

ZIONS BANCORPORATION /UT/
Form 10-Q
November 07, 2008
[Table of Contents](#)

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 ended September 30, 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 (State or other jurisdiction)	87-0227400 (I.R.S. Employer
of incorporation or organization)	Identification No.)
ONE SOUTH MAIN, 15TH FLOOR	
SALT LAKE CITY, UTAH (Address of principal executive offices)	84133 (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

Edgar Filing: ZIONS BANCORPORATION /UT/ - Form 10-Q

to such filing requirements for the past 90 days.

Yes No

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

Large accelerated filer 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 October 31, 2008

115,343,553 shares

Table of Contents

ZIONS BANCORPORATION AND SUBSIDIARIES

INDEX

	Page
PART I. <u>FINANCIAL INFORMATION</u>	
ITEM 1. <u>Financial Statements (Unaudited)</u>	3
<u>Consolidated Balance Sheets</u>	3
<u>Consolidated Statements of Income</u>	4
<u>Consolidated Statements of Changes in Shareholders' Equity and Comprehensive Income</u>	5
<u>Consolidated Statements of Cash Flows</u>	6
<u>Notes to Consolidated Financial Statements</u>	8
ITEM 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	22
ITEM 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	61
ITEM 4. <u>Controls and Procedures</u>	62
PART II. <u>OTHER INFORMATION</u>	
ITEM 1. <u>Legal Proceedings</u>	62
ITEM 1A. <u>Risk Factors</u>	62
ITEM 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	63
ITEM 6. <u>Exhibits</u>	63
<u>SIGNATURES</u>	65

Table of ContentsPART I. FINANCIAL INFORMATIONITEM 1. FINANCIAL STATEMENTS (Unaudited)

ZIONS BANCORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands, except share amounts)	September 30, 2008 (Unaudited)	December 31, 2007	September 30, 2007 (Unaudited)
ASSETS			
Cash and due from banks	\$ 1,441,957	\$ 1,855,155	\$ 1,481,238
Money market investments:			
Interest-bearing deposits and commercial paper	568,875	726,446	513,395
Federal funds sold	274,129	102,225	23,567
Security resell agreements	170,009	671,537	484,678
Investment securities:			
Held-to-maturity, at adjusted cost (approximate fair value \$1,587,006, \$702,148 and \$686,026)	1,917,354	704,441	695,842
Available-for-sale, at fair value	2,792,236	5,134,610	4,549,721
Trading account, at fair value (includes \$531, \$741 and \$22 transferred as collateral under repurchase agreements)	45,769	21,849	15,494
	4,755,359	5,860,900	5,261,057
Loans:			
Loans held for sale	152,095	207,943	200,653
Loans and leases	41,876,371	39,044,163	37,778,228
	42,028,466	39,252,106	37,978,881
Less:			
Unearned income and fees, net of related costs	140,773	164,327	156,622
Allowance for loan losses	609,433	459,376	418,165
Loans and leases, net of allowance	41,278,260	38,628,403	37,404,094
Other noninterest-bearing investments	1,170,367	1,034,412	1,043,475
Premises and equipment, net	675,480	655,712	658,294
Goodwill	2,009,504	2,009,513	2,021,519
Core deposit and other intangibles	133,989	149,493	172,140
Other real estate owned	156,817	15,201	11,973
Other assets	1,339,422	1,238,417	969,256
	\$ 53,974,168	\$ 52,947,414	\$ 50,044,686
LIABILITIES AND SHAREHOLDERS EQUITY			
Deposits:			
Noninterest-bearing demand	\$ 9,413,484	\$ 9,618,300	\$ 9,322,668
Interest-bearing:			
Savings and NOW	4,341,873	4,507,837	4,365,600
Money market	11,703,163	10,304,225	10,446,015
Internet money market	2,384,125	2,163,014	1,707,544
Time under \$100,000	2,954,116	2,562,363	2,599,595

Edgar Filing: ZIONS BANCORPORATION /UT/ - Form 10-Q

Time \$100,000 and over	4,468,225	4,391,588	4,535,644
Foreign	3,325,915	3,375,426	2,797,647
	38,590,901	36,922,753	35,774,713
Securities sold, not yet purchased	29,528	224,269	21,036
Federal funds purchased	1,179,197	2,463,460	2,391,805
Security repurchase agreements	734,379	1,298,112	1,070,702
Other liabilities	649,672	644,375	560,853
Commercial paper	40,493	297,850	411,007
Federal Home Loan Bank advances and other borrowings:			
One year or less	4,455,234	3,181,990	2,037,644
Over one year	128,855	127,612	128,218
Long-term debt	2,569,594	2,463,254	2,354,317
Total liabilities	48,377,853	47,623,675	44,750,295
Minority interest	30,288	30,939	37,411
Shareholders' equity:			
Capital stock:			
Preferred stock, without par value, authorized 3,000,000 shares:			
Series A and C (liquidation preference \$1,000 per share); issued and outstanding 240,000 and 46,949 shares	286,949	240,000	240,000
Common stock, without par value; authorized 350,000,000 shares; issued and outstanding 115,302,598, 107,116,505 and 106,934,360 shares	2,482,517	2,212,237	2,200,228
Retained earnings	2,968,242	2,910,692	2,914,439
Accumulated other comprehensive income (loss)	(157,305)	(58,835)	(86,914)
Deferred compensation	(14,376)	(11,294)	(10,773)
Total shareholders' equity	5,566,027	5,292,800	5,256,980
	\$ 53,974,168	\$ 52,947,414	\$ 50,044,686

See accompanying notes to consolidated financial statements.

