ZIONS BANCORPORATION /UT/
Form 10-Q
November 09, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 30, 2010

OR

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

COMMISSION FILE NUMBER 001-12307

ZIONS BANCORPORATION

(Exact name of registrant as specified in its charter)

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

Registrant s telephone number, including area code: (801) 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.

Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes x 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 x 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 x

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, 2010	177,957,790 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)	**September 30, 2010 (Unaudited)**	**December 31, 2009**	**September 30, 2009 (Unaudited)**
ASSETS			
Cash and due from banks	$ 1,060,646	$ 1,370,189	$ 992,940
Money market investments:			
Interest-bearing deposits	4,468,778	652,964	2,234,337
Federal funds sold	67,026	20,985	44,056
Security resell agreements	49,432	57,556	52,539
Investment securities:			
Held-to-maturity, at adjusted cost (approximate fair value $783,362, $833,455, and $835,814)	841,573	869,595	877,105
Available-for-sale, at fair value	3,295,864	3,655,619	3,547,092
Trading account, at fair value	42,811	23,543	76,709
	4,180,248	4,548,757	4,500,906
Loans held for sale	217,409	208,567	206,387
Loans:			
Loans and leases excluding FDIC-supported loans	36,579,470	38,882,083	39,782,240
FDIC-supported loans	1,089,926	1,444,594	1,607,493
	37,669,396	40,326,677	41,389,733
Less:			
Unearned income and fees, net of related costs	120,037	137,697	134,629
Allowance for loan losses	1,529,955	1,531,332	1,432,715
Loans and leases, net of allowance	36,019,404	38,657,648	39,822,389
Other noninterest-bearing investments	858,402	1,099,961	1,061,464
Premises and equipment, net	719,592	710,534	698,225
Goodwill	1,015,161	1,015,161	1,017,385
Core deposit and other intangibles	94,128	113,416	123,551
Other real estate owned	356,923	389,782	413,901
Other assets	1,940,627	2,277,487	2,130,070
	$ 51,047,776	$ 51,123,007	$ 53,298,150
LIABILITIES AND SHAREHOLDERS EQUITY			
Deposits:			
Noninterest-bearing demand	$ 13,264,415	$ 12,324,247	$ 11,453,247
Interest-bearing:			
Savings and NOW	6,394,964	5,843,573	5,392,096
Money market	15,398,157	16,378,874	17,413,735
Time under $100,000	2,037,318	2,497,395	2,784,593

Time $100,000 and over	2,417,779	3,117,472	3,949,684
Foreign	1,447,507	1,679,028	2,014,626
	40,960,140	41,840,589	43,007,981
Securities sold, not yet purchased	41,943	43,404	39,360
Federal funds purchased	367,402	208,669	1,008,181
Security repurchase agreements	371,149	577,346	509,014
Federal Home Loan Bank advances and other borrowings:			
One year or less	236,507	121,273	45,411
Over one year	20,239	15,722	18,803
Long-term debt	1,919,156	2,017,220	2,324,020
Reserve for unfunded lending commitments	97,899	116,445	97,225
Other liabilities	538,750	472,082	553,914
Total liabilities	44,553,185	45,412,750	47,603,909
Shareholders equity:			
Preferred stock, without par value, authorized 4,400,000 shares	1,875,463	1,502,784	1,529,462
Common stock, without par value; authorized 350,000,000 shares; issued and outstanding 177,202,340, 150,425,070, and 136,398,089	4,070,963	3,318,417	3,125,344
Retained earnings	1,017,428	1,324,516	1,502,232
Accumulated other comprehensive income (loss)	(452,553)	(436,899)	(469,112)
Deferred compensation	(15,869)	(16,160)	(15,218)
Controlling interest shareholders equity	6,495,432	5,692,658	5,672,708
Noncontrolling interests	(841)	17,599	21,533
Total shareholders equity	6,494,591	5,710,257	5,694,241
	$ 51,047,776	$ 51,123,007	$ 53,298,150

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 September 30, 2010**	**2009**	**Nine Months Ended September 30, 2010**	**2009**
Interest income:				
Interest and fees on loans	$ 543,478	$ 586,246	$ 1,625,096	$ 1,749,688
Interest on loans held for sale	2,223	2,434	6,523	8,272
Lease financing	4,788	5,125	14,168	14,453
Interest on money market investments	3,487	1,195	7,527	6,114
Interest on securities:				
Held-to-maturity taxable	1,000	4,864	9,569	33,139
Held-to-maturity nontaxable	5,063	5,806	15,687	17,867
Available-for-sale taxable	19,782	23,460	60,571	72,145
Available-for-sale nontaxable	1,571	1,830	4,992	5,286
Trading account	542	842	1,674	2,236
Total interest income	581,934	631,802	1,745,807	1,909,200
Interest expense:				
Interest on savings and money market deposits	29,900	54,554	100,413	194,056
Interest on time and foreign deposits	16,468	42,780	54,784	158,036
Interest on short-term borrowings	3,566	2,325	10,119	12,006
Interest on long-term borrowings	80,125	59,963	259,970	104,459
Total interest expense	130,059	159,622	425,286	468,557
Net interest income	451,875	472,180	1,320,521	1,440,643
Provision for loan losses	184,668	565,930	678,896	1,626,208
Net interest income after provision for loan losses	267,207	(93,750)	641,625	(185,565)
Noninterest income:				
Service charges and fees on deposit accounts	49,733	54,466	153,250	159,087
Other service charges, commissions and fees	41,780	39,227	124,217	117,745
Trust and wealth management income	6,310	8,209	20,940	24,124
Capital markets and foreign exchange	13,154	12,106	32,426	41,621
Dividends and other investment income	8,874	2,597	25,453	13,689
Loan sales and servicing income	8,390	2,359	20,439	15,250
Fair value and nonhedge derivative income (loss)	(21,854)	58,092	(21,218)	82,412
Equity securities gains (losses), net	(1,082)	(1,805)	(5,747)	339
Fixed income securities gains, net	8,428	1,900	10,214	3,539
Impairment losses on investment securities:				
Impairment losses on investment securities	(73,082)	(198,378)	(141,209)	(435,509)
Noncredit-related losses on securities not expected to be sold (recognized in other comprehensive income)	49,370	141,863	68,174	254,352

Net impairment losses on investment securities	(23,712)	(56,515)	(73,035)	(181,157)
Valuation losses on securities purchased				(212,092)
Gain on subordinated debt modification				493,725
Gain on subordinated debt exchange			14,471	
Acquisition related gains		146,153		169,130
Other	20,179	3,951	25,813	10,802
Total noninterest income	110,200	270,740	327,223	738,214
Noninterest expense:				
Salaries and employee benefits	207,947	205,433	618,056	612,014
Occupancy, net	29,292	28,556	85,602	83,534
Furniture and equipment	25,591	25,320	76,290	75,189
Other real estate expense	44,256	30,419	119,348	72,510
Credit related expense	17,438	11,793	51,921	28,632
Provision for unfunded lending commitments	1,104	36,537	(18,546)	46,291
Legal and professional services	9,305	9,076	28,168	27,116
Advertising	5,575	4,418	17,721	17,244
FDIC premiums	25,706	19,820	76,354	76,320
Amortization of core deposit and other intangibles	6,296	7,575	19,287	21,539
Other	83,534	55,760	201,324	169,992
Total noninterest expense	456,044	434,707	1,275,525	1,230,381
Impairment loss on goodwill				633,992
Income (loss) before income taxes	(78,637)	(257,717)	(306,677)	(1,311,724)
Income taxes (benefit)	(31,180)	(100,046)	(82,722)	(275,534)
Net income (loss)	(47,457)	(157,671)	(223,955)	(1,036,190)
Net income (loss) applicable to noncontrolling interests	(132)	(2,394)	(3,427)	(4,143)
Net income (loss) applicable to controlling interest	(47,325)	(155,277)	(220,528)	(1,032,047)
Preferred stock dividends	(33,144)	(26,603)	(84,797)	(78,336)
Preferred stock redemption			3,107	52,418
Net earnings (loss) applicable to common shareholders	$ (80,469)	$ (181,880)	$ (302,218)	$ (1,057,965)
Weighted average common shares outstanding during the period:				
Basic shares	172,865	127,581	161,996	119,248
Diluted shares	172,865	127,581	161,996	119,248
Net earnings (loss) per common share:				
Basic	$ (0.47)	$ (1.43)	$ (1.87)	$ (8.87)
Diluted	(0.47)	(1.43)	(1.87)	(8.87)

