ZIONS BANCORPORATION /UT/
Form 10-Q
May 09, 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 March 31, 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 April 30, 2018 197,114,982 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 transaction described in the presentation and receipt of regulatory approvals or determinations, 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 restructuring and efficiency initiatives and its capital plan;
- 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 Sates 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 ("U.S.") 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

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Corporation ("FDIC"), the Securities and Exchange Commission, and the Consumer Financial Protection Bureau;

- 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	Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act
AFS	Available-for-Sale	DTA	Deferred Tax Asset
ALCO	Asset/Liability Committee	EaR	Earnings at Risk
ALLL	Allowance for Loan and Lease Losses	ERM	Enterprise Risk Management
Amegy	Amegy Bank, a division of ZB, N.A.	EVE	Economic Value of Equity at Risk
AOCI	Accumulated Other Comprehensive Income	FAMC	Federal Agricultural Mortgage Corporation, or "Farmer Mac"
ASC	Accounting Standards Codification	FDIC	Federal Deposit Insurance Corporation
ASU	Accounting Standards Update	FHLB	Federal Home Loan Bank
ATM	Automated Teller Machine	FRB	Federal Reserve Board
BHC	Bank Holding Company	FTP	Funds Transfer Pricing
bps	basis points	GAAP	Generally Accepted Accounting Principles
CB&T	California Bank & Trust, a division of ZB, N.A.	HECL	Home Equity Credit Line
CCAR	Comprehensive Capital Analysis and Review	HQLA	High-Quality Liquid Assets
CLTV	Combined Loan-to-Value Ratio	HTM	Held-to-Maturity
CRE	Commercial Real Estate	IMG	International Manufacturing Group

DFAST	Dodd-Frank Act Stress Test	LCR	Liquidity Coverage Ratio
LIBOR	London Interbank Offered Rate	PPNR	Pre-provision Net Revenue

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Municipalities	State and Local Governments	ROC	Risk Oversight Committee
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	TCBW	The Commerce Bank of Washington, a division of ZB, N.A.
OCC	Office of the Comptroller of the Currency	TDR	Troubled Debt Restructuring
OCI	Other Comprehensive Income	Tier 1	Common Equity Tier 1 (Basel III)
OREO	Other Real Estate Owned	Topic 606	ASC Topic 606, “Revenue from Contracts with Customers
OTTI	Other-Than-Temporary Impairment	U.S.	United States
PAGA	Private Attorney General Act	Vectra	Vectra Bank Colorado, a division of ZB, N.A.
Parent	Zions Bancorporation	ZB, N.A.	ZB, National Association
PEI	Private Equity Investment	Zions Bank	Zions Bank, a division of ZB, N.A.

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.

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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 March 31, 2018	December 31, 2017	September 30, 2017	March 31, 2017
Net earnings applicable to common shareholders (GAAP)		$231	$ 114	$ 152	$129
Adjustment, net of tax:					
Amortization of core deposit and other intangibles		—	1	1	1
Net earnings applicable to common shareholders, excluding the effects of the adjustment, net of tax (non-GAAP)	(a)	$231	$ 115	$ 153	$130
Average common equity (GAAP)		$7,061	$ 7,220	$ 7,230	$6,996
Average goodwill and intangibles		(1,016)	(1,017)	(1,018)	(1,022)
Average tangible common equity (non-GAAP)	(b)	$6,045	$ 6,203	$ 6,212	$5,974
Number of days in quarter	(c)	90	92	92	90
Number of days in year	(d)	365	365	365	365
Return on average tangible common equity (non-GAAP)	(a/b/c)*d	15.5 %	7.4 %	9.8 %	8.8 %

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

(Dollar amounts in millions, except per share amounts)		March 31, 2018	December 31, 2017	September 30, 2017	March 31, 2017
Total shareholders’ equity (GAAP)		$7,644	$ 7,679	$ 7,761	$7,730
Goodwill and intangible		(1,016)	(1,016)	(1,017)	(1,021)
Tangible equity (non-GAAP)	(a)	6,628	6,663	6,744	6,709
Preferred stock		(566)	(566)	(566)	(710)
Tangible common equity (non-GAAP)	(b)	$6,062	$ 6,097	$ 6,178	$5,999
Total assets (GAAP)		$66,481	$ 66,288	$ 65,564	$65,463
Goodwill and intangible		(1,016)	(1,016)	(1,017)	(1,021)
Tangible assets (non-GAAP)	(c)	$65,465	$ 65,272	$ 64,547	$64,442
Common shares outstanding (thousands)	(d)	197,050	197,532	199,712	202,595
Tangible equity ratio (non-GAAP)	(a/c)	10.12 %	10.21 %	10.45 %	10.41 %
Tangible common equity ratio (non-GAAP)	(b/c)	9.26 %	9.34 %	9.57 %	9.31 %
Tangible book value per common share (non-GAAP)	(b/d)	$30.76	$ 30.87	$ 30.93	$29.61

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

(Dollar amounts in millions)		Three Months Ended March 31, 2018	December 31, 2017	March 31, 2017	Year Ended December 31, 2017
Noninterest expense (GAAP)	(a)	$412	$ 417	$ 414	$ 1,649
Adjustments:					
Severance costs		—	1	5	7
Other real estate expense, net		—	—	—	(1)
Provision for unfunded lending commitments		(7)	(1)	(5)	(7)
Amortization of core deposit and other intangibles		—	1	2	6
Restructuring costs		—	1	1	4
Total adjustments	(b)	(7)	2	3	9
Adjusted noninterest expense (non-GAAP)	(a-b)=(c)	$419	$ 415	$ 411	$ 1,640
Net interest income (GAAP)	(d)	$542	$ 526	$ 489	$ 2,065
Fully taxable-equivalent adjustments		5	9	8	35
Taxable-equivalent net interest income (non-GAAP)[1]	(d+e)=f	547	535	497	2,100
Noninterest income (GAAP)	g	138	139	132	544
Combined income (non-GAAP)	(f+g)=(h)	685	674	629	2,644
Adjustments:					
Fair value and nonhedge derivative income (loss)		1	—	—	(2)
Securities gains, net		—	—	5	14
Total adjustments	(i)	1	—	5	12
Adjusted taxable-equivalent revenue (non-GAAP)	(h-i)=(j)	$684	$ 674	$ 624	$ 2,632
Pre-provision net revenue	(h)-(a)	$273	$ 257	$ 215	$ 995
Adjusted PPNR (non-GAAP)	(j-c)	265	259	213	992
Efficiency ratio (non-GAAP)	(c/j)	61.3 %	61.6 %	65.9 %	62.3 %

RESULTS OF OPERATIONS

Executive Summary

The Company reported net earnings applicable to common shareholders of $231 million, or $1.09 per diluted common share for the first quarter of 2018, 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 $114 million, or $0.54 per diluted common share for the fourth quarter of 2017. The improved financial performance reflects revenue growth, continued expense control and improved credit quality, in addition to the decline in the corporate tax rate from 35% to 21%. We continue to focus on delivering a simple, easy, and fast experience for customers and employees.

Net income in the first quarter of 2018 increased from the first quarter of 2017 due to a $53 million increase in net interest income, from growth in our lending portfolio, and short-term rate increases that positively impacted loan yields. Net income increased significantly from a $65 million decline in the provision for credit losses and $11 million from four loan interest income recoveries. Noninterest income increased by $6 million and noninterest expense decreased by $2 million from the first quarter of 2017 to the first quarter of 2018. Net interest margin (“NIM”) was 3.56% in the first quarter of 2018, compared with 3.38% in the first quarter of 2017 and 3.45% in the fourth quarter of 2017.

Highlights from the First Quarter of 2018

Net interest income, which is more than three-quarters of our revenue, improved by $53 million from $489 million in the first quarter of 2017 to $542 million in the first quarter of 2018. The increase was driven by growth in the average balances of loan and investment securities portfolios and increases in short-term benchmark interest rates. NIM was 3.56% in the first quarter of 2018 compared with 3.38% in the first quarter of 2017. For more discussion on the changes in net interest income and NIM see "Net Interest Income" and "Net Interest Margin and Interest Rate Spreads."

Adjusted PPNR of $265 million for the first quarter of 2018 was up $52 million, or 24%, from the first quarter of 2017. This increase reflects operating leverage improvement resulting from loan growth and a more profitable average earning asset mix. The higher adjusted PPNR in the first quarter of 2018, compared with the same prior year period, drove an improvement in the Company's efficiency ratio from 65.9% in the first quarter of 2017 to 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 lending portfolio grew $2.3 billion, or 5% since the first quarter of 2017. We have seen widespread growth across most products and geographies, with particular strength in commercial and industrial, 1-4 family residential, municipal, and owner-occupied lending. We saw slight declines in our oil and gas-related and commercial real estate ("CRE") term portfolios and are currently comfortable with the concentrations in both portfolios.

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 first quarter of 2017 to the first quarter of 2018, criticized, classified, and nonaccrual loans declined by $460 million, $441 million, and $198 million, respectively.

We continue to increase the return on- and of- capital. Return on average tangible common equity was 15.5% for the first quarter of 2018, up 670 basis points ("bps") from the same prior year period. Regarding the return of capital, during the first quarter of 2018, the Company repurchased 2.2 million shares of common stock for $115 million. Dividends per common share were $0.20 in the first quarter of 2018, compared with $0.08 for the first quarter of 2017. In June 2017, we announced that the Federal Reserve did not object to the capital actions in the Company's 2017 capital plan (the binding portion of which spans the timeframe of July 2017 to June 2018). 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 31 for more information regarding the 2017 capital plan.

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 first quarter of 2018 when compared to the first quarter of 2017 and the fourth quarter of 2017, as discussed subsequently. 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 $542 million in the first quarter of 2018 from $489 million in the first quarter of 2017. The $53 million, or 11%, increase in net interest income was primarily due to a $64 million increase in interest and fees on loans resulting from loan growth in commercial and consumer loans and increases in short-term interest rates. Interest on securities also increased $8 million during this same time as the average investment securities portfolio increased $907 million, or 6%. Interest income in the first quarter of 2018 was positively impacted by $11 million of interest income recoveries, most notably four commercial loan interest income recoveries that were individually greater than $1 million. Interest expense increased $21 million from the first quarter of 2017 to the first quarter of 2018 primarily due to a $17 million increase in interest on short-term

borrowings and a $7 million increase in interest on deposits. The increase in interest on short-term borrowings was due to both larger balances and higher rates while the increase in interest on deposits was due to higher interest rates as interest-bearing deposits decreased slightly. 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 9 bps and the rate paid on total deposits increased 5 bps.

