# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
**Washington, D.C. 20549**

# FORM 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
**For the fiscal year ended December 31, 2017**

**OR**

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
**For the transition period from ___________ to ___________**

**COMMISSION FILE NUMBER 001-12307**

# ZIONS BANCORPORATION

(Exact name of Registrant as specified in its charter)

| | |
|---|---|
| **UTAH** | **87-0227400** |
| (State or other jurisdiction of incorporation or organization) | (Internal Revenue Service Employer Identification Number) |
| **One South Main, 15th Floor**<br>**Salt Lake City, Utah** | **84133** |
| (Address of principal executive offices) | (Zip Code) |

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

**Securities registered pursuant to Section 12(b) of the Act:**

| Title of Each Class | Name of Each Exchange on Which Registered |
|---|---|
| Common Stock, without par value | The NASDAQ Stock Market LLC |
| Warrants to Purchase Common Stock (expiring May 22, 2020) | The NASDAQ Stock Market LLC |
| Warrants to Purchase Common Stock (expiring November 14, 2018) | The NASDAQ Stock Market LLC |
| Depositary Shares each representing a 1/40th ownership interest in a share of Series A Floating-Rate Non-Cumulative Perpetual Preferred Stock | New York Stock Exchange |
| Depositary Shares each representing a 1/40th ownership interest in a share of Series G Fixed/Floating-Rate Non-Cumulative Perpetual Preferred Stock | New York Stock Exchange |
| Depositary Shares each representing a 1/40th ownership interest in a share of Series H 5.75% Non-Cumulative Perpetual Preferred Stock | New York Stock Exchange |
| 6.95% Fixed-to-Floating Rate Subordinated Notes due September 15, 2028 | New York Stock Exchange |

**Securities registered pursuant to Section 12(g) of the Act:** None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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.

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| Large accelerated filer ☒ | Accelerated filer ☐ |
| Non-accelerated filer ☐ | Smaller reporting company ☐ |
| | Emerging growth company ☐ |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

| | |
|---|---|
| Aggregate Market Value of Common Stock Held by Non-affiliates at June 30, 2017 | $8,745,683,795 |
| Number of Common Shares Outstanding at February 9, 2018 | 196,514,295 shares |

**Documents Incorporated by Reference: Portions of the Company's Proxy Statement – Incorporated into Part III**

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# PART I

## FORWARD-LOOKING INFORMATION

This annual report 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 Annual Report on Form 10-K 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 ("MDA"). 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 U.S. Department of Treasury, the OCC, the Board of Governors of the Federal Reserve System, the FDIC, the SEC, and the CFPB;

- the impact of executive compensation rules under the Dodd-Frank Act and banking regulations, which may impact the ability of the Company and other American financial institutions to retain and recruit executives and other personnel necessary for their businesses and competitiveness;
- the impact of the Dodd-Frank Act and Basel III, and rules and regulations thereunder, on our required regulatory capital and liquidity levels, governmental assessments on us (including, but not limited to, the Federal Reserve reviews of our annual capital plan), the scope of business activities in which we may engage, the manner in which we engage in such activities, the fees we may charge for certain products and services, and other matters affected by the Dodd-Frank Act and these international standards;
- continuing consolidation in the financial services industry;
- new legal claims against the Company, including litigation, arbitration and proceedings brought by governmental or self-regulatory agencies, or changes in existing legal matters;
- success in gaining regulatory approvals, when required;
- changes in consumer spending and savings habits;
- increased competitive challenges and expanding product and pricing pressures among financial institutions;
- inflation and deflation;
- technological changes and the Company's implementation of new technologies;
- the Company's ability to develop and maintain secure and reliable information technology systems;
- legislation or regulatory changes which adversely affect the Company's operations or business;
- the Company's ability to comply with applicable laws and regulations;
- changes in accounting policies or procedures as may be required by the FASB or regulatory agencies; and
- costs of deposit insurance and changes with respect to FDIC insurance coverage levels.

Except to the extent required by law, the Company specifically disclaims any obligation to update any factors or to publicly announce the result of revisions to any of the forward-looking statements included herein to reflect future events or developments.

**AVAILABILITY OF INFORMATION**

We also make available free of charge on our website, *www.zionsbancorporation.com*, annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as well as proxy statements, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the U.S. Securities and Exchange Commission.

**GLOSSARY OF ACRONYMS AND ABBREVIATIONS**

| | | | |
|---|---|---|---|
| ACL | Allowance for Credit Losses | CCAR | Comprehensive Capital Analysis and Review |
| AFS | Available-for-Sale | CET1 | Common Equity Tier 1 (Basel III) |
| ALCO | Asset/Liability Committee | CFPB | Consumer Financial Protection Bureau |
| ALLL | Allowance for Loan and Lease Losses | CLTV | Combined Loan-to-Value Ratio |
| Amegy | Amegy Bank, a division of ZB, N.A. | CMC | Capital Management Committee |
| AOCI | Accumulated Other Comprehensive Income | Company | Zions Bancorporation and its subsidiaries |
| ASC | Accounting Standards Codification | COSO | Committee of Sponsoring Organizations of the Treadway Commission |
| ASU | Accounting Standards Update | CRA | Community Reinvestment Act |
| ATM | Automated Teller Machine | CRE | Commercial Real Estate |
| BHC Act | Bank Holding Company Act | CSA | Credit Support Annex |
| BOLI | Bank-Owned Life Insurance | CSV | Cash Surrender Value |
| bps | basis points | DFAST | Dodd-Frank Act Stress Test |
| CB&T | California Bank & Trust, a division of ZB, N.A. | Dodd-Frank Act | Dodd-Frank Wall Street Reform and Consumer Protection Act |

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|---|---|---|---|
| DTA | Deferred Tax Asset | NIM | Net Interest Margin |
| EaR | Earnings at Risk | NRE | National Real Estate |
| EITF | Emerging Issues Task Force | NSB | Nevada State Bank, a division of ZB, N.A. |
| ERM | Enterprise Risk Management | NSFR | Net Stable Funding Ratio |
| ERMC | Enterprise Risk Management Committee | OCC | Office of the Comptroller of the Currency |
| EVE | Economic Value of Equity at Risk | OCI | Other Comprehensive Income |
| Exchange Act | Securities Exchange Act of 1934 | OREO | Other Real Estate Owned |
| FAMC | Federal Agricultural Mortgage Corporation, or “Farmer Mac” | OTTI | Other-Than-Temporary Impairment |
| FASB | Financial Accounting Standards Board | PAGA | Private Attorney General Act |
| FDIC | Federal Deposit Insurance Corporation | Parent | Zions Bancorporation |
| FDICIA | Federal Deposit Insurance Corporation Improvement Act | PCAOB | Public Company Accounting Oversight Board |
| FHLB | Federal Home Loan Bank | PCI | Purchased Credit-Impaired |
| FHLMC | Federal Home Loan Mortgage Corporation, or “Freddie Mac” | PEI | Private Equity Investment |
| FINRA | Financial Industry Regulatory Authority | PPNR | Pre-provision Net Revenue |
| FRB | Federal Reserve Board | ROC | Risk Oversight Committee |
| FSOC | Financial Stability Oversight Council | RSU | Restricted Stock Unit |
| FTP | Funds Transfer Pricing | RULC | Reserve for Unfunded Lending Commitments |
| GAAP | Generally Accepted Accounting Principles | S&P | Standard and Poor's |
| GLB Act | Gramm-Leach-Bliley Act | SAB | Staff Accounting Bulletin |
| HCR | Horizontal Capital Review | SBA | Small Business Administration |
| HECL | Home Equity Credit Line | SBIC | Small Business Investment Company |
| HQLA | High-Quality Liquid Assets | SEC | Securities and Exchange Commission |
| HTM | Held-to-Maturity | SIFI | Systemically Important Financial Institution |
| IMG | International Manufacturing Group | SNC | Shared National Credit |
| KBW | Keefe, Bruyette & Woods, Inc. | TCBO | The Commerce Bank of Oregon, a division of ZB, N.A. |
| LCR | Liquidity Coverage Ratio | TCBW | The Commerce Bank of Washington, a division of ZB, N.A. |
| LGD | Loss Given Default | TDR | Troubled Debt Restructuring |
| LIBOR | London Interbank Offered Rate | The Act | Tax Cuts and Jobs Act of 2017 |
| LNC | Large and Noncomplex | U.S. | United States |
| LSA | Loss Sharing Agreement | USA Patriot Act | Uniting and Strengthening of America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 |
| MD&A | Management’s Discussion and Analysis | Vectra | Vectra Bank Colorado, a division of ZB, N.A. |
| Municipalities | State and Local Governments | VIE | Variable Interest Entity |
| NASDAQ | National Association of Securities Dealers Automated Quotations | ZB, N.A. | ZB, National Association |
| NAV | Net Asset Value | Zions Bank | Zions Bank, a division of ZB, N.A. |
| NBAZ | National Bank of Arizona, a division of ZB, N.A. | | |

## ITEM 1. BUSINESS

## DESCRIPTION OF BUSINESS

Zions Bancorporation (“the Parent”) is a financial holding company organized under the laws of the State of Utah in 1955, and registered under the Bank Holding Company Act (“BHC Act”), as amended. The Parent owns and operates a commercial bank with a total of 433 branches at year-end 2017. The Parent and its subsidiaries (collectively “the Company”) provide a full range of banking and related services, primarily in Arizona, California, Colorado, Idaho, Nevada, New Mexico, Oregon, Texas, Utah, Washington, and Wyoming. The Company conducts its banking operations through seven separately managed and branded segments, which we sometimes refer to as "affiliates" or by reference to their respective brands. Full-time equivalent employees totaled 10,083 at December 31, 2017. For further information about the Company's industry segments, see "Business Segment Results" on page 46 in MD&A and Note 20 of the Notes to Consolidated Financial Statements. For information about the Company's foreign operations, see "Foreign Exposure and Operations" on page 53 in MD&A. The "Executive Summary" on page 33 in MD&A provides further information about the Company.

**PRODUCTS AND SERVICES**

The Company focuses on providing community banking services by continuously strengthening its core business lines of (1) small and medium-sized business and corporate banking; (2) commercial and residential development, construction and term lending; (3) retail banking; (4) treasury cash management and related products and services; (5) residential mortgage servicing and lending; (6) trust and wealth management; (7) limited capital markets activities, including municipal finance advisory and underwriting; and (8) investment activities. It operates primarily through seven geographic regions, each with its own local branding, chief executive officer and management team.

In addition to providing a wide variety of commercial products and services, the Company provides a range of personal banking services to individuals, including home mortgages, bankcard, other installment loans, home equity lines of credit, checking accounts, savings accounts, certificates of deposit of various types and maturities, trust services, safe deposit facilities, and Internet and mobile banking. The Company provides services to key market segments through its Private Client Services and Executive Banking Groups. It offers self-directed brokerage services through Zions Direct and also offers comprehensive and personalized wealth management and investment services.

The Company has built specialized lines of business in capital markets and public finance, and is a leader in small business administration ("SBA") lending. The Company is one of the nation's largest providers of SBA 7(a) and SBA 504 financing to small businesses. It owns an equity interest in FAMC and is its top originator of secondary market agricultural real estate mortgage loans. The Company provides finance advisory and corporate trust services for municipalities. The Company also provides bond transfer, stock transfer, and escrow services nationally in its corporate trust business.

**COMPETITION**

The Company operates in a highly competitive environment. The Company's most direct competition for loans and deposits comes from other commercial banks, credit unions, and thrifts, including institutions that do not have a physical presence in our market footprint but solicit via the Internet and other means. In addition, the Company competes with finance companies, mutual funds, insurance companies, brokerage firms, securities dealers, investment banking companies, financial technology and other non-traditional lending and banking companies, and a variety of other types of companies. These companies may have fewer regulatory constraints and some have lower cost structures or tax burdens.

The primary factors in competing for business include the quality of service delivered, our local community knowledge, convenience of office locations, online banking functionality and other delivery methods, range of products offered, and pricing. The Company must compete effectively along all of these dimensions to remain successful.

**SUPERVISION AND REGULATION**

This section describes the material elements of selected laws and regulations applicable to the Company. The descriptions are not intended to be complete and are qualified in their entirety by reference to the full text of the statutes and regulations described. Changes in applicable laws or regulations, and in their application by regulatory agencies, cannot be predicted, but they may have a material effect on the business and results of the Company.

On November 20, 2017, we announced a proposal to streamline our corporate structure by merging the Parent into its bank subsidiary, ZB, N.A. and, in connection with the proposed restructuring, our intention to file an application with the Financial Stability Oversight Council ("FSOC") seeking a determination that the resulting banking organization is not "systemically important" as defined by provisions of the Dodd-Frank Act. The merger is contingent upon approval by the Office of the Comptroller of the Currency ("OCC"), Federal Deposit Insurance Corporation ("FDIC"), and the Company's shareholders. Assuming the restructuring is completed and the application to FSOC is approved, the resulting banking organization would no longer be subject to duplicative examinations and other overlapping regulatory requirements, or the enhanced prudential standards established by the Board of Governors of the Federal Reserve System under Section 165 of the Dodd-Frank Act. The Company's primarily regulator would be the OCC. The Company would continue to be subject to examinations by the CFPB with respect to consumer financial regulations.

There can be no assurance that the restructuring will be completed or that the FSOC application will be approved. Accordingly, the discussion below is based on the regulatory regime currently applicable to us and our current holding company structure. For a description of the material elements of the current regulatory regime applicable to us that would be eliminated if our proposals are successful, see "Regulatory Relief if Proposed Restructuring is Completed and FSOC Application is Approved" below.

The banking and financial services business in which we engage is highly regulated. Such regulation is intended, among other things, to improve the stability of banking and financial companies and to protect the interests of customers, including both loan customers and depositors, and taxpayers. These regulations are not, however, generally intended to protect the interests of our shareholders or creditors, and in fact may have the consequence of reducing returns to our shareholders. This regulatory framework has been materially revised and expanded since the 2008-2009 financial crisis and recession. In particular, the Dodd-Frank Act and regulations promulgated pursuant to it have given financial regulators expanded powers over nearly every aspect of the Company's business. These include, among other things, new, higher regulatory capital requirements; regulation of dividends and other forms of capital distributions to shareholders through annual stress testing and capital planning processes; heightened liquidity and liquidity stress testing requirements, which include specific definitions of the types of investment securities that qualify as "high-quality liquid assets" and which effectively limit the portion of the Company's balance sheet that can be used to meet the credit needs of its customers; specific limitations on mortgage lending products and practices; specific limits on certain consumer payment fees; and subjecting compensation practices to specific regulatory oversight and restrictions. Individually and collectively, these additional regulations have imposed and will continue to impose higher costs on the Company, and have reduced and may continue to reduce returns earned by shareholders. Some aspects of the Dodd-Frank Act continue to be subject to rulemaking, the majority of the rules that have been adopted may be subject to interpretation or clarification, and accordingly, the impact of such regulatory changes cannot be presently determined. Recent political developments, including the change in the executive administration of the United States, have increased uncertainty to the implementation, scope, and timing of regulatory reforms, including those related to the implementation of the Dodd-Frank Act. The Company is committed to both satisfying heightened regulatory expectations and providing attractive shareholder returns. However, given the still-changing regulatory environment and such uncertainty, the results of these efforts cannot yet be known.

In the first quarter of 2017, the President of the United States issued an executive order identifying "core principles" for the administration's financial services regulatory policy and directing the Secretary of the Treasury, in consultation with the heads of other financial regulatory agencies, to evaluate how the current regulatory framework promotes or inhibits the principles and what actions have been, and are being, taken to promote the principles. In response to the executive order, on June 12, 2017, October 6, 2017 and October 26, 2017, respectively, the U.S. Department of the Treasury issued the first three of four reports recommending a number of comprehensive changes in the current regulatory system for U.S. depository institutions, the U.S. capital markets and the U.S. asset management and insurance industries. These recommendations, if implemented, could reduce some of the burdens and costs of the current regulatory framework.

### *General*

The Parent is a bank holding company and a financial holding company as provided by the BHC Act, as modified by the GLB Act and the Dodd-Frank Act. These and other federal statutes provide the regulatory framework for bank holding companies and financial holding companies, which have as their umbrella regulator the FRB. The supervision of ZB, N.A. and other regulated subsidiaries is conducted by each subsidiary's primary functional regulator and the laws and regulations administered by those regulators. The GLB Act allows our subsidiary bank to engage in certain financial activities through financial subsidiaries. To qualify for and maintain status as a financial holding company, or to do business through a financial subsidiary, the Parent and its subsidiary bank must satisfy certain ongoing criteria. The Company currently engages in only limited activities for which financial holding company status is required.

ZB, N.A. is subject to the provisions of the National Bank Act and other statutes governing national banks, as well as the rules and regulations of the OCC, the Consumer Financial Protection Bureau ("CFPB"), and the FDIC. It is also subject to examination and supervision by the OCC and examination by the CFPB in respect of federal consumer financial regulations. In addition, Zions Bancorporation is subject to examination by the Federal Reserve Bank of San Francisco. Some of our nonbank subsidiaries are also subject to regulation by the Federal Reserve Board ("FRB") and other federal and state agencies. These regulatory agencies may exert considerable influence over our activities through their supervisory and examination roles. Our brokerage and investment advisory subsidiaries are regulated by the SEC, Financial Industry Regulatory Authority ("FINRA") and/or state securities regulators.

***The Dodd-Frank Act***

The most recent financial crisis led to numerous new laws in the United States and internationally for financial institutions. The Dodd-Frank Act, which was enacted in July 2010, is one of the most far reaching legislative actions affecting the financial services industry in decades and significantly restructured the financial regulatory regime in the United States. Implementation of the Dodd-Frank Act and related rulemaking activities continued in 2017.

The Dodd-Frank Act and regulations adopted under the Dodd-Frank Act broadly affect the financial services industry by creating new resolution authorities, requiring ongoing stress testing of our capital and liquidity, mandating higher capital and liquidity requirements, requiring divestiture of certain equity investments, increasing regulation of executive and incentive-based compensation, requiring banks to pay increased fees to regulatory agencies, and requiring numerous other provisions aimed at strengthening the sound operation of the financial services sector. Among other things affecting capital standards, the Dodd-Frank Act provides that:

- the requirements applicable to large bank holding companies (those with consolidated assets of greater than $50 billion) be more stringent than those applicable to other financial companies;
- standards applicable to bank holding companies be no less stringent than those applied to insured depository institutions; and
- bank regulatory agencies implement countercyclical elements in their capital requirements.

Regulations promulgated under the Dodd-Frank Act require us to maintain greater levels of capital and liquid assets than was generally the case before the crisis and limit the forms of capital that we will be able to rely upon for regulatory purposes. In addition, in its supervisory role with respect to our stress testing and capital planning, our ability to deliver returns to our shareholders through dividends and stock repurchases is subject to prior non-objection by the FRB. The stress testing and capital plan processes also could substantially reduce our flexibility to respond to market developments and opportunities in such areas as capital raising and acquisitions.

The Dodd-Frank Act's provisions and related regulations also affect the fees we must pay to regulatory agencies and the pricing of certain products and services, including the following:

- The assessment base for federal deposit insurance was changed to consolidated assets less tangible capital instead of the amount of insured deposits.
- The federal prohibition on the payment of interest on business transaction accounts was repealed.
- The FRB was authorized to issue and did issue regulations governing debit card interchange fees.

The Dodd-Frank Act also created the CFPB, which is responsible for promulgating regulations designed to protect consumers' financial interests and examining large financial institutions for compliance with, and enforcing, those regulations. The Dodd-Frank Act adds prohibitions on unfair, deceptive or abusive acts and practices to the scope of consumer protection regulations overseen and enforced by the CFPB. The Dodd-Frank Act subjected national banks to the possibility of further regulation by restricting the preemption of state laws by federal laws. Restricting the scope of federal preemption could burden national banks with the requirement that they also comply with certain state laws covering matters already covered by federal law. In addition, the Dodd-Frank Act gives greater power to state attorneys general to pursue legal actions against banking organizations for violations of federal law.

The Dodd-Frank Act contains numerous provisions that limit or place significant burdens and costs on activities traditionally conducted by banking organizations, such as originating and securitizing mortgage loans and other financial assets, arranging and participating in swap and derivative transactions, proprietary trading and investing in private equity and other funds. For the affected activities, these provisions may result in increased compliance and other costs, increased legal risk, and decreased scope of product offerings and earning assets.

The Company is subject to the provisions of the Volcker Rule, issued pursuant to the Dodd-Frank Act. The Company has divested all but $3 million of private equity investments ("PEIs") not permitted under the Volcker Rule. Such investments also provide for $4 million of potential capital calls, which the Company would fund, as allowed by the Volcker Rule, if and as the capital calls are made until the investments are sold. Nevertheless, because the remaining investments are comprised of funds that are in the later stages of their lifecycle, significant future funding requests are not anticipated. The Company continues to pursue the disposition of all non-compliant PEIs. In February 2017, the Federal Reserve Bank of San Francisco approved the Company's application for an extended transition period of up to five years in which to dispose of its remaining PEIs in light of their illiquid nature.

The Company and other companies subject to the Dodd-Frank Act are subject to a number of requirements regarding the time, manner and form of compensation given to its key executives and other personnel receiving incentive compensation, which are being imposed through the supervisory process as well as published guidance and proposed rules. These restrictions imposed by the Dodd-Frank Act include documentation and governance, deferral, risk-balancing, and clawback requirements. Any deficiencies in compensation practices that are identified may be incorporated into the organization's supervisory ratings, which can affect its ability to make acquisitions or engage in other activities, or could result in regulatory enforcement actions.

During the second quarter of 2016, the U.S. financial regulators, including the FRB and the SEC, proposed revised rules on incentive-based payment arrangements at specified regulated entities having at least $1 billion in total assets (including Zions). The proposed revised rules would establish general qualitative requirements applicable to all covered entities, additional specific requirements for entities with total consolidated assets of at least $50 billion, such as Zions, and further, more stringent requirements for those with total consolidated assets of at least $250 billion. The general qualitative requirements include: (i) prohibiting incentive arrangements that encourage inappropriate risks by providing excessive compensation; (ii) prohibiting incentive arrangements that encourage inappropriate risks that could lead to a material financial loss; (iii) establishing requirements for performance measures to appropriately balance risk and reward; (iv) requiring board of director oversight of incentive arrangements; and (v) mandating appropriate record-keeping. For larger financial institutions, including Zions, the proposed revised regulations would also introduce very prescriptive requirements relating to the types and percentages, the timing of the realization, and the risk of forfeiture of incentive compensation awarded to "senior executive officers" and "significant risk-takers." The regulators have not yet issued any final rules.

Some aspects of the Dodd-Frank Act continue to be subject to rulemaking, and many of the rules that have been adopted may be subject to interpretation or clarification. In 2017, the U.S. House of Representatives approved a bill that would significantly amend the post-financial crisis regulatory framework implemented under the Dodd-Frank Act, and a bipartisan group of senators also introduced legislation that would revise various post-financial crisis regulatory requirements and provide targeted relief to certain financial institutions, which may include Zions. If passed, this legislative initiative could result in the Company no longer being deemed a systemically important financial institution ("SIFI") or subject to the enhanced prudential supervision standards applicable to SIFIs. The likelihood and impact of any regulatory and legislative changes are difficult to predict and cannot be presently determined.

***Capital Standards - Basel Framework***

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 Basel III capital rules effectively replaced the Basel I capital rules and 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 substantially revised the risk-based capital requirements applicable to bank holding companies and depository institutions, including the Company, compared to the Basel I U.S. risk-based capital rules. 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.

The Basel III capital rules define the components of capital and address other issues affecting the numerator in banking institutions' regulatory capital ratios. The Basel III capital rules also address risk weights and other issues affecting the denominator in banking institutions' regulatory capital ratios and replaced the risk-weighting approach derived from Basel I capital accords of the Basel Committee, with a more risk-sensitive approach based, in part, on the standardized approach in the Basel Committee's 2004 Basel II capital accords. The Basel III capital rules also implemented the requirements of Section 939A of the Dodd-Frank Act to remove references to credit ratings from the federal banking agencies' rules.

The Basel III capital rules, among other things, (i) introduced a new capital measure called "Common Equity Tier 1" ("CET1"), (ii) specified that Tier 1 capital consists of CET1 and "Additional Tier 1 capital" instruments meeting specified requirements, (iii) applied most deductions/adjustments to regulatory capital measures to CET1 and not to the other components of capital, thus potentially requiring higher levels of CET1 in order to meet minimum ratios, and (iv) expanded the scope of the deductions/adjustments from capital as compared to prior regulations.

Under the Basel III capital rules, the minimum capital ratios are as follows:

- 4.5% CET1 to risk-weighted assets;
- 6.0% Tier 1 capital (i.e., CET1 plus Additional Tier 1) to risk-weighted assets;
- 8.0% Total capital (i.e., Tier 1 plus Tier 2) to risk-weighted assets; and
- 4.0% Tier 1 capital to average consolidated assets as reported on consolidated financial statements (known as the "leverage ratio").

When fully phased-in the Basel III capital rules will also require the Company and its subsidiary bank to maintain a 2.5% "capital conservation buffer" designed to absorb losses during periods of economic stress, composed entirely of CET1, on top of the minimum risk-weighted asset ratios, effectively resulting in minimum ratios of (i) CET1 to risk-weighted assets of at least 7.0%, (ii) Tier 1 capital to risk-weighted assets of at least 8.5%, and (iii) Total capital to risk-weighted assets of at least 10.5%. Banking institutions with a ratio of CET1 to risk-weighted assets above the minimum but below the capital conservation buffer will face constraints on dividends, equity repurchases, and compensation based on the amount of the shortfall. The implementation of the capital conservation buffer began on January 1, 2016 at the 0.625% level and progressively increases over time, as determined by regulation.

The Basel III capital rules also prescribed a standardized approach for calculating risk-weighted assets that expanded the risk-weighting categories from Basel I-derived categories (0%, 20%, 50% and 100%) to a much larger and more risk-sensitive number of categories, depending on the nature of the assets, generally ranging from 0% for U.S. Government and agency securities, to 600% for certain equity exposures, and resulting in higher risk weights for a variety of asset categories. In addition, the Basel III capital rules provided more advantageous risk weights for derivatives and repurchase-style transactions cleared through a qualifying central counterparty and increased the scope of eligible guarantors and eligible collateral for purposes of credit risk mitigation.

The Basel III capital rules provided for a number of deductions from and adjustments to CET1. These include, for example, the requirement that mortgage servicing rights, deferred tax assets ("DTAs") dependent upon future taxable income, and significant investments in common equity issued by nonconsolidated financial entities be deducted from CET1 to the extent that any one such category exceeds 10% of CET1 or all such categories in the aggregate exceed 15% of CET1. The application of this part of the rule did not result in any deductions from CET1 for us.

Under prior Basel I capital standards, the effects of accumulated other comprehensive income ("AOCI") items included in capital were excluded for purposes of determining regulatory capital and capital ratios. As a "non-advanced approaches banking organization," we made a one-time permanent election as of January 1, 2015 to continue to exclude these items, as allowed under the Basel III capital rules.

Basel III also required additional regulatory capital disclosures to be made that are commonly referred to as "Pillar 3" disclosures. These disclosures require the Company to make prescribed regulatory disclosures on a quarterly basis regarding its capital structure adequacy and risk-weighted assets. The Company began publishing these Pillar 3 disclosures in 2015, and such disclosures are available on the Company's website.

The Basel Committee has issued a series of updates that propose other changes to capital regulations. In one of these, the Basel Committee finalized a revised framework for calculating minimum capital requirements for market risk, which is expected to increase market risk capital requirements for most banking organizations. The Basel Committee has set an effective date for reporting under the revised framework for market risk capital of December 31, 2019. The U.S. federal bank regulatory agencies have not yet proposed rules implementing these revisions for U.S. banking organizations. The Company met all capital adequacy requirements under the Basel III capital rules as of December 31, 2017.

***Capital Planning and Stress Testing***

The Company is required by the Dodd-Frank Act to participate in annual stress tests known as the Dodd-Frank Act Stress Test ("DFAST") and the FRB's Horizontal Capital Review, also referred to as Comprehensive Capital Analysis and Review ("HCR/CCAR"). The Company submitted its 2017 capital plan and stress test results to the FRB on April 5, 2017. In its capital plan, the Company was required to forecast, under a variety of economic scenarios for nine quarters, its estimated regulatory capital ratios, and its generally accepted accounting principles ("GAAP") tangible common equity ratio. On June 28, 2017, we announced that the FRB notified us that it did not object to the capital actions outlined in our 2017 capital plan. The plan included (1) the increase of 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 and $0.24 per share in the second quarter of 2018; and (2) up to $465 million in total repurchases of common equity.

On June 22, 2017, we filed a Form 8-K with the SEC presenting the results of the 2017 DFAST. The results of the stress test demonstrated that the Company has sufficient capital to withstand a severe hypothetical economic downturn. Detailed disclosure of the stress test results can also be found on our website. In addition, we submitted on October 5, 2017, our mid-cycle company-run DFAST, based upon the Company's June 30, 2017 financial position. Zions' mid-cycle DFAST results, based on the hypothetical severely adverse scenario, indicate the Company would maintain capital ratios at sufficient levels throughout the nine-quarter forecasting horizon. As discussed in the mid-cycle press release, published October 5, 2017, Zions' hypothetical severely adverse scenario was designed to create a stressful idiosyncratic environment, including a 10% unemployment rate and a 35% decline in commercial property values. During the nine-quarter projection period, the minimum CET1 ratio was 9.9%.

Zions has participated in the annual HCR/CCAR/DFAST exercise since 2014. Prior to 2017, the FRB could object to Zions' capital plan on either quantitative or qualitative grounds. On January 30, 2017, the FRB announced a final rule for the 2017 cycle, removing from the qualitative assessment of the exercise those bank holding companies that have total consolidated assets of at least $50 billion but less than $250 billion, on-balance sheet foreign exposure of less than $10 billion, and nonbank assets of less than $75 billion (referred to as large and non-complex ("LNC") firms). However, the FRB may still object to a capital plan based on the results of its quantitative assessment. As an LNC firm, Zions will still be subject to regular supervisory assessments to examine the Company's capital planning processes. Our annual capital plan is due by April each year, and the FRB will publish results of its supervisory HCR/CCAR review of our capital plan by June 30 of each year.

On February 17, 2014, the FRB published final rules to implement Section 165, *Enhanced Supervision and Prudential Standards for Nonbank Financial Companies Supervised by the Board of Governors and Certain Bank Holding Companies*, of the Dodd-Frank Act. The Company believes that it is in compliance with these rules.

***Liquidity***

Historically, regulation and monitoring of bank and bank holding company liquidity has been addressed as a supervisory matter, both in the United States and internationally, without required formulaic measures. However, in January 2016, Zions became subject to final rules adopted by the FRB and other banking regulators ("Final Liquidity Coverage Ratio ("LCR") requirement Rule") implementing a U.S. version of the Basel Committee's LCR requirement. The LCR is intended to ensure that banks hold sufficient amounts of so-called HQLA to cover the anticipated net cash outflows during a hypothetical acute 30-day stress scenario. Zions is subject to the modified LCR, which is the ratio of an institution's amount of HQLA (the numerator) over 70% of projected net cash outflows over the 30-day horizon (the denominator), in each case, as calculated pursuant to the Final LCR Rule. The Final LCR Rule requires institutions subject to the modified LCR to maintain the modified ratio equal to at least 100% in order to satisfy this regulatory requirement. Only specific classes of assets, including U.S. Treasury securities, other U.S. government obligations and agency mortgage-backed securities, qualify under the rule as HQLA, with classes of assets deemed relatively less liquid and/or subject to greater degree of credit risk subject to certain haircuts and caps for purposes of calculating the numerator under the Final LCR Rule. The total assumed projected net cash outflows amount is determined under the rule by applying certain hypothetical outflow and inflow rates, which reflect certain standardized stressed assumptions, against the balances of the banking organization's funding sources, obligations, transactions and assets over the 30-day stress period. Inflows that can be included to offset outflows are limited to 75% of outflows (which effectively means that banking organizations must hold HQLA equal to 25% of outflows even if outflows perfectly match inflows over the stress period).

The Basel III framework also included a second standard, referred to as the net stable funding ratio ("NSFR"), which is designed to promote more medium- and long-term funding of the assets and activities of banks over a one-year time horizon. In May 2016, the FRB and other federal banking regulators issued a proposed rule that would implement the NSFR for large U.S. banking organizations. Under the proposed rule, the most stringent requirements would apply to bank holding companies with $250 billion or more in total consolidated assets or $10 billion or more in on-balance sheet foreign exposure, and would require such organizations to maintain a minimum NSFR of 1.0 on an ongoing basis, calculated by dividing the organization's available stable funding by its required stable funding. Bank holding companies with less than $250 billion, but more than $50 billion, in total consolidated assets and less than $10 billion in on-balance sheet foreign exposure, such as Zions, would be subject to a modified NSFR requirement which would require such bank holding companies to maintain a minimum NSFR of 0.7 on an ongoing basis. Under the proposed rule, a banking organization's available stable funding would be calculated by applying specified standard weightings to its equity and liabilities based on their expected stability over a one-year time horizon and its required stable funding would be calculated by applying specified standardized weightings to its assets, derivative exposures and commitments based on their liquidity characteristics over the same one-year time horizon. The U.S. federal bank regulatory agencies have not released the final rule. We do not expect this to have a material impact on the Company.

***Financial Privacy and Cyber Security***

The federal banking regulators have adopted rules that limit the ability of banks and other financial institutions to disclose non-public information about consumers to non-affiliated third parties. These limitations require disclosure of privacy policies to consumers and, in some circumstances, allow consumers to prevent disclosure of certain personal information to a non-affiliated third party. These regulations affect how consumer information is transmitted through diversified financial companies and conveyed to outside vendors. In addition, consumers may also prevent disclosure of certain information among affiliated companies that is assembled or used to determine eligibility for a product or service, such as that shown on consumer credit reports and asset and income information from applications. Consumers also have the option to direct banks and other financial institutions not to share information about transactions and experiences with affiliated companies for the purpose of marketing products or services. Federal law makes it a criminal offense, except in limited circumstances, to obtain or attempt to obtain customer information of a financial nature by fraudulent or deceptive means.

In October 2016, the federal banking regulators jointly issued an advance notice of proposed rulemaking on enhanced cyber risk management standards that are intended to increase the operational resilience of large and interconnected entities under their supervision. The advance notice of proposed rulemaking addressed five categories of cyber standards: (1) cyber risk governance; (2) cyber risk management; (3) internal dependency management; (4) external dependency management; and (5) incident response, cyber resilience, and situational awareness. The comment period expired in February 2017; however, the regulators have not yet issued any revised proposed rules or final rules.

***Prompt Corrective Action***

The Federal Deposit Insurance Corporation Improvement Act ("FDICIA") requires each federal banking agency to take prompt corrective action to resolve the problems of insured depository institutions, including but not limited to those that fall below one or more prescribed minimum capital ratios. Pursuant to FDICIA, the FDIC promulgated regulations defining the following five categories in which an insured depository institution will be placed, based on the level of its capital ratios: well-capitalized, adequately capitalized, under-capitalized, significantly under-capitalized, and critically under-capitalized. Under the prompt corrective action provisions of FDICIA as modified by the Basel III capital rules, an insured depository institution generally will be classified as well-capitalized if it has a CET1 ratio of at least 6.5%, a Tier 1 capital ratio of at least 8%, a total capital ratio of at least 10% and a Tier 1 leverage ratio of at least 5%, and an insured depository institution generally will be classified as under-capitalized if its CET1 ratio is under 3%, its total risk-based capital ratio is less than 8%, its Tier 1 risk-based capital ratio is less than 6%, or its Tier 1 leverage ratio is less than 4%. An institution that, based upon its capital levels, is classified as "well-capitalized," "adequately capitalized," or "under-capitalized," may be treated as though it were in the next lower capital category if the appropriate federal banking agency, after notice and opportunity for hearing, determines that an unsafe or unsound condition or an unsafe or unsound practice warrants such treatment. At each successive lower capital category, an insured depository institution is subject to more restrictions and prohibitions, including restrictions on growth, restrictions on interest rates paid on deposits, restrictions or prohibitions on payment of dividends and restrictions on the acceptance of brokered deposits. Furthermore, if a bank is classified in one of the under-capitalized categories, it is required to submit a capital restoration plan to the Federal bank regulator, and the holding company must guarantee the performance of that plan.

***Other Regulations***

The Company is subject to a wide range of other requirements and restrictions contained in both the laws of the United States and the states in which its banks and other subsidiaries operate. These regulations include but are not limited to the following:

- Requirements that the Parent serve as a source of strength for its subsidiary bank. The FRB has a policy that a bank holding company is expected to act as a source of financial and managerial strength to its subsidiary bank and, under appropriate circumstances, to commit resources to support the subsidiary bank. The Dodd-Frank Act codified this policy as a statutory requirement.
- Limitations on dividends payable by subsidiaries. A significant portion of the Parent's cash, which is used to pay dividends on our common and preferred stock and to pay principal and interest on our debt obligations, is derived from dividends paid to the Parent by its subsidiary bank. These dividends are subject to various legal and regulatory restrictions. See Note 14 of the Notes to Consolidated Financial Statements.
- Limitations on dividends payable to shareholders. The Parent's ability to pay dividends on both its common and preferred stock may be subject to regulatory restrictions, including the requirement that they be included in a

stress test and capital plan to which the FRB has not objected. See discussion under "Liquidity Management Actions" on page 74.

- Safety and soundness requirements. Federal law requires that our bank be operated in a safe and sound manner. We are subject to additional safety and soundness standards prescribed in the FDICIA, including standards related to internal controls, information systems, internal audit, loan documentation, credit underwriting, interest rate exposure, asset growth and compensation, as well as other operational and management standards deemed appropriate by the federal banking agencies. The safety and soundness requirements give bank regulatory agencies significant latitude in their supervisory authority over us.
- Requirements for approval of acquisitions and activities and restrictions on other activities. Prior approval of the FRB is required under the BHC Act for a financial holding company to acquire or hold more than a 5% voting interest in any bank, to acquire substantially all the assets of a bank or to merge with another financial or bank holding company. The BHC Act also requires approval for certain non-banking acquisitions, restricts the activities of bank holding companies that are not financial holding companies to banking, managing or controlling banks and other activities that the FRB has determined to be so closely related to banking as to be a proper incident thereto, and restricts the non-banking activities of a financial holding company to those that are permitted for financial holding companies or that have been determined by the FRB to be financial in nature, incidental to financial activities, or complementary to a financial activity. Laws and regulations governing national banks contain similar provisions concerning acquisitions and activities.
- Limitations on the amount of loans to a borrower and its affiliates.
- Limitations on transactions with affiliates. The Dodd-Frank Act significantly expanded the coverage and scope of the limitations on affiliate transactions within a banking organization.
- Restrictions on the nature and amount of any investments and ability to underwrite certain securities.
- Requirements for opening of branches and the acquisition of other financial entities.
- Fair lending and truth in lending requirements to provide equal access to credit and to protect consumers in credit transactions.
- Broker-dealer and investment advisory regulations. One of our subsidiaries is a broker-dealer that is authorized to engage in securities underwriting and other broker-dealer activities. This company is registered with the SEC and is a member of FINRA. Another subsidiary is a registered investment adviser under the Investment Advisers Act of 1940, as amended, and as such is supervised by the SEC. Certain of our subsidiaries are also subject to various U.S. federal and state laws and regulations. These laws and regulations generally grant supervisory agencies broad administrative powers, including the power to limit or restrict the carrying on of business for failure to comply with such laws.
- Provisions of the GLB Act and other federal and state laws dealing with privacy for non-public personal information of individual customers.
- Community Reinvestment Act ("CRA") requirements. The CRA requires banks to help serve the credit needs in their communities, including providing credit to low and moderate income individuals. If our bank subsidiary fails to adequately serve its communities, penalties may be imposed including denials of applications to add branches, relocate, add subsidiaries and affiliates, and merge with or purchase other financial institutions.
- Anti-money laundering regulations. The Bank Secrecy Act, Title III of the Uniting and Strengthening of America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 ("USA Patriot Act"), and other federal laws require financial institutions to assist U.S. Government agencies in detecting and preventing money laundering and other illegal acts by maintaining policies, procedures and controls designed to detect and report money laundering, terrorist financing, and other suspicious activity.

The Parent is subject to the disclosure and regulatory requirements of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended, both as administered by the SEC. As a company listed on the NASDAQ Global Select Market, the Parent is subject to NASDAQ listing standards for quoted companies.

The Company is subject to the Sarbanes-Oxley Act of 2002, the Dodd-Frank Act, and other federal and state laws and regulations which address, among other issues, corporate governance, auditing and accounting, executive compensation, and enhanced and timely disclosure of corporate information. NASDAQ has also adopted corporate governance rules, which are intended to allow shareholders and investors to more easily and efficiently monitor the performance of companies and their directors.

The Board of Directors of the Parent has overseen management's establishment of a comprehensive system of corporate governance and risk practices. This system includes policies and guidelines such as Corporate Governance Guidelines, a Code of Business Conduct and Ethics for Employees, a Directors Code of Conduct, a Related Party Transaction Policy, Stock Ownership and Retention Guidelines, a Compensation Clawback Policy, an insider trading policy including provisions prohibiting hedging and placing restrictions on the pledging of company stock by insiders, and charters for the Audit, Risk Oversight, Compensation, and Nominating and Corporate Governance Committees. More information on the Company's corporate governance practices is available on the Company's website at www.zionsbancorporation.com. (The Company's website is not part of this Annual Report on Form 10-K).

The Company has adopted policies, procedures and controls to address compliance with the requirements of the banking, securities and other laws and regulations described above or otherwise applicable to the Company. The Company intends to make appropriate revisions to reflect any changes required.

Regulators, Congress, state legislatures, and international consultative bodies continue to enact rules, laws, and policies to regulate the financial services industry and public companies and to protect consumers and investors. The nature of these laws and regulations and the effect of such policies on future business and earnings of the Company cannot be predicted.

## GOVERNMENT MONETARY POLICIES

The earnings and business of the Company are affected not only by general economic conditions, but also by policies adopted by various governmental authorities. The Company is particularly affected by the monetary policies of the FRB, which affect both short-term and long-term interest rates and the national supply of bank credit.

In view of the changing conditions in the economy and the effect of the FRB's monetary policies, it is difficult to predict future changes in loan demand, deposit levels and interest rates, or their effect on the business and earnings of the Company. FRB monetary policies have had a significant effect on the operating results of commercial banks in the past and are expected to continue to do so in the future.

## REGULATORY RELIEF IF PROPOSED RESTRUCTURING IS COMPLETED AND FSOC APPLICATION IS APPROVED

As discussed above, on November 20, 2017, we announced a proposal to streamline our corporate structure by merging the Parent into its bank subsidiary, ZB, N.A. In connection with the proposed restructuring, we also intend to file an application with FSOC (the "FSOC Appeal") that, if successful, could potentially eliminate "enhanced" regulation of the "Company" as a SIFI.

If completed, the proposed restructuring would eliminate the bank holding company structure and associated regulatory framework and would result in ZB, N.A. becoming the top-level publicly-traded entity within our corporate structure. If the proposed restructuring and FSOC Appeal are successful, the Company expects that:

- The Company would no longer be subject to duplicative examinations by both the FRB and OCC and instead would no longer be subject to examinations by the FRB. The Company would continue to be subject to examinations by the CFPB with respect to consumer financial regulations.
- The Company would no longer be subject to "enhanced prudential supervision" by the FRB under Section 165 of the Dodd-Frank Act. There are a number of regulatory requirements that are applied to the Company under "enhanced prudential supervision," which includes the annual HCR/CCAR process, as well as the LCR requirements applicable to "systemically important" organizations, as discussed above under "Capital Planning and Stress Testing" and "Liquidity," respectively. The Company would continue to be subject to the OCC's

heightened standards for national banks with assets of $50 billion or more, and the DFAST process, as described above under “Capital Planning and Stress Testing.”

- The Company would no longer be subject to the prior non-objection requirement under HCR/CCAR for declaring any dividends or share repurchases, but would continue to be subject to the limitations on dividends and share repurchases pursuant to the National Bank Act and the OCC’s regulations.

In addition, if the restructuring is completed, the Company generally would no longer be subject to the Securities Law of 1933, but would remain subject to the requirements of the Securities Exchange Act of 1934, including the reporting requirements thereunder. However, the Company would be subject to OCC regulations governing securities offerings and make any filings required under the Securities Exchange Act with the OCC instead of the SEC.

## ITEM 1A. RISK FACTORS

The Company’s growth strategy is driven by key factors while adhering to defined risk parameters. The key elements of Zions’ strategy reflect its prudent risk-taking philosophy. The Company generates revenue by taking prudent and appropriately priced risks. These factors are outlined in the Company’s Risk Appetite Framework.

The Company’s Board of Directors has established a Risk Oversight Committee of the Board, approved an Enterprise Risk Management Framework, and appointed an Enterprise Risk Management Committee (“ERMC”) to oversee and implement the Framework. The ERMC is comprised of senior management of the Company and is chaired by the Chief Risk Officer. The Company’s most significant risk exposure has traditionally come from the acceptance of credit risk inherent in prudent extension of credit to relationship customers. In addition to credit risk, these committees also monitor the following level one risk areas: market and interest rate risk, liquidity risk, strategic/business risk, operational/technology risk, model risk, capital/financial reporting risk, legal/compliance risk (including regulatory risk), and reputational risk as outlined in the Company’s risk taxonomy. In 2017, the Company also designated cyber risk a level one risk in its risk taxonomy, which places it at the highest level of oversight with its other top risks. Additional governance and oversight includes Board-approved policies and management committees with direct focus on these specific risk categories. Incorporated into each of these level one risks mentioned previously is third party vendor risk, which the Company views as critical in the management and oversight of vendor management.

Although not comprehensive, the following describes several risk factors that are significant to the Company:

### Credit Risk

***Credit quality has adversely affected us in the past and may adversely affect us in the future.***

Credit risk is one of our most significant risks. A decline in the strength of the U.S. economy in general or the local economies in which we conduct operations could result in, among other things, deterioration in credit quality and/or reduced demand for credit, including a resultant adverse effect on the income from our loan portfolio, an increase in charge-offs and an increase in the allowance for loan and lease losses (“ALLL”).

***We have concentrations of risk in our loan portfolio, including loans secured by real estate, leveraged and enterprise value lending, and oil and gas-related lending, which may have unique risk characteristics that may adversely affect our results. While oil and gas prices have stabilized over the last year and our lending exposure to this segment has been reduced, the oil and gas industry is still subject to volatility.***

Concentration or counterparty risk could adversely affect the Company. Concentration risk across our loan and investment portfolios could pose significant additional credit risk to the Company due to exposures which perform in a similar fashion. Counterparty risk could also pose additional credit risk.

We engage in commercial construction and land acquisition and development lending, as well as commercial term lending, primarily in our western states footprint. The Company, as a whole, has relatively larger concentrations of such lending than many other peer institutions. In addition, we have a concentration in oil and gas-related lending, primarily in Texas. Both commercial real estate (“CRE”) and oil and gas-related lending are subject to specific risks, including volatility and potential significant and prolonged declines in collateral-values and activity levels. In addition, our real estate lending is concentrated in the western states, and values there may behave differently than in other parts of the United States. We may have other unidentified concentrated or correlated risks in our loan portfolio.

***Our business is highly correlated to local economic conditions in a specific geographic region of the United States.***

As a regional bank holding company, the Company provides a full range of banking and related services through its local management teams and unique brands in Arizona, California, Colorado, Idaho, Nevada, New Mexico, Oregon, Texas, Utah, Washington, and Wyoming. Approximately 76% of the Company's total net interest income relates to our banking operations in Utah, Texas, and California for the years ended December 31, 2017, and December 31, 2016, respectively. As a result of this geographic concentration, our financial results depend largely upon economic conditions in these market areas. Accordingly, adverse economic conditions affecting these three states in particular could significantly affect our consolidated operations and financial results. For example, our credit risk could be elevated to the extent that our lending practices in these three states focus on borrowers or groups of borrowers with similar economic characteristics, which are similarly affected by the same adverse economic events. At December 31, 2017, loan balances associated with our banking operations in Utah, Texas, and California comprised 80% of the Company's commercial lending portfolio, 74% of the CRE lending portfolio, and 71% of the consumer lending portfolio.

Loans originated by our banking operations in Utah, Texas, and California are primarily to borrowers in those respective states, with the exception of the National Real Estate group, which co-originates or purchases primarily owner-occupied first-lien CRE loans from financial institutions throughout the country.

***We have been and could continue to be negatively affected by adverse economic conditions.***

Adverse economic conditions negatively affect the Company's assets, including its loan and securities portfolios, capital levels, results of operations, and financial condition. The most recent financial crisis resulted in significant regulatory changes that continue to affect the Company. Although economic conditions have improved since the most recent financial crisis, it is possible that economic conditions may weaken. Economic and fiscal conditions in the United States and other countries may directly or indirectly adversely impact economic and market conditions faced by the Company and its customers. Any sustained weakness or further weakening in economic conditions would adversely affect the Company.

## Market and Interest Rate Risks

***Failure to effectively manage our interest rate risk and prolonged periods of low interest rates could adversely affect us.***

Net interest income is the largest component of the Company's revenue. Interest rate risk is managed by the Asset Liability Management Committee, which is established by the Company's Board of Directors. Failure to effectively manage our interest rate risk could adversely affect the Company. Factors beyond the Company's control can significantly influence the interest rate environment and increase the Company's risk. These factors include competitive pricing pressures for our loans and deposits, adverse shifts in the mix of deposits and other funding sources, and volatile market interest rates resulting from general economic conditions and the policies of governmental and regulatory agencies, in particular the FRB.

The Company remains in an "asset-sensitive" interest rate risk position, which means that net interest income would be expected to increase if interest rates increase, and to decline if interest rates decrease. Most recently, the FRB decided to maintain the target range for the federal funds rate at 1.25% to 1.5%, and indicated that it will determine the timing and size of future rate adjustments by assessing realized and expected economic conditions relative to the objectives of maximum employment and 2% inflation.

Financial market participants have recently contemplated the possibility of negative interest rates. With the exception of brief money market disruptions in which some U.S. Treasury bills traded at negative rates, the U.S. has not previously experienced a negative rate environment, although other developed economies have had prolonged periods of negative rates. Therefore, there are many unknown factors which could impact the Company in a negative rate environment. The ability to effectively charge customers interest on deposits will be determined largely by competition for deposits, but the Company's deposit systems may require modification to allow for negative deposit rates. Asset allocation strategies would be reconsidered were the FRB to charge for excess reserves.

***Our estimates of our interest rate risk position related to noninterest-bearing demand deposits are dependent on assumptions for which there is little historical experience, and the actual behavior of those deposits in a changing interest rate environment may differ materially from our estimates, which could materially affect our results of operations.***

We have experienced a low interest rate environment for the past several years. Our views with respect to, among other things, the degree to which we are "asset-sensitive," including our interest rate risk position for noninterest-bearing demand deposits, are dependent on modeled projections that rely on assumptions regarding changes in balances of such deposits in a changing interest rate environment. Because there is no modern precedent for the prolonged, extremely low interest rate environment that has prevailed for the last several years, there is little historical experience upon which to base such assumptions. If interest rates continue to increase, our assumptions regarding changes in balances of noninterest-bearing demand deposits and regarding the speed and degree to which other deposits are repriced may prove to be incorrect, and business decisions made in reliance on our modeled projections and underlying assumptions could prove to be unsuccessful. Because noninterest-bearing demand deposits are a significant portion of our deposit base, realized results which are different from our modeled projections and the underlying assumptions could materially affect our results of operations.

**Liquidity Risk**

***As a regulated entity, we are subject to capital and liquidity requirements that may limit our operations and potential growth.***

We are a bank holding company and, as such, we and our subsidiary bank are subject to the comprehensive, consolidated supervision and regulation of the FRB, the OCC and the FDIC, including risk-based and leverage capital ratio requirements, and Basel III liquidity requirements. Capital needs may rise above normal levels when we experience deteriorating earnings and credit quality, and our banking regulators may increase our capital requirements based on general economic conditions and our particular condition, risk profile and growth plans. In addition, we may be required to increase our capital levels even in the absence of actual adverse economic conditions or forecasts as a result of stress testing and capital planning based on hypothetical future adverse economic scenarios. Compliance with the capital requirements, including leverage ratios, may limit operations that require the intensive use of capital and could adversely affect our ability to expand or maintain present business levels. For a summary of the capital rules to which we are subject, see "Capital Standards – Basel Framework" on page 10 of this Annual Report on Form 10-K.

***Liquidity regulations, including regulations establishing a minimum Liquidity Coverage Ratio and requiring monthly liquidity stress testing applicable to the Company may impact profitability.***

The Company is subject to liquidity regulations, including a requirement that it conduct monthly liquidity stress tests that require it to maintain a modified LCR of at least 100%. The Company's calculation of the modified LCR indicates that the Company is in compliance with the requirement. Such stress testing is subject to ongoing model and assumptions changes which could affect results.