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 Shares	Common stock Amount	Retained earnings	Accumulated other comprehensive income (loss)	Deferred compensation	Noncontrolling interests	Total shareholders equity
Balance, December 31, 2009	$ 1,502,784	150,425,070	$ 3,318,417	$ 1,324,516	$ (436,899)	$ (16,160)	$ 17,599	$ 5,710,257
Comprehensive loss:								
Net loss for the period				(220,528)			(3,427)	(223,955)
Other comprehensive income (loss), net of tax:								
Net realized and unrealized holding gains on investments					15,682			
Reclassification for net losses on investments included in earnings					38,601			
Noncredit-related impairment losses on securities not expected to be sold					(42,103)			
Accretion of securities with noncredit-related impairment losses not expected to be sold					101			
Net unrealized losses on derivative instruments					(27,872)			
Pension and postretirement					(63)			
Other comprehensive income					(15,654)			(15,654)
Total comprehensive loss								(239,609)
Subordinated debt converted to preferred stock	223,760		(31,843)					191,917
Issuance of preferred stock	142,500		(3,843)					138,657
Preferred stock exchanged for common stock	(8,615)	224,903	5,508	3,107				
Issuance of common stock warrants			214,667					214,667
Subordinated debt exchanged for common stock		2,165,391	46,902					46,902
Issuance of common stock		23,973,957	507,201					507,201
Net activity under employee plans and related tax benefits		413,019	13,954					13,954
Dividends on preferred stock	15,034			(84,797)				(69,763)
Dividends on common stock, $0.03 per share				(4,870)				(4,870)
Change in deferred compensation						291		291
Other changes in noncontrolling interests							(15,013)	(15,013)
Balance, September 30, 2010	$ 1,875,463	177,202,340	$ 4,070,963	$ 1,017,428	$ (452,553)	$ (15,869)	$ (841)	$ 6,494,591
Balance, December 31, 2008	$ 1,581,834	115,344,813	$ 2,599,916	$ 2,433,363	$ (98,958)	$ (14,459)	$ 27,320	$ 6,529,016

Cumulative effect of change in accounting principle, adoption of new OTTI guidance under ASC 320				137,462	(137,462)			
Comprehensive loss:								
Net loss for the period				(1,032,047)			(4,143)	(1,036,190)
Other comprehensive income (loss), net of tax:								
Net realized and unrealized holding losses on investments and retained interests					(82,003)			
Reclassification for net losses on investments included in earnings					96,545			
Noncredit-related impairment losses on securities not expected to be sold					(152,531)			
Accretion of securities with noncredit-related impairment losses not expected to be sold					963			
Net unrealized losses on derivative instruments					(95,666)			
Other comprehensive loss					(232,692)			(232,692)
Total comprehensive loss								(1,268,882)
Preferred stock redemption	(100,511)		1,763	52,266				(46,482)
Subordinated debt converted to preferred stock	32,497		(4,740)					27,757
Issuance of common stock		20,503,925	311,259					311,259
Subordinated debt modification			201,154					201,154
Net activity under employee plans and related tax benefits		549,351	15,992					15,992
Dividends on preferred stock	15,642			(78,336)				(62,694)
Dividends on common stock, $0.09 per share				(10,476)				(10,476)
Change in deferred compensation						(759)		(759)
Other changes in noncontrolling interests							(1,644)	(1,644)
Balance, September 30, 2009	$ 1,529,462	136,398,089	$ 3,125,344	$ 1,502,232	$ (469,112)	$ (15,218)	$ 21,533	$ 5,694,241

Total comprehensive loss for the three months ended September 30, 2010 and 2009 was $(66,990) and $(258,619), 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 September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net loss for the period	$ (47,457)	$ (157,671)	$ (223,955)	$ (1,036,190)
Adjustments to reconcile net loss to net cash provided by operating activities:				
Impairment and valuation losses on investment securities and goodwill	23,712	56,515	73,035	1,027,241
Gains on subordinated debt modification and exchange			(14,471)	(493,725)
Gains related to sale of subsidiary assets and acquisitions	(13,864)	(146,153)	(13,864)	(169,130)
Provision for credit losses	185,772	602,467	660,350	1,672,499
Depreciation and amortization	65,488	87,850	208,004	160,967
Deferred income tax benefit	(21,039)	(50,470)	(72,997)	(149,653)
Net decrease (increase) in trading securities	42,896	1,899	(19,268)	(34,645)
Net decrease (increase) in loans held for sale	(23,475)	50,066	(12,736)	(1,207)
Net write-down of and losses from sales of other real estate owned	47,038	67,187	112,296	116,475
Change in accrued expenses and other liabilities	37,235	(104,118)	375,930	(265,786)
Change in other assets	100,464	323,262	91,610	423,654
Other, net	(24,142)	16,894	(32,749)	11,557
Net cash provided by operating activities	372,628	747,728	1,131,185	1,262,057
CASH FLOWS FROM INVESTING ACTIVITIES:				
Net decrease (increase) in short term investments	380,309	(877,777)	(3,853,731)	375,680
Proceeds from maturities and paydowns of investment securities held-to-maturity	36,328	75,494	121,034	130,397
Purchases of investment securities held-to-maturity	(24,907)	(14,041)	(55,293)	(45,830)
Proceeds from sales, maturities, and paydowns of investment securities available-for-sale	279,045	288,560	841,212	1,049,925
Purchases of investment securities available-for-sale	(202,836)	(74,882)	(538,720)	(1,530,131)
Proceeds from sales of loans and leases	40,794	22,995	133,154	72,886
Loan and lease collections, net of originations	67,770	95,604	1,357,349	463,678
Proceeds from surrender of bank-owned life insurance contracts	34,164		209,796	
Net decrease (increase) in other noninterest-bearing investments	15,309	(2,189)	28,863	10,908
Net purchases of premises and equipment	(25,636)	(12,962)	(58,223)	(65,909)
Proceeds from sales of other real estate owned	131,558	70,007	369,435	167,619
Net cash received from sale of subsidiary assets and from acquisitions	21,149	305,464	21,149	452,415
Net cash provided by (used in) investing activities	753,047	(123,727)	(1,423,975)	1,081,638
CASH FLOWS FROM FINANCING ACTIVITIES:				
Net decrease in deposits	(1,053,713)	(1,065,061)	(878,108)	(989,336)
Net change in short-term funds borrowed	(175,146)	(360,996)	66,276	(2,592,618)
Proceeds from issuance of long-term borrowings	22,947	405,724	85,413	697,042

Repayments of long-term borrowings	(7,999)	(148)	(73,435)	(109,747)
Cash paid for preferred stock redemption		(152)		(46,482)
Proceeds from the issuance of preferred stock, common stock, and common stock warrants	110,041	187,518	860,763	311,259
Dividends paid on common and preferred stock	(29,772)	(22,626)	(74,633)	(73,170)
Other, net	(142)	(4,525)	(3,029)	(23,679)
Net cash used in financing activities	(1,133,784)	(860,266)	(16,753)	(2,826,731)
Net decrease in cash and due from banks	(8,109)	(236,265)	(309,543)	(483,036)
Cash and due from banks at beginning of period	1,068,755	1,229,205	1,370,189	1,475,976
Cash and due from banks at end of period	$ 1,060,646	$ 992,940	$ 1,060,646	$ 992,940
Cash paid for interest	$ 92,587	$ 139,077	$ 284,912	$ 462,846
Net cash paid (refund received) for income taxes	(220)	90	(324,792)	(29,924)

See accompanying notes to consolidated financial statements.

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ZIONS BANCORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

September 30, 2010

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 inte 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.

Operating results for the three- and nine-month periods ended September 30, 2010 are not necessarily indicative of the results that may be expected in future periods. The consolidated balance sheet at December 31, 2009 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 2009 Annual Report on Form 10-K.

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 Company also owns and operates certain nonbank subsidiaries that engage in wealth management services and other activities. See Note 3.

