

ZIONS BANCORPORATION /UT/

Form 10-Q/A

February 11, 2010

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q/A**

AMENDMENT NO. 1

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

For the quarterly period ended September 30, 2009

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)

of incorporation or organization)

87-0227400

(I.R.S. Employer

Identification No.)

ONE SOUTH MAIN, 15<sup>TH</sup> FLOOR

SALT LAKE CITY, UTAH

(Address of principal executive offices)

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

84133

(Zip Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

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Yes ☒ No ☐

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

Yes ☐ No ☐

Indicate by check mark 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, 2009

138,209,896 shares

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### EXPLANATORY NOTE

Zions Bancorporation ( the Company, Zions, we, our ) is filing this Amendment No. 1 on Form 10-Q/A to amend its Quarterly Report on Form 10-Q for the quarter ended September 30, 2009 that was originally filed with the Securities and Exchange Commission on November 9, 2009. As disclosed in our Form 8-K filing dated January 25, 2010, we are filing this Amendment No. 1 to reflect the change in our accounting treatment during the second quarter of 2009 for the subordinated debt modification described in Note 7 in the Notes to Consolidated Financial Statements. We have reevaluated our accounting for this transaction and have considered the effects of the adjustments from the second quarter of 2009 on the third quarter of 2009. Based on our review, we have revised as appropriate the consolidated financial statements and notes to consolidated financial statements as of and for the three and nine months ended September 30, 2009. We have also revised the related Management's Discussion and Analysis of Financial Condition and Results of Operations. These revisions are included in this Amendment No. 1.

The revised calculations relate to increases to the gain on subordinated debt modification recognized during the second quarter of 2009 in the statements of income, and to the intrinsic value of the beneficial conversion feature of the modified subordinated debt recorded directly in common stock within shareholders' equity. The Company has no par common stock and all additional paid-in capital transactions are recorded in common stock. The effect of the 2009 second quarter revised calculations was to increase the net loss applicable to common shareholders by \$2.4 million from \$179.5 million to \$181.9 million for the three months ended September 30, 2009. This was primarily due to increased accretion of the debt discount during the three months ended September 30, 2009. In addition, at September 30, 2009, the effect of the revised calculations was to increase the intrinsic value of the beneficial conversion feature by \$151.1 million and total shareholders' equity by \$170.4 million from the amounts previously reported. Further discussion of these revisions is included in this Amendment No. 1 in Note 1, Basis of Presentation, and Note 7, Debt and Shareholders' Equity.

This Amendment No. 1 on Form 10-Q/A amends:

#### Part I. Financial Information

Item 1. Financial Statements (Unaudited)

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Item 4. Controls and Procedures

This Amendment No. 1 includes the original filing in its entirety and we are only amending those portions affected by the revisions described above. The only exhibits included with this Amendment No. 1 are Exhibits 31.1, 31.2, and 32, related to the certifications by the principal executive officer and the principal financial officer, as required by Rule 12b-15 of the Securities Exchange Act of 1934, as amended.

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**ZIONS BANCORPORATION AND SUBSIDIARIES**

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**Table of Contents****PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS (Unaudited)****ZIONS BANCORPORATION AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

| (In thousands, except share amounts)                                                                                 | September 30,<br>2009<br>(Unaudited)<br>Revised | December 31,<br>2008 | September 30,<br>2008<br>(Unaudited) |
|----------------------------------------------------------------------------------------------------------------------|-------------------------------------------------|----------------------|--------------------------------------|
| <b>ASSETS</b>                                                                                                        |                                                 |                      |                                      |
| Cash and due from banks                                                                                              | \$ 992,940                                      | \$ 1,475,976         | \$ 1,441,957                         |
| Money market investments:                                                                                            |                                                 |                      |                                      |
| Interest-bearing deposits and commercial paper                                                                       | 2,234,337                                       | 2,332,759            | 568,875                              |
| Federal funds sold                                                                                                   | 44,056                                          | 83,451               | 274,129                              |
| Security resell agreements                                                                                           | 52,539                                          | 286,707              | 170,009                              |
| Investment securities:                                                                                               |                                                 |                      |                                      |
| Held-to-maturity, at adjusted cost (approximate fair value \$835,814, \$1,443,555 and \$1,587,006)                   | 877,105                                         | 1,790,989            | 1,917,354                            |
| Available-for-sale, at fair value                                                                                    | 3,547,092                                       | 2,676,255            | 2,792,236                            |
| Trading account, at fair value (includes \$0, \$538 and \$531 transferred as collateral under repurchase agreements) | 76,709                                          | 42,064               | 45,769                               |
|                                                                                                                      | 4,500,906                                       | 4,509,308            | 4,755,359                            |
| Loans held for sale                                                                                                  | 206,387                                         | 200,318              | 152,095                              |
| Loans:                                                                                                               |                                                 |                      |                                      |
| Loans and leases excluding FDIC-supported assets                                                                     | 39,782,240                                      | 41,791,237           | 41,876,371                           |
| FDIC-supported assets                                                                                                | 2,025,425                                       |                      |                                      |
|                                                                                                                      | 41,807,665                                      | 41,791,237           | 41,876,371                           |
| Less:                                                                                                                |                                                 |                      |                                      |
| Unearned income and fees, net of related costs                                                                       | 134,629                                         | 132,499              | 140,773                              |
| Allowance for loan losses                                                                                            | 1,432,715                                       | 686,999              | 609,433                              |
| Loans and leases, net of allowance                                                                                   | 40,240,321                                      | 40,971,739           | 41,126,165                           |
| Other noninterest-bearing investments                                                                                | 1,061,464                                       | 1,044,092            | 1,170,367                            |
| Premises and equipment, net                                                                                          | 698,225                                         | 687,096              | 675,480                              |
| Goodwill                                                                                                             | 1,017,385                                       | 1,651,377            | 2,009,504                            |
| Core deposit and other intangibles                                                                                   | 123,551                                         | 125,935              | 133,989                              |
| Other real estate owned                                                                                              | 359,187                                         | 191,792              | 156,817                              |
| Other assets                                                                                                         | 1,766,852                                       | 1,532,241            | 1,339,422                            |
|                                                                                                                      | \$ 53,298,150                                   | \$ 55,092,791        | \$ 53,974,168                        |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                                                                          |                                                 |                      |                                      |
| Deposits:                                                                                                            |                                                 |                      |                                      |
| Noninterest-bearing demand                                                                                           | \$ 11,453,247                                   | \$ 9,683,385         | \$ 9,413,484                         |
| Interest-bearing:                                                                                                    |                                                 |                      |                                      |
| Savings and NOW                                                                                                      | 5,392,096                                       | 4,452,919            | 4,341,873                            |
| Money market                                                                                                         | 17,413,735                                      | 16,826,846           | 14,087,288                           |
| Time under \$100,000                                                                                                 | 2,784,593                                       | 2,974,566            | 2,954,116                            |

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|                                                                                                                                         |               |               |               |
|-----------------------------------------------------------------------------------------------------------------------------------------|---------------|---------------|---------------|
| Time \$100,000 and over                                                                                                                 | 3,949,684     | 4,756,218     | 4,468,225     |
| Foreign                                                                                                                                 | 2,014,626     | 2,622,562     | 3,325,915     |
|                                                                                                                                         | 43,007,981    | 41,316,496    | 38,590,901    |
| Securities sold, not yet purchased                                                                                                      | 39,360        | 35,657        | 29,528        |
| Federal funds purchased                                                                                                                 | 1,008,181     | 965,835       | 1,179,197     |
| Security repurchase agreements                                                                                                          | 509,014       | 899,751       | 734,379       |
| Other liabilities                                                                                                                       | 651,139       | 669,111       | 649,672       |
| Commercial paper                                                                                                                        | 2,449         | 15,451        | 40,493        |
| Federal Home Loan Bank advances and other borrowings:                                                                                   |               |               |               |
| One year or less                                                                                                                        | 42,962        | 2,039,853     | 4,690,784     |
| Over one year                                                                                                                           | 18,803        | 128,253       | 128,855       |
| Long-term debt                                                                                                                          | 2,324,020     | 2,493,368     | 2,334,044     |
| Total liabilities                                                                                                                       | 47,603,909    | 48,563,775    | 48,377,853    |
| Shareholders' equity:                                                                                                                   |               |               |               |
| Preferred stock, without par value, authorized 3,000,000 shares                                                                         | 1,529,462     | 1,581,834     | 286,949       |
| Common stock, without par value; authorized 350,000,000 shares; issued and outstanding 136,398,089, 115,344,813, and 115,302,598 shares | 3,125,344     | 2,599,916     | 2,482,517     |
| Retained earnings                                                                                                                       | 1,502,232     | 2,433,363     | 2,968,242     |
| Accumulated other comprehensive income (loss)                                                                                           | (469,112)     | (98,958)      | (157,305)     |
| Deferred compensation                                                                                                                   | (15,218)      | (14,459)      | (14,376)      |
| Controlling interest shareholders' equity                                                                                               | 5,672,708     | 6,501,696     | 5,566,027     |
| Noncontrolling interests                                                                                                                | 21,533        | 27,320        | 30,288        |
| Total shareholders' equity                                                                                                              | 5,694,241     | 6,529,016     | 5,596,315     |
|                                                                                                                                         | \$ 53,298,150 | \$ 55,092,791 | \$ 53,974,168 |

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<br>September 30, |                | Nine Months Ended<br>September 30, |                  |
|-----------------------------------------------------------------------------------------------------------|-------------------------------------|----------------|------------------------------------|------------------|
|                                                                                                           | 2009<br>Revised                     | 2008           | 2009<br>Revised                    | 2008             |
| <b>Interest income:</b>                                                                                   |                                     |                |                                    |                  |
| Interest and fees on loans                                                                                | \$ 586,246                          | \$ 663,677     | \$ 1,749,688                       | \$ 1,995,227     |
| Interest on loans held for sale                                                                           | 2,434                               | 1,916          | 8,272                              | 7,632            |
| Lease financing                                                                                           | 5,125                               | 5,515          | 14,453                             | 17,100           |
| Interest on money market investments                                                                      | 1,195                               | 9,267          | 6,114                              | 40,608           |
| <b>Interest on securities:</b>                                                                            |                                     |                |                                    |                  |
| Held-to-maturity taxable                                                                                  | 4,864                               | 21,780         | 33,139                             | 39,965           |
| Held-to-maturity nontaxable                                                                               | 5,806                               | 6,319          | 17,867                             | 18,972           |
| Available-for-sale taxable                                                                                | 23,460                              | 25,044         | 72,145                             | 122,459          |
| Available-for-sale nontaxable                                                                             | 1,830                               | 1,697          | 5,286                              | 5,459            |
| Trading account                                                                                           | 842                                 | 437            | 2,236                              | 1,277            |
| <b>Total interest income</b>                                                                              | <b>631,802</b>                      | <b>735,652</b> | <b>1,909,200</b>                   | <b>2,248,699</b> |
| <b>Interest expense:</b>                                                                                  |                                     |                |                                    |                  |
| Interest on savings and money market deposits                                                             | 54,554                              | 90,720         | 194,056                            | 274,851          |
| Interest on time and foreign deposits                                                                     | 42,780                              | 74,837         | 158,036                            | 264,519          |
| Interest on short-term borrowings                                                                         | 2,325                               | 50,164         | 12,006                             | 158,507          |
| Interest on long-term borrowings                                                                          | 59,963                              | 27,928         | 104,459                            | 87,618           |
| <b>Total interest expense</b>                                                                             | <b>159,622</b>                      | <b>243,649</b> | <b>468,557</b>                     | <b>785,495</b>   |
| <b>Net interest income</b>                                                                                | <b>472,180</b>                      | <b>492,003</b> | <b>1,440,643</b>                   | <b>1,463,204</b> |
| <b>Provision for loan losses</b>                                                                          | <b>565,930</b>                      | <b>156,606</b> | <b>1,626,208</b>                   | <b>363,080</b>   |
| <b>Net interest income after provision for loan losses</b>                                                | <b>(93,750)</b>                     | <b>335,397</b> | <b>(185,565)</b>                   | <b>1,100,124</b> |
| <b>Noninterest income:</b>                                                                                |                                     |                |                                    |                  |
| Service charges and fees on deposit accounts                                                              | 54,466                              | 53,695         | 159,087                            | 154,347          |
| Other service charges, commissions and fees                                                               | 39,227                              | 42,794         | 117,745                            | 127,137          |
| Trust and wealth management income                                                                        | 8,209                               | 8,865          | 24,124                             | 28,842           |
| Capital markets and foreign exchange                                                                      | 12,106                              | 12,257         | 41,621                             | 34,850           |
| Dividends and other investment income                                                                     | 2,597                               | 7,042          | 13,689                             | 30,361           |
| Loan sales and servicing income                                                                           | 2,359                               | 3,633          | 15,250                             | 19,959           |
| Income from securities conduit                                                                            |                                     | 336            | 1,086                              | 3,960            |
| Fair value and nonhedge derivative income (loss)                                                          | 58,092                              | (26,155)       | 82,412                             | (42,157)         |
| Equity securities gains (losses), net                                                                     | (1,805)                             | 12,971         | 339                                | 14,918           |
| Fixed income securities gains, net                                                                        | 1,900                               | 135            | 3,539                              | 1,988            |
| <b>Impairment losses on investment securities:</b>                                                        |                                     |                |                                    |                  |
| Impairment losses on investment securities                                                                | (198,378)                           | (28,022)       | (435,509)                          | (107,568)        |
| Noncredit-related losses on securities not expected to be sold (recognized in other comprehensive income) | 141,863                             |                | 254,352                            |                  |

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|                                                               |                     |                  |                       |                   |
|---------------------------------------------------------------|---------------------|------------------|-----------------------|-------------------|
| Net impairment losses on investment securities                | (56,515)            | (28,022)         | (181,157)             | (107,568)         |
| Valuation losses on securities purchased                      |                     |                  | (212,092)             | (5,204)           |
| Gain on subordinated debt modification                        |                     |                  | 493,725               |                   |
| Acquisition related gains                                     | 146,153             |                  | 169,130               |                   |
| Other                                                         | 3,951               | 2,059            | 9,716                 | 11,549            |
| <b>Total noninterest income</b>                               | <b>270,740</b>      | <b>89,610</b>    | <b>738,214</b>        | <b>272,982</b>    |
| Noninterest expense:                                          |                     |                  |                       |                   |
| Salaries and employee benefits                                | 205,433             | 208,995          | 612,014               | 619,640           |
| Occupancy, net                                                | 28,556              | 30,552           | 83,534                | 84,715            |
| Furniture and equipment                                       | 25,320              | 24,281           | 75,189                | 73,629            |
| Other real estate expense                                     | 30,419              | 7,126            | 72,510                | 10,254            |
| Legal and professional services                               | 9,076               | 11,297           | 27,116                | 30,743            |
| Postage and supplies                                          | 7,680               | 9,257            | 24,126                | 27,582            |
| Advertising                                                   | 4,418               | 6,782            | 17,244                | 20,653            |
| FDIC premiums                                                 | 19,820              | 5,286            | 76,320                | 14,113            |
| Amortization of core deposit and other intangibles            | 7,575               | 8,096            | 21,539                | 25,107            |
| Provision for unfunded lending commitments                    | 36,537              | (3,264)          | 46,291                | 2,044             |
| Other                                                         | 59,873              | 63,868           | 174,498               | 168,316           |
| <b>Total noninterest expense</b>                              | <b>434,707</b>      | <b>372,276</b>   | <b>1,230,381</b>      | <b>1,076,796</b>  |
| Impairment loss on goodwill                                   |                     |                  | 633,992               |                   |
| Income (loss) before income taxes                             | (257,717)           | 52,731           | (1,311,724)           | 296,310           |
| Income taxes (benefit)                                        | (100,046)           | 11,214           | (275,534)             | 83,147            |
| Net income (loss)                                             | (157,671)           | 41,517           | (1,036,190)           | 213,163           |
| Net income (loss) applicable to noncontrolling interests      | (2,394)             | 3,757            | (4,143)               | (3,544)           |
| Net income (loss) applicable to controlling interest          | (155,277)           | 37,760           | (1,032,047)           | 216,707           |
| Preferred stock dividends                                     | (26,603)            | (4,409)          | (78,336)              | (9,316)           |
| Preferred stock redemption                                    |                     |                  | 52,418                |                   |
| <b>Net earnings (loss) applicable to common shareholders</b>  | <b>\$ (181,880)</b> | <b>\$ 33,351</b> | <b>\$ (1,057,965)</b> | <b>\$ 207,391</b> |
| Weighted average common shares outstanding during the period: |                     |                  |                       |                   |
| Basic shares                                                  | 127,581             | 108,407          | 119,248               | 107,176           |
| Diluted shares                                                | 127,581             | 108,497          | 119,248               | 107,333           |
| Net earnings (loss) per common share:                         |                     |                  |                       |                   |
| Basic                                                         | \$ (1.43)           | \$ 0.31          | \$ (8.87)             | \$ 1.94           |
| Diluted                                                       | (1.43)              | 0.31             | (8.87)                | 1.93              |

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<br>stock<br>Revised | Common stock<br>Shares | Amount<br>Revised | Retained<br>earnings<br>Revised | Accumulated<br>other<br>comprehensive<br>income<br>(loss) | Deferred<br>compensation | Noncontrolling<br>interests | Total<br>shareholders'<br>equity<br>Revised |
|------------------------------------------------------------------------------------------|-------------------------------|------------------------|-------------------|---------------------------------|-----------------------------------------------------------|--------------------------|-----------------------------|---------------------------------------------|
| 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 FSP FAS 115-2 and 124-2 |                               |                        |                   | 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 realized losses on investments recorded in operations           |                               |                        |                   |                                 | 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                                      |
| Dividends on preferred stock                                                             | 15,642                        |                        |                   | (78,336)                        |                                                           |                          |                             | (62,694)                                    |
| Issuance of common stock                                                                 |                               | 20,503,925             | 311,259           |                                 |                                                           |                          |                             | 311,259                                     |
| Subordinated debt modification                                                           |                               |                        | 201,154           |                                 |                                                           |                          |                             | 201,154                                     |
| Net stock issued under employee plans and related tax benefits                           |                               | 549,351                | 15,992            |                                 |                                                           |                          |                             | 15,992                                      |
| Dividends on common stock, \$.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                                |
| Balance, December 31, 2007                                                               | \$ 240,000                    | 107,116,505            | \$ 2,212,237      | \$ 2,910,692                    | \$ (58,835)                                               | \$ (11,294)              | \$ 30,939                   | \$ 5,323,739                                |
| Cumulative effect of change in accounting principle, adoption of FAS 159                 |                               |                        |                   | (11,471)                        | 11,471                                                    |                          |                             |                                             |
| Comprehensive income:                                                                    |                               |                        |                   |                                 |                                                           |                          |                             |                                             |
| Net income for the period                                                                |                               |                        |                   | 216,707                         |                                                           |                          | (3,544)                     | 213,163                                     |
| Other comprehensive income (loss), net of tax:                                           |                               |                        |                   |                                 |                                                           |                          |                             |                                             |
| Net realized and unrealized holding losses on investments and retained interests         |                               |                        |                   |                                 | (207,190)                                                 |                          |                             |                                             |

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|                                                                                |            |             |              |              |              |             |           |              |           |
|--------------------------------------------------------------------------------|------------|-------------|--------------|--------------|--------------|-------------|-----------|--------------|-----------|
| Foreign currency translation                                                   |            |             |              |              |              | (52)        |           |              |           |
| Reclassification for net realized losses on investments recorded in operations |            |             |              |              |              | 63,463      |           |              |           |
| Net unrealized gains on derivative instruments                                 |            |             |              |              |              | 33,104      |           |              |           |
| Pension and postretirement                                                     |            |             |              |              |              | 734         |           |              |           |
| Other comprehensive loss                                                       |            |             |              |              |              | (109,941)   |           |              | (109,941) |
| Total comprehensive income                                                     |            |             |              |              |              |             |           |              | 103,222   |
| 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 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)   |
| Other changes in noncontrolling interests                                      |            |             |              |              |              |             | 2,893     |              | 2,893     |
| Balance, September 30, 2008                                                    | \$ 286,949 | 115,302,598 | \$ 2,482,517 | \$ 2,968,242 | \$ (157,305) | \$ (14,376) | \$ 30,288 | \$ 5,596,315 |           |

Total comprehensive income (loss) for the three months ended September 30, 2009 and 2008 was \$(258,619) and \$42,537, 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<br>September 30, |           | Nine Months Ended<br>September 30, |             |
|-------------------------------------------------------------------------------------------|-------------------------------------|-----------|------------------------------------|-------------|
|                                                                                           | 2009<br>Revised                     | 2008      | 2009<br>Revised                    | 2008        |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                              |                                     |           |                                    |             |
| Net income (loss) for the period                                                          | \$ (157,671)                        | \$ 41,517 | \$ (1,036,190)                     | \$ 213,163  |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities:  |                                     |           |                                    |             |
| Impairment and valuation losses on investment securities, goodwill, and long-lived assets | 56,515                              | 30,261    | 1,027,241                          | 115,011     |
| Gain on subordinated debt modification                                                    |                                     |           | (493,725)                          |             |
| Acquisition related gains                                                                 | (146,153)                           |           | (169,130)                          |             |
| Debt extinguishment cost                                                                  |                                     |           | 5,103                              |             |
| Provision for credit losses                                                               | 602,467                             | 153,342   | 1,672,499                          | 365,124     |
| Depreciation of premises and equipment                                                    | 18,731                              | 17,918    | 55,824                             | 52,830      |
| Amortization                                                                              | 69,119                              | 19,729    | 105,143                            | 48,996      |
| Deferred income tax benefit                                                               | (50,470)                            | (48,293)  | (149,653)                          | (119,187)   |
| Share-based compensation                                                                  | 7,297                               | 8,875     | 22,641                             | 23,255      |
| Excess tax benefits from share-based compensation                                         | (4)                                 | (128)     | (33)                               | (527)       |
| Equity securities losses (gains), net                                                     | 1,805                               | (12,971)  | (339)                              | (14,918)    |
| Fixed income securities gains, net                                                        | (1,900)                             | (135)     | (3,539)                            | (1,988)     |
| Net decrease (increase) in trading securities                                             | 1,899                               | 5,901     | (34,645)                           | (15,819)    |
| Principal payments on and proceeds from sales of loans held for sale                      | 462,313                             | 224,344   | 1,608,039                          | 887,700     |
| Originations of loans held for sale                                                       | (412,247)                           | (221,828) | (1,609,246)                        | (851,599)   |
| Net write-down of and losses from sales of other real estate owned                        | 26,221                              | 6,300     | 61,761                             | 9,028       |
| Net gains on sales of loans, leases and other assets                                      | (948)                               | (1,713)   | (11,248)                           | (14,984)    |
| Income from increase in cash surrender value of bank-owned life insurance                 | (5,928)                             | (6,393)   | (18,083)                           | (18,994)    |
| Change in accrued income taxes                                                            | (119,817)                           | 8,861     | (187,216)                          | (68,764)    |
| Change in accrued interest receivable                                                     | 11,074                              | 14,171    | 48,261                             | 36,390      |
| Change in other assets                                                                    | (30,987)                            | 164,171   | (97,921)                           | 82,898      |
| Change in other liabilities                                                               | 14,037                              | 90,954    | (53,540)                           | 58,321      |
| Change in accrued interest payable                                                        | 1,662                               | 1,308     | (25,030)                           | (10,016)    |
| Other, net                                                                                | 13,376                              | (892)     | 9,105                              | 7,959       |
| Net cash provided by operating activities                                                 | 360,391                             | 495,299   | 726,079                            | 783,879     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                              |                                     |           |                                    |             |
| Net decrease (increase) in money market investments                                       | (877,777)                           | 250,244   | 375,680                            | 487,195     |
| Proceeds from maturities and paydowns of investment securities held-to-maturity           | 75,494                              | 28,379    | 130,397                            | 82,271      |
| Purchases of investment securities held-to-maturity                                       | (14,041)                            | (43,162)  | (45,830)                           | (83,345)    |
| Proceeds from sales of investment securities available-for-sale                           | 127,737                             | 82,422    | 666,127                            | 586,878     |
| Proceeds from maturities and paydowns of investment securities available-for-sale         | 162,725                             | 382,356   | 390,442                            | 3,021,041   |
| Purchases of investment securities available-for-sale                                     | (74,882)                            | (459,523) | (1,530,131)                        | (2,786,420) |
| Proceeds from sales of loans and leases                                                   | 22,995                              | 211,808   | 72,886                             | 260,947     |
| Securitized loans purchased                                                               |                                     | (8,639)   |                                    | (1,165,943) |
| Loan and lease originations, net of collections                                           | 479,745                             | (358,017) | 991,706                            | (2,288,981) |

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|                                                                  |          |          |           |             |
|------------------------------------------------------------------|----------|----------|-----------|-------------|
| Net decrease (increase) in other noninterest-bearing investments | (895)    | (6,624)  | 12,214    | (120,492)   |
| Proceeds from sales of premises and equipment and other assets   | 1,527    | 106      | 6,263     | 8,534       |
| Purchases of premises and equipment                              | (14,489) | (37,999) | (72,172)  | (81,806)    |
| Proceeds from sales of other real estate owned                   | 70,007   | 14,875   | 167,619   | 33,866      |
| Net cash received from acquisitions                              | 305,464  | 688,940  | 452,415   | 688,940     |
| Net cash provided by (used in) investing activities              | 263,610  | 745,166  | 1,617,616 | (1,357,315) |

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## ZIONS BANCORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(Unaudited)

| (In thousands)                                                                                                   | Three Months Ended<br>September 30, |                    | Nine Months Ended<br>September 30, |                |
|------------------------------------------------------------------------------------------------------------------|-------------------------------------|--------------------|------------------------------------|----------------|
|                                                                                                                  | 2009<br>Revised                     | 2008               | 2009<br>Revised                    | 2008           |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                                                     |                                     |                    |                                    |                |
| Net increase (decrease) in deposits                                                                              | \$ (1,065,061)                      | \$ 250,943         | \$ (989,336)                       | \$ 936,107     |
| Net change in short-term funds borrowed                                                                          | (360,996)                           | (1,904,974)        | (2,482,307)                        | (794,175)      |
| Repayments of FHLB advances over 90 days and up to one year                                                      |                                     |                    | (110,311)                          |                |
| Proceeds from FHLB advances and other borrowings over one year                                                   |                                     |                    | 90                                 | 3,500          |
| Repayments of FHLB advances and other borrowings over one year                                                   | (79)                                | (619)              | (109,540)                          | (2,257)        |
| Proceeds from issuance of long-term debt                                                                         | 405,724                             |                    | 696,952                            | 28,495         |
| Debt issuance and extinguishment costs                                                                           | (4,383)                             | (64)               | (22,466)                           | (675)          |
| Repayments of long-term debt                                                                                     | (69)                                | (137,000)          | (207)                              | (155,025)      |
| Proceeds from issuance of preferred stock                                                                        |                                     | 46,446             |                                    | 46,446         |
| Cash paid for preferred stock redemption                                                                         | (152)                               |                    | (46,482)                           |                |
| Proceeds from issuance of common stock                                                                           | 187,518                             | 244,914            | 311,259                            | 246,355        |
| Payments to redeem common stock                                                                                  | (146)                               | (55)               | (1,246)                            | (2,635)        |
| Excess tax benefits from share-based compensation                                                                | 4                                   | 128                | 33                                 | 527            |
| Dividends paid on preferred stock                                                                                | (21,368)                            | (4,409)            | (62,694)                           | (9,316)        |
| Dividends paid on common stock                                                                                   | (1,258)                             | (45,542)           | (10,476)                           | (137,109)      |
| <b>Net cash provided by (used in) financing activities</b>                                                       | <b>(860,266)</b>                    | <b>(1,550,232)</b> | <b>(2,826,731)</b>                 | <b>160,238</b> |
| Net decrease in cash and due from banks                                                                          | (236,265)                           | (309,767)          | (483,036)                          | (413,198)      |
| Cash and due from banks at beginning of period                                                                   | 1,229,205                           | 1,751,724          | 1,475,976                          | 1,855,155      |
| Cash and due from banks at end of period                                                                         | \$ 992,940                          | \$ 1,441,957       | \$ 992,940                         | \$ 1,441,957   |
| <b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>                                                        |                                     |                    |                                    |                |
| Cash paid for:                                                                                                   |                                     |                    |                                    |                |
| Interest                                                                                                         | \$ 139,077                          | \$ 239,041         | \$ 462,846                         | \$ 793,697     |
| Net payment made (cash refund received) for income taxes                                                         | 90                                  | 42,150             | (29,924)                           | 259,402        |
| Noncash items:                                                                                                   |                                     |                    |                                    |                |
| Amortized cost of investment securities held-to-maturity transferred to investment securities available-for-sale |                                     |                    | 1,058,159                          |                |
| Fair value of investment securities available-for-sale transferred to investment securities held-to-maturity     |                                     |                    |                                    | 1,226,832      |
| Loans transferred to other real estate owned                                                                     | 158,603                             | 57,951             | 391,929                            | 192,425        |
| Beneficial conversion feature of modified subordinated debt recorded in common stock                             |                                     |                    | 201,154                            |                |
| Subordinated debt converted to preferred stock                                                                   | 27,757                              |                    | 27,757                             |                |
| Acquisitions:                                                                                                    |                                     |                    |                                    |                |
| Assets acquired                                                                                                  | 1,611,693                           | 66,192             | 2,981,279                          | 66,192         |
| Liabilities assumed                                                                                              | 1,553,040                           | 737,116            | 2,929,448                          | 737,116        |

*See accompanying notes to consolidated financial statements.*



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ZIONS BANCORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

September 30, 2009

**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. Subsequent events have been evaluated through February 11, 2010, the date of filing these financial statements with the Securities and Exchange Commission ( SEC ).

Operating results for the three- and nine-month periods ended September 30, 2009 are not necessarily indicative of the results that may be expected in future periods. The consolidated balance sheet at December 31, 2008 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, 2008.

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, and in wealth management services.