In order to meet the requirements of these new regulations, the Company expects to continue to hold a higher portion of its assets in HQLA and a lower portion of its assets in loans than was generally the case prior to such regulation. HQLA generally have lower yields than loans of the type made by the Company.

***We and/or the holders of our securities could be adversely affected by unfavorable rating actions from rating agencies.***

Our ability to access the capital markets is important to our overall funding profile. This access is affected by the ratings assigned by rating agencies to us and particular classes of securities that we and our banking subsidiary issue. The rates that we pay on our securities are also influenced by, among other things, the credit ratings that we and/or our securities receive from recognized rating agencies. Ratings downgrades to us or our securities could increase our costs or otherwise have a negative effect on our results of operations or financial condition or the market prices of our securities.

**Strategic/Business Risks**

***Problems encountered by other financial institutions could adversely affect financial markets generally and have indirect adverse effects on us.***

The commercial soundness of many financial institutions may be closely interrelated as a result of credit, trading, clearing or other relationships between the institutions. As a result, concerns about, or a default or threatened default by, one institution could lead to significant market-wide liquidity and credit problems, losses or defaults by other institutions. This is sometimes referred to as "systemic risk" and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges, with which we interact on a daily basis, and therefore could adversely affect us. Information security and vendor management processes are in place to actively identify, manage and monitor actual and potential impacts.

***The regulation of incentive compensation under the Dodd-Frank Act may adversely affect our ability to retain our highest performing employees.***

The bank regulatory agencies have published guidance and proposed regulations which limit the manner and amount of compensation that banking organizations provide to employees. These regulations and guidance may adversely affect our ability to attract and retain key personnel. If we were to suffer such adverse effects with respect to our employees, our business, financial condition and results of operations could be adversely affected, perhaps materially.

***We have made, and are continuing to make, significant changes to the Company that include, among other things, organizational restructurings, efficiency initiatives, and replacement or upgrades of certain core technological systems to improve our control environment, and operating efficiency. The ultimate success and completion of these changes, and their effect on the Company, may vary significantly from initial planning, which could materially adversely affect the Company.***

Over the last several years, the Company has completed numerous improvement projects, including combining the legal charters of our seven affiliate banks into one, consolidating 15 loan operations sites into two, upgrading our accounting systems, installing a credit origination work flow system, streamlining our small business and retail lending, mortgage, wealth management and foreign exchange businesses, and investing in data quality and information security. Ongoing investment continues in a multi-year project to replace our core loan and deposit systems, a collection of customer-facing digital capabilities and a variety of other projects to simplify how we do business.

These changes continue to be implemented; some of the projects are fully completed, and some projects are in their early stages. By their very nature, projections of duration, cost, expected savings, expected efficiencies, and related items are subject to change and significant variability.

We may encounter significant adverse developments in the completion and implementation of these changes. These may include significant time delays, cost overruns, loss of key people, technological problems, processing failures, and other adverse developments. Any or all of these issues could result in disruptions to our systems, processes, control environment, procedures, and employees, which may adversely impact our customers and our ability to conduct business.

We have plans, policies and procedures designed to prevent or limit the negative effect of these potential adverse developments. However, there can be no assurance that any such adverse developments will not occur or, if they do occur, that they will be adequately remediated. The ultimate effect of any adverse development could subject us to additional regulatory scrutiny, or expose us to civil litigation and possible financial liability, any of which could materially affect the Company, including its control environment, operating efficiency, and results of operations.

## Operational/Technology Risks

***Catastrophic events including, but not limited to, hurricanes, tornadoes, earthquakes, fires, floods, and prolonged drought, may adversely affect the general economy, financial and capital markets, specific industries, and the Company.***

The Company has significant operations and a significant customer base in Utah, Texas, California and other regions where natural and other disasters may occur. These regions are known for being vulnerable to natural disasters and other risks, such as hurricanes, tornadoes, earthquakes, fires, floods, and prolonged drought. These types of natural catastrophic events at times have disrupted the local economy, the Company's business and customers, and have posed physical risks to the Company's property. In addition, catastrophic events occurring in other regions of the world may have an impact on the Company's customers and in turn on the Company. Although we have business continuity and disaster recovery programs in place, a significant catastrophic event could materially adversely affect the Company's operating results.

***We could be adversely affected by failure in our internal controls.***

A failure in our internal controls could have a significant negative impact not only on our earnings, but also on the perception that customers, regulators and investors may have of the Company. We continue to devote a significant amount of effort, time and resources to improving our controls and ensuring compliance with complex accounting standards and regulations. These efforts also include the management of controls to mitigate operational risks for programs and processes across the Company.

***We could be adversely affected by financial technology advancements and other non-traditional lending and banking sources.***

The ability to successfully remain competitive is dependent upon our ability to maintain a critical technological capability and to identify and develop new, value-added products for existing and future customers. Failure to do so could impede our time to market, reduce customer product accessibility, and weaken our competitive position.

## Cyber Risk

***We are subject to a variety of system failure and cyber security risks that could adversely affect our business and financial performance.***

We rely heavily on communications and information systems to conduct our business. We, our customers, and other financial institutions with which we interact, are subject to ongoing, continuous attempts to penetrate key systems by individual hackers, organized criminals, and in some cases, state-sponsored organizations. Information security risks for large financial institutions such as Zions have increased significantly in recent years in part because of the proliferation of new technologies, such as Internet and mobile banking to conduct financial transactions, and the increased sophistication and activities of cyber criminals. Any failure, interruption or breach in security of our information systems could result in failures or disruptions in our customer relationship management, general ledger, deposit, loan and other systems, misappropriation of funds, and theft, disclosure or misuse of proprietary Company or customer data. While we have significant internal resources, policies and procedures designed to prevent or limit the effect of the possible failure, interruption or security breach of our information systems, there can be no assurance that any such failure, interruption or security breach will not occur or, if they do occur, that they will be adequately addressed. As cyber threats continue to evolve, we may be required to expend significant additional resources to continue to modify or enhance our layers of defense or to investigate or remediate any information security vulnerabilities. The occurrence of any failure, interruption or security breach of our information systems could damage our reputation, result in a loss of customer business, subject us to additional regulatory scrutiny, or expose us to civil litigation and possible financial liability.

## Model Risk

***We increasingly use models in the management of the Company, and in particular in the required stress testing and capital plan. There is risk that these models are incorrect or inaccurate in various ways, which can cause us***

***to make non-optimal decisions, and this risk causes the Company to hold additional capital as a buffer against that risk.***

We attempt to carefully develop, document, back test, and validate the models used in the management of the Company, including, for example, models used in the management of interest rate and liquidity risk, and those used in projecting stress losses in various segments of our credit and securities portfolios, and projecting net revenue under stress. Models are inherently imperfect for a number of reasons, however, and cannot perfectly predict outcomes. Management decisions based in part on such models, therefore, can be suboptimal. In addition, in determining the Company's capital needs under stress testing, we attempt to specifically quantify the amounts by which model results could be incorrect, and we hold material additional amounts of capital as a buffer against this "model risk."

**Capital/Financial Reporting Risks**

***Stress testing and capital management under the Dodd-Frank Act may limit our ability to increase dividends, repurchase shares of our stock, and access the capital markets.***

Under HCR/CCAR, we are required to submit to the FRB each year our capital plan for the applicable planning horizon, along with the results of required stress tests. Each annual capital plan will, among other things, specify our planned capital actions with respect to dividends, preferred stock redemptions, common stock repurchases or issuances, and similar matters and will be subject to the objection or non-objection by the FRB. Moreover, the HCR/CCAR process requires us to analyze the pro forma impact on our financial condition of various hypothetical future adverse economic scenarios selected by us and the FRB. We must maintain or raise capital sufficient to meet our risk management and regulatory expectations under such hypothetical scenarios. In connection with the annual HCR/CCAR process, we also participate in the DFAST on a semiannual basis. Under DFAST, a standardized strategy for capital actions (dividend payments held constant and other current capital obligations met) is implemented by all participating banks. As required by the Dodd-Frank Act, we also submit stress tests to the OCC for our subsidiary bank because it has assets in excess of $10 billion. Under both HCR/CCAR and DFAST, the FRB uses its proprietary models to analyze the Company's stressed capital position. The severity of the hypothetical scenarios devised by the FRB and OCC and employed in these stress tests is undefined by law or regulation, and is thus subject solely to the discretion of the regulators. The stress testing and capital planning processes may, among other things, require us to increase our capital levels, limit our dividends or other capital distributions to shareholders, modify our business strategies, or decrease our exposure to various asset classes.

Under stress testing and capital management standards implemented by bank regulatory agencies under the Dodd-Frank Act, we may declare dividends, repurchase common stock, redeem preferred stock and debt, access capital markets for certain types of capital, make acquisitions, and enter into similar transactions only if included in a capital plan to which the FRB has not objected. Any similar transactions not contemplated in our annual capital plan, other than those with an inconsequential impact on actual or projected capital, may require a new stress test and capital plan, which is subject to FRB non-objection. These requirements may significantly limit our ability to respond to and take advantage of market developments.

***Economic and other circumstances may require us to raise capital at times or in amounts that are unfavorable to the Company.***

The Company and its subsidiary bank must maintain certain risk-based and leverage capital ratios, as required by its banking regulators, which can change depending upon general economic conditions, hypothetical future adverse economic scenarios, and the particular conditions, risk profiles and growth plans of the Company and its subsidiary bank. Compliance with capital requirements may limit the Company's ability to expand and has required, and may require, the Company or its subsidiaries to raise additional capital, or may require additional capital investment from the Parent. These uncertainties and risks, including those created by legislative and regulatory uncertainties, may increase the Company's cost of capital and other financing costs.

***We could be adversely affected by accounting, financial reporting, and regulatory and compliance risk.***

The Company is exposed to accounting, financial reporting, and regulatory/compliance risk. The Company provides to its customers, invests in, and uses for its own capital, funding, and risk management needs, a number of complex financial products and services. Estimates, judgments, and interpretations of complex and changing accounting and regulatory policies are required in order to provide and account for these products and services. Changes in our accounting policies or in accounting standards could materially affect how we report our financial results and conditions. The level of regulatory/compliance oversight has been heightened in recent periods as a result of rapid changes in regulations that affect financial institutions. The administration of some of these regulations and related changes has required the Company to comply before their formal adoption. Therefore, identification, interpretation and implementation of complex and changing accounting standards as well as compliance with regulatory requirements pose an ongoing risk.

***Our results of operations depend upon the performance of our subsidiaries.***

We are a holding company that conducts substantially all of our operations through our banking subsidiary and other subsidiaries. The Parent receives substantially all of its revenues from dividends from its subsidiaries and primarily from its subsidiary bank. These dividends are a principal source of funds to pay dividends on our common and preferred stock and interest and principal on our debt. We and certain of our subsidiaries experienced periods of unprofitability or reduced profitability during the most recent recession of 2007-2009. The ability of the Company and its subsidiary bank to pay dividends is restricted by regulatory requirements, including profitability and the need to maintain required levels of capital. Lack of profitability or reduced profitability exposes us to the risk that regulators could restrict the ability of our subsidiary bank to pay dividends. It also increases the risk that the Company may have to establish a “valuation allowance” against its net DTA or have that asset disallowed for regulatory capital purposes.

The ability of our subsidiary bank to pay dividends or make other payments to us is also limited by its obligations to maintain sufficient capital and by other general regulatory restrictions on its dividends. If it does not satisfy these regulatory requirements, we may be unable to pay dividends or interest on our indebtedness. The OCC, the primary regulator of our subsidiary bank, has issued policy statements generally requiring insured banks to pay dividends only out of current earnings. In addition, if, in the opinion of the applicable regulatory authority, a bank under its jurisdiction is engaged in or is about to engage in an unsafe or unsound practice, which could include the payment of dividends, such authority may take actions requiring that such bank refrain from the practice. Payment of dividends could also be subject to regulatory limitations if a subsidiary bank were to become “under-capitalized” for purposes of the applicable federal regulatory “prompt corrective action” regulations.

***The value of our goodwill may decline in the future.***

As of December 31, 2017, the Company had $1 billion of goodwill that was allocated to Amegy, CB&T and Zions Bank. If the fair value of a reporting unit is determined to be less than its carrying value, the Company may have to take a charge related to the impairment of its goodwill. Such a charge would occur if the Company were to experience increases in the book value of a reporting unit in excess of the increase in the fair value of equity of a reporting unit. A significant decline in the Company’s expected future cash flows, a significant adverse change in the business climate, slower economic growth or a significant and sustained decline in the price of the Company’s common stock, any or all of which could be materially impacted by many of the risk factors discussed herein, may necessitate the Company taking charges in the future related to the impairment of its goodwill. Future regulatory actions could also have a material impact on assessments of the appropriateness of the goodwill carrying value. If the Company was to conclude that a future write-down of its goodwill is necessary, it would record the appropriate charge, which could have a material adverse effect on the Company’s results of operations.

***The Company may not be able to utilize the significant DTA recorded on its balance sheet.***

The Company’s balance sheet includes a significant DTA. We had net DTAs of $93 million at December 31, 2017, compared with $250 million at December 31, 2016. The largest components of this asset result from additions to our ALLL for purposes of GAAP in excess of loan losses actually taken for tax purposes. Our ability to continue to record this DTA is dependent on the Company’s ability to realize its value through net operating loss carrybacks or future projected earnings. Loss of part or all of this asset would adversely impact tangible capital. In addition, inclusion of this asset in determining regulatory capital is subject to certain limitations. Currently, no DTAs are disallowed for regulatory purposes either on a consolidated basis or at the Company’s subsidiary bank.

## Legal/Compliance Risks

***The Dodd-Frank Act imposes significant limitations on our business activities and subjects us to increased regulation and additional costs.***

The Dodd-Frank Act has material implications for the Company and the entire financial services industry. The Dodd-Frank Act places significant additional regulatory oversight and requirements on financial institutions, particularly those with more than $50 billion of assets, including the Company. In addition, among other things, the Dodd-Frank Act:

- affected the levels of capital and liquidity with which the Company must operate and how it plans capital and liquidity levels;
- subjected the Company to new and/or higher fees paid to various regulatory entities, including but not limited to deposit insurance fees to the FDIC;
- impacted the Company's ability to invest in certain types of entities or engage in certain activities;
- impacted a number of the Company's business strategies;
- required us to incur the cost of developing substantial heightened risk management policies and infrastructure;
- regulated the pricing of certain of our products and services and restricted the revenue that the Company generates from certain businesses;
- subjected the Company to capital planning actions, including stress testing or similar actions and timing expectations for capital raising;
- subjected the Company to supervision by the CFPB, with very broad rule-making and enforcement authorities;
- granted authority to state agencies to enforce state and federal laws against national banks;
- subjected the Company to new and different litigation and regulatory enforcement risks; and
- limited the manner and amount in which compensation is paid to executive officers and employees generally.

The Company and the entire financial services industry have incurred and will continue to incur substantial personnel, systems, consulting, and other costs in order to comply with new regulations promulgated under the Dodd-Frank Act, particularly with respect to stress testing and risk management. Some aspects of the Dodd-Frank Act continue to be subject to rulemaking, many of the rules that have been adopted will take effect over several additional years, and many of the rules that have been adopted may be subject to interpretation and clarification, and accordingly, the impact of such regulatory changes cannot be presently determined. Individually and collectively, regulations adopted under the Dodd-Frank Act may materially adversely affect the Company's and the financial services industry's business, financial condition (including the Company's ability to compete effectively with less regulated financial services providers), and results of operations.

***Other legislative and regulatory actions taken now or in the future may have a significant adverse effect on our operations and earnings.***

In addition to the Dodd-Frank Act described previously, bank regulatory agencies and international regulatory consultative bodies have proposed or are considering new regulations and requirements, some of which may be imposed without formal promulgation. Our deposits are insured by the FDIC up to legal limits and, accordingly, we are subject to FDIC insurance assessments.

There can be no assurance that any or all of these regulatory changes or actions will ultimately be adopted. However, if adopted, some of these proposals could adversely affect the Company by, among other things: impacting after-tax returns earned by financial services firms in general; limiting the Company's ability to grow; increasing taxes or fees on some of the Company's funding or activities; limiting the range of products and services that the Company could offer; and requiring the Company to raise capital at inopportune times.

Recent political developments, including the change in the executive administration of the United States, could result in substantial changes in tax, international trade, immigration, and other policies. The extent and timing of any such changes are uncertain, as are the potential direct and indirect impacts, whether beneficial or adverse.

Regulations and laws may be modified or repealed and new legislation may be enacted that will affect us and our subsidiaries.

The ultimate impact of these proposals cannot be predicted as it is unclear which, if any, may be adopted.

***We could be adversely affected by legal and governmental proceedings.***

We are subject to risks associated with legal claims, litigation, and regulatory and other government proceedings. The Company's exposure to these proceedings has increased and may further increase as a result of stresses on customers, counterparties and others arising from the past or current economic environments, new regulations promulgated under recently adopted statutes, the creation of new examination and enforcement bodies, and increasingly aggressive enforcement and legal actions against banking organizations. Any such matters may result in material adverse consequences to our results of operations, financial condition or ability to conduct our business, including adverse judgments, settlements, fines, penalties (including civil money penalties under applicable banking laws), injunctions, restrictions on our business activities or other relief. Our involvement in any such matters, even if the matters are ultimately determined in our favor, could also cause significant harm to our reputation and divert management attention from the operation of our business. In general, the amounts paid by financial institutions in settlement of proceedings or investigations, including those relating to anti-money laundering matters, have been increasing dramatically. In addition, any enforcement matters could impact our supervisory and CRA ratings, which may restrict or limit our activities.

**Reputational Risk**

***The company is presented with various reputational risk issues that could stem from operational, compliance and legal risks.***

A Reputational Risk Council was established to monitor, manage and develop strategies to effectively manage reputational risk which includes, but is not limited to, addressing communication logistics, legal and regulatory issues.

## ITEM 1B. UNRESOLVED STAFF COMMENTS

There are no unresolved written comments that were received from the SEC's staff 180 days or more before the end of the Company's fiscal year relating to its periodic or current reports filed under the Securities Exchange Act of 1934.

## ITEM 2. PROPERTIES

At December 31, 2017, the Company operated 433 branches, of which 275 are owned and 158 are leased. The Company also leases its headquarters in Salt Lake City, Utah. Other operations facilities are either owned or leased. The annual rentals under long-term leases for leased premises are determined under various formulas and factors, including operating costs, maintenance and taxes. For additional information regarding leases and rental payments, see Note 15 of the Notes to Consolidated Financial Statements.

## ITEM 3. LEGAL PROCEEDINGS

The information contained in Note 15 of the Notes to Consolidated Financial Statements is incorporated by reference herein.

## ITEM 4. MINE SAFETY DISCLOSURES

None.

## PART II

## ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

### MARKET INFORMATION

The Company's common stock is traded on the NASDAQ Global Select Market under the symbol "ZION." The last reported sale price of the common stock on NASDAQ on February 9, 2018 was $51.64 per share.

The following schedule sets forth, for the periods indicated, the high and low sale prices of the Company's common stock, as quoted on NASDAQ:

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | High | Low | High | Low |
| 1st Quarter | $ 48.33 | $ 39.09 | $ 26.91 | $ 19.65 |
| 2nd Quarter | 44.85 | 38.43 | 29.46 | 23.14 |
| 3rd Quarter | 47.70 | 41.23 | 31.35 | 23.02 |
| 4th Quarter | 52.20 | 43.50 | 44.15 | 30.07 |

### PREFERRED STOCK REDEMPTIONS

During 2017, we redeemed all outstanding shares of our 7.9% Series F preferred stock for a cash payment of approximately $144 million. The total one-time reduction to net earnings applicable to common shareholders associated with the preferred stock redemption was $2 million due to the accelerated recognition of preferred stock issuance costs.

During 2016 we decreased our preferred stock by $118 million, including the purchase of $26 million of our Series I preferred stock, $59 million of our Series J preferred stock, and $33 million of our Series G preferred stock, for an aggregate cash payment of $126 million. The total one-time reduction to net earnings applicable to common shareholders associated with the preferred stock redemption was $10 million. These preferred stock redemptions benefit the Company by decreasing the amount of preferred dividends paid.

### EQUITY CAPITAL AND DIVIDENDS

We have 4,400,000 authorized shares of preferred stock without par value and with a liquidation preference of $1,000 per share. As of December 31, 2017, 66,139, 138,390, 126,221, 98,555, and 136,368 of preferred shares series A, G, H, I, and J respectively, are outstanding. In general, preferred shareholders may receive asset distributions before common shareholders; however, preferred shareholders have only limited voting rights generally with respect to certain provisions of the preferred stock, the issuance of senior preferred stock, and the election of directors. Preferred stock dividends reduce earnings available to common shareholders and are paid quarterly or semiannually in arrears. The preferred stock redemption amount is computed at the per share liquidation preference plus any declared but unpaid dividends. All of the outstanding series of preferred stock are registered with the SEC. In addition, Series A, G, and H preferred stock are listed and traded on the New York Stock Exchange. See Note 13 of the Notes to Consolidated Financial Statements for further information regarding the Company's preferred stock.

As of February 9, 2018, there were 4,353 holders of record of the Company's common stock. The frequency and amount of common stock dividends paid during the last two years are as follows:

| | 1st Quarter | 2nd Quarter | 3rd Quarter | 4th Quarter |
|---|---|---|---|---|
| 2017 | $ 0.08 | $ 0.08 | $ 0.12 | $ 0.16 |
| 2016 | 0.06 | 0.06 | 0.08 | 0.08 |

The Company's Board of Directors approved a dividend of $0.20 per common share payable on February 22, 2018 to shareholders of record on February 15, 2018. The Company expects to continue its policy of paying regular cash dividends on a quarterly basis, although there is no assurance as to future dividends because they depend on future earnings, capital requirements, financial condition, and regulatory approvals.

### SHARE REPURCHASES

During 2017 we continued our common stock repurchase program and repurchased 7 million shares of common stock outstanding with a fair value $320 million at an average price of $45.66 per share. During the first quarter of 2018, the Company repurchased an additional 2 million shares of common stock outstanding with a fair value of $115 million at an average price of $53.46 per share, leaving $120 million of repurchase capacity remaining in the 2017 capital plan (which spans the timeframe of July 2017 to June 2018).

During 2016 we repurchased 3 million shares of common stock outstanding with a fair value of $90 million at an average price of $31.15 per share.

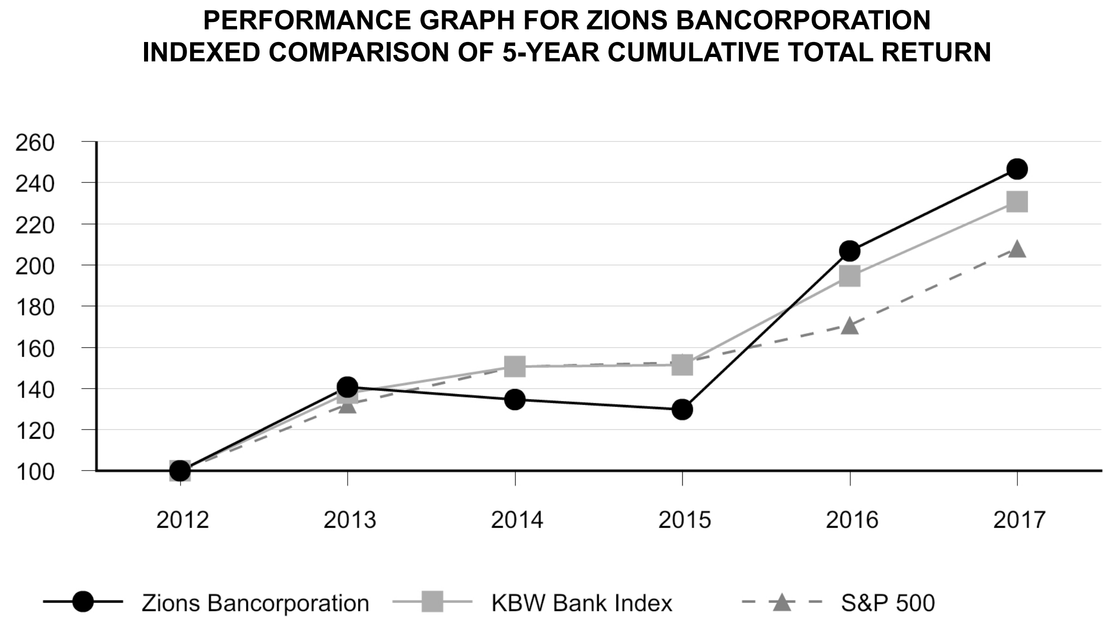
The following schedule summarizes the Company’s share repurchases for the fourth quarter of 2017:

| Period | Total number of shares repurchased [1] | Average price paid per share | Shares purchased as part of publicly announced plans or programs | Approximate dollar value of shares that may yet be purchased under the plan |
|---|---|---|---|---|
| October | 935 | $ 47.19 | — | $ 350,000,045 |
| November | 1,019,801 | 48.07 | 1,019,240 | 301,000,280 |
| December | 1,302,618 | 50.74 | 1,300,777 | 235,000,750 |
| Fourth quarter | 2,323,354 | 49.57 | 2,320,017 | |

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

### PERFORMANCE GRAPH

The following stock performance graph compares the five-year cumulative total return of Zions Bancorporation’s common stock with the Standard & Poor’s 500 Index and the Keefe, Bruyette & Woods, Inc. (“KBW”) Bank Index, both of which include Zions Bancorporation. The KBW Bank Index is a market capitalization-weighted bank stock index developed and published by KBW, a nationally recognized brokerage and investment banking firm specializing in bank stocks. The index is composed of 24 geographically diverse stocks representing national money center banks and leading regional financial institutions. The stock performance graph is based upon an initial investment of $100 on December 31, 2012 and assumes reinvestment of dividends.




| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|---|
| Zions Bancorporation | 100.0 | 140.6 | 134.6 | 129.8 | 206.7 | 246.6 |
| KBW Bank Index | 100.0 | 137.8 | 150.7 | 151.4 | 194.6 | 230.7 |
| S&P 500 | 100.0 | 132.4 | 150.5 | 152.5 | 170.8 | 208.1 |

## SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

The information contained in Item 12 of this Form 10-K is incorporated by reference herein.

# ITEM 6. SELECTED FINANCIAL DATA

## FINANCIAL HIGHLIGHTS

| *(Dollar amounts in millions, except per share amounts)* | 2017/2016 Change | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|---|
| **For the Year** | | | | | | |
| Net interest income | +11% | $ 2,065 | $ 1,867 | $ 1,715 | $ 1,680 | $ 1,696 |
| Noninterest income | +5% | 544 | 516 | 357 | 493 | 327 |
| Total revenue | +9% | 2,609 | 2,383 | 2,072 | 2,173 | 2,023 |
| Provision for loan losses | -74% | 24 | 93 | 40 | (98) | (87) |
| Noninterest expense | +4% | 1,649 | 1,585 | 1,581 | 1,649 | 1,704 |
| Income before income taxes | +33% | 936 | 705 | 451 | 621 | 407 |
| Income taxes | +46% | 344 | 236 | 142 | 223 | 143 |
| Net income | +26% | 592 | 469 | 309 | 398 | 264 |
| Net earnings applicable to common shareholders | +34% | 550 | 411 | 247 | 327 | 294 |
| **Per Common Share** | | | | | | |
| Net earnings – diluted | +31% | 2.60 | 1.99 | 1.20 | 1.68 | 1.58 |
| Net earnings – basic | +36% | 2.71 | 2.00 | 1.20 | 1.68 | 1.58 |
| Dividends declared | +57% | 0.44 | 0.28 | 0.22 | 0.16 | 0.13 |
| Book value [1] | +6% | 36.01 | 34.10 | 32.67 | 31.35 | 29.57 |
| Market price – end | | 50.83 | 43.04 | 27.30 | 28.51 | 29.96 |
| Market price – high | | 52.20 | 44.15 | 33.42 | 33.33 | 31.40 |
| Market price – low | | 38.43 | 19.65 | 23.72 | 25.02 | 21.56 |
| **At Year-End** | | | | | | |
| Assets | +5% | 66,288 | 63,239 | 59,665 | 57,203 | 56,021 |
| Net loans and leases | +5% | 44,780 | 42,649 | 40,650 | 40,064 | 39,043 |
| Deposits | -1% | 52,621 | 53,236 | 50,374 | 47,848 | 46,363 |
| Long-term debt | -28% | 383 | 535 | 812 | 1,086 | 2,263 |
| Federal funds and other short-term borrowings | +502% | 4,976 | 827 | 347 | 244 | 340 |
| Shareholders' equity: | | | | | | |
| Preferred equity | -20% | 566 | 710 | 829 | 1,004 | 1,004 |
| Common equity | +3% | 7,113 | 6,924 | 6,679 | 6,366 | 5,461 |
| **Performance Ratios** | | | | | | |
| Return on average assets | | 0.91% | 0.78% | 0.53% | 0.71% | 0.48% |
| Return on average common equity | | 7.7% | 6.0% | 3.8% | 5.4% | 5.7% |
| Return on average tangible common equity | | 9.0% | 7.1% | 4.6% | 6.7% | 7.4% |
| Net interest margin | | 3.45% | 3.37% | 3.19% | 3.26% | 3.36% |
| **Capital Ratios [1]** | | | | | | |
| Equity to assets | | 11.6% | 12.1% | 12.6% | 12.9% | 11.5% |
| Common equity tier 1 (Basel III), tier 1 common (Basel I) [2] | | 12.1% | 12.1% | 12.2% | 11.9% | 10.2% |
| Tier 1 leverage [2] | | 10.5% | 11.1% | 11.3% | 11.8% | 10.5% |
| Tier 1 risk-based capital [2] | | 13.2% | 13.5% | 14.1% | 14.5% | 12.8% |
| Total risk-based capital [2] | | 14.8% | 15.2% | 16.1% | 16.3% | 14.7% |
| Tangible common equity | | 9.3% | 9.5% | 9.6% | 9.5% | 8.0% |
| Tangible equity | | 10.2% | 10.6% | 11.1% | 11.3% | 9.9% |
| **Selected Information** | | | | | | |
| Weighted average diluted common shares outstanding *(in thousands)* | | 209,653 | 204,269 | 203,698 | 192,789 | 184,297 |
| Company common shares repurchased - from publicly announced plans *(in thousands)* | | 7,009 | 2,889 | — | — | — |
| Common dividend payout ratio | | 16.05% | 14.04% | 18.30% | 9.56% | 8.20% |
| Full-time equivalent employees | | 10,083 | 10,057 | 10,200 | 10,462 | 10,452 |
| Commercial banking offices | | 431 | 436 | 450 | 460 | 469 |

[1] *At year-end.*

[2] *For 2017, 2016, and 2015, ratios are based on Basel III. For years prior to 2015, ratios are based on Basel I.*

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### MANAGEMENT'S DISCUSSION AND ANALYSIS

### GAAP to NON-GAAP RECONCILIATIONS

This Form 10-K presents non-GAAP financial measures, in addition to GAAP financial measures, to provide investors with additional information. The adjustments to reconcile from the applicable GAAP financial measures to the non-GAAP financial measures are presented in the following schedules. The Company considers these adjustments to be relevant to ongoing operating results and provide a meaningful base for period-to-period and company-to-company comparisons. These non-GAAP financial measures are used by management to assess the performance and financial position of the Company and for presentations of Company performance to investors. The Company further believes that presenting these non-GAAP financial measures will permit investors to assess the performance of the Company on the same basis as that applied by management.

Non-GAAP financial measures have inherent limitations, and are not required to be uniformly applied by individual entities. Although non-GAAP financial measures are frequently used by stakeholders to evaluate a company, they have limitations as an analytical tool and should not be considered in isolation or as a substitute for analysis of results reported under GAAP.

The following are the non-GAAP financial measures presented in this Form 10-K 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 adjustments, net of tax" and "average tangible common equity." Return on average tangible common equity is a non-GAAP financial measure that management believes provides useful information about the Company's use of shareholders' equity. Management believes the use of ratios that utilize tangible equity provides additional useful information because they present measures of those assets that can generate income.

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

Efficiency Ratio – this schedule also includes "adjusted noninterest expense," "taxable-equivalent net interest income," "adjusted taxable-equivalent revenue," "pre-provision net revenue ("PPNR") ," and "adjusted PPNR." The methodology of determining the efficiency ratio may differ among companies. Management makes adjustments to exclude certain items as identified in the subsequent schedule which it believes allows for more consistent comparability among periods. Management believes the efficiency ratio provides useful information regarding the cost of generating revenue. Adjusted noninterest expense provides a measure as to how well the Company is managing its expenses, and adjusted PPNR enables management and others to assess the Company's ability to generate capital to cover credit losses through a credit cycle. Taxable-equivalent net interest income allows management to assess the comparability of revenue arising from both taxable and tax-exempt sources. The efficiency ratio and adjusted noninterest expense are the key metrics to which the Company announced it would hold itself accountable in its June 1, 2015 efficiency initiative, and to which executive compensation is tied.

*Schedule 1*

**RETURN ON AVERAGE TANGIBLE COMMON EQUITY (NON-GAAP) – ANNUAL**

| *(Dollar amounts in millions)* | | Year Ended December 31, 2017 | 2016 | 2015 |
|---|---|---|---|---|
| Net earnings applicable to common shareholders (GAAP) | | $ 550 | $ 411 | $ 247 |
| Adjustments, net of tax: | | | | |
| Amortization of core deposit and other intangibles | | 4 | 5 | 6 |
| Net earnings applicable to common shareholders, excluding the effects of the adjustments, net of tax (non-GAAP) | (a) | $ 554 | $ 416 | $ 253 |
| Average common equity (GAAP) | | $ 7,148 | $ 6,915 | $ 6,581 |
| Average goodwill | | (1,014) | (1,014) | (1,014) |
| Average core deposit and other intangibles | | (5) | (13) | (21) |
| Average tangible common equity (non-GAAP) | (b) | $ 6,129 | $ 5,888 | $ 5,546 |
| Return on average tangible common equity (non-GAAP) | (a/b) | 9.0% | 7.1% | 4.6% |

*Schedule 2*

**TANGIBLE EQUITY (NON-GAAP), TANGIBLE COMMON EQUITY (NON-GAAP), AND TANGIBLE BOOK VALUE PER COMMON SHARE (NON-GAAP)**

| *(Dollar amounts in millions, except per share amounts)* | | December 31, 2017 | 2016 | 2015 |
|---|---|---|---|---|
| Total shareholders' equity (GAAP) | | $ 7,679 | $ 7,634 | $ 7,507 |
| Goodwill | | (1,014) | (1,014) | (1,014) |
| Core deposit and other intangibles | | (2) | (8) | (16) |
| Tangible equity (non-GAAP) | (a) | 6,663 | 6,612 | 6,477 |
| Preferred stock | | (566) | (710) | (829) |
| Tangible common equity (non-GAAP) | (b) | $ 6,097 | $ 5,902 | $ 5,648 |
| Total assets (GAAP) | | $ 66,288 | $ 63,239 | $ 59,665 |
| Goodwill | | (1,014) | (1,014) | (1,014) |
| Core deposit and other intangibles | | (2) | (8) | (16) |
| Tangible assets (non-GAAP) | (c) | $ 65,272 | $ 62,217 | $ 58,635 |
| Common shares outstanding (thousands) | (d) | 197,532 | 203,085 | 204,417 |
| Tangible equity ratio (non-GAAP) | (a/c) | 10.2% | 10.6% | 11.0% |
| Tangible common equity ratio (non-GAAP) | (b/c) | 9.3% | 9.5% | 9.6% |
| Tangible book value per common share (non-GAAP) | (b/d) | $30.87 | $29.06 | $27.63 |

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*Schedule 3*

**EFFICIENCY RATIO**

| *(Dollar amounts in millions)* | | 2017 | 2016 | 2015 |
|---|---|---|---|---|
| Noninterest expense (GAAP) | (a) | $ 1,649 | $ 1,585 | $ 1,581 |
| Adjustments: | | | | |
| Severance costs | | 7 | 5 | 11 |
| Other real estate expense, net | | (1) | (2) | (1) |
| Provision for unfunded lending commitments | | (7) | (10) | (6) |
| Debt extinguishment cost | | — | — | 3 |
| Amortization of core deposit and other intangibles | | 6 | 8 | 9 |
| Restructuring costs | | 4 | 5 | 4 |
| Total adjustments | (b) | 9 | 6 | 20 |
| Adjusted noninterest expense (non-GAAP) | (a-b)=(c) | $ 1,640 | $ 1,579 | $ 1,561 |
| Net interest income (GAAP) | (d) | $ 2,065 | $ 1,867 | $ 1,715 |
| Fully taxable-equivalent adjustments | (e) | 35 | 25 | 18 |
| Taxable-equivalent net interest income (non-GAAP)[1] | (d+e)=(f) | 2,100 | 1,892 | 1,733 |
| Noninterest income (GAAP) | (g) | 544 | 516 | 357 |
| Combined income (non-GAAP) | (f+g)=(h) | 2,644 | 2,408 | 2,090 |
| Adjustments: | | | | |
| Fair value and nonhedge derivative income (loss) | | (2) | 2 | — |
| Securities gains (losses), net | | 14 | 7 | (127) |
| Total adjustments | (i) | 12 | 9 | (127) |
| Adjusted taxable-equivalent revenue (non-GAAP) | (h-i)=(j) | $ 2,632 | $ 2,399 | $ 2,217 |
| Pre-provision net revenue (non-GAAP) | (h)-(a) | $ 995 | $ 823 | $ 509 |
| Adjusted pre-provision net revenue (non-GAAP) | (j-c) | 992 | 820 | 656 |
| Efficiency ratio (non-GAAP) | (c/j) | 62.3% | 65.8% | 70.4% |

## Company Overview

Zions Bancorporation (“the Parent”) and its subsidiaries (collectively “the Company,” “Zions,” “we,” “our,” “us”) together comprise a $66 billion financial holding company headquartered in Salt Lake City, Utah.

- As of December 31, 2017, the Company was the 19th largest domestic bank holding company in terms of deposits and is included in the Standard and Poor’s (“S&P”) 500 and NASDAQ Financial 100 indices.
- At December 31, 2017, the Company had banking operations through 433 domestic branches in eleven western states. Additionally, the Company currently has, and continues to develop its digital delivery capabilities. Revenues and profits are primarily derived from commercial customers and the Company also emphasizes mortgage banking, wealth management, municipal finance, and brokerage services.
- The Company is consistently ranked among the best banks in the country to work with by its small and middle-market customers, as measured by the Greenwich Associates annual survey. Since the awards inception in 2009, only three other U.S. banks have consistently received as many Greenwich Excellence Awards as Zions Bancorporation.
- The Company consistently wins awards for the best bank within its geography. Examples include the best bank awards given by local newspapers, business journals, or similar publications in Nevada, Arizona, and California: Orange County (four consecutive years) and San Diego County (seven consecutive years).
- The long-term strategy of the Company is driven by key factors that include:
  - Continuing to execute on our community bank business model by doing business on a “local” basis, with significant local decision making for customer-facing elements of our business including product offerings, marketing, and pricing. We believe this provides a meaningful competitive advantage and an opportunity for growth over larger national banks whose loan and deposit products are often homogeneous. We are actively

engaged in community events and charitable efforts designed to give back to the people within our communities. In 2017, we believe this local, customized approach led to a strong showing with commercial customers as reflected in the Greenwich Awards referenced earlier, as well as a growth rate of loans that exceeded the domestic commercial banks' rate by approximately three percentage points.

  - Achieving even greater efficiencies than currently reflected in our financial statements. We have improved the financial performance of the Company significantly during the past three years and we intend to continue to do so by creating value through the adoption of common practices, automation, and simplification of all of our front, middle and back-office processes.
  - We expect to achieve continued growth of revenue (net interest income plus noninterest income) in excess of noninterest expense—so-called positive operating leverage—which should result in annual PPNR growth in the high single digit rate and further improvement to the efficiency ratio.
  - Improving profitability ratios. Improved operating efficiency coupled with low credit costs as experienced in 2017 should lead to improved profitability ratios, such as the return on assets and equity. We expect to maintain or increase the return of shareholders' equity due to stronger earnings and a lower risk profile than seen in stress testing results just a few years ago.
  - Maintaining a strong approach to risk management, having meaningfully improved our operational, credit, and financial risk management in the past several years.
  - Striving to be a "top employer of choice," which means employees view Zions Bancorporation as one of the best places to work and grow.
- We believe our scale gives us superior access to capital markets, more robust treasury management, and other product capabilities than smaller community banks. Looking forward for the next several years, we believe that digital delivery of products, including mobile banking, online banking and having a core processing system that is robust and prevents outages, is critical to remaining competitive. As such, we are investing a substantial amount to upgrade and replace systems and applications.
- During the past several years we have taken significant actions to improve the Company's risk profile, which include:
  - The reduction of an above-average concentration in CRE commitments, and within CRE, the concentration of land development commitments declined from more than 70% of total risk-based capital in 2007, to less than 5% at December 31, 2017;
  - Numerous changes made to the credit administration organization and processes to facilitate improved data collection on loans and monitoring of potential default and loss risk;
  - The higher-risk portfolio of collateralized debt obligation securities were sold and replaced with government and government agency securities;
  - A significant increase in the on-balance sheet storehouse of liquidity with the purchase of moderate duration securities with limited duration extension risk; i.e., management has generally purchased securities that within the context of a rising interest rate environment would not experience interest rate related losses;
  - The addition of five members of the Board of Directors;
  - The replacement and upgrade of management information and accounting systems to allow for a more complete view of the Company's risks and opportunities;
  - The ongoing evaluation and classification of all known risks into approximately sixty unique risk categories, which are regularly monitored and reported in a process that flows from line-level employees through executive management to the Board of Directors;
  - The streamlining or elimination of redundant or inefficient processes, and the reduction of unnecessary complexity in product types;
- With the improvement in the risk profile, along with improving profitability, the Company's capital stress test results have markedly improved within the past few years, and as such, we have increased the return of capital to shareholders including increasing the common dividend from $0.16 per share in 2014 to $0.44 per share in 2017. Additionally, we repurchased $320 million of common stock during 2017. We believe we are carrying

excess capital, informed primarily by our stress test results, and have indicated that we intend to increase the leverage of the Company at a gradual pace as a result of moderate loan growth combined with total payout ratios generally similar to the current capital plan.

- As part of our ongoing simplification and efficiency efforts, in December 2015, the Company consolidated its various banking charters into a single charter. Additionally, as previously discussed, in November 2017, the Company announced plans to change its structure to consolidate the holding company into the banking entity. This change, if approved by shareholders and regulators, will further reduce duplication of effort and simplify operations. For more information see, “Regulatory relief if proposed restructuring is completed and FSOC application is approved,” on page 15.

## RESULTS OF OPERATIONS

### Executive Summary

The Company reported net earnings applicable to common shareholders for 2017 of $550 million or $2.60 per diluted common share compared with $411 million or $1.99 per diluted common share for 2016. The improved financial performance reflects revenue growth, continued expense control and improved credit quality, particularly in the oil and gas-related loan portfolio. Net income increased in 2017 primarily due to a $198 million increase in net interest income, from growth in our lending and securities portfolios during the year, and short-term rate increases that positively impacted loan yields. Revenue also experienced a benefit from a $28 million increase related to noninterest income and credit costs, specifically the provision for loan losses, declined $69 million. These increases were partially offset by a $64 million increase in noninterest expense

### Performance Relative to Previously Announced Initiatives

*Efficiency Initiatives*

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

- <u>Achieve an efficiency ratio in the low 60% range for fiscal year 2017</u>. Our efficiency ratio for 2017 was 62.3%, which met our goal for the year, compared with 65.8% for 2016, representing a 351 bps improvement. Improvements in interest income from securities and loans, partially offset by an increase in adjusted noninterest expense, drove the significant improvement. See “GAAP to Non-GAAP Reconciliations” on page 29 for more information regarding the calculation of the adjusted efficiency ratio and why management uses this non-GAAP measure.
- <u>Maintain adjusted noninterest expense at less than $1.58 billion in 2016, with a modest increase of 2-3% in 2017</u>. We met our target for fiscal year 2016, keeping adjusted noninterest expense to $1.579 billion. In 2017, total adjusted noninterest expense was $1.640 billion. Zions made a $12 million contribution to a charitable foundation in the fourth quarter of 2017, which was related in part to the Tax Cuts and Jobs Act. Excluding the impact of this one-time accelerated contribution, adjusted noninterest expense increased $49 million, or 3%, which was in line with our expectations. Adjusted noninterest expense excludes those same expense items excluded in arriving at the efficiency ratio (see “GAAP to Non-GAAP Reconciliations” on page 29 for more information regarding the calculation of the efficiency ratio).
- <u>Increase returns on tangible common equity to more than ten percent</u>. Returns were 9.0%, 7.1%, and 4.6% for 2017, 2016, and 2015, respectively. Adjusting for the estimated net DTA write-off of $47 million through income tax expense associated with the decrease in the federal income tax rate from the passage of new legislation (see “Income Taxes” on page 45 for more information), and the $12 million charitable contribution, return on tangible common equity for 2017 would have been 9.9%. These year-over-year increases demonstrate our commitment to improving profitability, as we continue to work towards achieving this goal. See “GAAP to Non-GAAP Reconciliations” on page 29 for more information regarding the calculation of the adjusted efficiency ratio and why management uses this non-GAAP measure.

- Achieve cumulative gross pretax cost savings of $120 million from operational expense initiatives by fiscal year 2017. Savings from technology initiatives, the consolidation of legal charters, and improved operational efficiency across the Company helped us achieve this goal by the end of 2017.

**Highlights in 2017**

Net interest income, which is more than three-quarters of our revenue, improved by $198 million to $2.1 billion compared with 2016. The average balance of our investment securities portfolio grew $5.4 billion, and the average rate on those securities expanded 9 bps due in part to a change in asset mix. Our average lending portfolio also grew by 3% or $1.4 billion; the average yield on the loan portfolio increased 14 bps, reflecting in part several increases in short-term benchmark rates. Although there was a decrease in the average balance of long-term debt in 2017 of $286 million, this was offset by increased average Federal Home Loan Bank ("FHLB") and other short-term borrowings, which rose by $3.6 billion. Interest expense increased $40 million compared with 2016, almost entirely driven by the increase in wholesale funding. Interest expense on deposits increased only $10 million on more than $52 billion of average deposits. Some of the same factors that led to an increase in net interest income also resulted in net interest margin ("NIM") expansion in 2017 relative to 2016, which was 3.45% and 3.37%, respectively.

Adjusted PPNR of $992 million in 2017 was up $172 million from 2016. This increase reflects operating leverage improvement resulting from loan growth and a more profitable average earning assets mix. Adjusted noninterest expense increased to $1.640 billion (or $1.628 billion, if excluding the charitable foundation contribution related to the Tax Cuts and Jobs Act) from $1.579 billion in 2017, however, this was more than offset by improved revenue. PPNR improvements during 2017 have driven an improvement in the Company's efficiency ratio from 65.8% in 2016 to 62.3% in 2017.

Our lending portfolio grew $2.1 billion based on year-end balances, or 5% during 2017. We have seen widespread growth across most products and geographies, with particular strength in 1-4 family residential, commercial and industrial, and municipal lending. We saw a small decline in our National Real Estate ("NRE") portfolio, and we actively managed decreases in our oil and gas-related and CRE term portfolios. We are currently comfortable with the concentrations in both the oil and gas-related and CRE term portfolios and we do not expect the attrition trend to continue.

Asset quality has been very favorable during 2017. 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 criticized, classified, and nonaccrual loans declined by $292 million, $444 million, and $127 million, respectively.

We continue to increase the return on- and of-capital. As previously mentioned, the Company's return on average tangible common equity increased substantially in 2017 relative to 2016. Regarding return of capital, during the year, the Company repurchased 7 million shares of common stock for $320 million. Dividends per common share were $0.44 in 2017, up from $0.28 in 2016. 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 77 for more information regarding the 2018 capital plan.

We announced in 2013 that we had started a project to replace our core loan and deposit banking systems ("Core Transformation Project"). We successfully implemented the first phase of the TCS BαNCS® core servicing system in mid-2017, replacing our consumer lending system. The second phase is focused on the replacement of our commercial and construction lending systems is expected to be completed in 2019. The replacement of the deposit system is the third phase of the project. As of December 31, 2017, the Company had $148 million of capitalized expenses associated with the Core Transformation Project. BαNCS® is a real time, parameter-driven servicing system that will provide long-term benefits to the Company by improving accessibility and functionality, allowing our bankers to better serve customers.

**Areas Experiencing Challenges in 2017**

Noninterest income from customer-related fees increased approximately 3% in 2017 from the prior year period, which was less than the targeted growth goal. We experienced strength in card activity (credit, debit, merchant), growth in the Company's trust and wealth management initiatives, and increased foreign currency and derivative transactions made on behalf of customers. This growth was partially offset by a decline in loan sales and servicing income, which was mainly due to fewer sales of residential mortgages and a lower valuation adjustment on our agricultural loan servicing assets accounted for at fair value. We are targeting mid-single digit growth of customer-related fee income.

Noninterest expense increased to $1.649 billion from $1.585 billion in 2016, equivalent to a 4% increase. Adjusting for the one-time charitable contribution mentioned earlier, adjusted noninterest expense increased 3%, which is in line with announced forecasts. Employee costs, including salaries and benefits expenses, were higher in 2017 than in the prior year, partially due to a combination of higher incentive compensation and increased costs in the Company's benefit plans. Depreciation and amortization expense was higher by $5 million, in part, because we placed into use a newly constructed office building at our Amegy affiliate and as previously mentioned we successfully implemented the first phase of our Core Transformation Project. FDIC premiums increased $13 million over the prior year, due in part to a surcharge assessed to large banks introduced by the FDIC in the third quarter of 2016 with the purpose of recapitalizing the deposit insurance fund.

**Areas of Focus for 2018**

In 2018, we are focused on the ongoing initiatives related to Company profitability and returns on equity. Major areas of emphasis include the following:

- Achieve positive operating leverage
  - Maintain annual mid-single digit loan growth rates
  - Achieve mid-single digit growth rates in customer-related fee income
  - Maintain strong expense controls: we expect adjusted noninterest expense to increase slightly--a rate of growth in the low single digit percentage range
  - Annual PPNR growth in the high single digit rate and further improvement to the efficiency ratio
  - Continue simplification of all aspects of how we do business
- Implement technology upgrade strategies
- Increase the return on and maintain or increase the return of capital
- Continue to execute on our Community Bank Model – doing business on a "local" basis
- Merge the Parent into its bank subsidiary, ZB, N.A.

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*Schedule 4*

**KEY DRIVERS OF PERFORMANCE**

**2017 COMPARED TO 2016**

| Driver | 2017 | 2016 | Change better/(worse) |
|---|---|---|---|
| | *(In billions)* | | |
| Average net loans and leases | $ 43.5 | $ 42.1 | 3% |
| Average money market investments | 1.5 | 3.7 | (59) |
| Average total securities | 15.7 | 10.3 | 52 |
| Average noninterest-bearing deposits | 23.8 | 22.5 | 6 |
| Average total deposits | 52.2 | 50.6 | 3 |
| | *(In millions)* | | |
| Net interest income | $ 2,065 | $ 1,867 | 11% |
| Provision for loan losses | 24 | 93 | 74 |
| Noninterest income | 544 | 516 | 5 |
| Customer-related fee income [1] | 485 | 473 | 3 |
| Noninterest expense | 1,649 | 1,585 | (4) |
| Net interest margin | 3.45% | 3.37% | 8 bps |
| Nonaccrual loans [2] | 414 | 569 | 27% |
| Ratio of net charge-offs to average loans and leases | 0.17% | 0.31% | 14 bps |
| Ratio of nonperforming lending-related assets to net loans and leases and other real estate owned [2] | 0.93% | 1.34% | 41 bps |
| Ratio of total allowance for credit losses to net loans and leases outstanding | 1.29% | 1.48% | 19 bps |

[1] *Includes the following income statement line items: service charges and fees on deposit accounts, other service charges, commissions and fees, wealth management and trust income, capital markets and foreign exchange, and loan sales and servicing income.*

[2] *Includes loans held for sale.*

## Net Interest Income

Net interest income is the difference between interest earned on interest-earning assets and interest paid on interest-bearing liabilities. Taxable-equivalent net interest income is the largest portion of our revenue. For 2017, taxable-equivalent net interest income was $2.1 billion, compared with $1.9 billion and $1.7 billion, in 2016 and 2015, respectively. The tax rate used for calculating all taxable-equivalent adjustments was 35% for all years presented. The increase over 2016, and the previous increase over 2015, were driven by several factors, including a larger average securities portfolio balance, loan growth, and increases in benchmark interest rates that impacted loan yields. 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 rates in our forecasts. Therefore, we expect net interest income to increase at a moderate pace in 2018 when compared with 2017.

