GAAP)		$65,446	$65,463	$ 63,239	$59,643
Goodwill		(1,014)	(1,014)	(1,014)	(1,014)
Core deposit and other intangibles		(5)	(7)	(8)	(12)
Tangible assets (non-GAAP)	(c)	$64,427	$64,442	$ 62,217	$58,617
Common shares outstanding (thousands)	(d)	202,131	202,595	203,085	205,104
Tangible equity ratio (non-GAAP)	(a/c)	10.45 %	10.41 %	10.63 %	11.26 %
Tangible common equity ratio (non-GAAP)	(b/c)	9.57 %	9.31 %	9.49 %	10.05 %
Tangible book value per common share (non-GAAP)	(b/d)	$30.50	$29.61	$ 29.06	$28.72

6

Table of Contents
ZIONS BANCORPORATION AND SUBSIDIARIES

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

(Dollar amounts in millions)		Three Months Ended June 30, 2017	Three Months Ended March 31, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016	Year Ended December 31, 2016
Noninterest expense (GAAP)	(a)	$405	$ 414	$382	$819	$777	$ 1,585
Adjustments:							
Severance costs		—	5	—	5	4	5
Other real estate expense, net		—	—	(1)	—	(2)	(2)
Provision for unfunded lending commitments		3	(5)	(4)	(2)	(10)	(10)
Debt extinguishment cost		—	—	—	—	—	—
Amortization of core deposit and other intangibles		2	2	2	3	4	8
Restructuring costs		1	1	—	2	1	5
Total adjustments	(b)	6	3	(3)	8	(3)	6
Adjusted noninterest expense (non-GAAP)	(a-b)=(c)	$399	$ 411	$385	$811	$780	$ 1,579
Net interest income (GAAP)	(d)	$528	$ 489	$465	$1,017	$918	$ 1,867
Fully taxable-equivalent adjustments		9	8	6	17	11	26
Taxable-equivalent net interest income (non-GAAP)[1]	(d+e)=f	537	497	471	1,034	929	1,893
Noninterest income (GAAP)	g	132	132	126	264	242	515
Combined income (non-GAAP)	(f+g)=(h)	669	629	597	1,298	1,171	2,408
Adjustments:							
Fair value and nonhedge derivative loss		—	—	(2)	(1)	(4)	2
Securities gains, net		2	5	3	7	2	7
Total adjustments	(i)	2	5	1	6	(2)	9
Adjusted taxable-equivalent revenue (non-GAAP)	(h-i)=(j)	$667	$ 624	$596	$1,292	$1,173	$ 2,399
Pre-provision net revenue	(h)-(a)	$264	$ 215	$215	$479	$394	$ 823
Adjusted PPNR (non-GAAP)	(j-c)	268	213	211	481	393	820
Efficiency ratio (non-GAAP)	(c/j)	59.8 %	65.9 %	64.6 %	62.8 %	66.5 %	65.8 %

RESULTS OF OPERATIONS

Executive Summary

Net earnings applicable to common shareholders for the second quarter of 2017 were $154 million, or $0.73 per diluted common share, compared with net earnings applicable to common shareholders of $129 million, or $0.61 per diluted common share for the first quarter of 2017, and $91 million, or $0.44 per diluted common share for the second quarter of 2016. Interest income of $558 million in the second quarter of 2017 improved $71 million over the same prior year period, mainly due to growth in our loans and securities portfolios, recent short-term rate increases that positively impacted loan yields, and interest income recoveries on four loans. Net interest margin (“NIM”) was 3.52% in the most recent quarter, compared with 3.39% in the second quarter of 2016.

Performance Against Previously Announced Initiatives

In June 2015, we announced several initiatives to improve operational and financial performance along with some key financial targets. Our initiatives are designed to improve customer experience, to simplify the corporate structure and operations, and to make the Company a more efficient organization. Following is a brief discussion regarding current performance against these key financial targets.

- Achieve an efficiency ratio in the low 60s for fiscal year 2017. In 2016, our efficiency ratio was 65.8%, which met our goal to keep the efficiency ratio under 66% for the year. Our efficiency ratio for the second quarter of

7

2017 was 59.8%, a 478 bps improvement over the same prior year period efficiency ratio of 64.6%. Our year-to-date efficiency ratio of 62.8% is also a large improvement over the same prior year period, which was 66.5%. Small expected increases in adjusted noninterest expense were more than offset by large improvements in interest income from securities and loans, due to growth of the portfolios, short-term rate increases that impacted variable-rate lending returns, and interest income recoveries on four loans. See "GAAP to Non-GAAP Reconciliations" on page 5 for more information regarding the calculation of the efficiency ratio and why management uses this non-GAAP measure.

- Maintain adjusted noninterest expense at less than $1.58 billion in 2016, with a modest increase in 2017. We met our target for fiscal year 2016, keeping adjusted noninterest expense to $1.579 billion. Through June 30, 2017, adjusted noninterest expense was $811 million, which includes expenses that are seasonally higher in the first half of the year and, when annualized, is consistent with our goal to limit adjusted noninterest expense growth to 2-3% in 2017.

As announced in 2015, we have been investing in technology to modernize our loan and deposit systems. In May, 2017, we successfully implemented the first release of the TCS B NCS core servicing system, which replaced our consumer lending system. The next release is focused on the replacement of our commercial and construction lending systems. B NCS is a real time, parameter-driven servicing system that will provide long-term benefits to the Company by improving accessibility and functionality to our bankers to better service customers directly.

Areas Experiencing Strength in the Second Quarter and First Six Months of 2017

Net interest income, which is more than three-quarters of our revenue, was $528 million in the second quarter of 2017 and $465 million in the second quarter of 2016. This 13.5% increase over the same prior year period is due to our efforts to change the mix of interest-earning assets from lower-yielding money market investments into higher-yielding investment securities and loans. Net interest margin was 3.52% in the second quarter of 2017, compared with 3.39% in the second quarter of 2016. Year-to-date net interest income was $1.0 billion in 2017 and $918 million for the same prior year period. The 10.8% increase between the two periods was mainly impacted by changes in asset mix as previously described, although recent loan growth has also contributed.