**Revision of Financial Statements**

The accompanying financial statements and related notes have been revised as a result of the reevaluation of our accounting for the subordinated debt modification described in Note 7. Our reevaluation resulted in revised calculations during the second quarter of 2009 of the gain on subordinated debt modification in the statements of income, and the intrinsic value of the beneficial conversion feature of the modified subordinated debt recorded directly in common stock within shareholders' equity. The Company has no par common stock and all additional paid-in capital transactions are recorded in common stock. The effect of the 2009 second quarter revised calculations was to increase the net loss applicable to common shareholders by \$2.4 million from \$179.5 million to \$181.9 million for the three months ended September 30, 2009. This was primarily due to increased accretion of the debt discount during the three months ended September 30, 2009. For the nine months ended September 30, 2009, the combined effect from the revised calculations of the 2009 second quarter increased gain on subordinated debt modification and the 2009 third quarter increased accretion of the debt discount was to reduce the net loss applicable to common shareholders by \$14.5 million from \$1,072.5 million to \$1,058.0 million. In addition, at September 30, 2009, the effect of the revised calculations was to increase common stock by \$151.1 million from \$2,974.2 million to \$3,125.3 million, and total shareholders' equity by \$170.4 million from \$5,523.9 million to \$5,694.3 million. The revisions applied to the affected individual line items in the financial statements are summarized as follows:

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## ZIONS BANCORPORATION AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

| (In thousands, except per share amounts)    | September 30, 2009     |              |
|---------------------------------------------|------------------------|--------------|
|                                             | As previously reported | As revised   |
| <b>ASSETS</b>                               |                        |              |
| Other assets                                | \$ 1,872,374           | \$ 1,766,852 |
| Total assets                                | 53,403,672             | 53,298,150   |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b> |                        |              |
| Long-term debt                              | 2,599,895              | 2,324,020    |
| Total liabilities                           | 47,879,784             | 47,603,909   |
| Shareholders' equity:                       |                        |              |
| Preferred stock, without par value          | 1,524,722              | 1,529,462    |
| Common stock, without par value             | 2,974,256              | 3,125,344    |
| Retained earnings                           | 1,487,707              | 1,502,232    |
| Controlling interest shareholders' equity   | 5,502,355              | 5,672,708    |
| Total shareholders' equity                  | 5,523,888              | 5,694,241    |
| Total liabilities and shareholders' equity  | 53,403,672             | 53,298,150   |
| <b>CONSOLIDATED STATEMENTS OF INCOME</b>    |                        |              |

| (In thousands, except per share amounts)              | Three Months Ended<br>September 30, 2009 |            | Nine Months Ended<br>September 30, 2009 |             |
|-------------------------------------------------------|------------------------------------------|------------|-----------------------------------------|-------------|
|                                                       | As previously reported                   | As revised | As previously reported                  | As revised  |
| <b>Interest expense:</b>                              |                                          |            |                                         |             |
| Interest on long-term borrowings                      | \$ 56,093                                | \$ 59,963  | \$ 100,589                              | \$ 104,459  |
| Total interest expense                                | 155,752                                  | 159,622    | 464,687                                 | 468,557     |
| Net interest income                                   | 476,050                                  | 472,180    | 1,444,513                               | 1,440,643   |
| Net interest income after provision for loan losses   | (89,880)                                 | (93,750)   | (181,695)                               | (185,565)   |
| <b>Noninterest income:</b>                            |                                          |            |                                         |             |
| Gain on subordinated debt modification                |                                          |            | 466,333                                 | 493,725     |
| Total noninterest income                              | 270,740                                  | 270,740    | 710,822                                 | 738,214     |
| Income (loss) before income taxes                     | (253,847)                                | (257,717)  | (1,335,246)                             | (1,311,724) |
| Income taxes (benefit)                                | (98,565)                                 | (100,046)  | (284,531)                               | (257,534)   |
| Net income (loss)                                     | (155,282)                                | (157,671)  | (1,050,715)                             | (1,036,190) |
| Net income (loss) applicable to controlling interest  | (152,888)                                | (155,277)  | (1,046,572)                             | (1,032,047) |
| Net earnings (loss) applicable to common shareholders | (179,491)                                | (181,880)  | (1,072,490)                             | (1,057,965) |
| <b>Net earnings (loss) per common share:</b>          |                                          |            |                                         |             |
| Basic                                                 | \$ (1.41)                                | \$ (1.43)  | \$ (8.99)                               | \$ (8.87)   |
| Diluted                                               | (1.41)                                   | (1.43)     | (8.99)                                  | (8.87)      |

## CONSOLIDATED STATEMENTS OF CASH FLOWS

| (In thousands, except per share amounts) | Three Months Ended<br>September 30, 2009 |            | Nine Months Ended<br>September 30, 2009 |            |
|------------------------------------------|------------------------------------------|------------|-----------------------------------------|------------|
|                                          | As previously reported                   | As revised | As previously reported                  | As revised |

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CASH FLOWS FROM OPERATING ACTIVITIES:

|                                        |              |              |                |                |
|----------------------------------------|--------------|--------------|----------------|----------------|
| Net income (loss) for the period       | \$ (155,282) | \$ (157,671) | \$ (1,050,715) | \$ (1,036,190) |
| Gain on subordinated debt modification |              |              | (466,333)      | (493,725)      |
| Amortization                           | 65,249       | 69,119       | 101,273        | 105,143        |
| Deferred income tax benefit            | (48,989)     | (50,470)     | (158,650)      | (149,653)      |

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

|                                                                                      |    |    |           |            |
|--------------------------------------------------------------------------------------|----|----|-----------|------------|
| Beneficial conversion feature of modified subordinated debt recorded in common stock | \$ | \$ | \$ 45,326 | \$ 201,154 |
|--------------------------------------------------------------------------------------|----|----|-----------|------------|

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### **ZIONS BANCORPORATION AND SUBSIDIARIES**

A further description of the accounting for the subordinated debt modification is included in Note 7.

#### **2. CERTAIN RECENT ACCOUNTING PRONOUNCEMENTS**

In June 2009, the Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting Standards ( SFAS ) No. 168, *The FASB Accounting Standards Codification<sup>TM</sup> and the Hierarchy of Generally Accepted Accounting Principles* a replacement of FASB Statement No. 162. With the issuance of SFAS 168, the FASB Accounting Standards Codification ( the Codification or ASC ) becomes the single source of authoritative U.S. accounting and reporting standards applicable for all nongovernmental entities, with the exception of guidance issued by the SEC. This change is effective for financial statements issued for interim or annual periods ending after September 15, 2009. Accordingly, all specific references herein to generally accepted accounting principles ( GAAP ) refer to the Codification and not to the pre-Codification literature.

The Codification does not modify existing GAAP nor any guidance issued by the SEC. Nonauthoritative accounting literature is excluded from the Codification. To improve usability, the Codification does include certain SEC guidance. GAAP accounting standards used to populate the Codification are superseded, with the exception of certain standards yet to be codified as of September 30, 2009, including SFAS 166 and 167 described subsequently.

In June 2009, the FASB issued SFAS No. 166, *Accounting for Transfers of Financial Assets, an amendment of FASB Statement No. 140*, and SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)*. These Statements modify the accounting for transfers of financial assets and the determination of what entities must be consolidated, and will have a significant effect on securitizations and special-purpose entities. We will adopt these Statements effective January 1, 2010, as required. Management is evaluating the impact these Statements may have on the Company's financial statements.

FASB ASC 855 includes new guidance on subsequent events that became effective for the second quarter of 2009. The definition of subsequent events was modified and entities are required to disclose the date through which subsequent events have been evaluated and the basis for that date. Adoption of this guidance was not significant to the Company's financial statements.

FASB ASC 810 includes new requirements for presenting consolidated financial statements, which we adopted January 1, 2009, as required. Under the new view of an economic entity in consolidated financial statements, the presentation of noncontrolling (or minority) interests has been changed in that all operating amounts attributable to a noncontrolling interest are included in the statement of income and accumulated balances are included as a separate component of equity. Also required is the allocation of losses to a noncontrolling interest even when such losses result in a negative carrying balance. The effect of adoption was not significant to the Company's financial statements. As of January 1, 2009, minority interest of \$27.3 million was reclassified to shareholders' equity and reported as noncontrolling interests. As required, retrospective application was made to all prior periods for comparative presentation.

FASB ASC 260 includes new guidance which clarifies that unvested share-based payment awards with rights to receive nonforfeitable dividends are participating securities and should be included in the computation of earnings per share. We adopted this guidance effective January 1, 2009 and were required to retrospectively adjust earnings per share information, which was not significant to any prior period included in the accompanying financial statements.

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

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### **ZIONS BANCORPORATION AND SUBSIDIARIES**

#### **3. MERGER AND ACQUISITION ACTIVITY**

Effective January 1, 2009, we adopted new accounting provisions under FASB ASC 805 relating to business combinations. Among the most significant changes is the elimination of the step acquisition model used with previous accounting. Upon initially obtaining control, the acquirer now recognizes 100% of all acquired assets (including goodwill) and all assumed liabilities regardless of the percentage owned. Certain transaction and restructuring costs must be expensed as incurred. Changes to the acquirer's existing income tax valuation allowances and uncertainty accruals from a business combination must be recognized as an adjustment to current income tax expense and not to goodwill over the subsequent annual period.

On July, 17, 2009, CB&T acquired the banking operations of the failed Vineyard Bank from the Federal Deposit Insurance Corporation ( FDIC ) as receiver. The acquisition consisted of approximately \$1.6 billion of assets, including \$1.4 billion of loans, \$1.5 billion of deposits, and 16 branches mostly located in the Inland Empire area of Southern California. CB&T assumed Vineyard's deposit obligations other than brokered deposits, and purchased most of Vineyard's assets, including all loans, at a discount of \$242 million to stated value. CB&T received approximately \$87.5 million in cash from the FDIC and entered into a loss sharing agreement in which the FDIC will bear 80% of the first \$465 million of losses on loans and other real estate owned and 95% of any losses above that amount for a period of up to ten years.

On April 17, 2009, NSB acquired the banking operations of the failed Great Basin Bank of Nevada headquartered in Elko, Nevada, from the FDIC as receiver. The acquisition consisted of approximately \$212 million of assets, including the entire loan portfolio, \$209 million of deposits, and five branches in Northern Nevada. NSB received approximately \$17.8 million in cash from the FDIC and entered into a loss sharing agreement in which the FDIC will assume 80% of the first \$40 million of losses on loans and other real estate owned and 95% of any losses above that amount for a period of up to ten years.

On February 6, 2009, CB&T acquired the banking operations of the failed Alliance Bank headquartered in Culver City, California from the FDIC as receiver. The acquisition consisted of approximately \$1.1 billion of assets, including the entire loan portfolio, \$1.0 billion of deposits, and five branches. CB&T received approximately \$10 million in cash from the FDIC and entered into a loss sharing agreement in which the FDIC will assume 80% of the first \$275 million of credit losses and 95% of any losses above that amount for a period of up to ten years.

As a result of these loss sharing arrangements, the acquired loans and foreclosed assets are presented separately in the Company's balance sheet as FDIC-supported assets. These assets were recorded at fair value without a corresponding allowance for credit losses. Because the fair value of net assets acquired exceeded cost, and taking into consideration the amounts of cash received from the FDIC, the Company recognized acquisition related gains of \$146.2 million and \$169.1 million during the three and nine months ended September 30, 2009, respectively.

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## ZIONS BANCORPORATION AND SUBSIDIARIES

The following summarizes the carrying value of FDIC-supported assets at September 30, 2009 for (1) acquired loans accounted for under FASB ASC 310 which have evidence of credit deterioration and for which it is probable that not all contractual payments will be collected, (2) acquired loans without evidence of credit deterioration, and (3) all other acquired assets and estimated loss reimbursement from FDIC (*in thousands*):

|                                        | Loans<br>with<br>deterioration | Loans<br>without<br>deterioration | Other     | Total        |
|----------------------------------------|--------------------------------|-----------------------------------|-----------|--------------|
| Commercial lending                     | \$ 69,012                      | \$ 456,108                        |           | \$ 525,120   |
| Commercial real estate                 | 385,958                        | 570,997                           |           | 956,955      |
| Consumer                               | 17,758                         | 107,660                           |           | 125,418      |
| Other real estate owned                |                                |                                   | \$ 54,714 | 54,714       |
| Estimated loss reimbursement from FDIC | 240,784                        | 122,434                           |           | 363,218      |
| Total FDIC-supported assets            | \$ 713,512                     | \$ 1,257,199                      | \$ 54,714 | \$ 2,025,425 |

The estimated loss reimbursement from FDIC was fair valued 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 estimated loss reimbursement from FDIC is adjusted as actual loss experience is developed and estimated losses covered under the loss sharing arrangements are updated. Estimated loan losses, if any, in excess of the amounts recoverable through the loss sharing arrangements are reflected as period expenses through the provision for loan losses.

As of the respective dates of acquisition for Vineyard, Great Basin and Alliance, the preliminary estimates of the contractually required payments receivable for loans with evidence of credit deterioration were \$960.6 million, the cash flows expected to be collected were \$879.3 million including interest, and the estimated fair value of the acquired loans was \$877.5 million. These amounts were determined based upon the estimated remaining life of the underlying loans, which included the effects of estimated prepayments. Because of the estimation process required, certain refinements will likely be made to the above estimates in future reporting periods. Interest income on acquired loans in FDIC supported assets, other than those accounted for under FASB ASC 310, is recognized through the accrual of interest at the contractual rate adjusted for accretion of the interest discount.

Changes in the carrying amount and accretable yield for loans with evidence of credit deterioration were as follows during the three and nine months ended September 30, 2009 (or from the respective dates of acquisition) (*in thousands*):

|                                                                              | Three Months Ended<br>September 30, 2009 |                                | Nine Months Ended<br>September 30, 2009 |                                |
|------------------------------------------------------------------------------|------------------------------------------|--------------------------------|-----------------------------------------|--------------------------------|
|                                                                              | Net<br>accretable<br>discount            | Carrying<br>amount<br>of loans | Net<br>accretable<br>discount           | Carrying<br>amount<br>of loans |
| Fair value of acquired loans at beginning of period (or date of acquisition) | \$ 1,988                                 | \$ 809,127                     | \$ 1,808                                | \$ 877,505                     |
| Payments received                                                            |                                          | (40,257)                       |                                         | (76,207)                       |
| Transfers to OREO                                                            |                                          | (319)                          |                                         | (319)                          |
| Charge-offs                                                                  |                                          | (54,931)                       |                                         | (87,179)                       |
| Amortization                                                                 | 108                                      | (108)                          | 288                                     | (288)                          |
| Balance at end of period                                                     | \$ 2,096                                 | \$ 713,512                     | \$ 2,096                                | \$ 713,512                     |



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## ZIONS BANCORPORATION AND SUBSIDIARIES

## 4. INVESTMENT SECURITIES

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

|                                                            | September 30, 2009 |                                                                |                               |                |                                                                    |                               |                         |
|------------------------------------------------------------|--------------------|----------------------------------------------------------------|-------------------------------|----------------|--------------------------------------------------------------------|-------------------------------|-------------------------|
|                                                            | Amortized cost     | Recognized in OCI <sup>1</sup><br>Gross<br>unrealized<br>gains | Gross<br>unrealized<br>losses | Carrying value | Not recognized in OCI <sup>1</sup><br>Gross<br>unrealized<br>gains | Gross<br>unrealized<br>losses | Estimated fair<br>value |
| <b>Held-to-maturity</b>                                    |                    |                                                                |                               |                |                                                                    |                               |                         |
| Municipal securities                                       | \$ 610,661         | \$                                                             | \$                            | \$ 610,661     | \$ 9,452                                                           | \$ 4,535                      | \$ 615,578              |
| <b>Asset-backed securities:</b>                            |                    |                                                                |                               |                |                                                                    |                               |                         |
| 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              |
| <b>Available-for-sale</b>                                  |                    |                                                                |                               |                |                                                                    |                               |                         |
| 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                 |
| <b>Asset-backed securities:</b>                            |                    |                                                                |                               |                |                                                                    |                               |                         |
| 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               |
| <b>Other securities:</b>                                   |                    |                                                                |                               |                |                                                                    |                               |                         |
| Mutual funds and stock                                     | 154,770            | 11                                                             |                               | 154,781        |                                                                    |                               | 154,781                 |
|                                                            | \$ 4,378,799       | \$ 72,165                                                      | \$ 903,872                    | \$ 3,547,092   |                                                                    |                               | \$ 3,547,092            |

<sup>1</sup> Other comprehensive income

As part of our ongoing review of the investment securities portfolio, we reassessed the classification of certain asset-backed and trust preferred collateralized debt obligation ( CDO ) securities. During the first two quarters of 2009, we reclassified a total of \$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 \$126.5 million. The reclassifications were made subsequent to ratings downgrades, as permitted under FASB ASC 320. No gain or loss was recognized in the statement of income at the time of reclassification.



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## ZIONS BANCORPORATION AND SUBSIDIARIES

The amortized cost and estimated fair value of investment debt securities are shown below as of September 30, 2009 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                | \$ 69,614        | \$ 69,341            | \$ 451,391         | \$ 453,585           |
| Due after one year through five years  | 270,478          | 269,572              | 930,277            | 899,572              |
| Due after five years through ten years | 219,720          | 205,331              | 724,762            | 644,338              |
| Due after ten years                    | 348,546          | 291,570              | 2,117,599          | 1,394,816            |
|                                        | \$ 908,358       | \$ 835,814           | \$ 4,224,029       | \$ 3,392,311         |

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*):

|                                                | Less than 12 months     |                      | September 30, 2009<br>12 months or more |                      | Total                   |                      |
|------------------------------------------------|-------------------------|----------------------|-----------------------------------------|----------------------|-------------------------|----------------------|
|                                                | Gross unrealized losses | Estimated fair value | Gross unrealized losses                 | Estimated fair value | Gross unrealized losses | Estimated fair value |
| <b>Held-to-maturity</b>                        |                         |                      |                                         |                      |                         |                      |
| Municipal securities                           | \$ 406                  | \$ 24,261            | \$ 4,129                                | \$ 24,973            | \$ 4,535                | \$ 49,234            |
| <b>Asset-backed securities:</b>                |                         |                      |                                         |                      |                         |                      |
| 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       |
| <b>Asset-backed securities:</b>                          |           |            |            |              |            |              |
| 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 |

We conduct a formal review of investment securities on a quarterly basis for the presence of other-than-temporary impairment ( OTTI ). Our review was made under FASB ASC 320, which includes new guidance that we adopted effective January 1, 2009. 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 (1) if we intend to sell the security; (2) if it is more likely than not we will be required to sell the security before recovery of its amortized cost basis; or (3) the present value of expected cash flows is not sufficient to recover the entire amortized cost basis. The more likely than not criteria is a lower threshold than the probable criteria used under previous guidance.

The new guidance requires that credit-related OTTI is recognized in earnings while noncredit-related OTTI on securities not expected to be sold is recognized in other comprehensive income ( OCI ). Noncredit-related OTTI is based on other factors, including illiquidity. Presentation of OTTI is made in the statement of income on a gross basis with an offset for the amount of OTTI recognized in OCI. For securities classified as HTM, the amount of OTTI recognized in OCI is accreted to the credit-adjusted expected cash flow amounts of the securities over future periods. Noncredit-related OTTI recognized in earnings previous to January 1, 2009 is reclassified from retained earnings to accumulated OCI as a cumulative effect adjustment.

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### **ZIONS BANCORPORATION AND SUBSIDIARIES**

As stated in our 2008 Annual Report on Form 10-K, our OTTI evaluation process also takes into consideration current market conditions, fair value in relationship to cost, extent and nature of change in fair value, issuer rating changes and trends, volatility of earnings, current analysts evaluations, all available information relevant to the collectibility of debt securities, our ability and intent to hold investments until a recovery of fair value, which may be maturity, and other factors, when evaluating for the existence of OTTI in our securities portfolio. Additionally, OTTI is recognized as a realized loss through earnings when there has been an adverse change in the holder's expected cash flows such that it is probable that the full amount will not be received. This is a change from previous guidance that a holder's best estimate of cash flows should be based upon those that a market participant would use.

For all AFS security types discussed below where we believe that no OTTI exists at September 30, 2009, we applied the criteria required in the new guidance in that we do not intend to sell the securities and it is not more likely than not that we will be required to sell the securities before recovery of their amortized cost basis.

#### ***Municipal securities***

The HTM securities are purchased directly from the municipalities and are generally not rated by a credit rating agency. The AFS securities are rated as investment grade by various credit rating agencies. Both the HTM and AFS securities are at fixed and variable rates with maturities from one to 25 years. Fair values of these securities are highly driven by interest rates. We perform credit quality reviews on these securities at each reporting period. Because the decline in fair value is not attributable to credit quality, we believe that no OTTI exists for these securities at September 30, 2009.

#### ***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 previous discussion and the policy in our 2008 Annual Report on Form 10-K determined that OTTI should be recorded on certain of these securities. See subsequent summary.

Trust preferred securities — real estate investment trusts (REIT): These CDO securities are variable rate pools of trust preferred securities primarily related to real estate investment trusts, 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 previous discussion and the policy in our 2008 Annual Report on Form 10-K determined that OTTI should be recorded on certain of these securities. See subsequent summary.

Auction rate securities: These debt instruments primarily relate to auction market preferred stock and certain corporate and municipal bonds for which the interest rate was determined through an auction process. Due to the failure of these auctions and attendant illiquidity of the securities, the Company voluntarily purchased these securities at par and recorded them at fair value. They had previously been sold to customers by certain Company subsidiaries. Adjustments to fair value were included in valuation losses on securities purchased. See subsequent discussion.

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**Other asset-backed securities:** The majority of these CDO securities were purchased from Lockhart Funding LLC ( Lockhart ) at their carrying values and were adjusted to fair value. 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 previous discussion and the policy in our 2008 Annual Report on Form 10-K determined that OTTI should be recorded on certain of these securities. See subsequent summary.

***U.S. Government agencies and corporations***

**Agency securities:** These securities consist of discount notes and medium term notes issued by the Federal Agricultural Mortgage Corporation ( FAMC ), Federal Home Loan Bank ( FHLB ), Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation ( FHLMC ), and Federal National Mortgage Association ( FNMA ). These securities are fixed rate and were purchased at premiums or discounts. They have maturity dates from one to 30 years and have contractual cash flows guaranteed by agencies of the U.S. Government. In the latter half of 2008, the U.S. Government provided substantial

liquidity to FNMA and FHLMC to bolster their creditworthiness. Because the decline in fair value is not attributable to credit quality, we believe that no OTTI exists for these securities at September 30, 2009.

**Agency guaranteed mortgage-backed securities:** These securities are comprised largely of fixed and variable rate residential and agricultural mortgage-backed securities issued by the Government National Mortgage Association ( GNMA ), FNMA, FAMC, or FHLMC. They have maturity dates from one to 30 years and have contractual cash flows guaranteed by agencies of the U.S. Government. In the latter half of 2008, the U.S. Government provided substantial liquidity to both FNMA and FHLMC to bolster their creditworthiness. Because the decline in fair value is not attributable to credit quality, we believe that no OTTI exists for these securities at September 30, 2009.

**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, 2009.

The following summarizes the amounts of credit-related OTTI recognized in earnings during the three and nine months ended September 30, 2009 according to the previously discussed categories (*in thousands*):

|                            |                               | Three Months Ended September 30, 2009 |     |             | Nine Months Ended September 30, 2009 |              |              |
|----------------------------|-------------------------------|---------------------------------------|-----|-------------|--------------------------------------|--------------|--------------|
|                            |                               | HTM                                   | AFS | Total       | HTM                                  | AFS          | Total        |
| Asset-backed securities:   |                               |                                       |     |             |                                      |              |              |
| Trust preferred securities | banks and insurance           | \$                                    | \$  | (37,339)    | \$                                   | (3)          | \$ (86,307)  |
| Trust preferred securities | real estate investment trusts |                                       |     | (9,245)     |                                      |              | (77,064)     |
| Other (including ABS CDOs) |                               |                                       |     | (9,931)     | (1,758)                              | (16,025)     | (17,783)     |
|                            |                               | \$                                    | \$  | (56,515)    | \$                                   | (1,761)      | \$ (179,396) |
|                            |                               |                                       |     | \$ (56,515) |                                      | \$ (179,396) | \$ (181,157) |

To determine the credit component of OTTI for all security types, the expected cash flows are credit-stressed in that they incorporate the effect of both collateral nonperformance and projected additional nonperformance. These expected cash flows are discounted at a security specific coupon rate.

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### ZIONS BANCORPORATION AND SUBSIDIARIES

The following is a tabular rollforward of the amount of credit-related OTTI recognized in earnings (*in thousands*):

|                                                                                                                                                                       | 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)                            | \$ (303,379) | \$ (307,046) | \$ (29,142)                          | \$ (153,262) | \$ (182,404) |
| Adjustment for transfers from HTM to AFS                                                                                                                              |                                       |              |              | 43,987                               | (43,987)     |              |
| Additions for credit-related OTTI not previously recognized                                                                                                           |                                       | (20,655)     | (20,655)     | (15,222)                             | (34,552)     | (49,774)     |
| Additional increases for credit-related OTTI previously recognized when there is no intent to sell and no requirement to sell before recovery of amortized cost basis |                                       | (35,860)     | (35,860)     | (3,290)                              | (128,093)    | (131,383)    |
| Subtotal of additions                                                                                                                                                 |                                       | (56,515)     | (56,515)     | (18,512)                             | (162,645)    | (181,157)    |
| Balance of credit-related OTTI at end of period                                                                                                                       | \$ (3,667)                            | \$ (359,894) | \$ (363,561) | \$ (3,667)                           | \$ (359,894) | \$ (363,561) |

Noncredit-related OTTI of \$141.9 million and \$254.4 million (\$84.7 million and \$152.5 million after-tax) 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 during the three and nine months ended September 30, 2009, respectively. As of January 1, 2009, we reclassified \$137.5 million after-tax as a cumulative effect adjustment for the noncredit-related portion of OTTI losses previously recognized in earnings.

At September 30, 2009, 116 HTM and 764 AFS investment securities were in an unrealized loss position, with a vast majority of the dollar amount residing in the CDO portfolio.

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

|                                                | Three Months Ended September 30, 2009 |              | Nine Months Ended September 30, 2009 |              |
|------------------------------------------------|---------------------------------------|--------------|--------------------------------------|--------------|
|                                                | Gross gains                           | Gross losses | Gross gains                          | Gross losses |
| Investment securities:                         |                                       |              |                                      |              |
| Held-to-maturity                               | \$                                    | \$           | \$                                   | \$ 1,761     |
| Available-for-sale                             | 1,906                                 | 56,519       | 6,660                                | 391,504      |
| Other noninterest-bearing investments:         |                                       |              |                                      |              |
| Securities held by consolidated SBICs          | (348)                                 | 2,753        | 435                                  | 4,507        |
| Other                                          | 1,294                                 |              | 1,306                                |              |
|                                                | 2,852                                 | 59,272       | 8,401                                | 397,772      |
| Net losses                                     |                                       | \$ (56,420)  |                                      | \$ (389,371) |
| Statement of income information:               |                                       |              |                                      |              |
| Net impairment losses on investment securities |                                       | \$ (56,515)  |                                      | \$ (181,157) |

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|                                          |             |              |
|------------------------------------------|-------------|--------------|
| Valuation losses on securities purchased |             | (212,092)    |
|                                          | (56,515)    | (393,249)    |
| Equity securities gains (losses), net    | (1,805)     | 339          |
| Fixed income securities gains, net       | 1,900       | 3,539        |
| Net losses                               | \$ (56,420) | \$ (389,371) |

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### **ZIONS BANCORPORATION AND SUBSIDIARIES**

Valuation losses on securities purchased of \$212.1 million during the nine months ended September 30, 2009 included the following:

\$187.9 million, primarily from the purchase of \$678.1 million of securities by Zions Bank from Lockhart due to ratings downgrades prior to fully consolidating Lockhart effective June 5, 2009. Lockhart had previously functioned as an off-balance sheet qualifying special-purpose entity securities conduit. As of September 30, 2009, Lockhart was legally terminated.

\$24.2 million, when we voluntarily purchased during the first quarter of 2009 all of the \$255.3 million of auction rate securities previously sold to customers by certain Company subsidiaries.

As of September 30, 2009 and December 31, 2008, securities with an amortized cost of \$1.6 billion and \$1.8 billion, respectively, were pledged to secure public and trust deposits, advances, and for other purposes as required by law. Securities are also pledged as collateral for security repurchase agreements.

Subsequent to September 30, 2009, the Company was informed of outstanding offers from a hedge fund to the preferred shareholders ( equity holders ) of four CDOs in which the Company held senior debt. The offers sought to induce the equity holders, in exchange for payments to be made outside of the CDO, to approve sales to the hedge fund of substantial amounts of performing collateral at deeply discounted prices. Such sales, if consummated, would be detrimental to the interests of the more senior tranches of the CDO.

Although the equity holders in one of the CDOs have agreed to the proposed offer from the hedge fund, the trustee has not commenced to sell the collateral and has filed an action in the United States District Court for the Southern District of New York seeking that the court order the interested parties to interplead and settle all claims relating to the collateral. The Company and other bondholders of these four CDOs are retaining counsel to defend their interests in the CDOs and the collateral and to seek to block any such sales, and believe they have substantial legal bases to do so.

The Company has significant holdings in the four CDOs (\$166 million in carrying value and \$302 million in amortized cost at September 30, 2009). The Company's investment could be materially adversely affected if any or all of these offers are accepted by the equity holders, and if subsequent judicial determinations result in the sale of the performing collateral at significant discounts to fair value. The Company has not adjusted the carrying value of these securities as a result of the actions described above.

### **5. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES**

FASB ASC 815 includes new guidance that we adopted January 1, 2009 regarding the disclosure of information about derivatives. Greater transparency is required in disclosing the objectives for their use, the volume of derivative activity, tabular disclosure of financial statement amounts, and any credit-risk-related features. The new disclosure requirements were not significantly different from the Company's previous annual disclosures.

We record all derivatives on the balance sheet at fair value in accordance with FASB ASC 815. See Note 8 for a discussion of the determination of fair value for derivatives. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative and the resulting 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.

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### ZIONS BANCORPORATION AND SUBSIDIARIES

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. At September 30, 2009, the Company had no fair value hedges, 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 other comprehensive income and recognized in earnings when the hedged transaction affects earnings. The ineffective portion of changes in the fair value of cash flow hedges is recognized directly in earnings.

We 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 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, and to manage exposure to interest rate movements or other identified risks. 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.

In previous periods, we used fair value hedges to manage interest rate exposure to certain long-term debt. During the first quarter of 2009, all fair value derivatives were terminated. After significant declines in short-term interest rates, we believed it was highly unlikely that short-term rates could go significantly lower. By terminating the swaps, we locked in a substantial gain due to the increase in their fair value and increased our flexibility to exchange or modify the now unhedged subordinated debt. As discussed further in Note 7, the subordinated debt was modified during the second quarter of 2009, and certain amounts were exchanged and/or converted during the second and third quarters of 2009. As of September 30, 2009, no derivatives were designated for hedges of investments in foreign operations.

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. We have no significant exposure to credit default swaps.

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 hedges, including basis swap agreements, are not speculative and are used to manage our exposure to interest rate movements and other identified risks, but do not meet the strict hedge accounting requirements.

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## ZIONS BANCORPORATION AND SUBSIDIARIES

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

| Amount of derivative gain (loss) recognized/reclassified<br>Reclassified from |                    |                 |                      |                          |                         |                           |                         |                          |                         |                               |                         |
|-------------------------------------------------------------------------------|--------------------|-----------------|----------------------|--------------------------|-------------------------|---------------------------|-------------------------|--------------------------|-------------------------|-------------------------------|-------------------------|
|                                                                               | Notional<br>amount | Fair value      |                      | OCI                      |                         | AOI<br>to interest income |                         | Other income             |                         | Offset to<br>interest expense |                         |
|                                                                               |                    | Other<br>assets | Other<br>liabilities | Three<br>months<br>ended | Nine<br>months<br>ended | Three<br>months<br>ended  | Nine<br>months<br>ended | Three<br>months<br>ended | Nine<br>months<br>ended | Three<br>months<br>ended      | Nine<br>months<br>ended |
| Derivatives<br>designated as<br>hedging<br>instruments                        |                    |                 |                      |                          |                         |                           |                         |                          |                         |                               |                         |
| Asset<br>derivatives                                                          |                    |                 |                      |                          |                         |                           |                         |                          |                         |                               |                         |
| Cash flow<br>hedges <sup>1</sup> :                                            |                    |                 |                      |                          |                         |                           |                         |                          |                         |                               |                         |
| Interest rate<br>swaps                                                        | \$ 1,190,000       | \$ 87,800       | \$                   | \$ 15,165                | \$ 7,885                | \$ 26,316                 | \$ 87,061               |                          |                         |                               |                         |
| Interest rate<br>floors                                                       | 190,000            | 5,373           |                      | (330)                    | 2,510                   | 1,773                     | 4,272                   |                          |                         |                               |                         |
| Terminated<br>swaps and<br>floors                                             |                    |                 |                      |                          |                         |                           |                         | \$ 61,103                | \$ 74,259               |                               |                         |
|                                                                               | 1,380,000          | 93,173          |                      | 14,835                   | 10,395                  | 28,089                    | 91,333                  | 61,103                   | 74,259 <sup>3</sup>     |                               |                         |
| Liability<br>derivatives                                                      |                    |                 |                      |                          |                         |                           |                         |                          |                         |                               |                         |
| Fair value<br>hedges:                                                         |                    |                 |                      |                          |                         |                           |                         |                          |                         |                               |                         |
| Long-term<br>debt                                                             |                    |                 |                      |                          |                         |                           |                         |                          |                         | \$ 1,565                      | \$ 24,629               |
| Terminated<br>swap gain on<br>debt<br>modification                            |                    |                 |                      |                          |                         |                           |                         |                          | 161,300                 |                               |                         |
| Total<br>derivatives<br>designated as<br>hedging<br>instruments               | 1,380,000          | 93,173          |                      | 14,835                   | 10,395                  | 28,089                    | 91,333                  | 61,103                   | 235,559                 | 1,565                         | 24,629                  |
| Derivatives<br>not<br>designated as<br>hedging<br>instruments                 | 210,354            | 4,576           | 4,652                |                          |                         |                           |                         | (1,477)                  | (1,014)                 |                               |                         |

|                                                         |              |            |            |           |           |           |           |           |            |          |           |  |
|---------------------------------------------------------|--------------|------------|------------|-----------|-----------|-----------|-----------|-----------|------------|----------|-----------|--|
| Interest rate swaps                                     |              |            |            |           |           |           |           |           |            |          |           |  |
| Interest rate swaps for customers <sup>2</sup>          | 3,675,581    | 82,113     | 83,274     |           |           |           |           | (1,976)   | 6,459      |          |           |  |
| Energy commodity swaps for customers <sup>2</sup>       | 274,280      | 15,064     | 14,771     |           |           |           |           | (626)     | 604        |          |           |  |
| Basis swaps                                             | 705,000      | 147        | 151        |           |           |           |           | 1,619     | 7,716      |          |           |  |
| Total derivatives not designated as hedging instruments | 4,865,215    | 101,900    | 102,848    |           |           |           |           | (2,460)   | 13,765     |          |           |  |
| Total derivatives                                       | \$ 6,245,215 | \$ 195,073 | \$ 102,848 | \$ 14,835 | \$ 10,395 | \$ 28,089 | \$ 91,333 | \$ 58,643 | \$ 249,324 | \$ 1,565 | \$ 24,629 |  |

<sup>1</sup> Amounts recognized in OCI and reclassified from accumulated OCI ( AOCI ) represent the effective portion of the derivative gain (loss).