## Net Interest Margin and Interest Rate Spreads in 2017 vs. 2016

The NIM was 3.45% and 3.37% for 2017 and 2016, respectively. Compared with 2016, changes in asset mix resulted in higher securities and loan balances, lower balances in money market investments, and higher balances of wholesale borrowings to fund overall balance sheet growth. Moving funds from money market investments to loans and securities had a positive impact on NIM, while funding balance sheet growth with wholesale borrowings reduced spreads and negatively impacted NIM, although it was accretive to net interest income. The NIM was also positively impacted by several increases in short-term interest rates. Average interest-earning assets increased $4.7 billion from 2016, with average rates improving 14 bps. Average interest-bearing liabilities increased $3.6 billion and average rates increased 8 bps over the same period.

The average loan portfolio increased $1.4 billion, or 3% from 2016, with the majority of growth coming from 1-4 family residential, commercial and industrial, and municipal lending. Yields on average balances increased overall, buoyed by increases of 16 bps and 26 bps in the commercial and CRE portfolios, respectively; yields on average consumer balances were relatively flat during 2017. Much of the consumer growth was in consumer 1-4 family residential, where our yields are generally lower than on commercial loans. Benchmark interest rates 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 more quickly than our funding sources. A portion of our variable-rate loans were not affected by these changes primarily due to longer reset frequency, or because a substantial portion of our earning assets are tied to longer-term rates indices, which rates were impacted by a relatively flat yield curve for much of 2017. Additionally, NIM benefited from FDIC-supported loans by approximately 3 bps and 4 bps in 2017 and 2016, respectively. We expect continued strong growth in residential mortgages, with moderate growth in both CRE and commercial and industrial loans.

Average available-for-sale ("AFS") securities balances increased $5.4 billion during 2017 and yields were also up 17 bps due to the effect of rising interest rates on variable-rate securities, moderation in the amount of prepayments on agency-guaranteed, mortgage-backed securities, and investment in products providing a higher yield than the average portfolio. The purchases were funded by using lower-yielding average money market investments, which were reduced by $2.1 billion, and wholesale borrowing from the FHLB. The investment portfolio has now reached a generally appropriate size relative to the balance sheet.

Average noninterest-bearing demand deposits provided us with low-cost funding and comprised 45.6% of average total deposits, which totaled $52.2 billion in 2017, compared with 44.4% of average total deposits, which totaled $50.6 billion, for 2016. Average interest-bearing deposits increased only 1% in 2017, compared with 2016. Over the past 12 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 3 bps. We have been selectively increasing deposit pricing in certain markets and with certain clients, but we have not generally experienced signific

ant pressure to broadly 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, which provide us with a low cost of funds and have a positive impact on our NIM. Including wholesale borrowings, the rate paid on interest-bearing liabilities increased 8 bps primarily due to borrowings increasing as a percentage of liabilities during 2017.

The average balance of long-term debt decreased $286 million compared with 2016, and although the average rate increased 61 bps in the current year, because remaining debt was at a higher average rate than the rate on debt that matured and was available to be called; overall interest expense thereon decreased $13 million. As mentioned previously, the Company has used short-term FHLB borrowings to fund some of its balance sheet growth. Average short-term debt grew $3.6 billion and the rate paid increased 78 bps. Further changes in short-term borrowings will be driven by balancing changes in deposits and loans as we do not foresee significant increases in investment security balances.

The spread on average interest-bearing funds was 3.27% and 3.23% for 2017 and 2016, respectively. The spread on average interest-bearing funds for these periods was affected by the same factors that had an impact on the NIM.

We expect the mix of interest-earning assets to continue to change over the next several quarters due to solid consumer loan growth, accompanied by moderate growth in CRE term loans, and non-oil and gas-related commercial and industrial loans. We anticipate this growth will be partially offset by continued modest reduction in the NRE 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. We expect the yield of the loan portfolio to increase somewhat due to the effects of rising interest rates in late 2017, partially offset by a continued modest change in the mix of the portfolio (increasing concentration in lower-yielding residential mortgages), as well as reduced income from higher-yielding loans purchased from the FDIC in 2009.

Our estimates of the Company's interest rate risk position are highly dependent upon a number of assumptions regarding the repricing behavior of various deposit and loan types in response to changes in both short-term and long-term interest rates, balance sheet composition, and other modeling assumptions, as well as the actions of competitors and customers in response to those changes. In addition, our modeled projections for noninterest-bearing demand deposits, which are a substantial portion of our deposit balances, are particularly reliant on assumptions for which there is little historical experience due to the prolonged period of very low interest rates. Further detail on interest rate risk is discussed in "Interest Rate and Market Risk Management" on page 68.

Refer to the "Liquidity Risk Management" section beginning on page 72 for more information on how we manage liquidity risk.

**Net Interest Margin and Interest Rate Spreads in 2016 vs. 2015**

The NIM was 3.37% and 3.19% for 2016 and 2015, respectively. Market trends and competitive pricing led to generally flat or lower yields across loans and investments in 2016 compared with 2015. These yield adjustments were offset by changes in the Company's asset mix, which in 2016 became less concentrated in lower-yielding money market investments, and more focused on higher-yielding agency securities and loans. Further contributing to the improvement was a decline in the Company's cost of funds, due to higher amounts of noninterest-bearing deposits and tender offers, early calls and maturities of higher-rate debt, including the remaining trust preferred securities.

Average interest-earning assets increased $1.8 billion from 2015, with rates improving 12 bps. Average interest-bearing liabilities increased $769 million and rates decreased 11 bps over the same period.

Our average loan portfolio was $1.9 billion higher during 2016, compared with 2015, although the average interest rate earned on the loan portfolio was 8 bps lower than it was in 2015 due to competitive pricing pressure and depressed interest rates. The larger average loan base generated an additional $45 million of taxable-equivalent interest income during the year. The largest average growth in 2016 was in the CRE portfolio, which also saw the average yield decline by 22 bps. The decline in loan yields occurred as new loans were originated or existing loans reset or were modified. See "Interest Rate and Market Risk Management" on page 68 for further information regarding our interest rate sensitivity.

During 2016 we continued to purchase U.S. agency pass-through securities in order to alter the mix of our interest-earning assets that began in the second half of 2014. The average balance of AFS securities for 2016 increased by $4.4 billion or 84%, compared with 2015, and the average yield was flat at 1.93%. Average balances of money market investments over the same period declined $4.6 billion, with an average yield during 2016 of 0.59%. This asset movement had the largest impact on the improvement in NIM during 2016.

Average noninterest-bearing demand deposits provided us with low cost funding and comprised 44.4% of average total deposits for 2016, compared with 43.9% for 2015. Average interest-bearing deposit balances increased by 3% in 2016 compared with 2015; additionally, the rate paid was flat at 18 bps.

The average balance of long-term debt was $313 million lower for 2016 compared with 2015. The reduced balance was the result of tender offers, early calls and maturities. The average interest rate on long-term debt for 2016 decreased by 157 bps compared with 2015. This was due to the maturity of higher cost long-term debt in the latter part of 2015, which had a greater impact on the average rate during 2016.

The lower cost of funds in 2016, compared with 2015, and improved yields on average interest-earning assets, contributed to the higher NIM and to an improvement in spread from 2.99% in 2015 to 3.23% in 2016.

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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*Schedule 5*

**DISTRIBUTION OF ASSETS, LIABILITIES, AND SHAREHOLDERS' EQUITY**

**AVERAGE BALANCE SHEETS, YIELDS AND RATES**

| *(Dollar amounts in millions)* | 2017 Average balance | 2017 Amount of interest [1] | 2017 Average rate | 2016 Average balance | 2016 Amount of interest [1] | 2016 Average rate |
|---|---|---|---|---|---|---|
| ASSETS | | | | | | |
| Money market investments | $ 1,539 | $ 19 | 1.23% | $ 3,664 | $ 21 | 0.59% |
| Securities: | | | | | | |
| Held-to-maturity | 776 | 31 | 3.95 | 675 | 30 | 4.40 |
| Available-for-sale | 14,907 | 313 | 2.10 | 9,546 | 184 | 1.93 |
| Trading account | 64 | 2 | 3.75 | 83 | 3 | 3.76 |
| Total securities | 15,747 | 346 | 2.20 | 10,304 | 217 | 2.11 |
| Loans held for sale | 87 | 3 | 3.56 | 140 | 5 | 3.36 |
| Loans and leases [2] | | | | | | |
| Commercial | 22,116 | 964 | 4.36 | 21,748 | 913 | 4.20 |
| Commercial Real Estate | 11,184 | 504 | 4.50 | 11,131 | 472 | 4.24 |
| Consumer | 10,201 | 391 | 3.84 | 9,183 | 351 | 3.83 |
| Total Loans and leases | 43,501 | 1,859 | 4.27 | 42,062 | 1,736 | 4.13 |
| Total interest-earning assets | 60,874 | 2,227 | 3.66 | 56,170 | 1,979 | 3.52 |
| Cash and due from banks | 786 | | | 675 | | |
| Allowance for loan losses | (548) | | | (601) | | |
| Goodwill | 1,014 | | | 1,014 | | |
| Core deposit and other intangibles | 5 | | | 13 | | |
| Other assets | 2,985 | | | 2,779 | | |
| Total assets | $ 65,116 | | | $ 60,050 | | |
| LIABILITIES | | | | | | |
| Interest-bearing deposits: | | | | | | |
| Saving and money market | $ 25,453 | 39 | 0.15 | $ 25,672 | 37 | 0.15 |
| Time | 2,966 | 20 | 0.69 | 2,333 | 12 | 0.49 |
| Foreign | — | — | — | 128 | — | 0.28 |
| Total interest-bearing deposits | 28,419 | 59 | 0.21 | 28,133 | 49 | 0.18 |
| Borrowed funds: | | | | | | |
| Federal funds purchased and other short-term borrowings | 4,096 | 44 | 1.05 | 456 | 1 | 0.27 |
| Long-term debt | 417 | 24 | 5.79 | 703 | 37 | 5.18 |
| Total borrowed funds | 4,513 | 68 | 1.49 | 1,159 | 38 | 3.25 |
| Total interest-bearing liabilities | 32,932 | 127 | 0.38 | 29,292 | 87 | 0.30 |
| Noninterest-bearing deposits | 23,781 | | | 22,462 | | |
| Other liabilities | 624 | | | 625 | | |
| Total liabilities | 57,337 | | | 52,379 | | |
| Shareholders' equity: | | | | | | |
| Preferred equity | 631 | | | 756 | | |
| Common equity | 7,148 | | | 6,915 | | |
| Controlling interest shareholders' equity | 7,779 | | | 7,671 | | |
| Noncontrolling interests | — | | | — | | |
| Total shareholders' equity | 7,779 | | | 7,671 | | |
| Total liabilities and shareholders' equity | $ 65,116 | | | $ 60,050 | | |
| Spread on average interest-bearing funds | | | 3.27 | | | 3.23 |
| Taxable-equivalent net interest income and net yield on interest-earning assets | | $ 2,100 | 3.45 | | $ 1,892 | 3.37 |

[1] *Taxable-equivalent rates used where applicable. See "GAAP to Non-GAAP Reconciliations" on page 29 for more information regarding taxable-equivalent net interest income.*

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

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| 2015 | | | 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|---|---|
| Average balance | Amount of interest [1] | Average rate | Average balance | Amount of interest [1] | Average rate | Average balance | Amount of interest [1] | Average rate |
| | | | | | | | | |
| $ 8,252 | $ 23 | 0.28% | $ 8,218 | $ 21 | 0.26% | $ 8,850 | $ 23 | 0.26% |
| | | | | | | | | |
| 581 | 30 | 5.08 | 609 | 32 | 5.27 | 762 | 38 | 4.91 |
| 5,181 | 100 | 1.93 | 3,472 | 75 | 2.17 | 3,107 | 72 | 2.32 |
| 64 | 2 | 3.46 | 61 | 2 | 3.22 | 32 | 1 | 3.29 |
| 5,826 | 132 | 2.26 | 4,142 | 109 | 2.64 | 3,901 | 111 | 2.84 |
| 125 | 5 | 3.61 | 128 | 5 | 3.63 | 147 | 5 | 3.64 |
| | | | | | | | | |
| 21,419 | 903 | 4.22 | 21,125 | 922 | 4.36 | 20,186 | 940 | 4.65 |
| 10,178 | 454 | 4.46 | 10,337 | 484 | 4.68 | 10,386 | 557 | 5.36 |
| 8,574 | 334 | 3.91 | 8,060 | 328 | 4.06 | 7,537 | 321 | 4.25 |
| 40,171 | 1,691 | 4.21 | 39,522 | 1,734 | 4.39 | 38,109 | 1,818 | 4.77 |
| 54,374 | 1,851 | 3.40 | 52,010 | 1,869 | 3.59 | 51,007 | 1,957 | 3.84 |
| 642 | | | 894 | | | 1,014 | | |
| (607) | | | (690) | | | (830) | | |
| 1,014 | | | 1,014 | | | 1,014 | | |
| 21 | | | 31 | | | 44 | | |
| 2,601 | | | 2,623 | | | 2,683 | | |
| $ 58,045 | | | $ 55,882 | | | $ 54,932 | | |
| | | | | | | | | |
| | | | | | | | | |
| $ 24,619 | 38 | 0.16 | $ 23,532 | 37 | 0.16 | $ 22,891 | 40 | 0.17 |
| 2,274 | 10 | 0.43 | 2,490 | 12 | 0.46 | 2,792 | 16 | 0.57 |
| 379 | 1 | 0.18 | 642 | 1 | 0.18 | 1,662 | 3 | 0.20 |
| 27,272 | 49 | 0.18 | 26,664 | 50 | 0.19 | 27,345 | 59 | 0.22 |
| | | | | | | | | |
| 235 | — | 0.14 | 223 | — | 0.11 | 278 | — | 0.11 |
| 1,016 | 69 | 6.75 | 1,803 | 123 | 6.82 | 2,265 | 186 | 8.21 |
| 1,251 | 69 | 5.51 | 2,026 | 123 | 6.09 | 2,543 | 186 | 7.32 |
| 28,523 | 118 | 0.41 | 28,690 | 173 | 0.60 | 29,888 | 245 | 0.82 |
| 21,366 | | | 19,610 | | | 17,972 | | |
| 592 | | | 554 | | | 584 | | |
| 50,481 | | | 48,854 | | | 48,444 | | |
| | | | | | | | | |
| 983 | | | 1,004 | | | 1,360 | | |
| 6,581 | | | 6,024 | | | 5,130 | | |
| 7,564 | | | 7,028 | | | 6,490 | | |
| — | | | — | | | (2) | | |
| 7,564 | | | 7,028 | | | 6,488 | | |
| $ 58,045 | | | $ 55,882 | | | $ 54,932 | | |
| | | 2.99 | | | 2.99 | | | 3.02 |
| | $ 1,733 | 3.19 | | $ 1,696 | 3.26 | | $ 1,712 | 3.36 |

Schedule 6 analyzes the year-to-year changes in net interest income on a fully taxable-equivalent basis for the years indicated. For purposes of calculating the yields in these schedules, the average loan balances also include the principal amounts of nonaccrual and restructured loans. However, interest received on nonaccrual loans is included in income only to the extent that cash payments have been received and not applied to principal reductions. In addition, interest on restructured loans is generally accrued at reduced rates.

*Schedule 6*

**ANALYSIS OF INTEREST CHANGES DUE TO VOLUME AND RATE**

| | 2017 over 2016 | | | 2016 over 2015 | | |
|---|---|---|---|---|---|---|
| | Changes due to | | | Changes due to | | |
| *(In millions)* | Volume | Rate[1] | Total changes | Volume | Rate[1] | Total changes |
| **INTEREST-EARNING ASSETS** | | | | | | |
| Money market investments | $ (12) | $ 10 | $ (2) | $ (13) | $ 11 | $ (2) |
| Securities: | | | | | | |
| Held-to-maturity | 4 | (3) | 1 | 4 | (4) | — |
| Available-for-sale | 111 | 18 | 129 | 84 | — | 84 |
| Trading account | (1) | — | (1) | 1 | — | 1 |
| Total securities | 114 | 15 | 129 | 89 | (4) | 85 |
| Loans held for sale | (2) | — | (2) | 1 | — | 1 |
| Loans and leases[2] | | | | | | |
| Commercial | 16 | 35 | 51 | 13 | (3) | 10 |
| Commercial Real Estate | 2 | 30 | 32 | 40 | (22) | 18 |
| Consumer | 38 | 2 | 40 | 23 | (6) | 17 |
| Total loans and leases | 56 | 67 | 123 | 76 | (31) | 45 |
| Total interest-earning assets | 156 | 92 | 248 | 153 | (24) | 129 |
| **INTEREST-BEARING LIABILITIES** | | | | | | |
| Interest-bearing deposits: | | | | | | |
| Saving and money market | — | 2 | 2 | — | (1) | (1) |
| Time | 3 | 5 | 8 | — | 2 | 2 |
| Foreign | — | — | — | (1) | — | (1) |
| Total interest-bearing deposits | 3 | 7 | 10 | (1) | 1 | — |
| Borrowed funds: | | | | | | |
| Federal funds purchased and other short-term borrowings | 31 | 12 | 43 | 1 | — | 1 |
| Long-term debt | (15) | 2 | (13) | (16) | (16) | (32) |
| Total borrowed funds | 16 | 14 | 30 | (15) | (16) | (31) |
| Total interest-bearing liabilities | 19 | 21 | 40 | (16) | (15) | (31) |
| Change in taxable-equivalent net interest income | $ 137 | $ 71 | $ 208 | $ 169 | $ (9) | $ 160 |

[1] *Taxable-equivalent rates used where applicable.*

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

*In the analysis of interest changes due to volume and rate, changes due to the volume/rate variance are allocated to volume with the following exceptions: when volume and rate both increase, the variance is allocated proportionately to both volume and rate; when the rate increases and volume decreases, the variance is allocated to rate.*

### Provision for Credit Losses

The provision for credit losses is the combination of both the provision for loan losses and the provision for unfunded lending commitments. The provision for loan losses is the amount of expense that, in our judgment, is required to maintain the ALLL at an adequate level based on the inherent risks in the loan portfolio. The provision for unfunded lending commitments is used to maintain the reserve for unfunded lending commitments (“RULC”) at an adequate level based on the inherent risks associated with such commitments. In determining adequate levels of the ALLL and RULC, we perform periodic evaluations of our various loan portfolios, the levels of actual charge-offs, credit trends, and external factors. See Note 6 of the Notes to Consolidated Financial Statements and "Credit Risk Management" on page 56 for more information on how we determine the appropriate level for the ALLL and the RULC.

The provision for loan losses was $24 million in 2017, compared with $93 million in 2016. Credit quality was strong throughout 2017, with significant improvement in the oil and gas-related portfolio. Classified and nonaccrual loans in the total portfolio declined by $444 million and $127 million, respectively. Net charge-offs totaled $73 million in 2017, compared with $132 million in the prior year. These improvements in both credit quality and net charge-offs resulted in the lower provision. The Company has roughly $8 billion of loan balances in the geographic area impacted by Hurricane Harvey. During the third quarter of 2017, we added a qualitative allowance of $34 million based on multiple top-down and bottom-up analyses to estimate potential losses. During the fourth quarter, subsequent analysis indicated our losses may not be as large as we first believed and we released roughly one-third of the associated allowance.

The provision for unfunded lending commitments was $(7) million in 2017, compared with $(10) million in 2016. The negative provision in 2016 was primarily due to improved credit quality assessments related to these obligations for credits outside the oil and gas-related portfolio along with declining oil and gas-related exposure. In 2017, improved credit quality, especially in the oil and gas-related portfolio, resulted in a further release of the RULC. 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 by $56 million during 2017. Even with loan growth and the above-mentioned hurricane impact, strong 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 commercial and industrial 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 2017, noninterest income was $544 million compared with $516 million in 2016 and $357 million in 2015. 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.

Schedule 7 presents a comparison of the major components of noninterest income for the past three years.

*Schedule 7*

**NONINTEREST INCOME**

| *(Dollar amounts in millions)* | 2017 | Percent change | 2016 | Percent change | 2015 |
|---|---|---|---|---|---|
| Service charges and fees on deposit accounts | $ 171 | —% | $ 171 | 2% | $ 168 |
| Other service charges, commissions and fees | 217 | 4 | 208 | 11 | 187 |
| Wealth management and trust income | 42 | 14 | 37 | 19 | 31 |
| Loan sales and servicing income | 25 | (29) | 35 | 13 | 31 |
| Capital markets and foreign exchange | 30 | 36 | 22 | (15) | 26 |
| Customer-related fees | 485 | 3 | 473 | 7 | 443 |
| Dividends and other investment income | 40 | 67 | 24 | (20) | 30 |
| Securities gains (losses), net | 14 | 100 | 7 | 106 | (127) |
| Other | 5 | (58) | 12 | 9 | 11 |
| Total noninterest income | $ 544 | 5 | $ 516 | 45 | $ 357 |

Other service charges, commissions and fees, which are comprised of ATM fees, insurance commissions, bankcard merchant fees, debit and credit card interchange fees, cash management fees, and other miscellaneous fees, increased by $9 million compared with 2016. The increase relates mainly to higher credit card interchange fees and exchange and other fees. In 2016, other service charges, commissions and fees increased by $21 million compared with 2015. The increase was primarily a result of the same items mentioned previously, as well as fees generated on sales of interest rate swaps to clients.

During the first quarter of 2016, we reclassified bankcard rewards expense from noninterest expense into noninterest income in order to offset the associated revenue from interchange fees to align with industry practice. This reclassification within other service charges, commission and fees lowered noninterest income in the first quarter of 2016 and also decreased other noninterest expense by the same amount. For comparative purposes, we also reclassified prior period amounts. This reclassification had no impact on net income.

Wealth management and trust income increased by $5 million. The change was due to trust income, with improvement in both corporate and personal trust revenue due to platform and product simplifications. Wealth management and trust income increased $6 million between 2016 and 2015 for the same reasons.

Dividends and other investment income increased $16 million, primarily due to $14 million of gains across many of our cost and equity method investments. After consolidating seven banking charters into one in December 2015, our stock ownership with the FHLB system has decreased significantly and dividends thereon have also fallen. Due to increased use of FHLB borrowing during 2017, the Company has purchased FHLB activity stock as needed; however, the dividends received have not equaled the level seen prior to 2016. The consolidation also caused an increase in the Company’s ownership of Federal Reserve stock. Dividends on FRB stock were relatively flat between 2017 and 2016.

Loan sales and servicing income decreased $10 million in 2017, compared with 2016. During 2017, we ceased selling servicing-released mortgage loans to Freddie Mac, and therefore no longer received the associated servicing premiums for doing so, which decreased income by $11 million. In general, servicing income increased slightly in 2017. We also had particularly large valuation gains during 2016 on agricultural loan servicing assets accounted for at fair value, which did not repeat to the same extent in the current year. Loan sales and servicing income increased $4 million in 2016, compared with 2015, due mainly to these valuation gains on servicing assets.

**Noninterest Expense**

Noninterest expense increased by $64 million or 4% to $1,649 million in 2017, compared with $1,585 million in 2016 and $1,581 million in 2015. Excluding the effect of a charitable foundation contribution of $12 million related to the Tax Cuts and Jobs Act, noninterest expense increased in line with communicated forecasts. The Company remains focused on expense control efforts, while we continue to invest in our technology initiatives. Employee expenses were up, partially due to a combination of higher incentive compensation in 2017 as a result of improved Company performance and increased costs in the Company’s benefit plans. Expenses increased only $4 million between 2016 and 2015, with few major fluctuations in any category.

Schedule 8 presents a comparison of the major components of noninterest expense for the past three years.

*Schedule 8*

**NONINTEREST EXPENSE**

| *(Dollar amounts in millions)* | 2017 | Percent change | 2016 | Percent change | 2015 |
|---|---|---|---|---|---|
| Salaries and employee benefits | $ 1,011 | 3% | $ 983 | 1% | $ 973 |
| Occupancy, net | 129 | 3 | 125 | 4 | 120 |
| Furniture, equipment and software | 130 | 4 | 125 | 2 | 123 |
| Other real estate expense | (1) | (50) | (2) | 100 | (1) |
| Credit-related expense | 29 | 12 | 26 | (10) | 29 |
| Provision for unfunded lending commitments | (7) | (30) | (10) | 67 | (6) |
| Professional and legal services | 54 | (2) | 55 | 10 | 50 |
| Advertising | 22 | — | 22 | (12) | 25 |
| FDIC premiums | 53 | 33 | 40 | 18 | 34 |
| Amortization of core deposit and other intangibles | 6 | (25) | 8 | (11) | 9 |
| Other | 223 | 5 | 213 | (5) | 225 |
| Total noninterest expense | $ 1,649 | 4 | $ 1,585 | — | $ 1,581 |

Salaries and employee benefits increased by $28 million, or 3%, in 2017, compared with 2016, as illustrated in Schedule 9. Base salaries were up in 2017, as employee salary expense rose roughly in line with inflation. Employee bonuses were up, partially due to lower incentive compensation for management in 2016 and larger commission expense in the current year. Benefits expense increased $9 million, or 6%, in 2017, primarily due to higher costs in the Company's self-funded medical plans and an increase in profit sharing expense. Salaries and employee benefits increased by $10 million, or 1%, in 2016, compared with 2015 due to several reasons. Our investment in major systems projects led to headcount increases in more highly compensated roles, we had higher costs in our medical plans and also higher-than-expected retirement expense due to several large lump-sum payouts during the year.

*Schedule 9*

**SALARIES AND EMPLOYEE BENEFITS**

| *(Dollar amounts in millions)* | 2017 | Percent change | 2016 | Percent change | 2015 |
|---|---|---|---|---|---|
| Salaries and bonuses | $ 851 | 2% | $ 832 | —% | $ 829 |
| Employee benefits: | | | | | |
| Employee health and insurance | 69 | 11 | 62 | 7 | 58 |
| Retirement | 41 | 14 | 36 | 9 | 33 |
| Payroll taxes and other | 50 | (6) | 53 | — | 53 |
| Total benefits | 160 | 6 | 151 | 5 | 144 |
| Total salaries and employee benefits | $ 1,011 | 3 | $ 983 | 1 | $ 973 |
| Full-time equivalent employees at December 31 | 10,083 | — | 10,057 | (1) | 10,200 |

Occupancy expense was up $4 million in 2017. We placed a newly constructed office building into operation during the first quarter and depreciation expense was consequently higher than in 2016. Rental income was higher in the current year because we are leasing space to tenants, but other costs surrounding the building implementation offset this benefit. Expense increased $5 million, or 4% in 2016 compared with 2015. The increase was due to a combination of small items including higher rent expense, lease depreciation, and building security.

During 2017, we successfully implemented the first release of the TCS BαNCS® core servicing system. Furniture and equipment expense increased $5 million in 2017 mainly due to amortization of capitalized software. Expense was relatively flat between 2016 and 2015.

FDIC premiums were $53 million, $40 million, and $34 million, in 2017, 2016, and 2015, respectively. Increases were due to higher deposit bases in each of the years and the FDIC's increase in deposit insurance assessments that occurred in the third quarter of 2016. These increases were somewhat offset by a reduction in the Company's overall rate resulting from the consolidation of the individual bank charters and the Bank's lower risk profile.

Other noninterest expense was $223 million in 2017, compared with $213 million in 2016 and $225 million in 2015. The increase in 2017 was mainly due to the one-time charitable contribution made at the end of the year. The main driver for lower expense in 2016, compared with 2015, was lower levels of legal related expense.

In 2016, we held adjusted noninterest expense below $1.58 billion, and expected an increase of between 2% and 3% in 2017. Excluding the impact of the previously discussed one-time charitable contribution of $12 million, the actual increase in adjusted noninterest expense was 3%, which was in line with our forecast. The expense items we exclude from noninterest expense to arrive at adjusted noninterest expense are the same as those excluded in arriving at the efficiency ratio (see "GAAP to Non-GAAP Reconciliations" on page 29 for more information regarding the calculation of the efficiency ratio).

**Income Taxes**

Income tax expense was $344 million in 2017, $236 million in 2016, and $142 million in 2015. Our effective income tax rates, including the effects of noncontrolling interests, were 36.8% in 2017, 33.5% in 2016, and 31.5% in 2015. The tax expense rates for all tax years were reduced by nontaxable municipal interest income and nontaxable income from certain bank-owned life insurance. The tax rate in 2017 was further impacted by the following items:

- Reevaluation of state tax positions that resulted in a one-time $18 million benefit.
- Excess tax benefit of $9 million from the implementation of new accounting guidance related to share-based compensation.
- Estimated net DTA write-off of $47 million through income tax expense associated with the decrease in the federal income tax rate from the passage of new legislation.

Further, the tax rate in 2015 decreased significantly as a result of the Company's investments in alternative energy and technology initiatives. The Company continued to invest in technology initiatives and increased investment in municipal securities during 2016 and 2017, generating tax credits and nontaxable income that benefited the tax rate each year.

On December 22, 2017, H.R. 1, known as the Tax Cuts and Jobs Act ("the Act"), was signed into law. The Act makes significant changes to the U.S. Internal Revenue Code of 1986, including a decrease in the current corporate federal income tax rate to 21% from 35%, effective January 1, 2018. As stated above, the estimated provisional impact of the Act on the net DTA resulted in a non-cash charge of $47 million through income tax expense. The Company anticipates that additional adjustments to net DTA and income tax expense may be made in 2018 as deferred tax estimates are finalized for inclusion in the 2017 federal and state tax returns to be filed, consistent with the measurement period afforded by SEC Staff Accounting Bulletin No. 118 ("SAB 118").

We had a net DTA balance of $93 million at December 31, 2017, compared with $250 million at December 31, 2016. The decrease in the net DTA resulted primarily from the reduction in the federal income tax rate from the Act, accelerated tax deductions on certain technology initiatives and depreciable property, the payment of deferred compensation, and a decrease in the allowance for loan losses. A decrease in deferred tax liabilities during 2017, which related primarily to the deferred gain on a prior period debt exchange, offset some of the overall net decrease.

We did not record any additional valuation allowance for GAAP purposes as of December 31, 2017. See Note 18 of the Notes to Consolidated Financial Statements and "Critical Accounting Policies and Significant Estimates" on page 80 for additional information.

### Preferred Stock Dividends and Redemption

In 2017 we incurred preferred stock dividends of $40 million, a decrease of $8 million from 2016. In 2016 we incurred preferred stock dividends of $48 million, a decrease of $14 million from 2015. We completed a tender offer in the fourth quarter of 2015 to purchase $176 million of our Series I preferred stock. We also completed tender offers of $144 million of Series F, and $118 million of Series I, J, and G in the second quarters of 2017, and 2016, respectively. Preferred dividends are expected to be $8 million in the first and third quarters of 2018, and $10 million in the second and fourth quarters of 2018. See further details in Note 13 of the Notes to Consolidated Financial Statements.

## BUSINESS SEGMENT RESULTS

Following the close of business on December 31, 2015, we completed the merger of our subsidiary banks with Zions First National Bank. Subsequently, Zions First National Bank changed its legal name to ZB, National Association. We continue to manage our banking operations under our existing brand names and business segments, including Zions Bank, Amegy Bank, California Bank & Trust, National Bank of Arizona, Nevada State Bank, Vectra Bank Colorado, and The Commerce Bank of Washington. Performance assessment and resource allocation are based upon this geographical structure.

As discussed in the "Executive Summary" on page 33, most of the lending and other decisions affecting customers are made at the local level. The accounting policies of the individual segments are the same as those of the Company. We allocate the cost of centrally provided services to the business segments based upon estimated or actual usage of those services. Due to the charter consolidation, we have moved to an internal Funds Transfer Pricing allocation system to report results of operations for business segments. This process continues to be refined.

The operating segment identified as "Other" includes the Parent, certain nonbank financial service subsidiaries, centralized back-office functions, and eliminations of transactions between segments. The Parent's operations are significant to the Other segment. See Note 20 of the Notes to Consolidated Financial Statements contains for more information on the Other segment. The Company's net interest income is substantially affected by the Parent's interest expense on long-term debt. The Parent's financial statements in Note 22 of the Notes to Consolidated Financial Statements provide more information about the Parent's activities. We have announced our intention to merge the parent company into ZB, N.A. The merger is not expected to have an impact to the results of the Other operating segment.

During 2017, our banking operations experienced improved financial performance. Common areas of financial performance experienced at various levels of the segments include:

- increased loan balances across almost all geographies;
- improvements in credit quality resulted in reductions of the ALLL; and
- growth in customer deposit balances across almost all segments.

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*Schedule 10*

**SELECTED SEGMENT INFORMATION**

| *(Dollar amounts in millions)* | Zions Bank 2017 | Zions Bank 2016 | Zions Bank 2015 | Amegy 2017 | Amegy 2016 | Amegy 2015 | CB&T 2017 | CB&T 2016 | CB&T 2015 |
|---|---|---|---|---|---|---|---|---|---|
| **KEY FINANCIAL INFORMATION** | | | | | | | | | |
| Total average loans | $ 12,481 | $ 12,538 | $ 12,118 | $ 11,021 | $ 10,595 | $ 10,148 | $ 9,539 | $ 9,211 | $ 8,556 |
| Total average deposits | 15,986 | 15,991 | 15,688 | 11,096 | 11,130 | 11,495 | 11,030 | 10,827 | 10,063 |
| Income before income taxes | 346 | 371 | 275 | 240 | 94 | 44 | 257 | 220 | 150 |
| **CREDIT QUALITY** | | | | | | | | | |
| Provision for loan losses | $ 19 | $ (22) | $ (28) | $ 25 | $ 163 | $ 91 | $ (5) | $ (9) | $ (4) |
| Net loan and lease charge-offs | 34 | 13 | 10 | 41 | 123 | 22 | 1 | (1) | 10 |
| Ratio of net charge-offs to average loans and leases | 0.27% | 0.11% | 0.09% | 0.37% | 1.16% | 0.22% | 0.01% | (0.01)% | 0.12% |
| Allowance for loan losses | $ 130 | $ 145 | $ 180 | $ 247 | $ 263 | $ 223 | $ 69 | $ 74 | $ 81 |
| Ratio of allowance for loan losses to net loans and leases, at year-end | 1.04% | 1.15% | 1.47% | 2.17% | 2.49% | 2.20% | 0.69% | 0.79 % | 0.92% |
| Nonperforming lending-related assets | $ 85 | $ 105 | $ 109 | $ 236 | $ 360 | $ 116 | $ 47 | $ 42 | $ 42 |
| Ratio of nonperforming lending-related assets to net loans and leases and other real estate owned | 0.68% | 0.83% | 0.89% | 2.07% | 3.39% | 1.14% | 0.47% | 0.45 % | 0.48% |
| Accruing loans past due 90 days or more | $ 11 | $ 10 | $ 4 | $ 1 | $ 7 | $ 3 | $ 9 | $ 19 | $ 24 |
| Ratio of accruing loans past due 90 days or more to net loans and leases | 0.09% | 0.08% | 0.04% | 0.01% | 0.06% | 0.02% | 0.09% | 0.20 % | 0.27% |

| *(Dollar amounts in millions)* | NBAZ 2017 | NBAZ 2016 | NBAZ 2015 | NSB 2017 | NSB 2016 | NSB 2015 | Vectra 2017 | Vectra 2016 | Vectra 2015 | TCBW 2017 | TCBW 2016 | TCBW 2015 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **KEY FINANCIAL INFORMATION** | | | | | | | | | | | | |
| Total average loans | $4,267 | $ 4,086 | $3,811 | $2,357 | $2,284 | $ 2,344 | $2,644 | $2,469 | $2,400 | $ 926 | $ 791 | $ 707 |
| Total average deposits | 4,762 | 4,576 | 4,311 | 4,254 | 4,137 | 3,891 | 2,756 | 2,720 | 2,792 | 1,107 | 1,007 | 879 |
| Income before income taxes | 106 | 89 | 47 | 46 | 52 | 27 | 49 | 54 | 19 | 29 | 24 | 18 |
| **CREDIT QUALITY** | | | | | | | | | | | | |
| Provision for loan losses | $ (8) | $ (3) | $ 8 | $ (11) | $ (28) | $ (28) | $ 1 | $ (8) | $ 5 | $ 2 | $ — | $ (3) |
| Net loan and lease charge-offs | (2) | — | 10 | (3) | (5) | (17) | 2 | — | 4 | — | — | — |
| Ratio of net charge-offs to average loans and leases | (0.04)% | —% | 0.26% | (0.13)% | (0.21)% | (0.74)% | 0.09% | 0.01% | 0.16% | 0.02% | 0.02% | (0.05)% |
| Allowance for loan losses | $ 28 | $ 35 | $ 38 | $ 11 | $ 19 | $ 43 | $ 24 | $ 25 | $ 33 | $ 9 | $ 7 | $ 8 |
| Ratio of allowance for loan losses to net loans and leases, at year-end | 0.63 % | 0.81% | 0.97% | 0.48 % | 0.81 % | 1.87 % | 0.87% | 0.99% | 1.34% | 0.83% | 0.83% | 1.08 % |
| Nonperforming lending-related assets | $ 17 | $ 31 | $ 47 | $ 17 | $ 20 | $ 19 | $ 10 | $ 15 | $ 23 | $ 6 | $ — | $ 1 |
| Ratio of nonperforming lending-related assets to net loans and leases and other real estate owned | 0.39 % | 0.73% | 1.20% | 0.73 % | 0.84 % | 0.84 % | 0.35% | 0.59% | 0.92% | 0.56% | 0.02% | 0.18 % |
| Accruing loans past due 90 days or more | $ 1 | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ 1 | $ — | $ — | $ — |
| Ratio of accruing loans past due 90 days or more to net loans and leases | 0.02 % | —% | —% | — % | — % | — % | —% | 0.01% | 0.04% | —% | —% | — % |

**Zions Bank**

Zions Bank is headquartered in Salt Lake City, Utah, and is primarily responsible for conducting operations in Utah, Idaho, and Wyoming. If it were a separately chartered bank, it would be the 2nd largest full-service commercial bank in Utah and the 4th largest in Idaho, as measured by domestic deposits in these states.

Within Zions Bank, the NRE group is a wholesale business that generally sources loans from other community banks across the country. Such loans are generally low loan-to-value owner-occupied loans, but also include non-owner-occupied CRE term loans.

Zions Bank's income before income taxes decreased by $25 million, or 7%, during 2017 primarily as a result of an increase in the provision for loan losses. The loan portfolio decreased by $92 million during 2017, which consisted of a decrease of $284 million in commercial loans and increases of $111 million and $81 million in CRE and consumer loans, respectively. Within commercial lending, commercial owner-occupied loans decreased by $128 million, which was mainly the result of a reduction in the NRE loan portfolio. The ratio of allowance for loan losses to net loans and leases decreased to 1.04% at December 31, 2017 from 1.15% at December 31, 2016. Nonperforming lending-related assets declined 19% from the prior year due primarily to decreases in nonaccrual loans in the commercial and industrial portfolio. Deposits decreased 4% from 2016 to 2017.

**Amegy Bank**

Amegy Bank is headquartered in Houston, Texas. If it were a separately chartered bank, it would be the 8th largest full-service commercial bank in Texas as measured by domestic deposits in the state.

Amegy's income before income taxes increased by $146 million, or 155%, during 2017. The increase in income before income taxes is mainly due to a $138 million decrease in the provision for loan losses. Amegy has been able to achieve loan portfolio growth, resulting in an $835 million increase from the prior year. During 2017, CRE loans decreased by $64 million and commercial and consumer loans increased by $395 million, and $504 million, respectively. The credit quality of Amegy's loan portfolio improved during 2017, mainly due to improvements in the oil and gas-related portfolio; the ratio of the ALLL to net loans and leases decreased to 2.17% at December 31, 2017 from 2.49% a year earlier. During 2017, nonperforming lending-related assets decreased $124 million, or 34%. Deposits decreased by 8% from 2016 to 2017.

**California Bank & Trust**

California Bank & Trust is headquartered in San Diego, California. If it were a separately chartered bank, it would be the 15th largest full-service commercial bank in California as measured by domestic deposits. Its core business is built on relationship banking by providing commercial, real estate and consumer lending, depository services, international banking, cash management, and community development services.

CB&T's income before income taxes increased by $37 million, or 17%, during 2017 primarily from an increase in net interest income due to loan growth. CB&T's loan portfolio increased by $581 million in 2017 from the prior year. During 2017, CRE loans decreased by $212 million and commercial and consumer loans increased by $710 million, and $83 million, respectively. The credit quality of CB&T's loan portfolio continues to be strong, and the ratio of ALLL to net loans and leases declined to 0.69% at December 31, 2017 from 0.79% a year earlier. Deposits increased by 3% from 2016 to 2017.

**National Bank of Arizona**

National Bank of Arizona is headquartered in Phoenix, Arizona. If it were a separately chartered bank, it would be the 5th largest full-service commercial bank in Arizona as measured by domestic deposits in the state.

NBAZ's income before income taxes increased by $17 million, or 19%, during 2017 due to a $5 million improvement in the provision for loan losses, in addition to increased net interest income from loan growth and improved fee revenue. The loan portfolio increased during 2017 by $144 million, driven by a $206 million increase in commercial loans and a $51 million increase in consumer loans, partially offset by a decrease of $113 million in CRE loans. The credit quality of NBAZ's loan portfolio continues to improve, and the ratio of ALLL to net loans and leases declined to 0.63% at December 31, 2017 from 0.81% a year earlier. Deposits increased by 2% from 2016 to 2017.

**Nevada State Bank**

Nevada State Bank is headquartered in Las Vegas, Nevada. If it were a separately chartered bank, it would be the 4th largest full-service commercial bank in Nevada as measured by domestic deposits in the state. NSB focuses on serving small and mid-sized businesses as well as retail consumers, with an emphasis on relationship banking.

In 2017, NSB's income before income taxes decreased by $6 million, or 12%, primarily as a result of the change in the provision for loan losses. NSB's loans increased by $12 million during 2017, including an increase of $70 million in commercial loans, and $23 million in consumer loans, partially offset by a decrease of $81 million in CRE. The credit quality of NSB's loan portfolio remained strong, and the ratio of the ALLL to net loans and leases was 0.48% and 0.81% at December 31, 2017 and 2016, respectively. Nonperforming lending-related assets decreased 15% from the prior year. Deposits decreased by 1% from 2016 to 2017.

**Vectra Bank Colorado**

Vectra Bank Colorado is headquartered in Denver, Colorado. If it were a separately a chartered bank, it would be the 10th largest full-service commercial bank in Colorado as measured by domestic deposits in the state.

In 2017, Vectra's income before income taxes decreased by $5 million, or 9%. Small improvements in net interest income and noninterest income were partially offset by an increase in the provision for loan losses. During 2017, total loans increased by $242 million, including $126 million in commercial loans, $68 million in consumer loans, and $48 million in CRE loans. The credit quality of Vectra's loan portfolio was strong, and the ratio of ALLL to net loans and leases decreased to 0.87% at December 31, 2017 from 0.99% a year earlier. Deposits decreased by 4% from 2016 to 2017.

**The Commerce Bank of Washington**

The Commerce Bank of Washington is headquartered in Seattle, Washington. It operates in Washington under The Commerce Bank of Washington name and in Portland, Oregon, under The Commerce Bank of Oregon name. Its business strategy focuses on serving the financial needs of commercial businesses, including professional services firms. TCBW has been successful in serving the greater Seattle/Puget Sound and Portland regions without requiring extensive investments in a traditional branch network. It has been innovative in effectively utilizing couriers, bank by mail, remote deposit image capture, and other technologies.

TCBW's income before income taxes increased $5 million, or 21%, during 2017. The loan portfolio increased by $164 million, including increases of $42 million in commercial loans, $94 million in CRE loans and $28 million in consumer loans. Nonperforming lending-related assets increased $6 million, and the ratio of ALLL to net loans and leases was at 0.83% in 2017 and 2016. Deposits decreased by 5% from 2016 to 2017.

## 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.

Schedule 5, which we referenced in our discussion of net interest income, includes the average balances of our interest-earning assets, the amount of revenue generated by them, and their respective yields. 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.

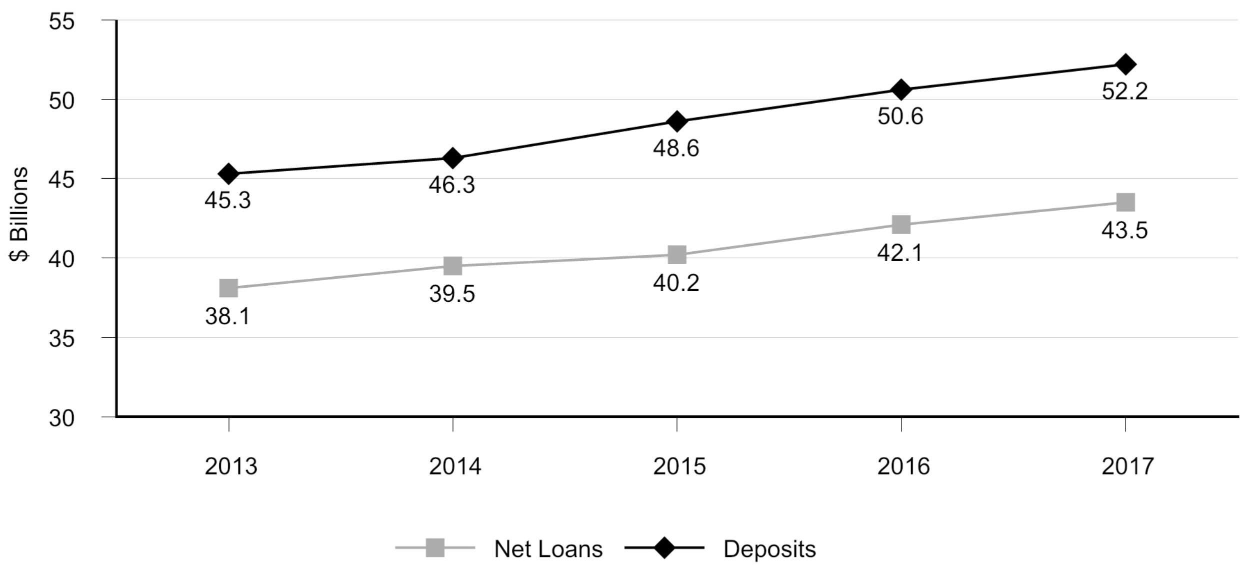
Average interest-earning assets were $60.9 billion in 2017 compared with $56.2 billion in the previous year. Average interest-earning assets as a percentage of total average assets were 93.5% in both 2017 and 2016.

Average loans were $43.5 billion in 2017 and $42.1 billion in 2016. Average loans as a percentage of total average assets were 66.8% in 2017 compared with 70.0% in 2016.

Average money market investments, consisting of interest-bearing deposits and federal funds sold and security resell agreements, decreased by 58% to $1.5 billion in 2017 compared with $3.7 billion in 2016. Average securities increased by 53% from 2016. Average total deposits increased by 3%; average total loans also increased by 3% in 2017 when compared with 2016.

**AVERAGE OUTSTANDING LOANS AND DEPOSITS**

*(at December 31)*




**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 72 for additional information on management of liquidity and funding and compliance with Basel III and 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 the Notes to Consolidated Financial Statements.

*Schedule 11*

**INVESTMENT SECURITIES PORTFOLIO**

| *(In millions)* | December 31, 2017 Par Value | December 31, 2017 Amortized cost | December 31, 2017 Estimated fair value | December 31, 2016 Par Value | December 31, 2016 Amortized cost | December 31, 2016 Estimated fair value |
|---|---|---|---|---|---|---|
| **Held-to-maturity** | | | | | | |
| Municipal securities | $ 771 | $ 770 | $ 762 | $ 868 | $ 868 | $ 850 |
| **Available-for-sale** | | | | | | |
| U.S. Treasury securities | 25 | 25 | 25 | — | — | — |
| U.S. Government agencies and corporations: | | | | | | |
| Agency securities | 1,830 | 1,830 | 1,818 | 1,847 | 1,846 | 1,839 |
| Agency guaranteed mortgage-backed securities | 9,605 | 9,798 | 9,666 | 7,745 | 7,986 | 7,883 |
| Small Business Administration loan-backed securities | 2,007 | 2,227 | 2,222 | 2,066 | 2,298 | 2,288 |
| Municipal securities | 1,193 | 1,336 | 1,334 | 1,048 | 1,182 | 1,154 |
| Other | 25 | 25 | 24 | 25 | 25 | 24 |
| Total available-for-sale debt securities | 14,685 | 15,241 | 15,089 | 12,731 | 13,337 | 13,188 |
| Money market mutual funds and other | 72 | 72 | 72 | 184 | 184 | 184 |
| Total available-for-sale | 14,757 | 15,313 | 15,161 | 12,915 | 13,521 | 13,372 |
| Total investment securities | $ 15,528 | $ 16,083 | $ 15,923 | $ 13,783 | $ 14,389 | $ 14,222 |

The amortized cost of investment securities at December 31, 2017 increased by 12% from the balance at December 31, 2016, primarily due to purchases of agency guaranteed mortgage-backed securities.

The investment securities portfolio includes $555 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. Premium amortization for 2017 was approximately $125 million, compared with approximately $99 million in 2016, reducing the yield on securities in those years by 92 and 109 bps, respectively. The increased premium amortization is due to both an increased amount of agency guaranteed mortgage-backed securities and SBA loan-backed securities and changes in actual prepayment rates of underlying loans.

As of December 31, 2017, under the GAAP fair value accounting hierarchy, 1% of the $15.2 billion fair value of the AFS securities portfolio was valued at Level 1, 99% was valued at Level 2, and there were no Level 3 AFS securities. At December 31, 2016, 1% of the $13.4 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 the Notes to Consolidated Financial Statements for further discussion of fair value accounting.

Schedule 12 presents the maturities of the different types of investments that we owned and the corresponding average yields as of December 31, 2017 based on amortized cost. Expected maturities, rather than contractual maturities, are shown for SBA securities, agency guaranteed mortgage-backed securities, and certain agency and municipal securities. See "Liquidity Risk Management" on page 72 and Notes 1, 5 and 7 of the Notes to Consolidated Financial Statements for additional information about our investment securities and their management.

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*Schedule 12*

**MATURITIES AND AVERAGE YIELDS ON SECURITIES**
**At December 31, 2017**

| *(Dollar amounts in millions)* | Total securities | | Within one year | | After one but within five years | | After five but within ten years | | After ten years | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Amount | Yield[1] | Amount | Yield[1] | Amount | Yield[1] | Amount | Yield[1] | Amount | Yield[1] |
| **Held-to-maturity** | | | | | | | | | | |
| Municipal securities | $ 770 | 4.0% | $ 180 | 3.4% | $ 372 | 3.9% | $ 159 | 4.8% | $ 59 | 4.7% |
| **Available-for-sale** | | | | | | | | | | |
| U.S. Treasury securities | 25 | 1.3 | 25 | 1.3 | — | | — | | — | |
| U.S. Government agencies and corporations: | | | | | | | | | | |
| Agency securities | 1,830 | 2.1 | 550 | 1.3 | 287 | 2.5 | 777 | 2.3 | 216 | 2.5 |
| Agency guaranteed mortgage-backed securities | 9,798 | 2.0 | 1,509 | 2.0 | 3,997 | 2.0 | 2,566 | 2.0 | 1,726 | 2.1 |
| Small Business Administration loan-backed securities | 2,227 | 3.0 | 230 | 2.9 | 699 | 3.0 | 588 | 2.9 | 710 | 3.1 |
| Municipal securities | 1,336 | 3.0 | 185 | 3.0 | 744 | 2.9 | 400 | 3.3 | 7 | 3.4 |
| Other | 25 | 6.2 | — | | — | | — | | 25 | 6.2 |
| Total available-for-sale debt securities | 15,241 | 2.3 | 2,499 | 2.0 | 5,727 | 2.3 | 4,331 | 2.3 | 2,684 | 2.4 |
| Money market mutual funds and other | 72 | 1.2 | 72 | 1.2 | — | | — | | — | |
| Total available-for-sale | 15,313 | 2.3 | 2,571 | 2.0 | 5,727 | 2.3 | 4,331 | 2.3 | 2,684 | 2.4 |
| Total investment securities | $ 16,083 | 2.3 | $ 2,751 | 2.1 | $ 6,099 | 2.4 | $ 4,490 | 2.4 | $ 2,743 | 2.5 |

[1] *Taxable-equivalent rates used where applicable.*

## 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.

Schedule 13 summarizes our exposure to state and local municipalities:

*Schedule 13*

**MUNICIPALITIES**

| *(In millions)* | December 31, 2017 | December 31, 2016 |
|---|---|---|
| Loans and leases | $ 1,271 | $ 778 |
| Held-to-maturity – municipal securities | 770 | 868 |
| Available-for-sale – municipal securities | 1,334 | 1,154 |
| Trading account – municipal securities | 146 | 112 |
| Unfunded lending commitments | 152 | 182 |
| Total direct exposure to municipalities | $ 3,673 | $ 3,094 |

At December 31, 2017, one municipal loan with a balance of $1 million was on nonaccrual. A significant amount of the municipal loan and lease portfolio is secured by real estate and equipment, and 79% of the outstanding credits were originated by CB&T, Zions Bank, and Vectra. See Note 6 of the Notes to Consolidated Financial Statements for additional information about the credit quality of these municipal loans.

Growth in municipal exposure came primarily from increases in loans and leases and the municipal AFS securities portfolio. AFS securities generally consist of securities with investment-grade ratings from one or more major credit rating agencies.