Adjusted PPNR of $268 million for the second quarter of 2017 was up $57 million, or 27.0%, from the second quarter of 2016, primarily as a result of increases in net interest income. Although adjusted noninterest expense also increased over the same period, from $385 million in the second quarter of 2016 to $399 million in the most recent quarter, increases in income more than offset the increase in expense. The higher adjusted PPNR in the second quarter of 2017 compared with the same prior year period drove an improvement in the Company's efficiency ratio from 64.6% in the second quarter of 2016 to 59.8% in the current quarter. Year-to-date adjusted PPNR was $481 million in 2017 and $393 million in 2016, representing a 22.4% increase. Increases were driven by similar factors to those previously discussed. See "GAAP to Non-GAAP Reconciliations" on page 5 for more information regarding the calculation of adjusted PPNR.

Asset quality for the total loan portfolio improved between the second quarters of 2016 and 2017. Criticized, classified, and nonaccrual loans all improved as a percentage of outstanding balances by 80 bps, 78 bps, and 17 bps, respectively. In recent quarters, asset quality in our oil and gas-related portfolio has been materially weaker than it has been in non-oil and gas-related loans. The Company has reduced its oil and gas-related exposure and oil prices have somewhat stabilized since their low point in early 2016. As a result, criticized, classified, and nonaccrual balances in the oil and gas-related portfolio have decreased since the second quarter of 2016 by 29.8%, 30.7%, and 12.9%, respectively. These improvements have been the drivers of a lower provision for credit losses, which was $10 million in the current quarter and $31 million in the same prior year period.

In recent quarters, the percentage of loan growth, when annualized, has been in the low single digits, with continued attrition of the oil and gas-related and NRE portfolios, and conservative CRE term concentration limits offsetting growth in our general commercial and industrial and residential mortgage portfolios. In the second quarter of 2017, loans grew almost $1 billion from the first quarter of 2017, at an annualized rate of 8.8%. As expected, the strongest growth came from commercial and industrial and residential mortgage loans.

We continue to increase the return on and of capital. Tangible return on average tangible common equity was 10.2%, up 133 bps from the prior quarter and up 383 bps from the same prior year period. The Company repurchased 5.0 million shares of common stock under its 2016 capital plan (which spanned the timeframe of July 2016 to June 2017). Dividends per common share were $0.08 in the second quarter of 2017, compared with $0.06 for the same prior year period. In June 2017, we announced the Federal Reserve did not object to the Company's 2017 capital plan. The plan included stepped quarterly common dividend increases, rising to $0.24 per share by the second quarter of 2018, and up to $465 million in common stock repurchases. See "Capital Management" on page 39 for more information regarding the 2017 capital plan.

Areas Experiencing Challenges in the Second Quarter of 2017

Noninterest expense increased to $405 million from $382 million for the same prior year period, representing a 6.0% increase. Higher FDIC premiums and increased depreciation expense will continue to cause expense to be higher in 2017 when compared with 2016. Adjusted noninterest expense, which excludes severance and some other items as explained in the "GAAP to Non-GAAP Reconciliations" section on page 5, increased 3.6% over the same period. Management is committed to restricting growth in adjusted noninterest expense in 2017 to 2-3% when compared with 2016.

Net Interest Income, Margin and Interest Rate Spreads

Net interest income is the difference between interest earned on interest-earning assets and interest paid on interest-bearing liabilities. Taxable-equivalent net interest income is the largest portion of our revenue. For the second quarter of 2017, taxable-equivalent net interest income was $537 million, compared with $497 million for the first quarter of 2017 and $471 million for the second quarter of 2016. The $66 million increase in taxable-equivalent net interest income in the second quarter of 2017 compared with the second quarter of 2016 was driven by a larger securities portfolio, growth in the lending portfolio, interest income recoveries on four loans, and increases in short-term rates, which improved loan yields. As a result, we expect net interest income to increase moderately over the next twelve months.

Net interest margin in 2017 vs. 2016

The NIM was 3.52% and 3.39% for the second quarters of 2017 and 2016, respectively, and 3.38% for the first quarter of 2017. The increased NIM for the second quarter, compared with the same prior year period, resulted from the combination of several factors. During 2016, we continued to make changes in asset mix, by moving funds from lower-yielding money market investments to purchase investment securities and grow loans. The NIM was also positively impacted by increases in short-term interest rates and larger interest income recoveries from four loans. These factors have been somewhat offset because recently we have also used wholesale borrowings to fund these opportunities. Average interest-earning assets increased $5.3 billion from the second quarter of 2016, with average rates improving 17 bps. Average interest-bearing liabilities increased $3.8 billion over the same period and average rates increased 6 bps.

The average loan portfolio increased $1.1 billion between the second quarter of 2017 and the second quarter of 2016. The average loan yield increased 22 bps over the same period. Approximately 15 bps of the increase in total loan yield in the second quarter of 2017 can be attributed to the interest income recoveries from four loans. Additionally, we have experienced some improvement in interest income as a result of short-term rate increases. A portion of our variable-rate loans were not affected by changes in those indices due to interest rate floors, longer reset frequency, or indices tied to longer-term rates.

Taxable-equivalent interest income on available-for-sale ("AFS") securities for the second quarter of 2017 increased by $38 million compared with the same prior year period, due to a $6.5 billion increase in average balances as well as an 18 bps increase in yield. In the near term, we anticipate that the level of investment securities as a percent of assets will remain relatively stable.

Average noninterest-bearing demand deposits provided us with low cost funding and comprised 45.5% of average total deposits, which totaled $52 billion, for the second quarter of 2017, compared with 43.7% of average total

9

deposits, which totaled $50 billion, for the second quarter of 2016. Average interest-bearing deposits increased by 1.4% in the second quarter of 2017, compared with the same prior year period, and the average rate paid increased 3 bps. 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. A significant decrease in the amount of noninterest-bearing deposits would likely have a negative impact on our NIM.

The average balance of long-term debt was $407 million lower for the second quarter of 2017 compared with the same prior year period, as a result of early calls and maturities. The average interest rate paid on long-term debt increased by 72 bps between the same periods because remaining debt was at a higher average rate than the debt that matured and was called. Average short-term borrowings increased $3.8 billion. Further changes in short-term borrowing will be driven by balancing changes in deposits and loans as we do not foresee significant shifts in investment security balances. Despite this significant increase of $3.3 billion in average total borrowed funds, average total interest expense increased only $8 million between the two periods.

Refer to the “Liquidity Risk Management” section beginning on page 34 for more information on how we manage liquidity risk.

See also “Interest Rate and Market Risk Management” on page 30 for further discussion of how we manage the portfolios of interest-earning assets, interest-bearing liabilities, and the associated risk.