<sup>2</sup> Amounts include both the customer swaps and the offsetting derivative contracts.

<sup>3</sup> Amount of \$74,259, which reflects the acceleration of OCI amounts reclassified to income that related to previously terminated hedges, together with the reclassification amount of \$91,333 for the nine months ended September 30, 2009, or a total of \$165,592, is the amount of reclassification included in the changes in OCI presented in Note 7.

At September 30, 2009 in accordance with FASB ASC 820, the fair values of derivative assets and liabilities were reduced by net credit valuation adjustments of \$2.3 million and \$1.0 million, respectively. These adjustments are required to reflect both our own nonperformance risk and the respective counterparty's nonperformance risk.

FASB ASC 815 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, 2009, cash collateral was used to reduce recorded amounts of derivative assets by \$19.0 million and derivative liabilities by \$2.5 million.

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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## ZIONS BANCORPORATION AND SUBSIDIARIES

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. During the second quarter of 2009, the Company recognized gains when certain debt was modified. See discussion in Note 7.

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, 2009, we estimate that an additional \$93 million of gains and accretion/amortization will be reclassified.

**6. GOODWILL**

Changes in the carrying amount of goodwill by operating segment are as follows (*in thousands*):

|                                 | <b>Zions<br/>Bank</b> | <b>CB&amp;T</b> | <b>Amegy</b> | <b>Other</b> | <b>Consolidated<br/>Company</b> |
|---------------------------------|-----------------------|-----------------|--------------|--------------|---------------------------------|
| Balance as of December 31, 2008 | \$ 19,514             | \$ 379,024      | \$ 1,248,950 | \$ 3,889     | \$ 1,651,377                    |
| Impairment losses               |                       |                 | (633,327)    | (665)        | (633,992)                       |
| Balance at September 30, 2009   | \$ 19,514             | \$ 379,024      | \$ 615,623   | \$ 3,224     | \$ 1,017,385                    |

The impairment losses totaling \$634.0 million reflect impairment due to continued market deterioration during the first quarter of 2009, and related primarily to Amegy. The amount of the impairment losses was determined based on the calculation process specified in FASB ASC 350, which compares carrying value to the estimated fair values of assets and liabilities. These fair values were estimated with the assistance of independent valuation consultants utilizing the fair value provisions of FASB ASC 820. The estimation process took into account market value approaches including management estimates of projected discounted cash flows. For Amegy, the process included a review of transaction information and recent declines in market values of peer banks in and near Texas and a weaker economic outlook in that state.

**7. DEBT AND SHAREHOLDERS' EQUITY**

During the second and third quarters of 2009, as disclosed in certain SEC filings, we initiated capital actions that affected certain long-term debt and increased net income and common shareholders' equity during the nine months ended September 30, 2009 as follows (*in millions*):

|                                                           | <b>Increase to<br/>Statement of income</b> |                  | <b>Common<br/>shareholders<br/>equity</b> |
|-----------------------------------------------------------|--------------------------------------------|------------------|-------------------------------------------|
|                                                           | <b>Pretax</b>                              | <b>After-tax</b> |                                           |
| 1. Gain on subordinated debt modification                 | \$ 493.7                                   | \$ 304.9         | \$ 304.9                                  |
| 2. Beneficial conversion feature recorded in common stock |                                            |                  | 201.2                                     |
| 3. Preferred stock redemption                             |                                            | 52.4             | 54.0                                      |
| 4. Common equity ongoing issuances                        |                                            |                  | 311.3                                     |
|                                                           |                                            | \$ 357.3         | \$ 871.4                                  |

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1. Gain on subordinated debt modification We exchanged approximately \$0.2 billion of subordinated notes for new notes with the same terms. The remaining \$1.2 billion of subordinated notes were modified to permit conversion on a par-for-par basis into either the Company's Series A or Series C preferred stock. The carrying value of the modified subordinated debt included the fair value adjustments of the swaps that were terminated. Net of issuance costs and debt discount on the previous debt, the pretax gain recognized in the statement of income from this subordinated debt modification was \$493.7 million.

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### **ZIONS BANCORPORATION AND SUBSIDIARIES**

2. **Beneficial conversion feature** We recorded \$201.2 million after-tax directly in common stock for the intrinsic value of the beneficial conversion feature of the modified subordinated debt. The Company has no par common stock and all additional paid-in capital transactions are recorded in common stock.
3. **Tender offer of Series A preferred stock** We purchased 4,020,435 depositary shares (each share representing a 1/40<sup>th</sup> ownership interest in a share of preferred stock) at a price of \$11.50 per depositary share, or an aggregate amount of \$46.4 million including accrued dividends. At a \$25 per depositary share liquidation preference, the purchase reduced the \$240 million carrying value of the Series A preferred stock by approximately \$100.5 million. Net of related costs, the preferred stock redemption resulted in a \$54.0 million increase to common shareholders' equity. The purchase price of \$11.50 per depositary share was determined based on a modified Dutch auction pricing mechanism.
4. **Common equity ongoing issuances** Under an equity distribution agreement, we issued \$250 million of new common stock from June 1, 2009 to August 27, 2009, which consisted of a total of 16,832,925 shares at an average price of \$14.85 (7,655,267 shares at an average price of \$16.13 during the third quarter of 2009). Under a second equity distribution agreement for \$250 million that commenced September 17, 2009, we issued \$67.2 million of common stock through September 30, 2009, which consisted of 3,671,000 shares at an average price per share of \$18.31. Net of commissions and fees, these common equity distribution programs added \$311.3 million to shareholders' equity during the second and third quarters of 2009.

The gain on the subordinated debt modification was calculated as the difference between the fair value of the modified convertible debt and the carrying value of the extinguished debt on the transaction date. The \$493.7 million gain was determined using fair values on the transaction date of June 29, 2009.

The intrinsic value of the beneficial conversion feature was calculated as the difference between the fair value of the preferred stock into which the debt is convertible (multiplied by the number of related shares) and the fair value of the modified convertible debt on the commitment date. The commitment date is defined as the date when both parties are bound to the terms of the transaction, which was the expiration of the exchange offer and corresponded with the transaction date. The calculation resulted in an intrinsic value of \$201.2 million after-tax. 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. During the third quarter of 2009, \$4.7 million was transferred due to the \$27.8 million conversion discussed subsequently.

In connection with the debt modification, we recorded a debt discount of approximately \$665.5 million, which 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. During the third quarter of 2009, the \$27.8 million conversion discussed subsequently accelerated this amortization by approximately \$15.8 million.

During the third quarter of 2009, we recognized in preferred stock the conversion of \$27.8 million of modified subordinated debt when holders received 1,110,280 depositary shares (each share representing a 1/40<sup>th</sup> ownership interest in a share of preferred stock), or 27,757 shares of the Company's Series C preferred stock.

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### ZIONS BANCORPORATION AND SUBSIDIARIES

During the three and nine months ended September 30, 2009, we issued senior medium-term notes of approximately \$44.9 million and \$81.1 million, and redeemed approximately \$31.6 million and \$235.6 million, respectively. At September 30, 2009, maturities of these notes ranged from May 2010 to September 2011 with rates from 5.25% to 6.00%.

On September 23, 2009, we issued \$450 million of 7.75% unsecured senior notes due September 23, 2014 at a price of 86.888%. The notes are not redeemable prior to maturity.

On January 21, 2009, we issued \$254.9 million of senior floating rate notes due June 21, 2012 at a coupon rate of three-month LIBOR plus 37 basis points. The debt is guaranteed under the FDIC's Temporary Liquidity Guarantee Program that became effective on November 21, 2008.

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

|                                                                                                                              | Net unrealized<br>gains (losses)<br>on investments,<br>retained interests<br>and other | Net<br>unrealized<br>gains (losses)<br>on derivative<br>instruments | Pension<br>and post-<br>retirement | Total        |
|------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------|---------------------------------------------------------------------|------------------------------------|--------------|
| <b>Nine Months Ended September 30, 2009:</b>                                                                                 |                                                                                        |                                                                     |                                    |              |
| 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 FASB 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 realized losses recorded in operations, 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 operations 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) |
| <b>Nine Months Ended September 30, 2008:</b>                                                                                 |                                                                                        |                                                                     |                                    |              |
| Balance, December 31, 2007                                                                                                   | \$ (108,766)                                                                           | \$ 65,213                                                           | \$ (15,282)                        | \$ (58,835)  |
| Cumulative effect of change in accounting principle, adoption of FASB ASC 825, fair value option                             | 11,471                                                                                 |                                                                     |                                    | 11,471       |
| Other comprehensive income (loss), net of tax:                                                                               |                                                                                        |                                                                     |                                    |              |
| Net realized and unrealized holding losses, net of income tax benefit of \$132,843                                           | (207,190)                                                                              |                                                                     |                                    | (207,190)    |
| Foreign currency translation                                                                                                 | (52)                                                                                   |                                                                     |                                    | (52)         |
| Reclassification for net realized losses recorded in operations, net of income tax benefit of \$40,044                       | 63,463                                                                                 |                                                                     |                                    | 63,463       |
| Net unrealized gains, net of reclassification to operations of \$40,219 and income tax expense of \$20,927                   |                                                                                        | 33,104                                                              |                                    | 33,104       |

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|                                                                |              |           |             |              |
|----------------------------------------------------------------|--------------|-----------|-------------|--------------|
| 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) |

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ZIONS BANCORPORATION AND SUBSIDIARIES

8. FAIR VALUE

FASB ASC 820 defines fair value, establishes a consistent framework for measuring fair value, and enhances disclosures about fair value measurements. Effective January 1, 2009, we adopted new guidance that affected our accounting and reporting of fair value as follows:

Inclusion of nonfinancial assets and nonfinancial liabilities, which for the Company primarily related to other real estate owned.

Estimation of fair value when the volume and level of activity for an asset or liability have significantly decreased in relation to normal market activity; additional guidance to determine when a transaction is not orderly; and enhanced disclosures of fair value measurements.

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### **ZIONS BANCORPORATION AND SUBSIDIARIES**

Disclosure of fair values on an interim rather than annual basis for certain financial instruments.

#### **Fair Value Measurements**

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. To measure fair value, a hierarchy has been established 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 and certain private equity investments.

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 carrying values, such as for loans held for sale, impaired loans, and other real estate owned. Fair value is also used when evaluating impairment on certain assets, including HTM and AFS securities, goodwill, core deposit and other intangibles, long-lived assets, and for disclosures of certain financial instruments.

AFS 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. AFS securities also include certain CDOs that consist of trust preferred securities related to banks and insurance companies and to REITs.

Substantially all the CDO portfolio is fair valued under a Level 3 cash flow modeling approach using several methodologies that primarily include internal and third party models.

A licensed third party model is used internally to fair value bank and insurance trust preferred CDOs. This model uses third party, model-derived estimates of expected losses on underlying collateral and applies market-based discount rates on resultant cash flows to estimate fair value. Adverse market developments that continued in the first half of 2009 made it more difficult to determine appropriate assumptions for this model. These developments related to ratings downgrades, declines in trading volumes, increases in the number of defaulting and deferring collateral issuers, and other factors. Assumptions for discount rates, probabilities of default, loss-given-default rates, etc., reflect related risk assessments on specific CDO securities and tranches within those securities.

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### **ZIONS BANCORPORATION AND SUBSIDIARIES**

Third party models are used to fair value certain REIT and ABS CDOs. These models utilize relevant data assumptions, which we evaluate for reasonableness. These assumptions include but are not limited to discount rates, probabilities of default, loss-given-default 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.

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 recurring 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 fair values 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.

Derivatives are fair valued according to their classification as either exchange-traded or over-the-counter ( OTC ). Exchange-traded derivatives consist of forward currency exchange contracts that have been fair valued under Level 1 because they are traded in active markets. OTC derivatives consist of interest rate swaps and options as well as energy commodity derivatives for customers. These 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. Credit valuation adjustments are required to reflect both our own nonperformance risk and the respective counterparty's nonperformance risk. These adjustments are determined generally by applying a credit spread for the counterparty or the Company as appropriate to the total expected exposure of the derivative. Amounts disclosed in the following table are also net of the cash collateral offsets discussed in Note 5.

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.

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## ZIONS BANCORPORATION AND SUBSIDIARIES

Assets and liabilities measured at fair value on a recurring basis, including one security elected under the fair value option, are summarized as follows at September 30, 2009 and at December 31, 2008 (*in thousands*):

|                                               | September 30, 2009 |              |                 |              |
|-----------------------------------------------|--------------------|--------------|-----------------|--------------|
|                                               | Level 1            | Level 2      | Level 3         | Total        |
| <b>ASSETS</b>                                 |                    |              |                 |              |
| Investment securities:                        |                    |              |                 |              |
| Available-for-sale:                           |                    |              |                 |              |
| U.S. Treasury and agencies                    | \$ 39,914          | \$ 1,429,539 |                 | \$ 1,469,453 |
| Municipal securities                          |                    | 182,019      | \$ 64,181       | 246,200      |
| Asset-backed securities:                      |                    |              |                 |              |
| Trust preferred banks and insurance           |                    | 1,524        | 1,389,783       | 1,391,307    |
| Trust preferred real estate investment trusts |                    | 27,101       | 27,101          |              |
| Auction rate                                  |                    |              | 164,264         | 164,264      |
| Other                                         |                    | 22,565       | 71,421          | 93,986       |
| Mutual funds and stock                        | 147,868            | 6,913        |                 | 154,781      |
| Trading account                               |                    | 76,660       | 49 <sup>1</sup> | 76,709       |
| Other noninterest-bearing investments:        |                    |              |                 |              |
| Private equity                                |                    | 21,682       | 154,676         | 176,358      |
| Other assets:                                 |                    |              |                 |              |
| Derivatives                                   | 4,023              | 176,282      |                 | 180,305      |
|                                               | \$ 191,805         | \$ 1,917,184 | \$ 1,871,475    | \$ 3,980,464 |

**LIABILITIES**

|                                    |          |            |        |            |
|------------------------------------|----------|------------|--------|------------|
| Securities sold, not yet purchased | \$ 1,203 | \$ 38,157  |        | \$ 39,360  |
| Other liabilities:                 |          |            |        |            |
| Derivatives                        | 4,113    | 100,719    |        | 104,832    |
| Other                              |          |            | \$ 864 | 864        |
|                                    | \$ 5,316 | \$ 138,876 | \$ 864 | \$ 145,056 |

|                                        | December 31, 2008 |              |                  |              |
|----------------------------------------|-------------------|--------------|------------------|--------------|
|                                        | Level 1           | Level 2      | Level 3          | Total        |
| <b>ASSETS</b>                          |                   |              |                  |              |
| Investment securities:                 |                   |              |                  |              |
| Available-for-sale                     | \$ 27,756         | \$ 1,898,082 | \$ 750,417       | \$ 2,676,255 |
| Trading account                        |                   | 41,108       | 956 <sup>1</sup> | 42,064       |
| Other noninterest-bearing investments: |                   |              |                  |              |
| Private equity                         |                   | 29,037       | 143,511          | 172,548      |
| Other assets:                          |                   |              |                  |              |
| Derivatives                            | 9,922             | 395,272      |                  | 405,194      |
|                                        | \$ 37,678         | \$ 2,363,499 | \$ 894,884       | \$ 3,296,061 |

**LIABILITIES**

|                                    |  |           |  |           |
|------------------------------------|--|-----------|--|-----------|
| Securities sold, not yet purchased |  | \$ 35,657 |  | \$ 35,657 |
|------------------------------------|--|-----------|--|-----------|

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## Other liabilities:

|             |    |       |         |         |         |
|-------------|----|-------|---------|---------|---------|
| Derivatives | \$ | 8,812 | 175,670 |         | 184,482 |
| Other       |    |       |         | \$      | 527     |
|             | \$ | 8,812 | \$      | 211,327 | \$      |
|             |    |       |         | 527     | \$      |
|             |    |       |         |         | 220,666 |

<sup>1</sup> Elected under fair value option, as discussed subsequently.

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### ZIONS BANCORPORATION AND SUBSIDIARIES

The following reconciles the beginning and ending balances of assets and liabilities for the three and nine months ended September 30, 2009 and 2008 that are measured at fair value on a recurring basis using Level 3 inputs (*in thousands*):

|                                                   | Three Months Ended September 30, 2009 |                                     |                      |              |                    |                              |                            |                   |
|---------------------------------------------------|---------------------------------------|-------------------------------------|----------------------|--------------|--------------------|------------------------------|----------------------------|-------------------|
|                                                   | Level 3 Instruments                   |                                     |                      |              |                    |                              |                            |                   |
|                                                   | Municipal securities                  | Trust preferred banks and insurance | Trust preferred REIT | Auction rate | Other asset-backed | Trading account <sup>1</sup> | Private equity investments | Other liabilities |
| Balance at June 30, 2009                          | \$ 64,658                             | \$ 1,534,823                        | \$ 34,580            | \$ 171,252   | \$ 83,466          | \$ 49                        | \$ 155,680                 | \$ (215)          |
| Total net gains (losses) included in:             |                                       |                                     |                      |              |                    |                              |                            |                   |
| Statement of income <sup>2</sup> :                |                                       |                                     |                      |              |                    |                              |                            |                   |
| Dividends and other investment income (loss)      |                                       |                                     |                      |              |                    |                              | (6,695)                    |                   |
| Net impairment losses on investment securities    |                                       | (37,339)                            | (9,245)              |              | (9,931)            |                              |                            |                   |
| Other noninterest expense                         |                                       |                                     |                      |              |                    |                              |                            | (649)             |
| Other comprehensive income (loss)                 | (108)                                 | (105,175)                           | 1,700                | (213)        | 1,516              |                              |                            |                   |
| Purchases, sales, issuances, and settlements, net | (369)                                 | (2,526)                             | 66                   | (6,775)      | (3,630)            |                              | 5,691                      |                   |
| Balance at September 30, 2009                     | \$ 64,181                             | \$ 1,389,783                        | \$ 27,101            | \$ 164,264   | \$ 71,421          | \$ 49                        | \$ 154,676                 | \$ (864)          |

|                                                   | Nine Months Ended September 30, 2009 |                                     |                      |              |                    |                              |                            |                   |
|---------------------------------------------------|--------------------------------------|-------------------------------------|----------------------|--------------|--------------------|------------------------------|----------------------------|-------------------|
|                                                   | Level 3 Instruments                  |                                     |                      |              |                    |                              |                            |                   |
|                                                   | Municipal securities                 | Trust preferred banks and insurance | Trust preferred REIT | Auction rate | Other asset-backed | Trading account <sup>1</sup> | Private equity investments | Other liabilities |
| Balance at January 1, 2009                        | \$                                   | \$ 659,253                          | \$ 23,897            | \$ 1,710     | \$ 65,557          | \$ 956                       | \$ 143,511                 | \$ (527)          |
| Total net gains (losses) included in:             |                                      |                                     |                      |              |                    |                              |                            |                   |
| Statement of income <sup>2</sup> :                |                                      |                                     |                      |              |                    |                              |                            |                   |
| Dividends and other investment income (loss)      |                                      |                                     |                      |              |                    |                              | (8,415)                    |                   |
| Fair value and nonhedge derivative income (loss)  |                                      |                                     |                      |              |                    | (907)                        |                            |                   |
| Equity securities gains, net                      |                                      |                                     |                      |              |                    |                              | 109                        |                   |
| Fixed income securities gains (losses), net       |                                      |                                     |                      | 247          |                    |                              |                            |                   |
| Net impairment losses on investment securities    |                                      | (46,932)                            | (76,511)             |              | (10,858)           |                              |                            |                   |
| Valuation losses on securities purchased          | (6,977)                              | (172,729)                           | (8,945)              | (17,265)     | (1,774)            |                              |                            |                   |
| Other noninterest expense                         |                                      |                                     |                      |              |                    |                              |                            | (337)             |
| Other comprehensive income (loss)                 | (19)                                 | (119,920)                           | 48,261               | (872)        | 4,583              |                              |                            |                   |
| Fair value of HTM securities transferred to AFS   |                                      | 565,282                             | 15,280               |              | 15,674             |                              |                            |                   |
| Purchases, sales, issuances, and settlements, net | 67,902                               | 504,829                             | 25,119               | 175,264      | (1,761)            |                              | 19,471                     |                   |
| Net transfers in (out)                            | 3,275                                |                                     |                      | 5,180        |                    |                              |                            |                   |
| Balance at September 30, 2009                     | \$ 64,181                            | \$ 1,389,783                        | \$ 27,101            | \$ 164,264   | \$ 71,421          | \$ 49                        | \$ 154,676                 | \$ (864)          |

Three Months Ended September 30, 2008  
Level 3 Instruments  
Investment securities      Retained

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|                                                    | Available-<br>for-sale | Trading<br>account <sup>1</sup> | interests<br>from<br>securitizations <sup>1</sup> | Other<br>liabilities |
|----------------------------------------------------|------------------------|---------------------------------|---------------------------------------------------|----------------------|
| Balance at June 30, 2008                           | \$ 182,268             | \$ 5,724                        | \$                                                | \$ (292)             |
| Total net gains (losses) included in:              |                        |                                 |                                                   |                      |
| Statement of income <sup>2</sup> :                 |                        |                                 |                                                   |                      |
| 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)           |

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## ZIONS BANCORPORATION AND SUBSIDIARIES

|                                                                                                                          | Nine Months Ended September 30, 2008            |                                 |                                                            |                      |
|--------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------|---------------------------------|------------------------------------------------------------|----------------------|
|                                                                                                                          | Level 3 Instruments                             |                                 |                                                            |                      |
|                                                                                                                          | Investment securities<br>Available-<br>for-sale | Trading<br>account <sup>1</sup> | Retained<br>interests from<br>securitizations <sup>1</sup> | Other<br>liabilities |
| Balance at January 1, 2008                                                                                               | \$ 337,338                                      | \$ 8,100                        | \$ 42,426                                                  | \$ (44)              |
| Total net gains (losses) included in:                                                                                    |                                                 |                                 |                                                            |                      |
| Statement of income <sup>2</sup> :                                                                                       |                                                 |                                 |                                                            |                      |
| Fair value and nonhedge derivative income (loss)                                                                         |                                                 | (2,695)                         | (2,098)                                                    |                      |
| Impairment losses on available-for sale securities and valuation losses on securities<br>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)           |

<sup>1</sup> Elected under fair value option, as discussed subsequently.

<sup>2</sup> All amounts are unrealized except for realized gains of \$0.5 million and \$0.8 million for the three and nine months ended September 30, 2009, respectively, included in dividends and other investment income (loss), and realized losses of \$0 and \$67.0 million for the three and nine months ended September 30, 2009, respectively, included in net impairment losses on investment securities.

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

|                                  | Fair value at September 30, 2009 |            |            |            | Gains (losses) from fair value changes |            |                                    |             |
|----------------------------------|----------------------------------|------------|------------|------------|----------------------------------------|------------|------------------------------------|-------------|
|                                  | Level 1                          | Level 2    | Level 3    | Total      | Three Months Ended<br>September 30,    |            | Nine Months Ended<br>September 30, |             |
|                                  |                                  |            |            |            | 2009                                   | 2008       | 2009                               | 2008        |
| <b>ASSETS</b>                    |                                  |            |            |            |                                        |            |                                    |             |
| HTM securities adjusted for OTTI |                                  | \$         | \$ 4,118   | \$ 4,118   | \$                                     | \$         | \$ (1,761)                         | \$          |
| Loans held for sale              |                                  | 18,298     |            | 18,298     |                                        | (355)      | 60                                 | (349)       |
| Impaired loans                   |                                  |            | 253,935    | 253,935    | (54,872)                               | (2,759)    | (168,014)                          | (34,887)    |
| Other real estate owned          |                                  | 156,047    |            | 156,047    | (64,058)                               |            | (107,061)                          |             |
|                                  | \$                               | \$ 174,345 | \$ 258,053 | \$ 432,398 | \$ (118,930)                           | \$ (3,114) | \$ (276,776)                       | \$ (35,236) |

|                     | Fair value at December 31, 2008 |           |            |            |
|---------------------|---------------------------------|-----------|------------|------------|
|                     | Level 1                         | Level 2   | Level 3    | Total      |
| <b>ASSETS</b>       |                                 |           |            |            |
| Loans held for sale |                                 | \$ 21,518 | \$         | \$ 21,518  |
| Impaired loans      |                                 |           | 254,743    | 254,743    |
|                     | \$                              | \$ 21,518 | \$ 254,743 | \$ 276,261 |

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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 3 based on the fair value of the collateral, which is then further discounted (12-20%) to reflect marketing costs and potential volatility in realizable values.

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Other real estate owned is fair valued under Level 2 at the lower of cost or fair value based on property appraisals at the time of transfer and as appropriate thereafter.

**Fair Value Option**

FASB ASC 825 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 fair value 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 the fair value option 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 had been selected to more appropriately reflect their fair value and to account for increases and decreases in their fair value through earnings. During 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 premium recorded with the loan balances at Zions Bank.

Following is a summary of the carrying values and estimated fair values of certain financial instruments (*in thousands*):

|                                                                    | <b>September 30, 2009</b> |                                 | <b>December 31, 2008</b>  |                                 |
|--------------------------------------------------------------------|---------------------------|---------------------------------|---------------------------|---------------------------------|
|                                                                    | <b>Carrying<br/>value</b> | <b>Estimated<br/>fair value</b> | <b>Carrying<br/>value</b> | <b>Estimated<br/>fair value</b> |
| <b>Financial assets:</b>                                           |                           |                                 |                           |                                 |
| HTM investment securities                                          | \$ 877,105                | \$ 835,814                      | \$ 1,790,989              | \$ 1,443,555                    |
| Loans and leases (including loans held for sale), net of allowance | 40,446,708                | 39,079,236                      | 41,172,057                | 40,646,816                      |
| <b>Financial liabilities:</b>                                      |                           |                                 |                           |                                 |
| Time deposits                                                      | 6,734,277                 | 6,820,665                       | 7,730,784                 | 7,923,883                       |
| Foreign deposits                                                   | 2,014,626                 | 2,015,542                       | 2,622,562                 | 2,625,869                       |
| FHLB advances and other borrowings                                 | 61,765                    | 64,055                          | 2,168,106                 | 2,179,652                       |
| Long-term debt                                                     | 2,324,020                 | 2,635,120                       | 2,257,633                 | 1,838,555                       |

This summary excludes financial assets and liabilities for which carrying value approximates fair value. For financial assets, these include cash and due from banks and money market investments. For financial liabilities, these include demand, savings, and money market deposits, federal funds purchased, and security repurchase agreements. The estimated fair value of demand, savings, and money market deposits is the amount payable on demand at the reporting date. Carrying value is used because the accounts have no stated maturity and the customer has the ability to withdraw funds immediately. Also excluded from the summary are financial instruments recorded at value fair on a recurring basis, as previously described.

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The fair value of loans is estimated by discounting future cash flows on pass grade loans using the LIBOR yield curve adjusted by a factor which reflects the credit and interest rate risk inherent in the loan. These future cash flows are then reduced by the estimated life-of-the-loan aggregate credit losses in the loan portfolio. These adjustments for lifetime future credit losses are highly judgmental because the Company does not have a validated model to estimate lifetime credit losses on large portions of its loan portfolio. However, the estimate of lifetime credit losses was increased during the third quarter of 2009 because of more recent loss experience and the expectation of a prolonged cycle of economic weakness. Impaired loans are not included in this credit adjustment as they are already considered to be held at fair value. Loans, other than those held for sale, are not normally purchased and sold by the Company, and there are no active trading markets for most of this portfolio.

The fair value of time and foreign deposits, FHLB advances, and other borrowings is estimated by discounting future cash flows using the LIBOR yield curve. Variable rate FHLB advances reprice with changes in market rates; as such, their carrying amounts approximate fair value. The estimated fair value of long-term debt is based on actual market trades when available or discounting cash flows using the LIBOR yield curve adjusted for credit spreads.

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

Further, certain financial instruments and all nonfinancial instruments are excluded from the applicable disclosure requirements. Therefore, the fair value amounts shown in the table do not, by themselves, represent the underlying value of the Company as a whole.

**9. GUARANTEES, COMMITMENTS AND CONTINGENCIES**

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

|                            | <b>September 30,<br/>2009</b> | <b>December 31,<br/>2008</b> |
|----------------------------|-------------------------------|------------------------------|
| Standby letters of credit: |                               |                              |
| Financial                  | \$ 1,120,252                  | \$ 1,293,729                 |
| Performance                | 189,350                       | 250,836                      |
|                            | <b>\$ 1,309,602</b>           | <b>\$ 1,544,565</b>          |

The Company's Annual Report on Form 10-K for the year ended December 31, 2008 contains further information on these letters of credit including their terms and collateral requirements. At September 30, 2009, the carrying value recorded by the Company as a liability for these guarantees was \$6.2 million.

As of September 30, 2009, the Parent has guaranteed approximately \$300.2 million of debt of affiliated trusts issuing trust preferred securities.

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## ZIONS BANCORPORATION AND SUBSIDIARIES

## 10. 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, |          | Three Months Ended September 30, |        | Three Months Ended September 30, |         | Nine Months Ended September 30, |          | Nine Months Ended September 30,  |        | Nine Months Ended September 30, |            |
|                                             | 2009                             | 2008     | 2009                             | 2008   | 2009                             | 2008    | 2009                            | 2008     | 2009                             | 2008   | 2009                            | 2008       |
| Service cost                                | \$ 19                            | \$ 94    | \$                               | \$     | \$ 9                             | \$ 8    | \$ 172                          | \$ 296   | \$                               | \$     | \$ 26                           | \$ 49      |
| Interest cost                               | 2,235                            | 2,061    | 165                              | 194    | 16                               | 19      | 6,666                           | 6,501    | 495                              | 552    | 47                              | 162        |
| Expected return on plan assets              | (1,775)                          | (2,628)  |                                  |        |                                  |         | (5,306)                         | (8,290)  |                                  |        |                                 |            |
| Amortization of prior service cost (credit) |                                  |          | 31                               | 43     | (61)                             | (61)    |                                 |          | 94                               | 116    | (183)                           | (81)       |
| Settlement gain                             |                                  |          |                                  |        |                                  |         |                                 |          |                                  |        |                                 | (2,973)    |
| Amortization of net actuarial (gain) loss   | 1,692                            | 227      | (7)                              | (5)    | (49)                             | (52)    | 4,976                           | 716      | (22)                             | (17)   | (147)                           | (154)      |
| Net periodic benefit cost (credit)          | \$ 2,171                         | \$ (246) | \$ 189                           | \$ 232 | \$ (85)                          | \$ (86) | \$ 6,508                        | \$ (777) | \$ 567                           | \$ 651 | \$ (257)                        | \$ (2,997) |

As disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2008, 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.