### Foreign Exposure and Operations

Our credit exposure to foreign sovereign risks and total foreign credit exposure is not significant. We also do not have significant foreign exposure to derivative counterparties. We had no foreign deposits at December 31, 2017 and December 31, 2016.

### Loans Held for Sale

Loans held for sale, consisting primarily of consumer mortgage and small business loans to be sold in the secondary market, were $44 million at December 31, 2017, compared with $172 million at December 31, 2016. These consumer loans are primarily fixed-rate mortgages that are originated with the intent to be sold to third parties.

### Loan Portfolio

As of December 31, 2017, net loans and leases accounted for 68% of total assets compared with 67% at the end of 2016. Schedule 14 presents our loans outstanding by type of loan as of the five most recent year-ends. The schedule also includes a maturity profile for the loans that were outstanding as of December 31, 2017. However, while this schedule reflects the contractual maturity and repricing characteristics of these loans, in a small number of cases, we have hedged the repricing characteristics of our variable-rate loans as more fully described in “Interest Rate Risk” on page 68.

*Schedule 14*

**LOAN PORTFOLIO BY TYPE AND MATURITY**

| *(In millions)* | December 31, 2017 One year or less | One year through five years | Over five years | Total | December 31, 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|---|---|---|
| Commercial: | | | | | | | | |
| Commercial and industrial | $ 8,064 | $ 4,375 | $ 1,564 | $ 14,003 | $ 13,452 | $ 13,211 | $ 13,163 | $ 12,459 |
| Leasing | 26 | 262 | 76 | 364 | 423 | 442 | 409 | 388 |
| Owner-occupied | 463 | 1,138 | 5,687 | 7,288 | 6,962 | 7,150 | 7,351 | 7,568 |
| Municipal | 100 | 191 | 980 | 1,271 | 778 | 676 | 521 | 449 |
| Total commercial | 8,653 | 5,966 | 8,307 | 22,926 | 21,615 | 21,479 | 21,444 | 20,864 |
| Commercial real estate: | | | | | | | | |
| Construction and land development | 931 | 1,016 | 74 | 2,021 | 2,019 | 1,842 | 1,986 | 2,193 |
| Term | 1,779 | 3,775 | 3,549 | 9,103 | 9,322 | 8,514 | 8,127 | 8,203 |
| Total commercial real estate | 2,710 | 4,791 | 3,623 | 11,124 | 11,341 | 10,356 | 10,113 | 10,396 |
| Consumer: | | | | | | | | |
| Home equity credit line | 29 | 91 | 2,657 | 2,777 | 2,645 | 2,417 | 2,321 | 2,147 |
| 1-4 family residential | 12 | 97 | 6,553 | 6,662 | 5,891 | 5,382 | 5,201 | 4,742 |
| Construction and other consumer real estate | 287 | 36 | 274 | 597 | 486 | 385 | 371 | 325 |
| Bankcard and other revolving plans | 293 | 58 | 158 | 509 | 481 | 444 | 401 | 361 |
| Other | 12 | 138 | 35 | 185 | 190 | 187 | 213 | 208 |
| Total consumer | 633 | 420 | 9,677 | 10,730 | 9,693 | 8,815 | 8,507 | 7,783 |
| Total net loans | $ 11,996 | $ 11,177 | $ 21,607 | $ 44,780 | $ 42,649 | $ 40,650 | $ 40,064 | $ 39,043 |
| Loans maturing: | | | | | | | | |
| With fixed interest rates | $ 1,341 | $ 3,704 | $ 4,680 | $ 9,725 | | | | |
| With variable interest rates | 10,655 | 7,473 | 16,927 | 35,055 | | | | |
| Total | $ 11,996 | $ 11,177 | $ 21,607 | $ 44,780 | | | | |

As of December 31, 2017, net loans and leases were $45 billion, reflecting a 5% increase from the prior year. The increase is primarily attributable to new loan originations and loan purchases.

Loan portfolio growth during 2017 was widespread across loan products and geographies with particular strength in consumer 1-4 family residential, commercial and industrial (non-oil and gas), municipal, and commercial owner-occupied loans. The growth in the loan portfolio was primarily at Amegy, CB&T, and Vectra.

Of the significant increases within the portfolio, consumer 1-4 family residential loans increased $771 million, due largely to an increase in loan production and loan purchases, and commercial and industrial loans increased $551 million. The impact of these increases was partially offset by a decrease of $219 million in our CRE term portfolio.

Commercial owner-occupied loans also increased $326 million during 2017 and $188 million during 2016. Although we experienced continued runoff and attrition of the NRE portfolio at Zions Bank, these declines are not expected to continue at the same pace in 2018. The NRE business is a wholesale business that depends upon 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.

We expect moderate total loan and lease growth during 2018, primarily in consumer 1-4 family residential, municipal, commercial and industrial (non-oil and gas), commercial owner-occupied (non-NRE), and CRE term loans. We expect stable to slightly increasing growth in oil and gas loans, partially offset by moderate attrition in the NRE loan portfolio.

Loans serviced for the benefit of others increased to $3.7 billion during 2017 from $3.5 billion in 2016.

### Other Noninterest-Bearing Investments

During 2017, the Company increased its short-term borrowings with the FHLB by $3.1 billion. This increase required a further investment in FHLB activity stock, which consequently increased by $124 million during the year. Aside from this increase, other noninterest-bearing investments remained relatively stable as set forth in the following schedule. Schedule 15 sets forth our other noninterest-bearing investments.

*Schedule 15*

**OTHER NONINTEREST-BEARING INVESTMENTS**

| *(In millions)* | December 31, 2017 | December 31, 2016 |
|---|---|---|
| Bank-owned life insurance | $ 506 | $ 497 |
| Federal Home Loan Bank stock | 154 | 30 |
| Federal Reserve stock | 184 | 181 |
| Farmer Mac stock | 43 | 34 |
| SBIC investments | 127 | 124 |
| Non-SBIC investment funds | 12 | 15 |
| Other | 3 | 3 |
| Total other noninterest-bearing investments | $ 1,029 | $ 884 |

### Premises, Equipment and Software, Net

Net premises, equipment and software, increased $74 million, or 7%, from the prior year primarily due to capitalized costs associated with the development of a new corporate facility for Amegy Bank in Texas, major software purchases, and the capitalization of eligible costs related to the development of new lending, deposit and reporting systems.

### Deposits

Deposits, both interest-bearing and noninterest-bearing, are a primary source of funding for the Company. Average total deposits increased by 3% during 2017, compared with 2016, with average interest-bearing deposits increasing by 1% and average noninterest-bearing deposits increasing by 6%. The average interest rate paid for interest-bearing deposits was 3 bps higher in 2017 compared with 2016.

Deposits at December 31, 2017, excluding time deposits of $100,000 and over and brokered deposits, decreased by 2%, or $1.0 billion, from December 31, 2016. The decrease was mainly due to a decrease in interest-bearing domestic savings and money market deposits.

Demand, savings, and money market deposits were 94% and 95% of total deposits at December 31, 2017, and December 31, 2016, respectively. At December 31, 2017 and December 31, 2016, total deposits included $1.6 billion and $0.9 billion, respectively, of brokered deposits.

See Notes 11 and 12 of the Notes to Consolidated Financial Statements and "Liquidity Risk Management" on page 72 for additional information on funding and borrowed funds.

## RISK ELEMENTS

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

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

### Credit Risk Management

Credit risk is the possibility of loss from the failure of a borrower, guarantor, or another obligor to fully perform under the terms of a credit-related contract. Credit risk arises primarily from our lending activities, as well as from off-balance sheet credit instruments.

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

Centralized oversight of credit risk is provided through credit policies, credit risk management, and credit examination functions. Our credit policies place emphasis on strong underwriting standards and early detection of potential problem credits in order to develop and implement action plans on a timely basis to mitigate any potential losses. These formal credit policies and procedures provide the Company with a framework for consistent underwriting and a basis for sound credit decisions at the local banking affiliate level.

Our credit risk management function is separate from the lending function and strengthens control over, and the independent evaluation of, credit activities. In addition, we have a well-defined set of standards for evaluating our loan portfolio, and we utilize a comprehensive loan risk-grading system to determine the risk potential in the portfolio. Furthermore, the internal credit examination department, which is independent of the lending function, periodically conducts examinations of the Company's lending departments and credit activities. These examinations are designed to review credit quality, adequacy of documentation, appropriate loan risk-grading administration, and compliance with credit policies. New, expanded, or modified products and services, as well as new lines of business, are approved by the New Initiative Review Committee.

Our credit risk management strategy includes diversification of our loan portfolio. We attempt to avoid the risk of an undue concentration of credits in a particular collateral type or with an individual customer or counterparty. Generally, our loan portfolio is well diversified; however, due to the nature of our geographical footprint, there are certain significant concentrations primarily in CRE and oil and gas-related lending. We have adopted and adhere to concentration limits on leveraged lending, municipal lending, oil and gas-related lending, and various types of CRE lending, particularly construction and land development lending. All of these limits are continually monitored and revised as necessary. The recent growth in construction and land development loan commitments is within the established concentration limits. Our business activity is primarily with customers located within the geographical footprint of our banking affiliates.

As we continue to monitor our concentration risk, the composition of our loan portfolio has slightly changed. Oil and gas-related loans represented 4% of the total loan portfolio at December 31, 2017, compared with 5% at December 31, 2016. Total commercial loans were 51% of the total portfolio, compared with 50% at December 31,

2016. CRE loans declined to 25% of the total portfolio, compared with 27% at December 31, 2016. Consumer loans grew to represent 24% of the total loan portfolio at December 31, 2017, compared with 23% at December 31, 2016.

*Schedule 16*

**LOAN PORTFOLIO DIVERSIFICATION**

| *(Dollar amounts in millions)* | December 31, 2017 | | December 31, 2016 | |
|---|---|---|---|---|
| | Amount | % of total loans | Amount | % of total loans |
| Commercial: | | | | |
| Commercial and industrial | $ 14,003 | 31.3% | $ 13,452 | 31.5% |
| Leasing | 364 | 0.8 | 423 | 1.0 |
| Owner-occupied | 7,288 | 16.3 | 6,962 | 16.3 |
| Municipal | 1,271 | 2.8 | 778 | 1.8 |
| Total commercial | 22,926 | 51.2 | 21,615 | 50.6 |
| Commercial real estate: | | | | |
| Construction and land development | 2,021 | 4.5 | 2,019 | 4.7 |
| Term | 9,103 | 20.3 | 9,322 | 21.9 |
| Total commercial real estate | 11,124 | 24.8 | 11,341 | 26.6 |
| Consumer: | | | | |
| Home equity credit line | 2,777 | 6.2 | 2,645 | 6.2 |
| 1-4 family residential | 6,662 | 15.0 | 5,891 | 13.8 |
| Construction and other consumer real estate | 597 | 1.3 | 486 | 1.2 |
| Bankcard and other revolving plans | 509 | 1.1 | 481 | 1.1 |
| Other | 185 | 0.4 | 190 | 0.5 |
| Total consumer | 10,730 | 24.0 | 9,693 | 22.8 |
| Total net loans | $ 44,780 | 100.0% | $ 42,649 | 100.0% |

### *Government Agency Guaranteed Loans*

We participate in various guaranteed lending programs sponsored by U.S. government agencies, such as the SBA, Federal Housing Authority, Veterans' Administration, Export-Import Bank of the U.S., and the U.S. Department of Agriculture. As of December 31, 2017, the principal balance of these loans was $537 million, and the guaranteed portion of these loans was $406 million. Most of these loans were guaranteed by the SBA.

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

*Schedule 17*

**GOVERNMENT GUARANTEES**

| *(Dollar amounts in millions)* | December 31, 2017 | Percent guaranteed | December 31, 2016 | Percent guaranteed |
|---|---|---|---|---|
| Commercial | $ 507 | 75% | $ 519 | 75% |
| Commercial real estate | 14 | 75 | 18 | 75 |
| Consumer | 16 | 92 | 17 | 92 |
| Total loans | $ 537 | 76 | $ 554 | 76 |

### *Commercial Lending*

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

*Schedule 18*

**COMMERCIAL LENDING BY INDUSTRY GROUP**

| *(Dollar amounts in millions)* | December 31, 2017 | | December 31, 2016 | |
|---|---|---|---|---|
| | Amount | Percent | Amount | Percent |
| Real estate, rental and leasing | $ 2,807 | 12.3% | $ 2,624 | 12.1% |
| Retail trade [1] | 2,257 | 9.8 | 2,145 | 9.9 |
| Manufacturing | 2,116 | 9.2 | 2,161 | 10.0 |
| Finance and insurance | 2,026 | 8.8 | 1,462 | 6.8 |
| Healthcare and social assistance | 1,556 | 6.8 | 1,538 | 7.1 |
| Wholesale trade | 1,543 | 6.7 | 1,444 | 6.7 |
| Transportation and warehousing | 1,343 | 5.9 | 1,300 | 6.0 |
| Construction | 1,094 | 4.8 | 1,076 | 5.0 |
| Mining, quarrying, and oil and gas extraction | 1,010 | 4.4 | 1,403 | 6.5 |
| Accommodation and food services | 932 | 4.1 | 925 | 4.3 |
| Utilities [2] | 905 | 4.0 | 783 | 3.6 |
| Other Services (except Public Administration) | 896 | 3.9 | 881 | 4.1 |
| Professional, scientific, and technical services | 879 | 3.8 | 875 | 4.0 |
| Other [3] | 3,562 | 15.5 | 2,998 | 13.9 |
| Total | $ 22,926 | 100.0% | $ 21,615 | 100.0% |

[1] *At December 31, 2017, 84% of retail trade consists 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 61.*

[2] *Includes primarily utilities, power, and renewable energy.*

[3] *No other industry group exceeds 3.5%.*

### *Oil and Gas-Related Exposure*

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

*Schedule 19*

**OIL AND GAS-RELATED EXPOSURE [1]**

| *(Dollar amounts in millions)* | December 31, 2017 | % of total oil and gas-related | December 31, 2016 | % of total oil and gas-related |
|---|---|---|---|---|
| **Loans and leases** | | | | |
| Upstream – exploration and production | $ 730 | 37% | $ 733 | 34% |
| Midstream – marketing and transportation | 617 | 31 | 598 | 28 |
| Downstream – refining | 123 | 6 | 137 | 6 |
| Other non-services | 34 | 2 | 38 | 2 |
| Oilfield services | 367 | 19 | 500 | 23 |
| Oil and gas service manufacturing | 102 | 5 | 152 | 7 |
| Total loan and lease balances [2] | 1,973 | 100% | 2,158 | 100% |
| Unfunded lending commitments | 1,908 | | 1,722 | |
| Total oil and gas credit exposure | $ 3,881 | | $ 3,880 | |
| **Private equity investments** | $ 3 | | $ 7 | |
| **Credit quality measures** | | | | |
| Criticized loan ratio | 25.1% | | 37.8% | |
| Classified loan ratio | 17.9% | | 31.6% | |
| Nonaccrual loan ratio | 7.7% | | 13.6% | |
| Ratio of nonaccrual loans that are current | 88.1% | | 86.1% | |
| Net charge-off ratio, annualized [3] | —% | | 3.0% | |

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

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

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

During 2017, our overall balance of oil and gas-related loans decreased by $185 million, or 9%, from year-end 2016. Oil and gas-related loans represented 4% of the total loan portfolio at December 31, 2017, compared with 5% at December 31, 2016. Unfunded oil and gas-related lending commitments increased by $186 million, or 11%. The increase in unfunded oil and gas-related lending commitments was primarily in the midstream portfolio.

Classified oil and gas-related credits decreased to $354 million at December 31, 2017, from $681 million at December 31, 2016. Oil and gas-related loan net charge-offs were $36 million for 2017, compared with $130 million for 2016. At December 31, 2017, the ACL related to the oil and gas-related portfolio was approximately 7% of oil and gas-related balances, compared with 9% at December 31, 2016.

Nonaccruing oil and gas-related loans decreased by $143 million during 2017, primarily in the oil and gas services and upstream portfolios. Approximately 88% of oil and gas-related nonaccruing loans were current as to principal and interest payments at December 31, 2017, which increased from 86% at December 31, 2016.

*Risk Management of the Oil and Gas-Related Portfolio*

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

We apply concentration limits and disciplined underwriting to the entire oil and gas-related loan portfolio to limit our risk exposure. As an indicator of the diversity in the size of our oil and gas-related portfolio, the average amount of our commitments is approximately $6 million, with approximately 67% of the commitments less than $30 million. Additionally, there are instances where we have commitments to companies with a common sponsor which, if combined, would result in higher commitment levels than $30 million. The portfolio contains only senior loans—no junior or second lien positions; additionally, we cautiously approach making first-lien loans to borrowers that employ excessive leverage through the use of junior lien loans or unsecured layers of debt. Approximately 88% of the total oil and gas-related portfolio is secured by reserves, equipment, real estate, and other collateral, or a combination of collateral types.

We participate as a lender in loans and commitments designated as Shared National Credits ("SNCs"), which generally consist of larger and more diversified borrowers that have better access to capital markets. SNCs are loans or loan commitments of at least $20 million that are shared by three or more federally supervised institutions. The percentage of SNCs is 79% of the upstream portfolio, 79% of the midstream portfolio, and 44% of the oil and gas services portfolio. Our bankers have direct access and contact with the management of these SNC borrowers, and as such, are active participants. In many cases, we provide ancillary banking services to these borrowers, further evidencing this direct relationship. The results of the fall 2017 SNC exam are reflected in our financial statements.

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

### *Commercial Real Estate Loans*

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

*Schedule 20*

**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/ Oregon** | **Other [1]** | **Total** | **% of total CRE** |
| **Commercial term** | | | | | | | | | | | |
| Balance outstanding | 12/31/2017 | $ 1,018 | $ 3,026 | $ 493 | $ 536 | $ 1,735 | $ 1,365 | $ 448 | $ 482 | $ 9,103 | 81.8% |
| % of loan type | | 11.2% | 33.2% | 5.4% | 5.9% | 19.1% | 15.0% | 4.9% | 5.3% | 100.0% | |
| Delinquency rates: [2] | | | | | | | | | | | |
| 30-89 days | 12/31/2017 | 0.2% | 0.1% | 0.1% | 0.2% | —% | 0.2% | —% | 0.8% | 0.1% | |
| | 12/31/2016 | 0.1% | —% | —% | 0.8% | —% | 0.1% | 0.2% | —% | 0.1% | |
| ≥ 90 days | 12/31/2017 | 0.2% | 0.1% | 0.1% | —% | —% | 0.1% | —% | 0.7% | 0.1% | |
| | 12/31/2016 | 0.3% | 0.4% | —% | —% | —% | 0.2% | —% | 1.1% | 0.2% | |
| Accruing loans past due 90 days or more | 12/31/2017 | $ 1 | $ 1 | $ — | $ — | $ — | $ — | $ — | $ — | $ 2 | |
| | 12/31/2016 | — | 10 | — | — | — | 2 | — | — | 12 | |
| Nonaccrual loans | 12/31/2017 | 4 | 7 | 1 | 2 | 17 | 1 | 4 | — | 36 | |
| | 12/31/2016 | 8 | 11 | — | 2 | 1 | — | 7 | — | 29 | |
| **Residential construction and land development** | | | | | | | | | | | |
| Balance outstanding | 12/31/2017 | $ 40 | $ 261 | $ 43 | $ 4 | $ 201 | $ 42 | $ 3 | $ 6 | $ 600 | 5.4% |
| % of loan type | | 6.6% | 43.5% | 7.2% | 0.7% | 33.5% | 7.0% | 0.5% | 1.0% | 100.0% | |
| Delinquency rates: [2] | | | | | | | | | | | |
| 30-89 days | 12/31/2017 | —% | —% | 0.2% | —% | 0.7% | —% | —% | —% | 0.2% | |
| | 12/31/2016 | —% | —% | —% | —% | 0.4% | —% | —% | —% | 0.1% | |
| ≥ 90 days | 12/31/2017 | —% | —% | —% | —% | 0.1% | —% | —% | —% | —% | |
| | 12/31/2016 | —% | —% | —% | —% | —% | —% | —% | —% | —% | |
| Accruing loans past due 90 days or more | 12/31/2017 | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — | |
| | 12/31/2016 | — | — | — | — | — | — | — | — | — | |
| Nonaccrual loans | 12/31/2017 | — | — | — | — | — | — | — | — | — | |
| | 12/31/2016 | — | — | — | — | — | — | — | — | — | |
| **Commercial construction and land development** | | | | | | | | | | | |
| Balance outstanding | 12/31/2017 | $ 131 | $ 356 | $ 34 | $ 72 | $ 415 | $ 265 | $ 90 | $ 58 | $ 1,421 | 12.8% |
| % of loan type | | 9.2% | 25.0% | 2.4% | 5.1% | 29.2% | 18.7% | 6.3% | 4.1% | 100.0% | |
| Delinquency rates: [2] | | | | | | | | | | | |
| 30-89 days | 12/31/2017 | 0.1% | 0.2% | —% | —% | 0.2% | 0.1% | —% | —% | 0.1% | |
| | 12/31/2016 | —% | —% | —% | 1.2% | —% | 2.4% | —% | —% | 0.5% | |
| ≥ 90 days | 12/31/2017 | —% | —% | —% | —% | —% | 1.3% | —% | —% | 0.3% | |
| | 12/31/2016 | —% | —% | —% | —% | 0.4% | —% | —% | —% | 0.2% | |
| Accruing loans past due 90 days or more | 12/31/2017 | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — | |
| | 12/31/2016 | — | — | — | — | — | — | — | — | — | |
| Nonaccrual loans | 12/31/2017 | — | — | — | — | — | 4 | — | — | 4 | |
| | 12/31/2016 | — | — | — | — | 2 | 5 | — | — | 7 | |
| Total construction and land development | 12/31/2017 | $ 171 | $ 617 | $ 77 | $ 76 | $ 616 | $ 307 | $ 93 | $ 64 | $ 2,021 | |
| Total commercial real estate | 12/31/2017 | $ 1,189 | $ 3,643 | $ 570 | $ 612 | $ 2,351 | $ 1,672 | $ 541 | $ 546 | $ 11,124 | 100.0% |

[1] *No other geography exceeds $79 million for all three loan types.*

[2] *Delinquency rates include nonaccrual loans.*

Approximately 20% of the CRE term loans consist of mini-perm loans as of December 31, 2017. 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 80% 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 $144 million, or 10%, of the commercial construction and land development portfolio at December 31, 2017 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 at December 31, 2017, we categorize $1.8 billion as retail property, where the ultimate use of the property is for retailing purposes. The average loan-to-value ratio for these loans is approximately 55%, and more than 90% are occupied. Approximately 81% of our CRE retail loans are to borrowers where the underlying retail businesses are not regional shopping centers, but include neighborhood strip malls, stand-alone retail facilities, and single-tenant buildings. Of the regional shopping center exposure, approximately 94% is term debt, and the criticized loan ratio is 5.3%. We closely monitor the CRE retail portfolio for tenant bankruptcy filings and store closures, and have limited exposure to national tenants with announced bankruptcies.

Underwriting on commercial properties is primarily based on the economic viability of the project with heavy consideration given to the creditworthiness and experience of the sponsor. We generally require that the owner's equity be injected prior to bank advances. Remargining requirements (required equity infusions upon a decline in value or cash flow of the collateral) are often included in the loan agreement along with guarantees of the sponsor. Recognizing that debt is paid via cash flow, the projected cash flows of the project are critical in the underwriting because these determine the ultimate value of the property and its ability to service debt. Therefore, in most projects (with the exception of multifamily and hospitality construction projects), we require substantial pre-leasing/leasing in our underwriting and we generally require a minimum projected stabilized debt service coverage ratio of 1.20 or higher, depending on the project asset class.

Within the residential construction and development sector, many of the requirements previously mentioned, such as creditworthiness and experience of the developer, up-front injection of the developer's equity, principal curtailment requirements, and the viability of the project are also important in underwriting a residential development loan. Significant consideration is given to the forecasted market acceptance of the product, location, strength of the developer, and the ability of the developer to stay within budget. Progress inspections by qualified independent inspectors are routinely performed before disbursements are made.

Real estate appraisals are ordered in accordance with regulatory guidelines and are validated independently of the loan officer and the borrower, generally by our internal appraisal review function, which is staffed by licensed appraisers. In some cases, reports from automated valuation services are used or internal evaluations are performed. A new appraisal or evaluation is required when a loan deteriorates to a certain level of credit weakness.

Advance rates (i.e., loan commitments) will vary based on the viability of the project and the creditworthiness of the sponsor, but our guidelines generally limit advances to 50% for raw land, 65% for land development, 65% for finished commercial lots, 75% for finished residential lots, 80% for pre-sold homes, 75% for models and homes not under contract, and 75% for commercial properties. Exceptions may be granted on a case-by-case basis.

Loan agreements require regular financial information on the project and the sponsor in addition to lease schedules, rent rolls and, on construction projects, independent progress inspection reports. The receipt of this financial information is monitored and calculations are made to determine adherence to the covenants set forth in the loan agreement.

The existence of a guarantee that improves the likelihood of repayment is taken into consideration when analyzing CRE loans for impairment. If the support of the guarantor is quantifiable and documented, it is included in the potential cash flows and liquidity available for debt repayment, and our impairment methodology takes this repayment source into consideration.

When we modify or extend a loan, we also give consideration to whether the borrower is in financial difficulty, and whether we have granted a concession. In determining if an interest rate concession has been granted, we consider whether the interest rate on the modified loan is equivalent to current market rates for new debt with similar risk characteristics. If the rate in the modification is less than current market rates, it may indicate that a concession was granted and impairment exists. However, if additional collateral is obtained, or if a guarantor exists who has the capacity and willingness to support the loan on an extended basis, we also consider the nature and amount of the additional collateral and guarantees in the ultimate determination of whether a concession has been granted.

In general, we obtain and consider updated financial information for the guarantor as part of our determination to extend a loan. The quality and frequency of financial reporting collected and analyzed varies depending on the contractual requirements for reporting, the size of the transaction, and the strength of the guarantor.

Complete underwriting of the guarantor includes, but is not limited to, an analysis of the guarantor's current financial statements, leverage, liquidity, global cash flow, global debt service coverage, contingent liabilities, etc. The assessment also includes a qualitative analysis of the guarantor's willingness to perform in the event of a problem and demonstrated history of performing in similar situations. Additional analysis may include personal financial statements, tax returns, liquidity (brokerage) confirmations, and other reports, as appropriate.

A qualitative assessment is performed on a case-by-case basis to evaluate the guarantor's experience, performance track record, reputation, and willingness to work with us. We also utilize market information sources, rating, and scoring services in our assessment. This qualitative analysis coupled with a documented quantitative ability to support the loan may result in a higher-quality internal loan grade, which may reduce the level of allowance we estimate. Previous documentation of the guarantor's financial ability to support the loan is discounted if there is any indication of a lack of willingness by the guarantor to support the loan.

In the event of default, we evaluate the pursuit of any and all appropriate potential sources of repayment, which may come from multiple sources, including the guarantee. A number of factors are considered when deciding whether or not to pursue a guarantor, including, but not limited to, the value and liquidity of other sources of repayment (collateral), the financial strength and liquidity of the guarantor, possible statutory limitations (e.g., single action rule on real estate) and the overall cost of pursuing a guarantee compared with the ultimate amount we may be able to recover. In other instances, the guarantor may voluntarily support a loan without any formal pursuit of remedies.

A decrease in oil and gas prices could potentially produce an adverse impact on our CRE loan portfolio within Texas. However, based upon generally strong equity and cash flow coverage levels, and sponsor support for the various properties, we do not expect a material amount of losses within this portfolio in 2018. Our largest CRE credit exposures in Texas are to the multi-family, office, and retail sectors. At December 31, 2017, the CRE loan portfolio mix in Texas was 72% commercial term, 16% commercial construction, 8% residential construction, and 4% land development.

***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 December 31, 2017, our HECL portfolio totaled $2.8 billion, compared with $2.6 billion at December 31, 2016. The following schedule describes the composition of our HECL portfolio by lien status.

*Schedule 21*

**HECL PORTFOLIO BY LIEN STATUS**

| *(In millions)* | December 31, 2017 | December 31, 2016 |
|---|---|---|
| Secured by first deeds of trust | $ 1,406 | $ 1,383 |
| Secured by second (or junior) liens | 1,371 | 1,262 |
| Total | $ 2,777 | $ 2,645 |

At December 31, 2017, 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 93% 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 at year-end 2017 and 2016 for the HECL portfolio was 0.02% and 0.01%, 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 0.93% at December 31, 2017, compared with 1.34% at December 31, 2016.

Total nonaccrual loans at December 31, 2017 decreased $155 million from December 31, 2016, primarily in the oil and gas-related loan portfolio. However, nonaccrual loans slightly increased in the commercial owner-occupied and 1-4 family residential loan portfolios. The largest total decrease in nonaccrual loans occurred at Amegy.

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

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The following schedule presents our nonperforming assets:

*Schedule 22*

**NONPERFORMING ASSETS**

| *(Dollar amounts in millions)* | December 31, | | | | |
|---|---|---|---|---|---|
| | 2017 | 2016 | 2015 | 2014 | 2013 |
| Nonaccrual loans: | | | | | |
| Loans held for sale | $ 12 | $ 40 | $ — | $ — | $ — |
| Commercial: | | | | | |
| Commercial and industrial | 195 | 354 | 164 | 106 | 101 |
| Leasing | 8 | 14 | 4 | — | 1 |
| Owner-occupied | 90 | 74 | 74 | 87 | 137 |
| Municipal | 1 | 1 | 1 | 1 | 10 |
| Commercial real estate: | | | | | |
| Construction and land development | 4 | 7 | 7 | 24 | 29 |
| Term | 36 | 29 | 40 | 25 | 60 |
| Consumer: | | | | | |
| Real estate | 68 | 49 | 59 | 64 | 66 |
| Other | — | 1 | 1 | — | 2 |
| Nonaccrual loans | 414 | 569 | 350 | 307 | 406 |
| Other real estate owned: | | | | | |
| Commercial: | | | | | |
| Commercial properties | 3 | 2 | 5 | 11 | 16 |
| Developed land | — | — | — | — | 6 |
| Land | — | — | 1 | 2 | 6 |
| Residential: | | | | | |
| 1-4 family | 1 | 2 | 1 | 4 | 8 |
| Developed land | — | — | — | 2 | 9 |
| Land | — | — | — | — | 1 |
| Other real estate owned | 4 | 4 | 7 | 19 | 46 |
| Total nonperforming assets | $ 418 | $ 573 | $ 357 | $ 326 | $ 452 |
| Ratio of nonperforming assets to net loans and leases[1] and other real estate owned | 0.93% | 1.34% | 0.87% | 0.81% | 1.15% |
| Accruing loans past due 90 days or more: | | | | | |
| Commercial | $ 17 | $ 18 | $ 7 | $ 8 | $ 8 |
| Commercial real estate | 2 | 13 | 22 | 20 | 29 |
| Consumer | 3 | 5 | 3 | 1 | 3 |
| Total | $ 22 | $ 36 | $ 32 | $ 29 | $ 40 |
| Ratio of accruing loans past due 90 days or more to net loans and leases[1] | 0.05% | 0.08% | 0.08% | 0.07% | 0.10% |

[1] *Includes loans held for sale.*

### *Restructured Loans*

Troubled debt restructurings ("TDRs") are loans that have been modified to accommodate a borrower who is experiencing financial difficulties, and for whom we have granted a concession that we would not otherwise consider. TDRs decreased $25 million, or 10%, during 2017, primarily due to payments and payoffs. 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.

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.

*Schedule 23*

**ACCRUING AND NONACCRUING TROUBLED DEBT RESTRUCTURED LOANS**

| | December 31, | |
|---|---|---|
| *(In millions)* | **2017** | **2016** |
| Restructured loans – accruing | $ 139 | $ 151 |
| Restructured loans – nonaccruing | 87 | 100 |
| Total | $ 226 | $ 251 |

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.

*Schedule 24*

**TROUBLED DEBT RESTRUCTURED LOANS ROLLFORWARD**

| *(In millions)* | **2017** | **2016** |
|---|---|---|
| Balance at beginning of year | $ 251 | $ 297 |
| New identified troubled debt restructuring and principal increases | 190 | 154 |
| Payments and payoffs | (157) | (145) |
| Charge-offs | (25) | (32) |
| No longer reported as troubled debt restructuring | (4) | (10) |
| Sales and other | (29) | (13) |
| Balance at end of year | $ 226 | $ 251 |

***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.

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*Schedule 25*

**SUMMARY OF LOAN LOSS EXPERIENCE**

| *(Dollar amounts in millions)* | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|
| Loans and leases outstanding (net of unearned income) | $ 44,780 | $ 42,649 | $ 40,650 | $ 40,064 | $ 39,043 |
| Average loans and leases outstanding, (net of unearned income) | $ 43,501 | $ 42,062 | $ 40,171 | $ 39,522 | $ 38,109 |
| Allowance for loan losses: | | | | | |
| Balance at beginning of year | $ 567 | $ 606 | $ 605 | $ 746 | $ 896 |
| Provision charged to earnings | 24 | 93 | 40 | (98) | (87) |
| Adjustment for FDIC-supported/PCI loans | — | — | — | (1) | (11) |
| Charge-offs: | | | | | |
| Commercial | (118) | (170) | (111) | (77) | (76) |
| Commercial real estate | (9) | (12) | (14) | (15) | (26) |
| Consumer | (17) | (16) | (14) | (14) | (29) |
| Total | (144) | (198) | (139) | (106) | (131) |
| Recoveries: | | | | | |
| Commercial | 46 | 43 | 55 | 41 | 41 |
| Commercial real estate | 14 | 14 | 35 | 12 | 25 |
| Consumer | 11 | 9 | 10 | 11 | 13 |
| Total | 71 | 66 | 100 | 64 | 79 |
| Net loan and lease charge-offs | (73) | (132) | (39) | (42) | (52) |
| Balance at end of year | $ 518 | $ 567 | $ 606 | $ 605 | $ 746 |
| Ratio of net charge-offs to average loans and leases | 0.17% | 0.31% | 0.10% | 0.11% | 0.14% |
| Ratio of allowance for loan losses to net loans and leases, on December 31, | 1.16% | 1.33% | 1.49% | 1.51% | 1.91% |
| Ratio of allowance for loan losses to nonaccrual loans, on December 31, | 129% | 107% | 173% | 197% | 184% |
| Ratio of allowance for loan losses to nonaccrual loans and accruing loans past due 90 days or more, on December 31, | 122% | 101% | 159% | 180% | 167% |

*Schedule 26*

**ALLOCATION OF THE ALLOWANCE FOR LOAN LOSSES**

**At December 31,**

| *(Dollar amounts in millions)* | 2017 | | 2016 | | 2015 | | 2014 | | 2013 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | % of total loans | Allocation of allowance | % of total loans | Allocation of allowance | % of total loans | Allocation of allowance | % of total loans | Allocation of allowance | % of total loans | Allocation of allowance |
| **Loan segment** | | | | | | | | | | |
| Commercial | 51.2% | $ 371 | 50.6% | $ 420 | 52.9% | $ 454 | 53.5% | $ 413 | 53.5% | $ 469 |
| Commercial real estate | 24.8 | 103 | 26.6 | 116 | 25.5 | 114 | 25.3 | 145 | 26.6 | 216 |
| Consumer | 24.0 | 44 | 22.8 | 31 | 21.6 | 38 | 21.2 | 47 | 19.9 | 61 |
| Total | 100.0% | $ 518 | 100.0% | $ 567 | 100.0% | $ 606 | 100.0% | $ 605 | 100.0% | $ 746 |

The total ALLL decreased by $49 million during 2017, primarily as a result of credit quality improvements in the oil and gas-related 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 December 31, 2017, the reserve decreased by $7 million compared with December 31, 2016, also as a result of credit quality improvements in the total loan portfolio.

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 year, 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 higher net interest income in a rising rate environment as our assets reprice more quickly than our liabilities.

As most of our liabilities are comprised of indeterminate maturity and managed rate deposits, behavioral assumptions for these deposits have a significant impact on our projected interest rate risk. We have historically reported two sets of deposit assumptions, fast and slow, to reflect the uncertainty of deposit behavior and its impact on interest rate risk. We have recently updated our deposit models and now disclose interest rate risk for only a single set of deposit behavioral assumptions. The newly implemented method differs from prior methods primarily in the way we treat commercial checking deposits and in the manner by which we determine the portion of deposits that are core deposits. For commercial checking deposits, we have separated the balances into a core amount that is operational or that compensates for billed services, and a complementary excess balance. The excess balance is modeled with a high attrition rate, whereas the core balance runs off more slowly. For other deposit types, the core balance is determined by the average balance over a longer-term horizon, typically 24 to 48 months, and excess balances are modeled with a high attrition rate.

#### *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 over one-year 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 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. The modeled results are highly sensitive to the assumptions used for deposits that do not have specific maturities, 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 to set 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 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 Schedule 27.

*Schedule 27*

**DEPOSIT ASSUMPTIONS**

| | December 31, 2017 | |
|---|---|---|
| | New Deposit Method | |
| Product | Effective duration (unchanged) | Effective duration (+200 bps) |
| Demand deposits | 3.4% | 3.3% |
| Money market | 1.5% | 1.3% |
| Savings and interest-on-checking | 2.6% | 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.

*Schedule 28*

**INCOME SIMULATION – CHANGE IN NET INTEREST INCOME**

| | 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.*

For non-maturity interest-bearing deposits, the weighted average modeled beta is 36.2%. If the weighted average deposit beta increased to 46.2% it would decrease the EaR in the +200bp shock from 5.4% to 2.9%.

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 +200bp but the ten-year rate only moves +30bp, the increase in earnings is 33% lower over 12 months compared with the parallel +200bp rate shock.

For comparative purposes, the December 31, 2016 measures as presented in the following schedule have been recalculated using the new methodology.

| | December 31, 2016 | | | | |
|---|---|---|---|---|---|
| | Parallel shift in rates (in bps)[1] | | | | |
| Repricing scenario | -100 | 0 | +100 | +200 | +300 |
| Earnings at Risk | (4.9)% | —% | 3.6% | 7.6% | 11.5% |

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

The asset sensitivity as measured by EaR declined year-over-year due to continued purchases of medium-term securities funded through reductions in money market investments and increases in short-term borrowings.

*Schedule 29*

**CHANGES IN ECONOMIC VALUE OF EQUITY**

As of the dates indicated and incorporating the assumptions previously described, 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 36.2%. If the weighted average deposit beta increased to 46.2% it would decrease the EVE in the +200bp shock from 0.3% to -2.2%.

| | 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.*

For comparative purposes, the December 31, 2016 measures as presented in the following schedule have been recalculated using the new methodology. The changes in EVE measures are driven by the same factors as those in our income simulation.

| | December 31, 2016 | | | | |
|---|---|---|---|---|---|
| | Parallel shift in rates (in bps)[1] | | | | |
| Repricing scenario | -100 bps | 0 bps | +100 bps | +200 bps | +300 bps |
| Economic Value of Equity | 0.3% | —% | 1.2% | 2.9% | 4.9% |

[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 December 31, 2017, $19.8 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 94% 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 $0.2 billion of variable-rate loans being priced at floored rates at December 31, 2017, which were above the "index plus spread" rate by an average of 60 bps. At December 31, 2017, 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 42 bps.

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

***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 December 31, 2017, we had a relatively small amount, $148 million, of trading assets and $95 million of securities sold, not yet purchased, compared with $115 million and $25 million, respectively, at December 31, 2016.

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 AOCI for each financial reporting period. During 2017, the after-tax change in AOCI attributable to AFS securities decreased by $3 million, due largely to changes in the interest rate environment, compared with a $74 million decrease 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., 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 Investments Committee consisting of members of management.

We hold both direct and indirect investments in predominantly pre-public companies, primarily through various Small Business Investment Company ("SBIC") venture capital funds. Our equity exposure to these investments was approximately $127 million and $124 million at December 31, 2017 and December 31, 2016, 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. During the fourth quarter of 2017 we sold the remaining amount of our publicly-traded direct investment and as of December 31, 2017, we had no publicly-traded stocks as part of our direct SBIC investments.

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 December 31, 2017 and $13 million at December 31, 2016.

These 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 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 December 31, 2017, such prohibited PEIs amounted to $3 million, with an additional $4 million of unfunded commitments (see Notes 5 and 15 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. We manage our liquidity to provide adequate funds for our customers' credit needs, or capital plan actions and our anticipated financial and contractual obligations, which include withdrawals by depositors, debt and capital service requirements, and lease obligations.

Overseeing liquidity management is the responsibility of ALCO, which implements a Board-approved corporate Liquidity and Funding Policy. This policy addresses monitoring and maintaining adequate liquidity, diversifying funding positions, and anticipating future funding needs. The policy also includes liquidity ratio guidelines, such as the "time-to-required funding" and LCR, that are used to monitor the liquidity positions of the Parent and ZB, N.A., as well as various stress test and liquid asset measurements for the Parent and ZB, N.A.

The management of liquidity and funding is performed centrally for the Parent and jointly by the Parent and bank management for its subsidiary bank. The Treasury Department performs this management centrally, under the direction of the Corporate Treasurer, with oversight by ALCO. The Treasurer is responsible for recommending changes to existing funding plans, as well as to the Company's Liquidity Policy. These recommendations must be submitted for approval to ALCO, and changes to the Policy also must be approved by the Company's ERMC and the Board of Directors. The Company has adopted policy limits that govern liquidity risk. The policy requires the Company to maintain a buffer of highly liquid assets sufficient to cover cash outflows in the event of a severe liquidity crisis. The Company targets a buffer of highly liquid assets at the Parent to cover 18-24 months of cash outflows under a scenario with limited cash inflows, and maintains a minimum policy limit of not less than 12 months. The consolidated Company exceeds the regulatory requirements of the Modified LCR that mandates a buffer of HQLA to cover 70% of 30-day cash outflows under the assumptions mandated in the Final Liquidity Rule. Additionally, the Company performs monthly liquidity stress testing using a set of internally generated scenarios representing severe liquidity constraints over a 12-month horizon. ZB, N.A. maintains a buffer of highly liquid assets consisting of cash, U.S. Agency, and U.S. Government Sponsored Entity securities to cover 30-day cash outflows under liquidity stress tests and maintains a contingency funding plan to identify funding sources that would be utilized over the extended 12-month horizon. Throughout 2017 and as of December 31, 2017, the Company complied with this policy.

### *Liquidity Regulation*

U.S. banking regulators issued a final rule in 2014 that implements a quantitative liquidity requirement in the U.S. generally consistent with the LCR minimum liquidity measure established under the Basel III liquidity framework. Under this rule, we are subject to a modified LCR standard, which requires a financial institution to hold an adequate amount of unencumbered 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. This rule became applicable to us on January 1, 2016.

The Basel III liquidity framework includes a second minimum liquidity measure, the NSFR, which 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. On October 31, 2014, the Basel Committee on Banking Supervision issued its final standards for this ratio, entitled *Basel III: The Net Stable Funding Ratio.* On May 3, 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 NSFR Rule. Under the proposal, bank holding companies would be required to publicly disclose information about the NSFR levels each quarter. As of December 31, 2017, the FRB has not published final rules on the NSFR. We continue to monitor this proposal and any other developments. Based on this Basel III publication and the FRB proposal, we believe we would meet the minimum NSFR if such requirement were currently effective.

The Enhanced Prudential Standards for liquidity management (Reg. YY) require us 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's internal liquidity stress testing program as contained in its policy complies with these requirements and includes monthly liquidity stress testing using a set of internally generated scenarios representing severe liquidity constraints over a 12-month horizon.

### *Contractual Obligations*

Schedule 30 summarizes our contractual obligations at December 31, 2017.

*Schedule 30*

**CONTRACTUAL OBLIGATIONS**

| *(In millions)* | One year or less | Over one year through three years | Over three years through five years | Over five years | Indeterminable maturity [1] | Total |
|---|---|---|---|---|---|---|
| Deposits | $ 2,584 | $ 388 | $ 142 | $ 1 | $ 49,506 | $ 52,621 |
| Net unfunded commitments to extend credit | 6,227 | 5,202 | 3,361 | 4,793 | — | 19,583 |
| Standby letters of credit: | | | | | | |
| Financial | 461 | 25 | 54 | 181 | — | 721 |
| Performance | 149 | 46 | 1 | — | — | 196 |
| Commercial letters of credit | 31 | — | — | — | — | 31 |
| Commitments to make venture and other noninterest-bearing investments [2] | 31 | — | — | — | — | 31 |
| Federal funds and other short-term borrowings | 4,976 | — | — | — | — | 4,976 |
| Long-term debt | — | 1 | — | 382 | — | 383 |
| Operating leases, net of subleases | 40 | 75 | 54 | 76 | — | 245 |
| Unrecognized tax benefits | — | 6 | — | — | — | 6 |
| Total contractual obligations | $ 14,499 | $ 5,743 | $ 3,612 | $ 5,433 | $ 49,506 | $ 78,793 |

[1] *Indeterminable maturity deposits include noninterest-bearing demand, savings and money market.*

[2] *Commitments to make venture and other noninterest-bearing investments do not have defined maturity dates. They have therefore been considered due on demand, maturing in one year or less.*

In addition to the commitments specifically noted in Schedule 30, we enter into a number of contractual commitments in the ordinary course of business. These include software licensing and maintenance, telecommunications services, facilities maintenance and equipment servicing, supplies purchasing, and other goods and services used in the operation of our business. Generally, these contracts are renewable or cancelable at least annually, although in some cases to secure favorable pricing concessions, we have committed to contracts that may extend to several years.

We also enter into derivative contracts under which we are required either to receive or pay cash, depending on changes in interest rates. These contracts are carried at fair value on the balance sheet with the fair value representing the net present value of the expected future cash receipts and payments based on market rates of interest. The fair value of the contracts changes daily as interest rates change. See Note 7 of the Notes to Consolidated Financial Statements for further information on derivative contracts.

***Liquidity Management Actions***

Consolidated cash, interest-bearing deposits held as investments, and security resell agreements at the Parent and its subsidiaries decreased to $1.6 billion at December 31, 2017 from $2.5 billion at December 31, 2016. The $0.9 billion decrease during 2017 resulted primarily from (1) Net loan originations and purchases, (2) an increase in investment securities, (3) a net decrease in deposits, (4) repurchase of our common stock, (5) repayment of our long-term debt, (6) repurchase and redemption of our preferred stock, and (7) dividends on common and preferred stock. These decreases were partially offset by short-term FHLB borrowings and net cash provided by operating activities.

During 2017 our HTM and AFS investment securities increased by $1.7 billion. This increase was primarily due to purchases of short-to-medium duration agency guaranteed mortgage-backed securities. Prior to the second quarter of 2017, we were adding to our investment portfolio during the past couple of years to increase our HQLA position in light of the new LCR rules and more broadly, to manage balance sheet liquidity more effectively. However, during the second through the fourth quarters of 2017, our HTM and AFS investment securities decreased by $490 million, and we expect the size of the investment portfolio to be generally stable during the next several quarters.

During 2017 we made cash payments totaling $153 million for our long-term debt which matured and did not incur any new long-term debt during the same time period. See Note 12 for additional detail about debt maturities and redemptions during 2017 and 2016. During 2017, we also increased our short-term debt with the FHLB by $3.1 billion, and had $3.6 billion outstanding as of December 31, 2017.

*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 decreased to $332 million at December 31, 2017 from $531 million at December 31, 2016. This $199 million decrease during 2017 resulted primarily from (1) repurchase of our common stock, (2) repayment of long-term debt, (3) repurchase and redemption of our preferred stock and (4) dividends on our common and preferred stock. This decrease in cash was partially offset by common dividends and return of common equity and preferred dividends received by the Parent from its subsidiary bank. See Notes 12 and 13 of the Notes to Consolidated Financial Statements for additional information about our long-term debt and equity transactions.

During 2017, the Parent received common dividends and return of common equity totaling $534 million and preferred dividends totaling $53 million from its subsidiary bank. During 2016 the Parent received common dividends and return of common equity totaling $250 million and preferred dividends totaling $13 million from its subsidiary bank. At December 31, 2017, ZB, N.A., had $417 million available for the payment of dividends 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. The debt ratings and outlooks issued by the various rating agencies for the Company and ZB, N.A. improved during 2017 and are shown in the following schedules.

Schedule 31 presents the Company's and ZB, N.A.'s ratings as of December 31, 2017.

*Schedule 31*

**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 | Positive | Positive | BBB- | BBB | BB+ | A-2 |
| Moody's | Stable | Stable | Baa3 | Baa3 | | P-2 |
| Kroll | Positive | Positive | BBB | BBB+ | BBB- | K2 |

The credit rating agencies all rate the Company's and ZB, N.A.'s senior debt at an investment-grade level. In addition, Kroll rates the Company's subordinated debt at an investment-grade level, while S&P rates the Company's subordinated debt as noninvestment-grade.

The Parent's cash payments for interest, reflected in operating expenses, decreased to $26 million in 2017 from $35 million in 2016 due to the maturity and repayment of long-term debt during 2017 and 2016, partially offset by the increase in interest from short-term FHLB advances. Additionally, the Parent paid approximately $129 million of total dividends on preferred stock and common stock for 2017 compared to $108 million for 2016.

Note 22 of the Notes to Consolidated Financial Statements contains the Parent's statements of income and cash flows for 2017, 2016 and 2015, as well as its balance sheets at December 31, 2017 and 2016.

At December 31, 2017, maturities of our long-term senior and subordinated debt ranged from June 2023 to September 2028, with effective interest rates from 4.50% to 6.95%.

See Note 12 of the Notes to Consolidated Financial Statements for a complete summary of our long-term debt.

*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% as of December 31, 2017, compared to 80.1% as of December 31, 2016, reflecting loan growth and a decrease in deposits during 2017.

Total deposits decreased by $615 million to $52.6 billion at December 31, 2017, compared to $53.2 billion at December 31, 2016. This decrease was a result of a $744 million decrease in savings and money market deposits and a $229 million decrease in noninterest-bearing demand deposits. The decrease was partially offset by a $358 million increase in time deposits. Also, during the first quarter of 2017, ZB, N.A. redeployed approximately $2.6 billion of cash to short-to-medium duration agency guaranteed mortgage-backed securities.

ZB, N.A.'s long-term senior debt ratings are slightly better than the Company's long-term senior debt ratings. Moody's rated both ZB, N.A.'s and the Company's long-term senior debt as Baa3. However, Standard & Poor's and Kroll both rated ZB, N.A.'s long-term senior debt one notch higher than the Company's ratings (see Schedule 31).

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 December 31, 2017, the amount available for additional FHLB and Federal Reserve borrowings was approximately \$14.7 billion, compared with \$17.1 billion at December 31, 2016. Loans with a carrying value of approximately \$25.6 billion at December 31, 2017 have been pledged at the FHLB of Des Moines and the Federal Reserve as collateral for current and potential borrowings compared with \$24.0 billion at December 31, 2016. At December 31, 2017, we had \$3.6 billion of short-term FHLB borrowings outstanding and no long-term FHLB or Federal Reserve borrowings outstanding, compared with \$500 million of short-term FHLB borrowings and no long-term FHLB or Federal Reserve borrowings outstanding at December 31, 2016. At December 31, 2017, our total investment in FHLB and Federal Reserve stock was \$154 million and \$184 million, respectively, compared with \$30 million and \$181 million at December 31, 2016. Our increased investment in FHLB stock was a result of our increase in short-term FHLB borrowings during 2017.

Our investment activities can provide or use cash, depending on the asset-liability management posture taken. During 2017, HTM & AFS investment securities' activities resulted in a net increase in investment securities and a net \$2.2 billion decrease in cash compared with a net \$5.9 billion decrease in cash for 2016.

Maturing balances in our subsidiary bank's loan portfolios also provide additional flexibility in managing cash flows. Lending activity for both 2017 and 2016 resulted in a net cash outflow of \$2.1 billion.

During 2017, we paid income taxes of \$246 million, compared to \$214 million during 2016.

**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 ("COSO") and the FDICIA.

To manage and minimize our operational risk, we have in place transactional documentation requirements; systems and procedures to monitor transactions and positions; systems and procedures to detect and mitigate attempts to commit fraud, penetrate our systems or telecommunications, access customer data, and/or deny normal access to those systems to our legitimate customers; regulatory compliance reviews; and periodic reviews by the Company's Compliance Risk Management, Internal Audit and Credit Examination departments. Reconciliation procedures have been established to ensure that data processing systems consistently and accurately capture critical data. In addition, the Data Governance department has key governance surrounding data integrity and availability. Further, we have key programs and procedures to maintain contingency and business continuity plans for operational support in the event of natural or other disasters. We also mitigate certain operational risks through the purchase of insurance, including errors and omissions and professional liability insurance.