Interest rate spreads

The spread on average interest-bearing funds was 3.36% and 3.25% for the second quarters of 2017 and 2016, respectively. The spread on average interest-bearing funds for these periods was affected by the same factors that had an impact on the NIM.

Since the second quarter of 2016 the average yield on consumer loans has declined 5 bps. Excluding the effect of the interest recoveries on the four loans during the second quarter, the loan yield is expected to increase as a result of recent changes in benchmark interest rates. We expect some modest resistance due to both a change in the mix of the portfolio (increasing concentration in lower-yielding residential mortgages and decreasing concentration in commercial real estate), as well as older, higher-yielding loans maturing or paying down and being replaced with new, lower-yielding loans. Generally, maturing loans were originated during a period of time where loan pricing was somewhat less competitive than the current environment.

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. In addition, our modeled projections for noninterest-bearing demand deposits, which are a substantial portion of our deposit balances, are particularly reliant on assumptions for which there is little historical experience due to the prolonged period of very low interest rates. Further detail on interest rate risk is discussed in “Interest Rate and Market Risk Management” on page 30.

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

Table of Contents
ZIONS BANCORPORATION AND SUBSIDIARIES

CONSOLIDATED AVERAGE BALANCE SHEETS, YIELDS AND RATES
(Unaudited)

(Dollar amounts in millions)	Three Months Ended June 30, 2017				Three Months Ended June 30, 2016			
	Average balance	Amount of interest [1]	Average yield/rate		Average balance	Amount of interest [1]	Average yield/rate	
ASSETS								
Money market investments	$1,572	$ 5	1.20	%	$4,045	$ 6	0.55	%
Securities:								
Held-to-maturity	788	8	3.97		669	7	4.46	
Available-for-sale	15,386	81	2.11		8,853	43	1.93	
Trading account	79	1	3.43		78	1	3.88	
Total securities [2]	16,253	90	2.20		9,600	51	2.13	
Loans held for sale	100	1	3.23		126	1	3.52	
Loans and leases [3]								
Commercial	21,885	242	4.44		21,934	229	4.20	
Commercial real estate	11,236	133	4.74		11,169	119	4.31	
Consumer	10,122	97	3.83		9,005	87	3.88	
Total loans and leases	43,243	472	4.38		42,108	435	4.16	
Total interest-earning assets	61,168	568	3.72		55,879	493	3.55	
Cash and due from banks	795				521			
Allowance for loan losses	(546)				(606)			
Goodwill	1,014				1,014			
Core deposit and other intangibles	6				14			
Other assets	2,974				2,724			
Total assets	$65,411				$59,546			
LIABILITIES AND SHAREHOLDERS' EQUITY								
Interest-bearing deposits:								
Savings and money market	$25,467	$ 9	0.14	%	$25,780	$ 9	0.14	%
Time	3,048	5	0.66		2,192	3	0.46	
Foreign	—	—			139	—	0.28	
Total interest-bearing deposits	28,515	14	0.20		28,111	12	0.17	
Borrowed funds:								
Federal funds and other short-term borrowings	4,302	10	0.94		547	—	0.24	
Long-term debt	383	6	5.77		790	10	5.05	
Total borrowed funds	4,685	16	1.34		1,337	10	3.08	
Total interest-bearing liabilities	33,200	30	0.36		29,448	22	0.30	
Noninterest-bearing deposits	23,819				21,839			
Other liabilities	565				597			
Total liabilities	57,584				51,884			
Shareholders' equity:								
Preferred equity	684				779			
Common equity	7,143				6,883			
Total shareholders' equity	7,827				7,662			
Total liabilities and shareholders' equity	$65,411				$59,546			

Spread on average interest-bearing funds		3.36 %		3.25 %
Taxable-equivalent net interest income and net yield on interest-earning assets	$ 537	3.52 %	$ 471	3.39 %

[1] Taxable-equivalent rates used where applicable.

[2] Quarter-to-date interest on total securities includes $35 million and $25 million of premium amortization, as of June 30, 2017 and June 30, 2016, respectively.

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

Table of Contents
ZIONS BANCORPORATION AND SUBSIDIARIES

(Dollar amounts in millions)	Six Months Ended June 30, 2017 Average balance	Amount of interest [1]	Average yield/rate	Six Months Ended June 30, 2016 Average balance	Amount of interest [1]	Average yield/rate
ASSETS						
Money market investments	$1,777	$9	1.05 %	$4,584	$ 13	0.55 %
Securities:						
Held-to-maturity	817	16	3.93	616	14	4.65
Available-for-sale	14,709	155	2.12	8,480	85	2.02
Trading account	70	1	3.57	66	1	3.75
Total securities [2]	15,596	172	2.22	9,162	100	2.21
Loans held for sale	116	2	3.23	133	2	3.75
Loans and leases [3]						
Commercial	21,747	467	4.33	21,779	455	4.20
Commercial real estate	11,238	251	4.50	10,863	231	4.27
Consumer	9,921	189	3.83	8,914	172	3.89
Total loans and leases	42,906	907	4.26	41,556	858	4.15
Total interest-earning assets	60,395	1,090	3.64	55,435	973	3.53
Cash and due from banks	884			624		
Allowance for loan losses	(556)			(603)		
Goodwill	1,014			1,014		
Core deposit and other intangibles	7			14		
Other assets	2,963			2,702		
Total assets	$64,707			$59,186		
LIABILITIES AND SHAREHOLDERS’ EQUITY						
Interest-bearing deposits:						
Savings and money market	$25,680	$19	0.14 %	$25,565	$ 19	0.15 %
Time	2,953	9	0.63	2,140	5	0.45
Foreign	—	—	—	187	—	0.27
Total interest-bearing deposits	28,633	28	0.19	27,892	24	0.17
Borrowed funds:						
Federal funds and other short-term borrowings	3,617	15	0.85	407	—	0.22
Long-term debt	451	13	5.85	800	20	5.03
Total borrowed funds	4,068	28	1.40	1,207	20	3.41
Total interest-bearing liabilities	32,701	56	0.34	29,099	44	0.31
Noninterest-bearing deposits	23,641			21,860		
Other liabilities	598			588		
Total liabilities	56,940			51,547		
Shareholders’ equity:						
Preferred equity	697			804		
Common equity	7,070			6,835		
Total shareholders’ equity	7,767			7,639		
Total liabilities and shareholders’ equity	$64,707			$59,186		
Spread on average interest-bearing funds			3.30 %			3.22 %
		$ 1,034	3.45 %		$ 929	3.37 %

Taxable-equivalent net interest income and net yield on
interest-earning assets

[1] Taxable-equivalent rates used where applicable.