## 11. 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, 2009, we operate eight community/regional banks in distinct geographical areas. Performance assessment and resource allocation are based upon this geographical structure. Zions Bank operates 103 branches in Utah and 25 branches in Idaho. CB&T operates 106 branches in California. Amegy operates 84 branches in Texas. NBA operates 76 branches in Arizona. NSB operates 58 branches in Nevada. Vectra operates 38 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.

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.

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## ZIONS BANCORPORATION AND SUBSIDIARIES

The following table presents selected operating segment information for the three months ended September 30, 2009 and 2008:

| (In millions)                                                                                             | Zions Bank |          | CB&T     |          | Amegy   |         | NBA     |         | NSB     |         |
|-----------------------------------------------------------------------------------------------------------|------------|----------|----------|----------|---------|---------|---------|---------|---------|---------|
|                                                                                                           | 2009       | 2008     | 2009     | 2008     | 2009    | 2008    | 2009    | 2008    | 2009    | 2008    |
| <b>CONDENSED INCOME STATEMENT</b>                                                                         |            |          |          |          |         |         |         |         |         |         |
| Net interest income                                                                                       | \$ 184.1   | \$ 170.3 | \$ 119.0 | \$ 106.1 | \$ 99.4 | \$ 92.7 | \$ 44.5 | \$ 54.1 | \$ 34.2 | \$ 39.6 |
| Provision for loan losses                                                                                 | 87.8       | 40.0     | 104.6    | 15.0     | 44.1    | 12.5    | 41.0    | 55.0    | 240.8   | 29.5    |
| Net interest income after provision for loan losses                                                       | 96.3       | 130.3    | 14.4     | 91.1     | 55.3    | 80.2    | 3.5     | (0.9)   | (206.6) | 10.1    |
| Impairment losses investment securities:                                                                  |            |          |          |          |         |         |         |         |         |         |
| Impairment losses investment securities                                                                   | (62.2)     | (3.3)    | (91.1)   | (12.0)   |         |         |         |         |         | (2.0)   |
| Noncredit-related losses on securities not expected to be sold (recognized in other comprehensive income) | 38.0       |          | 78.5     |          |         |         |         |         |         |         |
| Net impairment losses on investment securities                                                            | (24.2)     | (3.3)    | (12.6)   | (12.0)   |         |         |         |         |         | (2.0)   |
| Valuation losses on securities purchased                                                                  |            |          |          |          |         |         |         |         |         |         |
| Gain on subordinated debt modification                                                                    |            |          |          |          |         |         |         |         |         |         |
| Acquisition related gains                                                                                 |            |          | 146.4    |          |         |         |         |         | (0.3)   |         |
| Other noninterest income                                                                                  | 9.2        | 33.7     | (94.1)   | 22.0     | 27.0    | 39.8    | 9.9     | 10.7    | 17.5    | 11.4    |
| Noninterest expense                                                                                       | 121.2      | 118.5    | 81.3     | 58.0     | 100.0   | 80.7    | 40.0    | 37.5    | 54.7    | 34.3    |
| Impairment loss on goodwill                                                                               |            |          |          |          |         |         |         |         |         |         |
| Income (loss) before income taxes                                                                         | (39.9)     | 42.2     | (27.2)   | 43.1     | (17.7)  | 39.3    | (26.6)  | (27.7)  | (244.1) | (14.8)  |
| Income tax expense (benefit)                                                                              | (19.8)     | 12.8     | (12.7)   | 16.8     | (7.6)   | 12.9    | (10.5)  | (11.1)  | (85.5)  | (5.2)   |
| Net income (loss)                                                                                         | (20.1)     | 29.4     | (14.5)   | 26.3     | (10.1)  | 26.4    | (16.1)  | (16.6)  | (158.6) | (9.6)   |
| Net income (loss) applicable to noncontrolling interests                                                  |            |          |          |          |         | 0.1     |         |         |         |         |

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|                                                      |        |      |        |      |        |      |        |        |         |       |
|------------------------------------------------------|--------|------|--------|------|--------|------|--------|--------|---------|-------|
| Net income (loss) applicable to controlling interest | (20.1) | 29.4 | (14.5) | 26.3 | (10.1) | 26.3 | (16.1) | (16.6) | (158.6) | (9.6) |
| Preferred stock dividends                            |        |      |        |      |        |      |        |        |         |       |
| Preferred stock redemption                           |        |      |        |      |        |      |        |        |         |       |

|                                                       |    |        |    |      |    |        |    |      |    |        |    |      |    |        |    |        |    |         |    |       |
|-------------------------------------------------------|----|--------|----|------|----|--------|----|------|----|--------|----|------|----|--------|----|--------|----|---------|----|-------|
| Net earnings (loss) applicable to common shareholders | \$ | (20.1) | \$ | 29.4 | \$ | (14.5) | \$ | 26.3 | \$ | (10.1) | \$ | 26.3 | \$ | (16.1) | \$ | (16.6) | \$ | (158.6) | \$ | (9.6) |
|-------------------------------------------------------|----|--------|----|------|----|--------|----|------|----|--------|----|------|----|--------|----|--------|----|---------|----|-------|

AVERAGE BALANCE SHEET DATA

|                                              |    |        |    |        |    |        |    |        |    |        |    |        |    |       |    |       |    |       |    |       |
|----------------------------------------------|----|--------|----|--------|----|--------|----|--------|----|--------|----|--------|----|-------|----|-------|----|-------|----|-------|
| Total assets                                 | \$ | 20,268 | \$ | 19,605 | \$ | 11,398 | \$ | 10,386 | \$ | 11,465 | \$ | 12,146 | \$ | 4,759 | \$ | 5,114 | \$ | 4,319 | \$ | 3,844 |
| Total securities                             |    | 2,280  |    | 1,653  |    | 516    |    | 830    |    | 701    |    | 623    |    | 218   |    | 216   |    | 243   |    | 250   |
| Net loans and leases                         |    | 14,340 |    | 14,891 |    | 9,558  |    | 7,941  |    | 8,582  |    | 8,694  |    | 3,825 |    | 4,340 |    | 3,082 |    | 3,200 |
| Allowance for loan losses                    |    | 367    |    | 187    |    | 154    |    | 121    |    | 306    |    | 81     |    | 224   |    | 83    |    | 205   |    | 54    |
| Goodwill, core deposit and other intangibles |    | 20     |    | 21     |    | 397    |    | 386    |    | 690    |    | 1,340  |    | 18    |    | 191   |    | 10    |    | 24    |
| Noninterest-bearing demand deposits          |    | 2,297  |    | 2,025  |    | 2,904  |    | 2,472  |    | 3,384  |    | 2,303  |    | 995   |    | 935   |    | 1,098 |    | 875   |
| Total deposits                               |    | 15,265 |    | 11,700 |    | 9,533  |    | 8,218  |    | 9,051  |    | 8,546  |    | 3,949 |    | 3,769 |    | 3,751 |    | 3,212 |
| Shareholder's equity:                        |    |        |    |        |    |        |    |        |    |        |    |        |    |       |    |       |    |       |    |       |
| Preferred equity                             |    | 256    |    |        |    | 262    |    |        |    | 119    |    |        |    | 430   |    |       |    | 361   |    |       |
| Common equity                                |    | 1,207  |    | 1,108  |    | 1,213  |    | 1,069  |    | 1,434  |    | 2,008  |    | 240   |    | 589   |    | 175   |    | 293   |
| Noncontrolling interests                     |    | 1      |    | 1      |    |        |    |        |    |        |    |        |    |       |    |       |    |       |    |       |
| Total shareholder's equity                   |    | 1,464  |    | 1,109  |    | 1,475  |    | 1,069  |    | 1,553  |    | 2,008  |    | 670   |    | 589   |    | 536   |    | 293   |

|  | Vectra |      | TCBW |      | Other |      | Consolidated Company |      |
|--|--------|------|------|------|-------|------|----------------------|------|
|  | 2009   | 2008 | 2009 | 2008 | 2009  | 2008 | 2009                 | 2008 |

CONDENSED INCOME STATEMENT

|                           |    |      |    |      |    |      |    |     |    |        |    |       |    |       |    |       |
|---------------------------|----|------|----|------|----|------|----|-----|----|--------|----|-------|----|-------|----|-------|
| Net interest income       | \$ | 27.4 | \$ | 25.8 | \$ | 8.0  | \$ | 8.3 | \$ | (44.4) | \$ | (4.9) | \$ | 472.2 | \$ | 492.0 |
| Provision for loan losses |    | 35.0 |    | 4.3  |    | 11.2 |    | 0.2 |    | 1.4    |    | 0.1   |    | 565.9 |    | 156.6 |

|                                                     |       |      |       |     |        |       |        |       |
|-----------------------------------------------------|-------|------|-------|-----|--------|-------|--------|-------|
| Net interest income after provision for loan losses | (7.6) | 21.5 | (3.2) | 8.1 | (45.8) | (5.0) | (93.7) | 335.4 |
|-----------------------------------------------------|-------|------|-------|-----|--------|-------|--------|-------|

Impairment losses investment securities:

|                                         |     |       |        |        |         |        |
|-----------------------------------------|-----|-------|--------|--------|---------|--------|
| Impairment losses investment securities | 0.5 | (4.2) | (41.4) | (10.7) | (198.4) | (28.0) |
|-----------------------------------------|-----|-------|--------|--------|---------|--------|

|                                                                                                           |       |     |      |       |
|-----------------------------------------------------------------------------------------------------------|-------|-----|------|-------|
| Noncredit-related losses on securities not expected to be sold (recognized in other comprehensive income) | (0.7) | 3.9 | 22.2 | 141.9 |
|-----------------------------------------------------------------------------------------------------------|-------|-----|------|-------|

|                                                |       |       |        |        |        |        |
|------------------------------------------------|-------|-------|--------|--------|--------|--------|
| Net impairment losses on investment securities | (0.2) | (0.3) | (19.2) | (10.7) | (56.5) | (28.0) |
|------------------------------------------------|-------|-------|--------|--------|--------|--------|

Valuation losses on securities purchased

|                                        |  |  |  |  |  |  |
|----------------------------------------|--|--|--|--|--|--|
| Gain on subordinated debt modification |  |  |  |  |  |  |
|----------------------------------------|--|--|--|--|--|--|

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|                                                          |           |        |          |        |         |           |            |         |       |
|----------------------------------------------------------|-----------|--------|----------|--------|---------|-----------|------------|---------|-------|
| Acquisition related gains                                |           |        |          |        |         |           | 146.1      |         |       |
| Other noninterest income                                 | 8.9       | 7.6    | 4.4      | 0.6    | 198.3   | (8.1)     | 181.1      | 117.7   |       |
| Noninterest expense                                      | 24.4      | 20.7   | 3.8      | 3.6    | 9.3     | 19.0      | 434.7      | 372.3   |       |
| Impairment loss on goodwill                              |           |        |          |        |         |           |            |         |       |
| Income (loss) before income taxes                        | (23.3)    | 8.4    | (2.9)    | 5.1    | 124.0   | (42.8)    | (257.7)    | 52.8    |       |
| Income tax expense (benefit)                             | (9.3)     | 3.0    | (1.1)    | 1.7    | 46.5    | (19.7)    | (100.0)    | 11.2    |       |
| Net income (loss)                                        | (14.0)    | 5.4    | (1.8)    | 3.4    | 77.5    | (23.1)    | (157.7)    | 41.6    |       |
| Net income (loss) applicable to noncontrolling interests |           |        |          |        | (2.4)   | 3.7       | (2.4)      | 3.8     |       |
| Net income (loss) applicable to controlling interest     | (14.0)    | 5.4    | (1.8)    | 3.4    | 79.9    | (26.8)    | (155.3)    | 37.8    |       |
| Preferred stock dividends                                | (0.1)     |        |          |        |         | (26.5)    | (4.4)      | (26.6)  | (4.4) |
| Preferred stock redemption                               |           |        |          |        |         |           |            |         |       |
| Net earnings (loss) applicable to common shareholders    | \$ (14.1) | \$ 5.4 | \$ (1.8) | \$ 3.4 | \$ 53.4 | \$ (31.2) | \$ (181.9) | \$ 33.4 |       |

AVERAGE BALANCE SHEET DATA

|                                              |          |          |        |        |            |          |           |           |
|----------------------------------------------|----------|----------|--------|--------|------------|----------|-----------|-----------|
| Total assets                                 | \$ 2,484 | \$ 2,734 | \$ 816 | \$ 848 | \$ (2,014) | \$ (397) | \$ 53,495 | \$ 54,280 |
| Total securities                             | 265      | 288      | 181    | 229    | 355        | 494      | 4,759     | 4,583     |
| Net loans and leases                         | 2,033    | 2,068    | 597    | 575    | 118        | 116      | 42,135    | 41,824    |
| Allowance for loan losses                    | 44       | 30       | 15     | 8      | 2          | (1)      | 1,317     | 563       |
| Goodwill, core deposit and other intangibles |          |          |        |        | 9          | 28       | 1,144     | 2,142     |
| Noninterest-bearing demand deposits          | 563      | 466      | 196    | 126    | (8)        | (11)     | 11,429    | 9,190     |
| Total deposits                               | 2,026    | 1,872    | 609    | 555    | (835)      | (551)    | 43,349    | 37,322    |
| Shareholder's equity:                        |          |          |        |        |            |          |           |           |
| Preferred equity                             | 13       |          |        |        |            | 77       | 283       | 1,518     |
| Common equity                                | 175      | 334      | 73     | 68     | (207)      | (345)    | 4,310     | 5,123     |
| Noncontrolling interests                     |          |          |        |        | 22         | 29       | 23        | 30        |
| Total shareholder's equity                   | 188      | 334      | 73     | 68     | (108)      | (33)     | 5,851     | 5,436     |

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## ZIONS BANCORPORATION AND SUBSIDIARIES

The following table presents selected operating segment information for the nine months ended September 30, 2009 and 2008:

| (In millions)                                                                                              | Zions Bank |          | CB&T     |          | Amegy    |          | NBA      |          | NSB      |          |
|------------------------------------------------------------------------------------------------------------|------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
|                                                                                                            | 2009       | 2008     | 2009     | 2008     | 2009     | 2008     | 2009     | 2008     | 2009     | 2008     |
| <b>CONDENSED INCOME STATEMENT</b>                                                                          |            |          |          |          |          |          |          |          |          |          |
| Net interest income                                                                                        | \$ 511.5   | \$ 499.0 | \$ 343.7 | \$ 307.1 | \$ 286.0 | \$ 270.0 | \$ 135.0 | \$ 169.7 | \$ 104.5 | \$ 120.5 |
| Provision for loan losses                                                                                  | 374.6      | 114.1    | 197.0    | 58.9     | 257.6    | 31.2     | 240.0    | 97.8     | 481.1    | 47.3     |
| Net interest income after provision for loan losses                                                        | 136.9      | 384.9    | 146.7    | 248.2    | 28.4     | 238.8    | (105.0)  | 71.9     | (376.6)  | 73.2     |
| Impairment losses investment securities:                                                                   |            |          |          |          |          |          |          |          |          |          |
| Impairment losses investment securities                                                                    | (100.3)    | (15.6)   | (160.7)  | (12.0)   |          |          |          |          | (9.8)    | (2.0)    |
| Non-credit related losses on securities not expected to be sold (recognized in other comprehensive income) | 67.8       |          | 131.3    |          |          |          |          |          | 8.4      |          |
| Net impairment losses on investment securities                                                             | (32.5)     | (15.6)   | (29.4)   | (12.0)   |          |          |          |          | (1.4)    | (2.0)    |
| Valuation losses on securities purchased                                                                   | (203.0)    | (5.2)    |          |          | (7.5)    |          |          |          |          |          |
| Gain on subordinated debt modification                                                                     |            |          |          |          |          |          |          |          |          |          |
| Acquisition related gains                                                                                  |            |          | 152.9    |          |          |          |          |          | 16.2     |          |
| Other noninterest income                                                                                   | 109.2      | 146.6    | (22.9)   | 63.0     | 103.4    | 112.8    | 37.3     | 26.7     | 45.6     | 33.4     |
| Noninterest expense                                                                                        | 378.8      | 344.6    | 216.8    | 178.1    | 253.8    | 232.7    | 126.4    | 104.9    | 137.3    | 92.5     |
| Impairment loss on goodwill                                                                                |            |          |          |          | 633.3    |          |          |          |          |          |
| Income (loss) before income taxes                                                                          | (368.2)    | 166.1    | 30.5     | 121.1    | (762.8)  | 118.9    | (194.1)  | (6.3)    | (453.5)  | 12.1     |
| Income tax expense (benefit)                                                                               | (148.3)    | 53.5     | 9.2      | 47.4     | (49.0)   | 38.9     | (76.8)   | (2.7)    | (158.9)  | 4.1      |
| Net income (loss)                                                                                          | (219.9)    | 112.6    | 21.3     | 73.7     | (713.8)  | 80.0     | (117.3)  | (3.6)    | (294.6)  | 8.0      |
| Net income (loss) applicable to noncontrolling interests                                                   |            |          |          |          |          | 0.4      |          |          |          |          |

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|                                                      |         |       |       |      |         |      |         |       |         |     |
|------------------------------------------------------|---------|-------|-------|------|---------|------|---------|-------|---------|-----|
| Net income (loss) applicable to controlling interest | (219.9) | 112.6 | 21.3  | 73.7 | (713.8) | 79.6 | (117.3) | (3.6) | (294.6) | 8.0 |
| Preferred stock dividends                            |         |       | (0.9) |      | (1.5)   |      |         |       |         |     |
| Preferred stock redemption                           |         |       |       |      |         |      |         |       |         |     |

|                                                       |            |          |         |         |            |         |            |          |            |        |
|-------------------------------------------------------|------------|----------|---------|---------|------------|---------|------------|----------|------------|--------|
| Net earnings (loss) applicable to common shareholders | \$ (219.9) | \$ 112.6 | \$ 20.4 | \$ 73.7 | \$ (715.3) | \$ 79.6 | \$ (117.3) | \$ (3.6) | \$ (294.6) | \$ 8.0 |
|-------------------------------------------------------|------------|----------|---------|---------|------------|---------|------------|----------|------------|--------|

AVERAGE BALANCE SHEET DATA

|                                              |           |           |           |           |           |           |          |          |          |          |
|----------------------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|----------|----------|----------|----------|
| Total assets                                 | \$ 20,715 | \$ 19,041 | \$ 10,886 | \$ 10,244 | \$ 11,819 | \$ 11,940 | \$ 4,824 | \$ 5,235 | \$ 4,240 | \$ 3,858 |
| Total securities                             | 1,985     | 1,732     | 636       | 872       | 673       | 686       | 206      | 230      | 217      | 290      |
| Net loans and leases                         | 14,448    | 13,937    | 8,865     | 7,872     | 8,796     | 8,320     | 3,941    | 4,445    | 3,172    | 3,208    |
| Allowance for loan losses                    | 278       | 163       | 136       | 115       | 202       | 75        | 165      | 77       | 142      | 54       |
| Goodwill, core deposit and other intangibles | 20        | 21        | 395       | 388       | 901       | 1,346     | 20       | 193      | 10       | 22       |
| Noninterest-bearing demand deposits          | 2,218     | 2,084     | 2,692     | 2,442     | 3,138     | 2,198     | 944      | 984      | 1,015    | 899      |
| Total deposits                               | 15,944    | 11,496    | 8,817     | 8,078     | 8,988     | 8,309     | 3,943    | 3,844    | 3,674    | 3,248    |
| Shareholder's equity:                        |           |           |           |           |           |           |          |          |          |          |
| Preferred equity                             | 252       |           | 193       |           | 93        |           | 430      |          | 314      |          |
| Common equity                                | 1,101     | 1,076     | 1,158     | 1,065     | 1,635     | 1,982     | 303      | 591      | 222      | 289      |
| Noncontrolling interests                     | 1         | 1         |           |           |           |           |          |          |          |          |
| Total shareholder's equity                   | 1,354     | 1,077     | 1,351     | 1,065     | 1,728     | 1,982     | 733      | 591      | 536      | 289      |

|  | Vectra |      | TCBW |      | Other |      | Consolidated Company |      |
|--|--------|------|------|------|-------|------|----------------------|------|
|  | 2009   | 2008 | 2009 | 2008 | 2009  | 2008 | 2009                 | 2008 |

CONDENSED INCOME STATEMENT

|                           |         |         |         |         |           |          |            |            |
|---------------------------|---------|---------|---------|---------|-----------|----------|------------|------------|
| Net interest income       | \$ 77.7 | \$ 78.6 | \$ 24.4 | \$ 24.8 | \$ (42.2) | \$ (6.5) | \$ 1,440.6 | \$ 1,463.2 |
| Provision for loan losses | 56.0    | 12.5    | 18.4    | 0.6     | 1.5       | 0.7      | 1,626.2    | 363.1      |

|                                                     |      |      |     |      |        |       |         |         |
|-----------------------------------------------------|------|------|-----|------|--------|-------|---------|---------|
| Net interest income after provision for loan losses | 21.7 | 66.1 | 6.0 | 24.2 | (43.7) | (7.2) | (185.6) | 1,100.1 |
|-----------------------------------------------------|------|------|-----|------|--------|-------|---------|---------|

|                                          |  |  |  |  |  |  |  |  |
|------------------------------------------|--|--|--|--|--|--|--|--|
| Impairment losses investment securities: |  |  |  |  |  |  |  |  |
|------------------------------------------|--|--|--|--|--|--|--|--|

|                                         |        |  |       |  |         |        |         |         |
|-----------------------------------------|--------|--|-------|--|---------|--------|---------|---------|
| Impairment losses investment securities | (22.9) |  | (4.2) |  | (137.6) | (78.0) | (435.5) | (107.6) |
|-----------------------------------------|--------|--|-------|--|---------|--------|---------|---------|

|                                                                                                           |      |  |     |  |      |  |       |  |
|-----------------------------------------------------------------------------------------------------------|------|--|-----|--|------|--|-------|--|
| Noncredit-related losses on securities not expected to be sold (recognized in other comprehensive income) | 20.7 |  | 3.9 |  | 22.3 |  | 254.4 |  |
|-----------------------------------------------------------------------------------------------------------|------|--|-----|--|------|--|-------|--|

|                                                |       |  |       |  |         |        |         |         |
|------------------------------------------------|-------|--|-------|--|---------|--------|---------|---------|
| Net impairment losses on investment securities | (2.2) |  | (0.3) |  | (115.3) | (78.0) | (181.1) | (107.6) |
|                                                |       |  |       |  | (1.6)   |        | (212.1) | (5.2)   |

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|                                                          |           |         |        |         |          |           |              |          |
|----------------------------------------------------------|-----------|---------|--------|---------|----------|-----------|--------------|----------|
| Valuation losses on securities purchased                 |           |         |        |         |          |           |              |          |
| Gain on subordinated debt modification                   |           |         |        |         | 493.7    |           | 493.7        |          |
| Acquisition related gains                                |           |         |        |         |          |           | 169.1        |          |
| Other noninterest income                                 | 24.1      | 21.4    | 8.1    | 1.9     | 163.8    | (20.0)    | 468.6        | 385.8    |
| Noninterest expense                                      | 73.4      | 65.1    | 12.1   | 10.8    | 31.7     | 48.1      | 1,230.3      | 1,076.8  |
| Impairment loss on goodwill                              |           |         |        |         | 0.7      |           | 634.0        |          |
| Income (loss) before income taxes                        | (29.8)    | 22.4    | 1.7    | 15.3    | 464.5    | (153.3)   | (1,311.7)    | 296.3    |
| Income tax expense (benefit)                             | (12.3)    | 8.0     | 0.4    | 5.1     | 160.2    | (71.2)    | (275.5)      | 83.1     |
| Net income (loss)                                        | (17.5)    | 14.4    | 1.3    | 10.2    | 304.3    | (82.1)    | (1,036.2)    | 213.2    |
| Net income (loss) applicable to noncontrolling interests |           |         |        |         | (4.1)    | (3.9)     | (4.1)        | (3.5)    |
| Net income (loss) applicable to controlling interest     | (17.5)    | 14.4    | 1.3    | 10.2    | 308.4    | (78.2)    | (1,032.1)    | 216.7    |
| Preferred stock dividends                                | (0.2)     |         |        |         | (75.7)   | (9.3)     | (78.3)       | (9.3)    |
| Preferred stock redemption                               |           |         |        |         | 52.4     |           | 52.4         |          |
| Net earnings (loss) applicable to common shareholders    | \$ (17.7) | \$ 14.4 | \$ 1.3 | \$ 10.2 | \$ 285.1 | \$ (87.5) | \$ (1,058.0) | \$ 207.4 |

AVERAGE BALANCE SHEET DATA

|                                              |          |          |        |        |            |          |           |           |
|----------------------------------------------|----------|----------|--------|--------|------------|----------|-----------|-----------|
| Total assets                                 | \$ 2,541 | \$ 2,740 | \$ 820 | \$ 895 | \$ (1,531) | \$ (454) | \$ 54,314 | \$ 53,499 |
| Total securities                             | 261      | 304      | 189    | 278    | 551        | 537      | 4,718     | 4,929     |
| Net loans and leases                         | 2,043    | 2,036    | 591    | 549    | 123        | 100      | 41,979    | 40,467    |
| Allowance for loan losses                    | 36       | 28       | 11     | 6      | 1          | 1        | 971       | 519       |
| Goodwill, core deposit and other intangibles |          | 152      |        |        | 8          | 26       | 1,354     | 2,148     |
| Noninterest-bearing demand deposits          | 494      | 464      | 192    | 124    | (11)       | (121)    | 10,682    | 9,074     |
| Total deposits                               | 2,046    | 1,779    | 587    | 577    | (1,182)    | (433)    | 42,817    | 36,898    |
| Shareholder's equity:                        |          |          |        |        |            |          |           |           |
| Preferred equity                             | 11       |          |        |        | 270        | 254      | 1,563     | 254       |
| Common equity                                | 179      | 334      | 75     | 68     | (255)      | (298)    | 4,418     | 5,107     |
| Noncontrolling interests                     |          |          |        |        | 24         | 28       | 25        | 29        |
| Total shareholder's equity                   | 190      | 334      | 75     | 68     | 39         | (16)     | 6,006     | 5,390     |

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## 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<br>Ended September 30, |            |                     | Nine Months<br>Ended September 30, |              |                     |
|----------------------------------------------------------|-------------------------------------|------------|---------------------|------------------------------------|--------------|---------------------|
|                                                          | 2009<br>Revised                     | 2008       | % Change<br>Revised | 2009<br>Revised                    | 2008         | % Change<br>Revised |
| <b>EARNINGS</b>                                          |                                     |            |                     |                                    |              |                     |
| Taxable-equivalent net interest income                   | \$ 478,135                          | \$ 497,822 | (3.95)%             | \$ 1,458,237                       | \$ 1,480,946 | (1.53)%             |
| Taxable-equivalent revenue                               | 748,875                             | 587,432    | 27.48 %             | 2,196,451                          | 1,753,928    | 25.23 %             |
| Net interest income                                      | 472,180                             | 492,003    | (4.03)%             | 1,440,643                          | 1,463,204    | (1.54)%             |
| Noninterest income                                       | 270,740                             | 89,610     | 202.13 %            | 738,214                            | 272,982      | 170.43 %            |
| Provision for loan losses                                | 565,930                             | 156,606    | 261.37 %            | 1,626,208                          | 363,080      | 347.89 %            |
| Noninterest expense                                      | 434,707                             | 372,276    | 16.77 %             | 1,230,381                          | 1,076,796    | 14.26 %             |
| Impairment loss on goodwill                              |                                     |            |                     | 633,992                            |              |                     |
| Income (loss) before income taxes                        | (257,717)                           | 52,731     | (588.74)%           | (1,311,724)                        | 296,310      | (542.69)%           |
| Income taxes (benefit)                                   | (100,046)                           | 11,214     | (992.15)%           | (275,534)                          | 83,147       | (431.38)%           |
| Net income (loss)                                        | (157,671)                           | 41,517     | (479.77)%           | (1,036,190)                        | 213,163      | (586.10)%           |
| Net income (loss) applicable to noncontrolling interests | (2,394)                             | 3,757      | (163.72)%           | (4,143)                            | (3,544)      | (16.90)%            |
| Net income (loss) applicable to controlling interest     | (155,277)                           | 37,760     | (511.22)%           | (1,032,047)                        | 216,707      | (576.24)%           |
| Net earnings (loss) applicable to common shareholders    | (181,880)                           | 33,351     | (645.35)%           | (1,057,965)                        | 207,391      | (610.13)%           |
| <b>PER COMMON SHARE</b>                                  |                                     |            |                     |                                    |              |                     |
| Net earnings (loss) (diluted)                            | (1.43)                              | 0.31       | (561.29)%           | (8.87)                             | 1.93         | (559.59)%           |
| Dividends                                                | 0.01                                | 0.43       | (97.67)%            | 0.09                               | 1.29         | (93.02)%            |
| Book value per common share                              |                                     |            |                     | 30.38                              | 45.78        | (33.64)%            |
| <b>SELECTED RATIOS</b>                                   |                                     |            |                     |                                    |              |                     |
| Return on average assets                                 | (1.15)%                             | 0.28%      |                     | (2.54)%                            | 0.54 %       |                     |
| Return on average common equity                          | (16.74)%                            | 2.59%      |                     | (32.02)%                           | 5.42 %       |                     |
| Efficiency ratio                                         | 58.05 %                             | 63.37%     |                     | 56.02 %                            | 61.39 %      |                     |
| Net interest margin                                      | 3.88 %                              | 4.13%      |                     | 3.96 %                             | 4.18 %       |                     |

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## ZIONS BANCORPORATION AND SUBSIDIARIES

## FINANCIAL HIGHLIGHTS (Continued)

(Unaudited)

| (In thousands, except share and ratio data)                                                                         | Three Months Ended<br>September 30, |               |                     | Nine Months Ended<br>September 30, |               |                     |
|---------------------------------------------------------------------------------------------------------------------|-------------------------------------|---------------|---------------------|------------------------------------|---------------|---------------------|
|                                                                                                                     | 2009<br>Revised                     | 2008          | % Change<br>Revised | 2009<br>Revised                    | 2008          | % Change<br>Revised |
| <b>AVERAGE BALANCES</b>                                                                                             |                                     |               |                     |                                    |               |                     |
| Total assets                                                                                                        | \$ 53,494,525                       | \$ 54,279,760 | (1.45)%             | \$ 54,314,082                      | \$ 53,498,514 | 1.52 %              |
| Total interest-earning assets                                                                                       | 48,950,422                          | 47,984,725    | 2.01 %              | 49,181,065                         | 47,349,240    | 3.87 %              |
| Securities                                                                                                          | 4,758,872                           | 4,582,727     | 3.84 %              | 4,718,345                          | 4,928,877     | (4.27)%             |
| Net loans and leases                                                                                                | 42,135,431                          | 41,824,097    | 0.74 %              | 41,979,236                         | 40,467,491    | 3.74 %              |
| Goodwill                                                                                                            | 1,017,387                           | 2,009,509     | (49.37)%            | 1,227,331                          | 2,009,501     | (38.92)%            |
| Core deposit and other intangibles                                                                                  | 126,614                             | 132,167       | (4.20)%             | 126,380                            | 138,711       | (8.89)%             |
| Total deposits                                                                                                      | 43,349,431                          | 37,321,656    | 16.15 %             | 42,816,766                         | 36,898,398    | 16.04 %             |
| Shareholders' equity:                                                                                               |                                     |               |                     |                                    |               |                     |
| Preferred equity                                                                                                    | 1,518,289                           | 282,500       | 437.45 %            | 1,562,994                          | 254,270       | 514.70 %            |
| Common equity                                                                                                       | 4,309,497                           | 5,123,399     | (15.89)%            | 4,417,885                          | 5,106,750     | (13.49)%            |
| Noncontrolling interests                                                                                            | 22,810                              | 29,949        | (23.84)%            | 25,248                             | 29,292        | (13.81)%            |
| Weighted average common and common-equivalent shares outstanding                                                    | 127,581,404                         | 108,497,464   | 17.59 %             | 119,247,925                        | 107,333,422   | 11.10 %             |
| <b>AT PERIOD END</b>                                                                                                |                                     |               |                     |                                    |               |                     |
| Total assets                                                                                                        |                                     |               |                     | \$ 53,298,150                      | \$ 53,974,168 | (1.25)%             |
| Total interest-earning assets                                                                                       |                                     |               |                     | 48,711,261                         | 47,656,065    | 2.21 %              |
| Securities                                                                                                          |                                     |               |                     | 4,500,906                          | 4,755,359     | (5.35)%             |
| Net loans and leases                                                                                                |                                     |               |                     | 41,673,036                         | 41,735,598    | (0.15)%             |
| Allowance for loan losses                                                                                           |                                     |               |                     | 1,432,715                          | 609,433       | 135.09 %            |
| Reserve for unfunded lending commitments                                                                            |                                     |               |                     | 97,225                             | 23,574        | 312.42 %            |
| Goodwill                                                                                                            |                                     |               |                     | 1,017,385                          | 2,009,504     | (49.37)%            |
| Core deposit and other intangibles                                                                                  |                                     |               |                     | 123,551                            | 133,989       | (7.79)%             |
| Total deposits                                                                                                      |                                     |               |                     | 43,007,981                         | 38,590,901    | 11.45 %             |
| Shareholders' equity:                                                                                               |                                     |               |                     |                                    |               |                     |
| Preferred equity                                                                                                    |                                     |               |                     | 1,529,462                          | 286,949       | 433.01 %            |
| Common equity                                                                                                       |                                     |               |                     | 4,143,246                          | 5,279,078     | (21.52)%            |
| Noncontrolling interests                                                                                            |                                     |               |                     | 21,533                             | 30,288        | (28.91)%            |
| Common shares outstanding                                                                                           |                                     |               |                     | 136,398,089                        | 115,302,598   | 18.30 %             |
| Average equity to average assets                                                                                    | 10.94%                              | 10.01%        |                     | 11.06%                             | 10.08%        |                     |
| Common dividend payout                                                                                              | na                                  | 138.44%       |                     | na                                 | 66.72%        |                     |
| Tangible common equity ratio                                                                                        |                                     |               |                     | 5.76%                              | 6.05%         |                     |
| Tangible equity ratio                                                                                               |                                     |               |                     | 8.73%                              | 6.66%         |                     |
| Nonperforming assets, excluding FDIC-supported assets                                                               |                                     |               |                     | \$ 2,171,014                       | \$ 922,339    | 135.38 %            |
| Ratio of nonperforming assets, excluding FDIC-supported assets, to net loans and leases and other real estate owned |                                     |               |                     | 5.40%                              | 2.19%         |                     |

|                                                                             |    |         |    |        |         |
|-----------------------------------------------------------------------------|----|---------|----|--------|---------|
| Accruing loans past due 90 days or more,<br>excluding FDIC-supported assets | \$ | 186,519 | \$ | 97,831 | 90.65 % |
|-----------------------------------------------------------------------------|----|---------|----|--------|---------|

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### **ZIONS BANCORPORATION AND SUBSIDIARIES**

#### **FORWARD-LOOKING INFORMATION**

Statements in Management's Discussion and Analysis that are based on other than historical data are forward-looking, within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements provide current expectations or forecasts of future events and include, among others:

statements with respect to the beliefs, plans, objectives, goals, guidelines, expectations, anticipations, and future financial condition, results of operations and performance of Zions Bancorporation (the Parent) and its subsidiaries (collectively the Company, Zions, we, our, us);

statements preceded by, followed by or that include the words may, could, should, would, believe, anticipate, estimate, expect, plan, projects, or similar expressions.

