

ZIONS BANCORPORATION /UT/

Form 10-Q

August 08, 2008

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period June 30,
ended 2008

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)	(IRS Employer Identification No.)

ONE SOUTH MAIN, 15th FLOOR SALT LAKE CITY, UTAH	84133
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code (801) 524-4787

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.

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Yes

No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a small reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "small reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes

No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock, without par value, outstanding at July 31, 2008

107,574,383 shares

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ZIONS BANCORPORATION AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (Unaudited)

ZIONS BANCORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(In thousands, except share amounts)	June 30, 2008 (Unaudited)	December 31, 2007	June 30, 2007 (Unaudited)
ASSETS			
Cash and due from banks	\$ 1,751,724	\$ 1,855,155	\$ 1,640,946
Money market investments:			
Interest-bearing deposits and commercial paper	504,314	726,446	39,881
Federal funds sold	274,456	102,225	120,959
Security resell agreements	484,487	671,537	482,893
Investment securities:			
Held-to-maturity, at adjusted cost (approximate fair value \$1,730,104, \$702,148, and \$685,521)	1,914,833	704,441	702,189
Available-for-sale, at fair value	2,817,682	5,134,610	4,564,183
Trading account, at fair value (includes \$463, \$741, and \$1,745 transferred as collateral under repurchase agreements)	51,670	21,849	22,808
	4,784,185	5,860,900	5,289,180
Loans:			
Loans held for sale	158,509	207,943	226,041
Loans and leases	41,874,224	39,044,163	36,715,752
	42,032,733	39,252,106	36,941,793
Less:			
Unearned income and fees, net of related costs	159,756	164,327	153,588
Allowance for loan losses	548,958	459,376	380,295
Loans and leases, net of allowance	41,324,019	38,628,403	36,407,910
Other noninterest-bearing investments	1,153,933	1,034,412	972,830
Premises and equipment, net	656,013	655,712	648,731
Goodwill	2,009,511	2,009,513	2,013,314
Core deposit and other intangibles	132,481	149,493	180,867
Other real estate owned	125,186	15,201	10,646
Other assets	1,430,574	1,238,417	883,288
	\$ 54,630,883	\$ 52,947,414	\$ 48,691,445

**LIABILITIES AND
SHAREHOLDERS' EQUITY**
Deposits:

Noninterest-bearing demand	\$	9,735,265	\$	9,618,300	\$	9,857,638
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Interest-bearing:

Savings and NOW		4,590,767		4,507,837		4,368,184
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Money market		11,175,844		10,304,225		10,344,110
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Internet money market		2,211,557		2,163,014		1,544,031
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Time under \$100,000		2,466,082		2,562,363		2,535,881
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Time \$100,000 and over		4,102,369		4,391,588		4,881,994
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Foreign		3,326,111		3,375,426		2,653,734
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		37,607,995		36,922,753		36,185,572
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Securities sold, not yet

purchased		46,376		224,269		28,456
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Federal funds purchased		2,379,055		2,463,460		2,221,887
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Security repurchase agreements		1,010,325		1,298,112		1,061,598
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Other liabilities		555,812		644,375		602,173
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Commercial paper		137,200		297,850		228,607
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**Federal Home Loan Bank
advances and other borrowings:**

One year or less		4,799,143		3,181,990		664,509
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Over one year		129,474		127,612		128,832
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Long-term debt		2,666,445		2,463,254		2,313,015
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Total liabilities		49,331,825		47,623,675		43,434,649
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Minority interest		25,528		30,939		32,094
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Shareholders' equity:
Capital stock:

Preferred stock, without par value, authorized 3,000,000 shares:

Series A (liquidation preference

\$1,000 per share); issued

and outstanding 240,000 shares		240,000		240,000		240,000
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Common stock, without par

value; authorized 350,000,000

shares; issued

and outstanding 107,518,975,

107,116,505, and 108,034,079

shares		2,224,455		2,212,237		2,279,722
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Retained earnings		2,981,062		2,910,692		2,828,613
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Accumulated other comprehensive income (loss)		(158,325)		(58,835)		(112,840)
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Deferred compensation		(13,662)		(11,294)		(10,793)
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Total shareholders' equity		5,273,530		5,292,800		5,224,702
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	\$	54,630,883	\$	52,947,414	\$	48,691,445
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See accompanying notes to consolidated financial

statements.