We expect the size of the securities portfolio to be relatively stable during the next several quarters, and we are not assuming any further increases in benchmark interest rates in our forecasts. Therefore, we expect net interest income to increase at a moderate pace over the next twelve months.

Net Interest Margin and Interest Rate Spreads

The NIM was 3.56% and 3.38% for the first quarters of 2018 and 2017, respectively, and 3.45% for the fourth quarter of 2017. The increased NIM for the first quarter of 2018, compared with the same prior year period, resulted from average loan growth of 5%, the material expansion of the yield on earning assets, which increased 31 bps, and the combination of several other factors. The NIM was positively impacted by changes in asset mix, by moving funds from lower-yielding money market investments to purchase investment securities primarily during the first quarter of 2017. Average interest-earning assets increased $2.6 billion from the first quarter of 2017 to the first quarter of 2018, with average rates improving 31 bps. The decrease in the corporate tax rate from 35% to 21% decreased the taxable-equivalent yield on $3.1 billion of tax-exempt assets, which had a 3 bps negative impact on the taxable-equivalent yield of interest-earning assets. The previously-mentioned loan interest income recoveries positively impacted the loan yield by approximately 9 bps and the net interest margin by approximately 7 bps in the first quarter of 2018.

Average interest-bearing liabilities increased $2.5 billion in the first quarter of 2018 compared with the first quarter of 2017 as a result of wholesale borrowings to fund some of the balance sheet growth. The average rate on interest-bearing liabilities increased 22 bps during this same time period due to rising interest rates.

The average loan portfolio increased $2.3 billion, or 5% between the first quarter of 2018 and the first quarter of 2017. Most of this growth was in commercial and industrial, municipal, and owner-occupied loans, as well as 1-4 family residential loans. The average loan yield increased 37 bps over the same period, with increases in the average rates for commercial, CRE, and consumer loans of 48 bps, 40 bps, and 12 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 increased $0.9 billion from the first quarter of 2017 to the first quarter of 2018. Yields on average AFS securities increased slightly by 4 bps over the same period. The increased yield was a result of rising market interest rates on variable-rate securities.

Average noninterest-bearing demand deposits provided us with low cost funding and comprised 45% of average total deposits for both the first quarters of 2017 and 2018. Average total deposits were $52.0 billion for the first quarter of 2018 compared with $52.2 billion for the first quarter of 2017. Average interest-bearing deposits were $28.6 billion in the first quarter of 2018, compared with $28.8 billion for the same prior year period, and the average rate paid increased 9 bps. We have been selectively increasing deposit pricing, but we have not generally experienced significant pressure to increase 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 detail on deposit betas is discussed in “Interest Rate and Market Risk Management” on page 24.

The average balance of long-term debt was $138 million lower for the first quarter of 2018 compared with the same prior year period, as a result of maturities during the first quarter of 2017. The average interest rate paid on long-term debt decreased slightly by an immaterial amount. 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 $2.8 billion and the average interest rate paid increased by 83 bps as a result of rising short-term interest rates.

The rate paid on total deposits and interest-bearing liabilities increased 15 bps from 0.18% for the first quarter of 2017 to 0.33% for the first 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 first quarter of 2018 was 0.15%, compared with 0.10% for the first quarter of 2017.

The spread on average interest-bearing funds was 3.32% and 3.23% for the first quarters 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.

We expect the mix of interest-earning assets to continue to change over the next several quarters due to growth in residential mortgage and 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, 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 24.

Refer to the "Liquidity Risk Management" section beginning on page 27 for more information on how we manage liquidity risk.

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

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CONSOLIDATED AVERAGE BALANCE SHEETS, YIELDS AND RATES
(Unaudited)

(Dollar amounts in millions)	Three Months Ended March 31, 2018			Three Months Ended March 31, 2017		
	Average balance	Amount of interest [1]	Average yield/rate	Average balance	Amount of interest [1]	Average yield/rate
ASSETS						
Money market investments	$1,495	$ 6	1.70 %	$1,983	$ 5	0.93 %
Securities:						
Held-to-maturity	789	7	3.54	847	8	3.90
Available-for-sale	14,948	80	2.18	14,024	73	2.14
Trading account	102	1	4.00	61	1	3.75
Total securities [2]	15,839	88	2.25	14,932	82	2.24
Loans held for sale	51	—	3.94	132	1	3.22
Loans and leases [3]						
Commercial	23,040	267	4.70	21,606	225	4.22
Commercial real estate	11,065	128	4.67	11,241	118	4.27
Consumer	10,759	105	3.94	9,719	92	3.82
Total loans and leases	44,864	500	4.51	42,566	435	4.14
Total interest-earning assets	62,249	594	3.87	59,613	523	3.56
Cash and due from banks	592			974		
Allowance for loan losses	(523)			(566)		
Goodwill and intangibles	1,016			1,022		
Other assets	3,032			2,952		
Total assets	$66,366			$63,995		
LIABILITIES AND SHAREHOLDERS' EQUITY						
Interest-bearing deposits:						
Savings and money market	$25,296	12	0.19 %	$25,896	9	0.14 %
Time	3,280	8	1.00	2,856	4	0.59
Total interest-bearing deposits	28,576	20	0.28	28,752	13	0.19
Borrowed funds:						
Federal funds and other short-term borrowings	5,707	22	1.54	2,924	5	0.71
Long-term debt	383	5	5.83	521	8	5.92
Total borrowed funds	6,090	27	1.81	3,445	13	1.50
Total interest-bearing liabilities	34,666	47	0.55	32,197	26	0.33
Noninterest-bearing deposits	23,417			23,460		
Total deposits and interest-bearing liabilities	58,083	47	0.33	55,657	26	0.18
Other liabilities	656			632		
Total liabilities	58,739			56,289		
Shareholders' equity:						
Preferred equity	566			710		
Common equity	7,061			6,996		
Total shareholders' equity	7,627			7,706		
Total liabilities and shareholders' equity	$66,366			$63,995		
Spread on average interest-bearing funds			3.32 %			3.23 %

Taxable-equivalent net interest income and net yield on interest-earning assets	$ 547	3.56 %	$ 497	3.38 %

[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 $33 million and $32 million of premium amortization, as of March 31, 2018 and March 31, 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 18 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 $(40) million in the first quarter of 2018, compared with $23 million in the same prior year period. The negative provision in the first quarter of 2018 was a result of improving credit quality, particularly in the oil and gas-related portfolio, and minimal incurred losses-to-date from Hurricane Harvey. The provision in the first quarter of 2017 was largely a result of charge-offs related to an isolated event with a single, non-oil and gas-related borrower. Asset quality during the first quarter of 2018 continued to improve for the entire loan portfolio when compared with the first 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 $441 million and $198 million, respectively, from the first quarter of 2017. Net charge-offs totaled $5 million in the first quarter of 2018, compared with $46 million in the first quarter of 2017.

During the first quarter of 2018, we recorded a $(7) million provision for unfunded lending commitments, compared with a $(5) million provision in the first quarter of 2017. The negative provisions recognized in the first quarters of 2018 and 2017 were a result of credit quality improvement in the oil and gas-related 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 $80 million from the first quarter of 2017 to the first quarter of 2018. Even with loan growth and the minimal Hurricane Harvey impact, solid credit quality and decreased net charge-offs in the total loan portfolio were responsible for much of this reduction. Further, declining oil and gas-related exposure and increasing non-oil and gas-related C&I and 1-4 family residential mortgage exposure improved the risk profile of the portfolio.

Noninterest Income

Noninterest income represents revenues we earn for products and services that have no associated interest rate or yield. For the first quarter of 2018, noninterest income increased $6 million, or 5% compared with the first 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.

NONINTEREST INCOME	Three Months Ended March 31,		Amount change	Percent change
(Dollar amounts in millions)	2018	2017		
Service charges and fees on deposit accounts	$42	$42	$ —	— %
Other service charges, commissions and fees	55	49	6	12
Wealth management and trust income	12	10	2	20
Loan sales and servicing income	6	7	(1)	(14)
Capital markets and foreign exchange	8	7	1	14
Customer-related fees	123	115	8	7
Dividends and other investment income	11	12	(1)	(8)
Securities gains, net	—	5	(5)	(100)
Other	4	—	4	NM

Total noninterest income	$138	$132	$ 6	5

Customer-related fees increased $8 million, or 7%, from the first quarter of 2017 to the first quarter of 2018. Other service charges, commissions and fees increased $6 million, or 12%, due to customer interest rate swap

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management fees, loan syndication fees, and other fees. Wealth management and trust income increased by $2 million, or 20%, due to both increased corporate and personal trust income. Improvements in platform and product simplifications contributed to this increase. We expect moderate growth in customer-related fees over the next twelve months.

Other noninterest income increased $4 million, primarily due to favorable credit valuations on client-related derivative instruments and net gains on sales of assets. These increases were partially offset by a $5 million decrease in securities gains as a result of increases in the market value of the Company's Small Business Investment Company ("SBIC") investments in the first quarter of 2017 that did not recur in similar magnitudes in the first quarter of 2018.

Noninterest Expense

Noninterest expense decreased by $2 million, or less than 1%, over the first quarter of 2017. The Company remains focused on expense control efforts, while continuing to invest in technology and simplification initiatives. The following schedule presents a comparison of the major components of noninterest expense.