Table of Contents

ZIONS BANCORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(In thousands, except per share amounts)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Interest income:				
Interest and fees on loans	\$ 663,677	\$ 724,598	\$ 1,995,227	\$ 2,096,197
Interest on loans held for sale	1,916	3,695	7,632	11,892
Lease financing	5,515	5,461	17,100	15,901
Interest on money market investments	9,267	10,841	40,608	24,939
Interest on securities:				
Held-to-maturity taxable	21,780	2,343	39,965	6,610
Held-to-maturity nontaxable	6,319	6,402	18,972	18,720
Available-for-sale taxable	25,044	61,248	122,459	193,580
Available-for-sale nontaxable	1,697	2,274	5,459	7,130
Trading account	437	880	1,277	2,838
Total interest income	735,652	817,742	2,248,699	2,377,807
Interest expense:				
Interest on savings and money market deposits	90,720	123,586	274,851	353,984
Interest on time and foreign deposits	74,837	119,781	264,519	353,111
Interest on short-term borrowings	47,518	59,034	153,907	151,095
Interest on long-term borrowings	30,574	38,704	92,218	116,550
Total interest expense	243,649	341,105	785,495	974,740
Net interest income	492,003	476,637	1,463,204	1,403,067
Provision for loan losses	156,606	55,354	363,080	82,228
Net interest income after provision for loan losses	335,397	421,283	1,100,124	1,320,839
Noninterest income:				
Service charges and fees on deposit accounts	53,695	46,919	154,347	135,420
Other service charges, commissions and fees	42,794	44,471	127,137	126,159
Trust and wealth management income	8,865	9,040	28,842	26,381
Capital markets and foreign exchange	12,257	11,325	34,850	32,956
Dividends and other investment income	7,042	14,720	30,361	37,084
Loan sales and servicing income	3,633	11,607	19,959	29,863
Income from securities conduit	336	3,221	3,960	15,704
Fair value and nonhedge derivative loss	(26,155)	(9,391)	(42,157)	(7,222)
Equity securities gains, net	12,971	11,072	14,918	16,370
Fixed income securities gains, net	135	58	1,988	3,772
Impairment losses on investment securities and valuation losses on securities purchased from Lockhart Funding	(28,022)		(112,772)	
Other	2,059	2,781	11,549	16,091
Total noninterest income	89,610	145,823	272,982	432,578

Edgar Filing: ZIONS BANCORPORATION /UT/ - Form 10-Q

Noninterest expense:				
Salaries and employee benefits	208,995	204,488	619,640	608,743
Occupancy, net	30,552	27,203	84,715	80,126
Furniture and equipment	24,281	23,996	73,629	71,535
Legal and professional services	11,297	10,918	30,743	31,697
Postage and supplies	9,257	10,024	27,582	27,096
Advertising	6,782	6,624	20,653	20,598
Impairment losses on long-lived assets	2,239		2,239	
Merger related expense	384	682	972	4,579
Amortization of core deposit and other intangibles	8,096	11,495	25,107	34,436
Provision (credit) for unfunded lending commitments	(3,264)	172	2,044	1,700
Other	73,657	56,429	189,472	171,112
Total noninterest expense	372,276	352,031	1,076,796	1,051,622
Income before income taxes and minority interest	52,731	215,075	296,310	701,795
Income taxes	11,214	71,853	83,147	246,772
Minority interest	3,757	7,490	(3,544)	6,819
Net income	37,760	135,732	216,707	448,204
Preferred stock dividends	4,409	3,770	9,316	10,980
Net earnings applicable to common shareholders	\$ 33,351	\$ 131,962	\$ 207,391	\$ 437,224
Weighted average common shares outstanding during the period:				
Basic shares	108,407	106,814	107,176	107,671
Diluted shares	108,497	107,880	107,333	109,059
Net earnings per common share:				
Basic	\$ 0.31	\$ 1.24	\$ 1.94	\$ 4.06
Diluted	0.31	1.22	1.93	4.01

See accompanying notes to consolidated financial statements.

Table of Contents

ZIONS BANCORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY AND COMPREHENSIVE INCOME

(Unaudited)

(In thousands, except share and per share amounts)	Preferred stock	Common stock Shares	Common stock Amount	Retained earnings	Accumulated other comprehensive income (loss)	Deferred compensation	Total shareholders equity
Balance, December 31, 2007	\$ 240,000	107,116,505	\$ 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				216,707			216,707
Other comprehensive loss, net of tax:							
Net realized and unrealized holding losses on investments and retained interests					(210,856)		
Foreign currency translation					(52)		
Reclassification for net realized losses on investments recorded in operations					67,129		
Net unrealized gains on derivative instruments					33,104		
Pension and postretirement					734		
Other comprehensive loss					(109,941)		(109,941)
Total comprehensive income							106,766
Issuance of preferred stock	46,949		(503)				46,446
Issuance of common stock		7,194,079	244,889				244,889
Stock issued under dividend reinvestment plan		39,857	1,261				1,261
Net stock issued under employee plans and related tax benefits		952,157	24,633				24,633
Dividends declared on preferred stock				(9,316)			(9,316)
Dividends on common stock, \$1.29 per share				(138,370)			(138,370)
Change in deferred compensation						(3,082)	(3,082)
Balance, September 30, 2008	\$ 286,949	115,302,598	\$ 2,482,517	\$ 2,968,242	\$ (157,305)	\$ (14,376)	\$ 5,566,027
Balance, December 31, 2006	\$ 240,000	106,720,884	\$ 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

Edgar Filing: ZIONS BANCORPORATION /UT/ - Form 10-Q

Comprehensive income:							
Net income for the period				448,204			448,204
Other comprehensive loss, net of tax:							
Net realized and unrealized holding losses on investments and retained interests				(49,338)			
Foreign currency translation				12			
Reclassification for net realized gains on investments recorded in operations				(3,889)			
Net unrealized gains on derivative instruments				42,150			
Other comprehensive loss				(11,065)			(11,065)
Total comprehensive income							437,139
Common stock issued in acquisition	2,600,117		206,075				206,075
Stock redeemed and retired	(3,933,128)		(318,756)				(318,756)
Net stock issued under employee plans and related tax benefits	1,546,487		82,606				82,606
Dividends declared on preferred stock				(10,980)			(10,980)
Dividends on common stock, \$1.25 per share				(135,382)			(135,382)
Change in deferred compensation						(1,153)	(1,153)
Balance, September 30, 2007	\$ 240,000	106,934,360	\$ 2,200,228	\$ 2,914,439	\$ (86,914)	\$ (10,773)	\$ 5,256,980

Total comprehensive income for the three months ended September 30, 2008 and 2007 was \$38,780 and \$161,658, respectively.

See accompanying notes to consolidated financial statements.