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. The Operational Risk Committee reports to the ERMC, which reports to the ROC. Key measures have been established to increase oversight by ERM and Operational Risk Management through the strengthening of new initiative reviews, enhancements to the Enterprise Procurement and Third Party Risk Management framework, enhancements to the Business Continuity and Disaster Recovery programs and Enterprise Security programs, and the establishment of Fraud Risk Oversight, Incident Response Oversight and Technology Project Oversight programs. Significant enhancements have also been made to governance, technology, and reporting, including the establishment of Policy and Committee Governance programs, the implementation of a governance, risk and control solution, and the creation of an Enterprise Risk Profile and an Operational Risk Profile along with business line risk profiles. In addition, the establishment of an Enterprise Exam Management department has standardized our response and reporting, and increased our effectiveness and efficiencies with regulatory examinations, communications and issues management.

The number and sophistication of attempts to disrupt or penetrate our critical systems, sometimes referred to as hacking, cyber fraud, cyber attacks, cyber terrorism, or other similar names, also continue to grow. Given the importance and increasing sophistication of cyber attacks, the Company has designated cyber risk a level one risk in its risk taxonomy, which places it at the highest level of oversight with its other top risks.

## CAPITAL MANAGEMENT

### *Overview*

The Board of Directors is responsible for approving the policies associated with capital management. The Board has established the Capital Management Committee ("CMC"), chaired by the Chief Financial Officer and consisting of members of management, whose primary responsibility is to recommend and administer the approved capital policies that govern the capital management of the Company and its subsidiary bank. Other major CMC responsibilities include:

- Setting overall capital targets within the Board-approved capital policy, monitoring performance compared to the Company's Capital Policy limits, and recommending changes to capital including dividends, common stock repurchases, subordinated debt, and changes in major strategies to maintain the Company and its subsidiary bank at well-capitalized levels;
- Maintaining an adequate capital cushion to withstand adverse stress events while continuing to meet the borrowing needs of its customers, and to provide reasonable assurance of continued access to wholesale funding, consistent with fiduciary responsibilities to depositors and bondholders; and
- Reviewing agency ratings of the Company and ZB, N.A.

The Company has a fundamental financial objective to consistently produce superior risk-adjusted returns on its shareholders' capital. We believe that a strong capital position is vital to continued profitability and to promoting depositor and investor confidence. Specifically, it is the policy of the Parent and ZB, N.A. to:

- Maintain sufficient capital to support current needs;
- Maintain an adequate capital cushion to withstand future adverse stress events while continuing to meet borrowing needs of its customers; and
- Meet fiduciary responsibilities to depositors and bondholders while managing capital distributions to shareholders through dividends and repurchases of common stock so as to be consistent with Federal Reserve guidelines SR 09-04 and 12 U.S.C §§ 56 and 60.

### *Capital Planning and Stress Testing*

The CMC oversees the Company's capital stress testing under a variety of adverse economic and market scenarios. We have established processes to periodically conduct stress tests to evaluate potential impacts to the Company under hypothetical economic scenarios. These stress tests facilitate our contingency planning and management of capital and liquidity within quantitative limits reflecting the Board of Directors' risk appetite. These processes are also used to complete the Company's DFAST as required by the Dodd-Frank Act, and HCR/CCAR as required by the Federal Reserve.

Filing a capital plan with the Federal Reserve based on stress testing and documented sound policies, processes, models, controls, and governance practices, and the subsequent review by the Federal Reserve, is an annual regulatory requirement. This capital plan, which is subject to objection by the Federal Reserve, governs all of the Company's capital and significant unsecured debt financing actions for a period of five quarters. Among the actions governed by the capital plan are the repurchase of outstanding capital securities and the timing of new capital issuances, and whether the Company can pay or increase dividends. Any such action not included in a capital plan to which the Federal Reserve has not objected cannot be executed without submission of a revised stress test and capital plan for Federal Reserve review and non-objection; de minimis changes are allowed without a complete plan resubmission, subject to receipt of a Federal Reserve non-objection. Regulations require Company disclosure of these stress tests results.

As a bank holding company with assets greater than $50 billion, we are required by the Dodd-Frank Act to participate in annual stress tests known as the DFAST. In addition, we are required to participate in the Federal Reserve Board's annual HCR/CCAR for large and non-complex firms (generally, bank holding companies, 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.

A detailed discussion of HCR/CCAR/DFAST requirements is contained on page 11 of the "Capital Plan and Stress Testing" section under Part 1, Item 1 in this 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.

On June 29, 2016, we filed a Form 8-K announcing that the FRB did not object to our 2016 capital plan (which spans the timeframe of July 31, 2016 to June 30, 2017). The plan included (1) the increase of the quarterly common dividend to $0.08 per share beginning in the third quarter of 2016, (2) up to $180 million in total repurchases of common equity and (3) up to $144 million in total repurchases of preferred equity.

As planned, our quarterly dividend on common stock increased to $0.16 per share during the fourth quarter of 2017. As of December 31, 2017, the Company has repurchased $230 million of its common stock at an average price of $47.42 per share under the 2017 capital plan and $180 million of its common stock at an average price of $35.66 per share under the 2016 capital plan.

During the first quarter of 2018, the Company repurchased an additional $115 million of its common stock at an average price of $53.46 per share, leaving $120 million of repurchase capacity remaining in the 2017 capital plan (which spans the timeframe of July 2017 to June 2018).

Also in accordance with our 2016 capital plan, we redeemed all outstanding shares of our 7.9% Series F preferred stock on the redemption date of June 15, 2017.

***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. We met all capital adequacy requirements under the Basel III Capital Rules as of December 31, 2017.

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

### *Capital Management Actions*

Total shareholders' equity increased by $45 million to $7.7 billion at December 31, 2017 from $7.6 billion at December 31, 2016. The increase in total shareholders' equity is primarily due to net income of $592 million. This increase is partially offset by repurchases of our common stock under our repurchase program totaling $320 million, $144 million paid to redeem our Series F preferred stock, and common and preferred dividends of $129 million.

During the latter part of 2016 and throughout 2017, the market price of our common stock increased above the exercise price of common stock warrants on our common stock. As of December 31, 2017 we have 29.3 million common stock warrants at an exercise price of $35.37 which expire on May 22, 2020 and 5.8 million common stock warrants at an exercise price of $36.27 per share which expire on November 14, 2018. See Note 13 of the Notes to Consolidated Financial Statements for more information on our common stock warrants. The increase in the market price of our common stock increased our diluted shares throughout 2017 and for the fourth quarter of 2016, but did not effect on our diluted shares for the full 2016 year.

Between January 1, 2018 and February 20, 2018, 1.0 million shares of common stock were issued from the cashless exercise of 3.2 million common stock warrants which expire 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.

Schedule 32 presents the diluted shares from the remaining common stock warrants at various Zions Bancorporation common stock market prices as of February 20, 2018, excluding the effect of changes in exercise cost and warrant share multiplier from the future payment of common stock dividends.

*Schedule 32*

**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 | 10,338 |
| 55.00 | 12,394 |
| 60.00 | 14,107 |
| 65.00 | 15,557 |

The common dividend rate was increased to $0.16 per share during the fourth quarter of 2017. We paid $89 million in dividends on common stock during 2017, compared to $58 million during 2016. During its January 2018 meeting, the Board of Directors declared a dividend of $0.20 per common share payable on February 22, 2018 to shareholders of record on February 15, 2018.

We paid preferred stock dividends of $40 million and $50 million during 2017 and 2016, respectively. We also recorded a reductions of $2 million and $10 million to net earnings applicable to common shareholders as a result of the preferred stock redemptions during 2017 and 2016.

Banking organizations are required by capital regulations to maintain adequate levels of capital as measured by several regulatory capital ratios. The Company's capital ratios as of December 31, 2017, 2016, and 2015 are shown in Schedule 33.

*Schedule 33*

**CAPITAL AND PERFORMANCE RATIOS**

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Tangible common equity ratio[1] | 9.3% | 9.5% | 9.6% |
| Tangible equity ratio[1] | 10.2 | 10.6 | 11.1 |
| Average equity to average assets | 12.0 | 12.8 | 13.0 |
| Basel III risk-based capital ratios[2]: | | | |
| Common equity tier 1 capital | 12.1 | 12.1 | 12.2 |
| Tier 1 leverage | 10.5 | 11.1 | 11.3 |
| Tier 1 risk-based | 13.2 | 13.5 | 14.1 |
| Total risk-based | 14.8 | 15.2 | 16.1 |
| Return on average common equity | 7.7 | 6.0 | 3.8 |
| Return on average tangible common equity[1] | 9.0 | 7.1 | 4.6 |

[1] *See "GAAP to Non-GAAP Reconciliations" on page 29 for more information regarding these ratios.*

[2] *Based on the applicable phase-in periods.*

Note 14 of the Notes to Consolidated Financial Statements provides additional information on risk-based capital.

At December 31, 2017, Basel III regulatory tier 1 risk-based capital and total risk-based capital was $6.8 billion and $7.6 billion, respectively, compared with $6.7 billion and $7.6 billion, respectively, at December 31, 2016.

## CRITICAL ACCOUNTING POLICIES AND SIGNIFICANT ESTIMATES

Note 1 of the Notes to Consolidated Financial Statements contains a summary of the Company's significant accounting policies. Discussed below are certain significant accounting policies that we consider critical to the Company's financial statements. These critical accounting policies were selected because the amounts affected by them are significant to the financial statements. Any changes to these amounts, including changes in estimates, may also be significant to the financial statements. We believe that an understanding of these policies, along with the related estimates we are required to make in recording the financial transactions of the Company, is important to have a complete picture of the Company's financial condition. In addition, in arriving at these estimates, we are required to make complex and subjective judgments, many of which include a high degree of uncertainty. The following discussion of these critical accounting policies includes the significant estimates related to these policies. We have discussed each of these accounting policies and the related estimates with the Audit Committee of the Board of Directors.

We have included, where applicable in this document, sensitivity schedules and other examples to demonstrate the impact of the changes in estimates made for various financial transactions. The sensitivities in these schedules and examples are hypothetical and should be viewed with caution. Changes in estimates are based on variations in assumptions and are not subject to simple extrapolation, as the relationship of the change in the assumption to the change in the amount of the estimate may not be linear. In addition, the effect of a variation in one assumption is in reality likely to cause changes in other assumptions, which could potentially magnify or counteract the sensitivities.

### Fair Value Estimates

We measure or monitor many of our assets and liabilities on a fair value basis. Fair value is the price that could be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. To increase consistency and comparability in fair value measurements, GAAP has established a three-level hierarchy to prioritize the valuation inputs among (1) observable inputs that reflect quoted prices in active markets, (2) inputs other than quoted prices with observable market data, and (3) unobservable data such as the Company's own data or single dealer nonbinding pricing quotes.

When observable market prices are not available, fair value is estimated using modeling techniques such as discounted cash flow analysis. These modeling techniques use assumptions that market participants would consider in pricing the asset or the liability, including assumptions about the risk inherent in a particular valuation technique, the effect of a restriction on the sale or use of an asset, the life of the asset and applicable growth rate, the risk of nonperformance, and other related assumptions.

The selection and weighting of the various fair value techniques may result in a fair value higher or lower than carrying value. Considerable judgment may be involved in determining the amount that is most representative of fair value.

For assets and liabilities recorded at fair value, the Company's policy is to maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurements for those items where there is an active market. In certain cases, when market observable inputs for model-based valuation techniques may not be readily available, the Company is required to make judgments about the assumptions market participants would use in estimating the fair value of the financial instrument. The models used to determine fair value adjustments are regularly evaluated by management for relevance under current facts and circumstances.

Changes in market conditions may reduce the availability of quoted prices or observable data. For example, reduced liquidity in the capital markets or changes in secondary market activities could result in observable market inputs becoming unavailable. When market data is not available, the Company uses valuation techniques requiring more management judgment to estimate the appropriate fair value.

Fair value is used on a recurring basis for certain assets and liabilities in which fair value is the primary measure of accounting. Fair value is used on a nonrecurring basis to measure certain assets or liabilities (including HTM securities, loans held for sale, and OREO) for impairment or for disclosure purposes in accordance with current accounting guidance.

Impairment analysis also relates to long-lived assets, goodwill, and core deposit and other intangible assets. An impairment loss is recognized if the carrying amount of the asset is not likely to be recoverable and exceeds its fair value. In determining the fair value, management uses models and applies the techniques and assumptions previously discussed.

Investment securities are valued using several methodologies, which depend on the nature of the security, availability of current market information, and other factors. Investment securities in an unrealized loss position are formally reviewed on a quarterly basis for the presence of other-than-temporary impairment ("OTTI"). OTTI is considered to have occurred if the instrument's fair value is below its amortized cost and (1) we intend to sell the security, or (2) it is "more likely than not" we will be required to sell the security before recovery of its amortized cost basis, or (3) the present value of expected cash flows is not sufficient to recover the entire amortized cost basis. The "more likely than not" criterion is a lower threshold than the "probable" criterion.

Notes 1, 5, 7, 9, and 3 of the Notes to Consolidated Financial Statements and the "Investment Securities Portfolio" on page 50 contain further information regarding the use of fair value estimates.

**Allowance for Credit Losses**

The ACL includes the ALLL and the RULC. The ALLL represents management's estimate of probable losses believed to be inherent in the loan portfolio. The determination of the appropriate level of the allowance is based on periodic evaluations of the portfolios. This process includes both quantitative and qualitative analyses, as well as a qualitative review of the results. The qualitative review requires a significant amount of judgment, and is described in more detail in Note 6 of the Notes to Consolidated Financial Statements.

The RULC provides for potential losses associated with off-balance sheet lending commitments and standby letters of credit. The reserve is estimated using the same procedures and methodologies as for the ALLL, plus assumptions regarding the probability and amount of unfunded commitments being drawn.

Although we believe that our processes for determining an appropriate level for the allowance adequately address the various components that could potentially result in credit losses, the processes and their elements include features that may be susceptible to significant change. Any unfavorable differences between the actual outcome of credit-related events and our estimates could require an additional provision for credit losses. As an example, if the probability of default risk grade for all pass-graded commercial and CRE loans was immediately downgraded one grade on our internal risk grading scale, the quantitatively determined amount of the ALLL at December 31, 2017 would increase by approximately $105 million. This sensitivity analysis is hypothetical and has been provided only to indicate the potential impact that changes in risk grades may have on the allowance estimate.

Although the qualitative process is subjective, it represents the Company's best estimate of qualitative factors impacting the determination of the ACL. We believe that given the procedures we follow in determining the ACL, the various components used in the current estimation processes are appropriate.

Note 6 of the Notes to Consolidated Financial Statements and "Credit Risk Management" on page 56 contains further information and more specific descriptions of the processes and methodologies used to estimate the ACL.

**Accounting for Goodwill**

Goodwill is initially recorded at fair value and is subsequently evaluated at least annually for impairment in accordance with current accounting guidance. We perform this annual test as of September 30 of each year, or more often if events or circumstances indicate that its carrying value may not be recoverable. The goodwill impairment test for a given reporting unit (generally one of our banking segments) compares its fair value with its carrying value. If the carrying amount exceeds fair value, an additional analysis must be performed to determine the amount, if any, by which goodwill is impaired.

To determine the fair value, we use a combination of up to three separate methods: comparable publicly-traded financial service companies (primarily banks and bank holding companies) in the western and southwestern states ("Market Value"); where applicable, comparable acquisitions of financial services companies in the western and southwestern states ("Transaction Value"); and the discounted present value of management's estimates of future cash flows. Critical assumptions that are used as part of these calculations include:

- selection of comparable publicly-traded companies based on location, size, and business focus and composition;
- selection of market comparable acquisition transactions based on location, size, business focus and composition, and date of the transaction;
- the discount rate, which is based on Zions' estimate of its cost of capital, applied to future cash flows;
- the projections of future earnings and cash flows of the reporting unit;
- the relative weight given to the valuations derived by the three methods described; and
- the control premium associated with reporting units.

We apply a control premium in the Market Value approach to determine the reporting units' equity values. Control premiums represent the ability of a controlling shareholder to change how the Company is managed and can cause the fair value of a reporting unit as a whole to exceed its market capitalization. Based on a review of historical bank acquisition transactions within the Company's geographic footprint, and a comparison of the target banks' market values 30 days prior to the announced transaction to the deal value, we have determined that a control premium ranging from 0% to 15% for the reporting units was appropriate at the most recent test date.

Since estimates are an integral part of the impairment computations, changes in these estimates could have a significant impact on any calculated impairment amount. Estimates include economic conditions, which impact the assumptions related to interest and growth rates, loss rates, and imputed cost of equity capital. The fair value estimates for each reporting unit incorporate current economic and market conditions, including Federal Reserve monetary policy expectations and the impact of legislative and regulatory changes. Additional factors that may significantly affect the estimates include, among others, competitive forces, customer behaviors and attrition, loan losses, changes in growth trends, cost structures and technology, changes in equity market values and merger and acquisition valuations, and changes in industry conditions.

Weakening in the economic environment, a decline in the performance of the reporting units, or other factors could cause the fair value of one or more of the reporting units to fall below carrying value, resulting in a goodwill impairment charge. Additionally, new legislative or regulatory changes not anticipated in management's expectations may cause the fair value of one or more of the reporting units to fall below the carrying value, resulting in a goodwill impairment charge. Any impairment charge would not affect the Company's regulatory capital ratios, tangible common equity ratio, or liquidity position.

During the fourth quarter of 2017, we performed our annual goodwill impairment evaluation of the entire organization, effective September 30, 2017. We concluded that none of our reporting units was impaired. Furthermore, the evaluation process determined that the fair values of Amegy, CB&T, and Zions Bank exceeded their carrying values by 35%, 54%, and 78%, respectively. Additionally, we performed a hypothetical sensitivity analysis on the discount rate assumption to evaluate the impact of an adverse change to this assumption. If the discount rate applied to future earnings were increased by 100bps, the fair values of Amegy, CB&T, and Zions Bank would exceed their carrying values by 33%, 52%, and 72%, respectively.

**Income Taxes**

We are subject to the income tax laws of the United States, its states and other jurisdictions where we conduct business. These laws are complex and subject to different interpretations by the taxpayer and the various taxing authorities. Calculation of the provision for income taxes requires significant judgments and estimates about the application of these laws and related regulations. Management attempts to make reasonable interpretations of these tax laws as we prepare the Company's tax returns. These interpretations are subject to challenge by the tax authorities upon audit or to reinterpretation based on management's ongoing assessment of facts and evolving case law.

On December 22, 2017, H.R. 1, known as the Tax Cuts and Jobs Act ("the Act"), was signed into law. The Act makes significant changes to the U.S. Internal Revenue Code of 1986, including a decrease in the current corporate federal income tax rate to 21% from 35%, effective January 1, 2018. In conjunction with the enactment of the Act, the SEC issued SAB 118 to address the accounting for certain income tax effects of the Act that may not be complete by the time financial statements are issued. The Company evaluated all available information and made reasonable estimates of the impact of the Act to substantially all components of its net DTA. The provisional impact of the Act on the net DTA resulted in a non-cash charge of $47 million, recorded through income tax expense. The Company anticipates that additional adjustments to net DTA and income tax expense may be made in 2018 as the Company's initial determination of the tax basis of deferred items such as foregone interest, equity investments in flow-through entities, certain employee compensation arrangements, FDIC-supported transactions and premises and equipment are finalized. These adjustments will be recorded in the financial statements in the reporting period when such adjustments are determined; however, SAB 118 requires all impacts from the Act to be recorded prior to December 22, 2018, which is one year from the enactment date of the Act.

In 2017, the Company early adopted the guidance in ASU 2018-02, which allows reclassification from AOCI to retained earnings for the stranded tax effects related to the change in the corporate income tax rate from the Act. The early adoption of the guidance resulted in a $25 million increase to retained earnings out of AOCI as of December 31, 2017.

We had net DTAs of $93 million at December 31, 2017, compared with $250 million at December 31, 2016. The most significant portions of the deductible temporary differences relate to (1) the ALLL, (2) fair value adjustments or impairment write-downs related to securities, (3) pension and postretirement obligations, and (4) deferred compensation arrangements. No valuation allowance has been recorded as of December 31, 2017 related to DTAs except for a full valuation reserve related to certain acquired net operating losses from an immaterial nonbank subsidiary. In assessing the need for a valuation allowance, both the positive and negative evidence about the realization of DTAs were evaluated. The ultimate realization of DTAs is based on the Company’s ability to (1) carry back net operating losses to prior tax periods, (2) utilize the reversal of taxable temporary differences to offset deductible temporary differences, (3) implement tax planning strategies that are prudent and feasible, and (4) generate future taxable income.

After considering the weight of the positive evidence compared to the negative evidence, management has concluded it is more likely than not that we will realize the existing DTAs and that an additional valuation allowance is not needed.

On a quarterly basis, management assesses the reasonableness of its effective tax rate based upon its current best estimate of net income and the applicable taxes expected for the full year. Deferred tax assets and liabilities are also reassessed on a regular basis. Reserves for contingent tax liabilities are reviewed quarterly for adequacy based upon developments in tax law and the status of examinations or audits. We have tax reserves at December 31, 2017 of approximately $5 million, net of federal and/or state benefits, primarily relating to uncertain tax positions for tax credits on technology initiatives.

Note 18 of the Notes to Consolidated Financial Statements contains additional information regarding income taxes.

## RECENT ACCOUNTING PRONOUNCEMENTS AND DEVELOPMENTS

Note 2 of the Notes to Consolidated Financial Statements discusses recently issued accounting pronouncements that we will be required to adopt. Also discussed is our expectation of the impact these new accounting pronouncements will have, to the extent they are material, on our financial condition, results of operations, or liquidity.

## ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Information required by this Item is included in “Interest Rate and Market Risk Management” in MD&A beginning on page 68 and is hereby incorporated by reference.

## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

## REPORT ON MANAGEMENT’S ASSESSMENT OF INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Zions Bancorporation and subsidiaries (“the Company”) is responsible for establishing and maintaining adequate internal control over financial reporting for the Company as defined by Exchange Act Rules 13a-15 and 15d-15.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Although any system of internal control can be compromised by human error or intentional circumvention of required procedures, we believe our system provides reasonable assurance that financial transactions are recorded and reported properly, providing an adequate basis for reliable financial statements.

The Company’s management has used the criteria established in Internal Control – Integrated Framework (2013 framework) issued by the COSO to evaluate the effectiveness of the Company’s internal control over financial reporting.

The Company’s management has assessed the effectiveness of the Company’s internal control over financial reporting as of December 31, 2017 and has concluded that such internal control over financial reporting is effective. There are no material weaknesses in the Company’s internal control over financial reporting that have been identified by the Company’s management.

Ernst & Young LLP, an independent registered public accounting firm, has audited the consolidated financial statements of the Company for the year ended December 31, 2017 and has also issued an attestation report, which is included herein, on internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board ("PCAOB").

# REPORTS OF ERNST & YOUNG LLP, INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

## REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Shareholders and the Board of Directors of Zions Bancorporation and Subsidiaries

**Opinion on Internal Control over Financial Reporting**

We have audited Zions Bancorporation and subsidiaries' internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Zions Bancorporation and subsidiaries (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the 2017 consolidated financial statements of the Company and our report dated February 28, 2018 expressed an unqualified opinion thereon.

**Basis for Opinion**

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Report on Management's Assessment of Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

**Definition and Limitations of Internal Control Over Financial Reporting**

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP

Salt Lake City, Utah
February 28, 2018

## REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders and the Board of Directors of Zions Bancorporation and Subsidiaries

### Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Zions Bancorporation and subsidiaries (the Company) as of December 31, 2017 and 2016, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2017, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), and our report dated February 28, 2018 expressed an unqualified opinion thereon.

### Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2000.

Salt Lake City, Utah
February 28, 2018

*ZIONS BANCORPORATION AND SUBSIDIARIES*

**CONSOLIDATED BALANCE SHEETS**

| *(In millions, shares in thousands)* | December 31, 2017 | December 31, 2016 |
|---|---|---|
| **ASSETS** | | |
| Cash and due from banks | $ 548 | $ 737 |
| Money market investments: | | |
| Interest-bearing deposits | 782 | 1,411 |
| Federal funds sold and security resell agreements | 514 | 568 |
| Investment securities: | | |
| Held-to-maturity, at amortized cost (approximate fair value $762 and $850) | 770 | 868 |
| Available-for-sale, at fair value | 15,161 | 13,372 |
| Trading account, at fair value | 148 | 115 |
| Total investment securities | 16,079 | 14,355 |
| Loans held for sale | 44 | 172 |
| Loans and leases, net of unearned income and fees | 44,780 | 42,649 |
| Less allowance for loan losses | 518 | 567 |
| Loans, net of allowance | 44,262 | 42,082 |
| Other noninterest-bearing investments | 1,029 | 884 |
| Premises, equipment and software, net | 1,094 | 1,020 |
| Goodwill | 1,014 | 1,014 |
| Core deposit and other intangibles | 2 | 8 |
| Other real estate owned | 4 | 4 |
| Other assets | 916 | 984 |
| Total assets | $ 66,288 | $ 63,239 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| Deposits: | | |
| Noninterest-bearing demand | $ 23,886 | $ 24,115 |
| Interest-bearing: | | |
| Savings and money market | 25,620 | 26,364 |
| Time | 3,115 | 2,757 |
| Total deposits | 52,621 | 53,236 |
| Federal funds and other short-term borrowings | 4,976 | 827 |
| Long-term debt | 383 | 535 |
| Reserve for unfunded lending commitments | 58 | 65 |
| Other liabilities | 571 | 942 |
| Total liabilities | 58,609 | 55,605 |
| Shareholders' equity: | | |
| Preferred stock, without par value, authorized 4,400 shares | 566 | 710 |
| Common stock, without par value; authorized 350,000 shares; issued and outstanding 197,532 and 203,085 shares | 4,445 | 4,725 |
| Retained earnings | 2,807 | 2,321 |
| Accumulated other comprehensive income (loss) | (139) | (122) |
| Total shareholders' equity | 7,679 | 7,634 |
| Total liabilities and shareholders' equity | $ 66,288 | $ 63,239 |

*See accompanying notes to consolidated financial statements.*

*ZIONS BANCORPORATION AND SUBSIDIARIES*

**CONSOLIDATED STATEMENTS OF INCOME**

| *(In millions, except shares and per share amounts)* | Year Ended December 31, 2017 | 2016 | 2015 |
|---|---|---|---|
| Interest income: | | | |
| Interest and fees on loans | $ 1,847 | $ 1,729 | $ 1,686 |
| Interest on money market investments | 19 | 21 | 23 |
| Interest on securities | 326 | 204 | 124 |
| Total interest income | 2,192 | 1,954 | 1,833 |
| Interest expense: | | | |
| Interest on deposits | 59 | 49 | 49 |
| Interest on short- and long-term borrowings | 68 | 38 | 69 |
| Total interest expense | 127 | 87 | 118 |
| Net interest income | 2,065 | 1,867 | 1,715 |
| Provision for loan losses | 24 | 93 | 40 |
| Net interest income after provision for loan losses | 2,041 | 1,774 | 1,675 |
| Noninterest income: | | | |
| Service charges and fees on deposit accounts | 171 | 171 | 168 |
| Other service charges, commissions and fees | 217 | 208 | 187 |
| Wealth management and trust income | 42 | 37 | 31 |
| Loan sales and servicing income | 25 | 35 | 31 |
| Capital markets and foreign exchange | 30 | 22 | 26 |
| Customer-related fees | 485 | 473 | 443 |
| Dividends and other investment income | 40 | 24 | 30 |
| Securities gains (losses), net | 14 | 7 | (127) |
| Other | 5 | 12 | 11 |
| Total noninterest income | 544 | 516 | 357 |
| Noninterest expense: | | | |
| Salaries and employee benefits | 1,011 | 983 | 973 |
| Occupancy, net | 129 | 125 | 120 |
| Furniture, equipment and software, net | 130 | 125 | 123 |
| Other real estate expense, net | (1) | (2) | (1) |
| Credit-related expense | 29 | 26 | 29 |
| Provision for unfunded lending commitments | (7) | (10) | (6) |
| Professional and legal services | 54 | 55 | 50 |
| Advertising | 22 | 22 | 25 |
| FDIC premiums | 53 | 40 | 34 |
| Amortization of core deposit and other intangibles | 6 | 8 | 9 |
| Other | 223 | 213 | 225 |
| Total noninterest expense | 1,649 | 1,585 | 1,581 |
| Income before income taxes | 936 | 705 | 451 |
| Income taxes | 344 | 236 | 142 |
| Net income | 592 | 469 | 309 |
| Preferred stock dividends | (40) | (48) | (62) |
| Preferred stock redemption | (2) | (10) | — |
| Net earnings applicable to common shareholders | $ 550 | $ 411 | $ 247 |
| Weighted average common shares outstanding during the year: | | | |
| Basic shares (in thousands) | 200,776 | 203,855 | 203,265 |
| Diluted shares (in thousands) | 209,653 | 204,269 | 203,698 |
| Net earnings per common share: | | | |
| Basic | $ 2.71 | $ 2.00 | $ 1.20 |
| Diluted | 2.60 | 1.99 | 1.20 |

*See accompanying notes to consolidated financial statements.*

*ZIONS BANCORPORATION AND SUBSIDIARIES*

# CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| *(In millions)* | Year Ended December 31, 2017 | 2016 | 2015 |
|---|---|---|---|
| Net income | $ 592 | $ 469 | $ 309 |
| Other comprehensive income (loss), net of tax: | | | |
| Net unrealized holding losses on investment securities | (2) | (74) | (23) |
| Reclassification of HTM securities to AFS securities | — | — | 11 |
| Reclassification to earnings for realized net securities losses | — | — | 86 |
| Net unrealized gains (losses) on other noninterest-bearing investments | 3 | 2 | (3) |
| Net unrealized holding gains (losses) on derivative instruments | (3) | 5 | 7 |
| Reclassification adjustment for increase in interest income recognized in earnings on derivative instruments | (2) | (7) | (6) |
| Pension and postretirement | 12 | 7 | 1 |
| Effect of new tax rates from Tax Cuts and Jobs Act of 2017 | (25) | — | — |
| Other comprehensive income (loss) | (17) | (67) | 73 |
| Comprehensive income | $ 575 | $ 402 | $ 382 |

*See accompanying notes to consolidated financial statements.*

*ZIONS BANCORPORATION AND SUBSIDIARIES*

## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

| *(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, 2014** | $ 1,004 | 203,015 | $ 4,724 | $ 1,769 | $ (128) | $ 7,369 |
| Net income | | | | 309 | | 309 |
| Other comprehensive income, net of tax | | | | | 73 | 73 |
| Preferred stock redemption | (176) | | 3 | (3) | | (176) |
| Net activity under employee plans and related tax benefits | | 1,402 | 40 | | | 40 |
| Dividends on preferred stock | | | | (62) | | (62) |
| Dividends on common stock, $0.22 per share | | | | (45) | | (45) |
| Change in deferred compensation | | | | (1) | | (1) |
| **Balance at December 31, 2015** | 828 | 204,417 | 4,767 | 1,967 | (55) | 7,507 |
| Net income | | | | 469 | | 469 |
| Other comprehensive income (loss), net of tax | | | | | (67) | (67) |
| Preferred stock redemption | (118) | | 2 | (10) | | (126) |
| Company common stock repurchased under repurchase programs | | (2,889) | (90) | | | (90) |
| Net activity under employee plans and related tax benefits | | 1,557 | 46 | | | 46 |
| Dividends on preferred stock | | | | (48) | | (48) |
| Dividends on common stock, $0.28 per share | | | | (58) | | (58) |
| Change in deferred compensation | | | | 1 | | 1 |
| **Balance at December 31, 2016** | 710 | 203,085 | 4,725 | 2,321 | (122) | 7,634 |
| Net income | | | | 592 | | 592 |
| Other comprehensive income, net of tax | | | | | 8 | 8 |
| Preferred stock redemption | (144) | | 2 | (2) | | (144) |
| Company common stock repurchased under repurchase programs | | (7,009) | (320) | | | (320) |
| Net activity under employee plans and related tax benefits | | 1,456 | 38 | | | 38 |
| Dividends on preferred stock | | | | (40) | | (40) |
| Dividends on common stock, $0.44 per share | | | | (89) | | (89) |
| Effect of new tax rates from Tax Cuts and Jobs Act of 2017 | | | | 25 | (25) | — |
| **Balance at December 31, 2017** | $ 566 | 197,532 | $ 4,445 | $ 2,807 | $ (139) | $ 7,679 |

*See accompanying notes to consolidated financial statements.*

*ZIONS BANCORPORATION AND SUBSIDIARIES*

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

| *(In millions)* | Year Ended December 31, 2017 | 2016 | 2015 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Net income | $ 592 | $ 469 | $ 309 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Provision for credit losses | 17 | 83 | 34 |
| Depreciation and amortization | 179 | 123 | 86 |
| Share-based compensation | 25 | 26 | 25 |
| Securities losses (gains), net | (14) | (7) | 127 |
| Deferred income tax expense (benefit) | 154 | (8) | (30) |
| Net decrease (increase) in trading securities | (33) | (67) | 22 |
| Net decrease (increase) in loans held for sale | 97 | 1 | (6) |
| Change in other liabilities | 29 | 1 | (6) |
| Change in other assets | (89) | (10) | (67) |
| Other, net | (29) | (15) | (30) |
| Net cash provided by operating activities | 928 | 596 | 464 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Net decrease in money market investments | 683 | 4,749 | 1,837 |
| Proceeds from maturities and paydowns of investment securities held-to-maturity | 314 | 94 | 123 |
| Purchases of investment securities held-to-maturity | (216) | (416) | (61) |
| Proceeds from sales, maturities, and paydowns of investment securities available-for-sale | 2,412 | 3,787 | 1,681 |
| Purchases of investment securities available-for-sale | (4,719) | (9,359) | (5,513) |
| Net change in loans and leases | (2,135) | (2,102) | (563) |
| Purchases and sales of other noninterest-bearing investments | (105) | (20) | 31 |
| Purchases of premises and equipment | (169) | (196) | (157) |
| Proceeds from sales of other real estate owned | 8 | 20 | 25 |
| Other, net | 8 | 7 | 18 |
| Net cash used in investing activities | (3,919) | (3,436) | (2,579) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Net increase (decrease) in deposits | (614) | 2,883 | 2,526 |
| Net change in short-term funds borrowed | 2,149 | 480 | 103 |
| Proceeds from debt over 90 days and up to one year | 5,100 | — | — |
| Repayments of debt over 90 days and up to one year | (3,100) | — | — |
| Cash paid for preferred stock redemptions | (144) | (126) | (176) |
| Repayments of long-term debt | (153) | (280) | (288) |
| Company common stock repurchased | (332) | (97) | (7) |
| Proceeds from the issuance of common stock | 25 | 25 | 22 |
| Dividends paid on common and preferred stock | (129) | (108) | (108) |
| Other, net | — | 2 | (1) |
| Net cash provided by financing activities | 2,802 | 2,779 | 2,071 |
| Net decrease in cash and due from banks | (189) | (61) | (44) |
| Cash and due from banks at beginning of year | 737 | 798 | 842 |
| Cash and due from banks at end of year | $ 548 | $ 737 | $ 798 |
| | | | |
| Cash paid for interest | $ 118 | $ 83 | $ 102 |
| Net cash paid for income taxes | 246 | 214 | 132 |
| Noncash activities are summarized as follows: | | | |
| Loans held for investment transferred to other real estate owned | 6 | 15 | 12 |
| Loans held for investment reclassified to loans held for sale, net | 25 | 50 | 5 |
| AFS securities purchased, not settled | 5 | 395 | — |
| Adjusted cost of HTM securities reclassified as AFS securities | — | — | 79 |

*See accompanying notes to consolidated financial statements.*

*ZIONS BANCORPORATION AND SUBSIDIARIES*

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2017

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### *Business*

Zions Bancorporation ("the Parent") 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; California Bank & Trust ("CB&T"); Amegy Bank ("Amegy"), in Texas; 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 ("TCBO") in Oregon. Pursuant to a Board resolution adopted November 21, 2014, TCBO merged into TCBW effective March 31, 2015. The Parent also owns and operates certain nonbank subsidiaries that engage in financial services.

### *Basis of Financial Statement Presentation*

The consolidated financial statements include the accounts of the Parent and its majority-owned subsidiaries ("the Company," "we," "our," "us"). Unconsolidated investments where we have the ability to exercise significant influence over the operating and financial policies of the respective investee are accounted for using the equity method of accounting; those that are not consolidated or accounted for using the equity method of accounting are accounted for under cost or fair value accounting. All significant intercompany accounts and transactions have been eliminated in consolidation.

The consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") and prevailing practices within the financial services industry. References to GAAP, including standards promulgated by the Financial Accounting Standards Board ("FASB"), 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 ("EITF"). In certain cases, ASUs are issued jointly with International Financial Reporting Standards.

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. Certain prior year amounts have been reclassified to conform with the current year presentation. These reclassifications did not affect net income or shareholders' equity.

### *Variable Interest Entities*

A variable interest entity ("VIE") is consolidated when a company is the primary beneficiary of the VIE. Current accounting guidance requires continuous analysis on a qualitative rather than a quantitative basis to determine the primary beneficiary of a VIE. At the commencement of our involvement, and periodically thereafter, we consider our consolidation conclusions for all entities with which we are involved. As of December 31, 2017 and 2016, no VIEs have been consolidated in the Company's financial statements.

### *Statement of Cash Flows*

For purposes of presentation in the consolidated statements of cash flows, "cash and cash equivalents" are defined as those amounts included in cash and due from banks in the consolidated balance sheets.

### *Fair Value Estimates*

We measure many of our assets and liabilities on a fair value basis. Fair value is the price that could be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. To improve consistency and comparability in fair value measurements, GAAP has established a hierarchy to prioritize the valuation inputs among three levels. The Company prioritizes quoted prices in active markets, and minimizes reliance on unobservable inputs when possible. When observable market prices are not available, fair value is estimated using modeling techniques such as discounted cash flow analysis. These modeling techniques use assumptions that market participants would consider in pricing the asset or the liability, including assumptions about the risk inherent in a particular valuation technique, the effect of a restriction on the sale or use of an asset, the life of the asset and applicable growth rate, the risk of nonperformance, and other related assumptions. Changes in market conditions may reduce the availability of quoted prices or observable data. When market data is not available, the Company uses valuation techniques requiring more management judgment to estimate the appropriate fair value. See Note 3 of the Notes to Consolidated Financial Statements for further information regarding the use of fair value estimates.

***Security Resell Agreements***

Security resell agreements represent overnight and term agreements with the majority maturing within 30 days. These agreements are generally treated as collateralized financing transactions and are carried at amounts at which the securities were acquired plus accrued interest. Either the Company, or in some instances third parties on its behalf, take possession of the underlying securities. The fair value of such securities is monitored throughout the contract term to ensure that asset values remain sufficient to protect against counterparty default. We are permitted by contract to sell or repledge certain securities that we accept as collateral for security resell agreements. If sold, our obligation to return the collateral is recorded as "securities sold, not yet purchased" and included as a liability in "Federal funds and other short-term borrowings." At December 31, 2017, we held $287 million of securities for which we were permitted by contract to sell or repledge. Security resell agreements averaged $360 million during 2017, and the maximum amount outstanding at any month-end during 2017 was $1.8 billion.

***Investment Securities***

We classify our investment securities according to their purpose and holding period. Gains or losses on the sale of securities are recognized using the specific identification method and recorded in noninterest income.

Held-to-maturity ("HTM") debt securities are carried at amortized cost with purchase discounts or premiums accreted or amortized into interest income over the contractual life of the security. The Company has the intent and ability to hold such securities until maturity.

Available-for-sale ("AFS") securities are stated at fair value and generally consist of debt securities held for investment. Unrealized gains and losses of AFS securities, after applicable taxes, are recorded as a component of other comprehensive income ("OCI").

We review quarterly our investment securities portfolio for any declines in value that are considered to be other-than-temporary impairment ("OTTI"). The process, methodology, and factors considered to evaluate securities for OTTI are discussed further in Note 5.

Trading securities are stated at fair value and consist of securities acquired for short-term appreciation or other trading purposes. Realized and unrealized gains and losses are recorded in trading income, which is included in "Capital markets and foreign exchange."

The fair values of investment securities, as estimated under current accounting guidance, are discussed in Note 3.

***Loans and Allowance for Credit Losses***

Loans are reported at the principal amount outstanding, net of unearned income. Unearned income, which includes deferred fees net of deferred direct loan origination costs, is amortized to interest income over the life of the loan using the interest method. Interest income is recognized on an accrual basis.

At the time of origination, we determine whether loans will be held for investment or held for sale. We may subsequently change our intent to hold loans for investment and reclassify them as held for sale. Loans held for sale are carried at the lower of aggregate cost or fair value. A valuation allowance is recorded when cost exceeds fair value based on reviews at the time of reclassification and periodically thereafter. Gains and losses are recorded in noninterest income based on the difference between sales proceeds and carrying value.

We evaluate loans throughout their lives for signs of credit deterioration, which may impact the loan's status, and potentially impact our accounting for that loan. Loan status categories include past due as to contractual payments, nonaccrual, impaired, and restructured (including troubled debt restructurings ("TDRs")). Our accounting policies for these loan statuses and our estimation of the related allowance for loan losses ("ALLL") are discussed further in Note 6.

In the ordinary course of business, we transfer portions of loans under participation agreements to manage credit risk and our portfolio concentration. We evaluate the loan participations to determine if they meet the appropriate accounting guidance to qualify as sales. Certain purchased loans require separate accounting procedures that are also discussed in Note 6.

The allowance for credit losses ("ACL") includes the ALLL and the reserve for unfunded lending commitments ("RULC"), and represents our estimate of losses inherent in the loan portfolio that may be recognized from loans and lending commitments that are not recoverable. Further discussion of our estimation process for the ACL is included in Note 6.

***Other Noninterest-Bearing Investments***

These investments include investments in private equity funds (referred to in this document as private equity investments "PEIs"), venture capital securities, securities acquired for various debt and regulatory requirements, bank-owned life insurance, and certain other noninterest-bearing investments. See further discussions in Notes 5, 15 and 3.

Certain PEIs and venture capital securities are accounted for under the equity method and reported at fair value. Changes in fair value and gains and losses from sales are recognized in noninterest income. The values assigned to the securities where no market quotations exist are based upon available information and may not necessarily represent amounts that will ultimately be realized. Such estimated amounts depend on future circumstances and will not be realized until the individual securities are liquidated.

Bank-owned life insurance is accounted for at fair value based on the cash surrender values ("CSVs") of the general account insurance policies. A third party service provides these values.

Other PEIs and those acquired for various debt and regulatory requirements are accounted for at cost. Periodic reviews are conducted for impairment by comparing carrying values with estimates of fair value determined according to the previous discussion.

***Premises, Equipment and Software, Net***

Premises, equipment and software are stated at cost, net of accumulated depreciation and amortization. Depreciation, computed primarily on the straight-line method, is charged to operations over the estimated useful lives of the properties, generally 25 to 40 years for buildings, 3 to 10 years for furniture and equipment, and 3 to 10 years for software, including capitalized costs related to the Company's technology initiatives. Leasehold improvements are amortized over the terms of the respective leases or the estimated useful lives of the improvements, whichever is shorter.

***Goodwill and Identifiable Intangible Assets***

Goodwill and intangible assets deemed to have indefinite lives are not amortized. We subject these assets to annual specified impairment tests as of the beginning of the fourth quarter and more frequently if changing conditions warrant. Core deposit assets and other intangibles with finite useful lives are generally amortized on an accelerated basis using an estimated useful life of up to 12 years.

### *Business Combinations*

Business combinations are accounted for under the acquisition method of accounting. Upon initially obtaining control, we recognize 100% of all acquired assets and all assumed liabilities regardless of the percentage owned. The assets and liabilities are recorded at their estimated fair values, with goodwill being recorded when such fair values are less than the cost of acquisition. Certain transaction and restructuring costs are expensed as incurred. Changes to estimated fair values from a business combination are recognized as an adjustment to goodwill over the measurement period, which cannot exceed one year from the acquisition date. Results of operations of the acquired business are included in our statement of income from the date of acquisition.

### *Other Real Estate Owned*

Other real estate owned ("OREO") consists principally of commercial and residential real estate obtained in partial or total satisfaction of loan obligations. Amounts are recorded initially at fair value (less any selling costs) based on property appraisals at the time of transfer and subsequently at the lower of cost or fair value (less any selling costs).

### *Derivative Instruments*

We use derivative instruments, including interest rate swaps and floors and basis swaps, as part of our overall interest rate risk management strategy. These instruments enable us to manage to desired asset and liability duration and to reduce interest rate risk exposure by matching estimated repricing periods of interest-sensitive assets and liabilities. We also execute derivative instruments with commercial banking customers to facilitate their risk management strategies. These derivatives are immediately hedged by offsetting derivatives with third parties such that we minimize our net risk exposure as a result of such transactions. We record all derivatives at fair value in the balance sheet as either other assets or other liabilities. See further discussion in Note 7.

### *Commitments and Letters of Credit*

In the ordinary course of business, we enter into commitments to extend credit, commercial letters of credit, and standby letters of credit. Such financial instruments are recorded in the financial statements when they become payable. The credit risk associated with these commitments is evaluated in a manner similar to the ALLL. The RULC is presented separately in the balance sheet.

### *Revenue Recognition*

Service charges and fees on deposit accounts are recognized in accordance with published deposit account agreements for customer accounts or contractual agreements for commercial accounts. Other service charges, commissions and fees include interchange fees, bank services, and other fees, which are generally recognized at the time of transaction or as the services are performed.

### *Share-Based Compensation*

Share-based compensation generally includes grants of stock options, restricted stock, restricted stock units ("RSUs"), and other awards to employees and non-employee directors. We recognize compensation expense in the statement of income based on the grant-date value of the associated share-based awards. See further discussion in Note 17.

### *Income Taxes*

Deferred tax assets and liabilities are determined based on temporary differences between financial statement asset and liability amounts and their respective tax bases, and are measured using enacted tax laws and rates. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred tax assets are recognized subject to management's judgment that realization is more likely than not. Unrecognized tax benefits for uncertain tax positions relate primarily to state tax contingencies. See further discussion in Note 18.

### *Net Earnings Per Common Share*

Net earnings per common share is based on net earnings applicable to common shareholders, which is net of preferred stock dividends. Basic net earnings per common share is based on the weighted average outstanding common shares during each year. Unvested share-based awards with rights to receive nonforfeitable dividends are considered participating securities and included in the computation of basic earnings per share. Diluted net earnings per common share is based on the weighted average outstanding common shares during each year, including common stock equivalents. Stock options, restricted stock, RSUs, and stock warrants are converted to common stock equivalents using the treasury stock method. Diluted net earnings per common share excludes common stock equivalents whose effect is antidilutive. See further discussion in Note 19.

## 2. RECENT ACCOUNTING PRONOUNCEMENTS

| Standard | Description | Date of adoption | Effect on the financial statements or other significant matters |
|---|---|---|---|
| **Standards not adopted by the Company during 2017** | | | |
| *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 | Approximately 85% of our revenue, including all of our interest income and a portion of our noninterest income, is out of scope of the guidance. The contracts that are in scope of the guidance are primarily related to service charges and fees on deposit accounts, wealth management and trust income, and other service charges, commissions and fees. We have completed our review of these contracts and have not identified any material changes in the timing of revenue recognition. We adopted this guidance January 1, 2018 using the modified retrospective transition method. There was no material impact at adoption to the Company's consolidated financial statements. |
| 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:<br>– 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.<br>– Changes in instrument-specific credit risk for financial liabilities that are measured under the fair value option would be recognized in OCI.<br>– 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 | We do not have a significant amount of equity securities classified as AFS. Additionally, we do not have any financial liabilities accounted for under the fair value option. Therefore, the transition adjustment upon adoption of this guidance as of January 1, 2018 was not material. We are refining our valuation models to better account for an exit price, which will not change our financial statements, but will have an impact on our disclosures. |

| Standard | Description | Date of adoption | Effect on the financial statements or other significant matters |
|---|---|---|---|
| **Standards not adopted by the Company during 2017 (continued)** | | | |
| ASC 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvement to Accounting for Hedging Activities* | 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 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. | January 1, 2018 | We early adopted this guidance as of January 1, 2018. The adoption of this guidance did not have a material impact on our consolidated financial statements at transition. |
| ASU 2016-02, *Leases (Topic 842)* | The standard requires that a lessee recognize assets and liabilities for leases with lease terms of more than 12 months. For leases with a term of 12 months or less, 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 primarily will depend on its classification as a finance or operating lease. However, the standard will require both types of leases to be recognized on the balance sheet. It 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 initial 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 HTM securities that are measured at amortized cost. The standard requires credit losses relating to AFS debt securities to be recorded through an ACL rather than a reduction of the carrying amount. It also changes the accounting for purchased credit-impaired ("PCI")debt securities and loans. The standard retains many of the current disclosure requirements in current GAAP and expands certain disclosure requirements. Early adoption of the guidance is permitted as of January 1, 2019. | 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 working on 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. |

| Standard | Description | Date of adoption | Effect on the financial statements or other significant matters |
|---|---|---|---|
| **Standards not adopted by the Company during 2017 (continued)** | | | |
| 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 during 2017** | | | |
| ASU 2016-09, *Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting* | The standard requires entities to recognize the income tax effects of share-based awards in the income statement when the awards vest or are settled (i.e. the additional paid-in capital pools will be eliminated). The guidance on employers' accounting for an employee's use of shares to satisfy the employer's statutory income tax withholding obligation and for forfeitures is changing. The standard also provides an entity the option to make an entity-wide accounting policy election to either estimate the number of awards that are expected to vest or account for forfeitures when they occur. | January 1, 2017 | Upon adoption of this ASU, there was no material impact from the cumulative effect adjustment to retained earnings. We elected to account for forfeitures when they occur and to reflect excess tax benefits in the operating section of the statement of cash flows on a prospective basis. |
| ASU 2018-02, *Income Statement —Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income* | The standard allows a one-time movement between Accumulated Other Comprehensive Income ("AOCI") and Retained Earnings to adjust for amounts that would otherwise be stranded in AOCI as a result of implementing changes due to the enactment of H.R. 1, known as the Tax Cuts and Jobs Act. The standard is effective for public companies for fiscal years beginning after December 15, 2018, with early adoption, including in an interim period, permitted. | December 31, 2017 | The Company adopted this standard for the 2017 fiscal year financial statements with a $25 million adjusting entry between AOCI and Retained Earnings. |

## 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. To measure fair value, a hierarchy has been established that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs. This hierarchy uses three levels of inputs to measure the fair value of assets and liabilities as follows:

Level 1 – Quoted prices in active markets for identical assets or liabilities in active markets that the Company has the ability to access;

Level 2 – Observable inputs other than Level 1 including quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in less active markets, observable inputs other than quoted prices that are used in the valuation of an asset or liability, and inputs that are derived principally from or corroborated by observable market data by correlation or other means; and

Level 3 – Unobservable inputs supported by little or no market activity for financial instruments whose value is determined by pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

The level in the fair value hierarchy within which the fair value measurement is classified is determined based on the lowest level input that is significant to the fair value measurement in its entirety. Market activity is presumed to be orderly in the absence of evidence of forced or disorderly sales, although such sales may still be indicative of fair value. Applicable accounting guidance precludes the use of blockage factors or liquidity adjustments due to the quantity of securities held by an entity.

We use fair value to measure certain assets and liabilities on a recurring basis when fair value is the primary measure for accounting. Fair value is used on a nonrecurring basis to measure certain assets when adjusting carrying values, such as the application of lower of cost or fair value accounting, including recognition of impairment on assets. Fair value is also used when providing required disclosures for certain financial instruments.

*Fair Value Policies and Procedures*

We have various policies, processes and controls in place to ensure that fair values are reasonably developed, reviewed and approved for use. These include a Securities Valuation Committee, comprised of executive management, that reviews and approves on a quarterly basis the key components of fair value estimation, including critical valuation assumptions for Level 3 modeling. A Model Risk Management Group conducts model validations, including internal models, and sets policies and procedures for revalidation, including the timing of revalidation.

*Third Party Service Providers*

We use a third party pricing service to measure fair value for approximately 92% of our AFS Level 2 securities. Fair value measurements for other AFS Level 2 securities generally use certain inputs corroborated by market data and include standard discounted cash flow analysis.

For Level 2 securities, the third party pricing service provides documentation on an ongoing basis that presents market corroborative data, including detail pricing information and market reference data. The documentation includes benchmark yields, reported trades, broker-dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, and reference data, including information from the vendor trading platform. We review, test and validate this information as appropriate. Absent observable trade data, we do not adjust prices from our third party sources.

The following describes the hierarchy designations, valuation methodologies, and key inputs to measure fair value on a recurring basis for designated financial instruments:

*Available-for-Sale*

*U.S. Treasury, Agencies and Corporations*

U.S. Treasury securities are measured under Level 1 using quoted market prices when available. U.S. agencies and corporations are measured under Level 2 generally using the previously discussed third party pricing service.

*Municipal Securities*

Municipal securities are measured under Level 2 generally using the third party pricing service or an internal model. Valuation inputs include Baa municipal curves, as well as Federal Home Loan Bank ("FHLB") and LIBOR swap curves. Our valuation methodology for non-rated municipal securities changed at year-end of

2015 to utilize more observable inputs, primarily municipal market yield curves, compared to our previous valuation method. The resulting values were determined to be Level 2.