NONINTEREST EXPENSE	Three Months Ended March 31,		Amount change	Percent change
(Dollar amounts in millions)	2018	2017		
Salaries and employee benefits	$269	$261	$ 8	3 %
Occupancy, net	31	34	(3)	(9)
Furniture, equipment and software, net	33	32	1	3
Credit-related expense	7	7	—	—
Provision for unfunded lending commitments	(7)	(5)	(2)	(40)
Professional and legal services	12	14	(2)	(14)
Advertising	5	5	—	—
FDIC premiums	13	12	1	8
Other	49	54	(5)	(9)
Total noninterest expense	$412	$414	$ (2)	—
Adjusted noninterest expense [1]	$419	$411	$ 8	2

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

Salary and benefits expense was up $8 million in the first quarter of 2018 compared with the first quarter of 2017 primarily due to a $5 million increase in salaries and bonuses. As a result of the recent tax reform, the Company awarded salary increases to employees earning less than $50,000 per year, and committed to pay $1,000 bonuses in late 2018 to employees earning up to $100,000 and employed at the end of 2017. The increase in salary and employee benefits during the first quarter of 2018 was also impacted by a $4 million increase in employee medical expenses.

Noninterest expense was reduced by slight decreases in occupancy, provision for unfunded lending commitments, professional and legal services, and other noninterest expense. Occupancy expense decreased primarily due to increased net rental income from a newly constructed office building. Professional and legal services decreased primarily from a $4 million decrease in consulting fees. Other noninterest expense decreased from a combination of several miscellaneous items.

The Company's provision for unfunded lending commitments has remained relatively steady over the past twelve months. For further information see "Provision for Credit Losses" on page 12.

Adjusted noninterest expense for the first quarter of 2018 increased $8 million, or 2%, to $419 million, compared with $411 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 first quarter of 2018 is the provision for unfunded lending commitments, which was $(7) million. The aforementioned 2% year-over-year increase is in line with our expectations that noninterest expense is likely to experience an increase in the low single-digit percentage range relative to the prior year, as we continue to invest in people and technology.

Income Taxes

Income tax expense for the first quarter of 2018 was $70 million, compared with $45 million for the same prior year period. The effective tax rates were 22.7% and 24.5% for the first quarters of 2018 and 2017, respectively. The income tax rate for the first quarter of 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 relatively low tax rate for the first quarter of 2017 was primarily driven by a one-time $14 million benefit to tax expense related to state tax adjustments. The tax rates for the first quarters of 2018 and 2017 were reduced by nontaxable municipal interest income and nontaxable income from certain bank-owned life insurance.

We had a net deferred tax asset (“DTA”) balance of $123 million at March 31, 2018, compared with $93 million at December 31, 2017. The increase in the net DTA resulted primarily from the increase of unrealized losses in other comprehensive income (“OCI”) related to securities and the decrease in deferred tax liabilities related to premises and equipment and the deferred gain on a prior period debt exchange. Net charge-offs exceeding the provision for loan losses offset some of the overall increase in DTA.

Preferred Dividends

Preferred dividends of $7 million during the first quarter of 2018 decreased $3 million when compared with the first 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. 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 11.

Average interest-earning assets were $62.2 billion for the first three months of 2018, compared with $59.6 billion for the first three months of 2017. Average interest-earning assets as a percentage of total average assets for the first three months of 2018 and 2017 were 93.8% and 93.2%, respectively.

Average loans were $44.9 billion and $42.6 billion for the first three months of 2018 and 2017, respectively. Average loans as a percentage of total average assets for the first three months of 2018 were 67.6%, compared with 66.5% in the same prior year period.

Average money market investments, consisting of interest-bearing deposits, federal funds sold, and security resell agreements, decreased by 24.6% to $1.5 billion for the first three months of 2018, compared with $2.0 billion for the first three months of 2017. Average securities increased by 6.1% for the first three months of 2018, compared with the first three 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 27 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.

INVESTMENT SECURITIES PORTFOLIO

	March 31, 2018			December 31, 2017		
(In millions)	Par value	Amortized cost	Estimated fair value	Par value	Amortized cost	Estimated fair value
Held-to-maturity						
Municipal securities	$768	$ 768	$ 752	$771	$ 770	$ 762
Available-for-sale						
U.S. Treasury securities	25	25	25	25	25	25
U.S. Government agencies and corporations:						
Agency securities	1,827	1,826	1,803	1,830	1,830	1,818
Agency guaranteed mortgage-backed securities	9,658	9,835	9,580	9,605	9,798	9,666
Small Business Administration loan-backed securities	1,967	2,176	2,159	2,007	2,227	2,222
Municipal securities	1,189	1,328	1,305	1,193	1,336	1,334
Other debt securities	25	25	24	25	25	24
Total available-for-sale debt securities	14,691	15,215	14,896	14,685	15,241	15,089
Money market mutual funds and other				72	72	72
Total available-for-sale	14,691	15,215	14,896	14,757	15,313	15,161
Total	$15,459	$ 15,983	$ 15,648	$15,528	$ 16,083	$ 15,923

The amortized cost of investment securities at March 31, 2018 decreased by 0.6% from the balances at December 31, 2017.

The investment securities portfolio includes $524 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 three months ended March 31, 2018, premium amortization reduced the yield on securities by 89 bps compared with a 91 bps impact for the same period in 2017.

As of March 31, 2018, under the GAAP fair value accounting hierarchy, 0.2% of the $14.9 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.

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

(In millions)	March 31, 2018	December 31, 2017
Loans and leases	$ 1,299	$ 1,271
Held-to-maturity – municipal securities	768	770
Available-for-sale – municipal securities	1,305	1,334
Trading account – municipal securities	101	146
Unfunded lending commitments	153	152
Total direct exposure to municipalities	$ 3,626	$ 3,673

At March 31, 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 80% of the outstanding credits 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 March 31, 2018 and December 31, 2017.

Loan Portfolio

For the first three months of 2018 and 2017, average loans accounted for 68% and 67%, 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 March 31, 2018.

LOAN PORTFOLIO

	March 31, 2018		December 31, 2017	
(Dollar amounts in millions)	Amount	% of total loans	Amount	% of total loans
Commercial:				
Commercial and industrial	$14,125	31.3 %	$14,003	31.3 %
Leasing	371	0.8	364	0.8
Owner-occupied	7,345	16.3	7,288	16.3
Municipal	1,299	2.9	1,271	2.8
Total commercial	23,140	51.3	22,926	51.2
Commercial real estate:				
Construction and land development	2,099	4.7	2,021	4.5
Term	9,023	20.0	9,103	20.3
Total commercial real estate	11,122	24.7	11,124	24.8
Consumer:				
Home equity credit line	2,792	6.2	2,777	6.2
1-4 family residential	6,768	15.0	6,662	15.0
Construction and other consumer real estate	599	1.3	597	1.3
Bankcard and other revolving plans	488	1.1	509	1.1
Other	174	0.4	185	0.4
Total consumer	10,821	24.0	10,730	24.0
Total net loans	$45,083	100.0 %	$44,780	100.0 %

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Loan portfolio growth during the first three months of 2018 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 the CRE term portfolio.

Commercial owner-occupied loans also increased during the first three 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 three months of 2018, the Company increased its short-term borrowings with the FHLB by $850 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)	March 31, 2018	December 31, 2017
Bank-owned life insurance	$ 509	$ 506
Federal Home Loan Bank stock	185	154
Federal Reserve stock	188	184
Farmer Mac stock	46	43
SBIC investments	130	127
Non-SBIC investment funds	12	12
Other	3	3
Total other noninterest-bearing investments	$ 1,073	$ 1,029

Premises, Equipment and Software

Net premises, equipment and software increased $4 million, or 0.4%, during the first three 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 three months of 2018 decreased by 0.4%, compared with the first three months of 2017, with average interest-bearing deposits decreasing by 0.6% and average noninterest-bearing deposits decreasing by 0.2%. The average interest rate paid for interest-bearing deposits was 9 bps higher during the first three months of 2018, compared with the first three months of 2017.

Demand and savings and money market deposits were 93% and 94% of total deposits at March 31, 2018 and December 31, 2017, respectively. At March 31, 2018 and December 31, 2017, total deposits included $2.0 billion and $1.6 billion, respectively, of brokered deposits.

See “Liquidity Risk Management” on page 27 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.

Government Agency Guaranteed Loans

We participate in various guaranteed lending programs sponsored by U.S. government agencies, such as the Small Business Administration ("SBA"), Federal Housing Authority, Veterans' Administration, Export-Import Bank of the U.S., and the U.S. Department of Agriculture. As of March 31, 2018, the principal balance of these loans was $540 million, and the guaranteed portion of these loans was $410 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)	March 31, 2018	Percent guaranteed		December 31, 2017	Percent guaranteed	
Commercial	$ 517	76	%	$ 507	75	%
Commercial real estate	13	75		14	75	
Consumer	10	100		16	92	
Total loans	$ 540	76		$ 537	76	

Commercial Lending

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

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COMMERCIAL LENDING BY INDUSTRY GROUP

	March 31, 2018		December 31, 2017	
(Dollar amounts in millions)	Amount	Percent	Amount	Percent
Real estate, rental and leasing	$2,835	12.3 %	$2,807	12.3 %
Retail trade [1]	2,303	10.0	2,257	9.8
Manufacturing	2,162	9.3	2,116	9.2
Finance and insurance	1,935	8.4	2,026	8.8
Wholesale trade	1,595	6.9	1,543	6.7
Healthcare and social assistance	1,535	6.6	1,556	6.8
Transportation and warehousing	1,325	5.7	1,343	5.9
Construction	1,144	4.9	1,094	4.8
Mining, quarrying, and oil and gas extraction	1,040	4.5	1,010	4.4
Utilities [2]	990	4.3	905	4.0
Professional, scientific, and technical services	923	4.0	879	3.8
Accommodation and food services	910	3.9	932	4.1
Other Services (except Public Administration)	891	3.9	896	3.9
Other [3]	3,552	15.3	3,562	15.5
Total	$23,140	100.0%	$22,926	100.0%

[1] At March 31, 2018, 84% 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 20.