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ZIONS BANCORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

(In thousands, except per share amounts)	Three Months Ended		Six Months Ended	
	2008	June 30, 2007	2008	June 30, 2007
Interest income:				
Interest and fees on loans	\$ 643,111	\$ 697,022	\$ 1,331,550	\$ 1,371,599
Interest on loans held for sale	2,699	4,322	5,716	8,197
Lease financing	5,767	5,234	11,585	10,440
Interest on money market investments	12,313	7,756	31,341	14,098
Interest on securities:				
Held-to-maturity – taxable	15,730	2,064	18,185	4,267
Held-to-maturity – nontaxable	6,224	6,227	12,653	12,318
Available-for-sale – taxable	35,059	63,825	97,415	132,332
Available-for-sale – nontaxable	1,870	2,398	3,762	4,856
Trading account	159	766	840	1,958
Total interest income	722,932	789,614	1,513,047	1,560,065
Interest expense:				
Interest on savings and money market deposits	80,144	117,295	184,131	230,398
Interest on time and foreign deposits	83,460	120,445	189,682	233,330
Interest on short-term borrowings	43,255	43,369	106,389	92,061
Interest on long-term borrowings	31,330	39,158	61,644	77,846
Total interest expense	238,189	320,267	541,846	633,635
Net interest income	484,743	469,347	971,201	926,430
Provision for loan losses	114,192	17,763	206,474	26,874
Net interest income after provision for loan losses	370,551	451,584	764,727	899,556
Noninterest income:				
Service charges and fees on deposit accounts	51,067	45,116	100,652	88,501
Other service charges, commissions and fees	42,362	42,311	84,343	81,688
Trust and wealth management income	10,284	9,125	19,977	17,341
	12,196	11,900	22,593	21,631

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Capital markets and foreign exchange				
Dividends and other investment income	10,409	11,271	23,319	22,364
Loan sales and servicing income	8,516	8,998	16,326	18,256
Income from securities conduit	1,043	5,968	3,624	12,483
Fair value and nonhedge derivative income (loss)	(19,789)	924	(16,002)	2,169
Equity securities gains (losses), net	(8,121)	100	1,947	5,298
Fixed income securities gains, net	78	13	1,853	3,714
Impairment losses on investment securities and valuation losses on securities purchased from Lockhart				
Funding	(38,761)	-	(84,750)	-
Other	3,088	5,615	9,490	13,310
Total noninterest income	72,372	141,341	183,372	286,755
Noninterest expense:				
Salaries and employee benefits	201,291	198,668	410,645	404,255
Occupancy, net	27,364	26,334	54,163	52,923
Furniture and equipment	25,610	24,272	49,348	47,539
Legal and professional services	11,566	11,242	19,446	20,779
Postage and supplies	8,536	9,025	18,325	17,072
Advertising	7,520	7,517	13,871	13,974
Merger related expense	281	1,491	588	3,897
Amortization of core deposit and other intangibles	8,191	11,812	17,011	22,941
Provision for unfunded lending commitments	1,690	1,222	5,308	1,528
Other	62,368	56,029	115,815	114,683
Total noninterest expense	354,417	347,612	704,520	699,591
Income before income taxes and minority interest				
Income taxes	88,506	245,313	243,579	486,720
Minority interest	22,037	86,065	71,933	174,919
Net income	(5,729)	34	(7,301)	(671)
Preferred stock dividend	72,198	159,214	178,947	312,472
Net earnings applicable to common shareholders	2,454	3,607	4,907	7,210
	\$ 69,744	\$ 155,607	\$ 174,040	\$ 305,262
Weighted average common shares outstanding during the period:				
Basic shares	106,595	107,803	106,554	108,107

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Diluted shares	106,712	109,124	106,720	109,639
Net earnings per common share:				
Basic	\$ 0.65	\$ 1.44	\$ 1.63	\$ 2.82
Diluted	0.65	1.43	1.63	2.78

See accompanying notes to consolidated financial statements.

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ZIONS BANCORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
AND COMPREHENSIVE INCOME
(Unaudited)

(In thousands, except per share amounts)	Preferred stock	Common stock	Retained earnings	Accumulated other comprehensive income (loss)	Deferred compensation	Total shareholders' equity
Balance, December 31, 2007	\$ 240,000	\$ 2,212,237	\$ 2,910,692	\$ (58,835)	\$ (11,294)	\$ 5,292,800
Cumulative effect of change in accounting principle, adoption of SFAS 159			(11,471)	11,471		-
Comprehensive income:						
Net income for the period			178,947			178,947
Other comprehensive loss, net of tax:						
Net realized and unrealized holding losses on investments and retained interests				(170,402)		
Foreign currency translation				1		
Reclassification for net realized losses on investments recorded in operations				51,117		
Net unrealized gains on derivative instruments				7,589		
Pension and postretirement				734		
Other comprehensive loss				(110,961)		(110,961)
Total comprehensive income						67,986
Stock issued under dividend reinvestment plan		632				632