These forward-looking statements are not guarantees of future performance, nor should they be relied upon as representing management's views as of any subsequent date. Forward-looking statements involve significant risks and uncertainties and actual results may differ materially from those presented, either expressed or implied, in the Management's Discussion and Analysis. Factors that might cause such differences include, but are not limited to:

the Company's ability to successfully execute its business plans, manage its risks, and achieve its objectives;

changes in political and economic conditions, including the political and economic effects of the current economic crisis and other major developments, including wars, military actions and terrorist attacks;

changes in financial market conditions, either internationally, nationally or locally in areas in which the Company conducts its operations, including without limitation, reduced rates of business formation and growth, commercial and residential real estate development and real estate prices;

fluctuations in markets for equity, fixed-income, commercial paper and other securities, including availability, market liquidity levels, and pricing;

changes in interest rates, the quality and composition of the loan and securities portfolios, demand for loan products, deposit flows and competition;

acquisitions and integration of acquired businesses;

increases in the levels of losses, customer bankruptcies, claims and assessments;

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changes in fiscal, monetary, regulatory, trade and tax policies and laws, including policies of the U.S. Department of Treasury and the Federal Reserve Board;

the Company's participation or lack of participation in governmental programs implemented under the Emergency Economic Stabilization Act ( EESA ) and the American Recovery and Reinvestment Act ( ARRA ), including without limitation the Troubled Asset Relief Program ( TARP ), the Capital Purchase Program ( CPP ), and the Temporary Liquidity Guarantee Program ( TLGP ) and the impact of such programs and related regulations on the Company and on international, national, and local economic and financial markets and conditions;

the impact of the EESA and the ARRA and related or other rules and regulations on the business operations and competitiveness of the Company and other participating American financial institutions, including the impact of the executive compensation limits of these acts and regulations, which may impact the ability of the Company and other American financial institutions to retain and recruit executives and other personnel necessary for their businesses and competitiveness;

the impact of certain provisions of the EESA and ARRA and related rules and regulations on the attractiveness of governmental programs to mitigate the effects of the current economic crisis, including the risks that certain financial institutions may elect not to participate in such programs, thereby decreasing the effectiveness of such programs;

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### **ZIONS BANCORPORATION AND SUBSIDIARIES**

continuing consolidation in the financial services industry;

new litigation or changes in existing litigation;

success in gaining regulatory approvals, when required;

changes in consumer spending and savings habits;

increased competitive challenges and expanding product and pricing pressures among financial institutions;

demand for financial services in the Company's market areas;

inflation and deflation;

technological changes and the Company's implementation of new technologies;

the Company's ability to develop and maintain secure and reliable information technology systems;

legislation or regulatory changes which adversely affect the Company's operations or business;

the Company's ability to comply with applicable laws and regulations;

changes in accounting policies or procedures as may be required by the Financial Accounting Standards Board or regulatory agencies;  
and

increased costs of deposit insurance and changes with respect to Federal Deposit Insurance Corporation ( FDIC ) insurance coverage levels.

Additional factors that could cause actual results to differ materially from those expressed in the forward-looking statements are discussed in the 2008 Annual Report on Form 10-K of Zions Bancorporation filed with the Securities and Exchange Commission ( SEC ) and available at the SEC's Internet site (<http://www.sec.gov>).

The Company specifically disclaims any obligation to update any factors or to publicly announce the result of revisions to any of the forward-looking statements included herein to reflect future events or developments.

### **CRITICAL ACCOUNTING POLICIES AND SIGNIFICANT ESTIMATES**

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The Company has made no significant changes in its critical accounting policies and significant estimates from those disclosed in its Annual Report on Form 10-K for the year ended December 31, 2008, except as noted below.

### ***Valuation of Asset-Backed Securities ( ABS )***

The Company values available-for-sale and held-to-maturity ABS using several methodologies based on the appropriate fair value hierarchy consistent with currently available market information. At September 30, 2009, the Company valued substantially all of the ABS portfolio using Level 3 pricing methods as follows:

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## ZIONS BANCORPORATION AND SUBSIDIARIES

**ASSET-BACKED SECURITIES FAIR VALUES**

| (In millions)              |                                | Held-to-maturity<br>Amortized<br>cost | Estimated<br>fair<br>value | Available-for-sale<br>Amortized<br>cost | Estimated<br>fair<br>value |
|----------------------------|--------------------------------|---------------------------------------|----------------------------|-----------------------------------------|----------------------------|
| Trust preferred securities | bank and insurance:            |                                       |                            |                                         |                            |
| Internal model             |                                | \$ 266                                | \$ 202                     | \$ 2,082                                | \$ 1,360                   |
| Third party models         |                                |                                       |                            | 25                                      | 8                          |
| Dealer quotes              |                                |                                       |                            | 25                                      | 22                         |
| Other                      | Level 2                        |                                       |                            | 2                                       | 1                          |
|                            |                                | 266                                   | 202                        | 2,134                                   | 1,391                      |
| Trust preferred securities | real estate investment trusts: |                                       |                            |                                         |                            |
| Third party models         |                                |                                       |                            | 68                                      | 27                         |
|                            |                                |                                       |                            | 68                                      | 27                         |
| Other:                     |                                |                                       |                            |                                         |                            |
| Third party models         |                                | 31                                    | 18                         | 44                                      | 22                         |
| Dealer quotes              |                                |                                       |                            | 17                                      | 11                         |
| CDS spreads                |                                |                                       |                            | 65                                      | 39                         |
| Other                      | Level 2                        |                                       |                            | 21                                      | 23                         |
|                            |                                | 31                                    | 18                         | 147                                     | 95                         |
| Municipal Securities:      |                                |                                       |                            |                                         |                            |
| Third party models         |                                |                                       |                            | 48                                      | 47                         |
| CDS spreads                |                                |                                       |                            | 16                                      | 17                         |
|                            |                                |                                       |                            | 64                                      | 64                         |
| Auction Rate Securities:   |                                |                                       |                            |                                         |                            |
| Third party models         |                                |                                       |                            | 165                                     | 165                        |
|                            |                                |                                       |                            | 165                                     | 165                        |
| Total                      |                                | \$ 297                                | \$ 220                     | \$ 2,578                                | \$ 1,742                   |

**Internal Model**

In the third quarter of 2009, the Company changed the way it forecasts the default assumption for private banks and non performing public banks within its collateralized debt obligation ( CDO ) pools. Beginning in the third quarter of 2008, the Company used a combination of a licensed third party model for public companies in conjunction with third party ratings for private companies to forecast defaults of bank and insurance collateral. The third party model estimated probabilities of default ( PDs ) using a proprietary reduced form model derived using logistic regression on a historical default database. Because the licensed third party model required equity valuation related inputs (along with other macro and issuer specific inputs) to produce default probabilities, the model did not produce results for private firms and some very small public firms without readily available market data. The Company utilized the third party model to calculate the average of the default probabilities by

rating level of the public collateral, and this rating level default probability was applied to each private issuer within the CDO pools. When combined with pool specific collateral lists these PDs created estimates of pool-level expected loss rates for each CDO.

This ratings bucketing approach for private issuers was replaced in the quarter ending September 30, 2009 by a statistical regression using financial ratios which the Company has identified as predictive of future bank failures for the private banks in the CDO pools. As this credit cycle has progressed, the Company has an increasingly significant data set of failed banks. The regression draws upon the quarterly call report ratios of failed banks for the four quarters prior to failure to determine one year default probabilities. A five year default probability is calculated by assigning a mathematical relationship to the one year and five year default probabilities from the licensed third party model. The updated model has a strong correlation with actual bank failures. Banks that failed within our CDO pools during the third quarter of 2009 generally had default probabilities in the high 90% range using the new approach. The Company found this ratio-based approach produced higher default probabilities than the previous approach for private banks that subsequently failed during the third quarter of 2009. Although both methods produced a comparable expected number of failures, the ratio based approach exhibited better specificity in regard to predicting which banks would fail. The inputs and regression formula will be updated quarterly.

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### **ZIONS BANCORPORATION AND SUBSIDIARIES**

The Company has seen nearly all of the failures within its CDO pools come from those private and public banks which have previously deferred in paying current interest on their trust preferred securities. The terms of the securities within the CDO pools generally allow for deferral of current interest for five years without causing default. The Company found that for the public deferring banks, the ratios based approach to identify a default probability generally generated higher PDs than the licensed third party model for banks that subsequently failed. In the interest of better projecting public bank failures, the Company utilized the higher of probabilities of default from our ratio based approach and those from the licensed third party model for public deferring banks effective for the quarter ending September 30, 2009.

The Company replaced its previous 60% loss rate assumption on deferring collateral with an issuer specific loss rate equal to the five year probability of default subject to a minimum assumed loss rate of 35%. This resulted in loss rates of between 100% and 35% with a 48% weighted average loss rate on deferring collateral. Previously, the Company had assumed recovery rates of 40% for banks with TARP and 10% for banks without TARP on projected defaults on currently performing collateral. The Company replaced its previous recovery rate assumptions on performing collateral with a 0% recovery rate assumption, supported by the lack of any recovery seen thus far in the credit cycle. Our experience with deferring collateral has been that of all collateral that has elected to defer beginning in 2007, 38% has defaulted and 62% remains within the allowable deferrable period.

The model for projecting expected cash flows for CDO tranches after identifying collateral level probabilities of default remains the same as disclosed in previous filings. Estimates of expected loss for the individual pieces of underlying collateral are aggregated to arrive at a pool-level expected loss rate for each CDO. These loss assumptions are applied to the CDOs' structure to generate cash flow projections for each tranche of the CDO. The fair value of each tranche is determined by discounting its resultant loss-adjusted cash flows with appropriate market-based discount rates. The presence of other than temporary impairment ( OTTI ) is identified and the amount of the credit component of OTTI is calculated by discounting the resulting loss adjusted cash flows at each tranche's coupon rate and comparing that value to the Company's amortized cost of the tranche.

Beginning in the quarter ending March 31, 2009, the Company began utilizing a more granular approach to reflect the specific risks embedded in every deal and to reference trading levels of publicly traded single issuer trust preferred securities. This change in inputs/assumptions was driven by market developments and was not due to change in accounting rules during the first quarter of 2009.

The discount rate assumption used for the valuation purposes for each CDO tranche was derived from trading yields on publicly traded trust preferred securities and projected probabilities of default on the underlying financial companies. For the quarter ending September 30, 2009, the data set included a publicly traded trust preferred security which was in deferral with regard to the payment of current interest. The discount margins on the traded securities including the deferring security were regressed to those of the CDOs by comparing expected levels of cash flow impairments between the CDOs and the publicly traded trust preferred securities. For the quarter ending September 30, 2009, the Company increased the discount rate range to LIBOR +3.75% for the highest quality/most over collateralized tranches in order to reflect market level assumptions for structured finance securities and LIBOR +17.35% with the lowest credit quality for remaining performing collateral. In addition, in order to acknowledge the greater uncertainty in the cash flows of those junior trust preferred CDO tranches which are PIKing (capitalizing interest), the Company utilized a discount rate of at least LIBOR + 13% using the forward LIBOR curve.

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CDO tranches with greater uncertainty in their cash flows should be discounted at rates in excess of those rates that market participants would use for tranches with more stable expected cash flows as a result of more subordination and/or better credit quality in the underlying collateral. The high end of the discount margin spectrum was applied to tranches in which minor changes in future default assumptions produced substantial deterioration in tranche cash flows. These discount rates are applied to the model to produce credit stressed cash flows, which constitute each tranche's expected cash flows; discount rates are not applied to a hypothetical contractual cash flow.

The following schedule sets forth the effect on the OTTI for the third quarter of 2009 and fair values at September 30, 2009 of the previously discussed assumption changes made this quarter in valuing bank and insurance CDOs.

The schedule contains two scenarios. The previous assumptions scenario uses the previous quarter's credit related assumptions of a 40% recovery rate on deferrals and a 10% or 40% recovery rate on performing collateral dependent upon the issuers TARP status. The previous assumption scenario uses as an input the September 30 trading levels of publicly traded trust preferreds to relate expected losses to discount rates. The resulting discount rates are not adjusted upward for PIKing tranches. The discount range is from LIBOR +3.75% to LIBOR +14.31%.

The new assumptions scenario uses the current quarter's credit related assumptions of an issuer specific recovery rate on deferrals and a 0% recovery rate on performing collateral. The new assumption scenario also uses the same input of the September 30 trading levels of publicly traded trust preferreds to relate expected losses to discount rates, but the resulting discount rates are then adjusted upward to ensure that any PIKing tranches are discounted at rates of at least LIBOR +13%. The discount range is from LIBOR +3.75% to LIBOR +17.4% with a minimum of LIBOR +13% for PIKing tranches.

**EFFECT OF BANK AND INSURANCE CDO ASSUMPTION CHANGES****ON OTTI AND FAIR VALUES**

| (Amounts in millions)                                              | Bank and insurance<br>CDOs at Level 3 |                    |
|--------------------------------------------------------------------|---------------------------------------|--------------------|
|                                                                    | Held-to-maturity                      | Available-for-sale |
| <b>Components of OTTI</b>                                          |                                       |                    |
| 3rd quarter of 2009 using previous credit and discount assumptions |                                       |                    |
| Credit component                                                   | \$                                    | \$ 67.2            |
| Incremental illiquidity component                                  |                                       | 55.8               |
| 3rd quarter of 2009 using new credit and discount assumptions      |                                       |                    |
| Credit component                                                   |                                       | 37.3               |
| Incremental illiquidity component                                  |                                       | 125.3              |
| Effect of new assumptions on credit component                      |                                       | (29.9)             |
| Effect of new assumptions on illiquidity component                 |                                       | 69.5               |
| <b>Fair Value</b>                                                  |                                       |                    |
| 3rd quarter of 2009 using previous credit and discount assumptions |                                       |                    |
| Fair value                                                         | \$ 203                                | \$ 1,582           |
| 3rd quarter of 2009 using new credit and discount assumptions      |                                       |                    |
| Fair value                                                         | \$ 202                                | \$ 1,391           |
| Effect of new assumptions                                          | (1)                                   | (191)              |

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### ZIONS BANCORPORATION AND SUBSIDIARIES

The assumption changes were partially offsetting, but the net effect of the new assumptions was a lower amount of credit component of OTTI and a lower fair value of the portfolio as compared to that which would have been found using the old assumptions. With regard to OTTI, for example, the effect of moving to a 0% recovery rate on performing collateral from a 10% or 40% assumption increased the credit impairment under the new assumptions. The effect of moving to an issuer-specific recovery rate on deferring collateral from a static 40% rate decreased the credit impairment comparison under the new assumptions. The net effect of decreased credit impairment can be largely explained by the assumption change in the recovery rate of deferring collateral having the effect of increasing the weighted average recovery rate on all deferring collateral from 40% to 52%. With regard to fair value of the portfolio, the net effect of decreased fair value can be largely explained by the higher discount rate assumption on PIKing and more junior collateral.

The following schedule sets forth the sensitivity of the current CDO fair values using an internal model to changes in the most significant assumptions utilized in the model:

### SENSITIVITY OF BANK AND INSURANCE CDO VALUATIONS TO ADVERSE

#### CHANGES IN CURRENT MODEL KEY VALUATION ASSUMPTIONS

| (Amounts in millions)                                                                                                 | Bank and insurance<br>CDOs at Level 3 |                    |                    |                    |
|-----------------------------------------------------------------------------------------------------------------------|---------------------------------------|--------------------|--------------------|--------------------|
|                                                                                                                       | Held-to-maturity                      |                    | Available-for-sale |                    |
| Fair value balance at September 30, 2009                                                                              | \$                                    | 202                | \$                 | 1,360              |
| <b>Expected collateral credit losses</b> <sup>1</sup>                                                                 |                                       |                    |                    |                    |
|                                                                                                                       |                                       | <b>Incremental</b> | <b>Cumulative</b>  | <b>Incremental</b> |
| <b>Weighted average:</b>                                                                                              |                                       |                    |                    | <b>Cumulative</b>  |
| Loss percentage from currently defaulted or deferring collateral <sup>2</sup>                                         |                                       |                    | 2.7%               | 16.2%              |
| Projected loss percentage from currently performing collateral                                                        |                                       |                    |                    |                    |
| 1-year                                                                                                                |                                       | 1.0%               | 3.6%               | 17.4%              |
| years 2-5                                                                                                             |                                       | 2.5%               | 6.1%               | 20.1%              |
| years 6-30                                                                                                            |                                       | 3.3%               | 9.4%               | 23.5%              |
| Decrease in fair value due to increase in projected loss percentage from currently performing collateral <sup>3</sup> |                                       |                    |                    |                    |
|                                                                                                                       | 25%                                   | \$ (0.2)           |                    | \$ (14.4)          |
|                                                                                                                       | 50%                                   | (0.4)              |                    | (28.1)             |
|                                                                                                                       | 100%                                  | (0.7)              |                    | (54.5)             |
| <b>Discount rate</b> <sup>4</sup>                                                                                     |                                       |                    |                    |                    |
| Weighted average spread over LIBOR                                                                                    |                                       | 462 bp             |                    | 715 bp             |
| Decrease in fair value due to increase in discount rate                                                               | + 100bp                               | \$ (17.1)          |                    | \$ (111.8)         |
|                                                                                                                       | + 200bp                               | (32.1)             |                    | (209.7)            |

<sup>1</sup> The Company uses an expected credit loss model which specifies cumulative losses at the 1-year, 5-year, and 30-year points from the date of valuation.

<sup>2</sup> Weighted average percentage of collateral that is defaulted due to bank failures or deferring payment as allowed under the terms of the security, including a 0% recovery rate on defaulted collateral and a credit specific recovery rate on deferring collateral which ranges from 0% to a ceiling of 65%.

<sup>3</sup> Percentage increase is applied to incremental projected loss percentages from currently performing collateral. For example, the 50% and 100% stress scenarios for AFS securities would result in cumulative 30 year losses of 27.2% = 23.5% + 50% (1.2%+2.7%+3.5%) and 30.9% = 23.5% + 100% (1.2%+2.7%+3.5%) respectively.

<sup>4</sup> The discount rate is a spread over the LIBOR swap yield curve at the date of valuation.

During the third quarter the Company experienced adverse changes in the loss percentage from currently defaulted or deferring collateral and favorable changes in future cumulative projected credit losses. The changes were driven by loss experience in excess of projections and by

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market improvements in surviving bank debt and equity prices, respectively. Given the transfers of securities from held-to-maturity ( HTM ) to available-for-sale ( AFS ) during the second quarter of 2009 as disclosed previously, the remaining HTM portfolio is generally of better credit quality than the portion of the AFS portfolio.

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### **ZIONS BANCORPORATION AND SUBSIDIARIES**

#### ***Third Party Models***

At September 30, 2009, the Company utilized third party valuation services for fifteen securities with an aggregate amortized cost of \$168 million in the ABS CDO and trust preferred asset classes. These securities continued to have insufficient observable market data available to directly determine prices. The Company reviewed the methodologies employed by third party models. This included a review of all relevant data inputs and the appropriateness of key model assumptions. These assumptions included, but were not limited to, probability of default, collateral recovery rates, discount rates, over-collateralization levels, and rating transition probability matrices from rating agencies. The model valuations 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. A range of value estimates is not provided because third party vendors utilized point estimates.

Auction rate and municipal securities with an amortized cost of \$213 million were valued using third party created matrix referencing ratings as the key variable with regards to valuation.

#### ***Dealer Quotes***

The \$42 million of asset-backed securities at amortized cost are valued using nonbinding and unadjusted dealer quotes. Multiple quotes are not available and the values provided are based on a combination of proprietary dealer quotes. Broker disclosure levels vary and the Company seeks to minimize dependence on this Level 3 source.

#### ***CDS Spreads***

A total of \$65 million at amortized cost of insured securities purchased out of Lockhart were valued using the relevant monoline insurers' credit derivative levels.

In addition, a total of \$16 million of municipal securities with puts back to the underwriter in 2010 were valued using the CDS Spread of the underwriter.

See Note 4 of the Notes to Consolidated Financial Statements and Investment Securities Portfolio for further information.

#### **Other-than-Temporary Impairment ( OTTI ) Debt Investment Securities**

We review investment debt securities on an ongoing basis for the presence of OTTI with formal reviews performed quarterly. Net OTTI losses on individual investment securities are recognized as a realized loss through earnings when it is more likely than not that the Company will not collect sufficient contractual cash flows as compared to its amortized cost or the Company is unable to hold the securities to recovery.

The Company's OTTI evaluation process conforms to the rules as required by the debt securities subsequent measurement topic in FASB ASC 320. These rules require the Company to take into consideration current market conditions, fair value in relationship to cost, extent and nature of change in fair value, issuer rating changes and trends, volatility of earnings, current analysts' evaluations, all available information relevant to the collectability of debt securities, our ability and intent to hold investments until a recovery of fair value, which may be maturity, and other factors when evaluating for the existence of OTTI in our securities portfolio.

On January 12, 2009, the FASB amended the debt securities subsequent measurement topic in FASB ASC 320. This amendment is effective for interim and annual reporting periods ending after December 15, 2008, and shall be applied prospectively. The amendment eliminated the requirement that a holder's best estimate of cash flows be based upon those that a market participant would use. Instead, the amendment requires that OTTI be recognized as a realized loss through earnings when it is probable there has been an adverse change in the holder's estimated cash flows from the cash flows previously projected as compared to the amortized cost.

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### **ZIONS BANCORPORATION AND SUBSIDIARIES**

On April 9, 2009, the FASB amended the debt securities subsequent measurement topic in FASB ASC 320. This amendment is effective for interim and annual reporting periods ending after June 15, 2009, with the option to early adopt for the first quarter of 2009, and shall be applied prospectively with a cumulative effect adjustment for prior OTTI illiquidity losses. The Company elected to early adopt this amendment during the first quarter of 2009. The Company recorded a \$137.5 million after tax cumulative effect adjustment upon adoption of the amendment. Retained earnings were increased and other comprehensive income decreased. The amendment significantly changes how an entity evaluates whether impairment is other than temporary and how to recognize OTTI for debt securities classified as available-for-sale or held-to-maturity.

The three most significant changes that impacted the determination and calculation of OTTI are first, a requirement that an entity conclude it does not intend to sell an impaired security and it is not more likely than not that it will be required to sell the security before the recovery of its amortized cost basis. Second, a requirement to assess the collectability of cash flows based on a more likely than not basis which is a lower threshold for recognizing an OTTI charge from a probable basis under the prior accounting rule. Finally, a requirement to recognize the total OTTI charge for debt securities in separate amounts—one amount representing the decrease in cash flows expected to be collected (credit loss), which is recognized in earnings and the second amount representing the amount related to all other factors (illiquidity loss), which is recognized in OCI. Also for securities classified as held-to-maturity, the amendment requires that the amount of OTTI recognized in OCI be accreted (through OCI) over the remaining life of the security.

The Company recognized pretax OTTI losses of \$198.4 million during the third quarter of 2009 and \$28.0 million during the third quarter of 2008 on investment debt securities. All of the impairment for 2009 related to securities valued using Level 3 inputs. Management determined that \$56.5 million of the impairment for the third quarter of 2009 related to credit loss impairment. Net impairment losses for the first nine months of 2009 were \$181.2 million compared to \$107.6 million for the first nine months of 2008. The significant inputs used in the methodology to calculate the credit loss impairment is described under Valuation of Asset-Backed Securities with the exception that while the discount rate used for valuation is a market level discount rate, the discount rate used to determine the presence and amount of credit impairment is the security specific coupon rate. The expected cash flows are credit stressed in that they incorporate the effect of both collateral nonperformance and projected additional nonperformance. The expected cash flows are discounted at the security specific coupon rate to identify the credit component of OTTI.

The decision to deem these securities OTTI was based on a specific analysis of the structure of each security and an evaluation of the underlying collateral using information and industry knowledge available to the Company. Future reviews for OTTI will consider the particular facts and circumstances during the reporting period in review.

### **Debt Modification**

During the second quarter of 2009, the Company executed a subordinated debt modification and exchange transaction. The Company exchanged approximately \$0.2 billion of subordinated notes for new notes with the same terms. The remaining \$1.2 billion of subordinated notes were modified to permit conversion on a par for par basis into either the Company's Series A or Series C preferred stock. Net of issuance costs and debt discount on the previous debt, the pretax gain recognized in earnings from this subordinated debt modification was approximately \$493.7 million. Additionally the Company recorded \$201.2 million after-tax directly in common stock for the intrinsic value of the beneficial conversion feature. The determination of whether the modification is considered an extinguishment followed the rules as required by the debt modifications and extinguishments topic in FASB ASC 470.

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### **ZIONS BANCORPORATION AND SUBSIDIARIES**

#### **Preferred Stock Redemption**

During the second quarter the Company purchased 4,020,435 depositary shares of Series A preferred stock (each share representing a 1/40<sup>th</sup> ownership interest in a share of preferred stock) at a price of \$11.50 per depositary share, or an aggregate amount of \$46.4 million including accrued dividends. At a \$25 per depositary share liquidation preference, the purchase reduced the \$240 million carrying value of the Series A preferred stock by approximately \$100.5 million. Net of related costs, the redemption resulted in a \$54.0 million increase to common shareholders' equity. The Company calculation and presentation of the redemption conforms to the rules contained in FASB ASC 260 for earnings per share-other presentation matters.

#### **Share Based Compensation**

The Company used the Black-Scholes option-pricing model to estimate the fair value of stock options granted for share based compensation in the second quarter of 2009. The assumptions used to apply this model include a weighted average risk-free interest rate, a weighted average expected life, an expected dividend yield, and an expected volatility. The second quarter of 2009 stock options grant assumptions were 2.245% for the weighted average risk-free interest rate, 4.5 years for the weighted average expected life, 1.0% for the expected dividend yield, and 33.0% for the expected volatility. Use of these assumptions is subjective and requires management judgment to determine the assumptions used in the model. During the second quarter of 2009, the Company granted 677,585 stock options and 689,656 shares of restricted stock.

#### **Accounting for Goodwill**

Goodwill arises from business acquisitions and represents the value attributable to the unidentifiable intangible elements in our acquired businesses. Goodwill is initially recorded at fair value and is subsequently evaluated at least annually for impairment in accordance with FASB ASC 350 the intangibles and goodwill topic. The Company performs this annual test as of October 1 of each year. Evaluations are also performed on a more frequent basis if events or circumstances indicate impairment could have taken place. Such events could include, among others, a significant adverse change in the business climate, a significant adverse change in market values of similar businesses, an adverse action by a regulator, an unanticipated change in the competitive environment, and a decision to change the operations or dispose of a reporting unit.

During the first quarter of 2009, we performed a goodwill impairment evaluation for Amegy and California Bank & Trust, effective February 28, 2009, due to the Company's performance deterioration and market decline from December 31, 2008. Step 1 was performed by using both market value and discounted cash flow approaches. In the market value approach, we identified a group of publicly traded banks using primarily size, location and business mix compared to Zions' subsidiary banks. We then used valuation multiples, including a control premium, developed from this group to apply to our subsidiary banks. Due to the limited number of non-distressed or failed bank merger and acquisition transactions during the past 12 months, the transaction value approach was not used in this analysis. In the discounted cash flow approach we discounted projected cash flows to their present value using an estimated long-term cost of equity specific to each reporting unit, to arrive at our estimate of fair value.

Upon completion of step 1 of the evaluation process, we concluded that potential impairment existed at the Company's Amegy reporting unit. Step 2 was completed with the assistance of an independent valuation consultant and the Company's internal valuation resources and resulted in \$634.0 million of impairment losses in the first quarter of 2009. This evaluation process required us to make estimates and assumptions with regard to the fair value of the Company's reporting units and actual values may differ significantly from these estimates. Such differences could result in future impairment of goodwill that would, in turn, negatively impact the Company's results of operations and the business segments where the goodwill is recorded.

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### **ZIONS BANCORPORATION AND SUBSIDIARIES**

Significant remaining amounts of goodwill at September 30, 2009 were as follows: Amegy \$616 million, CB&T \$379 million, and Zions Bank \$20 million. We expect that the current disrupted market conditions may require us to evaluate goodwill more frequently, including quarterly, as the circumstances warrant. Any differences between estimated fair values and carrying values could result in future impairment of goodwill.

### **RESULTS OF OPERATIONS**

The Company reported a net loss applicable to common shareholders of \$181.9 million or \$1.43 per diluted share for the third quarter of 2009 compared to net earnings applicable to common shareholders of \$33.4 million or \$0.31 per diluted share for the third quarter of 2008. The decrease is mainly due to a \$409.3 million increase in the provision for loan losses, a \$39.8 million increase in the provision for unfunded lending commitments, a \$28.5 million increase in net impairment losses on investment securities, a \$23.3 million increase in other real estate expense, and a \$14.5 million increase in FDIC premiums expense, offset by \$146.2 million of acquisition related gains and an \$84.2 million increase in fair value and nonhedge derivative income.