[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	3/31/2018	$1,089	$2,906	$495	$545	$1,640	$1,351	$470	$527	$9,023	81.1 %
% of loan type		12.1 %	32.2 %	5.5 %	6.0 %	18.2 %	15.0 %	5.2 %	5.8 %	100.0 %	
Delinquency rates [2]:											
30-89 days	3/31/2018	— %	0.2 %	0.8 %	1.3 %	0.2 %	0.1 %	— %	0.4 %	0.3 %	
	12/31/2017	0.2 %	0.1 %	0.1 %	0.2 %	— %	0.2 %	— %	0.8 %	0.1 %	
≥ 90 days	3/31/2018	0.2 %	0.2 %	— %	0.2 %	— %	0.1 %	— %	0.4 %	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	3/31/2018	$—	$1	$—	$—	$—	$—	$—	$—	$1	
	12/31/2017	1	1	—	—	—	—	—	—	2	
Nonaccrual loans	3/31/2018	$3	$11	$—	$1	$19	$2	$—	$21	$57	
	12/31/2017	4	7	1	2	17	1	4	—	36	
Residential construction and land development											
Balance outstanding	3/31/2018	$50	$264	$44	$3	$212	$36	$2	$8	$619	5.6 %
% of loan type		8.1 %	42.6 %	7.1 %	0.5 %	34.3 %	5.8 %	0.3 %	1.3 %	100.0 %	
Delinquency rates [2]:											
30-89 days	3/31/2018	— %	— %	— %	— %	— %	— %	— %	— %	— %	
	12/31/2017	— %	— %	0.2 %	— %	0.7 %	— %	— %	— %	0.2 %	
≥ 90 days	3/31/2018	— %	— %	— %	— %	— %	— %	— %	— %	— %	
	12/31/2017	— %	— %	— %	— %	0.1 %	— %	— %	— %	— %	
Accruing loans past due 90 days or more	3/31/2018	$—	$—	$—	$—	$—	$—	$—	$—	$—	
	12/31/2017	—	—	—	—	—	—	—	—	—	
Nonaccrual loans	3/31/2018	$—	$—	$—	$—	$—	$—	$—	$—	$—	

	12/31/2017	—	—	—	—	—	—	—	—	—	
Commercial construction and land development											
Balance outstanding	3/31/2018	$141	$337	$37	$67	$430	$321	$107	$40	$1,480	13.3%
% of loan type		9.5%	22.8%	2.5%	4.5%	29.1%	21.7%	7.2%	2.7%	100.0%	
Delinquency rates [2]:											
30-89 days	3/31/2018	—%	—%	—%	—%	0.2%	—%	—%	—%	0.1%	
	12/31/2017	0.1%	0.2%	—%	—%	0.2%	0.1%	—%	—%	0.1%	
≥ 90 days	3/31/2018	—%	—%	—%	—%	—%	1.2%	—%	—%	0.3%	
	12/31/2017	—%	—%	—%	—%	—%	1.3%	—%	—%	0.3%	
Accruing loans past due 90 days or more	3/31/2018	$—	$—	$—	$—	$—	$—	$—	$—	$—	
	12/31/2017	—	—	—	—	—	—	—	—	—	
Nonaccrual loans	3/31/2018	$—	$—	$—	$—	$1	$4	$—	$—	$5	
	12/31/2017	—	—	—	—	—	4	—	—	4	
Total construction and land development	3/31/2018	$191	$601	$81	$70	$642	$357	$109	$48	$2,099	
Total commercial real estate	3/31/2018	$1,280	$3,507	$576	$615	$2,282	$1,708	$579	$575	$11,122	100.0%

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

[2] Delinquency rates include nonaccrual loans.

Approximately 18% of the CRE term loans consist of mini-perm loans as of March 31, 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 82% 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 $149 million, or 10%, of the commercial construction and land development portfolio at March 31, 2018 consists of acquisition and development loans. Most of these acquisition and development loans are secured by specific retail, apartment, office, or other projects.

Of the total CRE loan portfolio we categorize $1.8 billion as retail property. At March 31, 2018, approximately $352 million, or 19%, of the retail CRE loans are secured by regional shopping centers.

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 March 31, 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)	March 31, 2018	December 31, 2017
Secured by first deeds of trust	$1,419	$ 1,406
Secured by second (or junior) liens	1,373	1,371
Total	$2,792	$ 2,777

At March 31, 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 26% 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 three months of 2018 and 2017 for the HECL portfolio was 0.06% and (0.07)%, 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 0.87% at March 31, 2018, compared with 0.93% at December 31, 2017.

Total nonaccrual loans at March 31, 2018 decreased $27 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

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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 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)	March 31, 2018		December 31, 2017	
Nonaccrual loans [1]	$ 387		$ 414	
Other real estate owned	5		4	
Total nonperforming assets	$ 392		$ 418	
Ratio of nonperforming assets to net loans and leases[1] and other real estate owned	0.87	%	0.93	%
Accruing loans past due 90 days or more	$ 16		$ 22	
Ratio of accruing loans past due 90 days or more to loans and leases[1]	0.04	%	0.05	%
Nonaccrual loans and accruing loans past due 90 days or more	$ 403		$ 436	
Ratio of nonaccrual loans and accruing loans past due 90 days or more to loans and leases[1]	0.89	%	0.97	%
Accruing loans past due 30-89 days	$ 98		$ 120	
Nonaccrual loans[1] current as to principal and interest payments	60.8	%	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 increased $3 million, or 1%, during the first three 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)	March 31, 2018	December 31, 2017
Restructured loans – accruing	$ 143	$ 139
Restructured loans – nonaccruing	86	87
Total	$ 229	$ 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 March 31, 2018	2017
Balance at beginning of period	$226	$251
New identified TDRs and principal increases	51	86
Payments and payoffs	(34)	(23)
Charge-offs	(1)	(3)
No longer reported as TDRs	(11)	(1)
Sales and other	(2)	(12)
Balance at end of period	$229	$298

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)	Three Months Ended March 31, 2018	Twelve Months Ended December 31, 2017	Three Months Ended March 31, 2017
Loans and leases outstanding (net of unearned income)	$45,083	$44,780	$42,742
Average loans and leases outstanding (net of unearned income)	$44,864	$43,501	$42,566
Allowance for loan losses:			
Balance at beginning of period	$518	$567	$567
Provision charged to earnings	(40)	24	23
Charge-offs:			
Commercial	(20)	(118)	(51)
Commercial real estate	—	(9)	(1)
Consumer	(6)	(17)	(5)
Total	(26)	(144)	(57)
Recoveries:			
Commercial	18	46	6
Commercial real estate	2	14	2
Consumer	1	11	3
Total	21	71	11
Net loan and lease charge-offs	(5)	(73)	(46)
Balance at end of period	$473	$518	$544
Ratio of annualized net charge-offs to average loans and leases	0.05 %	0.17 %	0.43 %
Ratio of allowance for loan losses to net loans and leases, at period end	1.05 %	1.16 %	1.27 %
Ratio of allowance for loan losses to nonaccrual loans, at period end	131 %	129 %	99 %
	125 %	122 %	93 %

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 three months of 2018 by $45 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 March 31, 2018, the reserve decreased by $7 million

compared with December 31, 2017, also as a result of credit quality improvements in the total loan portfolio, and decreased by $9 million from March 31, 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 to 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

	March 31, 2018	
Product	Effective duration (unchanged)	Effective duration (+200 bps)
Demand deposits	3.1 %	3.0 %
Money market	1.5 %	1.2 %
Savings and interest-on-checking	2.7 %	2.4 %

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

	March 31, 2018				
	Parallel shift in rates (in bps)[1]				
Repricing scenario	-100	0	+100	+200	+300
Earnings at Risk	(2.7)%	—%	3.1%	6.0%	8.8%

[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 6.0% to 3.5%.
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 -1.5% to -3.7%.

	March 31, 2018				
	Parallel shift in rates (in bps)[1]				
Repricing scenario	-100	0	+100	+200	+300
Economic Value of Equity	0.3%	—%	(0.6)%	(1.5)%	(2.4)%

[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 non-interest 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 March 31, 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 $1.1 billion of cash flow hedges by receiving fixed rates on interest rate swaps. Additionally, asset sensitivity is reduced due to $0.1 billion of variable-rate loans being priced at floored rates at March 31, 2018, which were above the "index plus spread" rate by an average of 62 bps. At March 31, 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 $0.1 billion were priced at floored rates, which were above the "index plus spread" rate by an average of 18 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 March 31, 2018, we had a relatively small amount, $143 million, of trading assets and $96 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 first quarter of 2018, the after-tax change in AOCI attributable to AFS securities decreased by $126 million, due largely to changes in the interest rate environment, compared with a $12 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 SBIC venture capital funds. Our equity exposure to these investments was approximately $130 million and $127 million at March 31, 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 $12 million at both March 31, 2018 and December 31, 2017.

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 March 31, 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

The Company is subject to a modified LCR liquidity standard which requires a financial institution to hold an adequate amount of unencumbered High-Quality-Liquid Assets ("HQLA") that can be converted into cash easily and immediately in private markets to meet its liquidity needs for a short-term liquidity stress scenario. The Enhanced Prudential Standards for liquidity management (Reg. YY) require the Company to conduct monthly liquidity stress tests. These tests incorporate scenarios designed by us, require a buffer of highly liquid assets sufficient to cover 30-day funding needs under the stress scenarios, and are subject to review by the FRB. The Company complies with both of the requirements of the LCR and Reg. YY.

In 2016, the FRB issued a proposal requiring bank holding companies with less than $250 billion of assets, but more than $50 billion of assets, to cover 70% of 1-year cash outflows under the assumptions required in the proposed Net Stable Funding Ratio ("NSFR"). The proposed NSFR requires a financial institution to maintain a stable funding profile over a one-year period in relation to the characteristics of its on- and off-balance sheet activities. We believe that we would meet the minimum NSFR if such requirement were currently effective.

Liquidity Management Actions

Consolidated cash, interest-bearing deposits held as investments, and security resell agreements at the Parent and its subsidiaries was $1.7 billion at March 31, 2018, compared to $1.6 billion at December 31, 2017 and $2.7 billion at March 31, 2017. During the first three 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) net loan originations, (2) repurchase of our common stock, (3) repayment of short-term debt, 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 $333 million at March 31, 2018, compared with $332 million at December 31, 2017 and $439 million at March 31, 2017. The primary sources of cash for the first three months of 2018 were from common dividends and return of common equity and preferred dividends received by the parent from its subsidiary bank. The primary uses of cash during the same period were repurchases of our common stock and dividends on our common and preferred stock.