Table of Contents

ZIONS BANCORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income for the period	\$ 37,760	\$ 135,732	\$ 216,707	\$ 448,204
Adjustments to reconcile net income to net cash provided by operating activities:				
Impairment and valuation losses on investment securities and long-lived assets	30,261		115,011	
Provision for loan losses	156,606	55,354	363,080	82,228
Depreciation of premises and equipment	17,918	18,438	52,830	58,090
Amortization	19,729	12,888	48,996	35,883
Deferred income tax benefit	(48,293)	(30,075)	(119,187)	(52,099)
Share-based compensation	8,875	6,499	23,255	19,481
Common stock issued for 401(k) employer match	4,379		4,379	
Excess tax benefits from share-based compensation	(128)	(947)	(527)	(11,540)
Gain (loss) allocated to minority interest	3,757	7,490	(3,544)	6,819
Equity securities gains, net	(12,971)	(11,072)	(14,918)	(16,370)
Fixed income securities gains, net	(135)	(58)	(1,988)	(3,772)
Net decrease (increase) in trading securities	5,901	7,314	(15,819)	47,942
Principal payments on and proceeds from sales of loans held for sale	224,344	327,892	887,700	895,809
Additions to loans held for sale	(221,828)	(333,500)	(851,599)	(938,500)
Net losses (gains) on sales of loans, leases and other assets	4,587	(6,225)	(5,956)	(12,179)
Income from increase in cash surrender value of bank-owned life insurance	(6,393)	(6,498)	(18,994)	(19,655)
Change in accrued income taxes	8,861	15,721	(68,764)	28,782
Change in accrued interest receivable	14,171	(6,685)	36,390	(5,713)
Change in other assets	164,171	74,884	82,898	70,979
Change in other liabilities	87,690	(60,065)	60,365	(105,845)
Change in accrued interest payable	1,308	4,911	(10,016)	2,740
Other, net	(5,271)	(5,896)	3,580	(18,833)
Net cash provided by operating activities	495,299	206,102	783,879	512,451
CASH FLOWS FROM INVESTING ACTIVITIES:				
Net decrease (increase) in money market investments	250,244	(353,387)	487,195	(351,064)
Proceeds from maturities of investment securities held-to-maturity	28,379	36,788	82,271	90,822
Purchases of investment securities held-to-maturity	(43,162)	(30,339)	(83,345)	(110,091)
Proceeds from sales of investment securities available-for-sale	82,422	251,856	586,878	610,441
Proceeds from maturities of investment securities available-for-sale	382,356	701,567	3,021,041	2,056,755
Purchases of investment securities available-for-sale	(459,523)	(969,231)	(2,786,420)	(2,250,559)
Proceeds from sales of loans and leases	211,808	11,850	260,947	42,567
Securitized loans purchased	(8,639)		(1,165,943)	
Net increase in loans and leases	(358,017)	(1,000,894)	(2,288,981)	(2,430,212)
Net decrease (increase) in other noninterest-bearing investments	(6,624)	(45,145)	(120,492)	42,069
Proceeds from sales of premises and equipment and other assets	106	3,221	8,534	6,975
Purchases of premises and equipment	(37,999)	(28,592)	(81,806)	(77,479)
Proceeds from sales of other real estate owned	14,875	1,593	33,866	6,684
Net cash received from (paid for) acquisitions	688,940	(12,970)	688,940	27,274
Net cash received from sale of subsidiary				6,995

Net cash provided by (used in) investing activities	745,166	(1,433,683)	(1,357,315)	(2,328,823)
---	---------	-------------	-------------	-------------

Table of Contents

ZIONS BANCORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(Unaudited)

(In thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
CASH FLOWS FROM FINANCING ACTIVITIES:				
Net increase (decrease) in deposits	\$ 250,943	\$ (515,847)	\$ 936,107	\$ (406,778)
Net change in short-term funds borrowed	(1,933,434)	1,727,137	(1,027,016)	2,209,805
Proceeds from FHLB advances and other borrowings over one year			3,500	
Payments on FHLB advances and other borrowings over one year	(619)	(614)	(2,257)	(8,840)
Proceeds from issuance of long-term debt	28,460		261,336	
Debt issuance costs	(64)		(675)	(32)
Payments on long-term debt	(137,000)	(7,732)	(155,025)	(34,982)
Proceeds from issuance of preferred stock	46,446		46,446	
Proceeds from issuance of common stock	244,914	4,017	246,355	56,423
Payments to redeem common stock	(55)	(90,129)	(2,635)	(321,974)
Excess tax benefits from share-based compensation	128	947	527	11,540
Dividends paid on preferred stock	(4,409)	(3,770)	(9,316)	(10,980)
Dividends paid on common stock	(45,542)	(46,136)	(137,109)	(135,382)
Net cash provided by (used in) financing activities	(1,550,232)	1,067,873	160,238	1,358,800
Net decrease in cash and due from banks	(309,767)	(159,708)	(413,198)	(457,572)
Cash and due from banks at beginning of period	1,751,724	1,640,946	1,855,155	1,938,810
Cash and due from banks at end of period	\$ 1,441,957	\$ 1,481,238	\$ 1,441,957	\$ 1,481,238
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:				
Cash paid for:				
Interest	\$ 239,041	\$ 335,531	\$ 793,697	\$ 964,517
Income taxes	42,150	84,489	259,402	256,472
Noncash items:				
Investment securities available-for-sale transferred to investment securities held-to-maturity			1,226,832	
Loans transferred to other real estate owned	57,951	4,587	192,425	14,391
Acquisitions:				
Common stock issued				206,075
Assets acquired	66,192		66,192	1,348,233
Liabilities assumed	737,116		737,116	1,142,158

See accompanying notes to consolidated financial statements.

Table of Contents

ZIONS BANCORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

September 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 nine-month periods ended September 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.

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 financial statements. Both Statements are effective for annual and interim financial statements beginning on or after December 15, 2008. Generally, adoption is prospective and early adoption is prohibited. Management is evaluating the impact these Statements may have on the Company's financial statements.

Table of Contents

ZIONS BANCORPORATION AND SUBSIDIARIES

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 September 30, 2008, cash collateral was used to reduce recorded amounts of derivative assets by approximately \$69 million. The reduction of derivative liabilities was insignificant.

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

3. ACQUISITION

Effective September 5, 2008, the Company acquired from the FDIC the insured deposits and certain assets of the failed Silver State Bank, headquartered in Henderson, Nevada. The acquisition was made through the Company's Nevada State Bank and National Bank of Arizona subsidiaries and included approximately \$737 million of deposits and \$66 million of assets.