Net loss applicable to common shareholders for the first nine months of 2009 was \$1,058.0 million or \$8.87 per diluted share, compared to net earnings applicable to common shareholders of \$207.4 million or \$1.93 per diluted share for the first nine months of 2008. The decrease reflects a \$1,263.1 million increase in the provision for loan losses, a \$634.0 million goodwill impairment charge, a \$280.5 million increase in valuation losses on securities purchased and net impairment losses on investment securities, a \$62.3 million increase in other real estate expense, a \$62.2 million increase in FDIC premiums expense, a \$44.2 million increase in the provision for unfunded lending commitments, and a \$69.0 million increase in preferred stock dividends, offset by the \$493.7 million gain on subordinated debt modification, \$169.1 million of acquisition related gains, a \$124.6 million increase in fair value and nonhedge derivative income, and \$52.4 million from a preferred stock redemption.

### **Net Interest Income, Margin and Interest Rate Spreads**

Taxable-equivalent net interest income for the third quarter of 2009 decreased 4.0% to \$478.1 million compared with \$497.8 million for the comparable period of 2008. This decrease reflects multiple factors including the impact of significant increases in nonaccrual loans and nonaccrual securities, the impact of the discount amortization on the modified subordinated debt, accelerated debt discount amortization related to the conversion of subordinated debt into Series C preferred stock, and higher money market investment balances which earned lower rates during the third quarter of 2009. Net interest income for the quarter was favorably impacted by loan renewals at wider spreads, a significantly lower cost of funds, and a significant growth in noninterest bearing deposit balances. The tax rate used for calculating all taxable-equivalent adjustments was 35% for all periods presented.

The Company's net interest margin was 3.88% for the third quarter of 2009 compared to 4.09% for the second quarter of 2009 and 4.13% for third quarter of 2008. The net interest margin for the second quarter of 2009 was favorably impacted by 0.07% due to reductions in interest expense resulting from the accretion of deferred gains on terminated debt fair value swaps during the second quarter related to the modified subordinated debt. The net interest margin for the third quarter of 2009 was unfavorably impacted by 0.10% for the discount amortization on the modified subordinated debt and an additional 0.12% from the impact of accelerated debt discount amortization resulting from the conversion of subordinated debt into Series C preferred stock. The margin decrease for third quarter of 2009 compared to the third quarter of 2008 was primarily due to increased nonaccrual loans and increased nonaccrual securities, the impact of the discount amortization on the modified subordinated debt including the effect of the conversion of subordinated debt into Series C preferred stock and higher money market investment balances earning lower rates, offset in part by increased low cost deposit funding.

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ZIONS BANCORPORATION AND SUBSIDIARIES

The spread on average interest-bearing funds for the third quarter of 2009 was 3.40%, which decreased from 3.71% for the second quarter of 2009 and from 3.67% for the third quarter of 2008. The spread on average interest-bearing funds for the third quarter of 2009 was adversely impacted by the same factors that reduced the net interest margin.

Net interest margin will continue to be adversely affected in future quarters due to the impact of nonperforming assets and amortization of debt discounts related to the debt modification transaction that occurred in the second quarter of 2009. Also, the net interest margin was previously favorably impacted by accreted swap gains on terminated swaps that reduced interest expense on long-term debt. Because of the debt modification transaction that occurred in the second quarter of 2009, most of those swap gains were recognized in noninterest income. The debt modification transaction also resulted in a discount on the modified convertible subordinated debt, which as of September 30, 2009 is approximately \$637 million. This discount will be amortized as interest expense over the remaining life of the debt. If in future periods, debt holders exercise their option to convert debt to preferred stock the amortization of the discount will be accelerated at the time of conversion.

The Company expects to continue its efforts over the long run to maintain a slightly asset-sensitive position with regard to interest rate risk. However, because of the current low interest rate environment the Company is allowing the balance sheet to become more asset-sensitive than has historically been the case, by (1) reducing our use of interest rate swaps against our floating rate loans and (2) terminating receive fixed / pay variable swaps on the Company's subordinated debt. With interest rates at historically low levels, there is a reduced need to protect against falling interest rates. Our estimates of the Company's actual rate risk position is highly dependent upon changes in both short-term and long-term interest rates, modeling assumptions, and the actions of competitors and customers in response to those changes. Further detail on interest rate risk is discussed in the Company's Annual Report on Form 10-K for the year ended December 31, 2008 in Interest Rate Risk on page 111 and this filing in Interest Rate Risk.

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## ZIONS BANCORPORATION AND SUBSIDIARIES

## CONSOLIDATED AVERAGE BALANCE SHEETS, YIELDS AND RATES

(Unaudited)

| (In thousands)                                                    | Three Months Ended September 30, 2009<br>Average<br>balance<br>Revised | Amount of<br>interest <sup>1</sup><br>Revised | Average<br>rate<br>Revised | Three Months Ended September 30, 2008<br>Average<br>balance | Amount of<br>interest <sup>1</sup> | Average<br>rate |
|-------------------------------------------------------------------|------------------------------------------------------------------------|-----------------------------------------------|----------------------------|-------------------------------------------------------------|------------------------------------|-----------------|
| <b>ASSETS</b>                                                     |                                                                        |                                               |                            |                                                             |                                    |                 |
| Money market investments                                          | \$ 1,861,523                                                           | \$ 1,195                                      | 0.25%                      | \$ 1,417,875                                                | \$ 9,267                           | 2.60%           |
| Securities:                                                       |                                                                        |                                               |                            |                                                             |                                    |                 |
| Held-to-maturity                                                  | 914,648                                                                | 13,797                                        | 5.98%                      | 1,918,436                                                   | 31,502                             | 6.53%           |
| Available-for-sale                                                | 3,749,566                                                              | 26,275                                        | 2.78%                      | 2,621,756                                                   | 27,654                             | 4.20%           |
| Trading account                                                   | 94,658                                                                 | 842                                           | 3.53%                      | 42,535                                                      | 437                                | 4.09%           |
| Total securities                                                  | 4,758,872                                                              | 40,914                                        | 3.41%                      | 4,582,727                                                   | 59,593                             | 5.17%           |
| Loans held for sale                                               | 194,596                                                                | 2,434                                         | 4.96%                      | 160,026                                                     | 1,916                              | 4.76%           |
| Loans:                                                            |                                                                        |                                               |                            |                                                             |                                    |                 |
| Net loans and leases excluding FDIC-supported assets <sup>2</sup> | 40,246,789                                                             | 570,652                                       | 5.63%                      | 41,824,097                                                  | 670,695                            | 6.38%           |
| Covered assets                                                    | 1,888,642                                                              | 22,562                                        | 4.74%                      |                                                             |                                    |                 |
| Total loans and leases                                            | 42,135,431                                                             | 593,214                                       | 5.59%                      | 41,824,097                                                  | 670,695                            | 6.38%           |
| Total interest-earning assets                                     | 48,950,422                                                             | 637,757                                       | 5.17%                      | 47,984,725                                                  | 741,471                            | 6.15%           |
| Cash and due from banks                                           | 1,187,594                                                              |                                               |                            | 1,424,407                                                   |                                    |                 |
| Allowance for loan losses                                         | (1,317,078)                                                            |                                               |                            | (562,518)                                                   |                                    |                 |
| Goodwill                                                          | 1,017,387                                                              |                                               |                            | 2,009,509                                                   |                                    |                 |
| Core deposit and other intangibles                                | 126,614                                                                |                                               |                            | 132,167                                                     |                                    |                 |
| Other assets                                                      | 3,529,586                                                              |                                               |                            | 3,291,470                                                   |                                    |                 |
| Total assets                                                      | \$ 53,494,525                                                          |                                               |                            | \$ 54,279,760                                               |                                    |                 |
| <b>LIABILITIES</b>                                                |                                                                        |                                               |                            |                                                             |                                    |                 |
| Interest-bearing deposits:                                        |                                                                        |                                               |                            |                                                             |                                    |                 |
| Savings and NOW                                                   | \$ 5,162,852                                                           | 5,262                                         | 0.40%                      | \$ 4,248,715                                                | 8,285                              | 0.78%           |
| Money market                                                      | 17,538,319                                                             | 49,292                                        | 1.12%                      | 13,880,283                                                  | 82,435                             | 2.36%           |
| Time under \$100,000                                              | 2,954,680                                                              | 16,612                                        | 2.23%                      | 2,675,894                                                   | 21,898                             | 3.26%           |
| Time \$100,000 and over                                           | 4,363,017                                                              | 22,690                                        | 2.06%                      | 3,929,454                                                   | 32,918                             | 3.33%           |
| Foreign                                                           | 1,901,789                                                              | 3,478                                         | 0.73%                      | 3,397,729                                                   | 20,021                             | 2.34%           |
| Total interest-bearing deposits                                   | 31,920,657                                                             | 97,334                                        | 1.21%                      | 28,132,075                                                  | 165,557                            | 2.34%           |
| Borrowed funds:                                                   |                                                                        |                                               |                            |                                                             |                                    |                 |
| Securities sold, not yet purchased                                | 45,866                                                                 | 590                                           | 5.10%                      | 30,966                                                      | 393                                | 5.05%           |
|                                                                   | 1,708,888                                                              | 1,207                                         | 0.28%                      | 2,284,997                                                   | 10,246                             | 1.78%           |

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Federal funds purchased and security repurchase agreements

|                                                                                 |               |            |        |               |            |       |
|---------------------------------------------------------------------------------|---------------|------------|--------|---------------|------------|-------|
| Commercial paper                                                                | 1,224         | 3          | 0.97%  | 74,596        | 577        | 3.08% |
| FHLB advances and other borrowings:                                             |               |            |        |               |            |       |
| One year or less                                                                | 46,741        | 525        | 4.46%  | 5,983,823     | 38,948     | 2.59% |
| Over one year                                                                   | 18,854        | 228        | 4.80%  | 129,162       | 1,856      | 5.72% |
| Long-term debt                                                                  | 1,955,725     | 59,735     | 12.12% | 2,443,488     | 26,072     | 4.24% |
| Total borrowed funds                                                            | 3,777,298     | 62,288     | 6.54%  | 10,947,032    | 78,092     | 2.84% |
| Total interest-bearing liabilities                                              | 35,697,955    | 159,622    | 1.77%  | 39,079,107    | 243,649    | 2.48% |
| Noninterest-bearing deposits                                                    | 11,428,774    |            |        | 9,189,581     |            |       |
| Other liabilities                                                               | 517,200       |            |        | 575,224       |            |       |
| Total liabilities                                                               | 47,643,929    |            |        | 48,843,912    |            |       |
| Shareholders' equity:                                                           |               |            |        |               |            |       |
| Preferred equity                                                                | 1,518,289     |            |        | 282,500       |            |       |
| Common equity                                                                   | 4,309,497     |            |        | 5,123,399     |            |       |
| Zions Bancorporation shareholders' equity                                       | 5,827,786     |            |        | 5,405,899     |            |       |
| Noncontrolling interest                                                         | 22,810        |            |        | 29,949        |            |       |
| Total shareholders' equity                                                      | 5,850,596     |            |        | 5,435,848     |            |       |
| Total liabilities and shareholders' equity                                      | \$ 53,494,525 |            |        | \$ 54,279,760 |            |       |
| Spread on average interest-bearing funds                                        |               |            | 3.40%  |               |            | 3.67% |
| Taxable-equivalent net interest income and net yield on interest-earning assets |               | \$ 478,135 | 3.88%  |               | \$ 497,822 | 4.13% |

<sup>1</sup> Taxable-equivalent rates used where applicable.

<sup>2</sup> Net of unearned income and fees, net of related costs. Loans include nonaccrual and restructured loans.

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## ZIONS BANCORPORATION AND SUBSIDIARIES

## CONSOLIDATED AVERAGE BALANCE SHEETS, YIELDS AND RATES (Continued)

(Unaudited)

| (In thousands)                                                    | Nine Months Ended September 30, 2009<br>Average<br>balance<br>Revised | Amount of<br>interest <sup>1</sup><br>Revised | Average<br>rate<br>Revised | Nine Months Ended September 30, 2008<br>Average<br>balance | Amount of<br>interest <sup>1</sup> | Average<br>rate |
|-------------------------------------------------------------------|-----------------------------------------------------------------------|-----------------------------------------------|----------------------------|------------------------------------------------------------|------------------------------------|-----------------|
| <b>ASSETS</b>                                                     |                                                                       |                                               |                            |                                                            |                                    |                 |
| Money market investments                                          | \$ 2,251,822                                                          | \$ 6,114                                      | 0.36%                      | \$ 1,765,932                                               | \$ 40,608                          | 3.07%           |
| Securities:                                                       |                                                                       |                                               |                            |                                                            |                                    |                 |
| Held-to-maturity                                                  | 1,394,335                                                             | 60,627                                        | 5.81%                      | 1,385,803                                                  | 69,153                             | 6.67%           |
| Available-for-sale                                                | 3,247,096                                                             | 80,277                                        | 3.31%                      | 3,502,132                                                  | 130,857                            | 4.99%           |
| Trading account                                                   | 76,914                                                                | 2,236                                         | 3.89%                      | 40,942                                                     | 1,277                              | 4.17%           |
| Total securities                                                  | 4,718,345                                                             | 143,140                                       | 4.06%                      | 4,928,877                                                  | 201,287                            | 5.46%           |
| Loans held for sale                                               | 231,662                                                               | 8,272                                         | 4.77%                      | 186,940                                                    | 7,632                              | 5.45%           |
| Loans:                                                            |                                                                       |                                               |                            |                                                            |                                    |                 |
| Net loans and leases excluding FDIC-supported assets <sup>2</sup> | 40,869,880                                                            | 1,728,742                                     | 5.66%                      | 40,467,491                                                 | 2,016,914                          | 6.66%           |
| FDIC-supported assets                                             | 1,109,356                                                             | 40,526                                        | 4.88%                      |                                                            |                                    |                 |
| Total loans and leases                                            | 41,979,236                                                            | 1,769,268                                     | 5.63%                      | 40,467,491                                                 | 2,016,914                          | 6.66%           |
| Total interest-earning assets                                     | 49,181,065                                                            | 1,926,794                                     | 5.24%                      | 47,349,240                                                 | 2,266,441                          | 6.39%           |
| Cash and due from banks                                           | 1,262,255                                                             |                                               |                            | 1,387,584                                                  |                                    |                 |
| Allowance for loan losses                                         | (971,468)                                                             |                                               |                            | (518,840)                                                  |                                    |                 |
| Goodwill                                                          | 1,227,331                                                             |                                               |                            | 2,009,501                                                  |                                    |                 |
| Core deposit and other intangibles                                | 126,380                                                               |                                               |                            | 138,711                                                    |                                    |                 |
| Other assets                                                      | 3,488,519                                                             |                                               |                            | 3,132,318                                                  |                                    |                 |
| Total assets                                                      | \$ 54,314,082                                                         |                                               |                            | \$ 53,498,514                                              |                                    |                 |
| <b>LIABILITIES</b>                                                |                                                                       |                                               |                            |                                                            |                                    |                 |
| Interest-bearing deposits:                                        |                                                                       |                                               |                            |                                                            |                                    |                 |
| Savings and NOW                                                   | \$ 4,876,646                                                          | 16,353                                        | 0.45%                      | \$ 4,472,175                                               | 27,530                             | 0.82%           |
| Money market                                                      | 17,602,491                                                            | 177,703                                       | 1.35%                      | 13,203,878                                                 | 247,321                            | 2.50%           |
| Time under \$100,000                                              | 2,999,739                                                             | 57,659                                        | 2.57%                      | 2,589,543                                                  | 72,339                             | 3.73%           |
| Time \$100,000 and over                                           | 4,580,349                                                             | 84,651                                        | 2.47%                      | 4,243,922                                                  | 122,454                            | 3.85%           |
| Foreign                                                           | 2,075,197                                                             | 15,726                                        | 1.01%                      | 3,314,535                                                  | 69,726                             | 2.81%           |
| Total interest-bearing deposits                                   | 32,134,422                                                            | 352,092                                       | 1.46%                      | 27,824,053                                                 | 539,370                            | 2.59%           |
| Borrowed funds:                                                   |                                                                       |                                               |                            |                                                            |                                    |                 |
| Securities sold, not yet purchased                                | 42,425                                                                | 1,666                                         | 5.25%                      | 32,608                                                     | 1,140                              | 4.67%           |
| Federal funds purchased and security repurchase agreements        | 2,027,743                                                             | 4,648                                         | 0.31%                      | 2,864,224                                                  | 49,021                             | 2.29%           |

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|                                                                                 |               |              |       |               |              |       |
|---------------------------------------------------------------------------------|---------------|--------------|-------|---------------|--------------|-------|
| Commercial paper                                                                | 2,391         | 27           | 1.51% | 142,771       | 4,131        | 3.86% |
| FHLB advances and other borrowings:                                             |               |              |       |               |              |       |
| One year or less                                                                | 374,349       | 5,665        | 2.02% | 4,980,487     | 104,215      | 2.80% |
| Over one year                                                                   | 60,458        | 2,507        | 5.54% | 128,513       | 5,521        | 5.74% |
| Long-term debt                                                                  | 2,440,626     | 101,952      | 5.59% | 2,472,355     | 82,097       | 4.44% |
| Total borrowed funds                                                            | 4,947,992     | 116,465      | 3.15% | 10,620,958    | 246,125      | 3.10% |
| Total interest-bearing liabilities                                              | 37,082,414    | 468,557      | 1.69% | 38,445,011    | 785,495      | 2.73% |
| Noninterest-bearing deposits                                                    | 10,682,344    |              |       | 9,074,345     |              |       |
| Other liabilities                                                               | 543,197       |              |       | 588,846       |              |       |
| Total liabilities                                                               | 48,307,955    |              |       | 48,108,202    |              |       |
| Shareholders' equity:                                                           |               |              |       |               |              |       |
| Preferred equity                                                                | 1,562,994     |              |       | 254,270       |              |       |
| Common equity                                                                   | 4,417,885     |              |       | 5,106,750     |              |       |
| Controlling interest shareholders' equity                                       | 5,980,879     |              |       | 5,361,020     |              |       |
| Noncontrolling interests                                                        | 25,248        |              |       | 29,292        |              |       |
| Total shareholders' equity                                                      | 6,006,127     |              |       | 5,390,312     |              |       |
| Total liabilities and shareholders' equity                                      | \$ 54,314,082 |              |       | \$ 53,498,514 |              |       |
| Spread on average interest-bearing funds                                        |               |              | 3.55% |               |              | 3.66% |
| Taxable-equivalent net interest income and net yield on interest-earning assets |               | \$ 1,458,237 | 3.96% |               | \$ 1,480,946 | 4.18% |

<sup>1</sup> Taxable-equivalent rates used where applicable.

<sup>2</sup> Net of unearned income and fees, net of related costs. Loans include nonaccrual and restructured loans.

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### **ZIONS BANCORPORATION AND SUBSIDIARIES**

#### **Provisions for Credit Losses**

The provision for loan losses is the amount of expense that, based on our judgment, is required to maintain the allowance for loan losses at an adequate level based upon the inherent risks in the portfolio. The provision for unfunded lending commitments is used to maintain the reserve for unfunded lending commitments at an adequate level based upon the inherent risks in the portfolio. In determining adequate levels of the allowance and reserve, we perform periodic evaluations of the Company's various portfolios, the levels of actual charge-offs, and statistical trends and other economic factors. See **Credit Risk Management** for more information on how we determine the appropriate level for the allowance for loan and lease losses and the reserve for unfunded lending commitments.

The provision for loan losses for the third quarter of 2009 was \$565.9 million compared to \$762.7 million for second quarter of 2009 and \$156.6 million for the third quarter of 2008. Net loan and lease charge-offs increased to \$381.3 million (3.79% annualized of average loans excluding FDIC-supported assets) in the third quarter of 2009 up from \$347.5 million (3.39% annualized of average loans excluding FDIC-supported assets) in the second quarter of 2009. Net loan and lease charge-offs were \$95.3 million (0.91% annualized of average loans) in the third quarter of 2008. The provision for the third quarter decreased from the second quarter. The second quarter included larger adjustments related to the re-estimation of our loss migration factors, a larger increase in criticized and classified loans, and the incorporation of the possibility of a more protracted credit cycle as compared to the third quarter. Additionally, the third quarter provision included the effects of updated loss migration factors using more recent loss experience.

The increased provision for the third quarter of 2009 compared to the third quarter of 2008 was attributable to a higher level of criticized and classified loans, higher realized loss content in these loan categories, and continued deterioration in collateral values primarily in land acquisition, development and construction loans, all of which resulted in increases of some of our loss migration factors and application of the updated factors at all banking subsidiaries using the most recent loss experience. See **Nonperforming Assets** and **Allowance and Reserve for Credit Losses** for further details. The provision for unfunded lending commitments was \$36.5 million for the third quarter of 2009 compared to \$7.9 million for the second quarter of 2009 and \$(3.3) million for the third quarter of 2008 due to the above mentioned factors and the application of updated loss migration factors during the quarter. From period to period, the amounts of unfunded lending commitments may be subject to sizeable fluctuation due to changes in the timing and volume of loan commitments, originations, and fundings, and by changes in the creditworthiness of borrowers with unfunded commitments. The related provision will generally reflect these fluctuations. When combined, the provisions for credit losses for the third quarter of 2009 were \$602.5 million compared to \$153.3 million for the third quarter of 2008.

The provision for loan losses for the first nine months of 2009 was \$1,626.2 million, 347.9% higher than the \$363.1 million provision for the first nine months of 2008. The provision for unfunded lending commitments was \$46.3 million for the first nine months of 2009 compared to \$2.0 million for the comparable period of 2008. The increases in these loss provisions for the first nine months of 2009 were primarily caused by the same factors discussed previously.

The Company's expectation is that credit and general economic conditions will remain weak, impacting both commercial and consumer borrowers.

#### **Noninterest Income**

For the third quarter of 2009, noninterest income increased 202.1% to \$270.7 million compared to \$89.6 million for the third quarter of 2008. The increase is primarily due to \$146.2 million of acquisition related gains recognized during the quarter and an \$84.2 million increase in fair value and nonhedge derivative income offset by \$28.5 million of increased credit impairment losses on investment securities and a \$14.8 million decrease in equity securities gains in the third quarter of 2009 compared to the third quarter of 2008.

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### **ZIONS BANCORPORATION AND SUBSIDIARIES**

Excluding these items, noninterest income was \$124.8 million for the third quarter of 2009 and \$130.8 million for the third quarter of 2008.

Other service charges, commissions, and fees decreased \$3.6 million or 8.3% for the third quarter of 2009, compared to the same period in 2008. The decrease is due to reductions in lending related fees, mutual fund sweep product fees, and official check fees.

Dividends and other investment income decreased 63.1% to \$2.6 million for the third quarter of 2009 from \$7.0 million for the third quarter of 2008. The decrease is primarily due to decreased earnings of approximately \$6.8 million from two investment funds, a \$2.4 million decrease in Federal Home Loan Bank dividends, and decreased earnings from other equity investments, offset in part by increased equity earnings from our investment in Farmer Mac.

Fair value and nonhedge derivative income was \$58.1 million for the third quarter of 2009 compared to a loss of \$26.2 million for the third quarter of 2008. The income for the third quarter of 2009 primarily reflects the recognition of hedge ineffectiveness on cash flow hedges of floating rate loans. Interest rate swaps became ineffective as loan pools paid down or renewed with wider spreads. The loss for the third quarter of 2008 was mainly due to decreases in the fair value of nonhedge derivatives resulting from decreasing spreads between LIBOR and prime rates.

Net equity securities losses were \$1.8 million for the third quarter of 2009 compared to \$13.0 million of gains for the third quarter of 2008. Net losses in the third quarter of 2009 were primarily losses on venture capital investments offset by a gain adjustment on the Company's interest in a previously sold mutual fund management company. Net gains in the third quarter of 2008 included \$5.4 million of net gains on venture capital investments. Net of related minority interest of \$3.8 million, income taxes and other expenses, the venture capital gains increased net income for the quarter by approximately \$0.8 million. Net gains in the third quarter of 2008 also included a \$7.7 million gain on the sale of the Company's interest in a mutual fund management company.

The Company recognized net impairment losses on investment securities of \$56.5 million during the third quarter of 2009 compared to \$28.0 million during the third quarter of 2008. The total impairment loss for the third quarter of 2009 was \$198.4 million and the illiquidity portion of the OTTI charged against OCI was \$141.9 million. These OTTI losses were for certain CDOs, including bank and insurance CDOs, ABS CDOs, and REIT trust preferred CDOs. See Investment Securities Portfolio for additional information.

Acquisition related gains were \$146.2 million in the third quarter of 2009 and resulted from the acquisition of Vineyard Bank, a failed financial institution acquired from the FDIC on July 17, 2009. The gains resulted from the acquisition of assets that had fair values in excess of the fair value of liabilities assumed. The Company recognized acquisition related gains of \$23.0 million during the second quarter of 2009 from the acquisition of the failed Alliance Bank on February 6, 2009 by California Bank & Trust and Great Basin Bank on April 17, 2009 by Nevada State Bank. The acquisitions involved loss sharing arrangements with the FDIC.

For the first nine months of 2009, noninterest income increased 170.4% to \$738.2 million compared to \$273.0 million of income for the first nine months of 2008. Explanations previously provided for the quarterly changes also apply to the year-to-date changes. Additional explanations of variances follow.

Service charges and fees on deposit accounts increased \$4.7 million or 3.1% for the first nine months of 2009 compared to the same period of 2008. The increase reflects reduced business deposit account earnings credits due to lower interest rates and increased fees related to the acquisitions previously discussed.

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### **ZIONS BANCORPORATION AND SUBSIDIARIES**

Trust and wealth management income decreased 16.4% to \$24.1 million for the first nine months of 2009 from \$28.8 million for the comparable period in 2008. The decrease is primarily due to lower fees from our trust and wealth management business resulting from lower balances of assets under management and lower 12b-1 mutual fund fees due to lower balances.

Capital markets and foreign exchange income was \$41.6 million for the first nine months 2009 as compared to \$34.9 million for the first nine months of 2008. This increase is due to increased trading income from trading of fixed income corporate bonds offset by lower public finance fees.

Loan sales and servicing income for the first nine months of 2009 decreased \$4.7 million or 23.6% compared to the first nine months of 2008. The decreased income is primarily due to decreased servicing fees on small business loans resulting from the dissolution of loan securitizations in Lockhart during 2008 offset by increased gains on sold mortgage loans.

Income from securities conduit decreased \$2.9 million or 72.6% for the first nine months of 2009 compared to the first nine months of 2008. This servicing income represents fees we receive from Lockhart and decreased because of the higher cost of asset-backed commercial paper due to disruptions in the commercial paper markets and because of the diminishing size of Lockhart's securities portfolio. In June of 2009, Lockhart was consolidated onto the books of Zions Bank which eliminated the income from the securities conduit. All else being equal, net interest income increased as Lockhart-related assets were brought onto the Company's balance sheet, roughly offsetting the decrease to noninterest income.

Valuation losses on securities purchased were \$212.1 million during the first nine months of 2009 compared to \$5.2 million for the comparable period in 2008. The valuation losses in 2009 consist of \$187.9 million from purchases of securities from Lockhart Funding LLC, prior to fully consolidating Lockhart in June 2009, and \$24.2 million for valuation adjustments to auction rate securities purchased from customers during the first quarter of 2009. The valuation losses in 2008 were from the purchases of securities from Lockhart Funding LLC. During the third quarter of 2009 Lockhart Funding LLC was terminated.

The gain on subordinated debt modification of \$493.7 million in the second quarter of 2009 resulted from actions the Company took to modify subordinated debt. The Company exchanged approximately \$0.2 billion of subordinated notes for new notes with the same terms. The remaining \$1.2 billion of subordinated notes were modified to permit conversion on a par-for-par basis into either the Company's Series A or Series C preferred stock. Net of issuance costs and debt discount on the previous debt, the pretax gain recognized in earnings from this subordinated debt modification was \$493.7 million.

### **Noninterest Expense**

Noninterest expense for the third quarter of 2009 was \$434.7 million, an increase of 16.8% from \$372.3 million for the third quarter of 2008. The increase is primarily due a \$23.3 million increase in other real estate expense, a \$14.5 million increase in FDIC premium expense, and a \$39.8 million increase in the provision for unfunded lending commitments. Excluding the other real estate expense, FDIC premium expense, and provision for unfunded lending commitments for the third quarters of 2009 and 2008, noninterest expense was down \$15.2 million or 4.2% from \$363.1 million for the third quarter of 2008 to \$347.9 million for the third quarter of 2009.

Salaries and employee benefits decreased \$3.6 million or 1.7% compared to the third quarter of 2008. Salaries and employee benefits included approximately \$1.5 million of severance costs in third quarter of 2009, and salary costs for staff added in conjunction with the acquisition of Vineyard Bank. Full-time equivalent staffing has been reduced by 3.6% from December 31, 2008 even after adding personnel from the FDIC-assisted acquisitions.

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### **ZIONS BANCORPORATION AND SUBSIDIARIES**

Other real estate expense increased \$23.3 million compared to the third quarter of 2008. The increase is primarily due to increased OREO balances and write downs resulting from declining property values, mainly in Utah, California, and Nevada.

FDIC premiums increased \$14.5 million as compared to the third quarter of 2008. The increase is due to increased FDIC premium rate charges on the banks' deposits that become effective in first quarter of 2009 and the impact of higher deposit balances.

The provision for unfunded lending commitments increased to \$36.5 million during the third quarter of 2009 compared to \$(3.3) million during the third quarter of 2008, primarily due to the Company's implementation of loss migration factors that are more weighted toward recent loss experience during the third quarter of 2009.

For the first nine months of 2009, noninterest expense increased 14.3% to \$1,230.4 million compared to \$1,076.8 million for the first nine months of 2008. Explanations previously provided for the quarterly changes also apply to the year-to-date changes. Additional explanations of variances follow.

Other noninterest expense for the first nine months of 2009 increased \$6.2 million or 3.7% compared to the first nine months of 2008. This increase is primarily due to \$5.1 million of debt extinguishment costs for certain long-term FHLB debt incurred during the second quarter.

At September 30, 2009, the Company had 10,616 full-time equivalent employees, 493 domestic branches, and 596 ATMs, compared to 10,971 full-time equivalent employees, 525 domestic branches, and 617 ATMs at September 30, 2008.

### **Impairment Losses on Goodwill**

The goodwill impairment losses of \$634.0 million for the first nine months of 2009 resulted from a goodwill impairment analysis completed during the first quarter of 2009 by the Company. The goodwill impairment analysis resulted in impairment losses on goodwill at the Amegy reporting unit.

The primary causes of the goodwill impairment loss in our Amegy reporting unit reflects declines in market values of peer banks in Texas and a weaker economic outlook in that state. See "Accounting for Goodwill" for further discussion of the goodwill impairment.

### **Income Taxes**

The Company's income tax benefit for the third quarter of 2009 was \$100.0 million compared to an income tax expense of \$11.2 million for the same period in 2008. The effective income tax rates, including the effects of noncontrolling interests, for the third quarter of 2009 and 2008 were 39.2% and 22.9% and for the first nine months of 2009 and 2008 were 21.1% and 27.7%. The low tax rates for the third quarter and first nine months of 2008 are mainly due to the lower taxable income in the period which increased the proportion of nontaxable income relative to total income. The lower tax rate for the first nine months of 2009 is mainly due to nondeductible goodwill impairment charges. As discussed in previous filings, the Company has received federal income tax credits under the U.S. Government's Community Development Financial Institutions Fund that are recognized over a seven-year period from the year of investment. The effect of these tax credits was to reduce income tax expense by \$4.4 million for the first nine months for both 2009 and 2008.