During the first three months of 2018 and 2017, the Parent received common dividends and return of common equity totaling $155 million and $125 million, respectively, and preferred dividends totaling $13 million for both periods. At March 31, 2018, ZB, National Association ("ZB, N.A.") had approximately $322 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,

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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.

The following schedule presents the Company's and ZB, N.A.'s credit ratings as of April 30, 2018.

CREDIT RATINGS

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

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

PARENT ONLY CONDENSED BALANCE SHEETS

(In millions)	March 31, 2018	December 31, 2017	March 31, 2017
ASSETS			
Cash and due from banks	$ 2	$ —	$ —
Interest-bearing deposits	331	332	439
Investment securities:			
Available-for-sale, at fair value	29	30	39
Other noninterest-bearing investments	38	36	32
Investments in subsidiaries:			
Commercial bank	7,575	7,620	7,586
Other subsidiaries	41	41	6
Other assets	41	32	73
Total assets	$ 8,057	$ 8,091	$ 8,175
LIABILITIES AND SHAREHOLDERS' EQUITY			
Other liabilities	$ 31	$ 30	$ 63
Long-term debt:			
Due to others	382	382	382
Total liabilities	413	412	445
Shareholders' equity:			
Preferred stock	566	566	710
Common stock	4,346	4,445	4,696
Retained earnings	2,999	2,807	2,435
Accumulated other comprehensive income (loss)	(267)	(139)	(111)
Total shareholders' equity	7,644	7,679	7,730
Total liabilities and shareholders' equity	$ 8,057	$ 8,091	$ 8,175

The Parent's cash payments for interest, reflected in operating expenses, decreased to $2 million during the first three months of 2018 from $5 million during the first three months of 2017 due to the maturity of long-term debt during 2017. Additionally, the Parent paid approximately $49 million of total dividends on preferred stock and common stock for the first three months of 2018 compared to $29 million for the first quarter of 2017. Dividends paid per common share have increased gradually from $0.08 in the first quarter of 2017 to $0.20 in the first quarter of 2018. In April 2018, the Board approved an increase of the quarterly common dividend to $0.24 per share.

At March 31, 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 demand, savings and money market deposits, and time deposits under $250,000. On a consolidated basis, the Company's loan to total deposit ratio was 85.1% at both March 31, 2018 and December 31, 2017, compared with 79.9% at March 31, 2017, reflecting a higher loan growth rate than the deposit growth rate during much of 2017.

Total deposits increased slightly by $0.4 billion to $53.0 billion at March 31, 2018, compared with $52.6 billion at December 31, 2017. This increase was primarily a result of a $466 million increase in time deposits, partially offset by a $147 million decrease in savings and money market deposits. Quarter-end noninterest-bearing demand deposits remained approximately level from December 31, 2017 to March 31, 2018, although the average amounts decreased by $621 million.

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 March 31, 2018, the amount available for additional FHLB and Federal Reserve borrowings was approximately $13.3 billion, compared with $14.7 billion at December 31, 2017. Loans with a carrying value of approximately $24.5 billion at March 31, 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 March 31, 2018, we had $4.5 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 March 31, 2018, our total investment in FHLB and Federal Reserve stock was $185 million and $188 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 three months of 2018, HTM and AFS investment securities' activities resulted in a net decrease in investment securities and a net $59 million increase in cash, compared with a net $2.5 billion decrease in cash for the first three months of 2017, reflecting our purchase of HQLA during the first quarter of 2017.

Maturing balances in ZB, N.A.'s loan portfolios also provide additional flexibility in managing cash flows. Lending activity for the first three months of 2018 resulted in a net cash outflow of $311 million compared with a net cash outflow of $117 million for the first three 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.

Capital Planning and Stress Testing

As a bank holding company ("BHC") with assets greater than $50 billion, we are required by the Dodd-Frank Act to participate in annual stress tests known as the Dodd-Frank Act Stress Test ("DFAST"). In addition, we are 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 are 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. 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.

We submitted our stress test results and 2017 capital plan to the FRB on April 5, 2017. On June 28, 2017, the Board of Governors of the Federal Reserve System notified Zions Bancorporation that the Federal Reserve does not object to Zions Bancorporation's Board-approved 2017 capital plan. Our capital plan for the period spanning July 1, 2017 through June 30, 2018 includes up to $465 million of common stock repurchases and approximately $140 million of common stock dividends as follows.

- Increasing the quarterly common dividend to $0.24 per share by the second quarter of 2018 following the path of:
  - $0.12 per share in the third quarter of 2017
  - $0.16 per share in the fourth quarter of 2017
  - $0.20 per share in the first quarter of 2018
  - $0.24 per share in the second quarter of 2018

Capital actions are subject to final approval by Zions Bancorporation's board of directors, and may be influenced by, among other things, actual earnings performance, business needs and prevailing economic conditions.

On June 22, 2017, we filed a Form 8-K presenting the results of the 2017 DFAST exercise. The results of Zions' published stress tests demonstrate that the Company believes it has sufficient capital to withstand a severe hypothetical economic downturn. Detailed disclosure of the stress test results can be found on our website.

As planned, our quarterly dividend on common stock increased to $0.20 per share during the first quarter of 2018. As of March 31, 2018, we have repurchased $345 million of our common stock at an average price of $49.28 per share, and had $120 million buyback capacity remaining in our 2017 capital plan (which spans the timeframe of July 2017 to June 2018). In May 2018, we began repurchasing the remaining $120 million of shares allowed by our 2017 capital plan.

We timely submitted our stress test results and 2018 capital plan to the FRB on April 5, 2018. In late June 2018, we plan to file a Form 8-K presenting the results of the 2018 DFAST exercise, conditional on the timing of the FRB's publication of DFAST results.

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ZIONS BANCORPORATION AND SUBSIDIARIES

Basel III
In 2013, the FRB, FDIC, and OCC published final rules (the "Basel III Capital Rules") establishing a new comprehensive capital framework for U.S. banking organizations. The rules implemented the Basel Committee's December 2010 framework, commonly referred to as Basel III, for strengthening international capital standards as well as certain provisions of the Dodd-Frank Act. The Basel III capital rules became effective for the Company on January 1, 2015 and were subject to phase-in periods for certain of their components. In November 2017, the FRB, FDIC and OCC published a final rule for non-advanced approaches banks that extends the regulatory capital treatment applicable during 2017 under the regulatory capital rules for certain items.
A detailed discussion of Basel III requirements, including implications for the Company, is contained on page 9 in "Capital Standards – Basel Framework" under Part 1, Item 1 in our 2017 Annual Report on Form 10-K.
We met all capital adequacy requirements under the Basel III Capital Rules based upon phase-in rules as of March 31, 2018, and believe that we would meet all capital adequacy requirements on a fully phased-in basis if such requirements were currently effective.
Capital Management Actions
Total shareholders' equity remained consistent and was $7.6 billion at March 31, 2018 compared to $7.7 billion at December 31, 2017. Total shareholders' equity decreased by (1) $128 million from a decrease in the fair value of our AFS securities due largely to changes in the interest rate environment, (2) $115 million from repurchases of Company common stock, and (3) $47 million from common and preferred dividends. These decreases were offset by net income of $238 million.
During 2017 and the first three 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 three months of 2018, 1.0 million shares of common stock were issued from the cashless exercise of 3.2 million common stock warrants which would have expired on November 14, 2018. After these common stock warrant exercises, 29.3 million and 2.6 million common stock warrants, which expire on May 22, 2020 and November 14, 2018, respectively, remain outstanding.
The following schedule presents the diluted shares from the remaining common stock warrants at various Zions Bancorporation common stock market prices as of April 30, 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	4,684
45.00	7,825
50.00	10,337
55.00	12,393
60.00	14,107
65.00	15,556

See Note 8 of the Notes to Consolidated Financial Statements for more information on our common stock warrants.
We paid $40 million in dividends on common stock during the first three months of 2018 compared with $17 million during the first three months of 2017. In April 2018, the Board of Directors declared a quarterly dividend of $0.24 per

common share payable on May 24, 2018 to shareholders of record on May 17, 2018. We paid dividends on preferred stock of $9 million for the first three months of 2018 compared to $12 million during the first three

months of 2017. See Note 8 for additional detail about capital management transactions during the first three months of 2018.

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 March 31, 2018, December 31, 2017, and March 31, 2017.

CAPITAL RATIOS

	March 31, 2018		December 31, 2017		March 31, 2017	
Tangible common equity ratio[1]	9.3	%	9.3	%	9.3	%
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	%	12.2	%
Tier 1 leverage	10.5	%	10.5	%	10.8	%
Tier 1 risk-based	13.3	%	13.2	%	13.6	%
Total risk-based	14.8	%	14.8	%	15.3	%
Return on average common equity (three months ended)	13.3	%	6.3	%	7.5	%
Return on average tangible common equity (three months ended)[1]	15.5	%	7.4	%	8.8	%

[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 March 31, 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.