2. CERTAIN RECENT ACCOUNTING PRONOUNCEMENTS

On July 21, 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*. This new accounting guidance under Accounting Standards Codification (ASC) 310, *Receivables*, requires disclosure of more information about the credit quality of an entity s financing receivables and the allowance for credit losses. Disclosures must be disaggregated by class or portfolio segment and include, among other things, such items as a rollforward of the allowance for credit losses, certain credit quality indicators, past due and impaired loan information, and loan modification information. Except for the allowance rollforward and loan modification information, the new requirements will become effective for interim and annual reporting periods beginning with year-end December 31, 2010. Disclosure of the allowance rollforward and loan modification information will be required for the first quarter of 2011. The new guidance only relates to financial statement disclosures and will not affect the Company s financial condition or results of operations.

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ZIONS BANCORPORATION AND SUBSIDIARIES

On April 29, 2010, the FASB issued ASU No. 2010-18, *Receivables, Effect of a Loan Modification When the Loan Is Part of a Pool That Is Accounted for as a Single Asset*. This ASU clarifies that modifications of loans accounted for within a pool under ASC 310-30, *Receivables Loans and Debt Securities Acquired with Deteriorated Credit Quality*, would not result in the removal of those loans from the pool even if the modification of those loans would otherwise be considered a troubled debt restructuring. Loans may be removed from the pool as a result of sale, foreclosure, or other events. This new guidance takes effect for the first interim or annual period ending after July 15, 2010, with early adoption permitted. We adopted this new guidance for the third quarter of 2010. The adoption did not significantly impact our accounting for purchased loans.

Effective January 1, 2010, we adopted ASU No. 2009-17, *Amendments to FASB Interpretation No. 46(R)*, (formerly Statement of Financial Accounting Standards (SFAS) No. 167). This new accounting guidance under ASC 810, *Consolidation*, requires that a continuous analysis be performed on a qualitative rather than a quantitative basis to determine the primary beneficiary of a variable interest entity (VIE). The new rules amend previous guidance to determine whether an entity is a VIE and require enhanced disclosures about our involvement with a VIE. Upon adoption, we reconsidered our consolidation conclusions for all entities with which we are involved and concluded that there was no significant impact on the Company s financial statements.

Effective January 1, 2010, we adopted ASU No. 2009-16, *Accounting for Transfers of Financial Assets, an amendment of FASB Statement No. 140*, (formerly SFAS No. 166). This new accounting guidance under ASC 860, *Transfers and Servicing*, modifies the accounting for transfers of financial assets and removes the concept of a qualifying special-purpose entity (QSPE). In 2009, we dissolved Lockhart Funding LLC (Lockhart), a QSPE funded with commercial paper, and our remaining activities related to transfers of financial assets were not significant as of January 1, 2010. Accordingly, the adoption of this new guidance did not have a significant impact on the Company s financial statements.

Additional accounting guidance recently adopted is discussed where applicable in the Notes to Consolidated Financial Statements.

3. SALE OF SUBSIDIARY ASSETS

On September 3, 2010, the Company sold substantially all of the assets of its wholly-owned subsidiary, NetDeposit, to BServ, Inc. (dba BankServ), a privately-owned company. Both companies specialize in remote deposit capture and electronic payment technologies. The Company recognized a pretax gain on the sale of approximately $13.9 million, which was included in other noninterest income.

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ZIONS BANCORPORATION AND SUBSIDIARIES

4. SUPPLEMENTAL CASH FLOW INFORMATION

Noncash activities are summarized as follows *(in thousands)*:

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Amortized cost of investment securities held-to-maturity transferred to investment securities available-for-sale	$	$	$	$ 1,058,159
Loans transferred to other real estate owned	139,374	158,603	480,066	391,929
Beneficial conversion feature of modified subordinated debt recorded in common stock				201,154
Subordinated debt exchanged for common stock			46,902	
Subordinated debt converted to preferred stock	54,259	27,757	191,917	27,757
Acquisitions:				
Assets acquired		1,611,693		2,981,279
Liabilities assumed		1,553,040		2,929,448

5. INVESTMENT SECURITIES

Investment securities are summarized as follows *(in thousands)*:

	September 30, 2010						
		Recognized in OCI [1]			Not recognized in OCI [1]		
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Carrying value	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Held-to-maturity							
Municipal securities	$ 576,984	$	$	$ 576,984	$ 10,953	$ 1,593	$ 586,344
Asset-backed securities:							
Trust preferred securities banks and insurance	264,693		25,152	239,541	588	60,606	179,523
Other	29,301		4,353	24,948	619	8,172	17,395
Other debt securities	100			100			100
	$ 871,078	$	$ 29,505	$ 841,573	$ 12,160	$ 70,371	$ 783,362
Available-for-sale							
U.S. Treasury securities	$ 48,711	$ 375	$	$ 49,086			$ 49,086
U.S. Government agencies and corporations:							
Agency securities	202,758	6,052	113	208,697			208,697
Agency guaranteed mortgage-backed securities	340,689	14,746	146	355,289			355,289
	844,545	5,965	8,013	842,497			842,497

Small Business Administration loan-backed securities					
Municipal securities	178,077	4,727	89	182,715	182,715
Asset-backed securities:					
Trust preferred securities banks and insurance	1,953,739	53,179	741,317	1,265,601	1,265,601
Trust preferred securities real estate investment trusts	50,085		30,950	19,135	19,135
Auction rate securities	134,072	1,241	652	134,661	134,661
Other	108,349	1,383	26,994	82,738	82,738
	3,861,025	87,668	808,274	3,140,419	3,140,419
Other securities:					
Mutual funds and stock	155,305	140		155,445	155,445
	$ 4,016,330	$ 87,808	$ 808,274	$ 3,295,864	$ 3,295,864

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ZIONS BANCORPORATION AND SUBSIDIARIES

	September 30, 2009						
		Recognized in OCI [1]			Not recognized in OCI [1]		
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Carrying value	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Held-to-maturity							
Municipal securities	$ 610,661	$	$	$ 610,661	$ 9,452	$ 4,535	$ 615,578
Asset-backed securities:							
Trust preferred securities banks and insurance	265,293		25,564	239,729	5	37,527	202,207
Other	32,304		5,689	26,615	546	9,230	17,931
Other debt securities	100			100		2	98
	$ 908,358	$	$ 31,253	$ 877,105	$ 10,003	$ 51,294	$ 835,814
Available-for-sale							
U.S. Treasury securities	$ 40,631	$ 645	$	$ 41,276			$ 41,276
U.S. Government agencies and corporations:							
Agency securities	243,371	6,195	189	249,377			249,377
Agency guaranteed mortgage-backed securities	386,417	12,143	214	398,346			398,346
Small Business Administration loan-backed securities	799,313	2,614	21,473	780,454			780,454
Municipal securities	241,214	5,644	658	246,200			246,200
Asset-backed securities:							
Trust preferred securities banks and insurance	2,133,893	41,633	784,219	1,391,307			1,391,307
Trust preferred securities real estate investment trusts	67,566		40,465	27,101			27,101
Auction rate securities	165,106	1,274	2,116	164,264			164,264
Other	146,518	2,006	54,538	93,986			93,986
	4,224,029	72,154	903,872	3,392,311			3,392,311
Other securities:							
Mutual funds and stock	154,770	11		154,781			154,781
	$ 4,378,799	$ 72,165	$ 903,872	$ 3,547,092			$ 3,547,092

[1] *Other comprehensive income*

During the first two quarters of 2009, we reassessed the classification of certain asset-backed and trust preferred collateralized debt obligation (CDO) securities as part of our ongoing review of the investment securities portfolio. We reclassified approximately $596 million at fair value of held-to-maturity (HTM) securities to available-for-sale (AFS). Unrealized losses added to OCI at the time of these transfers were $130.4 million. The reclassifications were made subsequent to ratings downgrades, as permitted under ASC 320, *Investments Debt and Equity Securities*. No gain or loss was recognized in the statement of income at the time of reclassification.