Net stock issued under employee plans and related tax benefits		11,586				11,586
Dividends declared on preferred stock			(4,907)			(4,907)
Dividends on common stock, \$.86 per share			(92,199)			(92,199)
Change in deferred compensation				(2,368)		(2,368)
Balance, June 30, 2008	\$ 240,000	\$ 2,224,455	\$ 2,981,062	\$ (158,325)	\$ (13,662)	\$ 5,273,530
Balance, December 31, 2006	\$ 240,000	\$ 2,230,303	\$ 2,602,189	\$ (75,849)	\$ (9,620)	\$ 4,987,023
Cumulative effect of change in accounting principle, adoption of FIN 48			10,408			10,408
Comprehensive income:						
Net income for the period			312,472			312,472
Other comprehensive loss, net of tax:						
Net realized and unrealized holding losses on investments and retained interests				(15,672)		
Foreign currency translation				5		
Reclassification for net realized gains on investments recorded in operations				(3,854)		
Net unrealized losses on derivative instruments				(17,470)		
Other comprehensive loss				(36,991)		(36,991)
Total comprehensive income						275,481
Common stock issued in acquisition		206,075				206,075
Stock redeemed and retired		(231,845)				(231,845)
Net stock issued under employee						

plans and related tax benefits			75,189				75,189					
Dividends declared on preferred stock				(7,210)			(7,210)					
Dividends on common stock, \$.82 per share				(89,246)			(89,246)					
Change in deferred compensation					(1,173)		(1,173)					
Balance, June 30, 2007	\$	240,000	\$	2,279,722	\$	2,828,613	\$	(112,840)	\$	(10,793)	\$	5,224,702

Total comprehensive income (loss) for the three months ended June 30, 2008 and 2007 was \$(9,698) and \$115,631, respectively.

See accompanying notes to consolidated financial statements.

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

(In thousands)	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2008	2007	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income for the period	\$ 72,198	\$ 159,214	\$ 178,947	\$ 312,472
Adjustments to reconcile net income to net cash provided by (used in) operating activities:				
Impairment losses on investment securities and valuation losses on securities purchased from Lockhart Funding	38,761	-	84,750	-
Provision for loan losses	114,192	17,763	206,474	26,874
Depreciation of premises and equipment	16,662	19,548	34,912	39,652
Amortization	18,903	12,494	29,267	22,995
Deferred income tax benefit	(38,657)	(1,294)	(70,894)	(22,024)
Share-based compensation	7,784	6,577	14,380	12,982
Excess tax benefits from share-based compensation	(142)	(2,837)	(399)	(10,593)
Gain (loss) allocated to minority interest	(5,729)	34	(7,301)	(671)
Equity securities losses (gains), net	8,121	(100)	(1,947)	(5,298)
Fixed income securities gains, net	(78)	(13)	(1,853)	(3,714)
Net decrease (increase) in trading securities	(10,863)	9,630	(21,720)	40,628
Principal payments on and proceeds from sales of loans held for sale	375,286	328,588	663,356	567,917
Additions to loans held for sale	(328,524)	(317,163)	(629,771)	(605,000)
Net gains on sales of loans, leases and other assets	(4,773)	(2,040)	(10,543)	(5,954)
Income from increase in cash surrender value of bank-owned life insurance	(6,273)	(6,366)	(12,601)	(13,157)
Change in accrued income taxes	(137,756)	(86,060)	(77,625)	13,061
Change in accrued interest receivable	5,466	(4,389)	22,219	972
Change in other assets	(187,696)	26,384	(81,273)	(3,905)
Change in other liabilities	56,808	31,420	(27,325)	(45,780)
Change in accrued interest payable	(14,428)	(5,052)	(11,324)	(2,171)
Other, net	3,021	(7,253)	8,851	(12,937)
Net cash provided by (used in) operating activities	(17,717)	179,085	288,580	306,349