*Money Market Mutual Funds and Other*

Money market mutual funds and other securities are measured under Level 1 or Level 2. For Level 1, quoted market prices are used which may include net asset values ("NAVs") or their equivalents. Level 2 valuations generally use quoted prices for similar securities.

*Trading Account*

Securities in the trading account are generally measured under Level 2 using third party pricing service providers as described previously.

*Bank-Owned Life Insurance*

Bank-owned life insurance ("BOLI") is measured under Level 2 according to CSVs of the insurance policies that are provided by a third party service. Nearly all policies are general account policies with CSVs based on the Company's claims on the assets of the insurance companies. The insurance companies' investments include predominantly fixed income securities consisting of investment-grade corporate bonds and various types of mortgage instruments. Management regularly reviews its BOLI investment performance, including concentrations among insurance providers.

*Private Equity Investments*

PEIs are measured under Level 3. The majority of these investments are held in Zions' Small Business Investment Company ("SBIC") and are early stage venture investments. The fair value measurements of these investments 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 15. Certain restrictions apply for the redemption of these investments and certain investments are prohibited by the Volcker Rule. See discussion in Notes 5 and 15.

*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.

*Deferred Compensation Plan Assets and Obligations*

Invested assets in the deferred compensation plan consist of shares of registered investment companies. These mutual funds are valued under Level 1 at quoted market prices, which represents the NAV of shares held by the plan at the end of the period.

*Derivatives*

Derivatives are measured according to their classification as either exchange-traded or over-the-counter. Exchange-traded derivatives consist of foreign currency exchange contracts measured under Level 1 because they are traded in active markets. Over-the-counter derivatives, including those for customers, consist of interest rate swaps and options. These derivatives are measured under Level 2 using third party services. Observable market inputs include yield curves (the LIBOR swap curve and relevant overnight index swap curves), foreign exchange rates, commodity prices, option volatilities, counterparty credit risk, and other related data. Credit valuation adjustments are required to reflect nonperformance risk for both the Company and the respective counterparty. These adjustments are determined generally by applying a credit spread to the total expected exposure of the derivative.

*Securities Sold, Not Yet Purchased*

Securities sold, not yet purchased, included in “Federal funds and other short-term borrowings” on the balance sheet, are measured under Level 1 using quoted market prices. If not available, quoted prices under Level 2 for similar securities are used.

***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)* | December 31, 2017 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| **ASSETS** | | | | |
| Investment securities: | | | | |
| Available-for-sale: | | | | |
| 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 related and other | | 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 |

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| *(In millions)* | December 31, 2016 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| **ASSETS** | | | | |
| Investment securities: | | | | |
| Available-for-sale: | | | | |
| U.S. Treasury, agencies and corporations | $ — | $ 12,009 | $ — | $ 12,009 |
| Municipal securities | | 1,154 | | 1,154 |
| Other debt securities | | 24 | | 24 |
| Money market mutual funds and other | 184 | 1 | | 185 |
| Total Available-for-sale | 184 | 13,188 | — | 13,372 |
| Trading account | | 115 | | 115 |
| Other noninterest-bearing investments: | | | | |
| Bank-owned life insurance | | 497 | | 497 |
| Private equity investments [1] | 18 | | 73 | 91 |
| Other assets: | | | | |
| Agriculture loan servicing and interest-only strips | | | 20 | 20 |
| Deferred compensation plan assets | 91 | | | 91 |
| Derivatives: | | | | |
| Interest rate related and other | | 4 | | 4 |
| Interest rate swaps for customers | | 49 | | 49 |
| Foreign currency exchange contracts | 11 | | | 11 |
| Total Assets | $ 304 | $ 13,853 | $ 93 | $ 14,250 |
| **LIABILITIES** | | | | |
| Securities sold, not yet purchased | $ 25 | $ — | $ — | $ 25 |
| Other liabilities: | | | | |
| Deferred compensation plan obligations | 91 | | | 91 |
| Derivatives: | | | | |
| Interest rate related and other | | 1 | | 1 |
| Interest rate swaps for customers | | 49 | | 49 |
| Foreign currency exchange contracts | 9 | | | 9 |
| Total Liabilities | $ 125 | $ 50 | $ — | $ 175 |

[1] *The level 1 PEIs amount relates to the portion of our SBIC investments that are now publicly traded.*

*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:

| | Level 3 Instruments | | | |
|---|---|---|---|---|
| | December 31, 2017 | | December 31, 2016 | |
| *(In millions)* | Private equity investments | Ag loan svcg and int-only strips | Private equity investments | Ag loan svcg and int-only strips |
| Balance at beginning of year | $ 73 | $ 20 | $ 58 | $ 14 |
| Securities gains, net | 7 | — | 6 | — |
| Other noninterest income | — | (1) | — | 6 |
| Purchases | 20 | — | 10 | — |
| Redemptions and paydowns | (5) | (1) | (1) | — |
| Balance at end of year | $ 95 | $ 18 | $ 73 | $ 20 |

No transfers of assets or liabilities occurred among Levels 1, 2 or 3 for 2017 and 2016.

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The preceding reconciling amounts using Level 3 inputs include the following realized gains/losses in the statement of income:

| *(In millions)* | Year Ended December 31, 2017 | Year Ended December 31, 2016 |
|---|---|---|
| Equity securities gains, net | $ 3 | $ 6 |

*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:

| | Fair value at December 31, 2017 | | | | Gains (losses) from fair value changes |
|---|---|---|---|---|---|
| *(In millions)* | Level 1 | Level 2 | Level 3 | Total | Year Ended December 31, 2017 |
| ASSETS | | | | | |
| Private equity investments, carried at cost | $ — | $ — | $ 1 | $ 1 | $ (1) |
| Impaired loans | — | 9 | — | 9 | (5) |
| Other real estate owned | — | — | — | — | — |
| Total | $ — | $ 9 | $ 1 | $ 10 | $ (6) |

| | Fair value at December 31, 2016 | | | | Gains (losses) from fair value changes |
|---|---|---|---|---|---|
| *(In millions)* | Level 1 | Level 2 | Level 3 | Total | Year Ended December 31, 2016 |
| ASSETS | | | | | |
| Private equity investments, carried at cost | $ — | $ — | $ 1 | $ 1 | $ (1) |
| Impaired loans | — | 52 | — | 52 | (36) |
| Other real estate owned | — | 1 | — | 1 | (2) |
| Total | $ — | $ 53 | $ 1 | $ 54 | $ (39) |

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.

We recognized net gains of $2 million in 2017 and $4 million in 2016 from the sale of OREO properties that had a carrying value at the time of sale of approximately $6 million in 2017 and $13 million in 2016. Previous to their sale in these years, we recognized an insignificant amount of impairment on these properties in 2017 and 2016.

PEIs 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 and $13 million at December 31, 2017 and 2016, respectively. Amounts of other noninterest-bearing investments carried at cost were $338 million and $211 million at December 31, 2017 and 2016, respectively, which were comprised of Federal Reserve and FHLB stock. PEIs accounted for using the equity method were $36 million at December 31, 2017 and $38 million at December 31, 2016.

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.

Measurement of fair value for collateral-dependent loans and OREO was based on third party appraisals that utilize one or more valuation techniques (income, market and/or cost approaches). Any adjustments to calculated fair value were made based on recently completed and validated third party appraisals, third party appraisal services, automated valuation services, or our informed judgment. Evaluations were made to determine that the appraisal process met the relevant concepts and requirements of applicable accounting guidance.

Automated valuation services may be used primarily for residential properties when values from any of the previous methods were not available within 90 days of the balance sheet date. These services use models based on market, economic, and demographic values. The use of these models has only occurred in a very few instances and the related property valuations have not been sufficiently significant to consider disclosure under Level 3 rather than Level 2.

Impaired loans that are not collateral-dependent were measured based on the present value of future cash flows discounted at the expected coupon rates over the lives of the loans. Because the loans were not discounted at market interest rates, the valuations do not represent fair value and have been excluded from the nonrecurring fair value balance in the preceding schedules.

### *Fair Value of Certain Financial Instruments*

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

| *(Dollar amounts in millions)* | December 31, 2017 | | | December 31, 2016 | | |
|---|---|---|---|---|---|---|
| | Carrying value | Estimated fair value | Level | Carrying value | Estimated fair value | Level |
| Financial assets: | | | | | | |
| Held-to-maturity investment securities | $ 770 | $ 762 | 2 | $ 868 | $ 850 | 2 |
| Loans and leases (including loans held for sale), net of allowance | 44,306 | 44,226 | 3 | 42,254 | 42,111 | 3 |
| Financial liabilities: | | | | | | |
| Time deposits | 3,115 | 3,099 | 2 | 2,757 | 2,744 | 2 |
| Other short-term borrowings | 3,600 | 3,600 | 2 | 500 | 500 | 2 |
| Long-term debt (less fair value hedges) | 383 | 402 | 2 | 535 | 552 | 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. Financial instruments for which carrying values approximate fair value include cash and due from banks, money market investments, demand, savings and money market deposits, federal funds purchased and other short-term borrowings, and security repurchase agreements. The estimated fair value of demand, savings and money market deposits is the amount payable on demand at the reporting date. Carrying value is used because the accounts have no stated maturity and the customer has the ability to withdraw funds immediately.

HTM investment securities primarily consist of municipal securities. They were measured at fair value according to the methodology previously discussed.

Loans are measured at fair value according to their status as nonimpaired or impaired. For nonimpaired loans, fair value is estimated by discounting future cash flows using the LIBOR yield curve adjusted by a factor which reflects the credit and interest rate risk inherent in the loan. These future cash flows are then reduced by the estimated "life-of-the-loan" aggregate credit losses in the loan portfolio. These adjustments for lifetime future credit losses are derived from the methods used to estimate the ALLL for our loan portfolio and are adjusted quarterly as necessary to reflect the most recent loss experience. Impaired loans that are collateral-dependent are already considered to be held at fair value. Impaired loans that are not collateral-dependent have future cash flows reduced by the estimated "life-of-the-loan" credit loss derived from methods used to estimate the ALLL for these loans. See Impaired Loans in Note 6 for details on the impairment measurement method for impaired loans. Loans, other than those held for sale, are not normally purchased and sold by the Company, and there are no active trading markets for most of this portfolio.

Time and foreign deposits, and any other short-term borrowings, are measured at fair value by discounting future cash flows using the LIBOR yield curve to the given maturity dates.

Long-term debt is measured at fair value based on actual market trades (i.e., an asset value) when available, or discounting cash flows to maturity using the LIBOR yield curve adjusted for credit spreads.

These fair value disclosures represent our best estimates based on relevant market information and information about the financial instruments. Fair value estimates are based on judgments regarding current economic conditions, future expected loss experience, risk characteristics of the various instruments, and other factors. These estimates are subjective in nature, involve uncertainties and matters of significant judgment, and cannot be determined with precision. Changes in these methodologies and assumptions could significantly affect the estimates.

## 4. OFFSETTING ASSETS AND LIABILITIES

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

| *(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 | (21) | (1) | 16 |
| Total assets | $ 847 | $ (295) | $ 552 | $ (21) | $ (1) | $ 530 |
| Liabilities: | | | | | | |
| Federal funds and other short-term borrowings | $ 5,271 | $ (295) | $ 4,976 | $ — | $ — | $ 4,976 |
| Derivatives (included in other liabilities) | 40 | — | 40 | (21) | (6) | 13 |
| Total liabilities | $ 5,311 | $ (295) | $ 5,016 | $ (21) | $ (6) | $ 4,989 |

| *(In millions)* | December 31, 2016 | | | | | |
|---|---|---|---|---|---|---|
| | | | | 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 | $ 568 | $ — | $ 568 | $ — | $ — | $ 568 |
| Derivatives (included in other assets) | 64 | — | 64 | (17) | — | 47 |
| Total assets | $ 632 | $ — | $ 632 | $ (17) | $ — | $ 615 |
| Liabilities: | | | | | | |
| Federal funds and other short-term borrowings | $ 827 | $ — | $ 827 | $ — | $ — | $ 827 |
| Derivatives (included in other liabilities) | 59 | — | 59 | (17) | (17) | 25 |
| Total liabilities | $ 886 | $ — | $ 886 | $ (17) | $ (17) | $ 852 |

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 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 as interest income in the period the principal is reduced. Note 3 discusses the process to estimate fair value for investment securities.

| | 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 |

| | December 31, 2016 | | | |
|---|---|---|---|---|
| *(In millions)* | Amortized cost | Gross unrealized gains | Gross unrealized losses | Estimated fair value |
| **Held-to-maturity** | | | | |
| Municipal securities | $ 868 | $ 5 | $ 23 | $ 850 |
| **Available-for-sale** | | | | |
| U.S. Treasury securities | — | — | — | — |
| U.S. Government agencies and corporations: | | | | |
| Agency securities | 1,846 | 2 | 9 | 1,839 |
| Agency guaranteed mortgage-backed securities | 7,986 | 7 | 110 | 7,883 |
| Small Business Administration loan-backed securities | 2,298 | 8 | 18 | 2,288 |
| Municipal securities | 1,182 | 1 | 29 | 1,154 |
| Other debt securities | 25 | — | 1 | 24 |
| Total available-for-sale debt securities | 13,337 | 18 | 167 | 13,188 |
| Money market mutual funds and other | 184 | — | — | 184 |
| Total available-for-sale | 13,521 | 18 | 167 | 13,372 |
| Total investment securities | $ 14,389 | $ 23 | $ 190 | $ 14,222 |

*Maturities*

The amortized cost and estimated fair value of investment debt securities are shown subsequently as of December 31, 2017 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.

| | Held-to-maturity | | Available-for-sale | |
|---|---|---|---|---|
| *(In millions)* | Amortized cost | Estimated fair value | Amortized cost | Estimated fair value |
| Due in one year or less | $ 180 | $ 90 | $ 2,499 | $ 2,054 |
| Due after one year through five years | 372 | 336 | 5,727 | 5,575 |
| Due after five years through ten years | 159 | 230 | 4,331 | 4,485 |
| Due after ten years | 59 | 106 | 2,684 | 2,975 |
| Total | $ 770 | $ 762 | $ 15,241 | $ 15,089 |

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:

| | December 31, 2017 | | | | | |
|---|---|---|---|---|---|---|
| | Less than 12 months | | 12 months or more | | Total | |
| *(In millions)* | 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 |

| | December 31, 2016 | | | | | |
|---|---|---|---|---|---|---|
| | Less than 12 months | | 12 months or more | | Total | |
| *(In millions)* | Gross unrealized losses | Estimated fair value | Gross unrealized losses | Estimated fair value | Gross unrealized losses | Estimated fair value |
| **Held-to-maturity** | | | | | | |
| Municipal securities | $ 15 | $ 467 | $ 8 | $ 61 | $ 23 | $ 528 |
| **Available-for-sale** | | | | | | |
| U.S. Government agencies and corporations: | | | | | | |
| Agency securities | 9 | 950 | — | 127 | 9 | 1,077 |
| Agency guaranteed mortgage-backed securities | 102 | 6,649 | 7 | 326 | 109 | 6,975 |
| Small Business Administration loan-backed securities | 3 | 527 | 16 | 841 | 19 | 1,368 |
| Municipal securities | 28 | 992 | — | 9 | 28 | 1,001 |
| Other | — | — | 2 | 14 | 2 | 14 |
| Total available-for-sale | 142 | 9,118 | 25 | 1,317 | 167 | 10,435 |
| Total | $ 157 | $ 9,585 | $ 33 | $ 1,378 | $ 190 | $ 10,963 |

At December 31, 2017 and 2016, respectively, 667 and 642 HTM and 2,262 and 2,398 AFS investment securities were in an unrealized loss position.

### ***Other-Than-Temporary Impairment***

*Ongoing Policy*

We review investment securities on a quarterly basis for the presence of OTTI. We assess whether OTTI is present when the fair value of a debt security is less than its amortized cost basis at the balance sheet date (the majority of the investment portfolio are debt securities). Under these circumstances, OTTI is considered to have occurred if (1) we have formed a documented intent to sell identified securities or initiated such sales; (2) it is "more likely than not" we will be required to sell the security before recovery of its amortized cost basis; or (3) the present value of expected cash flows is not sufficient to recover the entire amortized cost basis.

Noncredit-related OTTI in securities we intend to sell is recognized in earnings as is any credit-related OTTI in securities, regardless of our intent. Noncredit-related OTTI on AFS securities not expected to be sold is recognized in OCI. The amount of noncredit-related OTTI in a security is quantified as the difference in a security's amortized cost after adjustment for credit impairment, and its lower fair value. Presentation of OTTI is made in the statement of income on a gross basis with an offset for the amount of OTTI recognized in OCI.

Our OTTI evaluation process takes into consideration current market conditions; fair value in relationship to cost; extent and nature of change in fair value; severity and duration of the impairment; recent events specific to the issuer or industry; our assessment of the creditworthiness of the issuer, including external credit ratings, changes, recent downgrades, and trends; the cash flow priority position of the instrument that we hold in the case of structured securities; volatility of earnings and trends; current analysts' evaluations; all available information relevant to the collectability of debt securities; and other key measures. In addition, for AFS securities with fair values below amortized cost, we must determine if we intend to sell the securities or if it is more likely than not that we will be required to sell the securities before recovery of their amortized cost basis. For HTM securities, we must determine we have the ability to hold the securities to maturity. We consider any other relevant factors before concluding our evaluation for the existence of OTTI in our securities portfolio.

*Other-Than-Temporary Impairment Conclusions*

The Company did not recognize any OTTI on its investment securities portfolio during 2017. Unrealized losses relate to changes in interest rates subsequent to purchase and are not attributable to credit. At December 31, 2017, 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.

To determine the credit component of OTTI for all security types, we utilize projected cash flows. These cash flows are credit adjusted using, among other things, assumptions for default probability and loss severity. Certain other unobservable inputs such as prepayment rate assumptions are also utilized. In addition, certain internal models may be utilized. See Note 3 for further discussion. To determine the credit-related portion of OTTI in accordance with applicable accounting guidance, we use the security specific effective interest rate when estimating the present value of cash flows.

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

| | 2017 | | 2016 | | 2015 | |
|---|---|---|---|---|---|---|
| *(In millions)* | Gross gains | Gross losses | Gross gains | Gross losses | Gross gains | Gross losses |
| Investment securities: | | | | | | |
| Available-for-sale | $ — | $ — | $ — | $ — | $ 9 | $ 148 |
| Other noninterest-bearing investments | 22 | 8 | 21 | 14 | 25 | 13 |
| Total investments | 22 | 8 | 21 | 14 | 34 | 161 |
| Net gains (losses) | | $ 14 | | $ 7 | | $ (127) |
| Statement of income information: | | | | | | |
| Equity securities gains, net | | $ 14 | | $ 7 | | $ 12 |
| Fixed income securities gains (losses), net | | — | | — | | (139) |
| Net gains (losses) | | $ 14 | | $ 7 | | $ (127) |

Interest income by security type is as follows:

| *(In millions)* | 2017 | | | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Taxable** | **Nontaxable** | **Total** | **Taxable** | **Nontaxable** | **Total** | **Taxable** | **Nontaxable** | **Total** |
| Investment securities: | | | | | | | | | |
| Held-to-maturity | $ 10 | $ 13 | $ 23 | $ 10 | $ 13 | $ 23 | $ 13 | $ 11 | $ 24 |
| Available-for-sale | 277 | 24 | 301 | 166 | 12 | 178 | 95 | 3 | 98 |
| Trading | 2 | — | 2 | 3 | — | 3 | 2 | — | 2 |
| Total | $ 289 | $ 37 | $ 326 | $ 179 | $ 25 | $ 204 | $ 110 | $ 14 | $ 124 |

Investment securities with a carrying value of approximately $2.1 billion and $1.4 billion at December 31, 2017 and 2016, respectively, 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 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 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 $141 million at December 31, 2017, approximately $3 million remain prohibited by the Volcker Rule. At December 31, 2017, we have $31 million of unfunded commitments for PEIs, of which approximately $4 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 PEI in Note 3.

## 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)* | December 31, 2017 | December 31, 2016 |
|---|---|---|
| Loans held for sale | $ 44 | $ 172 |
| Commercial: | | |
| Commercial and industrial | $ 14,003 | $ 13,452 |
| Leasing | 364 | 423 |
| Owner-occupied | 7,288 | 6,962 |
| Municipal | 1,271 | 778 |
| Total commercial | 22,926 | 21,615 |
| Commercial real estate: | | |
| Construction and land development | 2,021 | 2,019 |
| Term | 9,103 | 9,322 |
| Total commercial real estate | 11,124 | 11,341 |
| Consumer: | | |
| Home equity credit line | 2,777 | 2,645 |
| 1-4 family residential | 6,662 | 5,891 |
| Construction and other consumer real estate | 597 | 486 |
| Bankcard and other revolving plans | 509 | 481 |
| Other | 185 | 190 |
| Total consumer | 10,730 | 9,693 |
| Total loans | $ 44,780 | $ 42,649 |

Loan balances are presented net of unearned income and fees, which amounted to $65 million at December 31, 2017 and $77 million at December 31, 2016.

Owner-occupied and commercial real estate loans include unamortized premiums of approximately $16 million at December 31, 2017 and $20 million at December 31, 2016.

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 $220 million at December 31, 2017, and $290 million at December 31, 2016.

Loans with a carrying value of approximately $25.6 billion at December 31, 2017 and $24.0 billion at December 31, 2016 have been pledged at the Federal Reserve and the FHLB of Des Moines as collateral for current and potential borrowings.

We sold loans totaling $0.9 billion in 2017, $1.4 billion in 2016, and $1.4 billion in 2015, 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 were $0.8 billion, $1.4 billion, and $1.4 billion, respectively.

The principal balance of sold loans for which we retain servicing was approximately $2.2 billion at December 31, 2017, and $2.0 billion at December 31, 2016, and $2.0 billion at December 31, 2015. Income from loans sold, excluding servicing, was $13 million in 2017, $18 million in 2016, and $18 million in 2015.

***Allowance for Credit Losses***

The ACL consists of the ALLL and the RULC.

*Allowance for Loan and Lease Losses*

The ALLL represents our estimate of probable and estimable losses inherent in the loan and lease portfolio as of the balance sheet date. Losses are charged to the ALLL when recognized. Generally, commercial and commercial real estate ("CRE") loans are charged off or charged down when they are determined to be uncollectible in whole or in part, or when 180 days past due unless the loan is well secured and in process of collection. Consumer loans are either charged off or charged down to net realizable value no later than the month in which they become 180 days past due. Closed-end consumer loans that are not secured by residential real estate are either charged off or charged down to net realizable value no later than the month in which they become 120 days past due. We establish the amount of the ALLL by analyzing the portfolio at least quarterly, and we adjust the provision for loan losses so the ALLL is at an appropriate level at the balance sheet date.

We determine our ALLL as the best estimate within a range of estimated losses. The methodologies we use to estimate the ALLL depend upon the impairment status and loan portfolio. The methodology for impaired loans is discussed subsequently. For commercial and CRE loans with commitments greater than $1 million, we assign internal risk grades using a comprehensive loan grading system based on financial and statistical models, individual credit analysis, and loan officer experience and judgment. The credit quality indicators discussed subsequently are based on this grading system. Estimated losses for these commercial and CRE loans are derived from a statistical analysis of our historical default and loss given default ("LGD") experience over the period of January 2008 through the most recent full quarter.

For consumer and small commercial and CRE loans with commitments less than or equal to $1 million, we primarily use roll rate models to forecast probable inherent losses. Roll rate models measure the rate at which these loans migrate from one delinquency category to the next worse delinquency category, and eventually to loss. We estimate roll rates for these loans using recent delinquency and loss experience by segmenting our loan portfolios into separate pools based on common risk characteristics and separately calculating historical delinquency and loss experience for each pool. These roll rates are then applied to current delinquency levels to estimate probable inherent losses.

The current status and historical changes in qualitative and environmental factors may not be reflected in our quantitative models. Thus, after applying historical loss experience, as described above, we review the quantitatively derived level of ALLL for each segment using qualitative criteria and use those criteria to determine our qualitative estimate. We track various risk factors that influence our judgment regarding the level of the ALLL across the portfolio segments. These factors primarily include:

- Changes in lending policies and procedures, including changes in underwriting standards and collection, charge-off, and recovery practices;
- Changes in international, national, regional, and local economic and business conditions;
- Changes in the nature and volume of the portfolio and in the terms of loans;
- Changes in the experience, ability, and depth of lending management and other relevant staff;
- Changes in the volume and severity of past due loans, the volume of nonaccrual loans, and the volume and severity of adversely classified or graded loans;
- Changes in the quality of the loan review system;
- Changes in the value of underlying collateral for collateral-dependent loans;
- The existence and effect of any concentration of credit, and changes in the level of such concentrations;

- The effect of other external factors such as competition and legal and regulatory requirements;

The magnitude of the impact of these factors on our qualitative assessment of the ALLL changes from quarter to quarter according to changes made by management in its assessment of these factors, the extent these factors are already reflected in historic loss rates, and the extent changes in these factors diverge from one to another. We also consider the uncertainty inherent in the estimation process when evaluating the ALLL.

*Reserve for Unfunded Lending Commitments*

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. The loss factors used in the RULC are the same as the loss factors used in the ALLL, and the qualitative adjustments used in the RULC are the same as the qualitative adjustments used in the ALLL. We adjust the Company's unfunded lending commitments that are not unconditionally cancelable to an outstanding amount equivalent using credit conversion factors, and we apply the loss factors to the outstanding equivalents.

*Changes in Allowance for Credit Losses Assumptions*

During the first quarter of 2016, due to the consolidation of our separate banking charters, we enhanced our methodology to estimate the ACL on a company-wide basis. As described previously, for large commercial and CRE loans, we began estimating historic loss factors by separately calculating historic default and LGD rates, instead of directly calculating loss rates for groupings of probability of default and LGD grades using a loss migration approach. For small commercial and CRE loans, we began using roll rate models to estimate probable inherent losses. For consumer loans, we began pooling loans by current loan-to-value, where applicable. The impact of these changes was largely neutral to the total ACL at implementation.

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

| | December 31, 2017 | | | |
|---|---|---|---|---|
| ***(In millions)*** | **Commercial** | **Commercial real estate** | **Consumer** | **Total** |
| **Allowance for loan losses** | | | | |
| Balance at beginning of year | $ 420 | $ 116 | $ 31 | $ 567 |
| Additions: | | | | |
| Provision for loan losses | 23 | (18) | 19 | 24 |
| Deductions: | | | | |
| Gross loan and lease charge-offs | (118) | (9) | (17) | (144) |
| Recoveries | 46 | 14 | 11 | 71 |
| Net loan and lease (charge-offs) recoveries | (72) | 5 | (6) | (73) |
| Balance at end of year | $ 371 | $ 103 | $ 44 | $ 518 |
| **Reserve for unfunded lending commitments** | | | | |
| Balance at beginning of year | $ 54 | $ 11 | $ — | $ 65 |
| Provision credited to earnings | (6) | (1) | — | (7) |
| Balance at end of year | $ 48 | $ 10 | $ — | $ 58 |
| **Total allowance for credit losses** | | | | |
| Allowance for loan losses | $ 371 | $ 103 | $ 44 | $ 518 |
| Reserve for unfunded lending commitments | 48 | 10 | — | 58 |
| Total allowance for credit losses | $ 419 | $ 113 | $ 44 | $ 576 |

| *(In millions)* | December 31, 2016 Commercial | Commercial real estate | Consumer | Total |
|---|---|---|---|---|
| **Allowance for loan losses** | | | | |
| Balance at beginning of year | $ 454 | $ 114 | $ 38 | $ 606 |
| Additions: | | | | |
| Provision for loan losses | 93 | — | — | 93 |
| Deductions: | | | | |
| Gross loan and lease charge-offs | (170) | (12) | (16) | (198) |
| Recoveries | 43 | 14 | 9 | 66 |
| Net loan and lease charge-offs | (127) | 2 | (7) | (132) |
| Balance at end of year | $ 420 | $ 116 | $ 31 | $ 567 |
| **Reserve for unfunded lending commitments** | | | | |
| Balance at beginning of year | $ 58 | $ 16 | $ 1 | $ 75 |
| Provision credited to earnings | (4) | (5) | (1) | (10) |
| Balance at end of year | $ 54 | $ 11 | $ — | $ 65 |
| **Total allowance for credit losses** | | | | |
| Allowance for loan losses | $ 420 | $ 116 | $ 31 | $ 567 |
| Reserve for unfunded lending commitments | 54 | 11 | — | 65 |
| Total allowance for credit losses | $ 474 | $ 127 | $ 31 | $ 632 |

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

| *(In millions)* | December 31, 2017 Commercial | Commercial real estate | Consumer | Total |
|---|---|---|---|---|
| **Allowance for loan losses** | | | | |
| Individually evaluated for impairment | $ 26 | $ 1 | $ 4 | $ 31 |
| Collectively evaluated for impairment | 345 | 102 | 40 | 487 |
| Purchased loans with evidence of credit deterioration | — | — | — | — |
| Total | $ 371 | $ 103 | $ 44 | $ 518 |
| **Outstanding loan balances** | | | | |
| Individually evaluated for impairment | $ 314 | $ 69 | $ 76 | $ 459 |
| Collectively evaluated for impairment | 22,598 | 11,048 | 10,648 | 44,294 |
| Purchased loans with evidence of credit deterioration | 14 | 7 | 6 | 27 |
| Total | $ 22,926 | $ 11,124 | $ 10,730 | $ 44,780 |

| (In millions) | December 31, 2016 Commercial | Commercial real estate | Consumer | Total |
|---|---|---|---|---|
| **Allowance for loan losses** | | | | |
| Individually evaluated for impairment | $ 56 | $ 3 | $ 6 | $ 65 |
| Collectively evaluated for impairment | 364 | 113 | 25 | 502 |
| Purchased loans with evidence of credit deterioration | — | — | — | — |
| Total | $ 420 | $ 116 | $ 31 | $ 567 |
| **Outstanding loan balances** | | | | |
| Individually evaluated for impairment | $ 466 | $ 78 | $ 75 | $ 619 |
| Collectively evaluated for impairment | 21,111 | 11,231 | 9,611 | 41,953 |
| Purchased loans with evidence of credit deterioration | 38 | 32 | 7 | 77 |
| Total | $ 21,615 | $ 11,341 | $ 9,693 | $ 42,649 |

### *Nonaccrual and Past Due Loans*

Loans are generally placed on nonaccrual status when payment in full of principal and interest is not expected, or the loan is 90 days or more past due as to principal or interest, unless the loan is both well secured and in the process of collection. Factors we consider in determining whether a loan is placed on nonaccrual include delinquency status, collateral-value, borrower or guarantor financial statement information, bankruptcy status, and other information which would indicate that the full and timely collection of interest and principal is uncertain.

A nonaccrual loan may be returned to accrual status when all delinquent interest and principal become current in accordance with the terms of the loan agreement; the loan, if secured, is well secured; the borrower has paid according to the contractual terms for a minimum of six months; and analysis of the borrower indicates a reasonable assurance of the ability and willingness to maintain payments. Payments received on nonaccrual loans are applied as a reduction to the principal outstanding.

Closed-end loans with payments scheduled monthly are reported as past due when the borrower is in arrears for two or more monthly payments. Similarly, open-end credit such as charge-card plans and other revolving credit plans are reported as past due when the minimum payment has not been made for two or more billing cycles. Other multi-payment obligations (i.e., quarterly, semiannual, etc.), single payment, and demand notes are reported as past due when either principal or interest is due and unpaid for a period of 30 days or more.

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Nonaccrual loans are summarized as follows:

| (In millions) | December 31, 2017 | 2016 |
|---|---|---|
| Loans held for sale | $ 12 | $ 40 |
| Commercial: | | |
| Commercial and industrial | $ 195 | $ 354 |
| Leasing | 8 | 14 |
| Owner-occupied | 90 | 74 |
| Municipal | 1 | 1 |
| Total commercial | 294 | 443 |
| Commercial real estate: | | |
| Construction and land development | 4 | 7 |
| Term | 36 | 29 |
| Total commercial real estate | 40 | 36 |
| Consumer: | | |
| Home equity credit line | 13 | 11 |
| 1-4 family residential | 55 | 36 |
| Construction and other consumer real estate | — | 2 |
| Bankcard and other revolving plans | — | 1 |
| Other | — | — |
| Total consumer loans | 68 | 50 |
| Total | $ 402 | $ 529 |

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

| (In millions) | December 31, 2017 Current | 30-89 days past due | 90+ days past due | Total past due | Total loans | Accruing loans 90+ days past due | Nonaccrual loans that are current[1] |
|---|---|---|---|---|---|---|---|
| Loans held for sale | $ 44 | $ — | $ — | $ — | $ 44 | $ — | $ 12 |
| Commercial: | | | | | | | |
| Commercial and industrial | $ 13,887 | $ 60 | $ 56 | $ 116 | $ 14,003 | $ 13 | $ 146 |
| Leasing | 363 | 1 | — | 1 | 364 | — | 8 |
| Owner-occupied | 7,219 | 29 | 40 | 69 | 7,288 | 4 | 49 |
| Municipal | 1,271 | — | — | — | 1,271 | — | 1 |
| Total commercial | 22,740 | 90 | 96 | 186 | 22,926 | 17 | 204 |
| Commercial real estate: | | | | | | | |
| Construction and land development | 2,014 | 3 | 4 | 7 | 2,021 | — | — |
| Term | 9,079 | 13 | 11 | 24 | 9,103 | 2 | 25 |
| Total commercial real estate | 11,093 | 16 | 15 | 31 | 11,124 | 2 | 25 |
| Consumer: | | | | | | | |
| Home equity credit line | 2,763 | 9 | 5 | 14 | 2,777 | — | 5 |
| 1-4 family residential | 6,621 | 16 | 25 | 41 | 6,662 | 1 | 27 |
| Construction and other consumer real estate | 590 | 6 | 1 | 7 | 597 | 1 | — |
| Bankcard and other revolving plans | 506 | 2 | 1 | 3 | 509 | 1 | — |
| Other | 184 | 1 | — | 1 | 185 | — | — |
| Total consumer loans | 10,664 | 34 | 32 | 66 | 10,730 | 3 | 32 |
| Total | $ 44,497 | $ 140 | $ 143 | $ 283 | $ 44,780 | $ 22 | $ 261 |

| (In millions) | December 31, 2016 Current | 30-89 days past due | 90+ days past due | Total past due | Total loans | Accruing loans 90+ days past due | Nonaccrual loans that are current[1] |
|---|---|---|---|---|---|---|---|
| Loans held for sale | $ 172 | $ — | $ — | $ — | $ 172 | $ — | $ 40 |
| Commercial: | | | | | | | |
| Commercial and industrial | $ 13,306 | $ 72 | $ 74 | $ 146 | $ 13,452 | $ 10 | $ 287 |
| Leasing | 423 | — | — | — | 423 | — | 14 |
| Owner-occupied | 6,894 | 40 | 28 | 68 | 6,962 | 8 | 43 |
| Municipal | 778 | — | — | — | 778 | — | 1 |
| Total commercial | 21,401 | 112 | 102 | 214 | 21,615 | 18 | 345 |
| Commercial real estate: | | | | | | | |
| Construction and land development | 2,010 | 7 | 2 | 9 | 2,019 | 1 | 1 |
| Term | 9,291 | 9 | 22 | 31 | 9,322 | 12 | 18 |
| Total commercial real estate | 11,301 | 16 | 24 | 40 | 11,341 | 13 | 19 |
| Consumer: | | | | | | | |
| Home equity credit line | 2,635 | 4 | 6 | 10 | 2,645 | 1 | 5 |
| 1-4 family residential | 5,857 | 12 | 22 | 34 | 5,891 | — | 11 |
| Construction and other consumer real estate | 479 | 3 | 4 | 7 | 486 | 3 | — |
| Bankcard and other revolving plans | 478 | 2 | 1 | 3 | 481 | 1 | 1 |
| Other | 189 | 1 | — | 1 | 190 | — | — |
| Total consumer loans | 9,638 | 22 | 33 | 55 | 9,693 | 5 | 17 |
| Total | $ 42,340 | $ 150 | $ 159 | $ 309 | $ 42,649 | $ 36 | $ 381 |

[1] *Represents nonaccrual loans that are not past due more than 30 days; however, full payment of principal and interest is still not expected.*

### *Credit Quality Indicators*

In addition to the past due and nonaccrual criteria, we also analyze loans using loan risk grading systems, which vary based on the size and type of credit risk exposure. The internal risk grades assigned to loans follow our definitions of Pass, Special Mention, Substandard, and Doubtful, which are consistent with published definitions of regulatory risk classifications.

Definitions of Pass, Special Mention, Substandard, and Doubtful are summarized as follows:

*Pass* – A Pass asset is higher quality and does not fit any of the other categories described below. The likelihood of loss is considered low.

*Special Mention* – A Special Mention asset has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the Bank's credit position at some future date.

*Substandard* – A Substandard asset is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Assets so classified have well-defined weaknesses and are characterized by the distinct possibility that the Bank may sustain some loss if deficiencies are not corrected.

*Doubtful* – A Doubtful asset has all the weaknesses inherent in a Substandard asset with the added characteristics that the weaknesses make collection or liquidation in full highly questionable and improbable.

We generally assign internal risk grades to commercial and CRE loans with commitments greater than $1 million based on financial and statistical models, individual credit analysis, and loan officer experience and judgment. For these larger loans, we assign one of multiple grades within the Pass classification or one of the following four grades: Special Mention, Substandard, Doubtful, and Loss. Loss indicates that the outstanding balance has been charged off. We confirm our internal risk grades quarterly, or as soon as we identify information that affects the credit risk of the loan.

For consumer loans and certain small commercial and CRE loans with commitments less than or equal to $1 million, we generally assign internal risk grades similar to those described previously based on automated rules that depend on refreshed credit scores, payment performance, and other risk indicators. These are generally assigned either a Pass or Substandard grade and are reviewed as we identify information that might warrant a grade change.

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

| | December 31, 2017 | | | | | |
|---|---|---|---|---|---|---|
| *(In millions)* | Pass | Special mention | Sub-standard | Doubtful | Total loans | Total allowance |
| Commercial: | | | | | | |
| Commercial and industrial | $ 13,001 | $ 395 | $ 606 | $ 1 | $ 14,003 | |
| Leasing | 342 | 6 | 16 | — | 364 | |
| Owner-occupied | 6,920 | 93 | 275 | — | 7,288 | |
| Municipal | 1,257 | 13 | 1 | — | 1,271 | |
| Total commercial | 21,520 | 507 | 898 | 1 | 22,926 | $ 371 |
| Commercial real estate: | | | | | | |
| Construction and land development | 2,002 | 15 | 4 | — | 2,021 | |
| Term | 8,816 | 138 | 149 | — | 9,103 | |
| Total commercial real estate | 10,818 | 153 | 153 | — | 11,124 | 103 |
| Consumer: | | | | | | |
| Home equity credit line | 2,759 | — | 18 | — | 2,777 | |
| 1-4 family residential | 6,602 | — | 60 | — | 6,662 | |
| Construction and other consumer real estate | 596 | — | 1 | — | 597 | |
| Bankcard and other revolving plans | 507 | — | 2 | — | 509 | |
| Other | 185 | — | — | — | 185 | |
| Total consumer loans | 10,649 | — | 81 | — | 10,730 | 44 |
| Total | $ 42,987 | $ 660 | $ 1,132 | $ 1 | $ 44,780 | $ 518 |

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| (In millions) | December 31, 2016 Pass | Special mention | Sub-standard | Doubtful | Total loans | Total allowance |
|---|---|---|---|---|---|---|
| Commercial: | | | | | | |
| Commercial and industrial | $ 12,185 | $ 266 | $ 998 | $ 3 | $ 13,452 | |
| Leasing | 387 | 5 | 30 | 1 | 423 | |
| Owner-occupied | 6,560 | 96 | 306 | — | 6,962 | |
| Municipal | 765 | 7 | 6 | — | 778 | |
| Total commercial | 19,897 | 374 | 1,340 | 4 | 21,615 | $ 420 |
| Commercial real estate: | | | | | | |
| Construction and land development | 1,942 | 52 | 25 | — | 2,019 | |
| Term | 9,096 | 82 | 144 | — | 9,322 | |
| Total commercial real estate | 11,038 | 134 | 169 | — | 11,341 | 116 |
| Consumer: | | | | | | |
| Home equity credit line | 2,629 | — | 16 | — | 2,645 | |
| 1-4 family residential | 5,851 | — | 40 | — | 5,891 | |
| Construction and other consumer real estate | 482 | — | 4 | — | 486 | |
| Bankcard and other revolving plans | 478 | — | 3 | — | 481 | |
| Other | 189 | — | 1 | — | 190 | |
| Total consumer loans | 9,629 | — | 64 | — | 9,693 | 31 |
| Total | $ 40,564 | $ 508 | $ 1,573 | $ 4 | $ 42,649 | $ 567 |

### *Impaired Loans*

Loans are considered impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due in accordance with the contractual terms of the loan agreement, including scheduled interest payments. For our non-purchased credit-impaired loans, if a nonaccrual loan has a balance greater than $1 million, or if a loan is a TDR, including TDRs that subsequently default, or if the loan is no longer reported as a TDR, we individually evaluate the loan for impairment and estimate a specific reserve for the loan for all portfolio segments under applicable accounting guidance. Smaller nonaccrual loans are pooled for ALLL estimation purposes. PCI loans are included in impaired loans and are accounted for under separate accounting guidance. See subsequent discussion under Purchased Loans.

When a loan is impaired, we estimate a specific reserve for the loan based on the projected present value of the loan's future cash flows discounted at the loan's effective interest rate, the observable market price of the loan, or the fair value of the loan's underlying collateral. The process of estimating future cash flows also incorporates the same determining factors discussed previously under nonaccrual loans. When we base the impairment amount on the fair value of the loan's underlying collateral, we generally charge-off the portion of the balance that is impaired, such that these loans do not have a specific reserve in the ALLL. Payments received on impaired loans that are accruing are recognized in interest income, according to the contractual loan agreement. Payments received on impaired loans that are on nonaccrual are not recognized in interest income, but are applied as a reduction to the principal outstanding. The amount of interest income recognized on a cash basis during the time the loans were impaired within the years ended December 31, 2017 and 2016 was not significant.

Information on impaired loans individually evaluated is summarized as follows, including the average recorded investment and interest income recognized for the years ended December 31, 2017 and 2016:

| | December 31, 2017 | | | | | Year Ended December 31, 2017 | |
|---|---|---|---|---|---|---|---|
| | | Recorded investment | | | | | |
| *(In millions)* | Unpaid principal balance | with no allowance | with allowance | Total recorded investment | Related allowance | Average recorded investment | Interest income recognized |
| Commercial: | | | | | | | |
| Commercial and industrial | $ 293 | $ 80 | $ 142 | $ 222 | $ 24 | $ 289 | $ 6 |
| Owner-occupied | 120 | 79 | 23 | 102 | 2 | 97 | 6 |
| Municipal | 1 | 1 | — | 1 | — | 1 | — |
| Total commercial | 414 | 160 | 165 | 325 | 26 | 387 | 12 |
| Commercial real estate: | | | | | | | |
| Construction and land development | 8 | 4 | 2 | 6 | — | 8 | — |
| Term | 56 | 36 | 12 | 48 | — | 49 | 12 |
| Total commercial real estate | 64 | 40 | 14 | 54 | — | 57 | 12 |
| Consumer: | | | | | | | |
| Home equity credit line | 25 | 13 | 9 | 22 | — | 21 | 1 |
| 1-4 family residential | 67 | 28 | 29 | 57 | 4 | 52 | 1 |
| Construction and other consumer real estate | 2 | 1 | 1 | 2 | — | 2 | — |
| Other | 1 | 1 | — | 1 | — | 1 | 1 |
| Total consumer loans | 95 | 43 | 39 | 82 | 4 | 76 | 3 |
| Total | $ 573 | $ 243 | $ 218 | $ 461 | $ 30 | $ 520 | $ 27 |

| | December 31, 2016 | | | | | Year Ended December 31, 2016 | |
|---|---|---|---|---|---|---|---|
| | | Recorded investment | | | | | |
| *(In millions)* | Unpaid principal balance | with no allowance | with allowance | Total recorded investment | Related allowance | Average recorded investment | Interest income recognized |
| Commercial: | | | | | | | |
| Commercial and industrial | $ 470 | $ 82 | $ 311 | $ 393 | $ 52 | $ 333 | $ 5 |
| Owner-occupied | 115 | 71 | 30 | 101 | 3 | 99 | 9 |
| Municipal | 1 | 1 | — | 1 | — | 1 | — |
| Total commercial | 586 | 154 | 341 | 495 | 55 | 433 | 14 |
| Commercial real estate: | | | | | | | |
| Construction and land development | 22 | 7 | 6 | 13 | — | 11 | 2 |
| Term | 92 | 53 | 17 | 70 | 2 | 76 | 13 |
| Total commercial real estate | 114 | 60 | 23 | 83 | 2 | 87 | 15 |
| Consumer: | | | | | | | |
| Home equity credit line | 24 | 16 | 7 | 23 | — | 22 | 1 |
| 1-4 family residential | 59 | 27 | 28 | 55 | 6 | 57 | 2 |
| Construction and other consumer real estate | 3 | 1 | 2 | 3 | — | 2 | — |
| Other | 2 | 1 | — | 1 | — | 2 | — |
| Total consumer loans | 88 | 45 | 37 | 82 | 6 | 83 | 3 |
| Total | $ 788 | $ 259 | $ 401 | $ 660 | $ 63 | $ 603 | $ 32 |

### *Modified and Restructured Loans*

Loans may be modified in the normal course of business for competitive reasons or to strengthen the Company's position. Loan modifications and restructurings may also occur when the borrower experiences financial difficulty and needs temporary or permanent relief from the original contractual terms of the loan. Loans that have been modified to accommodate a borrower who is experiencing financial difficulties, and for which the Company has granted a concession that it would not otherwise consider, are considered troubled debt restructurings ("TDRs").

We consider many factors in determining whether to agree to a loan modification involving concessions, and seek a solution that will both minimize potential loss to the Company and attempt to help the borrower. We evaluate borrowers' current and forecasted future cash flows, their ability and willingness to make current contractual or proposed modified payments, the value of the underlying collateral (if applicable), the possibility of obtaining additional security or guarantees, and the potential costs related to a repossession or foreclosure and the subsequent sale of the collateral.

TDRs are classified as either accrual or nonaccrual loans. A loan on nonaccrual and restructured as a TDR will remain on nonaccrual status until the borrower has proven the ability to perform under the modified structure for a minimum of six months, and there is evidence that such payments can and are likely to continue as agreed. Performance prior to the restructuring, or significant events that coincide with the restructuring, are included in assessing whether the borrower can meet the new terms and may result in the loan being returned to accrual at the time of restructuring or after a shorter performance period. If the borrower's ability to meet the revised payment schedule is uncertain, the loan remains classified as a nonaccrual loan. A TDR loan that specifies an interest rate that at the time of the restructuring is greater than or equal to the rate the Bank is willing to accept for a new loan with comparable risk may not be reported as a TDR or an impaired loan in the calendar years subsequent to the restructuring if it is in compliance with its modified terms.

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Selected information on TDRs at year-end that includes the recorded investment on an accruing and nonaccruing basis by loan class and modification type is summarized in the following schedules:

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

[1] *Includes TDRs that resulted from other modification types including, but not limited to, a legal judgment awarded on different terms, a bankruptcy plan confirmed on different terms, a settlement that includes the delivery of collateral in exchange for debt reduction, etc.*

[2] *Includes TDRs that resulted from a combination of any of the previous modification types.*

| (In millions) | December 31, 2016 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Recorded investment resulting from the following modification types: | | | | | | |
| | Interest rate below market | Maturity or term extension | Principal forgiveness | Payment deferral | Other[1] | Multiple modification types[2] | Total |
| **Accruing** | | | | | | | |
| Commercial: | | | | | | | |
| Commercial and industrial | $ — | $ 19 | $ — | $ — | $ — | $ 28 | $ 47 |
| Owner-occupied | 3 | — | 1 | — | 8 | 10 | 22 |
| Total commercial | 3 | 19 | 1 | — | 8 | 38 | 69 |
| Commercial real estate: | | | | | | | |
| Construction and land development | — | 4 | — | — | — | 4 | 8 |
| Term | 4 | — | — | 1 | 2 | 10 | 17 |
| Total commercial real estate | 4 | 4 | — | 1 | 2 | 14 | 25 |
| Consumer: | | | | | | | |
| Home equity credit line | — | 1 | 10 | — | — | 3 | 14 |
| 1-4 family residential | 3 | 1 | 6 | — | 2 | 30 | 42 |
| Construction and other consumer real estate | — | — | — | — | — | 1 | 1 |
| Total consumer loans | 3 | 2 | 16 | — | 2 | 34 | 57 |
| Total accruing | 10 | 25 | 17 | 1 | 12 | 86 | 151 |
| **Nonaccruing** | | | | | | | |
| Commercial: | | | | | | | |
| Commercial and industrial | 1 | — | — | 1 | 33 | 25 | 60 |
| Owner-occupied | — | 1 | — | 3 | 1 | 12 | 17 |
| Municipal | — | 1 | — | — | — | — | 1 |
| Total commercial | 1 | 2 | — | 4 | 34 | 37 | 78 |
| Commercial real estate: | | | | | | | |
| Construction and land development | — | — | — | — | 2 | — | 2 |
| Term | 2 | 1 | — | — | 2 | 3 | 8 |
| Total commercial real estate | 2 | 1 | — | — | 4 | 3 | 10 |
| Consumer: | | | | | | | |
| Home equity credit line | — | — | 1 | — | — | 1 | 2 |
| 1-4 family residential | — | — | 2 | — | 1 | 5 | 8 |
| Construction and other consumer real estate | — | — | — | 2 | — | — | 2 |
| Total consumer loans | — | — | 3 | 2 | 1 | 6 | 12 |
| Total nonaccruing | 3 | 3 | 3 | 6 | 39 | 46 | 100 |
| Total | $ 13 | $ 28 | $ 20 | $ 7 | $ 51 | $ 132 | $ 251 |

[1] *Includes TDRs that resulted from other modification types including, but not limited to, a legal judgment awarded on different terms, a bankruptcy plan confirmed on different terms, a settlement that includes the delivery of collateral in exchange for debt reduction, etc.*

[2] *Includes TDRs that resulted from a combination of any of the previous modification types.*

Unfunded lending commitments on TDRs amounted to approximately $22 million at December 31, 2017 and $14 million at December 31, 2016.

The total recorded investment of all TDRs in which interest rates were modified below market was $120 million at December 31, 2017 and $128 million at December 31, 2016, respectively. These loans are included in the previous schedule in the columns for interest rate below market and multiple modification types.

The net financial impact on interest income due to interest rate modifications below market for accruing TDRs is summarized in the following schedule:

| *(In millions)* | 2017 | 2016 |
|---|---|---|
| Consumer: | | |
| 1-4 family residential | $ (1) | $ (1) |
| Total consumer loans | (1) | (1) |
| Total decrease to interest income [1] | $ (1) | $ (1) |

[1] *Calculated based on the difference between the modified rate and the premodified rate applied to the recorded investment.*

On an ongoing basis, we monitor the performance of all TDRs according to their restructured terms. Subsequent payment default is defined in terms of delinquency, when principal or interest payments are past due 90 days or more for commercial loans, or 60 days or more for consumer loans.

The recorded investment of accruing and nonaccruing TDRs that had a payment default during the period listed below (and are still in default at year-end) and are within 12 months or less of being modified as TDRs is as follows:

| *(In millions)* | December 31, 2017 | | | December 31, 2016 | | |
|---|---|---|---|---|---|---|
| | Accruing | Nonaccruing | Total | Accruing | Nonaccruing | Total |
| Commercial: | | | | | | |
| Commercial and industrial | $ 1 | $ 3 | $ 4 | $ — | $ — | $ — |
| Owner-occupied | — | 1 | 1 | — | 1 | 1 |
| Total commercial | 1 | 4 | 5 | — | 1 | 1 |
| Consumer: | | | | | | |
| Construction and other consumer real estate | — | — | — | — | 2 | 2 |
| Total consumer loans | — | — | — | — | 2 | 2 |
| Total | $ 1 | $ 4 | $ 5 | $ — | $ 3 | $ 3 |

*Note: Total loans modified as TDRs during the 12 months previous to December 31, 2017 and 2016 were $94 million and $73 million, respectively.*

At December 31, 2017 and December 31, 2016, the amount of foreclosed residential real estate property held by the Company was less than $1 million and $2 million, and the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure was approximately $10 million for both periods, respectively.

***Concentrations of Credit Risk***

Credit risk is the possibility of loss from the failure of a borrower, guarantor, or another obligor to fully perform under the terms of a credit-related contract. Credit risks (whether on- or off-balance sheet) may occur when individual borrowers, groups of borrowers, or counterparties have similar economic characteristics, including industries, geographies, collateral types, sponsors, etc., and are similarly affected by changes in economic or other conditions. Credit risk also includes the loss that would be recognized subsequent to the reporting date if counterparties failed to perform as contracted. See Note 7 for a discussion of counterparty risk associated with the Company’s derivative transactions.