The amortized cost and estimated fair value of investment debt securities are shown subsequently as of September 30, 2010 by expected maturity distribution for asset-backed securities and by contractual maturity distribution for other debt securities. Actual maturities may differ from expected or contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties *(in thousands)*:

	Held-to-maturity		Available-for-sale	
	Amortized cost	**Estimated fair value**	**Amortized cost**	**Estimated fair value**
Due in one year or less	$ 64,315	$ 65,087	$ 357,285	$ 349,824
Due after one year through five years	217,101	218,377	821,946	788,892
Due after five years through ten years	204,229	185,345	820,345	694,681
Due after ten years	385,433	314,553	1,861,449	1,307,022
	$ 871,078	$ 783,362	$ 3,861,025	$ 3,140,419

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

	September 30, 2010					
	Less than 12 months		12 months or more		Total	
	Gross unrealized losses	Estimated fair value	Gross unrealized losses	Estimated fair value	Gross unrealized losses	Estimated fair value
Held-to-maturity						
Municipal securities	$ 51	$ 2,555	$ 1,542	$ 26,187	$ 1,593	$ 28,742
Asset-backed securities:						
Trust preferred securities banks and insurance			85,758	179,524	85,758	179,524
Other			12,525	17,395	12,525	17,395
	$ 51	$ 2,555	$ 99,825	$ 223,106	$ 99,876	$ 225,661
Available-for-sale						
U.S. Government agencies and corporations:						
Agency securities	$ 86	$ 10,181	$ 27	$ 980	$ 113	$ 11,161
Agency guaranteed mortgage-backed securities	146	14,194			146	14,194
Small Business Administration loan-backed securities	1,338	109,324	6,675	392,242	8,013	501,566
Municipal securities	63	6,104	26	3,372	89	9,476
Asset-backed securities:						
Trust preferred securities banks and insurance	1,099	13,957	740,218	866,668	741,317	880,625
Trust preferred securities real estate investment trusts			30,950	19,135	30,950	19,135
Auction rate securities	272	21,519	380	10,686	652	32,205
Other			26,994	70,679	26,994	70,679
	$ 3,004	$ 175,279	$ 805,270	$ 1,363,762	$ 808,274	$ 1,539,041

	September 30, 2009					
	Less than 12 months		12 months or more		Total	
	Gross unrealized losses	Estimated fair value	Gross unrealized losses	Estimated fair value	Gross unrealized losses	Estimated fair value
Held-to-maturity						
Municipal securities	$ 406	$ 24,261	$ 4,129	$ 24,973	$ 4,535	$ 49,234
Asset-backed securities:						
Trust preferred securities banks and insurance	104	449	62,987	201,757	63,091	202,206
Other	421	2,719	14,498	15,212	14,919	17,931
Other debt securities	2	98			2	98
	$ 933	$ 27,527	$ 81,614	$ 241,942	$ 82,547	$ 269,469
Available-for-sale						

U.S. Government agencies and corporations:						
Agency securities	$ 18	$ 4,012	$ 171	$ 3,563	$ 189	$ 7,575
Agency guaranteed mortgage-backed securities	206	28,993	8	874	214	29,867
Small Business Administration loan-backed securities	1,595	129,603	19,878	468,249	21,473	597,852
Municipal securities	644	32,115	14	777	658	32,892
Asset-backed securities:						
Trust preferred securities banks and insurance	6,094	71,656	778,125	941,215	784,219	1,012,871
Trust preferred securities real estate investment trusts	31,923	18,265	8,542	8,836	40,465	27,101
Auction rate securities	2,116	150,519			2,116	150,519
Other	2,182	8,110	52,356	65,065	54,538	73,175
	$ 44,778	$ 443,273	$ 859,094	$ 1,488,579	$ 903,872	$ 1,931,852

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We conduct a formal review of investment securities on a quarterly basis under ASC 320 for the presence of other-than-temporary impairment (OTTI). We assess whether OTTI is present when the fair value of a debt security is less than its amortized cost basis at the balance sheet date. Under these circumstances, OTTI is considered to have occurred if (1) we intend to sell the security; (2) it is more likely than not we will be required to sell the security before recovery of its amortized cost basis; or (3) the present value of expected cash flows is not sufficient to recover the entire amortized cost basis. Our 2009 Annual Report on Form 10-K describes our OTTI evaluation process. The following discussion only includes those security types with significant gross unrealized losses. Our conclusions from this OTTI evaluation are presented below:

Asset-backed securities

Trust preferred securities banks and insurance: These CDO securities are variable rate pools of trust preferred securities related to banks and insurance companies. They are rated by one or more Nationally Recognized Statistical Rating Organizations (NRSROs), which are rating agencies registered with the SEC. They were purchased generally at par. Unrealized losses were caused mainly by the following factors: (1) collateral deterioration due to bank failures and credit concerns across the banking sector; (2) widening of credit spreads for asset-backed securities; and (3) general illiquidity in the market for CDOs. Our ongoing review of these securities in accordance with the policy in our 2009 Annual Report on Form 10-K determined that OTTI should be recorded on certain of these securities.

Trust preferred securities real estate investment trusts (REITs): These CDO securities are variable rate pools of trust preferred securities primarily related to REITs, and are rated by one or more NRSROs. They were purchased generally at par. Unrealized losses were caused mainly by severe deterioration in mortgage REITs and homebuilder credit in addition to the same factors previously discussed for banks and insurance CDOs. Our ongoing review of these securities in accordance with the policy in our 2009 Annual Report on Form 10-K determined that OTTI should be recorded on certain of these securities.

Other asset-backed securities: The majority of these CDO securities were purchased from Lockhart at their carrying values and were adjusted to fair value. These adjustments to fair value were included in valuation losses on securities purchased in 2009. Certain of these CDOs consist of structured asset-backed CDOs (ABS CDOs) (also known as diversified structured finance CDOs). Our ongoing review of these securities in accordance with the policy in our 2009 Annual Report on Form 10-K determined that OTTI should be recorded on certain of these securities.

U.S. Government agencies and corporations

Small Business Administration (SBA) loan-backed securities: These securities were generally purchased at premiums with maturities from five to 25 years and have principal cash flows guaranteed by the SBA. Because the decline in fair value is not attributable to credit quality, we believe that no OTTI exists for these securities at September 30, 2010.

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The following is a tabular rollforward of the total amount of credit-related OTTI, including amounts recognized in current period earnings *(in thousands)*:

	Three Months Ended September 30, 2010			Nine Months Ended September 30, 2010		
	HTM	**AFS**	**Total**	**HTM**	**AFS**	**Total**
Balance of credit-related OTTI at beginning of period	$ (5,357)	$ (318,423)	$ (323,780)	$ (5,206)	$ (269,251)	$ (274,457)
Additions recognized in earnings during the period:						
Credit-related OTTI not previously recognized [1]		(3,033)	(3,033)		(3,358)	(3,358)
Credit-related OTTI previously recognized when there is no intent to sell and no requirement to sell before recovery of amortized cost basis [2]		(20,679)	(20,679)	(151)	(69,526)	(69,677)
Subtotal of amounts recognized in earnings		(23,712)	(23,712)	(151)	(72,884)	(73,035)
Reductions for securities sold during the period						
Balance of credit-related OTTI at end of period	$ (5,357)	$ (342,135)	$ (347,492)	$ (5,357)	$ (342,135)	$ (347,492)

	Three Months Ended September 30, 2009			Nine Months Ended September 30, 2009		
	HTM	**AFS**	**Total**	**HTM**	**AFS**	**Total**
Balance of credit-related OTTI at beginning of period	$ (3,667)	$ (127,830)	$ (131,497)	$ (50,458)	$ (51,641)	$ (102,099)
Additions recognized in earnings during the period:						
Credit-related OTTI not previously recognized [1]		(38,756)	(38,756)	(15,222)	(53,326)	(68,548)
Credit-related OTTI previously recognized when there is no intent to sell and no requirement to sell before recovery of amortized cost basis [2]		(17,759)	(17,759)	(3,290)	(109,319)	(112,609)
Subtotal of amounts recognized in earnings		(56,515)	(56,515)	(18,512)	(162,645)	(181,157)
Transfers of securities from HTM to AFS				65,303	(65,303)	
Reductions for securities sold during the period					95,244	95,244
Balance of credit-related OTTI at end of period	$ (3,667)	$ (184,345)	$ (188,012)	$ (3,667)	$ (184,345)	$ (188,012)

[1] *Relates to securities not previously impaired.*

[2] *Relates to additional impairment on securities previously impaired.*

To determine the credit component of OTTI for all security types, we utilize projected cash flows as the best estimate of fair value. These cash flows are credit adjusted using, among other things, assumptions for default probability assigned to each portion of performing collateral. The credit adjusted cash flows are discounted at a security specific coupon rate to identify any OTTI, and then at a market rate for valuation purposes.