4. INVESTMENT SECURITIES

As a result of an ongoing valuation review of our investment securities portfolio, we recognized a pretax charge of approximately \$28.0 million during the third quarter of 2008 for certain investment securities deemed to have other-than-temporary impairment (OTTI). Details of this OTTI are as follows:

\$19.2 million for three bank and insurance trust preferred collateralized debt obligations (CDOs)

\$1.3 million for two bank and insurance income notes (OTTI also taken previously)

\$4.1 million for three trust preferred CDOs related to real estate investment trusts (REITs) (OTTI also taken previously)

\$3.4 million for two structured asset-backed (ABS) CDOs

For the first nine months of 2008, total OTTI was \$107.6 million. As discussed in Note 5, valuation losses on securities purchased from Lockhart Funding, LLC (Lockhart) during the first quarter of 2008 were \$5.2 million. The total of these amounts comprises the Impairment losses on investment securities and valuation losses on securities purchased from Lockhart Funding in the statement of income for the first nine months of 2008.

During the second quarter of 2008, we reassessed the classification of certain asset-backed and trust preferred CDOs. On April 28, 2008, we reclassified approximately \$1.2 billion at fair value of these available-for-sale (AFS) securities to held-to-maturity (HTM). 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 HTM classification to be more appropriate because we have the ability and the intent to hold these securities to maturity.

At September 30, 2008, unrealized pretax losses recognized in OCI were \$248.5 million for HTM securities and \$145.8 million for AFS securities.

Table of Contents

ZIONS BANCORPORATION AND SUBSIDIARIES

5. OFF-BALANCE SHEET ARRANGEMENT

Zions Bank provides a liquidity facility for a fee to Lockhart, which is 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 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.

During the first and second quarters of 2008, Zions Bank purchased an aggregate of \$1,067 million of securities and related accrued interest at book value from Lockhart. Of these purchases, \$792 million were required by the Liquidity Agreement when the securities, and MBIA Inc. which insured certain of the securities, were downgraded below AA-. The remaining \$275 million were due to the inability of Lockhart to issue a sufficient amount of commercial paper.

The securities purchased included \$987 million which 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 a total of \$170 million of related securities owned by the Parent), Zions Bank recorded \$1,180 million of loans on its balance sheet including \$23 million of premium. See further discussion of this premium in Note 9.

The commitment of Zions Bank to Lockhart cannot exceed the book value of Lockhart's securities portfolio, which was approximately \$828 million at September 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 \$110 million at September 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 \$557 million on its balance sheet at September 30, 2008. The average amount of Lockhart commercial paper included in money market investments for the three months ended September 30, 2008 was approximately \$597 million. 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.

On September 15, 2008, the FASB issued a proposed amendment, *Accounting for Transfers of Financial Assets, an amendment of FASB Statement No. 140*, that among other things, would remove the concept of a QSPE and remove the exception from applying FIN 46R to QSPEs. The proposed amendment would be effective for calendar-year companies beginning in 2010. Management is monitoring these developments as they relate to the operations and existence of Lockhart.

Table of Contents

ZIONS BANCORPORATION AND SUBSIDIARIES

6. DEBT

During the third quarter and first nine months of 2008, the Company issued a net amount of \$28.5 million and \$261.3 million, respectively, of one- and two-year senior medium-term notes at coupon rates ranging from 4.50% to 5.65%. 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).

The Company repaid senior medium-term notes of \$137 million and \$155 million during the third quarter and first nine months of 2008, respectively.

7. INCOME TAXES

The lower effective tax rate during the third quarter of 2008 is mainly due to lower taxable income in 2008, which increased the proportion of nontaxable income relative to total income. Income tax expense for the first nine months of 2008 included a net benefit of approximately \$5.3 million primarily from a settlement with governmental authorities during the second quarter that allowed the Company to reduce its liability and related interest for uncertain tax positions under the provisions of FIN 48.

Table of Contents

ZIONS BANCORPORATION AND SUBSIDIARIES

8. 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
Nine Months Ended September 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 \$130,611	(210,856)			(210,856)
Foreign currency translation	(52)			(52)
Reclassification for net realized losses recorded in operations, net of income tax benefit of \$41,582	67,129			67,129
Net unrealized gains, net of reclassification to operations of \$40,219 and income tax expense of \$20,927		33,104		33,104
Pension and postretirement, net of income tax expense of \$477			734	734
Other comprehensive income (loss)	(143,779)	33,104	734	(109,941)
Balance, September 30, 2008	\$ (241,074)	\$ 98,317	\$ (14,548)	\$ (157,305)
Nine Months Ended September 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 \$30,562	(49,338)			(49,338)
Foreign currency translation	12			12
Reclassification for net realized gains recorded in operations, net of income tax expense of \$2,409	(3,889)			(3,889)
Net unrealized gains, net of reclassification to operations of \$(33,432) and income tax expense of \$27,953		42,150		42,150
Other comprehensive income (loss)	(53,215)	42,150		(11,065)
Balance, September 30, 2007	\$ (71,586)	\$ 434	\$ (15,762)	\$ (86,914)

On July 2, 2008, the Company completed a \$47 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 depository shares with each depository 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.

During September 8-11, 2008, the Company issued \$250 million of new common stock consisting of 7,194,079 shares at an average price of \$34.75 per share. Net of issuance costs and fees, this issuance added \$244.9 million to common shareholders' equity.

Table of Contents**ZIONS BANCORPORATION AND SUBSIDIARIES**

On October 27, 2008, the U.S. Department of the Treasury gave preliminary approval to the Company's application to receive a capital investment of \$1.4 billion. The application was made under the Treasury's Capital Purchase Program announced on October 14, 2008. The capital investment is expected to be received prior to year-end and will be in the form of nonvoting senior preferred shares pari passu with the Company's existing preferred shares. The Company will also issue to the Treasury warrants exercisable for 10 years to purchase \$210 million of the Company's common shares. The number of common shares issuable under the warrants will be determined from the average share price during a specified 20-day trading period. The preferred shares will qualify for regulatory Tier 1 capital and may be redeemed after three years. They will have a dividend rate of 5% for the first five years, increasing to 9% thereafter. Among other things, the Company will be subject to restrictions and conditions including those related to common dividends, share repurchases, executive compensation, and corporate governance.

9. 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.

Table of Contents**ZIONS BANCORPORATION AND SUBSIDIARIES**

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*.

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 the model pricing discussed subsequently.