We perform an ongoing analysis of our loan portfolio to evaluate whether there is any significant exposure to any concentrations of credit risk. Based on this analysis, we believe that the loan portfolio is generally well diversified; however, there are certain significant concentrations in CRE and oil and gas-related lending. Further, we cannot guarantee that we have fully understood or mitigated all risk concentrations or correlated risks. We have adopted and adhere to concentration limits on various types of CRE lending, particularly construction and land development lending, leveraged and enterprise value lending, municipal lending, and oil and gas-related lending. All of these limits are continually monitored and revised as necessary.

### *Purchased Loans*

*Background and Accounting*

We purchase loans in the ordinary course of business and account for them and the related interest income based on their performing status at the time of acquisition. PCI loans have evidence of credit deterioration at the time of acquisition and it is probable that not all contractual payments will be collected. Interest income for PCI loans is accounted for on an expected cash flow basis. Upon acquisition, in accordance with applicable accounting guidance, the acquired loans were recorded at their fair value without a corresponding ALLL. Certain acquired loans with similar characteristics such as risk exposure, type, size, etc., are grouped and accounted for in loan pools.

During 2009, CB&T and NSB acquired failed bank assets from the FDIC as receiver and entered into loss sharing agreements ("LSAs") with the FDIC for the acquired loans and foreclosed assets. According to the agreements, the FDIC assumes 80% of credit losses of non-single family residential loans up to a threshold specified for each acquisition, and 95% above that threshold for five years. The agreements expire after ten years, or in 2019, for single family residential loans. Subsequent to December 31, 2017, we entered into agreements with the FDIC to early-terminate the LSAs, mainly because carrying values of the acquired loans have significantly declined, and the loans have performed better than originally expected. Future losses on these loans are expected to be insignificant.

*Outstanding Balances and Accretable Yield*

The outstanding balances of all required payments and the related carrying amounts for PCI loans are as follows:

| *(In millions)* | December 31, 2017 | December 31, 2016 |
|---|---|---|
| Commercial | $ 25 | $ 49 |
| Commercial real estate | 9 | 51 |
| Consumer | 7 | 9 |
| Outstanding balance | $ 41 | $ 109 |
| Carrying amount | $ 27 | $ 77 |
| Less ALLL | — | 1 |
| Carrying amount, net | $ 27 | $ 76 |

At the time of acquisition of PCI loans, we determine the loan's contractually required payments in excess of all cash flows expected to be collected as an amount that should not be accreted (nonaccretable difference). With respect to the cash flows expected to be collected, the portion representing the excess of the loan's expected cash flows over our initial investment (accretable yield) is accreted into interest income on a level yield basis over the remaining expected life of the loan or pool of loans. The effects of estimated prepayments are considered in estimating the expected cash flows.

Certain PCI loans are not accounted for as previously described because the estimation of cash flows to be collected involves a high degree of uncertainty. Under these circumstances, the accounting guidance provides that interest income is recognized on a cash basis similar to the cost recovery methodology for nonaccrual loans. The net carrying amounts in the preceding schedule also include the amounts for these loans. There were no loans of this type at December 31, 2017 and December 31, 2016.

Changes in the accretable yield for PCI loans were as follows:

| *(In millions)* | 2017 | 2016 |
|---|---|---|
| Balance at beginning of year | $ 33 | $ 40 |
| Accretion | (20) | (24) |
| Reclassification from nonaccretable difference | — | 11 |
| Disposals and other | 1 | 6 |
| Balance at end of year | $ 14 | $ 33 |

*Note: Amounts have been adjusted based on refinements to the original estimates of the accretable yield.*

The primary drivers of reclassification to accretable yield from nonaccretable difference and increases in disposals and other resulted primarily from (1) changes in estimated cash flows, (2) unexpected payments on nonaccrual loans, and (3) recoveries on zero balance loans pools. See subsequent discussion under changes in cash flow estimates.

*Allowance for Loan and Lease Losses Determination*

For all acquired loans, the ALLL is only established for credit deterioration subsequent to the date of acquisition and represents our estimate of the inherent losses in excess of the book value of acquired loans. The ALLL for acquired loans is included in the overall ALLL in the balance sheet.

During 2017, 2016 and 2015, we adjusted the ALLL for acquired loans by recording a provision for loan losses of less than $1 million in each period. The provision is net of the ALLL reversals resulting from changes in cash flow estimates, which are discussed subsequently.

Changes in the provision for loan losses and related ALLL are driven in large part by the same factors that affect the changes in reclassification from nonaccretable difference to accretable yield, as discussed under changes in cash flow estimates.

*Changes in Cash Flow Estimates*

Over the life of the loan or loan pool, we continue to estimate cash flows expected to be collected. We evaluate quarterly at the balance sheet date whether the estimated present values of these loans using the effective interest rates have decreased below their carrying values. If so, we record a provision for loan losses.

For increases in carrying values that resulted from better than expected cash flows, we use such increases first to reverse any existing ALLL. During 2017, 2016, and 2015, total reversals to the ALLL, including the impact of increases in estimated cash flows, were less than $1 million in 2017, $2 million in 2016, and $4 million in 2015. When there is no current ALLL, we increase the amount of accretable yield on a prospective basis over the remaining life of the loan and recognize this increase in interest income.

The impact of increased cash flow estimates recognized in the statement of income for acquired loans with no ALLL was approximately $18 million in 2017, $19 million in 2016, and $32 million in 2015, of additional interest income.

## 7. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

***Objectives***

Our objectives in using derivatives are to add stability to interest income or expense, to modify the duration of specific assets or liabilities as we consider advisable, to manage exposure to interest rate movements or other identified risks, and/or to directly offset derivatives sold to our customers. We apply hedge accounting to certain derivatives executed for risk management purposes as described in more detail subsequently. However, we do not apply hedge accounting to all of the derivatives involved in our risk management activities. Derivatives not designated as accounting hedges are not speculative and are used to economically manage our exposure to interest rate movements and other identified risks, but do not meet the strict hedge accounting requirements.

### *Accounting*

We record all derivatives on the balance sheet at fair value. Note 3 discusses the process to estimate fair value for derivatives. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative and the resulting accounting designation. Derivatives used to hedge the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives used to hedge the exposure to variability in expected cash flows, or other types of forecasted transactions, are considered cash flow hedges.

For derivatives designated as fair value hedges, changes in the fair value of the derivative are recognized in earnings together with changes in the fair value of the related hedged item. The net amount, if any, representing hedge ineffectiveness, is reflected in earnings. In previous years, we used fair value hedges to manage interest rate exposure to certain long-term debt. These hedges have been terminated and their remaining balances were completely amortized into earnings during 2015.

For derivatives designated as cash flow hedges, the effective portion of changes in the fair value of the derivative are recorded in OCI and recognized in earnings when the hedged transaction affects earnings. The ineffective portion of changes in the fair value of cash flow hedges is recognized directly in earnings. We use interest rate swaps as part of our cash flow hedging strategy to hedge the variable cash flows associated with designated commercial loans. These interest rate swap agreements designated as cash flow hedges involve the receipt of fixed-rate amounts in exchange for variable-rate payments over the life of the agreements without exchange of the underlying notional amount.

During 2016 we closed our branch in Grand Cayman, Grand Cayman Islands B.W.I. and no longer have foreign operations. No derivatives were designated as hedges of investments in foreign operations during 2017.

We assess the effectiveness of each hedging relationship by comparing the changes in fair value or cash flows on the derivative hedging instrument with the changes in fair value or cash flows on the designated hedged item or transaction. For derivatives not designated as accounting hedges, changes in fair value are recognized in earnings. The remaining balances of any derivative instruments terminated prior to maturity, including amounts in AOCI for cash flow hedges, are accreted or amortized to interest income or expense over the period to their previously stated maturity dates. Amounts in AOCI are reclassified to interest income as interest is earned on related variable-rate loans and as amounts for terminated hedges are accreted or amortized to earnings.

### *Collateral and Credit Risk*

Exposure to credit risk arises from the possibility of nonperformance by counterparties. No significant losses on derivative instruments have occurred as a result of counterparty nonperformance. Financial institutions which are well-capitalized and well-established are the counterparties for those derivatives entered into for asset-liability management and to offset derivatives sold to our customers. The Company reduces its counterparty exposure for derivative contracts by centrally clearing all eligible derivatives.

For those derivatives that are not centrally cleared, the counterparties are typically financial institutions or customers of the Company. For those that are financial institutions, we manage our credit exposure through the use of a Credit Support Annex ("CSA") to International Swaps and Derivative Association master agreements. Eligible collateral types are documented by the CSA and controlled under the Company's general credit policies. Collateral balances are typically monitored on a daily basis. A valuation haircut policy reflects the fact that collateral may fall in value between the date the collateral is called and the date of liquidation or enforcement. In practice, all of the Company's collateral held as credit risk mitigation under a CSA is cash.

We offer interest rate swaps to our customers to assist them in managing their exposure to changing interest rates. Upon issuance, all of these customer swaps are immediately offset through matching derivative contracts, such that the Company minimizes its interest rate risk exposure resulting from such transactions. Most of these customers do not have the capability for centralized clearing. Therefore, we manage the credit risk through loan underwriting which includes a credit risk exposure formula for the swap, the same collateral and guarantee protection applicable to the loan and credit approvals, limits, and monitoring procedures. Fee income from customer swaps is included in other service charges, commissions and fees. No significant losses on derivative instruments have occurred as a result of counterparty nonperformance. Nevertheless, the related credit risk is considered and measured when and where appropriate. See Notes 6 and 15 for further discussion of our underwriting, collateral requirements, and other procedures used to address credit risk.

Our derivative contracts require us to pledge collateral for derivatives that are in a net liability position at a given balance sheet date. Certain of these derivative contracts contain credit-risk-related contingent features that include the requirement to maintain a minimum debt credit rating. We may be required to pledge additional collateral if a credit-risk-related feature were triggered, such as a downgrade of our credit rating. However, in past situations, not all counterparties have demanded that additional collateral be pledged when provided for under their contracts. At December 31, 2017, the fair value of our derivative liabilities was $40 million, for which we were required to pledge cash collateral of approximately $38 million in the normal course of business. If our credit rating were downgraded one notch by either Standard & Poor's or Moody's at December 31, 2017, the additional amount of collateral we could be required to pledge is approximately $1 million. As a result of the Dodd-Frank Act, all newly eligible derivatives entered into are cleared through a central clearinghouse. Derivatives that are centrally cleared do not have credit-risk-related features that require additional collateral if our credit rating were downgraded.

***Derivative Amounts***

Selected information with respect to notional amounts and recorded gross fair values at December 31, 2017 and 2016, and the related gain (loss) of derivative instruments for the years then ended is summarized as follows:

| | December 31, 2017 | | | December 31, 2016 | | |
|---|---|---|---|---|---|---|
| | | Fair value | | | Fair value | |
| *(In millions)* | Notional amount | Other assets | Other liabilities | Notional amount | Other assets | Other liabilities |
| Derivatives designated as hedging instruments | | | | | | |
| Cash flow hedges: | | | | | | |
| Interest rate swaps | $ 1,138 | $ — | $ — | $ 1,388 | $ 2 | $ 1 |
| Derivatives not designated as hedging instruments | | | | | | |
| Interest rate swaps | 223 | 1 | — | 235 | 2 | — |
| Interest rate swaps for customers [1] | 4,550 | 28 | 33 | 4,162 | 49 | 49 |
| Foreign exchange | 913 | 9 | 7 | 424 | 11 | 9 |
| Total derivatives not designated as hedging instruments | 5,686 | 38 | 40 | 4,821 | 62 | 58 |
| Total derivatives | $ 6,824 | $ 38 | $ 40 | $ 6,209 | $ 64 | $ 59 |

[1] *Notional amounts include both the customer swaps and the offsetting derivative contracts.*

| (In millions) | Year Ended December 31, 2017 — Amount of derivative gain (loss) recognized/reclassified: OCI | Reclassified from AOCI to interest income | Noninterest income (expense) | Offset to interest expense | Year Ended December 31, 2016: OCI | Reclassified from AOCI to interest income | Noninterest income (expense) | Offset to interest expense |
|---|---|---|---|---|---|---|---|---|
| Derivatives designated as hedging instruments | | | | | | | | |
| Cash flow hedges: [1] | | | | | | | | |
| Interest rate swaps | $ (8) | $ 4 | | | $ 8 | $ 11 | | |
| Derivatives not designated as hedging instruments | | | | | | | | |
| Interest rate swaps | | | $ (1) | | | | $ 1 | |
| Interest rate swaps for customers | | | 11 | | | | 14 | |
| Foreign exchange | | | 17 | | | | 11 | |
| Total derivatives | $ (8) | $ 4 | $ 27 | $ — | $ 8 | $ 11 | $ 26 | $ — |

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

[1] *Amounts recognized in OCI and reclassified from AOCI represent the effective portion of the derivative gain (loss). For the 12 months following December 31, 2017, we estimate that $1 million will be reclassified from AOCI into interest income.*

The fair value of derivative assets was reduced by a net credit valuation adjustment of $2 million at December 31, 2017 and 2016, respectively. The fair value of derivative liabilities was reduced by a net debit valuation adjustment of $1 million at December 31, 2017 and 2016, respectively. These adjustments are required to reflect both our own nonperformance risk and the respective counterparty's nonperformance risk.

## 8. PREMISES, EQUIPMENT AND SOFTWARE, NET

Premises, equipment and software, net are summarized as follows:

| (In millions) | December 31, 2017 | 2016 |
|---|---|---|
| Land | $ 234 | $ 229 |
| Buildings | 720 | 683 |
| Furniture and equipment | 451 | 458 |
| Leasehold improvements | 135 | 140 |
| Software | 401 | 355 |
| Total | 1,941 | 1,865 |
| Less accumulated depreciation and amortization | 847 | 845 |
| Net book value | $ 1,094 | $ 1,020 |

## 9. GOODWILL AND OTHER INTANGIBLE ASSETS

Core deposit and other intangible assets and related accumulated amortization are as follows at December 31:

| (In millions) | Gross carrying amount 2017 | Gross carrying amount 2016 | Accumulated amortization 2017 | Accumulated amortization 2016 | Net carrying amount 2017 | Net carrying amount 2016 |
|---|---|---|---|---|---|---|
| Core deposit intangibles | $ 167 | $ 167 | $ (165) | $ (159) | $ 2 | $ 8 |
| Customer relationships and other intangibles | 28 | 28 | (28) | (28) | — | — |
| Total | $ 195 | $ 195 | $ (193) | $ (187) | $ 2 | $ 8 |

The amount of amortization expense of core deposit and other intangible assets is separately reflected in the statement of income. Estimated amortization expense for core deposit and other intangible assets is $2 million in 2018, less than $1 million in 2019, and nothing thereafter.

Changes in the carrying amount of goodwill for operating segments with goodwill are as follows:

| *(In millions)* | Zions Bank | CB&T | Amegy | Consolidated Company |
|---|---|---|---|---|
| Balance at December 31, 2015 | $ 20 | $ 379 | $ 615 | $ 1,014 |
| Impairment losses | — | — | — | — |
| Balance at December 31, 2016 | 20 | 379 | 615 | 1,014 |
| Impairment losses | — | — | — | — |
| Balance at December 31, 2017 | $ 20 | $ 379 | $ 615 | $ 1,014 |

A company-wide annual impairment test is conducted as of October 1 of each year and updated on a more frequent basis when events or circumstances indicate that impairment could have taken place. Results of the testing for 2017 and 2016 concluded that no impairment was present in any of the operating segments.

## 10. DEPOSITS

At December 31, 2017, the scheduled maturities of all time deposits were as follows:

| *(In millions)* | |
|---|---|
| 2018 | $ 2,584 |
| 2019 | 256 |
| 2020 | 132 |
| 2021 | 85 |
| 2022 | 57 |
| Thereafter | 1 |
| Total | $ 3,115 |

The contractual maturities of time deposits with a denomination of $100,000 and over were as follows:

| *(In millions)* | December 31, 2017 |
|---|---|
| Three months or less | $ 1,023 |
| After three months through six months | 485 |
| After six months through twelve months | 508 |
| After twelve months | 312 |
| Total | $ 2,328 |

Time deposits in denominations that meet or exceed the current FDIC insurance limit of $250,000 were $1.9 billion and $1.4 billion at December 31, 2017 and 2016, respectively. Time deposits under $250,000 were $1.2 billion and $1.4 billion at December 31, 2017 and 2016, respectively. Deposit overdrafts reclassified as loan balances were $14 million and $11 million at December 31, 2017 and 2016, respectively.

## 11. SHORT-TERM BORROWINGS

Selected information for FHLB advances and other short-term borrowings is as follows:

| *(Dollar amounts in millions)* | 2017 | 2016 | 2015 |
|---|---|---|---|
| **Federal Home Loan Bank advances** | | | |
| Average amount outstanding | $ 2,657 | $ 37 | $ — |
| Average rate | 1.13% | 0.59% | —% |
| Highest month-end balance | 3,750 | 750 | — |
| Year-end balance | 3,600 | 500 | — |
| Average rate on outstandings at year-end | 1.44% | 0.75% | —% |
| **Other short-term borrowings, year-end balances** | | | |
| Federal funds purchased | 927 | 106 | 111 |
| Security repurchase agreements | 354 | 196 | 206 |
| Securities sold, not yet purchased | 95 | 25 | 30 |
| Total Federal Home Loan Bank advances and other short-term borrowings | $ 4,976 | $ 827 | $ 347 |

ZB, N.A. may borrow from the FHLB under their lines of credit that are secured under blanket pledge arrangements. ZB, N.A. maintained unencumbered collateral with carrying amounts adjusted for the types of collateral pledged, equal to at least 100% of the outstanding advances. At December 31, 2017, the amount available for FHLB advances was approximately $8.9 billion. ZB, N.A. may also borrow from the Federal Reserve based on the amount of collateral pledged to a Federal Reserve Bank. At December 31, 2017, the amount available for additional Federal Reserve borrowings was approximately $5.8 billion.

Federal funds purchased and security repurchase agreements generally mature in less than 30 days. Our participation in security repurchase agreements is on an overnight or term basis (e.g., 30 or 60 days). ZB, N.A. executes overnight repurchase agreements with sweep accounts in conjunction with a master repurchase agreement. When this occurs, securities under the Bank's control are pledged and interest is paid on the collected balance of the customers' accounts. For the non-sweep overnight and term repurchase agreements, securities are transferred to the applicable counterparty. The counterparty, in certain instances, is contractually entitled to sell or repledge securities accepted as collateral. Of the total security repurchase agreements at December 31, 2017, $31 million were overnight and $323 million were term.

## 12. LONG-TERM DEBT

Long-term debt is summarized as follows:

| | December 31, | |
|---|---|---|
| *(In millions)* | 2017 | 2016 |
| Subordinated notes | $ 247 | $ 246 |
| Senior notes | 135 | 288 |
| Capital lease obligations | 1 | 1 |
| Total | $ 383 | $ 535 |

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

### *Subordinated Notes*

Subordinated notes were issued by the Parent and consist of the following at December 31, 2017:

| *(Dollar amounts in millions)* | Subordinated notes | | |
|---|---|---|---|
| Coupon rate | Balance | Par amount | Maturity |
| 5.65% | $ 160 | $ 162 | Nov 2023 |
| 6.95% | 87 | 88 | Sep 2028 |
| Total | $ 247 | $ 250 | |

These notes are unsecured, and interest is payable semiannually on the 5.65% notes and quarterly on the 6.95% notes. Interest payments on the 5.65% notes commenced May 15, 2014 to the earliest possible redemption date of November 15, 2018, after which they are payable quarterly at an annual floating rate equal to 3mL+4.19%. For the 6.95% notes, interest payments commenced December 15, 2013 to the earliest possible redemption date of September 15, 2023, after which the interest rate changes to an annual floating rate equal to 3mL+3.89%.

### *Senior Notes*

Senior notes were issued by the Parent and consist of the following at December 31, 2017:

| *(Dollar amounts in millions)* | Senior notes | | |
|---|---|---|---|
| Coupon rate | Balance | Par amount | Maturity |
| 4.50% | $ 135 | $ 136 | June 2023 |

These notes are unsecured and interest is payable semiannually. The notes were issued under a shelf registration filed with the SEC and were sold via the Company's online auction process and direct sales. The notes are not redeemable prior to maturity.

### *Debt Maturities and Redemptions*

During 2017, $153 million of our senior notes matured. During 2016, we elected to exercise our right to redeem junior subordinated debentures related to trust preferred securities. The following amounts of long-term debt matured or were redeemed during 2016:

| *(Dollar amounts in millions)* Note type | Par amount |
|---|---|
| Trust preferred: | |
| 3mL+2.85% (3.38%) | $ 51 |
| 3mL+1.90% (2.22%) | 36 |
| 3mL+1.78% (2.29%) | 62 |
| 3mL+3.15% (3.75%) | 8 |
| 3mL+2.89% (3.42%) | 8 |
| Total trust preferred | 165 |
| Senior notes: | |
| 3.60% | 11 |
| 4.00% | 89 |
| Total senior notes | 100 |
| Total | $ 265 |

### *Debt Extinguishment Costs*

During 2017, we had no debt extinguishment costs, compared with less than $1 million in 2016 and $3 million in 2015.

### *Maturities of Long-term Debt*

Maturities of long-term debt are as follows for the years succeeding December 31, 2017:

| *(In millions)* | Consolidated | Parent only |
|---|---|---|
| 2018 | $ — | $ — |
| 2019 | 1 | — |
| 2020 | — | — |
| 2021 | — | — |
| 2022 | — | — |
| Thereafter | 382 | 382 |
| Total | $ 383 | $ 382 |

The consolidated Zions Bancorporation long-term debt maturities include $1 million of capital lease obligations in addition to the subordinated and senior debt issued by the Parent.

## 13. SHAREHOLDERS' EQUITY

### *Preferred Stock*

Preferred stock is without par value and has a liquidation preference of $1,000 per share, or $25 per depositary share. Except for Series I and J, all preferred shares were issued in the form of depositary shares, with each depositary share representing a 1/40$^{th}$ ownership interest in a share of the preferred stock. All preferred shares are registered with the SEC.

In general, preferred shareholders may receive asset distributions before common shareholders; however, preferred shareholders have only limited voting rights generally with respect to certain provisions of the preferred stock, the issuance of senior preferred stock, and the election of directors. Preferred stock dividends reduce earnings applicable to common shareholders and are paid on the 15th day of the months indicated in the following schedule. Dividends are approved by the Board of Directors and are subject to regulatory non-objection to a stress test and capital plan submitted to the Federal Reserve pursuant to the annual Horizontal Capital Review, also referred to as Comprehensive Capital Analysis and Review ("HCR/CCAR") process. Redemption of the preferred stock is at the Company's option after the expiration of any applicable redemption restrictions. The redemption amount is computed at the per share liquidation preference plus any declared but unpaid dividends. Redemptions are subject to certain regulatory provisions, including the previously noted capital plan non-objection for a submitted capital plan in a given year.

Preferred stock is summarized as follows:

| (Dollar amounts in millions) | Carrying value at December 31, 2017 | Carrying value at December 31, 2016 | Shares at December 31, 2017 Authorized (thousands) | Shares at December 31, 2017 Outstanding (thousands) | Rate | Dividends payable | Earliest redemption date | Rate following earliest redemption date (when applicable) | Dividends payable after rate change (when applicable) |
|---|---|---|---|---|---|---|---|---|---|
| Series A | $ 67 | $ 67 | 140,000 | 66,139 | > of 4.0% or 3mL +0.52% | Qtrly Mar,Jun, Sep,Dec | Dec 15, 2011 | | |
| Series F | — | 144 | — | — | 7.9% | Qtrly Mar,Jun, Sep,Dec | Jun 15, 2017 | | |
| Series G | 138 | 138 | 200,000 | 138,391 | 6.3% | Qtrly Mar,Jun, Sep,Dec | Mar 15, 2023 | annual floating rate = 3mL+4.24% | |
| Series H | 126 | 126 | 126,221 | 126,221 | 5.75% | Qtrly Mar,Jun, Sep,Dec | Jun 15, 2019 | | |
| Series I | 99 | 99 | 300,893 | 98,555 | 5.8% | Semi-annually Jun,Dec | Jun 15, 2023 | annual floating rate = 3mL+3.8% | Qtrly Mar,Jun, Sep,Dec |
| Series J | 136 | 136 | 195,152 | 136,368 | 7.2% | Semi-annually Mar,Sep | Sep 15, 2023 | annual floating rate = 3mL+4.44% | Qtrly Mar,Jun, Sep,Dec |
| Total | $ 566 | $ 710 | | | | | | | |

### *Preferred Stock Redemptions*

During 2017, we redeemed all outstanding shares of our 7.9% Series F preferred stock for a cash payment of approximately $144 million. The total reduction to net earnings applicable to common shareholders associated with the preferred stock redemption was $2 million due to the accelerated recognition of preferred stock issuance costs.

During 2016, we launched a cash tender offer to purchase up to $120 million par amount of certain outstanding preferred stock. Our preferred stock decreased by $118 million as a result of the tender offer, including the purchase of $26 million of our Series I preferred stock, $59 million of our Series J preferred stock, and $33 million of our Series G preferred stock for an aggregate cash payment of $126 million. The total reduction to net earnings applicable to common shareholders associated with the preferred stock redemption was $10 million. The size and terms of the redemptions in 2017 and 2016 were determined in accordance with the Company's 2016 and 2015 capital plans. These preferred stock redemptions benefit the Company by decreasing the amount of preferred dividends paid.

### *Common Stock*

The Company's common stock is traded on the NASDAQ Global Select Market. As of December 31, 2017, there were 198 million shares of no par common stock outstanding.

The Company continued its common stock repurchase program during 2017 and repurchased 7 million shares of common shares outstanding with a fair value of $320 million at an average price of $45.66 per share. During the first quarter of 2018, the Company repurchased an additional 2 million shares of common stock outstanding with a fair value of $115 million at an average price of $53.46 per share, leaving $120 million of repurchase capacity remaining in the 2017 capital plan (which spans the timeframe of July 2017 to June 2018).

During 2016 the Company repurchased 3 million shares of common shares outstanding with a fair value of $90 million at an average price of $31.15 per share.

### *Common Stock Warrants*

As of December 31, 2017, 29.3 million common stock warrants with an exercise price of $35.37 were outstanding. These warrants expire on May 22, 2020. In addition, as of December 31, 2017, 5.8 million common stock warrants with an exercise price of $36.27 per share were outstanding. These warrants expire on November 14, 2018 and were associated with the preferred stock issued under the Troubled Asset Relief Program which was redeemed in 2012.

Between January 1, 2018 and February 20, 2018, 1.0 million shares of common stock were issued from the cashless exercise of 3.2 million common stock warrants which expire 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.

### *Accumulated Other Comprehensive Income*

During 2017, $25 million was reclassified from AOCI to retained earnings as a result of the decreased corporate income tax rate from the Tax Cuts and Jobs Act of 2017.

Changes in AOCI by component are as follows:

| *(In millions)* | Net unrealized gains (losses) on investment securities | Net unrealized gains (losses) on derivatives and other | Pension and post-retirement | Total |
|---|---|---|---|---|
| **2017** | | | | |
| Balance at December 31, 2016 | $ (92) | $ 1 | $ (31) | $ (122) |
| Other comprehensive income (loss) before reclassifications, net of tax | (2) | (1) | 9 | 6 |
| Amounts reclassified from AOCI, net of tax | — | (2) | 4 | 2 |
| Effect of new tax rates from Tax Cuts and Jobs Act of 2017 | (20) | (1) | (4) | (25) |
| Other comprehensive income (loss) | (22) | (4) | 9 | (17) |
| Balance at December 31, 2017 | $ (114) | $ (3) | $ (22) | $ (139) |
| Income tax expense (benefit) included in other comprehensive income (loss) | $ 19 | $ (1) | $ 11 | $ 29 |
| **2016** | | | | |
| Balance at December 31, 2015 | $ (18) | $ 1 | $ (38) | $ (55) |
| Other comprehensive income (loss) before reclassifications, net of tax | (74) | 7 | 2 | (65) |
| Amounts reclassified from AOCI, net of tax | — | (7) | 5 | (2) |
| Other comprehensive income (loss) | (74) | — | 7 | (67) |
| Balance at December 31, 2016 | $ (92) | $ 1 | $ (31) | $ (122) |
| Income tax expense (benefit) included in other comprehensive income (loss) | $ (45) | $ — | $ 5 | $ (40) |

| *(In millions)* Details about AOCI components | Amounts reclassified from AOCI [1] 2017 | 2016 | 2015 | Statement of Income (SI) Balance Sheet (BS) | Affected line item |
|---|---|---|---|---|---|
| Net realized gains (losses) on investment securities | $ — | $ — | $ (139) | SI | Securities losses, net |
| Income tax expense (benefit) | — | — | (53) | | |
| | $ — | $ — | $ (86) | | |
| Net unrealized gains on derivative instruments | $ 4 | $ 11 | $ 9 | SI | Interest and fees on loans |
| Income tax expense | 2 | 4 | 3 | | |
| | $ 2 | $ 7 | $ 6 | | |
| Amortization of net actuarial loss | $ (7) | $ (8) | $ (6) | SI | Salaries and employee benefits |
| Income tax benefit | (3) | (3) | (2) | | |
| | $ (4) | $ (5) | $ (4) | | |

[1] *Negative reclassification amounts indicate decreases to earnings in the statement of income and increases to balance sheet assets. The opposite applies to positive reclassification amounts.*

***Deferred Compensation***

Deferred compensation consists of invested assets, including the Company's common stock, which are held in rabbi trusts for certain employees and directors. At both December 31, 2017 and 2016, the cost of the common stock included in retained earnings was approximately $14 million. We consolidate the fair value trust invested assets along with the total obligations and include them in other assets and other liabilities, respectively, in the balance sheet. At December 31, 2017 and 2016, total invested assets were approximately $102 million and $91 million and total obligations were approximately $116 million and $105 million, respectively.

## 14. REGULATORY MATTERS

We are subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory – and possibly additional discretionary – actions by regulators that, if undertaken, could have a direct material effect on our financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, we must meet specific capital guidelines that involve quantitative measures of our assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. Required capital levels are also subject to judgmental review by regulators.

In 2013, the Federal Reserve Board ("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. We met all capital adequacy requirements under the Basel III Capital Rules as of December 31, 2017.

Under prior Basel I capital standards, the effects of AOCI items included in capital were excluded for purposes of determining regulatory capital and capital ratios. As a "non-advanced approaches banking organization," we made a one-time permanent election as of January 1, 2015 to continue to exclude these items, as allowed under the Basel III Capital Rules.

Quantitative measures established by regulation to ensure capital adequacy require us to maintain minimum amounts and ratios of Total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). "Well-capitalized" levels are also published as a guideline to evaluate capital positions. As of December 31, 2017, all capital ratios of the Company and its subsidiary bank exceeded the "well-capitalized" levels under the regulatory framework for prompt corrective action.

Dividends declared by our subsidiary bank in any calendar year may not, without the approval of the appropriate federal regulators, exceed specified criteria. 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.

Appropriate capital levels and distributions of capital to shareholders for the Company and other SIFI are also subject to annual "stress tests" performed as a part of the Federal Reserve's HCR/CCAR process.

The stress tests seek to comprehensively measure all risks to which the institution is exposed, including credit, liquidity, market, operating and other risks, the losses that could result from those risk exposures under adverse scenarios, and the institution's resulting capital levels. These stress tests have both a qualitative and a quantitative component. The qualitative component evaluates the robustness of the Company's risk identification, stress risk modeling, policies, capital planning, governance processes, and other components of a Capital Adequacy Process. The quantitative process subjects the Company's balance sheet and other risk characteristics to stress testing and independent determination by the Federal Reserve using its own models. Most capital actions, including for example, payment of dividends and repurchasing stock, are subject to non-objection by the Federal Reserve to a capital plan based on both the qualitative and quantitative assessments of the plan.

Because the Company's subsidiary bank has assets greater than $10 billion also it is subject to annual stress testing and capital planning processes examined by the OCC, known as the Dodd-Frank Act Stress Test ("DFAST").

The actual capital amounts and ratios at December 31, 2017 and 2016 for the Company and its subsidiary bank under Basel III are as follows:

| *(Dollar amounts in millions)* | December 31, 2017 | | To be well-capitalized | |
|---|---|---|---|---|
| | Amount | Ratio | Amount | Ratio |
| **Transitional Basis Basel III Regulatory Capital Rules** | | | | |
| Total capital (to risk-weighted assets) | | | | |
| The Company | $ 7,628 | 14.8% | $ 5,146 | 10.0% |
| ZB, National Association | 7,306 | 14.2 | 5,130 | 10.0 |
| Tier 1 capital (to risk-weighted assets) | | | | |
| The Company | 6,805 | 13.2 | 4,116 | 8.0 |
| ZB, National Association | 6,730 | 13.1 | 4,104 | 8.0 |
| Common equity tier 1 capital (to risk-weighted assets) | | | | |
| The Company | 6,239 | 12.1 | 3,345 | 6.5 |
| ZB, National Association | 5,899 | 11.5 | 3,334 | 6.5 |
| Tier 1 capital (to average assets) | | | | |
| The Company | 6,805 | 10.5 | na | na [1] |
| ZB, National Association | 6,730 | 10.4 | 3,227 | 5.0 |

| (Dollar amounts in millions) | December 31, 2016 Amount | Ratio | To be well-capitalized Amount | Ratio |
|---|---|---|---|---|
| **Transitional Basis Basel III Regulatory Capital Rules** | | | | |
| Total capital (to risk-weighted assets) | | | | |
| The Company | $ 7,609 | 15.2% | $ 4,994 | 10.0% |
| ZB, National Association | 7,278 | 14.6 | 4,983 | 10.0 |
| Tier 1 capital (to risk-weighted assets) | | | | |
| The Company | 6,738 | 13.5 | 3,995 | 8.0 |
| ZB, National Association | 6,655 | 13.4 | 3,986 | 8.0 |
| Common equity tier 1 capital (to risk-weighted assets) | | | | |
| The Company | 6,028 | 12.1 | 3,246 | 6.5 |
| ZB, National Association | 5,824 | 11.7 | 3,239 | 6.5 |
| Tier 1 capital (to average assets) | | | | |
| The Company | 6,738 | 11.1 | na | na [1] |
| ZB, National Association | 6,655 | 11.0 | 3,027 | 5.0 |

[1] *There is no Tier 1 leverage ratio component in the definition of a well-capitalized bank holding company.*

Zions is also subject to "capital conservation buffer" regulatory requirements. When fully phased-in, the Basel III capital rules will also require the Company and its subsidiary bank to maintain a 2.5% "capital conservation buffer" designed to absorb losses during periods of economic stress, composed entirely of Common Equity Tier 1 ("CET1"), on top of the minimum risk-weighted asset ratios, effectively resulting in minimum ratios of (i) CET1 to risk-weighted assets of at least 7.0%, (ii) Tier 1 capital to risk-weighted assets of at least 8.5%, and (iii) Total capital to risk-weighted assets of at least 10.5%. Banking institutions with a ratio of CET1 to risk-weighted assets above the minimum but below the capital conservation buffer will face constraints on dividends, equity repurchases, and compensation based on the amount of the shortfall. The implementation of the capital conservation buffer began on January 1, 2016 at the 0.625% level and progressively increases over time, as determined by regulation. Zions' triggers and limits under actual conditions and baseline projections are more restrictive than the capital conservation buffer requirements.

## 15. COMMITMENTS, GUARANTEES, CONTINGENT LIABILITIES, AND RELATED PARTIES

### *Commitments and Guarantees*

We use certain financial instruments, including derivative instruments, in the normal course of business to meet the financing needs of our customers, to reduce our own exposure to fluctuations in interest rates, and to make a market in U.S. Government, agency, corporate, and municipal securities. These financial instruments involve, to varying degrees, elements of credit, liquidity, and interest rate risk in excess of the amounts recognized in the balance sheet. Derivative instruments are discussed in Notes 7 and 3.

Contractual amounts of the off-balance sheet financial instruments used to meet the financing needs of our customers are as follows:

| (In millions) | December 31, 2017 | 2016 |
|---|---|---|
| Net unfunded commitments to extend credit [1] | $ 19,583 | $ 18,274 |
| Standby letters of credit: | | |
| Financial | 721 | 771 |
| Performance | 196 | 196 |
| Commercial letters of credit | 31 | 60 |
| Total unfunded lending commitments | $ 20,531 | $ 19,301 |

[1] *Net of participations.*

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require the payment of a fee. The amount of collateral obtained, if deemed necessary by us upon extension of credit, is based on our initial credit evaluation of the counterparty. Types of collateral vary, but may include accounts receivable, inventory, property, plant and equipment, and income-producing properties.

While establishing commitments to extend credit creates credit risk, a significant portion of such commitments is expected to expire without being drawn upon. As of December 31, 2017, $6.2 billion of commitments expire in 2018. We use the same credit policies and procedures in making commitments to extend credit and conditional obligations as we do for on-balance sheet instruments. These policies and procedures include credit approvals, limits, and monitoring.

We issue standby and commercial letters of credit as conditional commitments generally to guarantee the performance of a customer to a third party. The guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing, and similar transactions. Standby letters of credit include remaining commitments of $610 million expiring in 2018 and $307 million expiring thereafter through 2027. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. We generally hold marketable securities and cash equivalents as collateral when necessary. At December 31, 2017, the Company recorded $5 million as a liability for these guarantees, which consisted of $1 million attributable to the RULC and $4 million of deferred commitment fees.

Certain mortgage loans sold have limited recourse provisions for periods ranging from three months to one year. The amount of losses resulting from the exercise of these provisions has not been significant.

At December 31, 2017, we had unfunded commitments for PEIs of $31 million. These obligations have no stated maturity. PEIs related to these commitments prohibited by the Volcker Rule were $4 million. See the related discussion about these investments in Note 5.

The contractual or notional amount of financial instruments indicates a level of activity associated with a particular financial instrument class and is not a reflection of the actual level of risk. As of December 31, 2017 and 2016, the regulatory risk-weighted values assigned to all off-balance sheet financial instruments and derivative instruments described herein were $6.8 billion and $6.5 billion, respectively.

At December 31, 2017, we were required to maintain cash balances of $366 million with the Federal Reserve Banks to meet minimum balance requirements in accordance with FRB regulations.

***Leases***

We have commitments for leasing premises and equipment under the terms of noncancelable capital and operating leases expiring from 2018 and 2052. Premises leased under capital leases at December 31, 2017, were $1 million, and were essentially amortized with accumulated amortization totaling approximately $1 million. Amortization applicable to premises leased under capital leases is included in depreciation expense.

Future aggregate minimum rental payments under existing noncancelable operating leases at December 31, 2017, are as follows:

| *(in millions)* | |
|---|---|
| 2018 | $ 40 |
| 2019 | 39 |
| 2020 | 36 |
| 2021 | 29 |
| 2022 | 25 |
| Thereafter | 76 |
| Total | $ 245 |

Future aggregate minimum rental payments have been reduced by noncancelable subleases as follows: $2 million in 2018, $2 million in 2019, and $1 million in 2020. Aggregate rental expense on operating leases amounted to $61 million in 2017, $65 million in 2016, and $63 million in 2015.

***Legal Matters***

We are subject to litigation in court and arbitral proceedings, as well as proceedings, investigations, examinations and other actions brought or considered by governmental and self-regulatory agencies. Litigation may relate to lending, deposit and other customer relationships, vendor and contractual issues, employee matters, intellectual property matters, personal injuries and torts, regulatory and legal compliance, and other matters. While most matters relate to individual claims, we are also subject to putative class action claims and similar broader claims. Proceedings, investigations, examinations and other actions brought or considered by governmental and self-regulatory agencies may relate to our banking, investment advisory, trust, securities, and other products and services; our customers' involvement in money laundering, fraud, securities violations and other illicit activities or our policies and practices relating to such customer activities; and our compliance with the broad range of banking, securities and other laws and regulations applicable to us. At any given time, we may be in the process of responding to subpoenas, requests for documents, data and testimony relating to such matters and engaging in discussions to resolve the matters.

As of December 31, 2017, we were subject to the following material litigation and governmental inquiries:

- a civil suit, *Shou-En Wang v. CB&T,* brought against us in the Superior Court for Los Angeles County, Central District in April 2016. The case relates to our depositor relationships with customers who were promoters of an investment program that allegedly misappropriated investors' funds. This case is in an early phase, with initial motion practice having been completed and discovery being underway.
- a civil suit, *McFarland as Trustee for International Manufacturing Group v. CB&T, et. al.*, brought against us in the United States Bankruptcy Court for the Eastern District of California in May 2016. The Trustee seeks to recover loan payments previously repaid to us by our customer, International Manufacturing Group ("IMG"), alleging that IMG, along with its principal, obtained loans and made loan repayments in furtherance of an alleged Ponzi scheme. This case is in an early phase with initial motion practice having been completed and discovery being underway.
- a civil suit, *JTS Communities, Inc. et. al v. CB&T, Jun Enkoji and Dawn Satow*, brought against us in the Superior Court for Sacramento County, California in June 2017. In this case four investors in IMG seek to hold us liable for losses arising from their investments in that company, alleging that we conspired with and knowingly assisted IMG and its principal in furtherance of an alleged Ponzi Scheme. This case is in an early phase with motion practice having been completed but discovery not having been commenced.
- a civil class action lawsuit, *Evans v. CB&T*, brought against us in the United States District Court for the Eastern District of California in May 2017. This case was filed on behalf of a class of up to 50 investors in IMG and seeks to hold us liable for losses of class members arising from their investments in IMG, alleging that we conspired with and knowingly assisted IMG and its principal in furtherance of an alleged Ponzi Scheme. In the fourth quarter of 2017, the District Court dismissed all claims against the Company. On January 17, 2018, the plaintiff filed an appeal with the Court of Appeals for the Ninth Circuit.
- a Private Attorney General Act ("PAGA") claim under California law, *Lawson v. CB&T*, brought against us in the Superior Court for the County of San Diego, California, in February 2016. In this case, the plaintiff alleges, on behalf of herself and other current or former employees of the Company who worked in California on a non-exempt basis, violations by the Company of California wage and hour laws. The case is in the early stages of motion practice, to date mainly involving questions of venue and scope of employees covered by the PAGA claims.
- a civil case, *Lifescan Inc. and Johnson & Johnson Health Care Services v. Jeffrey Smith, et al.*, brought against us in the United States District Court for the District of New Jersey in the fourth quarter of 2017. In this case, certain manufacturers and distributors of medical products seek to hold us liable for allegedly fraudulent practices of a borrower of the Company which filed for bankruptcy protection in 2017.

At least quarterly, we review outstanding and new legal matters, utilizing then available information. In accordance with applicable accounting guidance, if we determine that a loss from a matter is probable and the amount of the loss can be reasonably estimated, we establish an accrual for the loss. In the absence of such a determination, no accrual is made. Once established, accruals are adjusted to reflect developments relating to the matters.

In our review, we also assess whether we can determine the range of reasonably possible losses for significant matters in which we are unable to determine that the likelihood of a loss is remote. Because of the difficulty of predicting the outcome of legal matters, discussed subsequently, we are able to meaningfully estimate such a range only for a limited number of matters. Based on information available as of December 31, 2017, we estimated that the aggregate range of reasonably possible losses for those matters to be from $0 million to roughly $20 million in excess of amounts accrued. The matters underlying the estimated range will change from time to time, and actual results may vary significantly from this estimate. Those matters for which a meaningful estimate is not possible are not included within this estimated range and, therefore, this estimated range does not represent our maximum loss exposure.

Based on our current knowledge, we believe that our current estimated liability for litigation and other legal actions and claims, reflected in our accruals and determined in accordance with applicable accounting guidance, is adequate and that liabilities in excess of the amounts currently accrued, if any, arising from litigation and other legal actions and claims for which an estimate as previously described is possible, will not have a material impact on our financial condition, results of operations, or cash flows. However, in light of the significant uncertainties involved in these matters, and the very large or indeterminate damages sought in some of these matters, an adverse outcome in one or more of these matters could be material to our financial condition, results of operations, or cash flows for any given reporting period.

Any estimate or determination relating to the future resolution of litigation, arbitration, governmental or self-regulatory examinations, investigations or actions or similar matters is inherently uncertain and involves significant judgment. This is particularly true in the early stages of a legal matter, when legal issues and facts have not been well articulated, reviewed, analyzed, and vetted through discovery, preparation for trial or hearings, substantive and productive mediation or settlement discussions, or other actions. It is also particularly true with respect to class action and similar claims involving multiple defendants, matters with complex procedural requirements or substantive issues or novel legal theories, and examinations, investigations and other actions conducted or brought by governmental and self-regulatory agencies, in which the normal adjudicative process is not applicable. Accordingly, we usually are unable to determine whether a favorable or unfavorable outcome is remote, reasonably likely, or probable, or to estimate the amount or range of a probable or reasonably likely loss, until relatively late in the course of a legal matter, sometimes not until a number of years have elapsed. Accordingly, our judgments and estimates relating to claims will change from time to time in light of developments and actual outcomes will differ from our estimates. These differences may be material.

***Related Party Transactions***

We have no material related party transactions requiring disclosure. In the ordinary course of business, the Company and its subsidiary bank extend credit to related parties, including executive officers, directors, principal shareholders, and their associates and related interests. These related party loans are made in compliance with applicable banking regulations.

## 16. RETIREMENT PLANS

***Defined Benefit Plans***

*Pension* – This qualified noncontributory defined benefit plan is frozen to new participation. No service-related benefits have been accrued since July 1, 2013. All participants in the Plan are currently 100% vested in their benefits. Plan assets consist principally of corporate equity securities, mutual fund investments, real estate, and fixed income investments. Plan benefits are paid as a lump-sum cash value or an annuity at retirement age. Contributions to the plan are based on actuarial recommendation and pension regulations. Although there was no minimum regulatory contribution required in 2017 and 2016, we elected to contribute $4 million to the pension plan in 2016. Currently, it is expected that no minimum regulatory contributions will be required in 2018.

*Supplemental Retirement* – These unfunded nonqualified plans are for certain current and former employees. Each year, Company contributions to these plans are made in amounts sufficient to meet benefit payments to plan participants.

*Postretirement Medical/Life* – This unfunded health care and life insurance plan provides postretirement medical benefits to certain full-time employees who meet minimum age and service requirements. The plan also provides specified life insurance benefits to certain employees. The plan is contributory with retiree contributions adjusted annually, and contains other cost-sharing features such as deductibles and coinsurance. Plan coverage is provided by self-funding or health maintenance organization options. Our contribution towards the retiree medical premium has been permanently frozen at an amount that does not increase in any future year. Retirees pay the difference between the full premium rates and our capped contribution.

Because our contribution rate is capped, there is no effect on the postretirement plan from assumed increases or decreases in health care cost trends. Each year, Company contributions to the plan are made in amounts sufficient to meet the portion of the premiums that are the Company's responsibility.

The following presents the change in benefit obligation, change in fair value of plan assets, and funded status, of the plans and amounts recognized in the balance sheet as of the measurement date of December 31:

| | Pension | | Supplemental Retirement | | Postretirement | |
|---|---|---|---|---|---|---|
| ***(In millions)*** | **2017** | **2016** | **2017** | **2016** | **2017** | **2016** |
| Change in benefit obligation: | | | | | | |
| Benefit obligation at beginning of year | $ 165 | $ 173 | $ 10 | $ 10 | $ 1 | $ 1 |
| Interest cost | 6 | 7 | 1 | 1 | — | — |
| Actuarial loss (gain) | 2 | (2) | — | — | — | — |
| Benefits paid | (19) | (13) | (1) | (1) | — | — |
| Benefit obligation at end of year | 154 | 165 | 10 | 10 | 1 | 1 |
| Change in fair value of plan assets: | | | | | | |
| Fair value of plan assets at beginning of year | 161 | 157 | — | — | — | — |
| Actual return on plan assets | 26 | 13 | — | — | — | — |
| Employer contributions | — | 4 | 1 | 1 | — | — |
| Benefits paid | (19) | (13) | (1) | (1) | — | — |
| Fair value of plan assets at end of year | 168 | 161 | — | — | — | — |
| Funded status | $ 14 | $ (4) | $ (10) | $ (10) | $ (1) | $ (1) |
| Amounts recognized in balance sheet: | | | | | | |
| Asset (liability) for pension/postretirement benefits | $ 14 | $ (4) | $ (10) | $ (10) | $ (1) | $ (1) |
| Accumulated other comprehensive income (loss) | (28) | (48) | (2) | (2) | — | — |
| Accumulated other comprehensive income (loss) consists of: | | | | | | |
| Net loss | $ (28) | $ (48) | $ (2) | $ (2) | $ — | $ — |

The pension asset and the liability for supplement retirement/postretirement benefits are included in other assets and other liabilities, respectively, in the balance sheet. The accumulated benefit obligation is the same as the benefit obligation shown in the preceding schedule. During the third quarter of 2017, the Company revised its pension plan to offer certain participants a temporary opportunity to make an election to receive an immediate distribution from the pension plan. The window was available between August 1, 2017 and November 24, 2017. The impact of these distributions is included in "benefits paid" in the preceding schedule and in "settlement loss" shown in the net period benefit cost (credit) schedule.

The amounts in AOCI (loss) at December 31, 2017 expected to be recognized as an expense component of net periodic benefit cost in 2018 for the plans are estimated as follows:

| *(In millions)* | Pension | Supplemental Retirement | Postretirement |
|---|---|---|---|
| Net loss | $ (2) | $ — | $ — |

The following presents the components of net periodic benefit cost (credit) for the plans:

| | Pension | | | Supplemental Retirement | | | Postretirement | | |
|---|---|---|---|---|---|---|---|---|---|
| *(In millions)* | 2017 | 2016 | 2015 | 2017 | 2016 | 2015 | 2017 | 2016 | 2015 |
| Interest cost | $ 6 | $ 7 | $ 7 | $ 1 | $ 1 | $ 1 | $ — | $ — | $ — |
| Expected return on plan assets | (11) | (11) | (12) | — | — | — | — | — | — |
| Amortization of net actuarial loss | 4 | 6 | 6 | — | — | — | — | — | — |
| Settlement loss | 3 | 2 | — | — | — | — | — | — | — |
| Net periodic benefit cost | $ 2 | $ 4 | $ 1 | $ 1 | $ 1 | $ 1 | $ — | $ — | $ — |

Weighted average assumptions based on the pension plan are the same where applicable for each of the plans and are as follows:

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Used to determine benefit obligation at year-end: | | | |
| Discount rate | 3.50% | 4.10% | 4.20% |
| Used to determine net periodic benefit cost for the years ended December 31: | | | |
| Discount rate | 4.10 | 4.20 | 3.95 |
| Expected long-term return on plan assets | 7.25 | 7.50 | 7.50 |

The discount rate reflects the yields available on long-term, high-quality fixed income debt instruments with cash flows similar to the obligations of the pension plan, and is reset annually on the measurement date. The expected long-term rate of return on plan assets is based on a review of the target asset allocation of the plan. This rate is intended to approximate the long-term rate of return that we anticipate receiving on the plan's investments, considering the mix of the assets that the plan holds as investments, the expected return on these underlying investments, the diversification of these investments, and the rebalancing strategies employed. An expected long-term rate of return is assumed for each asset class and an underlying inflation rate assumption is determined.

Benefit payments to the plans' participants are estimated as follows for the years succeeding December 31, 2017:

| *(In millions)* | Pension | Supplemental Retirement | Postretirement |
|---|---|---|---|
| 2018 | $ 10 | $ 2 | $ — |
| 2019 | 10 | 1 | — |
| 2020 | 10 | 1 | — |
| 2021 | 10 | 1 | — |
| 2022 | 9 | 1 | — |
| Years 2023 - 2027 | 45 | 3 | — |

We are also obligated under other supplemental retirement plans for certain current and former employees. Our liability for these plans was $6 million at both December 31, 2017 and 2016, respectively.

For the pension plan, the investment strategy is predicated on its investment objectives and the risk and return expectations of asset classes appropriate for the plan. Investment objectives have been established by considering the plan's liquidity needs and time horizon and the fiduciary standards under the Employee Retirement Income Security Act of 1974. The asset allocation strategy is developed to meet the plan's long-term needs in a manner designed to control volatility and to reflect risk tolerance. Target investment allocation percentages as of December 31, 2017 are 65% in equity, 30% in fixed income and cash, and 5% in real estate assets.

The following presents the fair values of pension plan investments according to the fair value hierarchy described in Note 3, and the weighted average allocations:

| | December 31, 2017 | | | | December 31, 2016 | | | |
|---|---|---|---|---|---|---|---|---|
| *(In millions)* | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 | Total |
| Company common stock | $ 12 | | | $ 12 | $ 10 | | | $ 10 |
| Mutual funds: | | | | | | | | |
| Debt | 7 | | | 7 | 6 | | | 6 |
| Guaranteed deposit account | | | $ 9 | 9 | | | $ 11 | 11 |

In addition to the investments listed in the previous schedule, as of December 31, 2017, pension plan investments valued using NAV as the practical expedient for fair value consist of $97 million in equity investments, $31 million in debt investments, and $8 million in real estate investments, which are in pooled separate accounts, as well as $4 million in limited partnerships. As of December 31, 2016, pension plan investments valued using NAV as the practical expedient for fair value consist of $92 million in equity investments, $29 million in debt instruments, and $8 million in real estate investments, which are in pooled separate accounts, as well as $5 million in limited partnerships.