**CASH FLOWS FROM INVESTING
ACTIVITIES:**

Net decrease in money market investments	791,730	341,005	236,951	2,323
Proceeds from maturities of investment securities held-to-maturity	30,081	30,243	53,892	54,034
Purchases of investment securities held-to-maturity	(19,265)	(41,899)	(40,183)	(79,752)
Proceeds from sales of investment securities available-for-sale	48,149	232,713	504,456	358,585
Proceeds from maturities of investment securities available-for-sale	1,668,775	771,463	2,638,685	1,355,188
Purchases of investment securities available-for-sale	(1,561,059)	(684,502)	(2,326,897)	(1,281,328)
Proceeds from sales of loans and leases	30,178	19,786	49,139	30,717
Securitized loans purchased	(874,100)	-	(1,157,304)	-
Net increase in loans and leases	(1,324,528)	(906,609)	(1,930,964)	(1,429,318)
Net decrease (increase) in other noninterest-bearing investments	(40,114)	20,390	(113,868)	87,214
Proceeds from sales of premises and equipment and other assets	1,170	1,838	8,428	3,754
Purchases of premises and equipment	(18,029)	(26,188)	(43,807)	(48,887)
Proceeds from sales of other real estate owned	13,063	2,630	18,991	5,091
Net cash received from (paid for) acquisitions	-	(1,668)	-	40,244
Net cash received from sale of subsidiary	-	-	-	6,995
Net cash used in investing activities	(1,253,949)	(240,798)	(2,102,481)	(895,140)

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

(In thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
CASH FLOWS FROM FINANCING ACTIVITIES:				
Net increase (decrease) in deposits	\$ 91,626	\$ (139,490)	\$ 685,164	\$ 109,069
Net change in short-term funds borrowed	1,171,068	445,999	906,418	482,668
Proceeds from FHLB advances and other borrowings over one year	3,500	-	3,500	-
Payments on FHLB advances and other borrowings over one year	(1,032)	(614)	(1,638)	(8,226)
Proceeds from issuance of long-term debt	166,188	-	232,876	-
Debt issuance costs	(480)	-	(611)	(32)
Payments on long-term debt	(18,025)	(19,713)	(18,025)	(27,250)
Proceeds from issuance of common stock	854	17,827	2,073	52,406
Payments to redeem common stock	(2,343)	(128,603)	(2,580)	(231,845)
Excess tax benefits from share-based compensation	142	2,837	399	10,593
Dividends paid on preferred stock	(2,454)	(3,607)	(4,907)	(7,210)
Dividends paid on common stock	(46,193)	(46,496)	(92,199)	(89,246)
Net cash provided by financing activities	1,362,851	128,140	1,710,470	290,927
Net increase (decrease) in cash and due from banks	91,185	66,427	(103,431)	(297,864)
Cash and due from banks at beginning of period	1,660,539	1,574,519	1,855,155	1,938,810
Cash and due from banks at end of period	\$ 1,751,724	\$ 1,640,946	\$ 1,751,724	\$ 1,640,946

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Cash paid for:				
Interest	\$ 252,635	\$ 322,947	\$ 554,656	\$ 628,986
Income taxes	196,823	171,999	217,252	171,983
Noncash items:				

Investment securities available-for-sale transferred to held-to-maturity	1,226,832	-	1,226,832	-
Loans transferred to other real estate owned	104,242	6,455	134,474	9,804
Acquisitions:				
Common stock issued	-	-	-	206,075
Assets acquired	-	-	-	1,348,233
Liabilities assumed	-	-	-	1,142,158

See accompanying notes to consolidated financial statements.

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ZIONS BANCORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

June 30, 2008

1. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements of Zions Bancorporation (“the Parent”) and its majority-owned subsidiaries (collectively “the Company,” “Zions,” “we,” “our,” “us”) have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Certain prior period amounts have been reclassified to conform to the current period presentation. These reclassifications did not affect net income or shareholders’ equity.

Operating results for the three- and six-month periods ended June 30, 2008 are not necessarily indicative of the results that may be expected in future periods. The consolidated balance sheet at December 31, 2007 is from the audited financial statements at that date, but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2007.

The Company provides a full range of banking and related services through banking subsidiaries in ten Western and Southwestern states as follows: Zions First National Bank (“Zions Bank”), in Utah and Idaho; California Bank & Trust (“CB&T”); Amegy Corporation (“Amegy”) and its subsidiary, Amegy Bank, in Texas; National Bank of Arizona (“NBA”); Nevada State Bank (“NSB”); Vectra Bank Colorado (“Vectra”), in Colorado and New Mexico; The Commerce Bank of Washington (“TCBW”); and The Commerce Bank of Oregon (“TCBO”). The Parent also owns and operates certain nonbank subsidiaries that engage in the development and sale of financial technologies and related services, including NetDeposit, Inc. and P5, Inc.

2. CERTAIN RECENT ACCOUNTING PRONOUNCEMENTS

In March 2008, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards (“SFAS”) No. 161, Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133. SFAS 161, among other things, requires greater transparency in disclosing information about derivatives including the objectives for their use, the volume of derivative activity, tabular disclosure of financial statement amounts, and any credit-risk-related features. The Statement is effective for annual and interim financial statements beginning after November 15, 2008. Earlier application is encouraged but not required. Management is evaluating the impact this Statement may have on the Company’s financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations, and SFAS No. 160, Accounting and Reporting of Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51. These new standards will significantly change the financial accounting and reporting of business combination transactions and noncontrolling (or minority) interests in consolidated

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ZIONS BANCORPORATION AND SUBSIDIARIES

financial statements. Both Statements are effective for the first annual reporting period after December 31, 2008. Generally, adoption is prospective and early adoption is not permitted. Management is evaluating the impact these Statements may have on the Company's financial statements.