At September 30, 2008 due to the market conditions subsequently described, the Company determined that certain CDOs with an amortized cost of \$1,878 million at September 30, 2008 previously fair valued under a Level 2 matrix approach would be more appropriately fair valued under a Level 3 cash flow modeling approach. Additional securities of \$190 million at amortized cost previously fair valued with Level 3 single dealer quotes were also moved to a Level 3 cash flow modeling approach. The total of these amounts, or \$2,068 million, included approximately \$1,353 million accounted for as HTM securities.

Because of recent market disruptions, particularly during the third quarter of 2008, both the SEC on September 30, 2008 (Release No. 2008-234) and the FASB on October 10, 2008 (FSP FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active*) issued additional guidance on fair value accounting when markets become distressed and inactive. In general, this guidance clarifies under such market conditions when and how an entity might appropriately determine fair value using unobservable inputs under Level 3 rather than using observable inputs under Level 2, particularly when significant adjustments become necessary under Level 2 and extensive judgment must be employed to evaluate inputs and results in estimating fair value.

The Company values its CDO portfolio using several methodologies that primarily include internal and third party models and to a lesser extent dealer quotes and pricing services. A licensed model is used internally to fair value bank and insurance trust preferred CDOs. This model uses estimated values of expected losses on underlying collateral and applies market-based discount rates on resultant cash flows to estimate fair value. Third party models are used to fair value certain REIT and ABS CDOs. These models utilize relevant data assumptions, which are evaluated by the Company for reasonableness. These assumptions include but are not limited to probability of default, collateral recovery rates, discount rates, over-collateralization levels, 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.

Table of Contents

ZIONS BANCORPORATION AND SUBSIDIARIES

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.

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 September 30, 2008 (*in thousands*):

	Level 1	Level 2	Level 3	Total
ASSETS				
Investment securities:				
Available-for-sale	\$ 40,610	\$ 1,985,267	\$ 766,359	\$ 2,792,236
Trading account		40,364	5,405 (1)	45,769
Other noninterest-bearing investments:				
Private equity		26,660		26,660
Other assets:				
Derivatives	9,847	286,795		296,642
	\$ 50,457	\$ 2,339,086	\$ 771,764	\$ 3,161,307
LIABILITIES				
Securities sold, not yet purchased		\$ 29,528		\$ 29,528
Other liabilities:				
Derivatives	\$ 6,747	158,229		164,976
Other			\$ 1,422	1,422
	\$ 6,747	\$ 187,757	\$ 1,422	\$ 195,926

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

Table of Contents

ZIONS BANCORPORATION AND SUBSIDIARIES

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

	Level 3 Instruments			
	Three Months Ended September 30, 2008			
	Investment securities Available- for-sale	Trading account (1)	Retained interests from securitizations (1)	Other liabilities
Balance at June 30, 2008	\$ 182,268	\$ 5,724	\$	\$ (292)
Total net gains (losses) included in:				
Statement of income (2):				
Fair value and nonhedge derivative income (loss)		(319)		
Impairment losses on available-for sale securities	(14,006)			
Other noninterest expense				(1,130)
Other comprehensive income (loss)	(57,429)			
Purchases, sales, issuances, and settlements, net	(4,315)			
Net transfers in (out)	659,841			
Balance at September 30, 2008	\$ 766,359	\$ 5,405	\$	\$ (1,422)

	Level 3 Instruments			
	Nine Months Ended September 30, 2008			
	Investment securities Available- for-sale	Trading account (1)	Retained interests from securitizations (1)	Other liabilities
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)		(2,695)	(2,098)	
Impairment losses on available-for sale securities and valuation losses on securities purchased from Lockhart Funding	(82,032)			
Other noninterest expense				(378)
Other comprehensive income (loss)	(123,560)			
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	(5,985)		(13,593)	
Net transfers in (out)	841,471		(26,735)	
Balance at September 30, 2008	\$ 766,359	\$ 5,405	\$	\$ (1,422)

- (1) Elected under SFAS 159 for fair value option, as discussed subsequently.
(2) Amounts are all unrealized.

Table of Contents

ZIONS BANCORPORATION AND SUBSIDIARIES

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

	Fair value at September 30, 2008				Gains (losses) from fair value changes	
	Level 1	Level 2	Level 3	Total	Three months ended September 30, 2008	Nine months ended September 30, 2008
ASSETS						
Loans held for sale		\$ 16,355		\$ 16,355	\$ (355)	\$ (349)
Impaired loans		200,805		200,805	(2,759)	(34,887)
Other noninterest-bearing investments:						
Private equity			\$ 63,430	63,430	7,957	550
	\$	\$ 217,160	\$ 63,430	\$ 280,590	\$ 4,843	\$ (34,686)

Loans held for sale relate to loans purchased under the Small Business Administration 7(a) program. They are fair valued under Level 2 based on quotes of comparable instruments.

Impaired loans that are collateral-dependent are fair valued under Level 2 based on the fair value of the collateral, which is determined when appropriate from appraisals and other observable market data.

Fair Value Option

SFAS 159 allows for the option to report certain financial assets and liabilities at fair value initially and at subsequent measurement dates with changes in fair value included in earnings. The option may be applied instrument by instrument, but is on an irrevocable basis. As of January 1, 2008, the Company elected the fair value option for one available-for-sale REIT trust preferred CDO security and three retained interests on selected small business loan securitizations. The cumulative effect of adopting SFAS 159 decreased retained earnings at January 1, 2008 by approximately \$11.5 million.

The REIT trust preferred CDO was selected as part of a directional hedging program to hedge the credit exposure the Company has to homebuilders in its REIT CDO portfolio. This allows the Company to avoid complex hedge accounting provisions associated with the implemented hedging program. Management selected this security because it had the most exposure to the homebuilder market compared to the other REIT CDOs in the Company's portfolio, both in dollar amount and as a percentage, and was therefore considered the most suitable for hedging.

The retained interests were selected to more appropriately reflect their fair value and to account for increases and decreases in their fair value through earnings. Net decreases in fair value of approximately \$2.1 million during the first and second quarters of 2008 were recognized in fair value and nonhedge derivative income (loss) in the statement of income. However as discussed in Note 5, during the first and second quarters of 2008, Zions Bank purchased securities from Lockhart that comprised the entire remaining small business loan securitizations created by Zions Bank and held by Lockhart. These retained interests related to the securities purchased and, as part of the purchase transaction, were included with the \$23 million premium amount recorded with the loan balances at Zions Bank.