[2] Year-to-date interest on total securities includes $66 million and $44 million of premium amortization, as of June 30, 2017 and June 30, 2016, respectively.

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

Table of Contents
ZIONS BANCORPORATION AND SUBSIDIARIES

Provision for Credit Losses
The provision for credit losses is the combination of both the provision for loan losses and the provision for unfunded lending commitments. The provision for loan losses is the amount of expense that, in our judgment, is required to maintain the allowance for loan and lease losses ("ALLL") at an adequate level based on the inherent risks in the loan portfolio. The provision for unfunded lending commitments is used to maintain the reserve for unfunded lending commitments ("RULC") at an adequate level based on the inherent risks associated with such commitments. In determining adequate levels of the ALLL and RULC, we perform periodic evaluations of our various loan portfolios, the levels of actual charge-offs, credit trends, and external factors. See Note 6 of our 2016 Annual Report on Form 10-K and "Credit Risk Management" on page 20 for more information on how we determine the appropriate level for the ALLL and the RULC.
The provision for loan losses was $7 million in the second quarter of 2017, compared with $35 million in the same prior year period. Credit quality metrics have improved over the past twelve months, especially in the oil and gas-related portfolio. Across all loans, criticized, classified, and nonaccrual balances decreased by $288 million, $293 million, and $60 million, respectively, in spite of a $1.2 billion increase in outstanding loan balances over the same period. Net charge-offs were also $31 million lower in the current quarter than in the second quarter of 2016, however there were several large loan recoveries during the period. The provision for credit losses was also positively affected by these recoveries in the second quarter of 2017.
During the second quarter of 2017, we recorded a $3 million provision for unfunded lending commitments, compared with a $(4) million provision in the second quarter of 2016. 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 $66 million when compared with the second quarter of 2016. Improvements in credit quality and decreased net charge-offs in the total loan portfolio were responsible for much of this decline. Further, declining oil and gas-related exposure and increasing residential real estate exposure improved the risk profile of the portfolio.
Noninterest Income

(Dollar amounts in millions)	Three Months Ended June 30, 2017	2016	Percent change	Six Months Ended June 30, 2017	2016	Percent change
Service charges and fees on deposit accounts	$43	$42	2.4 %	$85	$83	2.4 %
Other service charges, commissions and fees	56	52	7.7	105	101	4.0
Wealth management income	10	9	11.1	20	17	17.6
Loan sales and servicing income	6	10	(40.0)	13	18	(27.8)
Capital markets and foreign exchange	6	5	20.0	13	11	18.2
Customer-related fees	121	118	2.5	236	230	2.6
Dividends and other investment income	10	6	66.7	22	11	100.0
Securities gains, net	2	3	(33.3)	7	2	250.0
Other	(1)	(1)	—	(1)	(1)	—
Total noninterest income	$132	$126	4.8	$264	$242	9.1

Noninterest income represents revenues we earn for products and services that have no associated interest rate or yield. For the second quarter of 2017, noninterest income increased $6 million, or 4.8% compared with the second quarter of 2016. Through June 30, 2017, year-to-date noninterest income increased $22 million, or 9.1%, compared with the first six months of 2016. Income increased from the second quarter of 2016 due to higher credit card interchange volume, improvements in loan fee income and valuation adjustments on private equity investments

(“PEIs”). The increase compared with the first six months of 2016 was driven by similar factors.

Table of Contents
ZIONS BANCORPORATION AND SUBSIDIARIES

The largest single driver for the increase, compared with the second quarter of 2016, was a series of valuation adjustments on investments, including a loss taken in 2016 that did not repeat to the same extent in the most recent quarter. Compared with the first six months of 2016, the increase is primarily driven by valuation gains from an individual equity security, which is present in multiple company-owned Small Business Investment Company ("SBIC") investments. This investee went public in 2016 and has experienced some volatility in stock price since its IPO. We are unwinding our position in the stock, which is reducing some of the observed variance; however, we are subject to certain limitations on the amount we can sell each quarter. Gains or losses on equity securities may increase or decrease due to market factors or the performance of individual securities.

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. Customer-related fees increased $3 million from the second quarter of 2016, with small increases in most areas, offset by a $4 million decrease in income related to loan sales and servicing. This decrease occurred primarily because we ceased selling loans with servicing released to Freddie Mac in the second quarter of 2017, which had a $2 million impact from lost premiums. Customer-related fees increased $6 million compared with the first six months of 2016. We continue to see steady improvement in credit card interchange fees and are growing our wealth management and trust businesses. Gains were partially offset by small declines in loan servicing income and valuation adjustments on servicing assets, as well as the same factors noted previously. We expect customer-related fee income to increase moderately from the level reported in the second quarter of 2017.

Noninterest Expense

(Dollar amounts in millions)	Three Months Ended June 30, 2017	2016	Percent change	Six Months Ended June 30, 2017	2016	Percent change
Salaries and employee benefits	$242	$241	0.4 %	$503	$500	0.6 %
Occupancy, net	32	30	6.7	66	59	11.9
Furniture, equipment and software, net	32	31	3.2	64	62	3.2
Other real estate expense, net	—	(1)	NM	—	(2)	NM
Credit-related expense	8	6	33.3	16	12	33.3
Provision for unfunded lending commitments	3	(4)	NM	(2)	(10)	(80.0)
Professional and legal services	13	12	8.3	27	24	12.5
Advertising	6	5	20.0	11	11	—
FDIC premiums	13	10	30.0	25	17	47.1
Amortization of core deposit and other intangibles	2	2	—	4	4	—
Other	54	50	8.0	105	100	5.0
Total noninterest expense	$405	$382	6.0	$819	$777	5.4
Adjusted noninterest expense [1]	$399	$385	3.6	$811	$780	4.0

[1] For information on non-GAAP financial measures see "GAAP to Non-GAAP Reconciliations" on page 5

Noninterest expense increased by $23 million over the second quarter of 2016 and $42 million compared with the first six months of 2016. Expenses increased in most areas, but were most impacted by higher FDIC premiums and occupancy costs, as well as small increases to the provision for unfunded lending commitments.