Effective January 1, 2008, we adopted the provisions of FASB Staff Position ("FSP") FIN 39-1, Offsetting of Amounts Related to Certain Contracts. FSP FIN 39-1 permits entities to offset fair value amounts recognized for the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) against recognized fair value amounts of derivatives executed with the same counterparty under a master netting arrangement. At June 30, 2008, cash collateral was used to reduce recorded amounts of derivative assets by approximately \$48 million and derivative liabilities by approximately \$160 million.

Additional accounting pronouncements recently adopted are discussed where applicable in the Notes to Consolidated Financial Statements.

3. INVESTMENT SECURITIES

During the second quarter of 2008, we reassessed the classification of certain asset-backed and trust preferred collateralized debt obligations ("CDOs"). On April 28, 2008, we reclassified approximately \$1.2 billion at fair value of these available-for-sale securities to held-to-maturity. The related unrealized pretax loss of approximately \$273 million included in accumulated other comprehensive income ("OCI") remained in OCI and is being amortized as a yield adjustment through earnings over the remaining terms of the securities. No gain or loss was recognized at the time of reclassification. We consider the held-to-maturity classification to be more appropriate because we have the ability and the intent to hold these securities to maturity.

As a result of an ongoing valuation review of our investment securities portfolio, we recognized a pretax charge of approximately \$38.8 million during the second quarter of 2008 for certain investment securities deemed to have other-than-temporary impairment ("OTTI"). These investments consisted of certain asset-backed CDOs, including structured asset-backed ("ABS") CDOs, bank and insurance income notes, and trust preferred securities related to real estate investment trusts ("REITs"). The amount comprises the "Impairment losses on investment securities and valuation losses on securities purchased from Lockhart Funding" in the statement of income for the second quarter of 2008. Approximately \$28.7 million of the amount resulted from write-downs of two ABS CDOs and one bank and insurance income note that were first deemed to have OTTI this quarter. The remaining \$10.1 million resulted from write-downs of six REIT trust preferred CDOs and one bank and insurance income note for which OTTI had previously been recognized. OTTI was approximately \$79.6 million for the first six months of 2008.

4. OFF-BALANCE SHEET ARRANGEMENT

Zions Bank provides a liquidity facility for a fee to Lockhart Funding, LLC ("Lockhart"), an off-balance sheet qualifying special-purpose entity ("QSPE") securities conduit. Lockhart was structured to purchase floating rate U.S. Government and AAA-rated securities with funds from the issuance of asset-backed commercial paper. Zions Bank also provides interest rate hedging support and administrative and investment advisory services for a fee.

Pursuant to the Liquidity Agreement, Zions Bank is required to purchase nondefaulted securities from Lockhart to provide funds for Lockhart to repay maturing commercial paper upon Lockhart's inability to

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access a sufficient amount of funding in the commercial paper market, or upon a commercial paper market disruption as specified in governing documents for Lockhart. Pursuant to the governing documents, including the Liquidity Agreement, if any security in Lockhart is downgraded below AA-, or the downgrade of one or more securities results in more than ten securities having ratings of AA+ to AA-, Zions Bank must either 1) place its letter of credit on the security, 2) obtain credit enhancement from a third party, or 3) purchase the security from Lockhart at book value. Zions Bank may incur losses if it is required to purchase securities from Lockhart when the fair value of the securities at the time of purchase is less than book value.

On June 23, 2008, Zions Bank purchased \$787 million of securities and related accrued interest at book value from Lockhart. The purchase of these securities was required by the Liquidity Agreement when MBIA Inc., and the securities it insured, was downgraded below AA-. The purchases comprised the entire remaining small business loan securitizations created by Zions Bank and held by Lockhart. No gain or loss was recognized on these purchases. Upon dissolution of the securitization trusts (including \$87 million of related securities owned by the Parent), Zions Bank recorded \$897 million of loans on its balance sheet including \$23 million of premium. See further discussion of the premium in Note 8.

The commitment of Zions Bank to Lockhart cannot exceed the book value of Lockhart's securities portfolio, which was approximately \$862 million at June 30, 2008. Lockhart is limited in size by program agreements, agreements with rating agencies, and the size of the liquidity facility. The book value of Lockhart's remaining securities portfolio exceeded the fair value of the securities by approximately \$65 million at June 30, 2008. During the first quarter of 2008, Zions Bank recorded valuation losses of approximately \$5.2 million when it purchased certain securities from Lockhart.