Noncredit-related OTTI on securities not expected to be sold, and for which it is not more likely than not that we will be required to sell the securities before recovery of their amortized cost basis, was recognized in OCI as follows *(in thousands)*:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	**2009**	**2010**	**2009** [1]
Noncredit-related OTTI, pretax:				
HTM	$	$	$	$ (395)
AFS	49,370	141,863	68,174	254,747
Total	$ 49,370	$ 141,863	$ 68,174	$ 254,352
Total noncredit-related OTTI, after-tax	$ 30,491	$ 84,748	$ 42,103	$ 152,531

[1] *Includes the transfer of $76.7 million of OTTI when we reclassified HTM securities to AFS.*

As of January 1, 2009, we reclassified to OCI $137.5 million after-tax as a cumulative effect adjustment for the noncredit-related portion of OTTI losses previously recognized in earnings.

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At September 30, 2010 and 2009, respectively, 53 and 116 HTM and 543 and 764 AFS investment securities were in an unrealized loss position.

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

	Three Months Ended				**Nine Months Ended**			
	September 30, 2010		**September 30, 2009**		**September 30, 2010**		**September 30, 2009**	
	Gross gains	**Gross losses**	**Gross gains**	**Gross losses**	**Gross gains**	**Gross losses**	**Gross gains**	**Gross losses**
Investment securities:								
Held-to-maturity	$	$	$	$	$	$ 151[1]	$	$ 1,762
Available-for-sale	8,427	23,711	1,946	56,560	10,241	72,911	6,703	391,546
Other noninterest-bearing investments:								
Securities held by consolidated SBICs	751	2,223		3,100	4,825	10,964	434	4,506
Other	390		1,294		392		1,306	
	9,568	25,934	3,240	59,660	15,458	84,026	8,443	397,814
Net losses		$ (16,366)		$ (56,420)		$ (68,568)		$ (389,371)
Statement of income information:								
Net impairment losses on investment securities		$ (23,712)		$ (56,515)		$ (73,035)		$ (181,157)
Valuation losses on securities purchased								(212,092)
		(23,712)		(56,515)		(73,035)		(393,249)
Equity securities gains (losses), net		(1,082)		(1,805)		(5,747)		339
Fixed income securities gains, net		8,428		1,900		10,214		3,539
Net losses		$ (16,366)		$ (56,420)		$ (68,568)		$ (389,371)

[1] *Represents the amount of OTTI reclassified to the gross losses for AFS securities, as a result of the previously discussed transfer of HTM securities to AFS.*

Gains and losses on the sale of securities are recognized using the specific identification method and recorded in noninterest income.

Valuation losses on securities purchased of $212.1 million during the nine months ended September 30, 2009 included $187.9 million from the purchase of securities by Zions Bank from Lockhart due to rating downgrades prior to fully consolidating Lockhart in June 2009. Also included in the valuation losses were $24.2 million when we voluntarily purchased auction rate securities previously sold to customers by certain Company subsidiaries.

Securities with a carrying value of $1.6 billion at September 30, 2010 and $1.8 billion at December 31, 2009 were pledged to secure public and trust deposits, advances, and for other purposes as required by law. Securities are also pledged as collateral for security repurchase agreements.

6. PURCHASED LOANS

We purchase loans in the ordinary course of business and account for them and the related interest income in accordance with ASC 310-20, *Nonrefundable Fees and Other Costs*, or ASC 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*, as appropriate. Interest income is recognized based on contractual cash flows under ASC 310-20 and on expected cash flows under ASC 310-30.

During 2009, CB&T and NSB acquired failed banks from the Federal Deposit Insurance Corporation (FDIC) as receiver and entered into loss sharing agreements with the FDIC for the acquired loans and foreclosed assets. The FDIC assumes 80% of credit losses up to a threshold specified for each acquisition and 95% above the threshold for a period of up to ten years. The loans acquired from the FDIC are presented separately in the Company s balance sheet as FDIC-supported loans.

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Upon acquisition, in accordance with applicable accounting guidance, the acquired loans were recorded at their fair value without a corresponding allowance for loan losses. The acquired foreclosed assets and subsequent real estate foreclosures were included with other real estate owned in the balance sheet and amounted to $52.4 million at September 30, 2010, $54.1 million at December 31, 2009, and $54.7 million at September 30, 2009.

Acquired loans which have evidence of credit deterioration and for which it is probable that not all contractual payments will be collected are accounted for as loans under ASC 310-30. Certain acquired loans (including loans with revolving privileges) without evidence of credit deterioration are accounted for under ASC 310-20 and excluded from the following tables.

The outstanding balances of all contractually required payments and the related carrying amounts for loans under ASC 310-30 are as follows *(in thousands)*:

	September 30, 2010	December 31, 2009	September 30, 2009
Commercial lending	$ 444,130	605,399	$ 666,199
Commercial real estate	852,693	1,176,313	1,216,948
Consumer	85,578	114,678	110,943
Outstanding balance	$ 1,382,401	$ 1,896,390	$ 1,994,090
Carrying amount	$ 980,937	$ 1,304,251	$ 1,454,462
Allowance for loan losses [1]	43,503		
Carrying amount, net	$ 937,434	$ 1,304,251	$ 1,454,462

[1] *The allowance for loan losses was determined subsequent to acquisition and was considered for all of the periods presented. See discussion that follows regarding the gross presentation of this allowance amount, which is included in the overall allowance for loan losses on the balance sheet, and the amount recoverable under the FDIC loss sharing agreements, which is included in other assets.*

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

Over the life of the loan or pool, we continue to estimate cash flows expected to be collected. We evaluate at the balance sheet date whether the estimated present value of these loans using the effective interest rates has decreased and if so, we record a provision for loan losses. The present value of any subsequent increase in the loan s actual or expected cash flows is used first to reverse any existing allowance for loan losses. Such reversal did not occur for the periods presented herein. For any remaining increases in cash flows expected to be collected, we increase the amount of accretable yield on a prospective basis over the remaining life of the loan and recognize such increase in interest income. Additionally, when changes in expected cash flows occur, to the extent applicable, we adjust the amount recoverable from the FDIC (also referred to as the FDIC indemnification asset) through a charge or credit (depending on whether there was an increase or decrease in expected cash flows) to other noninterest expense.

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Certain acquired loans within the scope of ASC 310-30 are not accounted for as previously described because the estimation of cash flows to be collected involves a high degree of uncertainty. As allowed under ASC 310-30 in these circumstances, interest income is recognized on a cash basis similar to the cost recovery methodology used for nonaccrual loans. Amounts for these loans are included in the carrying amounts in the preceding table. At September 30, 2010, the net carrying amount of these loans was approximately $103.4 million.

Changes in the accretable yield are as follows *(in thousands)*:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	**2009**	**2010**	**2009**
Balance at beginning of period	$ 252,228	$ 81,174	$ 161,976	$
Additions		110,768		201,935
Accretion	(24,759)	(20,359)	(67,854)	(35,291)
Reclassification from nonaccretable difference	12,731		140,987	
Disposals and other	2,682	9,241	7,773	14,180
Balance at end of period	$ 242,882	$ 180,824	$ 242,882	$ 180,824

During the three and nine months ended September 30, 2010, we increased the allowance for loan losses for all FDIC-acquired loans by a charge to the provision for loan losses of $27.9 million and $56.7 million, respectively. As described subsequently and in accordance with the loss sharing agreements, a portion of these amounts are recoverable from the FDIC and comprise the FDIC indemnification asset. Charge-offs, net of recoveries, for the three and nine months ended September 30, 2010 were $7.1 million and $10.2 million, respectively. No provision or charge-offs were applicable in 2009.