Occupancy expense increased $2 million from the second quarter of 2016, and increased $7 million compared with the first six months of 2016. In the first quarter of 2017, we placed a newly constructed office building into operation in Houston and have incurred additional depreciation and other transition expenses as a result. The Company has several signed leases with tenants, and as those tenants move in, we expect additional rental income to mostly offset the increase we have observed thus far in 2017.

Table of Contents
ZIONS BANCORPORATION AND SUBSIDIARIES

As previously discussed, we implemented the first release of the TCS B NCS core servicing system during the second quarter. As a result, amortization of the costs capitalized during development are expected to be approximately $2 million per quarter and will be recognized in furniture, equipment and software expense.
We provided $7 million more for unfunded lending commitments compared with the second quarter of 2016, and $8 million more compared with the first six months of 2016, mainly due to oil and gas-related commitments. Refer to the Provisions for Credit Losses section above for more details.
FDIC premium expense increased $3 million or 30.0% from the second quarter of 2016, and $8 million, or 47.1%, compared with the first six months of 2016. Expense increased in both cases due to a higher deposit base and the FDIC surcharge. The FDIC approved a change in deposit insurance assessments that implemented a Dodd-Frank Act provision requiring banks with over $10 billion in assets to recapitalize the FDIC insurance fund to 1.35% over an eight-quarter period, after it reached a 1.15% reserve ratio. The 1.15% threshold was reached at the end of the second quarter of 2016 and the increased premium has been effective since then.
Other noninterest expense increased $4 million over the second quarter of 2016 and $5 million, compared with the first six months of 2016. The change was driven by a variety of smaller items, but was primarily impacted by an increase in legal reserves and larger expenses attributable to the sharing of revenue with the FDIC from previously mentioned interest income recoveries on loans purchased from the FDIC.
Our goal is to limit adjusted noninterest expense growth to 2-3% in 2017 as we continue to invest in people and technology. For the first six months of 2017, adjusted noninterest expense was $811 million, which includes expenses that are seasonally higher in the first half of the year and, when annualized, is consistent with this goal. 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).

Income Taxes

Income tax expense for the second quarter of 2017 was $80 million, compared with $60 million for the same prior year period. The effective tax rates were 32.3% and 34.5% for the second quarters of 2017 and 2016, respectively. Income tax expense was $124 million for the first six months of 2017 and $102 million for the first six months of 2016. The effective tax rates for these year-to-date periods were 28.7% and 33.3%, respectively. Tax rates generally benefited from the nontaxability of certain income items. 2017 rates were further impacted by the following factors:

- We reevaluated our state tax positions in the first quarter of 2017, which resulted in a one-time $14 million tax benefit.
- We reduced expense by $4 million in the second quarter of 2017 due to changes in the carrying value of various state deferred tax items.
- We recorded a $4 million benefit in the first quarter of 2017, and a $3 million benefit in the second quarter of 2017, from the implementation of new accounting guidance related to stock-based compensation.

We had a net deferred tax asset (“DTA”) balance of $198 million at June 30, 2017, compared with $250 million at December 31, 2016. The decrease in the DTA resulted primarily from net charge-offs exceeding the provision for loan losses, the payout of accrued compensation, and the reduction of unrealized losses in other comprehensive income (“OCI”) related to securities. A decrease in deferred tax liabilities during 2017, which related to premises and equipment and the deferred gain on a prior period debt exchange, offset some of the overall decrease in DTA.

Preferred Dividends

Our preferred dividends decreased $1 million when compared with the second quarter of 2016 and $2 million, compared with the first six months of 2016. In the second quarters of 2017 and 2016, the Company redeemed preferred stock of $144 million and $118 million, respectively. The total one-time reduction to net earnings applicable to common shareholders associated with preferred stock redemptions was $2 million for the 2017 redemption and $10 million for the 2016 redemption, primarily due to the accelerated recognition of preferred stock issuance costs.

As a result of these transactions, preferred dividends are expected to be $8 million, and $10 million in the third and fourth quarters of 2017, respectively, compared with $10 million and $12 million in the third and fourth quarters of 2016, respectively.

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 have been redeploying 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 11.

Average interest-earning assets were $60.4 billion for the first six months of 2017, compared with $55.4 billion for the first six months of 2016. Average interest-earning assets as a percentage of total average assets for the first six months of 2017 and 2016 were 93.3% and 93.7%, respectively.

Average loans were $42.9 billion and $41.6 billion for the first six months of 2017 and 2016, respectively. Average loans as a percentage of total average assets for the first six months of 2017 were 66.3%, compared with 70.2% in the corresponding prior year period.

Average money market investments, consisting of interest-bearing deposits, federal funds sold, and security resell agreements, decreased by 61.2% to $1.8 billion for the first six months of 2017, compared with $4.6 billion for the first six months of 2016. Average securities increased by 70.2% for the first six months of 2017, compared with the first six months of 2016.

Investment Securities Portfolio

We invest in securities to actively manage liquidity and interest rate risk, in addition to generating revenues for the Company. Refer to the “Liquidity Risk Management” section on page 34 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 20 of our 2016 Annual Report on Form 10-K.

Table of Contents
ZIONS BANCORPORATION AND SUBSIDIARIES

INVESTMENT SECURITIES PORTFOLIO

	June 30, 2017			December 31, 2016		
(In millions)	Par value	Amortized cost	Estimated fair value	Par value	Amortized cost	Estimated fair value
Held-to-maturity						
Municipal securities	$776	$ 775	$ 774	$868	$ 868	$ 850
	776	775	774	868	868	850
Available-for-sale						
U.S. Treasury securities	25	25	25	—	—	—
U.S. Government agencies and corporations:						
Agency securities	1,829	1,828	1,827	1,847	1,846	1,839
Agency guaranteed mortgage-backed securities	9,546	9,772	9,721	7,745	7,986	7,883
Small Business Administration loan-backed securities	2,125	2,361	2,371	2,066	2,298	2,288
Municipal securities	1,160	1,306	1,317	1,048	1,182	1,154
Other debt securities	25	25	25	25	25	24
	14,710	15,317	15,286	12,731	13,337	13,188
Money market mutual funds and other	55	55	55	184	184	184
	14,765	15,372	15,341	12,915	13,521	13,372
Total	$15,541	$ 16,147	$ 16,115	$13,783	$ 14,389	$ 14,222

The amortized cost of investment securities at June 30, 2017 increased by 12.2% from the balances at December 31, 2016, primarily due to purchases of agency guaranteed mortgage-backed securities. There were additional increases in municipal securities and Small Business Administration ("SBA") loan-backed securities.