As permitted by the governing documents, the Company has also purchased asset-backed commercial paper from Lockhart and held approximately \$493 million on its balance sheet at June 30, 2008. The average amount of Lockhart commercial paper included in money market investments for the three months ended June 30, 2008 was approximately \$1.1 billion. These purchases were made to provide liquidity to Lockhart due to ongoing contraction and disruptions in the asset-backed commercial paper markets. If at any given time the Company were to own more than 90% of Lockhart's outstanding commercial paper (beneficial interest), Lockhart would cease to be a QSPE and the Company would be required to consolidate Lockhart in its financial statements.

5. DEBT

During the second quarter of 2008, the Company issued a total of \$166 million of one- and two-year senior medium-term notes at coupon rates ranging from 4.50% to 5.45%. Interest is payable semiannually. These unsecured notes were sold via Zions' online auction process and direct sales. They were issued under the Company's existing shelf registration with the Securities and Exchange Commission ("SEC"). Approximately \$18 million of the proceeds was used to retire previous indebtedness of senior notes. The total amount of senior medium-term notes issued during the first six months of 2008 was \$233 million.

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6. SHAREHOLDERS' EQUITY

Changes in accumulated other comprehensive income (loss) are summarized as follows (in thousands):

	Net unrealized gains (losses) on investments, retained interests and other	Net unrealized gains (losses) on derivative instruments	Pension and post- retirement	Total
Six Months Ended June 30, 2008:				
Balance, December 31, 2007	\$ (108,766)	\$ 65,213	\$ (15,282)	\$ (58,835)
Cumulative effect of change in accounting principle, adoption of SFAS 159	11,471			11,471
Other comprehensive income (loss), net of tax:				
Net realized and unrealized holding losses, net of income tax benefit of \$105,553	(170,402)			(170,402)
Foreign currency translation	1			1
Reclassification for net realized losses recorded in operations, net of income tax benefit of \$31,664	51,117			51,117
Net unrealized gains, net of reclassification to operations of \$23,362 and income tax expense of \$4,942		7,589		7,589
Pension and postretirement, net of income tax expense of \$477			734	734
Other comprehensive income (loss)	(119,284)	7,589	734	(110,961)
Balance, June 30, 2008	\$ (216,579)	\$ 72,802	\$ (14,548)	\$ (158,325)

Six Months Ended June 30,
2007:

Balance, December 31, 2006	\$ (18,371)	\$ (41,716)	\$ (15,762)	\$ (75,849)
Other comprehensive income (loss), net of tax:				

Net realized and unrealized holding losses, net of income tax benefit of \$9,707	(15,672)			(15,672)
Foreign currency translation	5			5
Reclassification for net realized gains recorded in operations, net of income tax expense of \$2,388	(3,854)			(3,854)
Net unrealized losses, net of reclassification to operations of \$(22,011) and income tax benefit of \$10,836		(17,470)		(17,470)
Other comprehensive loss	(19,521)	(17,470)	-	(36,991)
Balance, June 30, 2007	\$ (37,892)	\$ (59,186)	\$ (15,762)	\$ (112,840)

Total shares of common stock issued during the three months ended June 30, 2008 and 2007 were 442,475 and 556,325, and during the six months ended June 30, 2008 and 2007 were 463,057 and 4,110,032, respectively. Of these respective share amounts, 8,416 and 338,702, and 44,998 and 1,281,775 net shares were issued for the exercise of stock options, and 413,427 and 217,623, and 417,427 and 228,140 were issued as restricted stock.

On July 2, 2008, the Company completed a \$46.7 million offering of 9.50% Series C Fixed-Rate Non-Cumulative Perpetual Preferred Stock. The Company issued 46,949 shares in the form of 1,877,971 depositary shares with each depositary share representing a 1/40th ownership interest in a share of the preferred stock. Terms and conditions, except for the dividend amount, are generally similar to the existing issuance of Series A floating rate preferred stock described in the Company's Annual Report on Form 10-K for the year ended December 31, 2007. The offering was sold via Zions' online auction process and direct sales primarily by the Company's broker/dealer subsidiary.

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7. INCOME TAXES

Income tax expense for the second quarter of 2008 included a benefit of \$5.9 million from a settlement with governmental authorities that allowed the Company to reduce its liability and related interest for uncertain tax positions under the provisions of FIN 48.