Changes in the FDIC indemnification asset for 2010 are as follows *(in thousands)*:

	September 30, 2010	
	Three months ended	**Nine months ended**
Balance at beginning of period	$ 243,824	$ 293,308
Amounts filed with the FDIC and collected or in process	(17,780)	(78,919)
Net change in asset balance due to reestimation of projected cash flows	7,586	20,930
Other		(1,689)
Balance at end of period	$ 233,630	$ 233,630

The balance of the FDIC indemnification asset was $293.3 million at December 31, 2009 and $363.2 million at September 30, 2009. The amount was initially recorded at fair value using projected cash flows based on credit adjustments for each loan type and the loss sharing reimbursement of 80% or 95%, as appropriate. The timing of the cash flows was adjusted to reflect management s expectations to receive the FDIC reimbursements within the estimated loss period. Discount rates were based on U.S. Treasury rates or the AAA composite yield on investment grade bonds of similar maturity. The amount is adjusted as actual loss experience is developed and estimated losses covered under the loss sharing agreements are updated. Estimated loan losses, if any, in excess of the amounts recoverable are reflected as period expenses through the provision for loan losses.

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Subsequent to the acquisitions, the allowance for loan losses for FDIC-supported loans is determined without giving consideration to the amounts recoverable under the loss sharing agreements (since the loss sharing agreements are separately accounted for and thus presented gross on the balance sheet).

7. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

We record all derivatives on the balance sheet at fair value in accordance with ASC 815, *Derivatives and Hedging*. Note 11 discusses the determination of fair value for derivatives, except for the Company s total return swap which is discussed subsequently. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative and the resulting designation. Derivatives used to hedge the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives used to hedge the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Derivatives used to manage the exposure to credit risk, which can include total return swaps, are considered credit derivatives. When put in place after purchase of the asset(s) to be protected, these derivatives generally may not be designated as accounting hedges. See discussion following regarding the total return swap.

For derivatives designated as fair value hedges, changes in the fair value of the derivative are recognized in earnings together with changes in the fair value of the related hedged item. The net amount, if any, representing hedge ineffectiveness, is reflected in earnings. In previous periods, we used fair value hedges to manage interest rate exposure to certain long-term debt. During the first quarter of 2009, we terminated all fair value hedges and are amortizing their remaining balances into earnings, as discussed subsequently.

For derivatives designated as cash flow hedges, the effective portion of changes in the fair value of the derivative are recorded in OCI and recognized in earnings when the hedged transaction affects earnings. The ineffective portion of changes in the fair value of cash flow hedges is recognized directly in earnings.

No derivatives have been designated for hedges of investments in foreign operations.

We assess the effectiveness of each hedging relationship by comparing the changes in fair value or cash flows on the derivative hedging instrument with the changes in fair value or cash flows on the designated hedged item or transaction. For derivatives not designated as accounting hedges, changes in fair value are recognized in earnings.

Our objective in using derivatives is to add stability to interest income or expense, to modify the duration of specific assets or liabilities as we consider advisable, to manage exposure to interest rate movements or other identified risks, and to directly offset derivatives sold to our customers. To accomplish this objective, we use interest rate swaps and floors as part of our cash flow hedging strategy. These derivatives are used to hedge the variable cash flows associated with designated commercial loans.

Exposure to credit risk arises from the possibility of nonperformance by counterparties. These counterparties primarily consist of financial institutions that are well established and well capitalized. We control this credit risk through credit approvals, limits, pledges of collateral, and monitoring procedures. No losses on derivative instruments have occurred as a result of counterparty nonperformance. Nevertheless, the related credit risk is considered and measured when and where appropriate.

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Interest rate swap agreements designated as cash flow hedges involve the receipt of fixed-rate amounts in exchange for variable-rate payments over the life of the agreements without exchange of the underlying principal amount. Derivatives not designated as accounting hedges, including basis swap agreements, are not speculative and are used to economically manage our exposure to interest rate movements and other identified risks, but do not meet the strict hedge accounting requirements.

Selected information with respect to notional amounts and recorded gross fair values at September 30, 2010 and 2009, and the related gain (loss) of derivative instruments for the three and nine months then ended is summarized as follows *(in thousands)*:

				Amount of derivative gain (loss) recognized/reclassified							
		Fair value		OCI		Reclassified from AOCI to interest income		Noninterest income		Offset to interest expense	
	Notional amount	Other assets	Other liabilities	Three months ended	Nine months ended	Three months ended	Nine months ended	Three months ended	Nine months ended	Three months ended	Nine months ended
	September 30, 2010			September 30, 2010		September 30, 2010		September 30, 2010		September 30, 2010	
Derivatives designated as hedging instruments under ASC 815											
Asset derivatives											
Cash flow hedges[1]:											
Interest rate swaps	$ 520,000	$ 30,375	$	$ 3,507	$ 13,564	$ 15,502	$ 49,053				
Interest rate floors	95,000	1,734		(228)	1,160	548	2,196				
Terminated swaps and floors								$ 2,088	$ 8,676		
	615,000	32,109		3,279	14,724	16,050	51,249	2,088	8,676[3]		
Liability derivatives											
Fair value hedges:											
Terminated swaps on long-term debt										$ 723	$ 2,412
Total derivatives designated as hedging instruments	615,000	32,109		3,279	14,724	16,050	51,249	2,088	8,676	723	2,412
Derivatives not designated as hedging instruments under ASC 815											
Interest rate swaps	169,982	3,714	3,813					(255)	(479)		
Interest rate swaps for customers[2]	3,061,877	97,934	104,717					(32)	(3,369)		
Energy commodity swaps for customers[2]	15,665	1,362	1,338					17	(264)		
Basis swaps	225,000	42	9					360	247		
Futures contracts	8,658,000	374	1					4,266	4,949		
Total return swap	1,159,686		20,855					(22,795)	(22,795)		
	13,290,210	103,426	130,733					(18,439)	(21,711)		

Total derivatives not designated as hedging instruments											
Total derivatives	$ 13,905,210	$ 135,535	$ 130,733	$ 3,279	$ 14,724	$ 16,050	$ 51,249	$ (16,351)	$ (13,035)	$ 723	$ 2,412

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	Fair value			Amount of derivative gain (loss) recognized/reclassified							
				OCI		Reclassified from AOCI to interest income		Noninterest income		Offset to interest expense	
	Notional amount	Other assets	Other liabilities	Three months ended	Nine months ended	Three months ended	Nine months ended	Three months ended	Nine months ended	Three months ended	Nine months ended
	September 30, 2009			September 30, 2009		September 30, 2009		September 30, 2009		September 30, 2009	
Derivatives designated as hedging instruments under ASC 815											
Asset derivatives											
Cash flow hedges[1]:											
Interest rate swaps	$ 1,190,000	$ 87,800	$	$ 15,165	$ 7,885	$ 26,316	$ 87,061				
Interest rate floors	190,000	5,373		(330)	2,510	1,773	4,272				
Terminated swaps and floors								$ 61,103	$ 74,259		
	1,380,000	93,173		14,835	10,395	28,089	91,333	61,103	74,259 [3]		
Liability derivatives											
Fair value hedges:											
Terminated swaps on long-term debt										$ 1,565	$ 24,629
Terminated swap gain on debt modificiation									161,300		
Total derivatives designated as hedging instruments	1,380,000	93,173		14,835	10,395	28,089	91,333	61,103	235,559	1,565	24,629
Derivatives not designated as hedging instruments under ASC 815											
Interest rate swaps	210,354	4,576	4,652					(1,477)	(1,014)		
Interest rate swaps for customers[2]	3,675,581	82,113	83,274					(1,976)	6,459		

Energy commodity swaps for customers[2]	274,280	15,064	14,771					(626)	604		
Basis swaps	705,000	147	151					1,619	7,716		
Futures contracts	25,000							434	575		
Total derivatives not designated as hedging instruments	4,890,215	101,900	102,848					(2,026)	14,340		
Total derivatives	$ 6,270,215	$ 195,073	$ 102,848	$ 14,835	$ 10,395	$ 28,089	$ 91,333	$ 59,077	$ 249,899	$ 1,565	$ 24,629

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

[1] *Amounts recognized in OCI and reclassified from accumulated OCI (AOCI) represent the effective portion of the derivative gain (loss).*
[2] *Amounts include both the customer swaps and the offsetting derivative contracts.*
[3] *Amounts for the nine months ended September 30, 2010 and 2009 of $8,676 and $74,259, respectively, which reflect the acceleration of OCI amounts reclassified to income that related to previously terminated hedges, together with the reclassification amounts of $51,249 and $91,333, or a total of $59,925 and $165,592, respectively, are the amounts of reclassification included in the changes in OCI presented in Note 9.*

At September 30, the fair values of derivative assets and liabilities were reduced (increased) by net credit valuation adjustments of $6.7 million and $(0.2) million in 2010, and $2.3 million and $1.0 million in 2009, respectively. These adjustments are required to reflect both our own nonperformance risk and the respective counterparty s nonperformance risk.