Table of Contents

ZIONS BANCORPORATION AND SUBSIDIARIES

10. GUARANTEES AND COMMITMENTS

The following are guarantees issued by the Company (*in thousands*):

	September 30, 2008	December 31, 2007
Standby letters of credit:		
Financial	\$ 1,349,044	\$ 1,317,304
Performance	272,092	351,150
	\$ 1,621,136	\$ 1,668,454

The Company's Annual Report on Form 10-K for the year ended December 31, 2007 contains further information on these letters of credit including their terms and collateral requirements. At September 30, 2008, the carrying value recorded by the Company as a liability for these guarantees was \$5.6 million.

As of September 30, 2008, the Parent has guaranteed approximately \$300.4 million of debt primarily issued by affiliated trusts issuing trust preferred securities.

During the first quarter of 2008, the Company's subsidiary banks recorded an aggregate pretax cash gain of approximately \$12.4 million from the partial redemption of their equity interests in Visa Inc. The redemption approximated 39% of the subsidiary banks' equity interests and was included in equity securities gains (losses), net in the statement of income for the nine months ended September 30, 2008. Also during the first quarter of 2008, the Company reversed approximately \$5.6 million of the \$8.1 million accrual established during the fourth quarter of 2007 for indemnification liabilities related to certain Visa (SM) litigation. The effect of this reversal is included in other noninterest expense in the statement of income for the nine months ended September 30, 2008. In accordance with generally accepted accounting principles and recent guidance from the SEC, the Company's subsidiary banks have not recognized any value for their remaining investment in Visa.

See Note 5 for a discussion of Zions Bank's commitment to Lockhart.

11. RETIREMENT PLANS

The following discloses the net periodic benefit cost (credit) and its components for the Company's pension and postretirement plans (*in thousands*):

	Pension benefits		Supplemental retirement benefits		Postretirement benefits		Pension benefits		Supplemental retirement benefits		Postretirement benefits	
	Three Months Ended September 30,		September 30,		September 30,		Nine Months Ended September 30,		September 30,		September 30,	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Service cost	\$ 94	\$ 93	\$	\$	\$ 8	\$ 27	\$ 296	\$ 337	\$	\$	\$ 49	\$ 79
Interest cost	2,061	2,081	194	211	19	79	6,501	6,323	552	565	162	238
Expected return on plan assets	(2,628)	(2,822)					(8,290)	(8,621)				
Amortization of prior service cost (credit)			43	54	(61)				116	117	(81)	

Edgar Filing: ZIONS BANCORPORATION /UT/ - Form 10-Q

Amortization of transition liability				7						15			
Settlement gain											(2,973)		
Amortization of net actuarial (gain) loss	227	264	(5)	72	(52)	(67)	716	775	(17)	66	(154)	(201)	
Net periodic benefit cost (credit)	\$ (246)	\$ (384)	\$ 232	\$ 344	\$ (86)	\$ 39	\$ (777)	\$ (1,186)	\$ 651	\$ 763	\$ (2,997)	\$ 116	

Table of Contents

ZIONS BANCORPORATION AND SUBSIDIARIES

As disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2007, the Company has frozen its participation and benefit accruals for the pension plan and its contributions for individual benefit payments in the postretirement benefit plan. The settlement gain resulted from the Company's curtailment of coverage effective June 1, 2008 for certain participants in the postretirement benefit plan and was accounted for in accordance with applicable accounting standards.

12. OPERATING SEGMENT INFORMATION

We manage our operations and prepare management reports and other information with a primary focus on geographical area. As of September 30, 2008, we operate eight community/regional banks in distinct geographical areas. Performance assessment and resource allocation are based upon this geographical structure. Zions Bank operates 114 branches in Utah and 25 branches in Idaho. CB&T operates 90 branches in California. Amegy operates 87 branches in Texas. NBA operates 78 branches in Arizona. NSB operates 71 branches in Nevada. Vectra operates 40 branches in Colorado and one branch in New Mexico. TCBW operates one branch in the state of Washington. TCBO operates one branch in Oregon. Additionally, Zions Bank, CB&T, Amegy, NBA, Vectra, and TCBW each operate a foreign branch in the Grand Cayman Islands. NSB has an application pending to open a foreign branch. In addition, as of September 30, 2008, NBA operated 4 branches and NSB operated 13 branches from the failed Silver State Bank, which the Company acquired as discussed in Note 3. Subsequent to September 30, 2008, NBA and NSB closed certain of these branches and are still determining which of the remaining branches will continue to be operated.

On September 15, 2008, the Company announced it had entered into a definitive agreement to exit 49 grocery store branches (28 in Nevada and 21 in Utah). The leases on these branches are being assumed by another bank; however, all loans and deposits will be transferred to nearby Company branch locations. In connection with this transaction, the Company recorded \$2.2 million in impairment losses on the associated leasehold improvements. The amount is separately reflected as impairment losses on long-lived assets in the statement of income.

The operating segment identified as "Other" includes the Parent, Zions Management Services Company ("ZMSC"), certain nonbank financial service and financial technology subsidiaries, other smaller nonbank operating units, TCBO, and eliminations of transactions between segments. ZMSC provides internal technology and operational services to affiliated operating businesses of the Company. ZMSC charges most of its costs to the affiliates on an approximate break-even basis.

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. Operating segments pay for centrally provided services based upon estimated or actual usage of those services.