8. FAIR VALUE

Effective January 1, 2008, the Company adopted SFAS No. 157, Fair Value Measurements, and SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. Both Standards address the application of fair value accounting and reporting.

Fair Value Measurements

SFAS 157 defines fair value, establishes a consistent framework for measuring fair value, and enhances disclosures about fair value measurements. In February 2008, the FASB amended SFAS 157 with the issuance of FSP FAS 157-1, which excludes with certain exceptions SFAS No. 13, Accounting for Leases, from the scope of SFAS 157, and FSP FAS 157-2, which delayed the adoption of SFAS 157 for one year for the measurement of nonfinancial assets and nonfinancial liabilities. There was no material effect from the adoption of SFAS 157 on the Company's consolidated financial statements.

SFAS 157 defines fair value 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, SFAS 157 has established a hierarchy which 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; includes certain U.S. Treasury and other U.S. Government and agency securities actively traded in over-the-counter markets; certain securities sold, not yet purchased; and certain derivatives.

Level 2 – Observable inputs other than Level 1 including quoted prices for similar assets or liabilities, quoted prices in less active markets, or other observable inputs that can be corroborated by observable market data; also includes derivative contracts whose value is determined using a pricing model with observable market inputs or can be derived principally from or corroborated by observable market data. This category generally includes certain U.S. Government and agency securities; certain CDO securities; corporate debt securities; certain private equity investments; certain securities sold, not yet purchased; and certain derivatives.

Level 3 – Unobservable inputs supported by little or no market activity for financial instruments whose value is determined using 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; also includes observable inputs for nonbinding single dealer quotes not corroborated by observable market data. This category generally includes certain CDO securities, certain private equity investments, and retained interests from securitizations.

The Company uses fair value to measure certain assets and liabilities on a recurring basis when fair value is the primary measure for accounting. This is done primarily for available-for-sale and trading investment securities; certain private equity investments; certain retained interests from securitizations; securities sold, not yet purchased; and derivatives. Fair value is used on a nonrecurring basis to measure certain assets when applying lower of cost or market accounting or when adjusting carrying values, such as for loans held for sale, impaired loans, certain private equity investments, and other real estate owned. Fair value is also used when evaluating impairment on certain assets, including held-to-maturity and available-for-sale securities, goodwill, and core deposit and other intangibles, and for annual disclosures required by SFAS No. 107, Disclosures about Fair Value of Financial Instruments.

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The Company uses models when quotations are not available for certain securities or in markets where trading activity has slowed or ceased. When quotations are not available, and are not provided by third party pricing services, management judgment is necessary to determine fair value. In situations involving management judgment, fair value is determined using discounted cash flow analysis or other valuation models, which incorporate available market information, including appropriate benchmarking to similar instruments, analysis of default and recovery rates, estimation of prepayment characteristics and implied volatilities.

The Company has valued certain REIT and ABS CDOs using models provided by third party vendors. The models utilized relevant data assumptions to value these CDO securities and were evaluated by the Company to determine if the models appropriately calculated values. These assumptions included but were not limited to probability of default, collateral recovery rates, discount rates, over-collateralization levels, market indices such as ABX, and rating transition probability matrices from rating agencies. The model prices obtained from third party services were evaluated for reasonableness including quarter to quarter changes in assumptions and comparison to other available data which included third party and internal model results and valuations. The Company's decision to use Level 3 model pricing for certain CDOs was made due to continued trading contraction of these securities and the lack of observable market inputs to value such securities.

Available-for-sale and trading investment securities are fair valued under Level 1 using quoted market prices when available for identical securities. When quoted prices are not available, fair values are determined under Level 2 using quoted prices for similar securities or independent pricing services that incorporate observable market data when possible. Available-for-sale securities include certain CDOs that consist of trust preferred securities related to banks and insurance companies and to REITs. Where possible, the fair value of these CDOs is priced under Level 2 using a whole market price quote method that incorporates matrix pricing and uses the prices of securities of similar type and rating to value comparable securities held by the Company. This method is described more fully in the Company's Annual Report on Form 10-K for the year ended December 31, 2007. If sufficient information is not available for matrix pricing, fair value is determined under Level 3 using nonbinding single dealer quotes or model pricing as discussed in the preceding paragraph.

Private equity investments valued under Level 2 on a recurring basis are investments in partnerships that invest in financial institutions. Fair values are determined from net asset values provided by the partnerships. Private equity investments valued under Level 3 on a nonrecurring basis are recorded initially at acquisition cost, which is considered the best indication of fair value unless there have been significant subsequent positive or negative developments that justify an adjustment in the fair value estimate. Subsequent adjustments to recorded amounts are based as necessary on current and projected financial performance, recent financing activities, economic and market conditions, market comparables, market liquidity, sales restrictions, and other factors.