Fair value amounts recognized for the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) have been offset against recognized fair value amounts of derivatives executed with the same counterparty under a master netting arrangement. In the balance sheet, cash collateral was used to reduce recorded amounts of derivative assets and liabilities by $0.9 million and $2.9 million at September 30, 2010, and $19.0 million and $2.5 million at September 30, 2009, respectively.

Interest rate swaps and energy commodity swaps for customers are offered to assist customers in managing their exposure to fluctuating interest rates and energy prices. Upon issuance, all of these customer swaps are immediately hedged by offsetting derivative contracts, such that the Company minimizes its net risk exposure resulting from such transactions. Fee income from customer swaps is included in other service charges, commissions and fees. As with other derivative instruments, we have credit risk for any nonperformance by counterparties.

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Futures contracts primarily consist of two types: (1) Eurodollar futures contracts that allow us to extend the duration of certain Federal Reserve account balances. These contracts typically reference the 90-day LIBOR rate. (2) Highly liquid exchange-traded federal funds futures contracts that are traded to manage interest rate risk on certain CDO securities. These identified mixed straddle contracts are executed to convert three- and six-month fixed cash flows into cash flows that vary with daily fluctuations in interest rates. The accounts for both types of futures contracts are cash settled daily.

The remaining balances of any derivative instruments terminated prior to maturity, including amounts in AOCI for swap hedges, are accreted or amortized generally on a straight-line basis to interest income or expense over the period to their previously stated maturity dates.

Amounts in AOCI are reclassified to interest income as interest is earned on variable rate loans and as amounts for terminated hedges are accreted or amortized to earnings. For the 12 months following September 30, 2010, we estimate that additional projected gains of $23 million and accretion/amortization of $23 million, or a total of $46 million, will be reclassified.

Total Return Swap

On July 28, 2010, we entered into a total return swap and related interest rate swaps (TRS) with Deutsche Bank AG relating to a portfolio of $1.16 billion notional amount of our bank and insurance trust preferred CDOs. As a result of the TRS, Deutsche Bank assumed all of the credit risk of this CDO portfolio, providing timely payment of all scheduled payments of interest and principal when contractually due to the Company (without regard to acceleration or deferral events). We can cancel the TRS quarterly after the first year and remove individual securities on or after the end of the sixth year. Additionally, with the consent of Deutsche Bank, we can transfer the TRS to a third party in part or in whole. Deutsche Bank cannot cancel the TRS except in the event of nonperformance by the Company and under certain other circumstances customary to ISDA swap agreements.

This transfer of credit risk reduced the Company s regulatory capital risk weighting for these investments. The underlying securities were originally rated primarily A and BBB and carry some of the highest risk-weightings of the securities in the Company s portfolio. As a result, the transaction reduced regulatory risk-weighted assets and improved the Company s risk-based capital ratios.

This transaction did not qualify for hedge accounting and did not change the accounting for the underlying securities, including the quarterly analysis of OTTI and OCI. As a result, future potential OTTI, if any, associated with the underlying securities may not be offset by any valuation adjustment on the swap in the quarter in which OTTI is recognized and OTTI changes could result in reductions in our regulatory capital ratios, which could be material.

During the third quarter of 2010, we recorded a negative initial value for the TRS of $22.8 million, which is included in fair value and nonhedge derivative income (loss), and structuring costs of $11.6 million, which are included in other noninterest expense. The negative initial value is approximately equal to the first-year fees we will incur for the TRS (that is, during the period we are unable to cancel the transaction). The fair value of the TRS derivative liability was $20.9 million at September 30, 2010.

Both the fair value of the securities and the fair value of the TRS are dependent upon the projected credit-adjusted cash flows of the securities. Absent major changes in these projected cash flows, we expect the value of the TRS to become less negative compared to the negative initial value as the period that we are unable to cancel the transaction shortens.

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After the first year of the transaction, we expect to incur subsequent net quarterly costs of approximately $5.3 million under the TRS, including related interest rate swaps and scheduled payments of interest on the underlying CDOs, as long as the TRS remains in place for this CDO portfolio. The payments under the transaction generally include or arise from (1) payments by Deutsche Bank to the Company of all scheduled payments of interest and principal when contractually due to the Company, and payment by the Company to Deutsche Bank of a fixed quarterly or semiannual guarantee fee based on the notional amount of the CDO portfolio in the transaction; (2) an interest rate swap pursuant to which Deutsche Bank pays the Company a fixed interest rate and the Company pays to Deutsche Bank a floating interest rate (generally three month LIBOR) on the notional amount of the CDO portfolio in the transaction; and (3) a third swap between the Company and Deutsche Bank included in the transaction in order to hedge each party s exposure to change in interest rates over the life of the transaction. In addition, under the terms of the transaction, payments from the CDOs will continue to be made to the Company and retained by the Company; this recovery amount, plus assumed reinvestment earnings at an imputed interest rate, generally three month LIBOR, will offset principal payments that Deutsche Bank would otherwise be required to make.

The net economic result of the payment streams described in the preceding paragraph is the approximate $5.3 million per quarter noted above. Our estimated quarterly expense amount would be impacted by, among other things, changes in the composition of the CDO portfolio included in the transaction and changes over time in the forward LIBOR rate curve. Payments under the third swap begin on the second payment date of each covered security. If the forward interest rates projected in mid-July 2010 occur, no net payment will be due by either party under this third swap. If rates increase more than projected, the payment will be to the Company from Deutsche Bank and if less than projected the payment will be the reverse. The Company s costs are also subject to adjustment in the event of future changes in regulatory requirements applicable to Deutsche Bank, if we do not then elect to terminate the transaction. Should such cost increases occur in the first year, we may cancel the transaction with no payment due beyond the liability already incurred. Termination by the Company for such regulatory changes applicable to Deutsche Bank after year one will

result in no payment by the Company**.**

At September 30, 2010, we completed a valuation process which resulted in an estimated fair value for the TRS under Level 3. The process utilized valuation inputs from two sources:

1) The Company built on its fair valuation process for the underlying CDO portfolio and utilized those same projected cash flows to quantify the extent and timing of payments to be received from the Trustee related to each CDO and in aggregate. These cash flows, plus assumed reinvestment earnings constitute an estimated recovery amount, the extent of which will offset Deutsche Bank s required principal payments. The internal valuation utilized the Company s estimate of each of the cash flows to/from each leg of the derivative and from each covered CDO through maturity and also through the first date on which we may terminate. For valuation purposes, we assumed that a market participant would cancel the TRS at the first opportunity if the TRS did not have a positive value based on the best estimates of cash flows through maturity. Consequently, the fair value approximated the amount of required payments up to the earliest termination date.

2) A valuation from a market participant in possession of all relevant terms and costs of the TRS structure.

We considered the observable input or inputs from market participants as well as the results of our internal modeling to estimate the fair value of the TRS. We expect to continue the use of this methodology in subsequent periods.

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8. GOODWILL

Impairment losses totaling $634.0 million were charged to goodwill during the nine months ended September 30, 2009. The losses primarily reflect impairment at Amegy.

9. DEBT AND SHAREHOLDERS EQUITY

During the three and nine months ended September 30, 2010, we issued senior medium-term notes of $37.0 million and $156.9 million, respectively, with maturities from February 2011 to February 2013, and interest rates from 3.25% to 5.75%. We also redeemed medium-term notes of $36.4 million and $101.5 million during these same periods. During the first quarter of 2010, we issued an additional $41 million of the 7.75% unsecured senior notes previously issued during the fourth quarter of 2009 that are due September 23, 2014.