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

(In millions, shares in thousands)	March 31, 2018 (Unaudited)	December 31, 2017
ASSETS		
Cash and due from banks	$ 470	$ 548
Money market investments:		
Interest-bearing deposits	717	782
Federal funds sold and security resell agreements	696	514
Investment securities:		
Held-to-maturity, at amortized cost (approximate fair value $752 and $762)	768	770
Available-for-sale, at fair value	14,896	15,161
Trading account, at fair value	143	148
Total investment securities	15,807	16,079
Loans held for sale	90	44
Loans and leases, net of unearned income and fees	45,083	44,780
Less allowance for loan losses	473	518
Loans held for investment, net of allowance	44,610	44,262
Other noninterest-bearing investments	1,073	1,029
Premises, equipment and software, net	1,098	1,094
Goodwill and intangibles	1,016	1,016
Other real estate owned	5	4
Other assets	899	916
Total Assets	$ 66,481	$ 66,288
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Noninterest-bearing demand	$ 23,909	$ 23,886
Interest-bearing:		
Savings and money market	25,473	25,620
Time	3,581	3,115
Total deposits	52,963	52,621
Federal funds and other short-term borrowings	4,867	4,976
Long-term debt	383	383
Reserve for unfunded lending commitments	51	58
Other liabilities	573	571
Total liabilities	58,837	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 197,050 and 197,532 shares	4,346	4,445
Retained earnings	2,999	2,807
Accumulated other comprehensive income (loss)	(267)	(139)
Total shareholders' equity	7,644	7,679
Total liabilities and shareholders' equity	$ 66,481	$ 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 March 31, 2018	2017
Interest income:		
Interest and fees on loans	$497	$ 433
Interest on money market investments	6	4
Interest on securities	86	78
Total interest income	589	515
Interest expense:		
Interest on deposits	20	13
Interest on short- and long-term borrowings	27	13
Total interest expense	47	26
Net interest income	542	489
Provision for loan losses	(40)	23
Net interest income after provision for loan losses	582	466
Noninterest income:		
Service charges and fees on deposit accounts	42	42
Other service charges, commissions and fees	55	49
Wealth management and trust income	12	10
Loan sales and servicing income	6	7
Capital markets and foreign exchange	8	7
Customer-related fees	123	115
Dividends and other investment income	11	12
Securities gains, net	—	5
Other	4	—
Total noninterest income	138	132
Noninterest expense:		
Salaries and employee benefits	269	261
Occupancy, net	31	34
Furniture, equipment and software, net	33	32
Credit-related expense	7	7
Provision for unfunded lending commitments	(7)	(5)
Professional and legal services	12	14
Advertising	5	5
FDIC premiums	13	12
Other	49	54
Total noninterest expense	412	414
Income before income taxes	308	184
Income taxes	70	45
Net income	238	139
Preferred stock dividends	(7)	(10)
Net earnings applicable to common shareholders	$231	$ 129
Weighted average common shares outstanding during the period:		
Basic shares (in thousands)	196,722	202,347

Diluted shares (in thousands)	210,243	210,405
Net earnings per common share:		
Basic	$ 1.16	$ 0.63
Diluted	1.09	0.61

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 March 31, 2018	2017
Net income for the period	$238	$139
Other comprehensive income (loss), net of tax:		
Net unrealized holding gains (losses) on investment securities	(126)	12
Net unrealized gains on other noninterest-bearing investments	1	1
Net unrealized holding losses on derivative instruments	(3)	(1)
Reclassification adjustment for increase in interest income recognized in earnings on derivative instruments	—	(1)
Other comprehensive income (loss)	(128)	11
Comprehensive income	$110	$150

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				238		238
Other comprehensive loss, net of tax					(128)	(128)
Cumulative effect adjustment, adoption of ASU 2014-09, Revenue from Contracts with Customers				1		1
Company common stock repurchased		(2,151)	(115)			(115)
Net shares issued from stock warrant exercises		1,042				—
Net activity under employee plans and related tax benefits		627	16			16
Dividends on preferred stock				(7)		(7)
Dividends on common stock, $0.20 per share				(40)		(40)
Balance at March 31, 2018	$ 566	197,050	$4,346	$2,999	$ (267)	$ 7,644
Balance at December 31, 2016	$ 710	203,085	$4,725	$2,321	$ (122)	$ 7,634
Net income for the period				139		139
Other comprehensive income, net of tax					11	11
Company common stock repurchased		(1,060)	(45)			(45)
Net activity under employee plans and related tax benefits		570	16			16
Dividends on preferred stock				(10)		(10)
Dividends on common stock, $0.08 per share				(15)		(15)

Balance at March 31, 2017	$ 710	202,595	$4,696	$2,435	$ (111)	$ 7,730

See accompanying notes to consolidated financial statements.

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

(In millions)	Three Months Ended March 31,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the period	$238	$139
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	(47)	18
Depreciation and amortization	43	37
Share-based compensation	13	12
Deferred income tax expense	13	13
Net decrease in trading securities	4	76
Net decrease (increase) in loans held for sale	(33)	36
Change in other liabilities	4	42
Change in other assets	48	21
Other, net	(8)	(14)
Net cash provided by operating activities	275	380
CASH FLOWS FROM INVESTING ACTIVITIES		
Net increase in money market investments	(117)	(145)
Proceeds from maturities and paydowns of investment securities held-to-maturity	59	91
Purchases of investment securities held-to-maturity	(57)	(7)
Proceeds from sales, maturities, and paydowns of investment securities available-for-sale	669	530
Purchases of investment securities available-for-sale	(612)	(3,113)
Net change in loans and leases	(311)	(117)
Net change in other noninterest-bearing investments	(31)	(74)
Purchases of premises and equipment	(28)	(50)
Proceeds from sales of other real estate owned	1	3
Other, net	(2)	2
Net cash used in investing activities	(429)	(2,880)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits	347	241
Net change in short-term funds borrowed	(10)	1,811
Proceeds from debt over 90 days and up to one year	1,900	500
Repayments of debt over 90 days and up to one year	(2,000)	—
Repayment of long-term debt	—	(153)
Proceeds from the issuance of common stock	10	9
Dividends paid on common and preferred stock	(49)	(29)
Company common stock repurchased	(122)	(50)
Net cash provided by financing activities	76	2,329
Net decrease in cash and due from banks	(78)	(171)
Cash and due from banks at beginning of period	548	737
Cash and due from banks at end of period	$470	$566
Cash paid for interest	$44	$22
Net cash paid (refunds received) for income taxes	1	(6)

Noncash activities are summarized as follows:		
Loans held for investment transferred to other real estate owned	3	2
Loans held for investment reclassified to loans held for sale, net	15	35
Available-for-sale securities purchased, not settled	—	56
Held-to-maturity securities purchased, not settled	—	31

See accompanying notes to consolidated financial statements.

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ZIONS BANCORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
March 31, 2018
1. BASIS OF PRESENTATION
The accompanying unaudited consolidated financial statements of Zions Bancorporation ("the Parent") and its majority-owned subsidiaries (collectively "the Company," "Zions," "we," "our," "us") have been prepared in accordance with United States ("U.S.") generally accepted accounting principles ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. References to GAAP, including standards promulgated by the Financial Accounting Standards Board, are made according to sections of the Accounting Standards Codification ("ASC"). Changes to the ASC are made with Accounting Standards Updates ("ASU") that include consensus issues of the Emerging Issues Task Force. In certain cases, ASUs are issued jointly with International Financial Reporting Standards.
Operating results for the three months ended March 31, 2018 and 2017 are not necessarily indicative of the results that may be expected in future periods. In preparing the consolidated financial statements, we are required to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The consolidated balance sheet at December 31, 2017 is from the audited financial statements at that date, but does not include all of the information and footnotes required by GAAP for complete financial statements. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's 2017 Annual Report on Form 10-K. Certain prior period amounts have been reclassified to conform with the current period presentation. These reclassifications did not affect net income or shareholders' equity.
Zions Bancorporation is a financial holding company headquartered in Salt Lake City, Utah, which owns and operates a commercial bank. The Parent and its subsidiaries (collectively "the Company") provide a full range of banking and related services in 11 Western and Southwestern states through seven separately managed and branded units as follows: Zions Bank, in Utah, Idaho and Wyoming; Amegy Bank ("Amegy"), in Texas; California Bank & Trust ("CB&T"); National Bank of Arizona ("NBAZ"); Nevada State Bank ("NSB"); Vectra Bank Colorado ("Vectra"), in Colorado and New Mexico; and The Commerce Bank of Washington ("TCBW") which operates under that name in Washington and under the name The Commerce Bank of Oregon in Oregon. The Parent also owns and operates certain nonbank subsidiaries that engage in financial services.

2. RECENT ACCOUNTING PRONOUNCEMENTS

Standard	Description	Date of adoption	Effect on the financial statements or other significant matters
Standards not yet adopted by the Company			
ASU 2016-02, Leases (Topic 842)	The standard requires that a lessee recognize assets and liabilities for leases on the balance sheet. For leases with a term of 12 months or less, however, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee will depend primarily on its classification as a finance or operating lease. The standard also requires disclosures to better understand the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative requirements, providing additional information about the amounts recorded in the financial statements.	January 1, 2019	We are currently evaluating the potential impact of this guidance on the Company's financial statements. As of December 31, 2017, the Company had minimum noncancelable operating lease payments of $245 million that are being evaluated. The implementation team is working on gathering all key lease data elements to meet the requirements of the new guidance. Additionally, we are implementing new lease software that will accommodate the new accounting requirements.
ASU 2017-08, Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities	The amendments in this ASU shorten the amortization period for certain callable debt securities held at a premium. The standard requires the premium to be amortized to the earliest call date. The update does not change the accounting for securities held at a discount.	January 1, 2019	Our analysis suggests this guidance will not have a material impact on the Company's financial statements, but we will continue to monitor its impact as we move closer to implementation.
ASU 2016-13, Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments	The standard significantly changes how entities will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. The standard replaces today's "incurred loss" approach with an "expected loss" model for instruments such as loans and held-to-maturity ("HTM") securities that are measured at amortized cost. The standard requires credit losses relating to available-for-sale ("AFS") debt securities to be recorded through an allowance for credit loss ("ACL") rather than a reduction of the carrying amount. It also changes the accounting for purchased credit-impaired debt securities and loans. The standard retains many of the current disclosure requirements in current	January 1, 2020	We have formed an implementation team led jointly by Credit and the Corporate Controller's group, that also includes other lines of business and functions within the Company. The implementation team is developing models that can meet the requirements of the new guidance. While this standard may potentially have a material impact on the Company's financial statements, we are still in process of conducting our evaluation.

	GAAP and expands certain disclosure requirements. Early adoption of the guidance is permitted as of January 1, 2019.		
ASU 2017-04, Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment	The standard eliminates the requirement to calculate the implied fair value of goodwill (i.e. Step 2 of the current goodwill impairment test) to measure a goodwill impairment charge. Instead, entities would record an impairment charge based on the excess of a reporting unit's carrying amount over its fair value (i.e., measure the charge based on Step 1 of the current guidance). The standard does not change the guidance on completing Step 1 of the goodwill impairment test. The standard also continues to allow entities to perform the optional qualitative goodwill impairment assessment before determining whether to proceed to Step 1. The standard is effective for the Company as of January 1, 2020. Early adoption is allowed for any goodwill impairment test performed after January 1, 2017.	January 1, 2020	We do not currently expect this guidance will have a material impact on the Company's financial statements since the fair values of our reporting units were not lower than their respective carrying amounts at the time of our goodwill impairment analysis for 2017.