The investment securities portfolio includes $606 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 both the three and six months ended June 30, 2017, premium amortization reduced the yield on securities by 91 bps, respectively, compared with a 114 bps and 105 bps impact for the same periods in 2016. The lower level of premium amortization was attributable to slower prepayment speeds. In addition, yields of floating-rate securities, primarily SBA loan-backed securities, benefited from increases in reference indices.

As of June 30, 2017, under the GAAP fair value accounting hierarchy, 0.5% of the $15.3 billion fair value of the AFS securities portfolio was valued at Level 1, 99.5% was valued at Level 2, and there were no Level 3 AFS securities. At December 31, 2016, 1.4% of the $13.4 billion fair value of AFS securities portfolio was valued at Level 1, 98.6% was valued at Level 2, and there were no Level 3 AFS securities. See Note 20 of our 2016 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.

Table of Contents
ZIONS BANCORPORATION AND SUBSIDIARIES

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

(In millions)	June 30, 2017	December 31, 2016
Loans and leases	$ 871	$ 778
Held-to-maturity – municipal securities	775	868
Available-for-sale – municipal securities	1,317	1,154
Trading account – municipal securities	56	112
Unfunded lending commitments	165	182
Total direct exposure to municipalities	$ 3,184	$ 3,094

At June 30, 2017, 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 83.3% of the outstanding credits were originated by CB&T, Zions Bank, and Vectra. See Note 6 of the Notes to Consolidated Financial Statements for additional information about the credit quality of these municipal loans.

Growth in municipal exposures came primarily from increases in the municipal AFS securities portfolio consistent with the Company’s initiative to increase securities. AFS securities generally consist of securities with investment-grade ratings from one or more major credit rating agencies.

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, 2017 and December 31, 2016.

Loan Portfolio

For the first six months of 2017 and 2016, average loans accounted for 66.3% and 70.2%, respectively, of total average assets. As presented in the following schedule, the largest category was commercial and industrial loans and constituted 31.7% of our loan portfolio at June 30, 2017.

ZIONS BANCORPORATION AND SUBSIDIARIES

LOAN PORTFOLIO

(Dollar amounts in millions)	June 30, 2017 Amount	% of total loans		December 31, 2016 Amount	% of total loans	
Commercial:						
Commercial and industrial	$13,850	31.7	%	$13,452	31.5	%
Leasing	387	0.9		423	1.0	
Owner-occupied	7,095	16.2		6,962	16.3	
Municipal	871	2.0		778	1.8	
Total commercial	22,203	50.8		21,615	50.6	
Commercial real estate:						
Construction and land development	2,186	5.0		2,019	4.7	
Term	9,012	20.6		9,322	21.9	
Total commercial real estate	11,198	25.6		11,341	26.6	
Consumer:						
Home equity credit line	2,697	6.2		2,645	6.2	
1-4 family residential	6,359	14.6		5,891	13.8	
Construction and other consumer real estate	560	1.3		486	1.2	
Bankcard and other revolving plans	478	1.1		481	1.1	
Other	188	0.4		190	0.5	
Total consumer	10,282	23.6		9,693	22.8	
Total net loans	$43,683	100.0	%	$42,649	100.0	%

Loan portfolio growth during the first six months of 2017 was widespread across loan products and geographies with particular strength in consumer 1-4 family residential and commercial and industrial loans. The impact of these increases was partially offset by a decrease in our commercial real estate (“CRE”) term portfolio.

Commercial owner-occupied loans also increased during the first six months of 2017; 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 2017, the Company increased its short-term borrowings with the Federal Home Loan Bank (“FHLB”) by $2.9 billion. This increase required a further investment in FHLB activity stock, which consequently increased by $116 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, 2017	December 31, 2016
Bank-owned life insurance	$ 502	$ 497
Federal Home Loan Bank stock	146	30
Federal Reserve stock	184	181
Farmer Mac stock	40	34
SBIC investments	125	124
Non-SBIC investment funds	12	15
Other	3	3
	$ 1,012	$ 884

Premises, Equipment and Software

Premises, equipment and software, net increased $49 million, or 4.8%, during the first six months of 2017 primarily due to capitalized costs associated with the development of a new corporate facility for Amegy Bank in Texas, a large software purchase, and the capitalization of eligible costs related to the development of new lending, deposit and reporting systems.

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 2017 increased by 5.1%, compared with the first six months of 2016, with average interest-bearing deposits increasing by 2.7% and average noninterest-bearing deposits increasing by 8.1%. The increases in interest and noninterest-bearing deposits were driven by increases in both personal and business customer balances. The ending interest-bearing deposits balance at June 30, 2017 decreased by 3.0% to $28.2 billion from $29.1 billion at March 31, 2017. The decrease in ending balance is mainly due to the natural daily volatility of deposits, and the Company does not see any trend indicating a systemic problem with rates. The average interest rate paid for interest-bearing deposits was 2 bps higher during the first six months of 2017, compared with the first six months of 2016.

Deposits at June 30, 2017, excluding time deposits $100,000 and over and brokered deposits, decreased slightly to $50.6 billion from $51.4 billion at December 31, 2016. The decrease was mainly due to a decrease in interest-bearing domestic savings and money market deposits offset by an increase in noninterest-bearing deposits.

Demand and savings and money market deposits were 94.2% and 94.8% of total deposits at June 30, 2017 and December 31, 2016, respectively. At June 30, 2017 and December 31, 2016, total deposits included $1.4 billion and $0.9 billion, respectively, of brokered deposits.

See “Liquidity Risk Management” on page 34 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 (“ERMC”) 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.

The Board of Directors, through the ROC, is responsible for approving the overall credit policies relating to the management of the credit risk of the Company. In addition, the ROC oversees and monitors adherence to key credit policies and the credit risk appetite as defined in the Risk Appetite Framework. Additionally, the Board has established the Credit Administration Committee, chaired by the Chief Credit Officer and consisting of members of management, to which it has delegated the responsibility for managing credit risk for the Company and approving changes to the Company’s credit policies.