Table of Contents

ZIONS BANCORPORATION AND SUBSIDIARIES

The following table presents selected operating segment information for the three months ended September 30, 2008 and 2007:

(In millions)	Zions Bank		CB&T		Amegy		NBA		NSB	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
CONDENSED INCOME STATEMENT										
Net interest income	\$ 170.3	\$ 140.9	\$ 106.1	\$ 108.9	\$ 92.7	\$ 85.6	\$ 54.1	\$ 63.4	\$ 39.6	\$ 45.0
Provision for loan losses	40.0	11.0	15.0	10.5	12.5	6.1	55.0	23.5	29.5	1.8
Net interest income after provision for loan losses	130.3	129.9	91.1	98.4	80.2	79.5	(0.9)	39.9	10.1	43.2
Impairment losses on investment securities	(3.3)		(12.0)							(2.0)
Other noninterest income	33.7	52.9	22.0	23.3	39.8	32.2	10.7	9.0	11.4	8.4
Noninterest expense	118.5	116.1	58.0	58.4	80.7	75.2	37.5	33.3	34.3	28.9
Income (loss) before income taxes and minority interest	42.2	66.7	43.1	63.3	39.3	36.5	(27.7)	15.6	(14.8)	22.7
Income taxes (benefit)	12.8	22.2	16.8	25.4	12.9	11.6	(11.1)	6.1	(5.2)	7.8
Minority interest										
Net income (loss)	29.4	44.5	26.3	37.9	26.4	24.9	(16.6)	9.5	(9.6)	14.9
Preferred stock dividend										
Net earnings applicable to common shareholders	\$ 29.4	\$ 44.5	\$ 26.3	\$ 37.9	\$ 26.4	\$ 24.9	\$ (16.6)	\$ 9.5	\$ (9.6)	\$ 14.9

AVERAGE BALANCE SHEET DATA

Total assets	\$ 19,605	\$ 15,808	\$ 10,386	\$ 10,091	\$ 12,146	\$ 10,315	\$ 5,114	\$ 5,490	\$ 3,844	\$ 3,854
Net loans and leases	14,930	11,946	7,945	7,770	8,795	7,187	4,351	4,708	3,203	3,187
Total deposits	11,700	10,982	8,218	8,226	8,546	7,066	3,769	4,201	3,212	3,389
Shareholder's equity:										
Preferred equity										
Common equity	1,108	1,034	1,069	1,086	2,008	1,857	589	613	293	256
Total shareholder's equity	1,108	1,034	1,069	1,086	2,008	1,857	589	613	293	256

(In millions)	Vectra		TCBW		Other		Consolidated Company	
	2008	2007	2008	2007	2008	2007	2008	2007
CONDENSED INCOME STATEMENT								
Net interest income	\$ 25.8	\$ 24.9	\$ 8.3	\$ 9.2	\$ (4.9)	\$ (1.2)	\$ 492.0	\$ 476.7
Provision for loan losses	4.3	2.3	0.2	0.2	0.1		156.6	55.4
Net interest income after provision for loan losses	21.5	22.6	8.1	9.0	(5.0)	(1.2)	335.4	421.3
Impairment losses on investment securities					(10.7)		(28.0)	
Other noninterest income	7.6	7.3	0.6	0.7	(8.1)	12.0	117.7	145.8

Edgar Filing: ZIONS BANCORPORATION /UT/ - Form 10-Q

Noninterest expense	20.7	22.1	3.6	3.8	19.0	14.2	372.3	352.0
Income (loss) before income taxes and minority interest	8.4	7.8	5.1	5.9	(42.8)	(3.4)	52.8	215.1
Income taxes (benefit)	3.0	2.8	1.7	2.0	(19.7)	(6.1)	11.2	71.8
Minority interest					3.8	7.5	3.8	7.5
Net income (loss)	5.4	5.0	3.4	3.9	(26.9)	(4.8)	37.8	135.8
Preferred stock dividend					4.4	3.8	4.4	3.8
Net earnings applicable to common shareholders	\$ 5.4	\$ 5.0	\$ 3.4	\$ 3.9	\$(31.3)	\$(8.6)	\$ 33.4	\$ 132.0

AVERAGE BALANCE

SHEET DATA

Total assets	\$ 2,734	\$ 2,481	\$ 848	\$ 873	\$(397)	\$(9)	\$ 54,280	\$ 48,903
Net loans and leases	2,073	1,817	575	497	112	83	41,984	37,195
Total deposits	1,872	1,745	555	574	(550)	(426)	37,322	35,757
Shareholder's equity:								
Preferred equity					283	240	283	240
Common equity	334	319	68	60	(346)	(238)	5,123	4,987
Total shareholder's equity	334	319	68	60	(63)	2	5,406	5,227

Table of Contents

ZIONS BANCORPORATION AND SUBSIDIARIES

The following table presents selected operating segment information for the nine months ended September 30, 2008 and 2007:

(In millions)	Zions Bank		CB&T		Amegy		NBA		NSB	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
CONDENSED INCOME STATEMENT										
Net interest income	\$ 499.0	\$ 403.6	\$ 307.1	\$ 329.1	\$ 270.0	\$ 244.0	\$ 169.7	\$ 191.2	\$ 120.5	\$ 139.8
Provision for loan losses	114.1	19.5	58.9	15.5	31.2	13.2	97.8	27.0	47.3	4.8
Net interest income after provision for loan losses	384.9	384.1	248.2	313.6	238.8	230.8	71.9	164.2	73.2	135.0
Impairment losses on investment securities and valuation losses on securities purchased from Lockhart Funding	(20.8)		(12.0)						(2.0)	
Other noninterest income	146.6	183.3	63.0	65.8	112.8	93.3	26.7	25.3	33.4	24.8
Noninterest expense	344.6	337.2	178.1	176.4	232.7	223.7	104.9	107.9	92.5	84.4
Income (loss) before income taxes and minority interest	166.1	230.2	121.1	203.0	118.9	100.4	(6.3)	81.6	12.1	75.4
Income taxes (benefit)	53.5	77.4	47.4	83.3	38.9	32.4	(2.7)	31.9	4.1	26.2
Minority interest		0.3			0.4	0.1				
Net income (loss)	112.6	152.5	73.7	119.7	79.6	67.9	(3.6)	49.7	8.0	49.2
Preferred stock dividend										
Net earnings applicable to common shareholders	\$ 112.6	\$ 152.5	\$ 73.7	\$ 119.7	\$ 79.6	\$ 67.9	\$ (3.6)	\$ 49.7	\$ 8.0	\$ 49.2

AVERAGE BALANCE SHEET DATA

Total assets	\$ 19,041	\$ 15,466	\$ 10,244	\$ 10,150	\$ 11,940	\$ 10,097	\$ 5,235	\$ 5,443	\$ 3,858	\$ 3,866
Net loans and leases	14,008	11,415	7,874	7,878	8,415	6,792	4,456	4,651	3,209	3,199
Total deposits	11,496	11,025	8,078	8,181	8,309	6,987	3,844	4,276	3,248	3,363
Shareholder's equity:										
Preferred equity										
Common equity	1,076	1,006	1,065	1,102	1,982	1,835	591	591	289	262
Total shareholder's equity	1,076	1,006	1,065	1,102	1,982	1,835	591	591	289	262