Standard	Description	Date of adoption	Effect on the financial statements or other significant matters
Standards adopted by the Company			
ASU 2014-09, Revenue from Contracts with Customers (Topic 606) and subsequent related ASUs	The core principle of the new guidance is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. The banking industry does not expect significant changes because major sources of revenue are from financial instruments that have been excluded from the scope of the new standard, (including loans, derivatives, debt and equity securities, etc.). However, these new standards affect other fees charged by banks, such as asset management fees, credit card interchange fees, deposit account fees, etc. Adoption may be made on a full retrospective basis with practical expedients, or on a modified retrospective basis with a cumulative effect adjustment. Additionally, the new guidance significantly increases the disclosures related to revenue recognition practices.	January 1, 2018	We adopted this guidance using the modified retrospective transition method. There was no material impact at adoption to the Company's consolidated financial statements. New disclosures are found in Footnote 10.
ASU 2016-01, Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities	The standard provides revised accounting guidance related to the accounting for and reporting of financial instruments. Some of the main provisions include: – Equity investments that do not result in consolidation and are not accounted for under the equity method would be measured at fair value through net income. – Changes in instrument-specific credit risk for financial liabilities that are measured under the fair value option would be recognized in other comprehensive income ("OCI"). – Elimination of the requirement to disclose the methods and significant assumptions used to estimate the fair value of financial instruments carried at amortized cost. However, it will require the use of exit price when measuring the fair value of financial instruments measured at amortized cost for disclosure purposes.	January 1, 2018	The transition adjustment upon adoption of this guidance was not material. We refined our valuation models to better account for an exit price, which does not impact our financial statements, but does have an impact on our disclosures, as provided in Footnote 3.
ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to	The purpose of this standard is to better align a company's financial reporting for hedging activities with the economic objectives of those activities. The standard is effective for public business entities for fiscal years beginning after December 15, 2018, with early adoption, including adoption	January 1, 2018	We early adopted this guidance in the current quarter. The adoption of this guidance did not have a material impact

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

3. FAIR VALUE

Fair Value Measurement

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. For a discussion of the Company's valuation methodologies for assets and liabilities measured at fair value and the fair value hierarchy, see Note 3 of our 2017 Annual Report on Form 10-K.

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ZIONS BANCORPORATION AND SUBSIDIARIES

Quantitative Disclosure by Fair Value Hierarchy
Assets and liabilities measured at fair value by class on a recurring basis are summarized as follows:

(In millions)	March 31, 2018			
	Level 1	Level 2	Level 3	Total
ASSETS				
Investment securities:				
Available-for-sale: [1]				
U.S. Treasury, agencies and corporations	$25	$13,542	$—	$13,567
Municipal securities		1,305		1,305
Other debt securities		24		24
Total Available-for-sale	25	14,871	—	14,896
Trading account	35	108		143
Other noninterest-bearing investments:				
Bank-owned life insurance		509		509
Private equity investments			100	100
Other assets:				
Agriculture loan servicing and interest-only strips			18	18
Deferred compensation plan assets	107			107
Derivatives:				
Interest rate swaps and forwards		1		1
Interest rate swaps for customers		21		21
Foreign currency exchange contracts	6			6
Total Assets	$173	$15,510	$118	$15,801
LIABILITIES				
Securities sold, not yet purchased	$96	$—	$—	$96
Other liabilities:				
Deferred compensation plan obligations	107			107
Derivatives:				
Interest rate swaps for customers		52		52
Foreign currency exchange contracts	4			4
Total Liabilities	$207	$52	$—	$259

[1] We used a third-party pricing service to measure fair value for approximately 91% of our AFS Level 2 securities.

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

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

Level 3 Valuations

Private Equity Investments

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

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

Volcker Rule. See discussions in Note 5.

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Agriculture Loan Servicing
This asset results from our servicing of agriculture loans approved and funded by Federal Agricultural Mortgage Corporation ("FAMC"). We provide this servicing under an agreement with FAMC for loans they own. The asset's fair value represents our projection of the present value of future cash flows measured under Level 3 using discounted cash flow methodologies.
Interest-Only Strips
Interest-only strips are created as a by-product of the securitization process. When the guaranteed portions of Small Business Administration ("SBA") 7(a) loans are pooled, interest-only strips may be created in the pooling process. The asset's fair value represents our projection of the present value of future cash flows measured under Level 3 using discounted cash flow methodologies.
Reconciliation of Level 3 Fair Value Measurements
The following reconciles the beginning and ending balances of assets and liabilities that are measured at fair value by class on a recurring basis using Level 3 inputs:

(In millions)	Level 3 Instruments Three Months Ended March 31, 2018		March 31, 2017	
	Private equity investments	Ag loan svcg and int-only strips	Private equity investments	Ag loan svcg and int-only strips
Balance at beginning of period	$95	$ 18	$73	$ 20
Securities gains, net	—	—	3	—
Purchases	5	—	7	—
Redemptions and paydowns	—	—	(5)	—
Balance at end of period	$100	$ 18	$78	$ 20

No transfers of assets or liabilities occurred among Levels 1, 2 or 3 for the three months ended March 31, 2018 and 2017.
The reconciliation of Level 3 instruments includes the following realized gains in the statement of income:

(In millions)	Three Months Ended March 31, 2018	2017
Securities gains, net	$ —	$ 3

Nonrecurring Fair Value Measurements
Included in the balance sheet amounts are the following amounts of assets that had fair value changes measured on a nonrecurring basis.

(In millions)	Fair value at March 31, 2018				Fair value at December 31, 2017			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
ASSETS								

Private equity investments	$ —	$ —	$ —	$ —	$ —	$ —	$ 1	$ 1
Impaired loans	—	22	—	22	—	9	—	9
Other real estate owned	—	1	—	1	—	—	—	—
Total	$ —	$ 23	$ —	$ 23	$ —	$ 9	$ 1	$ 10

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The previous fair values may not be current as of the dates indicated, but rather as of the date the fair value change occurred, such as a charge for impairment. Accordingly, carrying values may not equal current fair value.

(In millions)	Gains (losses) from fair value changes Three Months Ended March 31,	
	2018	2017
ASSETS		
Private equity investments	$—	$(1)
Impaired loans	(4)	(1)
Other real estate owned	(1)	—
Total	$(5)	$(2)

During the three months ended March 31, we recognized an insignificant amount of net gains in 2018 and 2017 from the sale of other real estate owned ("OREO") properties that had a carrying value at the time of sale of approximately $1 million and $2 million during the three months ended March 31, 2018 and 2017, respectively. Previous to their sale in these periods, we recognized impairment on these properties of an insignificant amount in 2018 and 2017.

Private equity investments carried at cost were measured at fair value for impairment purposes according to the methodology previously discussed for these investments. Amounts of PEIs carried at cost were $10 million at March 31, 2018 and December 31, 2017. Amounts of other noninterest-bearing investments carried at cost were $373 million at March 31, 2018 and $338 million at December 31, 2017, which were comprised of Federal Reserve and Federal Home Loan Bank ("FHLB") stock. Private equity investments accounted for using the equity method were $35 million at March 31, 2018 and $36 million at December 31, 2017.

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

Fair Value of Certain Financial Instruments

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

(In millions)	March 31, 2018			December 31, 2017		
	Carrying value	Estimated fair value	Level	Carrying value	Estimated fair value	Level
Financial assets:						
HTM investment securities	$768	$ 752	2	$770	$ 762	2
Loans and leases (including loans held for sale), net of allowance	44,700	43,802	3	44,306	44,226	3
Financial liabilities:						
Time deposits	3,581	3,554	2	3,115	3,099	2
Other short-term borrowings	4,450	4,450	2	3,600	3,600	2
Long-term debt	383	384	2	383	402	2

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

rates and indices. For additional information regarding the financial instruments within the scope of this disclosure, and the methods and significant assumptions used to estimate their fair value, see Note 3 of our 2017 Annual Report on Form 10-K.

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4. OFFSETTING ASSETS AND LIABILITIES

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

(In millions)	March 31, 2018					
				Gross amounts not offset in the balance sheet		
Description	Gross amounts recognized	Gross amounts offset in the balance sheet	Net amounts presented in the balance sheet	Financial instruments	Cash collateral received/pledged	Net amount
Assets:						
Federal funds sold and security resell agreements	$793	$ (97)	$ 696	$ —	$ —	$ 696
Derivatives (included in other assets)	28	—	28	(5)	(5)	18
Total assets	$821	$ (97)	$ 724	$ (5)	$ (5)	$ 714
Liabilities:						
Federal funds and other short-term borrowings	$4,964	$ (97)	$ 4,867	$ —	$ —	$ 4,867
Derivatives (included in other liabilities)	56	—	56	(5)	(2)	49
Total Liabilities	$5,020	$ (97)	$ 4,923	$ (5)	$ (2)	$ 4,916

(In millions)	December 31, 2017					
				Gross amounts not offset in the balance sheet		
Description	Gross amounts recognized	Gross amounts offset in the balance sheet	Net amounts presented in the balance sheet	Financial instruments	Cash collateral received/pledged	Net amount
Assets:						
Federal funds sold and security resell agreements	$809	$ (295)	$ 514	$ —	$ —	$ 514
Derivatives (included in other assets)	38	—	38	(9)	(1)	28
Total assets	$847	$ (295)	$ 552	$ (9)	$ (1)	$ 542
Liabilities:						
Federal funds and other short-term borrowings	$5,271	$ (295)	$ 4,976	$ —	$ —	$ 4,976
Derivatives (included in other liabilities)	40	—	40	(9)	(6)	25
Total Liabilities	$5,311	$ (295)	$ 5,016	$ (9)	$ (6)	$ 5,001

Security repurchase and reverse repurchase (“resell”) agreements are offset, when applicable, in the balance sheet according to master netting agreements. Security repurchase agreements are included with “Federal funds and other short-term borrowings.” Derivative instruments may be offset under their master netting agreements; however, for accounting purposes, we present these items on a gross basis in the Company’s balance sheet. See Note 7 for further information regarding derivative instruments.