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Retained interests from securitizations are fair valued under Level 3 based on the modeling techniques previously described. The assumptions used in the models are evaluated quarterly.

Derivatives are fair valued primarily under Level 2 using third party services. Observable market inputs include yield curves, option volatilities, counterparty credit risk, and other related data. Certain foreign exchange derivatives have been fair valued under Level 1 because they are traded in active markets. Amounts disclosed in the following table are net of the cash collateral offsets pursuant to the guidance of FSP FIN 39-1, as discussed in Note 2.

Securities sold, not yet purchased are fair valued under Level 1 when quoted prices are available for the securities involved. Those under Level 2 are fair valued similar to trading account investment securities.

Assets and liabilities measured at fair value on a recurring basis, including those elected under SFAS 159, are summarized as follows at June 30, 2008 (in thousands):

	Level 1	Level 2	Level 3	Total
ASSETS				
Investment securities:				
Available-for-sale	\$ 114,809	\$ 2,520,605	\$ 182,268	\$ 2,817,682
Trading account		45,946	5,724 (1)	51,670
Other noninterest-bearing investments:				
Private equity		24,217		24,217
Other assets:				
Derivatives	7,099	432,894		439,993
	\$ 121,908	\$ 3,023,662	\$ 187,992	\$ 3,333,562
LIABILITIES				
Securities sold, not yet purchased				
	\$ 18,461	\$ 27,915		\$ 46,376
Other liabilities:				
Derivatives	7,425	140,871		148,296
Other			\$ 292	292
	\$ 25,886	\$ 168,786	\$ 292	\$ 194,964

(1) Elected under SFAS 159 for fair value option, as discussed subsequently.

The following reconciles the beginning and ending balances of assets and liabilities for the three- and six-month periods ended June 30, 2008 that are measured at fair value on a recurring basis using Level 3 inputs (in thousands):

Level 3 Instruments			
Three Months Ended June 30, 2008			
Investment securities	Trading	Retained	Other
Available-	account	interests from	liabilities
for-sale	(1)	(1)	

Balance at March 31, 2008	\$ 587,193	\$ 5,767	\$ 38,788	\$ (23)
Total net gains (losses) included in:				
Statement of income (2):				
Fair value and nonhedge derivative income (loss)		(43)	(3,822)	
Impairment losses on available-for sale securities	(26,448)			
Other noninterest expense				731
Other comprehensive income (loss)	7,000			
Proceeds from ESOARS auction				(1,000)
Fair value of available-for-sale securities transferred to held-to-maturity	(200,873)			
Purchases, sales, issuances, and settlements, net	(3,425)		(8,231)	
Net transfers in (out)	(181,179)	-	(26,735)	-
Balance at June 30, 2008	\$ 182,268	\$ 5,724	\$ -	\$ (292)

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	Level 3 Instruments			
	Six Months Ended June 30, 2008			
	Investment securities	Trading	Retained	Other
	Available-	account (1)	interests from	liabilities
	for-sale	(1)	securitizations	
			(1)	
Balance at January 1, 2008	\$ 337,338	\$ 8,100	\$ 42,426	\$ (44)
Total net gains (losses) included in:				
Statement of income (2):				
Fair value and nonhedge derivative income (loss)		(2,376)	(2,098)	
Impairment losses on available-for sale securities and valuation losses on securities purchased from Lockhart Funding	(68,026)			
Other noninterest expense				752
Other comprehensive income (loss)	(66,131)			
Proceeds from ESOARS auction				(1,000)
Fair value of available-for-sale securities transferred to held-to-maturity	(200,873)			
Purchases, sales, issuances, and settlements, net	(1,670)		(13,593)	
Net transfers in (out)	181,630	-	(26,735)	-
Balance at June 30, 2008	\$ 182,268	\$ 5,724	\$ -	\$ (292)

(1) Elected under SFAS 159 for fair value option, as discussed subsequently.

(2) Amounts are all unrealized.

Assets measured at fair value on a nonrecurring basis are summarized as follows (in thousands):

	Fair value at June 30, 2008				Gains (losses) from fair value changes	
	Level 1	Level 2	Level 3	Total	Three months ended June 30, 2008	Six months ended June 30, 2008
ASSETS						
Loans held for sale	\$ 19,861			\$ 19,861	\$ 191	\$ 6
Impaired loans		135,626		135,626	(27,997)	(41,533)

Other noninterest-bearing investments:				
Private equity		\$ 86,090	86,090	(7,778) (7,048)
Other real estate owned		6,378	6,378	(1,503) (2,292)
	\$ -	\$ 161,865		