Table of Contents
ZIONS BANCORPORATION AND SUBSIDIARIES

Centralized oversight of credit risk is provided through credit policies, credit risk management, and credit examination functions. Our credit polices place emphasis on strong underwriting standards and early detection of potential problem credits in order to develop and implement action plans on a timely basis to mitigate any potential losses. These formal credit policies and procedures provide the Company with a framework for consistent underwriting and a basis for sound credit decisions at the local banking affiliate level.
Our credit risk management function is separate from the lending function and strengthens control over, and the independent evaluation of, credit activities. In addition, we have a well-defined set of standards for regularly evaluating our loan portfolio, and we utilize a comprehensive loan risk-grading system to determine the risk potential in the portfolio. Furthermore, the internal credit examination department, which is independent of the credit risk management function, periodically conducts examinations of the Company's lending departments and credit activities. These examinations are designed to review credit quality, adequacy of documentation, appropriate loan risk-grading administration, and compliance with credit policies. New, expanded, or modified products and services, as well as new lines of business, are approved by the New Initiative Review Committee.
Our credit risk management strategy includes diversification of our loan portfolio. We attempt to avoid the risk of an undue concentration of credits in a particular collateral type or with an individual customer or counterparty. Generally, our loan portfolio is well diversified; however, due to the nature of our geographical footprint, there are certain significant concentrations, primarily in CRE and oil and gas-related lending. We have adopted and adhere to concentration limits on leveraged lending, municipal lending, oil and gas-related lending, and various types of CRE lending, particularly construction and land development lending. All of these limits are continually monitored and revised as necessary. The recent growth in construction and land development loan commitments is within the established concentration limits. Our business activity is primarily with customers located within the geographical footprint of our banking affiliates.
As we continue to monitor our concentration risk, the composition of our loan portfolio has slightly changed. Oil and gas-related loans represented 4.7% of the total loan portfolio at June 30, 2017, compared with 5.1% at December 31, 2016. Total commercial and CRE loans were 50.8% and 25.6% of the total portfolio at June 30, 2017, compared with 50.6% and 26.6%, at December 31, 2016, respectively. Consumer loans have grown to represent 23.6% of the total loan portfolio at June 30, 2017, compared with 22.8% at December 31, 2016.
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, 2017, the principal balance of these loans was $541 million, and the guaranteed portion of these loans was $411 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, 2017	Percent guaranteed		December 31, 2016	Percent guaranteed	
Commercial	$ 509	75	%	$ 519	75	%
Commercial real estate	15	76		18	75	
Consumer	17	92		17	92	
Total loans	$ 541	76		$ 554	76	

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

Table of Contents
ZIONS BANCORPORATION AND SUBSIDIARIES

COMMERCIAL LENDING BY INDUSTRY GROUP

	June 30, 2017		December 31, 2016	
(Dollar amounts in millions)	Amount	Percent	Amount	Percent
Real estate, rental and leasing	$2,639	11.9 %	$2,624	12.1 %
Retail trade [1]	2,267	10.2	2,145	9.9
Manufacturing	2,148	9.7	2,161	10.0
Finance and insurance	1,673	7.5	1,462	6.8
Healthcare and social assistance	1,459	6.6	1,538	7.1
Wholesale trade	1,455	6.6	1,444	6.7
Transportation and warehousing	1,375	6.2	1,300	6.0
Mining, quarrying and oil and gas extraction	1,289	5.8	1,403	6.5
Construction	1,104	5.0	1,076	5.0
Other services (except Public Administration)	989	4.4	881	4.1
Accommodation and food services	979	4.4	925	4.3
Professional, scientific and technical services	874	3.9	875	4.0
Utilities [2]	828	3.7	783	3.6
Other [3]	3,124	14.1	2,998	13.9
Total	$22,203	100.0%	$21,615	100.0%

1 At June 30, 2017, 82% of retail trade consist of motor vehicle and parts dealers, gas stations, grocery stores, building material suppliers, and direct-to-consumer retailers. For additional detail on our CRE retail exposure, see the Commercial Real Estate Loans section on page 25.

2 Includes primarily utilities, power, and renewable energy.

3 No other industry group exceeds 3.5%.

Oil and Gas-Related Exposure

Various industries represented in the previous schedule, including mining, quarrying and oil and gas extraction, manufacturing, and transportation and warehousing, contain certain loans we categorize as oil and gas-related. At both June 30, 2017 and December 31, 2016, we had approximately $3.9 billion of total oil and gas-related credit exposure. The distribution of oil and gas-related loans by customer market segment is shown in the following schedule:

Table of Contents
ZIONS BANCORPORATION AND SUBSIDIARIES

OIL AND GAS-RELATED EXPOSURE [1]

(Dollar amounts in millions)	June 30, 2017	December 31, 2016	June 30, 2016	2Q17 - 4Q16 $	2Q17 - 4Q16 %	2Q17 - 2Q16 $	2Q17 - 2Q16 %
Loans and leases							
Upstream – exploration and production	$709	$ 733	$831	$(24)	(3)%	$(122)	(15)%
Midstream – marketing and transportation	622	598	658	24	4	(36)	(5)
Downstream – refining	103	137	131	(34)	(25)	(28)	(21)
Other non-services	37	38	45	(1)	(3)	(8)	(18)
Oilfield services	455	500	712	(45)	(9)	(257)	(36)
Oil and gas service manufacturing	136	152	193	(16)	(11)	(57)	(30)
Total loan and lease balances [2]	2,062	2,158	2,570	(96)	(4)	(508)	(20)
Unfunded lending commitments	1,855	1,722	1,823	133	8	32	2
Total oil and gas credit exposure	$3,917	$ 3,880	$4,393	$37	1	$(476)	(11)
Private equity investments	$4	$ 7	$6	$(3)	(43)	$(2)	(33)
Credit quality measures [2]							
Criticized loan ratio	33.1 %	37.8 %	37.8 %				
Classified loan ratio	27.2 %	31.6 %	31.5 %				
Nonaccrual loan ratio	12.1 %	13.6 %	11.1 %				
Ratio of nonaccrual loans that are current	84.7 %	86.1 %	89.2 %				
Net charge-off ratio, annualized [3]	3.1 %	2.8 %	5.6 %				

[1] Because many borrowers operate in multiple businesses, judgment has been applied in characterizing a borrower as oil and gas-related, including a particular segment of oil and gas-related activity, e.g., upstream or downstream; typically, 50% of revenues coming from the oil and gas sector is used as a guide.

[2] Total loan and lease balances and the credit quality measures do not include oil and gas loans held for sale at period end.

[3] Calculated as the ratio of annualized net charge-offs to the beginning loan balances for each respective period.