(In millions)	Vectra		TCBW		Other		Consolidated Company	
	2008	2007	2008	2007	2008	2007	2008	2007
CONDENSED INCOME STATEMENT								
Net interest income	\$ 78.6	\$ 71.4	\$ 24.8	\$ 26.0	\$ (6.5)	\$ (2.1)	\$ 1,463.2	\$ 1,403.0
Provision for loan losses	12.5	2.0	0.6	0.2	0.7		363.1	82.2
Net interest income after provision for loan losses	66.1	69.4	24.2	25.8	(7.2)	(2.1)	1,100.1	1,320.8
					(78.0)		(112.8)	

Edgar Filing: ZIONS BANCORPORATION /UT/ - Form 10-Q

Impairment losses on investment securities and valuation losses on securities purchased from Lockhart Funding									
Other noninterest income	21.4	20.2	1.9	1.6	(20.0)	18.3	385.8	432.6	
Noninterest expense	65.1	64.7	10.8	11.0	48.1	46.3	1,076.8	1,051.6	
Income (loss) before income taxes and minority interest	22.4	24.9	15.3	16.4	(153.3)	(30.1)	296.3	701.8	
Income taxes (benefit)	8.0	9.0	5.1	5.4	(71.2)	(18.8)	83.1	246.8	
Minority interest					(3.9)	6.4	(3.5)	6.8	
Net income (loss)	14.4	15.9	10.2	11.0	(78.2)	(17.7)	216.7	448.2	
Preferred stock dividend					9.3	11.0	9.3	11.0	
Net earnings applicable to common shareholders	\$ 14.4	\$ 15.9	\$ 10.2	\$ 11.0	\$ (87.5)	\$ (28.7)	\$ 207.4	\$ 437.2	

AVERAGE BALANCE SHEET DATA

Total assets	\$ 2,740	\$ 2,426	\$ 895	\$ 824	\$ (454)	\$ (130)	\$ 53,499	\$ 48,142
Net loans and leases	2,043	1,772	549	464	100	84	40,654	36,255
Total deposits	1,779	1,714	577	517	(433)	(427)	36,898	35,636
Shareholder's equity:								
Preferred equity					254	240	254	240
Common equity	334	315	68	58	(298)	(191)	5,107	4,978
Total shareholder's equity	334	315	68	58	(44)	49	5,361	5,218

Table of Contents

ZIONS BANCORPORATION AND SUBSIDIARIES

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

(Unaudited)

(In thousands, except per share and ratio data)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2008	2007	% Change	2008	2007	% Change
EARNINGS						
Taxable-equivalent net interest income	\$ 497,822	\$ 483,115	3.04 %	\$ 1,480,946	\$ 1,422,896	4.08 %
Taxable-equivalent revenue	587,432	628,938	(6.60)%	1,753,928	1,855,474	(5.47)%
Net interest income	492,003	476,637	3.22 %	1,463,204	1,403,067	4.29 %
Noninterest income	89,610	145,823	(38.55)%	272,982	432,578	(36.89)%
Provision for loan losses	156,606	55,354	182.92 %	363,080	82,228	341.55 %
Noninterest expense	372,276	352,031	5.75 %	1,076,796	1,051,622	2.39 %
Income before income taxes and minority interest	52,731	215,075	(75.48)%	296,310	701,795	(57.78)%
Income taxes	11,214	71,853	(84.39)%	83,147	246,772	(66.31)%
Minority interest	3,757	7,490	(49.84)%	(3,544)	6,819	(151.97)%
Net income	37,760	135,732	(72.18)%	216,707	448,204	(51.65)%
Net earnings applicable to common shareholders	33,351	131,962	(74.73)%	207,391	437,224	(52.57)%
PER COMMON SHARE						
Net earnings (diluted)	0.31	1.22	(74.59)%	1.93	4.01	(51.87)%
Dividends	0.43	0.43		1.29	1.25	3.20 %
Book value per common share				45.78	46.92	(2.43)%
SELECTED RATIOS						
Return on average assets	0.28%	1.10%		0.54%	1.24%	
Return on average common equity	2.59%	10.50%		5.42%	11.74%	
Efficiency ratio	63.37%	55.97%		61.39%	56.68%	
Net interest margin	4.13%	4.44%		4.18%	4.49%	

Table of Contents

ZIONS BANCORPORATION AND SUBSIDIARIES

FINANCIAL HIGHLIGHTS (Continued)

(Unaudited)

(In thousands, except share and ratio data)	Three Months Ended September 30, 2007			Nine Months Ended September 30, 2007		
	2008	2007	% Change	2008	2007	% Change
AVERAGE BALANCES						
Total assets	\$ 54,279,760	\$ 48,903,319	10.99 %	\$ 53,498,514	\$ 48,141,571	11.13 %
Total interest-earning assets	47,984,725	43,200,858	11.07 %	47,349,240	42,354,935	11.79 %
Securities	4,582,727	5,221,722	(12.24)%	4,928,877	5,480,047	(10.06)%
Net loans and leases	41,984,123	37,194,850	12.88 %	40,654,431	36,254,519	12.14 %
Goodwill	2,009,509	2,015,532	(0.30)%	2,009,501	2,003,972	0.28 %
Core deposit and other intangibles	132,167	177,864	(25.69)%	138,711	186,884	(25.78)%
Total deposits	37,321,656	35,756,600	4.38 %	36,898,398	35,636,209	3.54 %
Core deposits (1)	33,227,950	31,017,730	7.13 %	32,547,862	30,692,123	6.05 %
Minority interest	29,949	37,527	(20.19)%	29,292	37,747	(22.40)%
Shareholders' equity:						
Preferred equity	282,500	240,000	17.71 %	254,270	240,000	5.95 %
Common equity	5,123,399	4,987,275	2.73 %	5,106,750	4,978,473	2.58 %
Weighted average common and common-equivalent shares outstanding	108,497,464	107,879,963	0.57 %	107,333,422	109,059,322	(1.58)%
AT PERIOD END						
Total assets				\$ 53,974,168	\$ 50,044,686	7.85 %
Total interest-earning assets				47,656,065	44,104,956	8.05 %
Securities				4,755,359	5,261,057	(9.61)%
Net loans and leases				41,887,693	37,822,259	10.75 %