During the third quarter of 2010, $54.3 million of convertible subordinated debt was converted into $63.5 million of the Company s preferred stock, consisting of 54,219 shares of Series C and 40 shares of Series A. For the nine months ended September 30, 2010, a total of $191.9 million of convertible subordinated debt was converted into $223.8 million of the Company s preferred stock, consisting of 191,877 shares of Series C and 40 shares of Series A. The conversions included the transfer from common stock to preferred stock of $9.2 million and $31.8 million for the three and nine months ended September 30, 2010, respectively, of the intrinsic value of the beneficial conversion feature. The amount of this conversion feature was included with common stock at the time of the debt modification in June 2009. Accelerated discount amortization on the converted debt increased interest expense during these same periods by $27.5 million and $99.1 million.

We sold $142.5 million of Series E preferred stock during the second quarter of 2010 with an initial dividend rate of 11%. The offering of this new preferred stock consisted of 5,700,000 depositary shares at $25 per share (each share representing a $1/40^{th}$ ownership interest in a share of Series E Fixed-Rate Resettable Non-Cumulative Perpetual Preferred Stock).

During the second quarter of 2010, $8.6 million of Series A preferred stock was exchanged for 224,903 shares of the Company s common stock at the fair value on the exchange date of $23.82 per share. The $5.5 million of common stock issued in this preferred stock redemption increased retained earnings by approximately $3.1 million.

We sold 7,000,000 common stock warrants for $36.8 million, or $5.25 per warrant, during the third quarter of 2010. These warrants are part of the same series of warrants initially sold during the second quarter of 2010, when we sold 22,281,640 warrants for $185.0 million, or $8.3028 per warrant. Each of all of the warrants can be exercised for a share of common stock at an initial price of $36.63 through May 22, 2020. Net of commissions and fees, the total issuance added $214.7 million to common stock.

During the first quarter of 2010, we completed our offer commenced on March 1, 2010 to exchange any and all of the Company s currently outstanding nonconvertible subordinated debt into shares of common stock. We issued 2,165,391 shares, or $46.9 million net of commissions and fees, in exchange for $55.6 million of debt. The net pretax gain on subordinated debt exchange included in the statement of income was approximately $14.5 million for the nine months ended September 30, 2010, and represented the difference between the carrying value of the debt exchanged and the fair value of the common stock issued, net of commissions and fees. The number of shares issued was determined using an exchange ratio based on a common stock price of $22.5433 per share, which was calculated based on the defined weighted average price of our common stock for each of the five consecutive days ending on the March 24, 2010 expiration date.

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During the three and nine months ended September 30, 2010, we sold under equity distribution agreements a total of 3,936,300 shares and 23,973,957 shares of common stock for $75.5 million and $515.3 million (average price of $19.18 and $21.49), respectively. Net of commissions and fees, the total sales for the nine-month period added $507.2 million to common stock.

We liquidated our ownership of certain consolidated venture funds during the second quarter of 2010. We also changed the ownership structure of another venture fund such that we are no longer required to consolidate it under the new accounting guidance in ASC 810. The effect of these transactions and results of operations for the nine months ended September 30, 2010 decreased the amount of noncontrolling interests to $(0.8) million at September 30, 2010. The consolidated financial statements were not otherwise significantly affected.

On May 28, 2010, Company shareholders approved an amendment to our Restated Articles of Incorporation to increase the number of authorized preferred shares from 3,000,000 to 4,400,000.

During June 2009, we recognized a pretax gain of $493.7 million when we modified certain subordinated debt to permit conversion into the Company s preferred stock. In this connection, we also recorded $201.2 million after-tax directly in common stock for the intrinsic value of the beneficial conversion feature of the modified subordinated debt. At the time of each conversion of the modified convertible debt to preferred stock, a proportional amount of the intrinsic value of the beneficial conversion feature is transferred from common stock to preferred stock. Debt discount of approximately $665.5 million, which includes the value of the beneficial conversion feature, was recorded in connection with the subordinated debt modification and is amortized to income using the interest method over the remaining terms of the subordinated debt. The rate of amortization is accelerated if and as holders of the subordinated debt elect to convert it into preferred stock through the immediate expensing of any unamortized discount associated with the converted debt. The balance of this debt discount was $472.9 million at September 30, 2010.

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The following summarizes the changes in accumulated other comprehensive income (loss) included in shareholders equity (*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, 2010:				
Balance, December 31, 2009	$ (462,412)	$ 68,059	$ (42,546)	$ (436,899)
Other comprehensive income (loss), net of tax:				
Net realized and unrealized holding gains, net of income tax expense of $9,156	15,682			15,682
Reclassification for net losses included in earnings, net of income tax benefit of $24,220	38,601			38,601
Noncredit-related impairment losses on securities not expected to be sold, net of income tax benefit of $26,071	(42,103)			(42,103)
Accretion of securities with noncredit-related impairment losses not expected to be sold, net of income tax expense of $62	101			101
Net unrealized losses, net of reclassification to earnings of $59,925 and income tax benefit of $17,329		(27,872)		(27,872)
Pension and postretirement, net of income tax benefit of $46			(63)	(63)
Other comprehensive income (loss)	12,281	(27,872)	(63)	(15,654)
Balance, September 30, 2010	$ (450,131)	$ 40,187	$ (42,609)	$ (452,553)
Nine Months Ended September 30, 2009:				
Balance, December 31, 2008	$ (248,871)	$ 196,656	$ (46,743)	$ (98,958)
Cumulative effect of change in accounting principle, adoption of new OTTI guidance in ASC 320	(137,462)			(137,462)
Other comprehensive income (loss), net of tax:				
Net realized and unrealized holding losses, net of income tax benefit of $50,543	(82,003)			(82,003)
Reclassification for net losses included in earnings, net of income tax benefit of $61,639	96,545			96,545
Noncredit-related impairment losses on securities not expected to be sold, net of income tax benefit of $101,821	(152,531)			(152,531)
Accretion of securities with noncredit-related impairment losses not expected to be sold, net of income tax expense of $653	963			963
Net unrealized losses, net of reclassification to earnings of $165,592 and income tax benefit of $59,531		(95,666)		(95,666)
Other comprehensive loss	(137,026)	(95,666)		(232,692)
Balance, September 30, 2009	$ (523,359)	$ 100,990	$ (46,743)	$ (469,112)

10. INCOME TAXES

The effective rate of the income tax benefit for the nine months ended September 30, 2010 was increased mainly by the proportional increase of nontaxable items relative to the loss before income taxes, and reduced primarily by the taxable surrender of certain bank-owned life insurance policies and the nondeductibility of a portion of the accelerated discount amortization from the conversion of subordinated debt to preferred stock.

The balance of net deferred tax assets was approximately $585 million at September 30, 2010, $498 million at December 31, 2009, and $582 million at September 30, 2009. We evaluate the net deferred tax assets on a regular basis to determine whether an additional valuation allowance is required. Based on this evaluation, and considering the weight of the positive evidence compared to the negative evidence, we have concluded that an additional valuation allowance is not required as of September 30, 2010.

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11. FAIR VALUE

Fair Value Measurements

Effective January 1, 2010, we adopted ASU No. 2010-06, *Improving Disclosures about Fair Value Measurements*. This new accounting guidance under ASC 820, *Fair Value Measurements and Disclosures*, was issued by the FASB on January 21, 2010. The additional disclosures required about fair value measurements include, among other things, (1) the amounts and reasons for certain significant transfers among the three hierarchy levels of inputs, (2) the gross, rather than net, basis for certain Level 3 rollforward information, (3) use of a class basis rather than a major category basis for assets and liabilities, and (4) valuation techniques and inputs used to estimate Level 2 and Level 3 fair value measurements. The following information incorporates these new disclosure requirements except for the Level 3 rollforward information which is not required until the first quarter of 2011.

Fair value is defined under ASC 820 as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. To measure fair value, a hierarchy has been established that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs. This hierarchy uses three levels of inputs to measure the fair value of assets and liabilities as follows:

Level 1 Quoted prices in active markets for identical assets or liabilities; 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 private equity investments, most CDO securities, and the total return swap.

We use 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 AFS and trading investment securities; private equity investments; 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 c