No transfers of assets occurred among Levels 1, 2 or 3 during 2017 or 2016.

The following describes the pension plan investments and the valuation methodologies used to measure their fair value:

Company common stock – Shares of the Company's common stock are valued at the last reported sales price on the last business day of the plan year in the active market where individual securities are traded.

Mutual funds – These funds are valued at quoted market prices which represent the NAVs of shares held by the plan at year-end.

Insurance company pooled separate accounts – These funds are invested in by more than one investor. They are offered through separate accounts of the trustee's insurance company and managed by internal and professional advisors. Participation units in these accounts are valued at the NAV as the practical expedient for fair value as determined by the insurance company.

Guaranteed deposit account – This account is a group annuity product issued by the trustee's insurance company with guaranteed crediting rates established at the beginning of each calendar year. The account balance is stated at fair value as estimated by the trustee. The account is credited with deposits made, plus earnings at guaranteed crediting rates, less withdrawals and administrative expenses. The underlying investments generally include investment-grade public and privately traded debt securities, mortgage loans and, to a lesser extent, real estate and other equity investments. Market value adjustments are applied at the time of redemption if certain withdrawal limits are exceeded.

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Additional fair value quantitative information for the guaranteed deposit account is as follows:

| Principal valuation techniques | Significant unobservable inputs | Range (weighted average) of significant input values | |
|---|---|---|---|
| For the underlying investments – reported fair values when available for market traded investments; when not applicable, discounted cash flows under an income approach using U.S. Treasury rates and spreads based on cash flow timing and quality of assets. | Earnings at guaranteed crediting rate | Gross guaranteed crediting rate must be greater than or equal to contractual minimum crediting rate | |
| | Composite market value factor | At December 31, | |
| | | 2017 | 0.992941 - 1.037825 (actual = 1.023838) |
| | | 2016 | 0.979009 - 1.036866 (actual = 1.021418) |

The Company's Benefits Committee evaluates the methodology and factors used, including review of the contract, economic conditions, industry and market developments, and overall credit ratings of the underlying investments.

Limited partnerships – These partnerships invest in limited partnerships, limited liability companies, or similar investment vehicles that consist of PEIs in a wide variety of investment types, including venture and growth capital, real estate, energy and natural resources, and other private investments. The plan's investments are valued by the limited partnerships at NAV as the practical expedient for fair value. The estimation process takes into account the plan's proportional interests credited with realized and unrealized earnings from the underlying investments and charged for operating expenses and distributions. Investments are increased by capital calls and are part of an overall capital commitment by the plan of up to approximately $9 million at December 31, 2017.

The following presents additional information as of December 31, 2017 and 2016 for the pooled separate accounts and limited partnerships whose fair values under Levels 2 and 3 are based on NAV per share:

| Investment | Unfunded commitments *(in millions, approximately)* | Redemption Frequency | Redemption Notice period |
|---|---|---|---|
| Pooled separate accounts | na | Daily | < $1 million, 1 day<br>>= $1 million, 3 days |
| Limited partnerships | $ 1 | Investments in these limited partnerships are illiquid and voluntary withdrawal is prohibited. | |

The following reconciles the beginning and ending balances of assets measured at fair value on a recurring basis using Level 3 inputs:

| *(In millions)* | Level 3 Instruments – Year Ended December 31, 2017 – Guaranteed deposit account | 2016 |
|---|---|---|
| Balance at beginning of year | $ 11 | $ 9 |
| Purchases | 17 | 15 |
| Sales | (19) | (13) |
| Balance at end of year | $ 9 | $ 11 |

Shares of Company common stock were 233,849 at both December 31, 2017 and 2016. Dividends received by the plan were not significant in 2017 and 2016.

### *Defined Contribution Plan*

The Company offers a 401(k) and employee stock ownership plan under which employees select from several investment alternatives. Employees can contribute up to 80% of their earnings subject to the annual maximum allowed contribution. The Company matches 100% of the first 3% of employee contributions and 50% of the next 2% of employee contributions. Matching contributions to participants, which were shares of the Company's common stock purchased in the open market, amounted to $26 million in 2017, 2016, and 2015.

The 401(k) plan also has a noncontributory profit sharing feature which is discretionary and may range from 0% to 4% of eligible compensation based upon the Company's return on average common equity for the year. The profit sharing expense was computed at a contribution rate of 1.75% in 2017, 1% in 2016, and 1% in 2015. The profit sharing expense was $11 million in 2017, and $6 million in both 2016 and 2015. The profit sharing contribution to participants consisted of shares of the Company's common stock purchased in the open market.

## 17. SHARE-BASED COMPENSATION

We have a share-based compensation incentive plan which allows us to grant stock options, restricted stock, RSUs, and other awards to employees and non-employee directors. Total shares authorized under the plan were 9,000,000 at December 31, 2017, of which 5,009,248 were available for future grants.

All share-based payments to employees, including grants of employee stock options, are recognized in the statement of income based on their grant date values. The value of an equity award is estimated on the grant date using a fair value-based model without regard to service or performance vesting conditions, but does consider post-vesting restrictions.

We classify all share-based awards as equity instruments. Compensation expense is included in salaries and employee benefits in the statement of income, with the corresponding increase included in common stock. Substantially all awards of stock options, restricted stock, and RSUs have graded vesting that is recognized on a straight-line basis over the vesting period.

Compensation expense and the related tax benefit for all share-based awards were as follows:

| *(In millions)* | 2017 | 2016 | 2015 |
|---|---|---|---|
| Compensation expense | $ 25 | $ 26 | $ 25 |
| Reduction of income tax expense | 19 | 9 | 8 |

During 2017, as a result of our adoption of ASU 2016-09, the tax effects recognized from the exercise of stock options and the vesting of restricted stock and RSUs was recorded as a $9 million reduction of income tax expense. Also, upon the adoption of ASU 2016-09, we elected to account for forfeitures of share-based compensation awards as they occur, rather than estimating forfeitures as was previously done. There was no material impact from the cumulative effect adjustment to retained earnings from this change.

Prior to our adoption of ASU 2016-09, the tax effects recognized from the exercise of stock options and the vesting of restricted stock and RSUs increased common stock by approximately $2 million in 2016 and decreased common stock by approximately $1 million in 2015. These amounts are included in the net activity under employee plans and related tax benefits in the statement of changes in shareholders' equity.

During 2017, we reduced share-based compensation expense by $1 million as a result of using a valuation model to estimate a liquidity discount on RSUs with post-vesting restrictions.

As of December 31, 2017, compensation expense not yet recognized for nonvested share-based awards was approximately $26 million, which is expected to be recognized over a weighted average period of 2.3 years.

***Stock Options***

Stock options granted to employees generally vest at the rate of one third each year and expire seven years after the date of grant. For all stock options granted in 2017, 2016, and 2015, we used the Black-Scholes option pricing model to estimate the grant date value of stock options in determining compensation expense. The following summarizes the weighted average value at grant date and the significant assumptions used in applying the Black-Scholes model for options granted:

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Weighted average value for options granted | $ 10.69 | $ 5.24 | $ 6.17 |
| Weighted average assumptions used: | | | |
| Expected dividend yield | 1.8% | 1.3% | 1.3% |
| Expected volatility | 30.0% | 30.0% | 25.0% |
| Risk-free interest rate | 1.81% | 1.21% | 1.57% |
| Expected life (in years) | 5.0 | 5.0 | 5.0 |

The assumptions for expected dividend yield, expected volatility, and expected life reflect management's judgment and include consideration of historical experience. Expected volatility is based in part on historical volatility. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant for periods corresponding with the expected life of the option.

The following summarizes our stock option activity for the three years ended December 31, 2017:

| | Number of shares | Weighted average exercise price |
|---|---|---|
| Balance at December 31, 2014 | 5,630,502 | $ 31.60 |
| Granted | 740,300 | 29.01 |
| Exercised | (1,165,287) | 25.11 |
| Expired | (1,322,067) | 48.44 |
| Forfeited | (79,353) | 28.09 |
| Balance at December 31, 2015 | 3,804,095 | 27.30 |
| Granted | 789,651 | 21.25 |
| Exercised | (1,055,532) | 23.75 |
| Expired | (56,297) | 61.60 |
| Forfeited | (44,007) | 27.66 |
| Balance at December 31, 2016 | 3,437,910 | 26.44 |
| Granted | 195,882 | 44.18 |
| Exercised | (941,761) | 26.03 |
| Expired | (58,257) | 66.20 |
| Forfeited | (73,203) | 25.63 |
| Balance at December 31, 2017 | 2,560,571 | 27.06 |
| Outstanding stock options exercisable as of: | | |
| December 31, 2017 | 1,648,367 | $ 26.55 |
| December 31, 2016 | 1,892,136 | 27.60 |
| December 31, 2015 | 2,187,259 | 26.35 |

We issue new authorized common shares for the exercise of stock options. The total intrinsic value of stock options exercised was approximately $17 million in 2017, $10 million in 2016, and $7 million in 2015. Cash received from the exercise of stock options was $23 million in 2017, $24 million in 2016, and $23 million in 2015.

Additional selected information on stock options at December 31, 2017 follows:

| | Outstanding stock options | | | Exercisable stock options | |
|---|---|---|---|---|---|
| Exercise price range | Number of shares | Weighted average exercise price | Weighted average remaining contractual life (years) | Number of shares | Weighted average exercise price |
| $ 0.32 to $19.99 | 198,402 | $ 17.39 | 1.4 [1] | 198,402 | $ 17.39 |
| $20.00 to $24.99 | 744,058 | 21.50 | 4.3 | 276,953 | 22.33 |
| $25.00 to $29.99 | 1,346,781 | 28.35 | 3.5 | 1,094,021 | 28.30 |
| $30.00 to $39.99 | 32,191 | 30.10 | 3.4 | 32,191 | 30.10 |
| $40.00 to $44.99 | 192,339 | 44.17 | 6.1 | — | — |
| $45.00 to $47.10 | 46,800 | 47.10 | 0.3 | 46,800 | 47.10 |
| | 2,560,571 | 27.06 | 3.7 [1] | 1,648,367 | 26.55 |

[1] *The weighted average remaining contractual life excludes 21,252 stock options without a fixed expiration date that were assumed with the Amegy acquisition. They expire between the date of termination and one year from the date of termination, depending upon certain circumstances.*

The aggregate intrinsic value of outstanding stock options at December 31, 2017 and 2016 was $61 million and $59 million, respectively, while the aggregate intrinsic value of exercisable options was $40 million and $31 million at the same respective dates. For exercisable options, the weighted average remaining contractual life was 2.9 years and 3.0 years at December 31, 2017 and 2016, respectively, excluding the stock options previously noted without a fixed expiration date. At December 31, 2017, 912,204 stock options with a weighted average exercise price of $27.99, a weighted average remaining life of 5.1 years, and an aggregate intrinsic value of $21 million, were expected to vest.

***Restricted Stock and Restricted Stock Units***

Restricted stock is common stock with certain restrictions that relate to trading and the possibility of forfeiture. Generally, restricted stock vests over four years. Holders of restricted stock have full voting rights and receive dividend equivalents during the vesting period. In addition, holders of restricted stock can make an election to be subject to income tax on the grant date rather than the vesting date.

RSUs represent rights to one share of common stock for each unit and generally vest over four years. Holders of RSUs receive dividend equivalents during the vesting period, but do not have voting rights.

Compensation expense is determined based on the number of restricted shares or RSUs granted and the market price of our common stock at the issue date.

During 2017, 2016, and 2015, we granted 20,711, 32,310, and 31,080 RSUs, respectively, to non-employee directors. The RSUs vested immediately upon grant.

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The following summarizes our restricted stock activity for the three years ended December 31, 2017:

| | Number of shares | Weighted average issue price |
|---|---|---|
| Nonvested restricted shares at December 31, 2014 | 161,220 | $ 21.82 |
| Issued | 22,441 | 29.02 |
| Vested | (123,161) | 22.32 |
| Forfeited | (1,130) | 23.54 |
| Nonvested restricted shares at December 31, 2015 | 59,370 | 23.49 |
| Issued | 36,594 | 24.43 |
| Vested | (32,709) | 20.80 |
| Nonvested restricted shares at December 31, 2016 | 63,255 | 25.43 |
| Issued | 314 | 44.55 |
| Vested | (24,591) | 24.90 |
| Nonvested restricted shares at December 31, 2017 | 38,978 | 25.91 |

The following summarizes our RSU activity for the three years ended December 31, 2017:

| | Number of restricted stock units | Weighted average grant price |
|---|---|---|
| Restricted stock units at December 31, 2014 | 1,769,420 | $ 25.64 |
| Granted | 790,929 | 29.06 |
| Vested | (673,385) | 24.78 |
| Forfeited | (88,421) | 27.17 |
| Restricted stock units at December 31, 2015 | 1,798,543 | 27.39 |
| Granted | 1,033,167 | 21.69 |
| Vested | (724,713) | 25.88 |
| Forfeited | (59,839) | 26.28 |
| Restricted stock units at December 31, 2016 | 2,047,158 | 25.08 |
| Granted | 587,396 | 41.78 |
| Vested | (803,492) | 26.19 |
| Forfeited | (121,249) | 28.12 |
| Restricted stock units at December 31, 2017 | 1,709,813 | 30.08 |

The total value at grant date of restricted stock and RSUs vested during the year was $22 million in 2017 and $19 million in both 2016 and 2015. At December 31, 2017, 38,978 shares of restricted stock and 1,181,384 RSUs were expected to vest with an aggregate intrinsic value of $2 million and $60 million, respectively.

## 18. INCOME TAXES

Income tax expense is summarized as follows:

| *(In millions)* | 2017 | 2016 | 2015 |
|---|---|---|---|
| Federal: | | | |
| Current | $ 166 | $ 217 | $ 158 |
| Deferred | 146 | (4) | (32) |
| Total Federal | 312 | 213 | 126 |
| State: | | | |
| Current | 24 | 27 | 14 |
| Deferred | 8 | (4) | 2 |
| Total State | 32 | 23 | 16 |
| Total | $ 344 | $ 236 | $ 142 |

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Income tax expense computed at the statutory federal income tax rate of 35% reconciles to actual income tax expense as follows:

| *(In millions)* | 2017 | 2016 | 2015 |
|---|---|---|---|
| Income tax expense at statutory federal rate | $ 327 | $ 247 | $ 158 |
| State income taxes including credits, net | 21 | 15 | 10 |
| Other nondeductible expenses | 3 | 3 | 3 |
| Nontaxable income | (33) | (25) | (20) |
| Share-based compensation | (8) | — | — |
| Tax credits and other taxes | 1 | (2) | (3) |
| Tax Cuts and Jobs Act of 2017 | 47 | — | — |
| Other | (14) | (2) | (6) |
| Total | $ 344 | $ 236 | $ 142 |

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets (“DTA”) and deferred tax liabilities are presented below:

| | December 31, | |
|---|---|---|
| *(In millions)* | 2017 | 2016 |
| Gross deferred tax assets: | | |
| Book loan loss deduction in excess of tax | $ 143 | $ 241 |
| Pension and postretirement | 8 | 19 |
| Deferred compensation | 48 | 87 |
| Security investments and derivative fair value adjustments | 40 | 57 |
| Net operating losses, capital losses and tax credits | 2 | 5 |
| FDIC-supported transactions | 2 | 5 |
| Other | 34 | 46 |
| | 277 | 460 |
| Valuation allowance | (2) | (4) |
| Total deferred tax assets | 275 | 456 |
| Gross deferred tax liabilities: | | |
| Core deposits and purchase accounting | — | (1) |
| Premises and equipment, due to differences in depreciation | (51) | (8) |
| Federal Home Loan Bank stock dividends | (3) | (4) |
| Leasing operations | (52) | (75) |
| Prepaid expenses | (5) | (7) |
| Prepaid pension reserves | (11) | (17) |
| Mortgage servicing | (7) | (10) |
| Subordinated debt modification | (9) | (31) |
| Deferred loan fees | (23) | (25) |
| Equity investments | (21) | (28) |
| Total deferred tax liabilities | (182) | (206) |
| Net deferred tax assets | $ 93 | $ 250 |

On December 22, 2017, H.R. 1, known as the Tax Cuts and Jobs Act (“the Act”), was signed into law. The Act makes significant changes to the U.S. Internal Revenue Code of 1986, including a decrease in the current corporate federal income tax rate to 21% from 35%, effective January 1, 2018. In conjunction with the enactment of the Act, the SEC issued Staff Accounting Bulletin No. 118 (“SAB 118”) to address the accounting for certain income tax effects of the Act that may not be complete by the time financial statements are issued. The Company evaluated all available information and made reasonable estimates of the impact of the Act to substantially all components of its net DTA. The provisional impact of the Act on the net DTA resulted in a non-cash charge of $47 million recorded through income tax expense. The Company anticipates that additional adjustments to net DTA and income tax expense may be made in 2018 as the Company's initial determination of the tax basis of deferred items such as foregone interest, equity investments in flow-through entities, certain employee compensation arrangements, FDIC-supported transactions and premises and equipment are finalized. These adjustments will be recorded in the financial statements in the reporting period when such adjustments are determined; however, SAB 118 requires all impacts from the Act to be recorded prior to December 22, 2018, which is one year from the enactment date of the Act.

In 2017, the Company early adopted the guidance in ASU 2018-02, which allows reclassification from AOCI to retained earnings for the stranded tax effects related to the change in the corporate income tax rate from the Act. The early adoption of the guidance resulted in a $25 million increase to retained earnings out of AOCI as of December 31, 2017.

The amount of net DTAs is included with other assets in the balance sheet. The $2 million and $4 million valuation allowances at December 31, 2017 and 2016, respectively, were for certain acquired net operating loss carryforwards included in our acquisition of the remaining interests in a less significant subsidiary. At December 31, 2017, excluding the $2 million, the tax effect of remaining net operating loss and tax credit carryforwards was less than $1 million expiring through 2030.

We evaluate the DTAs on a regular basis to determine whether an additional valuation allowance is required. In conducting this evaluation, we have considered all available evidence, both positive and negative, based on the more likely than not criteria that such assets will be realized. This evaluation includes, but is not limited to: (1) available carryback potential to prior tax years; (2) potential future reversals of existing deferred tax liabilities, which historically have a reversal pattern generally consistent with DTAs; (3) potential tax planning strategies; and (4) future projected taxable income. Based on this evaluation, and considering the weight of the positive evidence compared to the negative evidence, we have concluded that an additional valuation allowance is not required as of December 31, 2017.

We have a liability for unrecognized tax benefits relating to uncertain tax positions for tax credits on technology initiatives. A reconciliation of the beginning and ending amount of gross unrecognized tax benefits is as follows:

| *(In millions)* | 2017 | 2016 | 2015 |
|---|---|---|---|
| Balance at beginning of year | $ 4 | $ 5 | $ 3 |
| Tax positions related to current year: | | | |
| Additions | 1 | 1 | 1 |
| Reductions | — | — | — |
| Tax positions related to prior years: | | | |
| Additions | 1 | 1 | 1 |
| Reductions | — | — | — |
| Settlements with taxing authorities | — | — | — |
| Lapses in statutes of limitations | — | (3) | — |
| Balance at end of year | $ 6 | $ 4 | $ 5 |

At December 31, 2017 and 2016, the liability for unrecognized tax benefits included approximately $5 million and $3 million, respectively (net of the federal tax benefit on state issues) that, if recognized, would affect the effective tax rate. The amount of gross unrecognized tax benefits that may increase or decrease during the 12 months subsequent to December 31, 2017, is dependent on the timing and outcome of various federal and state examinations.

Interest and penalties related to unrecognized tax benefits are included in income tax expense in the statement of income. At December 31, 2017 and 2016, accrued interest and penalties recognized in the balance sheet, net of any federal and/or state tax benefits, were less than $1 million.

The Company and its subsidiaries file income tax returns in U.S. federal and various state jurisdictions. The Company is no longer subject to income tax examinations for years prior to 2013 for federal returns and 2012 for certain state returns.

## 19. NET EARNINGS PER COMMON SHARE

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

| *(In millions, except per share amounts)* | 2017 | 2016 | 2015 |
|---|---|---|---|
| Basic: | | | |
| Net income | $ 592 | $ 469 | $ 309 |
| Less common and preferred dividends | 131 | 115 | 108 |
| Undistributed earnings | 461 | 354 | 201 |
| Less undistributed earnings applicable to nonvested shares | 4 | 4 | 2 |
| Undistributed earnings applicable to common shares | 457 | 350 | 199 |
| Distributed earnings applicable to common shares | 88 | 57 | 45 |
| Total earnings applicable to common shares | $ 545 | $ 407 | $ 244 |
| Weighted average common shares outstanding (in thousands) | 200,776 | 203,855 | 203,265 |
| Net earnings per common share | $ 2.71 | $ 2.00 | $ 1.20 |
| Diluted: | | | |
| Total earnings applicable to common shares | $ 545 | $ 407 | $ 244 |
| Weighted average common shares outstanding (in thousands) | 200,776 | 203,855 | 203,265 |
| Additional weighted average dilutive shares (in thousands) | 8,877 | 414 | 433 |
| Weighted average diluted common shares outstanding (in thousands) | 209,653 | 204,269 | 203,698 |
| Net earnings per common share | $ 2.60 | $ 1.99 | $ 1.20 |

For 2017 and 2016, preferred dividends were increased by $2 million and $10 million, respectively, from costs related to the full redemption of the Company's Series F preferred stock in 2017 and partial redemption of the Company's Series I, J, and G preferred stock in 2016. See further discussion in Note 13.

## 20. OPERATING SEGMENT INFORMATION

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

As of December 31, 2017, our banking business is conducted through 7 locally managed and branded segments in distinct geographical areas. Performance assessment and resource allocation are based upon this geographical structure. Zions Bank operates 97 branches in Utah, 23 branches in Idaho, and 1 branch in Wyoming. CB&T operates 92 branches in California. Amegy operates 73 branches in Texas. NBAZ operates 58 branches in Arizona. NSB operates 50 branches in Nevada. Vectra operates 36 branches in Colorado and 1 branch in New Mexico. TCBW operates 1 branch in Washington and 1 branch in Oregon.

The operating segment identified as "Other" includes the Parent, certain nonbank financial service subsidiaries, centralized back-office functions, and eliminations of transactions between segments. The major components of net interest income at the Bank's back-office include the revenue associated with the investments securities portfolio and the offset of the FTP costs and benefits provided to the business segments. Throughout 2016 consolidation efforts continued, which resulted in transitioning full-time equivalents from the business segments to the Company's back-office units. Due to the continuing nature and timing of this change, the Company's back-office units retained more direct expenses in 2016 than in prior years. In the first quarter of 2017 we made changes to the FTP process and internal allocation of central expenses to better reflect the performance of business segments. Prior period amounts have been revised to reflect the impact of these changes had they been instituted in 2016.

The following schedule does not present total assets or income tax expense for each operating segment, but instead presents average loans, average deposits and income before income taxes because these are the metrics that management uses when evaluating performance and making decisions pertaining to the operating segments. The Parent's net interest income includes interest expense on other borrowed funds. The Parent's financial statements in Note 22 provide more information about the Parent's activities. The condensed statement of income identifies the components of income and expense which affect the operating amounts presented in the Other segment.

The accounting policies of the individual operating segments are the same as those of the Company. Transactions between operating segments are primarily conducted at fair value, resulting in profits that are eliminated for reporting consolidated results of operations.

The following is a summary of selected operating segment information:

| *(In millions)* | Zions Bank | | | Amegy | | | CB&T | | |
|---|---|---|---|---|---|---|---|---|---|
| | **2017** | **2016** | **2015** | **2017** | **2016** | **2015** | **2017** | **2016** | **2015** |
| **SELECTED INCOME STATEMENT DATA** | | | | | | | | | |
| Net interest income | $ 650 | $ 624 | $ 544 | $ 483 | $ 460 | $ 387 | $ 476 | $ 434 | $ 377 |
| Provision for loan losses | 19 | (22) | (28) | 25 | 163 | 91 | (5) | (9) | (4) |
| Net interest income after provision for loan losses | 631 | 646 | 572 | 458 | 297 | 296 | 481 | 443 | 381 |
| Noninterest income | 151 | 149 | 133 | 118 | 123 | 121 | 75 | 67 | 63 |
| Noninterest expense | 436 | 424 | 430 | 336 | 326 | 373 | 299 | 290 | 294 |
| Income before income taxes | $ 346 | $ 371 | $ 275 | $ 240 | $ 94 | $ 44 | $ 257 | $ 220 | $ 150 |
| **SELECTED AVERAGE BALANCE SHEET DATA** | | | | | | | | | |
| Total average loans | $ 12,481 | $ 12,538 | $ 12,118 | $ 11,021 | $ 10,595 | $ 10,148 | $ 9,539 | $ 9,211 | $ 8,556 |
| Total average deposits | 15,986 | 15,991 | 15,688 | 11,096 | 11,130 | 11,495 | 11,030 | 10,827 | 10,063 |

| *(In millions)* | NBAZ | | | NSB | | | Vectra | | |
|---|---|---|---|---|---|---|---|---|---|
| | **2017** | **2016** | **2015** | **2017** | **2016** | **2015** | **2017** | **2016** | **2015** |
| **SELECTED INCOME STATEMENT DATA** | | | | | | | | | |
| Net interest income | $ 206 | $ 190 | $ 152 | $ 134 | $ 122 | $ 94 | $ 126 | $ 120 | $ 101 |
| Provision for loan losses | (8) | (3) | 8 | (11) | (28) | (28) | 1 | (8) | 5 |
| Net interest income after provision for loan losses | 214 | 193 | 144 | 145 | 150 | 122 | 125 | 128 | 96 |
| Noninterest income | 40 | 40 | 36 | 40 | 39 | 36 | 25 | 23 | 21 |
| Noninterest expense | 148 | 144 | 133 | 139 | 137 | 131 | 101 | 97 | 98 |
| Income before income taxes | $ 106 | $ 89 | $ 47 | $ 46 | $ 52 | $ 27 | $ 49 | $ 54 | $ 19 |
| **SELECTED AVERAGE BALANCE SHEET DATA** | | | | | | | | | |
| Total average loans | $ 4,267 | $ 4,086 | $ 3,811 | $ 2,357 | $ 2,284 | $ 2,344 | $ 2,644 | $ 2,469 | $ 2,400 |
| Total average deposits | 4,762 | 4,576 | 4,311 | 4,254 | 4,137 | 3,891 | 2,756 | 2,720 | 2,792 |

| *(In millions)* | TCBW | | | Other | | | Consolidated Company | | |
|---|---|---|---|---|---|---|---|---|---|
| | **2017** | **2016** | **2015** | **2017** | **2016** | **2015** | **2017** | **2016** | **2015** |
| **SELECTED INCOME STATEMENT DATA** | | | | | | | | | |
| Net interest income | $ 46 | $ 38 | $ 28 | $ (56) | $ (121) | $ 32 | $ 2,065 | $ 1,867 | $ 1,715 |
| Provision for loan losses | 2 | — | (3) | 1 | — | (1) | 24 | 93 | 40 |
| Net interest income after provision for loan losses | 44 | 38 | 31 | (57) | (121) | 33 | 2,041 | 1,774 | 1,675 |
| Noninterest income | 5 | 5 | 4 | 90 | 70 | (57) | 544 | 516 | 357 |
| Noninterest expense | 20 | 19 | 17 | 170 | 148 | 105 | 1,649 | 1,585 | 1,581 |
| Income (loss) before income taxes | $ 29 | $ 24 | $ 18 | $ (137) | $ (199) | $ (129) | $ 936 | $ 705 | $ 451 |
| **SELECTED AVERAGE BALANCE SHEET DATA** | | | | | | | | | |
| Total average loans | $ 926 | $ 791 | $ 707 | $ 266 | $ 88 | $ 87 | $ 43,501 | $ 42,062 | $ 40,171 |
| Total average deposits | 1,107 | 1,007 | 879 | 1,209 | 207 | (481) | 52,200 | 50,595 | 48,638 |

## 21. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Financial information by quarter for 2017 and 2016 is as follows:

| *(In millions, except per share amounts)* | Quarters | | | | |
|---|---|---|---|---|---|
| | First | Second | Third | Fourth | Year |
| **2017** | | | | | |
| Gross interest income | $ 515 | $ 558 | $ 557 | $ 562 | $ 2,192 |
| Net interest income | 489 | 528 | 522 | 526 | 2,065 |
| Provision for loan losses | 23 | 7 | 5 | (11) | 24 |
| Noninterest income | 132 | 132 | 140 | 140 | 544 |
| Noninterest expense | 414 | 405 | 413 | 417 | 1,649 |
| Income before income taxes | 184 | 248 | 244 | 260 | 936 |
| Net income | 139 | 168 | 161 | 124 | 592 |
| Preferred stock dividends | (10) | (12) | (8) | (10) | (40) |
| Preferred stock redemption | — | (2) | — | — | (2) |
| Net earnings applicable to common shareholders | 129 | 154 | 153 | 114 | 550 |
| Net earnings per common share: | | | | | |
| Basic | 0.63 | 0.76 | 0.75 | 0.57 | 2.71 |
| Diluted | 0.61 | 0.73 | 0.72 | 0.54 | 2.60 |
| **2016** | | | | | |
| Gross interest income | $ 475 | $ 487 | $ 491 | $ 501 | $ 1,954 |
| Net interest income | 453 | 465 | 469 | 480 | 1,867 |
| Provision for loan losses | 42 | 35 | 19 | (3) | 93 |
| Noninterest income | 117 | 126 | 145 | 128 | 516 |
| Noninterest expense | 396 | 382 | 403 | 404 | 1,585 |
| Income before income taxes | 132 | 174 | 192 | 207 | 705 |
| Net income | 91 | 114 | 127 | 137 | 469 |
| Preferred stock dividends | (12) | (14) | (10) | (12) | (48) |
| Preferred stock redemption | — | (10) | — | — | (10) |
| Net earnings applicable to common shareholders | 79 | 90 | 117 | 125 | 411 |
| Net earnings per common share: | | | | | |
| Basic | 0.38 | 0.44 | 0.57 | 0.61 | 2.00 |
| Diluted | 0.38 | 0.44 | 0.57 | 0.60 | 1.99 |

Certain prior year amounts have been reclassified to conform with the current year presentation. These reclassifications did not affect net income. See related discussion in Note 1. Individual quarter information may be different than previously reported due to rounding.

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## 22. PARENT COMPANY FINANCIAL INFORMATION

### CONDENSED BALANCE SHEETS

| *(In millions)* | December 31, 2017 | December 31, 2016 |
|---|---|---|
| **ASSETS** | | |
| Cash and due from banks | $ — | $ 2 |
| Interest-bearing deposits | 332 | 529 |
| Investment securities: | | |
| Available-for-sale, at fair value | 30 | 40 |
| Other noninterest-bearing investments | 36 | 29 |
| Investments in subsidiaries: | | |
| Commercial bank | 7,620 | 7,570 |
| Other subsidiaries | 41 | 6 |
| Other assets | 32 | 81 |
| Total assets | $ 8,091 | $ 8,257 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| Other liabilities | $ 30 | $ 89 |
| Long-term debt: | | |
| Due to others | 382 | 534 |
| Total liabilities | 412 | 623 |
| Shareholders' equity: | | |
| Preferred stock | 566 | 710 |
| Common stock | 4,445 | 4,725 |
| Retained earnings | 2,807 | 2,321 |
| Accumulated other comprehensive income (loss) | (139) | (122) |
| Total shareholders' equity | 7,679 | 7,634 |
| Total liabilities and shareholders' equity | $ 8,091 | $ 8,257 |

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## CONDENSED STATEMENTS OF INCOME

| *(In millions)* | Year Ended December 31, 2017 | 2016 | 2015 |
|---|---|---|---|
| Interest income: | | | |
| Commercial bank | $ — | $ 1 | $ 1 |
| Other loans and securities | 1 | 2 | 3 |
| Total interest income | 1 | 3 | 4 |
| Interest expense: | | | |
| Affiliated trusts | — | 3 | 4 |
| Other borrowed funds | 25 | 34 | 64 |
| Total interest expense | 25 | 37 | 68 |
| Net interest loss | (24) | (34) | (64) |
| Other income: | | | |
| Dividends from consolidated subsidiaries: | | | |
| Commercial bank | 587 | 263 | 234 |
| Securities gains, net | — | — | 37 |
| Other income | 7 | 4 | 13 |
| Total other income | 594 | 267 | 284 |
| Expenses: | | | |
| Salaries and employee benefits | 24 | 23 | 25 |
| Other operating expenses | 8 | (14) | 10 |
| Total expenses | 32 | 9 | 35 |
| Income before income taxes and undistributed income of consolidated subsidiaries | 538 | 224 | 185 |
| Income tax benefit | (42) | (19) | (27) |
| Income before equity in undistributed income of consolidated subsidiaries | 580 | 243 | 212 |
| Equity in undistributed income (loss) of consolidated subsidiaries: | | | |
| Commercial bank | 12 | 230 | 108 |
| Other subsidiaries | — | (4) | (11) |
| Net income | 592 | 469 | 309 |
| Preferred stock dividends | (40) | (48) | (62) |
| Preferred stock redemption | (2) | (10) | — |
| Net earnings applicable to common shareholders | $ 550 | $ 411 | $ 247 |

**CONDENSED STATEMENTS OF CASH FLOWS**

| *(In millions)* | Year Ended December 31, | | |
|---|---|---|---|
| | 2017 | 2016 | 2015 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Net income | $ 592 | $ 469 | $ 309 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Equity in undistributed income of consolidated subsidiaries | (12) | (226) | (97) |
| Other, net | (56) | (31) | 78 |
| Net cash provided by operating activities | 524 | 212 | 290 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Net decrease in money market investments | 196 | 347 | 132 |
| Collection of advances to subsidiaries | — | — | 56 |
| Advances to subsidiaries | — | — | (41) |
| Proceeds from sales and maturities of investment securities | 20 | 4 | 125 |
| Purchases of investment securities | — | — | (47) |
| Decrease of investment in subsidiaries | — | — | 15 |
| Other, net | 2 | 7 | 4 |
| Net cash provided by investing activities | 218 | 358 | 244 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Repayments of long-term debt | (164) | (280) | (271) |
| Proceeds from issuance of common stock | 25 | 25 | 22 |
| Cash paid for preferred stock redemptions | (144) | (126) | (176) |
| Company common stock repurchased | (332) | (97) | (7) |
| Dividends paid on preferred stock | (40) | (50) | (63) |
| Dividends paid on common stock | (89) | (58) | (45) |
| Net cash used in financing activities | (744) | (586) | (540) |
| Net decrease in cash and due from banks | (2) | (16) | (6) |
| Cash and due from banks at beginning of year | 2 | 18 | 24 |
| Cash and due from banks at end of year | $ — | $ 2 | $ 18 |

The Parent paid interest of $26 million in 2017, $35 million in 2016, and $51 million in 2015.

## ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

## ITEM 9A. CONTROLS AND PROCEDURES

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures as of December 31, 2017. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of December 31, 2017. There were no changes in the Company's internal control over financial reporting during the fourth quarter of 2017 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. See "Report on Management's Assessment of Internal Control over Financial Reporting" included in Item 8 on page 84 for management's report on the adequacy of internal control over financial reporting. Also see "Report on Internal Control over Financial Reporting" issued by Ernst & Young LLP included in Item 8 on page 86.

## ITEM 9B. OTHER INFORMATION

None.

# PART III

## ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Incorporated by reference from the Company's Proxy Statement to be subsequently filed.

## ITEM 11. EXECUTIVE COMPENSATION

Incorporated by reference from the Company's Proxy Statement to be subsequently filed.

## ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

## EQUITY COMPENSATION PLAN INFORMATION

The following schedule provides information as of December 31, 2017 with respect to the shares of the Company's common stock that may be issued under existing equity compensation plans.

| Plan category [1] | (a) Number of securities to be issued upon exercise of outstanding options, warrants and rights | (b) Weighted average exercise price of outstanding options, warrants and rights | (c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) |
|---|---|---|---|
| **Equity compensation plan approved by security holders:** | | | |
| Zions Bancorporation 2015 Omnibus Incentive Plan | 1,363,432 | $ 27.43 | 5,009,248 |

[1] *Column (a) excludes 38,978 shares of unvested restricted stock, 1,709,813 RSUs (each unit representing the right to one share of common stock), and 1,175,887 shares of common stock issuable upon the exercise of stock options, with a weighted average exercise price of $27.03, granted under the prior plan. The schedule also excludes 21,252 shares of common stock issuable upon the exercise of stock options, with a weighted average exercise price of $5.02, granted under plans assumed in mergers that are outstanding.*

Other information required by Item 12 is incorporated by reference from the Company's Proxy Statement to be subsequently filed.

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## ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Incorporated by reference from the Company's Proxy Statement to be subsequently filed.

## ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Incorporated by reference from the Company's Proxy Statement to be subsequently filed.

# PART IV

## ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) (1) Financial statements – The following consolidated financial statements of Zions Bancorporation and subsidiaries are filed as part of this Form 10-K under Item 8, Financial Statements and Supplementary Data:

Consolidated balance sheets – December 31, 2017 and 2016

Consolidated statements of income – Years ended December 31, 2017, 2016 and 2015

Consolidated statements of comprehensive income – Years ended December 31, 2017, 2016 and 2015

Consolidated statements of changes in shareholders' equity – Years ended December 31, 2017, 2016 and 2015

Consolidated statements of cash flows – Years ended December 31, 2017, 2016 and 2015

Notes to consolidated financial statements – December 31, 2017

(2) Financial statement schedules – All financial statement schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions, the required information is contained elsewhere in the Form 10-K, or the schedules are inapplicable and have therefore been omitted.

(3) List of Exhibits:

| Exhibit Number | Description | |
|---|---|---|
| 3.1 | Restated Articles of Incorporation of Zions Bancorporation dated July 8, 2014, incorporated by reference to Exhibit 3.1 of Form 8-K/A filed on July 18, 2014. | * |
| 3.2 | Restated Bylaws of Zions Bancorporation dated February 27, 2015, incorporated by reference to Exhibit 3.2 of Form 10-Q for the quarter ended March 31, 2015. | * |
| 4.1 | Senior Debt Indenture dated September 10, 2002 between Zions Bancorporation and The Bank of New York Mellon Trust Company, N.A. as successor to J.P. Morgan Trust Company, N.A., as trustee, with respect to senior debt securities of Zions Bancorporation (filed herewith). | |
| 4.2 | Subordinated Debt Indenture dated September 10, 2002 between Zions Bancorporation and The Bank of New York Mellon Trust Company, N.A. as successor to J.P. Morgan Trust Company, N.A., as trustee, with respect to subordinated debt securities of Zions Bancorporation (filed herewith). | |
| 4.3 | Junior Subordinated Indenture dated August 21, 2002 between Zions Bancorporation and The Bank of New York Mellon Trust Company, N.A. as successor to J.P. Morgan Trust Company, N.A., as trustee, with respect to junior subordinated debentures of Zions Bancorporation (filed herewith). | |

| Exhibit Number | Description | |
|---|---|---|
| 4.4 | Warrant to purchase up to 5,789,909 shares of Common Stock, issued on November 14, 2008, incorporated by reference to Exhibit 4.4 of Form 10-K for the year ended December 31, 2013. | * |
| 4.5 | Warrant Agreement, between Zions Bancorporation and Zions First National Bank (now known as ZB, N.A.), and Warrant Certificate, incorporated by reference to Exhibit 4.5 of Form 10-K for the year ended December 31, 2016. | * |
| 10.1 | Zions Bancorporation 2015-2017 Value Sharing Plan, incorporated by reference to Exhibit 10.1 of Form 10-Q for the quarter ended March 31, 2015. | * |
| 10.2 | Zions Bancorporation 2016-2018 Value Sharing Plan, incorporated by reference to Exhibit 10.1 of Form 10-Q for the quarter ended September 30, 2016. | * |
| 10.3 | Zions Bancorporation 2017-2019 Value Sharing Plan, incorporated by reference to Exhibit 10.2 of Form 10-Q for the quarter ended June 30, 2017. | * |
| 10.4 | Zions Bancorporation 2017 Management Incentive Compensation Plan, incorporated by reference to Appendix I of the Company's Proxy Statement dated April 14, 2016. | * |
| 10.5 | Zions Bancorporation Third Restated and Revised Deferred Compensation Plan, incorporated by reference to Exhibit 10.1 of Form 10-Q for the quarter ended September 30, 2013. | * |
| 10.6 | Zions Bancorporation Fourth Restated Deferred Compensation Plan for Directors, incorporated by reference to Exhibit 10.2 of Form 10-Q for the quarter ended September 30, 2013. | * |
| 10.7 | Amendment to the Zions Bancorporation Fourth Restated Deferred Compensation Plan for Directors, incorporated by reference to Exhibit 10.8 of Form 10-K for the year ended December 31, 2015. | * |
| 10.8 | Amended and Restated Amegy Bancorporation, Inc. Non-Employee Directors Deferred Fee Plan, incorporated by reference to Exhibit 10.3 of Form 10-Q for the quarter ended September 30, 2013. | * |
| 10.9 | Zions Bancorporation First Restated Excess Benefit Plan, incorporated by reference to Exhibit 10.8 of Form 10-K for the year ended December 31, 2014. | * |
| 10.10 | Trust Agreement establishing the Zions Bancorporation Deferred Compensation Plan Trust by and between Zions Bancorporation and Cigna Bank & Trust Company, FSB effective October 1, 2002, incorporated by reference to Exhibit 10.9 of Form 10-K for the year ended December 31, 2012. | * |
| 10.11 | Amendment to the Trust Agreement establishing the Zions Bancorporation Deferred Compensation Plan Trust by and between Zions Bancorporation and Cigna Bank & Trust Company, FSB substituting Prudential Bank & Trust, FSB as the trustee, incorporated by reference to Exhibit 10.12 of Form 10-K for the year ended December 31, 2016. | * |
| 10.12 | Amendment to Trust Agreement Establishing the Zions Bancorporation Deferred Compensation Plans Trust, effective September 1, 2006, incorporated by reference to Exhibit 10.11 of Form 10-K for the year ended December 31, 2012. | * |
| 10.13 | Fifth Amendment to Trust Agreement between Fidelity Management Trust Company and Zions Bancorporation for the Deferred Compensation Plans, incorporated by reference to Exhibit 10.5 of Form 10-Q for the quarter September 30, 2013. | * |

| Exhibit Number | Description | |
|---|---|---|
| 10.14 | Sixth Amendment to Trust Agreement between Fidelity Management Trust Company and Zions Bancorporation for the Deferred Compensation Plans, dated August 17, 2015, incorporated by reference to Exhibit 10.1 of Form 10-Q for the quarter September 30, 2015. | * |
| 10.15 | Zions Bancorporation Deferred Compensation Plans Master Trust between Zions Bancorporation and Fidelity Management Trust Company, effective September 1, 2006, incorporated by reference to Exhibit 10.12 of Form 10-K for the year ended December 31, 2012. | * |
| 10.16 | Revised schedule C to Zions Bancorporation Deferred Compensation Plans Master Trust between Zions Bancorporation and Fidelity Management Trust Company, effective September 13, 2006, incorporated by reference to Exhibit 10.13 of Form 10-K for the year ended December 31, 2012. | * |
| 10.17 | Third Amendment to the Zions Bancorporation Deferred Compensation Plans Master Trust agreement between Zions Bancorporation and Fidelity Management Trust Company, dated June 13, 2012 (filed herewith). | |
| 10.18 | Zions Bancorporation Restated Pension Plan effective January 1, 2002, including amendments adopted through December 31, 2010, incorporated by reference to Exhibit 10.19 of Form 10-K for the year ended December 31, 2016. | * |
| 10.19 | First amendment to the Zions Bancorporation Pension Plan, dated June 28, 2013, incorporated by reference to Exhibit 10.1 of Form 10-Q for the quarter ended June 30, 2013. | * |
| 10.20 | Second amendment to the Zions Bancorporation Pension Plan, dated July 17, 2017, incorporated by reference to Exhibit 10.3 of Form 10-Q for the quarter ended June 30, 2017. | * |
| 10.21 | Zions Bancorporation Executive Management Pension Plan, incorporated by reference to Exhibit 10.18 of Form 10-K for the year ended December 31, 2014. | * |
| 10.22 | Zions Bancorporation Payshelter 401(k) and Employee Stock Ownership Plan, Restated and Amended effective January 1, 2002, including amendments adopted through December 31, 2010, incorporated by reference to Exhibit 10.22 of Form 10-K for the year ended December 31, 2016. | * |
| 10.23 | First amendment to the Zions Bancorporation Payshelter 401(k) and Employee Stock Ownership Plan, dated November 14, 2012, incorporated by reference to Exhibit 10.18 of Form 10-K for the year ended December 31, 2012. | * |
| 10.24 | Second amendment to the Zions Bancorporation Payshelter 401(k) and Employee Stock Ownership Plan, dated August 19, 2016, incorporated by reference to Exhibit 10.1 of Form 10-Q for the quarter ended June 30, 2017. | * |
| 10.25 | Zions Bancorporation Payshelter 401(k) and Employee Stock Ownership Plan Trust Agreement between Zions Bancorporation and Fidelity Management Trust Company, dated July 3, 2006, incorporated by reference to Exhibit 10.19 of Form 10-K for the year ended December 31, 2012. | * |
| 10.26 | First Amendment to the Zions Bancorporation Payshelter 401(k) and Employee Stock Ownership Plan Trust Agreement between Zions Bancorporation and Fidelity Management Trust Company, dated April 5, 2010, incorporated by reference to Exhibit 10.25 of Form 10-K for the year ended December 31, 2015. | * |

| Exhibit Number | Description | |
|---|---|---|
| 10.27 | Second Amendment to the Zions Bancorporation Payshelter 401(k) and Employee Stock Ownership Plan Trust Agreement between Zions Bancorporation and Fidelity Management Trust Company, dated April 5, 2010, incorporated by reference to Exhibit 10.26 of Form 10-K for the year ended December 31, 2015. | * |
| 10.28 | Third Amendment to the Zions Bancorporation Payshelter 401(k) and Employee Stock Ownership Plan Trust Agreement between Zions Bancorporation and Fidelity Management Trust Company, dated April 30, 2010, incorporated by reference to Exhibit 10.27 of Form 10-K for the year ended December 31, 2015. | * |
| 10.29 | Fourth Amendment to the Zions Bancorporation Payshelter 401(k) and Employee Stock Ownership Plan Trust Agreement between Zions Bancorporation and Fidelity Management Trust Company, dated October 1, 2014, incorporated by reference to Exhibit 10.25 of Form 10-K for the year ended December 31, 2014. | * |
| 10.30 | Fifth Amendment to the Zions Bancorporation Payshelter 401(k) and Employee Stock Ownership Plan Trust Agreement between Zions Bancorporation and Fidelity Management Trust Company, dated October 1, 2014, incorporated by reference to Exhibit 10.26 of Form 10-K for the year ended December 31, 2014. | * |
| 10.31 | Sixth Amendment to the Zions Bancorporation Payshelter 401(k) and Employee Stock Ownership Plan Trust Agreement between Zions Bancorporation and Fidelity Management Trust Company, dated August 17, 2015, incorporated by reference to Exhibit 10.2 of Form 10-Q for the quarter ended September 30, 2015. | * |
| 10.32 | Seventh Amendment to the Zions Bancorporation Payshelter 401(k) and Employee Stock Ownership Plan Trust Agreement between Zions Bancorporation and Fidelity Management Trust Company, dated April 27, 2016, incorporated by reference to Exhibit 10.31 of Form 10-K for the year ended December 31, 2016. | * |
| 10.33 | Zions Bancorporation 2015 Omnibus Incentive Plan, incorporated by reference to Exhibit 4.1 of Form S-8 filed on July 1, 2015. | * |
| 10.34 | Form of Standard Restricted Stock Award Agreement, Zions Bancorporation 2015 Omnibus Incentive Plan, incorporated by reference to Exhibit 4.3 of Form S-8 filed on July 1, 2015. | * |
| 10.35 | Form of Standard Restricted Stock Unit Award Agreement, Zions Bancorporation 2015 Omnibus Incentive Plan, incorporated by reference to Exhibit 4.4 of Form S-8 filed on July 1, 2015. | * |
| 10.36 | Form of Standard Stock Option Award Agreement, Zions Bancorporation 2015 Omnibus Incentive Plan, incorporated by reference to Exhibit 4.6 of Form S-8 filed on July 1, 2015. | * |
| 10.37 | Form of Standard Directors Stock Award Agreement, Zions Bancorporation 2015 Omnibus Incentive Plan, incorporated by reference to Exhibit 4.7 of Form S-8 filed on July 1, 2015. | * |
| 10.38 | Form of Restricted Stock Award Agreement subject to holding requirement, Zions Bancorporation 2015 Omnibus Incentive Plan, incorporated by reference to Exhibit 4.2 of Form S-8 filed on July 1, 2015. | * |
| 10.39 | Form of Restricted Stock Unit Agreement subject to holding requirement, Zions Bancorporation 2015 Omnibus Incentive Plan, incorporated by reference to Exhibit 4.5 of Form S-8 filed on July 1, 2015. | * |
| 10.40 | Amegy Bancorporation 2004 (formerly Southwest Bancorporation of Texas, Inc.) Omnibus Incentive Plan, incorporated by reference to Exhibit 10.38 of Form 10-K for the year ended December 31, 2015. | * |

| Exhibit Number | Description | |
|---|---|---|
| 10.41 | Form of Change in Control Agreement between the Company and Certain Executive Officers, incorporated by reference to Exhibit 10.37 of Form 10-K for the year ended December 31, 2012. | * |
| 10.42 | Addendum to Change in Control Agreement, incorporated by reference to Exhibit 10.38 of Form 10-K for the year ended December 31, 2014. | * |
| 10.43 | Form of Change in Control Agreement between the Company and Dallas E. Haun, dated May 23, 2008, incorporated by reference to Exhibit 10.39 of Form 10-K for the year ended December 31, 2014. | * |
| 12 | Ratios of Earnings to Fixed Charges and Earnings to Fixed Charges and Preferred Dividends (filed herewith). | |
| 21 | List of Subsidiaries of Zions Bancorporation (filed herewith). | |
| 23 | Consent of Independent Registered Public Accounting Firm (filed herewith). | |
| 31.1 | Certification by Chief Executive Officer required by Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934 (filed herewith). | |
| 31.2 | Certification by Chief Financial Officer required by Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934 (filed herewith). | |
| 32 | Certification by Chief Executive Officer and Chief Financial Officer required by Sections 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 (15 U.S.C. 78m) and 18 U.S.C. Section 1350 (furnished herewith). | |
| 101 | Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Consolidated Balance Sheets as of December 31, 2017 and December 31, 2016, (ii) the Consolidated Statements of Income for the years ended December 31, 2017, December 31, 2016, and December 31, 2015, (iii) the Consolidated Statements of Comprehensive Income for the years ended December 31, 2017, December 31, 2016, and December 31, 2015, (iv) the Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2017, December 31, 2016, and December 31, 2015, (v) the Consolidated Statements of Cash Flows for the years ended December 31, 2017, December 31, 2016, and December 31, 2015 and (vi) the Notes to Consolidated Financial Statements (filed herewith). | |

** Incorporated by reference*

*Certain instruments defining the rights of holders of long-term debt securities of the Registrant and its subsidiaries are omitted pursuant to Item 601(b)(4)(iii) of Regulation S-K. The Registrant hereby undertakes to furnish to the SEC, upon request, copies of any such instruments.*

# SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

February 28, 2018

ZIONS BANCORPORATION

By /s/ Harris H. Simmons

**HARRIS H. SIMMONS, Chairman and Chief Executive Officer**

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

February 28, 2018

/s/ Harris H. Simmons

**HARRIS H. SIMMONS, Director, Chairman and Chief Executive Officer (Principal Executive Officer)**

/s/ Paul E. Burdiss

**PAUL E. BURDISS, Executive Vice President and Chief Financial Officer (Principal Financial Officer)**

/s/ Alexander J. Hume

**ALEXANDER J. HUME, Controller (Principal Accounting Officer)**

/s/ Jerry C. Atkin

**JERRY C. ATKIN, Director**

/s/ Gary L. Crittenden

**GARY L. CRITTENDEN, Director**

/s/ Suren K. Gupta

**SUREN K. GUPTA, Director**

/s/ J. David Heaney

**J. DAVID HEANEY, Director**

/s/ Vivian S. Lee

**VIVIAN S. LEE, Director**

/s/ Edward F. Murphy

**EDWARD F. MURPHY, Director**

/s/ Roger B. Porter

**ROGER B. PORTER, Director**

| /s/ Stephen D. Quinn | /s/ Barbara A. Yastine |
|---|---|
| **STEPHEN D. QUINN, Director** | **BARBARA A. YASTINE, Director** |