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### **ZIONS BANCORPORATION AND SUBSIDIARIES**

The Company had a net deferred tax asset ( DTA ) balance of \$582 million at September 30, 2009 compared to \$537 million at June 30, 2009, \$479 million at December 31, 2008, and \$402 million at September 30, 2008. The increase in DTA has arisen primarily from excess loan loss provisions and valuation losses on investment securities. The Company has no valuation allowance against the DTA, although some DTA is disallowed by regulatory limits for risk-based capital at four of its subsidiary banks. The Company does not expect to record a valuation allowance for GAAP purposes, as its strong historical record of profitability and continuing strong pretax pre-credit cost income indicate a likelihood of future profitability when provisions for credit losses and OTTI return to historical levels. In addition, the Company continues to pursue strategies which may have the effect of mitigating the future possibility of a DTA valuation allowance.

### **BALANCE SHEET ANALYSIS**

#### **Interest-Earning Assets**

Interest-earning assets are those assets that have interest rates or yields associated with them and consist of money market investments, securities and loans.

Average interest-earning assets increased 3.9% to \$49.2 billion for the first nine months of 2009 compared to \$47.3 billion for the same period in 2008. Average interest-earning assets as a percentage of total average assets for the first nine months of 2009 was 90.5% compared to 88.5% for the comparable period of 2008.

Average money market investments, consisting of interest-bearing deposits and commercial paper, federal funds sold and security resell agreements, increased 27.5% to \$2,252 million for the first nine months of 2009 compared to \$1,766 million for the same period of 2008. Average money market investments for the first nine months of 2009 included \$158 million of asset-backed commercial paper that subsidiary companies purchased from Lockhart compared to \$962 million during the same period of 2008. The increase in the average money market investment balance during the first nine months reflects an increase in the Company's liquidity.

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ZIONS BANCORPORATION AND SUBSIDIARIES

**Investment Securities Portfolio**

The following tables present the Company's held-to-maturity and available-for-sale investment securities at September 30, 2009, December 31, 2008, and September 30, 2008. The amortized cost amounts represent the Company's original cost for the investments, adjusted for accumulated amortization or accretion of any yield adjustments related to the security and credit impairment losses. The estimated fair values are the amounts that we believe most accurately reflect assumptions that other participants in the market place would use in pricing the securities as of the dates indicated.

The first two tables present the Company's investment securities, including asset-backed securities classified by the highest of the ratings and the lowest ratings from any of Moody's Investors Service, Fitch Ratings or Standard & Poors as of September 30, 2009.

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## ZIONS BANCORPORATION AND SUBSIDIARIES

**INVESTMENT SECURITIES PORTFOLIO****ASSET-BACKED SECURITIES CLASSIFIED AT HIGHEST CREDIT RATING\***

As of September 30, 2009

| (In millions)                                        | Par<br>value | Amortized<br>cost | Net<br>unrealized<br>gains (losses)<br>recognized<br>in OCI <sup>1</sup> | Carrying<br>value | Net<br>unrealized<br>gains (losses)<br>not recognized<br>in OCI <sup>1</sup> | Estimated<br>fair<br>value |
|------------------------------------------------------|--------------|-------------------|--------------------------------------------------------------------------|-------------------|------------------------------------------------------------------------------|----------------------------|
| <b>HELD-TO-MATURITY:</b>                             |              |                   |                                                                          |                   |                                                                              |                            |
| Municipal securities                                 | \$ 613       | \$ 611            | \$                                                                       | \$ 611            | \$ 5                                                                         | \$ 616                     |
| Asset-backed securities:                             |              |                   |                                                                          |                   |                                                                              |                            |
| Trust preferred securities predominately bank        |              |                   |                                                                          |                   |                                                                              |                            |
| A rated                                              | 1            | 1                 |                                                                          | 1                 |                                                                              | 1                          |
| A rated OTTI                                         | 1            | 1                 |                                                                          | 1                 |                                                                              | 1                          |
| Noninvestment grade                                  | 88           | 88                | (11)                                                                     | 77                | (24)                                                                         | 53                         |
|                                                      | 90           | 90                | (11)                                                                     | 79                | (24)                                                                         | 55                         |
| Trust preferred securities predominately insurance   |              |                   |                                                                          |                   |                                                                              |                            |
| A rated                                              | 10           | 10                | (1)                                                                      | 9                 | (1)                                                                          | 8                          |
| BBB rated                                            | 17           | 17                | (2)                                                                      | 15                | (2)                                                                          | 13                         |
| Noninvestment grade                                  | 149          | 149               | (12)                                                                     | 137               | (11)                                                                         | 126                        |
|                                                      | 176          | 176               | (15)                                                                     | 161               | (14)                                                                         | 147                        |
| Other                                                |              |                   |                                                                          |                   |                                                                              |                            |
| AAA rated                                            | 4            | 4                 |                                                                          | 4                 |                                                                              | 4                          |
| A rated                                              | 4            | 3                 | (1)                                                                      | 2                 | 1                                                                            | 3                          |
| BBB rated                                            | 18           | 16                |                                                                          | 16                | (9)                                                                          | 7                          |
| Noninvestment grade OTTI/PIK <sup>2</sup> d          | 12           | 8                 | (4)                                                                      | 4                 |                                                                              | 4                          |
|                                                      | 38           | 31                | (5)                                                                      | 26                | (8)                                                                          | 18                         |
|                                                      | 917          | 908               | (31)                                                                     | 877               | (41)                                                                         | 836                        |
| <b>AVAILABLE-FOR-SALE:</b>                           |              |                   |                                                                          |                   |                                                                              |                            |
| U.S. Treasury securities                             | 41           | 41                |                                                                          | 41                |                                                                              | 41                         |
| U.S. Government agencies and corporations:           |              |                   |                                                                          |                   |                                                                              |                            |
| Agency securities                                    | 243          | 243               | 6                                                                        | 249               |                                                                              | 249                        |
| Agency guaranteed mortgage-backed securities         | 386          | 386               | 12                                                                       | 398               |                                                                              | 398                        |
| Small Business Administration loan-backed securities | 753          | 799               | (19)                                                                     | 780               |                                                                              | 780                        |
| Municipal securities                                 | 248          | 241               | 5                                                                        | 246               |                                                                              | 246                        |
| Asset-backed securities:                             |              |                   |                                                                          |                   |                                                                              |                            |
| Trust preferred securities predominately bank        |              |                   |                                                                          |                   |                                                                              |                            |
| AAA rated                                            | 80           | 79                | (12)                                                                     | 67                |                                                                              | 67                         |

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|                                                          |          |          |          |          |                  |
|----------------------------------------------------------|----------|----------|----------|----------|------------------|
| AA rated                                                 | 531      | 381      |          | 381      | 381              |
| A rated                                                  | 317      | 308      | (96)     | 212      | 212              |
| A rated OTTI                                             | 50       | 46       | (18)     | 28       | 28               |
| BBB rated                                                | 164      | 139      | (34)     | 105      | 105              |
| Noninvestment grade                                      | 40       | 34       | (11)     | 23       | 23               |
| Noninvestment grade OTTI/PIK <sup>2</sup> d              | 944      | 825      | (541)    | 284      | 284              |
|                                                          | 2,126    | 1,812    | (712)    | 1,100    | 1,100            |
| Trust preferred securities predominately insurance       |          |          |          |          |                  |
| AAA rated                                                | 5        | 5        |          | 5        | 5                |
| AA rated                                                 | 104      | 96       | (1)      | 95       | 95               |
| Not rated                                                | 1        |          |          |          |                  |
| Noninvestment grade                                      | 195      | 195      | (27)     | 168      | 168              |
|                                                          | 305      | 296      | (28)     | 268      | 268              |
| Trust preferred securities single banks                  |          |          |          |          |                  |
| A rated                                                  | 1        | 1        |          | 1        | 1                |
| Not rated                                                | 25       | 25       | (3)      | 22       | 22               |
|                                                          | 26       | 26       | (3)      | 23       | 23               |
| Trust preferred securities real estate investment trusts |          |          |          |          |                  |
| Noninvestment grade                                      | 25       | 16       | (3)      | 13       | 13               |
| Noninvestment grade OTTI/PIK <sup>2</sup> d              | 70       | 52       | (38)     | 14       | 14               |
|                                                          | 95       | 68       | (41)     | 27       | 27               |
| Auction rate securities                                  |          |          |          |          |                  |
| AAA rated                                                | 175      | 160      | (1)      | 159      | 159              |
| A rated                                                  | 4        | 2        | 1        | 3        | 3                |
| BBB rated                                                | 3        | 3        |          | 3        | 3                |
|                                                          | 182      | 165      |          | 165      | 165              |
| Other                                                    |          |          |          |          |                  |
| AAA rated                                                | 50       | 48       | (11)     | 37       | 37               |
| AA rated                                                 | 3        | 2        | 1        | 3        | 3                |
| A rated                                                  | 51       | 50       | (19)     | 31       | 31               |
| BBB rated                                                | 2        | 1        |          | 1        | 1                |
| Noninvestment grade                                      | 10       | 7        | (2)      | 5        | 5                |
| Noninvestment grade OTTI/PIK <sup>2</sup> d              | 95       | 39       | (21)     | 18       | 18               |
|                                                          | 211      | 147      | (52)     | 95       | 95               |
|                                                          | 4,616    | 4,224    | (832)    | 3,392    | 3,392            |
| Other securities:                                        |          |          |          |          |                  |
| Mutual funds and stock                                   | 155      | 155      |          | 155      | 155              |
|                                                          | 4,771    | 4,379    | (832)    | 3,547    | 3,547            |
| Total                                                    | \$ 5,688 | \$ 5,287 | \$ (863) | \$ 4,424 | \$ (41) \$ 4,383 |

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- \* *Ratings categories include entire range. For example, A rated includes A+, A and A-. Split rated securities with more than one rating are categorized at the highest rating level.*
- <sup>1</sup> *Other comprehensive income. All amounts reported are pretax.*
- <sup>2</sup> *Consists of securities determined to have Other Than Temporary Impairment ( OTTI ) and/or securities whose most recent interest payment was capitalized as opposed to being paid in cash, as permitted under the terms of the security. This capitalization feature is known as Payment In Kind ( PIK ) and where exercised the security is called PIK d.*

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## ZIONS BANCORPORATION AND SUBSIDIARIES

## INVESTMENT SECURITIES PORTFOLIO

## ASSET-BACKED SECURITIES CLASSIFIED AT LOWEST CREDIT RATING\*

As of September 30, 2009

| (In millions)                                        | Par<br>value | Amortized<br>cost | Net<br>unrealized<br>gains (losses)<br>recognized<br>in OCI <sup>1</sup> | Carrying<br>value | Net<br>unrealized<br>gains (losses)<br>not recognized<br>in OCI <sup>1</sup> | Estimated<br>fair<br>value |
|------------------------------------------------------|--------------|-------------------|--------------------------------------------------------------------------|-------------------|------------------------------------------------------------------------------|----------------------------|
| <b>HELD-TO-MATURITY:</b>                             |              |                   |                                                                          |                   |                                                                              |                            |
| Municipal securities                                 | \$ 613       | \$ 611            | \$                                                                       | \$ 611            | \$ 5                                                                         | \$ 616                     |
| Asset-backed securities:                             |              |                   |                                                                          |                   |                                                                              |                            |
| Trust preferred securities predominately bank        |              |                   |                                                                          |                   |                                                                              |                            |
| Noninvestment grade                                  | 89           | 89                | (11)                                                                     | 78                | (24)                                                                         | 54                         |
| Noninvestment grade OTTI                             | 1            | 1                 |                                                                          | 1                 |                                                                              | 1                          |
|                                                      | 90           | 90                | (11)                                                                     | 79                | (24)                                                                         | 55                         |
| Trust preferred securities predominately insurance   |              |                   |                                                                          |                   |                                                                              |                            |
| Noninvestment grade                                  | 176          | 176               | (15)                                                                     | 161               | (14)                                                                         | 147                        |
|                                                      | 176          | 176               | (15)                                                                     | 161               | (14)                                                                         | 147                        |
| Other                                                |              |                   |                                                                          |                   |                                                                              |                            |
| A rated                                              | 4            | 3                 | (1)                                                                      | 2                 | 1                                                                            | 3                          |
| Noninvestment grade                                  | 22           | 20                |                                                                          | 20                | (9)                                                                          | 11                         |
| Noninvestment grade OTTI/PIK <sup>2</sup> d          | 12           | 8                 | (4)                                                                      | 4                 |                                                                              | 4                          |
|                                                      | 38           | 31                | (5)                                                                      | 26                | (8)                                                                          | 18                         |
|                                                      | 917          | 908               | (31)                                                                     | 877               | (41)                                                                         | 836                        |
| <b>AVAILABLE-FOR-SALE:</b>                           |              |                   |                                                                          |                   |                                                                              |                            |
| U.S. Treasury securities                             | 41           | 41                |                                                                          | 41                |                                                                              | 41                         |
| U.S. Government agencies and corporations:           |              |                   |                                                                          |                   |                                                                              |                            |
| Agency securities                                    | 243          | 243               | 6                                                                        | 249               |                                                                              | 249                        |
| Agency guaranteed mortgage-backed securities         | 386          | 386               | 12                                                                       | 398               |                                                                              | 398                        |
| Small Business Administration loan-backed securities | 753          | 799               | (19)                                                                     | 780               |                                                                              | 780                        |
| Municipal securities                                 | 248          | 241               | 5                                                                        | 246               |                                                                              | 246                        |
| Asset-backed securities:                             |              |                   |                                                                          |                   |                                                                              |                            |
| Trust preferred securities predominately bank        |              |                   |                                                                          |                   |                                                                              |                            |
| AA rated                                             | 47           | 46                | (5)                                                                      | 41                |                                                                              | 41                         |
| A rated                                              | 116          | 90                | 1                                                                        | 91                |                                                                              | 91                         |
| BBB rated                                            | 255          | 180               | 18                                                                       | 198               |                                                                              | 198                        |
| Noninvestment grade                                  | 714          | 626               | (167)                                                                    | 459               |                                                                              | 459                        |
| Noninvestment grade OTTI/PIK <sup>2</sup> d          | 994          | 870               | (559)                                                                    | 311               |                                                                              | 311                        |

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|                                                          |          |          |          |          |                  |
|----------------------------------------------------------|----------|----------|----------|----------|------------------|
|                                                          | 2,126    | 1,812    | (712)    | 1,100    | 1,100            |
| Trust preferred securities predominately insurance       |          |          |          |          |                  |
| AAA rated                                                | 5        | 5        |          | 5        | 5                |
| AA rated                                                 | 72       | 65       | 2        | 67       | 67               |
| A rated                                                  | 32       | 31       | (3)      | 28       | 28               |
| Not rated                                                | 1        |          |          |          |                  |
| Noninvestment grade                                      | 195      | 195      | (27)     | 168      | 168              |
|                                                          | 305      | 296      | (28)     | 268      | 268              |
| Trust preferred securities single banks                  |          |          |          |          |                  |
| A rated                                                  | 1        | 1        |          | 1        | 1                |
| Not rated                                                | 25       | 25       | (3)      | 22       | 22               |
|                                                          | 26       | 26       | (3)      | 23       | 23               |
| Trust preferred securities real estate investment trusts |          |          |          |          |                  |
| Noninvestment grade                                      | 25       | 16       | (3)      | 13       | 13               |
| Noninvestment grade OTTI/PIK <sup>2</sup> d              | 70       | 52       | (38)     | 14       | 14               |
|                                                          | 95       | 68       | (41)     | 27       | 27               |
| Auction rate securities                                  |          |          |          |          |                  |
| AAA rated                                                | 168      | 154      | (1)      | 153      | 153              |
| BBB rated                                                | 7        | 5        | 1        | 6        | 6                |
| Noninvestment grade                                      | 7        | 6        |          | 6        | 6                |
|                                                          | 182      | 165      |          | 165      | 165              |
| Other                                                    |          |          |          |          |                  |
| AAA rated                                                | 11       | 10       | 1        | 11       | 11               |
| AA rated                                                 | 38       | 38       | (13)     | 25       | 25               |
| A rated                                                  | 49       | 48       | (18)     | 30       | 30               |
| BBB rated                                                | 2        | 1        |          | 1        | 1                |
| Noninvestment grade                                      | 16       | 11       | (1)      | 10       | 10               |
| Noninvestment grade OTTI/PIK <sup>2</sup> d              | 95       | 39       | (21)     | 18       | 18               |
|                                                          | 211      | 147      | (52)     | 95       | 95               |
|                                                          | 4,616    | 4,224    | (832)    | 3,392    | 3,392            |
| Other securities:                                        |          |          |          |          |                  |
| Mutual funds and stock                                   | 155      | 155      |          | 155      | 155              |
|                                                          | 4,771    | 4,379    | (832)    | 3,547    | 3,547            |
| Total                                                    | \$ 5,688 | \$ 5,287 | \$ (863) | \$ 4,424 | \$ (41) \$ 4,383 |

\* Ratings categories include entire range. For example, A rated includes A+, A and A-. Split rated securities with more than one rating are categorized at the highest rating level.

<sup>1</sup> Other comprehensive income. All amounts reported are pretax.

<sup>2</sup> Consists of securities determined to have Other Than Temporary Impairment ( OTTI ) and/or securities whose most recent interest payment was capitalized as opposed to being paid in cash, as permitted under the terms of the security. This capitalization feature is known as Payment In Kind ( PIK ) and where exercised the security is called PIK d.



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## ZIONS BANCORPORATION AND SUBSIDIARIES

| (In millions)                                            | December 31,<br>2008 |                                |                            | September 30,<br>2008 |                                |                            |
|----------------------------------------------------------|----------------------|--------------------------------|----------------------------|-----------------------|--------------------------------|----------------------------|
|                                                          | Amortized<br>cost    | Carrying<br>value <sup>1</sup> | Estimated<br>fair<br>value | Amortized<br>cost     | Carrying<br>value <sup>1</sup> | Estimated<br>fair<br>value |
| <b>HELD-TO-MATURITY:</b>                                 |                      |                                |                            |                       |                                |                            |
| Municipal securities                                     | \$ 697               | \$ 697                         | \$ 695                     | \$ 696                | 696                            | \$ 693                     |
| Asset-backed securities:                                 |                      |                                |                            |                       |                                |                            |
| Trust preferred securities banks and insurance           | 1,188                | 1,004                          | 677                        | 1,362                 | 1,135                          | 815                        |
| Trust preferred securities real estate investment trusts | 36                   | 27                             | 21                         | 36                    | 27                             | 24                         |
| Other                                                    | 76                   | 63                             | 51                         | 72                    | 59                             | 55                         |
|                                                          | \$ 1,997             | \$ 1,791                       | \$ 1,444                   | \$ 2,166              | 1,917                          | \$ 1,587                   |
| <b>AVAILABLE-FOR-SALE:</b>                               |                      |                                |                            |                       |                                |                            |
| U.S. Treasury securities                                 | \$ 28                | \$ 29                          | \$ 29                      | \$ 41                 | 42                             | \$ 42                      |
| U.S. Government agencies and corporations:               |                      |                                |                            |                       |                                |                            |
| Agency securities                                        | 323                  | 325                            | 325                        | 457                   | 457                            | 457                        |
| Agency guaranteed mortgage-backed securities             | 406                  | 410                            | 410                        | 410                   | 414                            | 414                        |
| Small Business Administration loan-backed securities     | 693                  | 667                            | 667                        | 696                   | 682                            | 682                        |
| Municipal securities                                     | 178                  | 180                            | 180                        | 179                   | 179                            | 179                        |
| Asset-backed securities:                                 |                      |                                |                            |                       |                                |                            |
| Trust preferred securities banks and insurance           | 807                  | 661                            | 661                        | 744                   | 630                            | 630                        |
| Trust preferred securities real estate investment trusts | 27                   | 24                             | 24                         | 40                    | 38                             | 38                         |
| Small business loan-backed                               |                      |                                |                            | 13                    | 13                             | 13                         |
| Other                                                    | 102                  | 72                             | 72                         | 108                   | 87                             | 87                         |
|                                                          | 2,564                | 2,368                          | 2,368                      | 2,688                 | 2,542                          | 2,542                      |
| <b>Other securities:</b>                                 |                      |                                |                            |                       |                                |                            |
| Mutual funds and stock                                   | 308                  | 308                            | 308                        | 250                   | 250                            | 250                        |
|                                                          | 2,872                | 2,676                          | 2,676                      | 2,938                 | 2,792                          | 2,792                      |
| Total                                                    | \$ 4,869             | \$ 4,467                       | \$ 4,120                   | \$ 5,104              | \$ 4,709                       | \$ 4,379                   |

<sup>1</sup> Carrying value is disclosed due to changes related to the transfer of available-for-sale investment securities to held-to-maturity during the second quarter of 2008.

The amortized cost of investment securities at September 30, 2009 increased 8.6% from the balance at December 31, 2008. The change was largely due to Zions Bank purchasing securities from Lockhart (\$678 million), the Company purchasing auction rate securities from customers (\$237 million), securities acquired in the FDIC assisted transactions of the failed Alliance, Great Basin, and Vineyard banks (\$182 million), the impact of the 2009 provisions of FASB ACS 320 (\$230 million) offset by OTTI write-downs, valuation losses on security purchases, and security maturity paydowns. See further discussion of securities purchases from Lockhart in Termination of Off-Balance Sheet Arrangement. As discussed further in Risk Elements: Market Risk Fixed Income, changes in fair value on available-for-sale securities have been reflected in shareholders' equity through accumulated other comprehensive income (OCI).

At September 30, 2009, 5.3% of the \$3.5 billion of fair value of available-for-sale securities portfolio as shown previously was valued at Level 1, 46.3% was valued at Level 2, and 48.4% was valued at Level 3 under the GAAP fair value accounting valuation hierarchy. See Note 8 of the Notes to Consolidated Financial Statements for further discussion of fair value accounting.

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The amortized cost of available-for-sale investment securities valued at Level 3 was \$2,555 million and the fair value of these securities was \$1,717 million. The securities valued at Level 3 were comprised of ABS CDOs and auction rate securities. For these Level 3 securities, net pretax unrealized loss recognized in OCI at the end of the third quarter was \$838 million. As of September 30, 2009, we believe that the par amounts of the Level 3 available-for-sale securities for which no OTTI has been recognized do not differ from the amounts we currently anticipate realizing on settlement or maturity. See [Critical Accounting Policies and Significant Estimates](#) for further details about the CDO securities pricing methodologies.

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### **ZIONS BANCORPORATION AND SUBSIDIARIES**

During the second quarter of 2009, the Company reassessed the classification of certain asset-backed and trust preferred CDOs and reclassified approximately \$557 million at fair value of held-to-maturity securities to available-for-sale. These securities were downgraded from an investment grade to a noninvestment grade rating by at least one rating agency during the second quarter of 2009. No gain or loss was recognized in the statement of income at the time of reclassification. During the first nine months of 2009, the Company reclassified \$596 million at fair value of securities from HTM to AFS.

We review investment securities on an ongoing basis for the presence of OTTI, taking into consideration current market conditions, estimated credit impairment, if any, fair value in relationship to cost, extent and nature of change in fair value, issuer rating changes and trends, volatility of earnings, current analysts' evaluations, our ability and intent to hold investments until a recovery of fair value, which may be maturity, and other factors. During the third quarter of 2009, the Company incurred \$56.5 million of credit-related OTTI charges recorded in earnings and \$141.9 million pretax of OTTI related to illiquidity recorded in OCI. The Company incurred \$181.2 million of credit-related OTTI charges recorded in earnings and \$254.4 million pretax of OTTI related to illiquidity recorded in OCI during the first nine months of 2009. The collateral in these securities deemed to have OTTI includes bank and insurance trust preferred debt, debt issued by commercial income REITS, commercial mortgage-backed securities, residential mortgage REITs, and homebuilders. Future reviews for OTTI will consider the particular facts and circumstances during the reporting period in review. See **Other-than-Temporary Impairment Debt Investment Securities** for further details about the OTTI accounting policy.

The Company recognized valuation losses in the first nine months of 2009 of \$187.9 million on securities purchased from Lockhart under the terms of the Liquidity agreement and \$24.2 million on auction rate securities purchased from bank customers at par. During the first nine months of 2008 the Company recognized valuation losses of \$5.2 million on securities purchased from Lockhart. These securities purchased from Lockhart in 2009 and 2008 consisted of REIT CDOs and bank and insurance trust preferred CDOs. See **Termination of Off-Balance Sheet Arrangement** for further details about Lockhart.

The following schedules provide additional information on the below investment grade rated bank and insurance trust preferred CDOs portion of the AFS and HTM portfolio with aggregate data on those securities which have been determined to not have OTTI at September 30, 2009 and those which have been determined to be OTTI at or prior to September 30, 2009.

The schedules utilize the current lowest rating to identify those securities below investment grade. The schedules segment the securities by original ratings level to provide granularity on the seniority level of the securities, the distribution of unrealized losses, and on pool level performance and projections. The best and worst pool level statistic for each original ratings subgroup is presented, not the best and worst single security within the original ratings grouping. The number of issuers and number of currently performing issuers noted on Pool Level Performance tables are from the same security. The remaining statistics may not be from the same security.

Subordination in the schedule includes the effects of seniority level within the CDOs' liability structure, the Company's loss and recovery rate assumption for deferring but not defaulted collateral and a 0% recovery rate for defaulted collateral. The numerator is all collateral less the sum of (i) 100% of the defaulted collateral, (ii) the weighted average of the projected net loss percentages for each piece of deferring but not defaulted collateral and (iii) the amount of each CDO's debt which is either senior to or pari passu with our security's priority level. The denominator is all collateral less the sum of (i) 100% of the defaulted collateral and (ii) the weighted average of the projected net loss percentages for each piece of deferring but not defaulted collateral. For further details on the loss assumption on deferrals see **Critical Accounting Policies and Significant Estimates**.

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### ZIONS BANCORPORATION AND SUBSIDIARIES

The Company's loss and recovery experience as of September 30, 2009 is 100% loss on defaults. Our experience with deferring collateral has been that of all collateral that has elected to defer beginning in 2007, 38% has defaulted and 62% remains within the allowable deferrable period.

The following tables reflect data and assumptions that are included in the calculations of fair value and OTTI.

### BELOW INVESTMENT GRADE RATED BANK AND INSURANCE TRUST PREFERRED CDOs BY ORIGINAL RATINGS LEVEL

As of September 30, 2009

| (Amounts in millions)                                | Number<br>of securities | % of<br>portfolio | Par<br>value | Total             |               |                           | Average holding <sup>1</sup> |                   |               |          | Unrealized<br>gain<br>(loss) |
|------------------------------------------------------|-------------------------|-------------------|--------------|-------------------|---------------|---------------------------|------------------------------|-------------------|---------------|----------|------------------------------|
|                                                      |                         |                   |              | Amortized<br>cost | Fair<br>value | Unrealized<br>gain (loss) | Par<br>value                 | Amortized<br>cost | Fair<br>value |          |                              |
| Original ratings of securities,<br>non-OTTI          |                         |                   |              |                   |               |                           |                              |                   |               |          |                              |
| Original AAA                                         | 22                      | 31.6%             | \$ 684.7     | \$ 597.1          | \$ 441.3      | \$ (155.8)                | \$ 29.8                      | \$ 26.0           | \$ 19.2       | \$ (6.8) |                              |
| Original A                                           | 30                      | 29.7%             | 643.2        | 642.7             | 390.3         | (252.4)                   | 16.5                         | 16.5              | 10.0          | (6.5)    |                              |
| Original BBB                                         | 8                       | 3.4%              | 74.6         | 74.5              | 54.2          | (20.3)                    | 9.3                          | 9.3               | 6.8           | (2.5)    |                              |
| Total Non-OTTI                                       |                         | 64.7%             | 1,402.5      | 1,314.3           | 885.8         | (428.5)                   |                              |                   |               |          |                              |
| Original ratings of securities,<br>OTTI:             |                         |                   |              |                   |               |                           |                              |                   |               |          |                              |
| Original AAA                                         | 1                       | 2.3%              | 50.0         | 45.6              | 27.3          | (18.3)                    | 50.0                         | 45.6              | 27.3          | (18.3)   |                              |
| Original A                                           | 33                      | 29.0%             | 629.5        | 543.2             | 211.3         | (331.9)                   | 15.0                         | 12.9              | 5.0           | (7.9)    |                              |
| Original BBB                                         | 9                       | 4.0%              | 85.4         | 53.2              | 16.0          | (37.2)                    | 8.5                          | 5.3               | 1.6           | (3.7)    |                              |
| Total OTTI                                           |                         | 35.3%             | 764.9        | 642.0             | 254.6         | (387.4)                   |                              |                   |               |          |                              |
| Total noninvestment grade bank<br>and insurance CDOs |                         |                   |              |                   |               |                           |                              |                   |               |          |                              |
|                                                      |                         | 100.0%            | \$ 2,167.4   | \$ 1,956.3        | \$ 1,140.4    | \$ (815.9)                |                              |                   |               |          |                              |

<sup>1</sup> The Company may have more than one holding of the same security.