During the second quarter of 2017, our overall balance of oil and gas-related loans decreased by $96 million, or 4.4%, from year-end 2016, and decreased by $508 million, or 19.8%, from the second quarter of 2016. Oil and gas-related loans represented 4.7% of the total loan portfolio at June 30, 2017, compared with 5.1% at December 31, 2016 and 6.0% at June 30, 2016. Unfunded oil and gas-related lending commitments increased by $133 million, or 7.7% during the second quarter of 2017, from year-end 2016, and increased by $32 million, or 1.8%, from the second quarter of 2016. The increase in unfunded oil and gas-related lending commitments was primarily in the other non-services portfolio.

Classified oil and gas-related credits decreased to $561 million at June 30, 2017, from $681 million at December 31, 2016. Oil and gas-related loan net charge-offs were $16 million in the second quarter of 2017, predominantly in the upstream portfolio, compared with $14 million in the first quarter of 2017 and $37 million in the second quarter of 2016.

Nonaccruing oil and gas-related loans decreased by $45 million from the fourth quarter of 2016, primarily in the oil and gas services portfolio. Approximately 85% of oil and gas-related nonaccruing loans were current as to principal and interest payments at June 30, 2017, which slightly declined from 86% at December 31, 2016.

Risk Management of the Oil and Gas-Related Portfolio

The oil and gas-related portfolio is comprised of three primary segments: upstream, midstream, and oil and gas services. Upstream exploration and production loan borrowers have relatively balanced production between oil and gas. Midstream loans are made to companies that gather, transport, treat and blend oil and natural gas, or that provide services to similar companies. Oil and gas services loans, which include oilfield services and oil and gas service manufacturing, include borrowers that have a concentration of revenues in the oil and gas industry. However, many of these borrowers provide a broad range of products and services to the oil and gas industry and are diversified geographically. For a more comprehensive discussion of these segments, refer to our 2016 Annual Report on Form 10-K.

We apply concentration limits and disciplined underwriting to the entire oil and gas-related loan portfolio to limit our risk exposure. As an indicator of the diversity in the size of our oil and gas-related portfolio, the average amount of our commitments is approximately $6 million, with approximately 66% of the commitments less than $30 million. Additionally, there are instances where we have commitments to companies with a common sponsor, which, if combined, would result in higher commitment levels than $30 million. The portfolio contains only senior loans – no junior or second lien positions; additionally, we cautiously approach making first-lien loans to borrowers that employ excessive leverage through the use of junior lien loans or unsecured layers of debt. Approximately 87% of the total oil and gas-related portfolio is secured by reserves, equipment, real estate, and other collateral, or a combination of collateral types.

We participate as a lender in loans and commitments designated as Shared National Credits ("SNCs"), which generally consist of larger and more diversified borrowers that have better access to capital markets. SNCs are loans or loan commitments of at least $20 million that are shared by three or more federally supervised institutions. The percentage of SNCs is approximately 72% of the upstream portfolio, 75% of the midstream portfolio, and 43% of the oil and gas services portfolio. Our bankers have direct access and contact with the management of these SNC borrowers, and as such, are active participants. In many cases, we provide ancillary banking services to these borrowers, further evidencing this direct relationship. The results of the recent SNC exam are reflected in our financial statements.

As a secondary source of support, many of our oil and gas-related borrowers have access to capital markets and private equity sources. Private sponsors tend to be large funds, often with assets under management of more than $1 billion, managed by individuals with a great deal of oil and gas expertise and experience and who have successfully managed investments through previous oil and gas price cycles. The investors in the funds are primarily institutional investors, such as large pensions, foundations, trusts, and high net worth family offices.

When establishing the level of the ACL, we consider multiple factors, including reduced drilling activity and additional capital raises by borrowers and their sponsors. Consistent with the fourth quarter of 2016, the ACL related to the oil and gas portfolio continued to exceed 8% for the second quarter of 2017.

Table of Contents
ZIONS BANCORPORATION AND SUBSIDIARIES

Commercial Real Estate Loans
Selected information indicative of credit quality regarding our CRE loan portfolio is presented in the following schedule.
COMMERCIAL REAL ESTATE PORTFOLIO BY LOAN TYPE AND COLLATERAL LOCATION

(Dollar amounts in millions)		Collateral Location									
Loan type	As of date	Arizona	California	Colorado	Nevada	Texas	Utah/ Idaho	Washington	Other [1]	Total	% of total CRE
Commercial term											
Balance outstanding	6/30/2017	$1,094	$2,978	$406	$608	$1,680	$1,346	$346	$554	$9,012	80.5%
% of loan type		12.4 %	33.0 %	4.5 %	6.7 %	18.6 %	14.9 %	3.8 %	6.1 %	100.0 %	
Delinquency rates [2]:											
30-89 days	6/30/2017	0.1 %	0.1 %	— %	0.1 %	0.2 %	0.2 %	— %	0.1 %	0.1 %	
	12/31/2016	0.1 %	— %	— %	0.7 %	— %	0.1 %	0.2 %	0.1 %	0.1 %	
≥ 90 days	6/30/2017	0.2 %	0.1 %	— %	— %	0.1 %	— %	0.2 %	0.6 %	0.1 %	
	12/31/2016	0.2 %	0.4 %	— %	— %	— %	0.1 %	— %	1.0 %	0.2 %	
Accruing loans past due 90 days or more	6/30/2017	$—	$1	$—	$—	$1	$—	$—	$—	$2	
	12/31/2016	—	10	—	—	—	2	—	—	12	
Nonaccrual loans	6/30/2017	$7	$10	$—	$3	$11	$1	$1	$4	$37	
	12/31/2016	8	11	—	2	1	—	7	—	29	
Residential construction and land development											
Balance outstanding	6/30/2017	$23	$321	$37	$6	$259	$29	$6	$2	$683	6.1 %
% of loan type		3.4 %	47.0 %	5.4 %	0.9 %	37.9 %	4.2 %	0.9 %	0.3 %	100.0 %	
Delinquency rates [2]:											
30-89 days	6/30/2017	1.1 %	— %	— %	— %	0.5 %	— %	— %	— %	0.2 %	
	12/31/2016	1.8 %	— %	— %	— %	0.3 %	— %	— %	— %	0.2 %	
≥ 90 days	6/30/2017	— %	— %	— %	— %	— %	— %	— %	— %	— %	
	12/31/2016	— %	— %	— %	— %	— %	— %	— %	— %		