5. INVESTMENTS

Investment Securities

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

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

the portion of the unamortized premium or discount associated with the principal reduction is recognized in interest income in the period the principal is reduced. Note 3 of our 2017 Annual Report on Form 10-K discusses the process to estimate fair value for investment securities.

	March 31, 2018			
(In millions)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Held-to-maturity				
Municipal securities	$ 768	$ 5	$ 21	$ 752
Available-for-sale				
U.S. Treasury securities	25	—	—	25
U.S. Government agencies and corporations:				
Agency securities	1,826	—	23	1,803
Agency guaranteed mortgage-backed securities	9,835	7	262	9,580
Small Business Administration loan-backed securities	2,176	4	21	2,159
Municipal securities	1,328	2	25	1,305
Other debt securities	25	—	1	24
Total available-for-sale	15,215	13	332	14,896
Total investment securities	$ 15,983	$ 18	$ 353	$ 15,648

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

Maturities

The amortized cost and estimated fair value of investment debt securities are shown subsequently as of March 31, 2018, by expected timing of principal payments. Actual principal payments may differ from contractual or expected principal payments because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

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(In millions)	March 31, 2018			
	Held-to-maturity		Available-for-sale	
	Amortized cost	Estimated fair value	Amortized cost	Estimated fair value
Due in one year or less	$180	$ 178	$1,906	$ 1,873
Due after one year through five years	370	364	4,585	4,485
Due after five years through ten years	159	154	4,645	4,544
Due after ten years	59	56	4,079	3,994
Total	$768	$ 752	$15,215	$ 14,896

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

(In millions)	March 31, 2018					
	Less than 12 months		12 months or more		Total	
	Gross unrealized losses	Estimated fair value	Gross unrealized losses	Estimated fair value	Gross unrealized losses	Estimated fair value
Held-to-maturity						
Municipal securities	$5	$ 257	$16	$ 300	$21	$ 557
Available-for-sale						
U.S. Government agencies and corporations:						
Agency securities	13	885	10	851	23	1,736
Agency guaranteed mortgage-backed securities	93	4,523	169	4,418	262	8,941
Small Business Administration loan-backed securities	5	650	16	630	21	1,280
Municipal securities	15	873	10	218	25	1,091
Other	—	—	1	14	1	14
Total available-for-sale	126	6,931	206	6,131	332	13,062
Total	$131	$ 7,188	$222	$ 6,431	$353	$ 13,619

(In millions)	December 31, 2017					
	Less than 12 months		12 months or more		Total	
	Gross unrealized losses	Estimated fair value	Gross unrealized losses	Estimated fair value	Gross unrealized losses	Estimated fair value
Held-to-maturity						
Municipal securities	$3	$ 263	$10	$ 292	$13	$ 555
Available-for-sale						
U.S. Government agencies and corporations:						
Agency securities	6	808	7	808	13	1,616
Agency guaranteed mortgage-backed securities	29	3,609	112	4,721	141	8,330
Small Business Administration loan-backed securities	3	408	12	649	15	1,057
Municipal securities	6	554	5	230	11	784
Other	—	—	1	14	1	14
Total available-for-sale	44	5,379	137	6,422	181	11,801
Total	$47	$ 5,642	$147	$ 6,714	$194	$ 12,356

At March 31, 2018 and December 31, 2017, respectively, 703 and 667 HTM and 2,811 and 2,262 AFS investment securities were in an unrealized loss position.

Other-Than-Temporary Impairment

The Company did not recognize any other-than-temporary impairment ("OTTI") on its investment securities portfolio during the first quarter of 2018. We review investment securities on a quarterly basis for the presence of

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OTTI. Unrealized losses relate to changes in interest rates subsequent to purchase and are not attributable to credit. At March 31, 2018, we did not have an intent to sell identified securities with unrealized losses or initiate such sales, and we believe it is not more likely than not we would be required to sell such securities before recovery of their amortized cost basis. For additional information on our policy and evaluation process relating to OTTI, see Note 5 of our 2017 Annual Report on Form 10-K.

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

(In millions)	Three Months Ended March 31,			
	2018		2017	
	Gross gains	Gross losses	Gross gains	Gross losses
Investment securities:				
Other noninterest-bearing investments	$1	$ 1	$10	$ 5
Net gains [1]		$ —		$ 5

[1] Net gains were recognized in securities gains, net in the statement of income.

Interest income by security type is as follows:

(In millions)	Three Months Ended March 31,					
	2018			2017		
	Taxable	Nontaxable	Total	Taxable	Nontaxable	Total
Investment securities:						
Held-to-maturity	$2	$ 4	$ 6	$3	$ 4	$ 7
Available-for-sale	73	6	79	66	5	71
Trading	1	—	1	—	—	—
Total	$76	$ 10	$ 86	$69	$ 9	$ 78

Investment securities with a carrying value of $2.0 billion at March 31, 2018 and $2.1 billion at December 31, 2017 were pledged to secure public and trust deposits, advances, and for other purposes as required by law. Securities are also pledged as collateral for security repurchase agreements.

Private Equity Investments

Effect of Volcker Rule

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

Of the recorded PEIs of $145 million at March 31, 2018, approximately $3 million remain prohibited by the Volcker Rule. At March 31, 2018, we have $35 million of unfunded commitments for PEIs, of which approximately $3 million relate to prohibited PEIs. We currently do not believe that this divestiture requirement will ultimately have a material impact on our financial statements. See other discussions related to private equity investments in Note 3.

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6. LOANS AND ALLOWANCE FOR CREDIT LOSSES

Loans and Loans Held for Sale

Loans are summarized as follows according to major portfolio segment and specific loan class:

(In millions)	March 31, 2018	December 31, 2017
Loans held for sale	$ 90	$ 44
Commercial:		
Commercial and industrial	$ 14,125	$ 14,003
Leasing	371	364
Owner-occupied	7,345	7,288
Municipal	1,299	1,271
Total commercial	23,140	22,926
Commercial real estate:		
Construction and land development	2,099	2,021
Term	9,023	9,103
Total commercial real estate	11,122	11,124
Consumer:		
Home equity credit line	2,792	2,777
1-4 family residential	6,768	6,662
Construction and other consumer real estate	599	597
Bankcard and other revolving plans	488	509
Other	174	185
Total consumer	10,821	10,730
Total loans	$ 45,083	$ 44,780

Loan balances are presented net of unearned income and fees, which amounted to $65 million at both March 31, 2018 and December 31, 2017.

Owner-occupied and commercial real estate loans include unamortized premiums of approximately $16 million at both March 31, 2018 and December 31, 2017.

Municipal loans generally include loans to municipalities with the debt service being repaid from general funds or pledged revenues of the municipal entity, or to private commercial entities or 501(c)(3) not-for-profit entities utilizing a pass-through municipal entity to achieve favorable tax treatment.

Land development loans included in the construction and land development loan class were $214 million at March 31, 2018 and $220 million at December 31, 2017.

Loans with a carrying value of approximately $24.5 billion at March 31, 2018 and $25.6 billion at December 31, 2017 have been pledged at the Federal Reserve or the FHLB of Des Moines as collateral for current and potential borrowings.

We sold loans totaling $106 million and $316 million for the three months ended March 31, 2018 and 2017, respectively, that were classified as loans held for sale. The sold loans were derecognized from the balance sheet. Loans classified as loans held for sale primarily consist of conforming residential mortgages and the guaranteed portion of SBA loans. The loans are mainly sold to U.S. government agencies or participated to third parties. At times, we have continuing involvement in the transferred loans in the form of servicing rights or a guarantee from the respective issuer. Amounts added to loans held for sale during these same periods was $165 million and $303 million, respectively. See Note 5 for further information regarding guaranteed securities.

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The principal balance of sold loans for which we retain servicing was approximately $2.2 billion at both March 31, 2018 and December 31, 2017. Income from loans sold, excluding servicing, was $3 million and $4 million for the three months ended March 31, 2018 and 2017, respectively.

Allowance for Credit Losses

The allowance for credit losses (“ACL”) consists of the allowance for loan and lease losses (“ALLL”) and the reserve for unfunded lending commitments (“RULC”). The ALLL represents our estimate of probable and estimable losses inherent in the loan and lease portfolio as of the balance sheet date. We also estimate a reserve for potential losses associated with off-balance sheet commitments, including standby letters of credit. We determine the RULC using the same procedures and methodologies that we use for the ALLL.

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

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

	Three Months Ended March 31, 2018			
(In millions)	Commercial	Commercial real estate	Consumer	Total
Allowance for loan losses				
Balance at beginning of period	$371	$ 103	$ 44	$518
Additions:				
Provision for loan losses	(40)	(1)	1	(40)
Deductions:				
Gross loan and lease charge-offs	(20)	—	(6)	(26)
Recoveries	18	2	1	21
Net loan and lease charge-offs	(2)	2	(5)	(5)
Balance at end of period	$329	$ 104	$ 40	$473
Reserve for unfunded lending commitments				
Balance at beginning of period	$48	$ 10	$ —	$58
Provision charged to earnings	(8)	1	—	(7)
Balance at end of period	$40	$ 11	$ —	$51
Total allowance for credit losses at end of period				
Allowance for loan losses	$329	$ 104	$ 40	$473
Reserve for unfunded lending commitments	40	11	—	51
Total allowance for credit losses	$369	$ 115	$ 40	$524

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	Three Months Ended March 31, 2017			
(In millions)	Commercial	Commercial real estate	Consumer	Total
Allowance for loan losses				
Balance at beginning of period	$420	$ 116	$ 31	$567
Additions:				
Provision for loan losses	22	(3)	4	23
Deductions:				
Gross loan and lease charge-offs	(51)	(1)	(5)	(57)
Recoveries	6	2	3	11
Net loan and lease (charge-offs) recoveries	(45)	1	(2)	(46)
Balance at end of period	$397	$ 114	$ 33	$544
Reserve for unfunded lending commitments				
Balance at beginning of period	$54	$ 11	$ —	$65
Provision credited to earnings	(4)	(1)	—	(5)
Balance at end of period	$50	$ 10	$ —	$60