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## ZIONS BANCORPORATION AND SUBSIDIARIES

**POOL LEVEL PERFORMANCE AND PROJECTIONS FOR BELOW INVESTMENT GRADE RATED BANK AND INSURANCE TRUST PREFERRED CDOS**

As of September 30, 2009

|                                           | Current<br>lowest<br>rating | # of issuers<br>in collateral<br>pool | # of issuers<br>currently<br>performing <sup>1</sup> | % of original<br>collateral<br>defaulted <sup>2</sup> | % of original<br>collateral<br>deferring <sup>3</sup> | Subordination <sup>4</sup> | PV of expected<br>cash flows<br>discounted at<br>coupon rate<br>as % of par <sup>5</sup> | Lifetime<br>additional<br>projected loss <sup>6</sup> |
|-------------------------------------------|-----------------------------|---------------------------------------|------------------------------------------------------|-------------------------------------------------------|-------------------------------------------------------|----------------------------|------------------------------------------------------------------------------------------|-------------------------------------------------------|
| Original ratings of securities, Non-OTTI: |                             |                                       |                                                      |                                                       |                                                       |                            |                                                                                          |                                                       |
| Original AAA                              |                             |                                       |                                                      |                                                       |                                                       |                            |                                                                                          |                                                       |
| Best                                      | BB                          | 49                                    | 44                                                   | 1.20%                                                 | 1.23%                                                 | 77.19%                     | 100                                                                                      | 5.04%                                                 |
| Weighted average                          |                             | 55                                    | 42                                                   | 7.91%                                                 | 18.29%                                                | 35.58%                     | 99 <sup>7</sup>                                                                          | 8.19%                                                 |
| Worst                                     | CCC                         | 37                                    | 23                                                   | 14.00%                                                | 29.89%                                                | 17.23%                     | 93 <sup>7</sup>                                                                          | 21.30%                                                |
| Original A                                |                             |                                       |                                                      |                                                       |                                                       |                            |                                                                                          |                                                       |
| Best                                      | BB                          | 29                                    | 29                                                   | 0.00%                                                 | 0.00%                                                 | 24.66%                     | 100                                                                                      | 1.91%                                                 |
| Weighted average                          |                             | 55                                    | 48                                                   | 3.18%                                                 | 6.85%                                                 | 6.44%                      | 100                                                                                      | 6.86%                                                 |
| Worst                                     | C                           | 4                                     | 2                                                    | 14.00%                                                | 25.07%                                                | -13.03% <sup>8</sup>       | 100                                                                                      | 9.13%                                                 |
| Original BBB                              |                             |                                       |                                                      |                                                       |                                                       |                            |                                                                                          |                                                       |
| Best                                      | B                           | 36                                    | 36                                                   | 0.00%                                                 | 0.00%                                                 | 14.76%                     | 100                                                                                      | 4.63%                                                 |
| Weighted average                          |                             | 17                                    | 16                                                   | 1.22%                                                 | 4.67%                                                 | 5.16%                      | 100                                                                                      | 6.47%                                                 |
| Worst                                     | C                           | 78                                    | 62                                                   | 5.35%                                                 | 18.33%                                                | -4.84% <sup>8</sup>        | 100                                                                                      | 9.13%                                                 |
| Original ratings of securities, OTTI:     |                             |                                       |                                                      |                                                       |                                                       |                            |                                                                                          |                                                       |
| Original AAA                              |                             |                                       |                                                      |                                                       |                                                       |                            |                                                                                          |                                                       |
| Single security                           | B                           | 44                                    | 32                                                   | 9.40%                                                 | 19.25%                                                | 32.84%                     | 91                                                                                       | 7.26%                                                 |
| Original A                                |                             |                                       |                                                      |                                                       |                                                       |                            |                                                                                          |                                                       |
| Best                                      | BB                          | 63                                    | 54                                                   | 0.00%                                                 | 3.58%                                                 | 30.12%                     | 100                                                                                      | 1.78%                                                 |
| Weighted average                          |                             | 58                                    | 42                                                   | 9.22%                                                 | 15.93%                                                | -9.94%                     | 88                                                                                       | 7.76%                                                 |
| Worst                                     | C                           | 4                                     | 2                                                    | 19.00%                                                | 29.89%                                                | -40.93%                    | 67                                                                                       | 20.40%                                                |
| Original BBB                              |                             |                                       |                                                      |                                                       |                                                       |                            |                                                                                          |                                                       |
| Best                                      | CC                          | 63                                    | 53                                                   | 1.49%                                                 | 7.27%                                                 | -6.00%                     | 85                                                                                       | 5.62%                                                 |
| Weighted average                          |                             | 45                                    | 25                                                   | 7.81%                                                 | 20.25%                                                | -13.05%                    | 64                                                                                       | 7.79%                                                 |
| Worst                                     | C                           | 38                                    | 24                                                   | 14.00%                                                | 29.89%                                                | -19.02%                    | 26                                                                                       | 8.97%                                                 |

<sup>1</sup> Excludes both defaulted issuers and issuers that have elected to defer payment of current interest.<sup>2</sup> Collateral is identified as defaulted when a regulator closes an issuing bank.<sup>3</sup> Collateral is identified as deferring when the Company becomes aware that an issuer has announced or elected to defer interest payment on trust preferred debt.<sup>4</sup> Utilizes the Company's loss assumption of 100% on defaulted collateral and the Company's issuer specific loss assumption of from 0% to 65% dependent on credit for each deferring piece of collateral. The numerator is all collateral less the sum of 100% of defaulted collateral, a weighted average of the individual credit specific projected net losses for deferring collateral and the amount of each CDO's debt which is senior to or pari passu with our security's priority level. The denominator is all collateral less the sum of 100% of defaulted collateral and a weighted average of the individual credit specific projected net losses for deferring collateral. For further details on the loss assumption on deferrals, see Critical Accounting Policies and Significant Estimates.<sup>5</sup> For OTTI securities, this statistic approximates the extent of OTTI credit losses taken. For the methodology used in determining OTTI credit loss see Other-than-Temporary Impairment Debt Investment Securities.<sup>6</sup> This is the same statistic presented on page 41 in the Sensitivity to Assumptions chart and incorporated in the fair value and OTTI calculations. The statistic is the sum of incremental projected loss percentages from currently paying collateral for year one, years two

*through five and years six through thirty. For the methodology for projecting future credit losses see Critical Accounting Policies and Significant Estimates.*

<sup>7</sup> *Although cash flows project a return of less than par, they project full recovery of amortized cost and therefore no OTTI exists.*

<sup>8</sup> *Negative subordination is projected to be remedied by excess spread prior to maturity.*

Subsequent to September 30, 2009, the Company was informed of outstanding offers from a hedge fund to the preferred shareholders ( equity holders ) of four CDOs in which the Company held senior debt. The offers sought to induce the equity holders, in exchange for payments to be made outside of the CDO, to approve sales to the hedge fund of substantial amounts of performing collateral at deeply discounted prices. Such sales, if consummated, would be detrimental to the interests of the more senior tranches of the CDO.

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### **ZIONS BANCORPORATION AND SUBSIDIARIES**

Although the equity holders in one of the CDOs have agreed to the proposed offer from the hedge fund, the trustee has not commenced to sell the collateral and has filed an action in the United States District Court for the Southern District of New York seeking that the court order the interested parties to interplead and settle all claims relating to the collateral. The Company and other bondholders of these four CDOs are retaining counsel to defend their interests in the CDOs and the collateral and to seek to block any such sales, and believe they have substantial legal bases to do so.

The Company has significant holdings in the four CDOs (\$166 million in carrying value and \$302 million in amortized cost at September 30, 2009). The Company's investment could be materially adversely affected if any or all of these offers are accepted by the equity holders, and if subsequent judicial determinations result in the sale of the performing collateral at significant discounts to fair value. The Company has not adjusted the carrying value of these securities as a result of the actions described above.

The investment securities portfolio at September 30, 2009 includes \$627 million of nonrated fixed income securities. These securities include \$601 million of nonrated municipal securities underwritten and structured by Zions Bank in accordance with its established municipal credit standards and \$25 million of individual trust preferred bank securities. Nonrated fixed income securities were \$707 million at December 31, 2008 and \$720 million at September 30, 2008.

### **Loan Portfolio**

Net loans and leases at September 30, 2009 were \$41.7 billion, essentially unchanged from December 31, 2008 and decreased 0.1% from the balance at September 30, 2008. Excluding \$2.0 billion of FDIC supported assets from acquisitions of failed banks, net loans and leases at September 30, 2009 decreased approximately \$2.0 billion or 6.4% annualized during the first nine months of 2009 and decreased approximately \$2.1 billion or 5.0% from September 30, 2008 due to pay-downs, charge-offs, and a lack of qualified borrowers requesting credit.

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## ZIONS BANCORPORATION AND SUBSIDIARIES

The following table sets forth the loan portfolio by type of loan:

| (Amounts in millions)                       | September 30, 2009 |                  | December 31, 2008 |                  | September 30, 2008 |                  |
|---------------------------------------------|--------------------|------------------|-------------------|------------------|--------------------|------------------|
|                                             | Amount             | % of total loans | Amount            | % of total loans | Amount             | % of total loans |
| Commercial lending:                         |                    |                  |                   |                  |                    |                  |
| Commercial and industrial                   | \$ 10,124          | 24.2%            | \$ 11,447         | 27.4%            | \$ 11,351          | 27.1%            |
| Leasing                                     | 449                | 1.1%             | 431               | 1.0%             | 451                | 1.1%             |
| Owner occupied                              | 8,745              | 20.9%            | 8,743             | 20.9%            | 8,782              | 21.0%            |
| Total commercial lending                    | 19,318             |                  | 20,621            |                  | 20,584             |                  |
| Commercial real estate:                     |                    |                  |                   |                  |                    |                  |
| Construction and land development           | 6,087              | 14.6%            | 7,516             | 18.0%            | 7,812              | 18.6%            |
| Term                                        | 7,279              | 17.4%            | 6,196             | 14.8%            | 6,079              | 14.5%            |
| Total commercial real estate                | 13,366             |                  | 13,712            |                  | 13,891             |                  |
| Consumer:                                   |                    |                  |                   |                  |                    |                  |
| Home equity credit line                     | 2,114              | 5.1%             | 2,005             | 4.8%             | 1,899              | 4.5%             |
| 1-4 family residential                      | 3,698              | 8.8%             | 3,877             | 9.3%             | 3,892              | 9.3%             |
| Construction and other consumer real estate | 537                | 1.3%             | 774               | 1.9%             | 769                | 1.8%             |
| Bankcard and other revolving plans          | 333                | 0.8%             | 374               | 0.9%             | 360                | 0.9%             |
| Other                                       | 343                | 0.8%             | 385               | 0.9%             | 411                | 1.0%             |
| Total consumer                              | 7,025              |                  | 7,415             |                  | 7,331              |                  |
| Foreign loans                               | 74                 | 0.2%             | 43                | 0.1%             | 70                 | 0.2%             |
| FDIC-supported assets <sup>1</sup>          | 2,025              | 4.8%             |                   |                  |                    |                  |
| Total loans                                 | \$ 41,808          | 100.0%           | \$ 41,791         | 100.0%           | \$ 41,876          | 100.0%           |

<sup>1</sup> FDIC-supported assets represent assets acquired from the FDIC subject to loss sharing agreements and include expected reimbursements from the FDIC of approximately \$363 million.

Excluding the addition of the FDIC-supported assets from the Alliance Bank, Great Basin Bank, and Vineyard Bank transactions, the loan portfolio contraction during the first nine months was concentrated primarily in commercial construction and land development principally at Amegy, CB&T, NSB, and NBA and secondarily in commercial lending principally at Amegy, Zions Bank, and CB&T. We did have loan growth in the commercial real estate term category principally at Amegy, Zions Bank, and CB&T as commercial construction and land development loans converted into commercial real estate term loans.

Although we continue to actively try to originate loans, we expect that core loan growth for the next few quarters will most likely be low. This is mainly due to the current economic environment which is causing a reduction in loan demand. Pay-downs, charge offs, and other reductions are likely to continue to offset originations. We expect residential construction and land development balances to continue to decline as they have during recent quarters.



**Table of Contents****ZIONS BANCORPORATION AND SUBSIDIARIES****Other Noninterest-Bearing Investments**

The following table sets forth the Company's other noninterest-bearing investments:

| (In millions)                                                 | September 30,<br>2009 | December 31,<br>2008 | September 30,<br>2008 |
|---------------------------------------------------------------|-----------------------|----------------------|-----------------------|
| Bank-owned life insurance                                     | \$ 614                | \$ 623               | \$ 619                |
| Federal Home Loan Bank and Federal Reserve stock <sup>1</sup> | 237                   | 220                  | 335                   |
| SBIC investments <sup>2</sup>                                 | 64                    | 66                   | 77                    |
| Non-SBIC investment funds and other                           | 98                    | 93                   | 83                    |
| Investments in ADC arrangements <sup>3</sup>                  | 19                    | 16                   | 14                    |
| Other public companies                                        | 15                    | 12                   | 28                    |
| Trust preferred securities                                    | 14                    | 14                   | 14                    |
|                                                               | \$ 1,061              | \$ 1,044             | \$ 1,170              |

<sup>1</sup> Includes \$136 million in FHLB and \$101 million in FRB stock at September 30, 2009.

<sup>2</sup> Amounts include noncontrolling investors' interests in Zions' managed SBIC investments of approximately \$21 million, \$26 million and \$28 million as of the respective dates.

<sup>3</sup> Investments in Acquisition Development and Construction (ADC) arrangements are loans that do not qualify for loan accounting under GAAP; therefore these loans are accounted for as noninterest-bearing investments.

**Deposits**

Average total deposits for the first nine months of 2009 increased 16.0% compared to the same period in 2008, with interest-bearing deposits increasing 15.5% and noninterest-bearing deposits increasing 17.7%.

Total deposits at the end of the third quarter of 2009 increased to \$43.0 billion, an annualized increase of 5.5% from the balances reported at December 31, 2008, and increased 11.4% over the September 30, 2008 amounts. Actual and average deposits for the nine months of 2009 include deposits related to failed bank FDIC-assisted acquisitions.

Demand, savings and money market deposits comprised 79.7% of total deposits at the end of the third quarter of 2009, compared with 74.9% and 72.1% as of December 31, 2008 and September 30, 2008, respectively.

During the second half of 2008, the Company began increasing brokered deposits to serve as an additional source of liquidity for the Company. At September 30, 2009, total deposits included \$2,527 million of brokered deposits compared to \$3,269 million at December 31, 2008 and \$791 million at September 30, 2008. The average balance of brokered deposits for the first nine months of 2009 was \$3,112 million and for the first nine months of 2008 was \$153 million.

**Termination of Off-Balance Sheet Arrangement**

The Company previously administered a qualifying special-purpose entity (QSPE) securities conduit, Lockhart Funding LLC, which was established in 2000. Lockhart was structured to purchase AAA-rated and other government agency securities and AAA-rated securities that were collateralized by small business loans originated or purchased by Zions Bank; such loans were originated during and prior to 2005. Lockhart obtained funding through the issuance of asset-backed commercial paper.

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Lockhart ceased issuance of asset backed commercial paper on April 21, 2009 after Moody's downgraded Zions Bank, as Liquidity Bank, from P1 to NP and downgraded Lockhart as a consequence. Effective June 5, 2009, Zions Bank became a holder of over 90% of Lockhart's commercial paper notes, causing Lockhart to no longer be a QSPE and thus requiring consolidation of Lockhart by Zions Bank.

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### **ZIONS BANCORPORATION AND SUBSIDIARIES**

On September 15, 2009, the remaining outstanding commercial paper notes of Lockhart totaling \$3 million matured. Lockhart's remaining security portfolio was exclusively SBA-backed securities. Following the notes' maturity on September 15, 2009, Lockhart Funding LLC and its Program Documents were terminated as agreed to in an executed Termination Agreement dated May 29, 2009 between all involved parties.

Under the terms of a liquidity facility, prior to Lockhart's consolidation Zions Bank purchased, during the nine months ended September 30, 2009, \$678 million of securities from Lockhart at book value and recognized losses of \$187.9 million in marking the securities to fair value.

See "Liquidity Risk Management" and Note 4 of the Notes to Consolidated Financial Statements for additional information on Lockhart.

### **RISK ELEMENTS**

Since risk is inherent in substantially all of the Company's operations, management of risk is an integral part of its operations and is also a key determinant of its overall performance. We apply various strategies to reduce the risks to which the Company's operations are exposed, including credit, interest rate and market, liquidity and operational risks.

#### **Credit Risk Management**

Credit risk is the possibility of loss from the failure of a borrower or contractual counterparty to fully perform under the terms of a credit-related contract. Credit risk arises primarily from the Company's lending activities, as well as from off-balance sheet credit instruments.

Credit risk is managed centrally through a uniform credit policy, credit administration, and credit exam functions at the Parent. Effective management of credit risk is essential in maintaining a safe, sound and profitable financial institution. We have structured the organization to separate the lending function from the credit administration function, which provides strength to the control over and the independent evaluation of credit activities. Formal loan policies and procedures provide the Company with a framework for consistent underwriting and a basis for sound credit decisions. In addition, the Company has a well-defined set of standards for evaluating its loan portfolio, and management utilizes a comprehensive loan grading system to determine the risk potential in the portfolio. Further, an independent, internal credit examination department periodically conducts examinations of the Company's lending departments. These examinations are designed to review credit quality, adequacy of documentation, appropriate loan grading administration and compliance with lending policies, and reports thereon are submitted to management and to the Credit Review Committee of the Board of Directors.

We have recently enhanced our internal loan loss database to provide the ability to refine our segmentation by bank, loan segment, and loan grade. During the second and third quarters, this enhancement allowed management to calculate loan loss migration factors that are more weighted toward recent loss experience. This enhancement provided management with loss factors applicable to adversely graded credits, which reflect more recent loss experience for the portfolio, and which informed management's decision to increase the allowance for credit losses during the second and third quarters.

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### **ZIONS BANCORPORATION AND SUBSIDIARIES**

Both the credit policy and the credit examination functions are managed centrally. Each affiliate bank is permitted to modify corporate credit policy to be more conservative; however, corporate approval must be obtained if a bank wishes to create a more liberal policy. Historically, only a limited number of such modifications have been approved. This entire process has been designed to place an emphasis on strong underwriting standards and early detection of potential problem credits so that action plans can be developed and implemented on a timely basis to mitigate any potential losses.

With regard to credit risk associated with counterparties to off-balance sheet credit instruments, Zions Bank and Amegy have International Swap Dealer Association (ISDA) agreements in place under which derivative transactions are entered into with major derivative dealers. Each ISDA agreement details the collateral arrangements between Zions Bank and Amegy and their counterparties. In every case, the amount of the collateral required to secure the exposed party in the derivative transaction is determined by the fair value on the derivative and the credit rating of the party with the obligation. The credit rating used in these situations is provided by either Moody's or Standard & Poor's. This means that a counterparty with a AAA rating would be obligated to provide less collateral to secure a major credit exposure than one with an A rating. All derivative gains and losses between Zions Bank or Amegy and a single counterparty are netted to determine the net credit exposure and therefore the collateral required. We have no exposure to credit default swaps.

Another aspect of the Company's credit risk management strategy is to pursue the diversification of the loan portfolio. The Company maintains a diversified loan portfolio with some emphasis in real estate; at September 30, 2009 no single loan category exceeded 24.2% of the Company's total loan portfolio.

The Company attempts to avoid the risk of an undue concentration of credits in a particular industry, trade group, property type, or with an individual customer or counterparty. The majority of the Company's business activity is with customers located within the geographical footprint of its banking subsidiaries.

During 2009, the Company has acquired assets from the failed Alliance Bank, Great Basin Bank, and Vineyard Bank that are included in nonperforming loans and other loans with characteristics indicative of a high credit risk profile. These include substantial concentrations in California and Nevada, loans with homebuilders and other construction finance loans. Because most of these loans are covered under loss sharing agreements with the FDIC (FDIC-supported assets) for which the FDIC generally will assume 80% of the first \$275 million of credit losses for the Alliance Bank loans, \$40 million of credit losses for the Great Basin Bank loans, \$465 million of credit losses for the Vineyard Bank loans and 95% of the credit losses in excess of those amounts, the Company's financial exposure to losses from these assets is substantially limited. These FDIC-supported assets represent approximately 4.8% of the Company's total loan portfolio.

The Company's level of credit quality continued to weaken during the third quarter of 2009, although it weakened at a decreasing rate. This deterioration in credit quality is now widespread and affects most of the Company's geographic markets and product types. In light of continued weak economic conditions, it is not yet possible to forecast the timing of improvement in credit quality measures.

The Company does not pursue subprime residential mortgage lending, including option ARM and negative amortization loans. It does have approximately \$517 million of stated income loans with generally high FICO scores (a credit score developed by the Fair Isaac Corporation) at origination, including one-time close loans to finance the construction of a home, which convert into permanent jumbo mortgages. This portfolio began to show significant credit quality deterioration in the second half of 2008. At September 30, 2009, approximately \$81 million of the stated income loans have low FICO scores reflective of the current economic environment.

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ZIONS BANCORPORATION AND SUBSIDIARIES

The Company is engaged in home equity credit line lending. We actively monitor our credit risk in this portfolio and as of September 30, 2009, approximately 13% of the Company's \$2.1 billion portfolio was estimated to have loan-to-value ratios above 100%. Of this portfolio, 0.35% was 90 or more days past due at September 30, 2009 as compared to 0.20% as of December 31, 2008. The annualized credit losses for this portfolio were 76 basis points for the nine months ended September 30, 2009. During 2009, the Company modified \$1.4 million of home equity credit line loans. The Company requires appraisals for all real estate collateral dependant loans at the time of origination and when adverse credit events occur.

A more comprehensive discussion of our credit risk management is contained in Zions' Annual Report on Form 10-K for the year ended December 31, 2008.

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## ZIONS BANCORPORATION AND SUBSIDIARIES

**Commercial Real Estate Loans**

Selected information regarding our commercial real estate ( CRE ) loan portfolio is presented in the following table:

**COMMERCIAL REAL ESTATE PORTFOLIO BY LOAN TYPE AND GEOGRAPHY**

| (Amounts in millions)<br>CRE loan type               | As of<br>Date | Arizona | Northern<br>California | Southern<br>California | Nevada | Colorado | Texas   | Utah/<br>Idaho | Washington | Other <sup>1</sup> | Total   | % of total<br>CRE |
|------------------------------------------------------|---------------|---------|------------------------|------------------------|--------|----------|---------|----------------|------------|--------------------|---------|-------------------|
| <b>Commercial term</b>                               |               |         |                        |                        |        |          |         |                |            |                    |         |                   |
| Balance outstanding                                  | 9/30/09 \$    | 960.6   | 319.4                  | 1,835.2                | 829.0  | 490.8    | 1,010.9 | 729.8          | 187.3      | 915.9              | 7,278.9 | 54.5%             |
| % of loan type                                       |               | 13.2%   | 4.4%                   | 25.2%                  | 11.4%  | 6.7%     | 14.0%   | 10.0%          | 2.5%       | 12.6%              | 100.0%  |                   |
| Delinquency rates <sup>2</sup> :                     |               |         |                        |                        |        |          |         |                |            |                    |         |                   |
| 30-89 days                                           | 9/30/09       | 2.8%    | 2.8%                   | 3.1%                   | 10.4%  | 1.0%     | 7.5%    | 1.8%           | 0.3%       | 8.4%               | 4.8%    |                   |
|                                                      | 12/31/08      | 0.5%    | 0.9%                   | 0.4%                   | 1.8%   |          | 0.7%    | 1.8%           |            | 4.4%               | 1.4%    |                   |
| <sup>3</sup> 90 days                                 | 9/30/09       | 2.0%    | 0.7%                   | 2.8%                   | 3.6%   | 0.2%     | 5.0%    | 1.1%           | 0.3%       | 4.7%               | 2.8%    |                   |
|                                                      | 12/31/08      | 0.2%    | 0.9%                   | 0.1%                   | 1.2%   |          | 0.2%    | 1.0%           |            | 3.0%               | 0.8%    |                   |
| Accruing past due                                    |               |         |                        |                        |        |          |         |                |            |                    |         |                   |
| 90 days                                              | 9/30/09 \$    | 6.7     |                        | 17.8                   | 1.5    |          | 20.6    | 0.3            |            | 8.5                | 55.4    |                   |
|                                                      | 12/31/08      | 1.9     |                        |                        | 2.4    |          |         |                |            | 7.5                | 11.8    |                   |
| Nonaccrual loans                                     | 9/30/09       | 17.7    | 6.7                    | 47.2                   | 91.9   | 3.5      | 33.2    | 10.8           | 1.9        | 37.8               | 250.7   |                   |
|                                                      | 12/31/08      | 0.5     | 2.8                    | 2.0                    | 6.7    | 0.4      | 4.5     | 6.4            |            | 20.3               | 43.6    |                   |
| <b>Commercial construction and land development</b>  |               |         |                        |                        |        |          |         |                |            |                    |         |                   |
| Balance outstanding                                  | 9/30/09 \$    | 471.8   | 47.4                   | 476.3                  | 531.9  | 226.9    | 1,447.8 | 380.0          | 93.3       | 339.4              | 4,014.8 | 30.0%             |
| % of loan type                                       |               | 11.7%   | 1.2%                   | 11.9%                  | 13.2%  | 5.6%     | 36.1%   | 9.5%           | 2.3%       | 8.5%               | 100.0%  |                   |
| Delinquency rates <sup>2</sup> :                     |               |         |                        |                        |        |          |         |                |            |                    |         |                   |
| 30-89 days                                           | 9/30/09       | 10.6%   |                        | 8.8%                   | 29.2%  | 2.1%     | 10.3%   | 11.3%          | 4.1%       | 4.0%               | 11.5%   |                   |
|                                                      | 12/31/08      | 2.8%    |                        | 2.4%                   | 10.5%  | 0.5%     | 2.1%    | 6.6%           | 1.8%       | 6.1%               | 4.1%    |                   |
| <sup>3</sup> 90 days                                 | 9/30/09       | 6.9%    |                        | 3.8%                   | 21.2%  | 1.3%     | 5.0%    | 7.9%           | 4.1%       | 4.0%               | 7.1%    |                   |
|                                                      | 12/31/08      | 0.7%    |                        |                        | 8.5%   | 0.5%     | 0.2%    | 2.9%           |            | 6.1%               | 2.2%    |                   |
| Accruing past due                                    |               |         |                        |                        |        |          |         |                |            |                    |         |                   |
| 90 days                                              | 9/30/09 \$    | 5.0     |                        | 1.1                    | 11.3   |          | 0.6     | 2.6            |            | 0.3                | 20.9    |                   |
|                                                      | 12/31/08      | 1.8     |                        |                        | 25.4   |          |         | 8.1            |            | 18.6               | 53.9    |                   |
| Nonaccrual loans                                     | 9/30/09       | 61.0    |                        | 29.7                   | 140.9  | 6.8      | 153.2   | 30.7           | 3.8        | 19.4               | 445.5   |                   |
|                                                      | 12/31/08      | 27.4    |                        | 11.1                   | 66.2   | 1.4      | 14.0    | 4.3            |            | 6.3                | 130.7   |                   |
| <b>Residential construction and land development</b> |               |         |                        |                        |        |          |         |                |            |                    |         |                   |
| Balance outstanding                                  | 9/30/09 \$    | 375.5   | 52.6                   | 180.6                  | 133.7  | 183.8    | 561.0   | 421.7          | 42.3       | 121.2              | 2,072.4 | 15.5%             |
| % of loan type                                       |               | 18.1%   | 2.5%                   | 8.7%                   | 6.5%   | 8.9%     | 27.1%   | 20.3%          | 2.0%       | 5.9%               | 100.0%  |                   |
| Delinquency rates <sup>2</sup> :                     |               |         |                        |                        |        |          |         |                |            |                    |         |                   |
| 30-89 days                                           | 9/30/09       | 22.4%   | 7.9%                   | 20.2%                  | 32.7%  | 14.6%    | 7.6%    | 25.6%          | 0.6%       | 9.7%               | 17.2%   |                   |
|                                                      | 12/31/08      | 16.7%   | 7.3%                   | 9.3%                   | 38.8%  | 6.9%     | 3.3%    | 20.4%          | 0.5%       | 8.6%               | 13.1%   |                   |
| <sup>3</sup> 90 days                                 | 9/30/09       | 13.2%   | 7.9%                   | 18.9%                  | 30.2%  | 9.9%     | 5.2%    | 23.6%          | 0.6%       | 9.4%               | 13.8%   |                   |
|                                                      | 12/31/08      | 12.3%   | 2.3%                   | 7.7%                   | 20.9%  | 5.6%     | 2.4%    | 18.8%          | 0.5%       | 4.5%               | 9.6%    |                   |
| Accruing past due                                    |               |         |                        |                        |        |          |         |                |            |                    |         |                   |
| 90 days                                              | 9/30/09 \$    | 7.5     |                        | 9.4                    | 9.0    |          | 0.2     | 3.1            |            | 0.2                | 29.4    |                   |
|                                                      | 12/31/08      | 7.2     |                        |                        | 1.0    |          | 0.7     | 9.6            | 0.3        |                    | 18.8    |                   |
| Nonaccrual loans                                     | 9/30/09       | 77.4    | 5.3                    | 32.1                   | 54.6   | 22.1     | 95.3    | 120.5          | 0.2        | 11.2               | 418.7   |                   |
|                                                      | 12/31/08      | 99.3    | 5.8                    | 45.6                   | 50.5   | 15.0     | 18.6    | 88.7           |            | 19.3               | 342.8   |                   |
|                                                      | 9/30/09       | 847.3   | 100.0                  | 656.9                  | 665.6  | 410.7    | 2,008.8 | 801.7          | 135.6      | 460.6              | 6,087.2 |                   |

Total construction  
and land  
development

|                                 |         |            |       |         |         |       |         |         |       |         |          |        |
|---------------------------------|---------|------------|-------|---------|---------|-------|---------|---------|-------|---------|----------|--------|
| Total commercial<br>real estate | 9/30/09 | \$ 1,807.9 | 419.4 | 2,492.1 | 1,494.6 | 901.5 | 3,019.7 | 1,531.5 | 322.9 | 1,376.5 | 13,366.1 | 100.0% |
|---------------------------------|---------|------------|-------|---------|---------|-------|---------|---------|-------|---------|----------|--------|

<sup>1</sup> No other geography exceeded \$194 million for all three loan types.

<sup>2</sup> Delinquency rates include nonaccrual loans.

Approximately 36% of the commercial term loans consist of mini-perm loans on which construction is complete and the project is either in the process of stabilization or has stabilized, and the owner is waiting to seek permanent financing given the current conditions in the financial markets. Mini-perm loans generally have maturities of 3 to 7 years. The remaining 64% are term loans with initial maturities generally of 15 to 20 years. Stabilization criteria differ by product and are dependent on cash flow created by lease-up for office, industrial and retail products and occupancy for retail and apartment products.

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### **ZIONS BANCORPORATION AND SUBSIDIARIES**

Approximately 28% of the commercial construction and land development portfolio is designated as acquisition and development. Most of these acquisition and development properties are tied to specific retail, apartment, office or other projects. Underwriting on commercial properties is primarily based on the economic viability of the project with heavy consideration given to the creditworthiness of the sponsor. The owners equity is always expected to be injected prior to bank advances. Re-margining requirements are often included in the loan agreement along with guarantees of the sponsor. Recognizing that debt is paid via cash flow, the projected economics of the project are primary in the underwriting because it determines the ultimate value of the property and the ability to service debt. Therefore, in most projects (with the exception of multi-family projects) we look for substantial pre-leasing in our underwriting and we generally require a minimum projected stabilized debt service ratio of 1.20.

Although residential construction and development deals with a different product type, many of the requirements previously mentioned, such as credit worthiness of the developer, up-front injection of the developer's equity, re-margining requirements, and the viability of the project are also important in underwriting a residential development loan. Heavy consideration is given to market acceptance of the product, location, strength of the developer, and the ability of the developer to stay within budget. Progress inspections performed by qualified independent inspectors are routinely performed before disbursements are made. Loan agreements generally include limitations on the number of model homes and homes built on a spec basis, with preference given to pre-sold homes.

Real estate appraisals are ordered independently of the credit officer and the borrower, generally by the bank's appraisal review function, which is staffed by certified appraisers. Appraisals are ordered from outside appraisers at the inception, renewal, or for CRE loans, upon the occurrence of any event causing a criticized or classified grade to be assigned to the credit. The frequency for obtaining updated appraisals for these adversely graded credits is increased when declining market conditions exist. Advance rates will vary based on the viability of the project and the creditworthiness of the sponsor, but corporate guidelines generally limit advances to 50-65% for raw land, 65-75% for land development, 65-75% for finished commercial lots, 75-80% for finished residential lots, 80% for pre-sold homes, 75-80% for models and spec homes, and 75-80% for commercial properties. Exceptions may be granted on a case-by-case basis.

During 2009, the Company has modified \$152 million of CRE loans.

Loan agreements require regular financial information on the project and the sponsor in addition to lease schedules, rent rolls, and on construction projects, independent progress inspection reports. The receipt of these schedules is closely monitored and calculations are made to determine adherence to the covenants set forth in the loan agreement. Additionally, the frequency of loan-by-loan reviews has been increased to a quarterly basis for all commercial and residential land acquisition, development, and construction loans at Zions Bank, California Bank & Trust, National Bank of Arizona, Nevada State Bank, and Vectra Bank.

Interest reserves are generally established as an expense item in the budget for a real estate construction or development loan. It has proven preferable for the borrower to put their total amount of available equity into the project at the inception of the construction, rather than holding enough of their available funds to pay the interest during the construction period. This enables the bank to maximize the amount of equity obtained and control the amount of money set aside to pay interest on the construction loan. The Company's practice is to monitor the construction, sales and/or leasing progress to determine whether or not the project remains viable. At any time during the life of the credit that the project is determined not to be viable, the bank has the ability to discontinue the use of the interest reserve and take appropriate action to protect its collateral position via negotiation and/or legal action as deemed appropriate. At September 30, 2009, Zions affiliates have 508 loans with an outstanding balance of \$1.2 billion where available interest reserves amount to \$123 million. In instances where projects have been determined nonviable, the interest reserves have been frozen.

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### **ZIONS BANCORPORATION AND SUBSIDIARIES**

We have not been involved to any meaningful extent with insurance arrangements, credit derivatives, or any other default agreements as a mitigation strategy for commercial real estate loans. However, we do make use of personal or other guarantees as risk mitigation strategies.

The Company periodically stress tests its CRE loan portfolio. This testing is back tested and the results of the testing are reviewed regularly with the rating agencies and banking regulators. The stress testing methodology includes a loan-by-loan Monte Carlo simulation, which is an approach that measures potential loss of principal and related revenues. The Monte Carlo simulation stresses the probability of default and loss given default for CRE loans based on a variety of factors including regional economic factors, loan grade, loan-to-value, collateral type, and geography.

### ***Nonperforming Assets***

Nonperforming lending related assets include nonaccrual loans and other real estate owned. Loans are generally placed on nonaccrual status when the loan is 90 days or more past due as to principal or interest, unless the loan is both well secured and in the process of collection. Consumer loans are placed on nonaccrual status at 90 days. Generally, closed-end non-real estate secured consumer loans are charged off prior to 120 days past due. Open-end consumer loans adequately secured by real estate are placed on nonaccrual status at 90 days. Open-end credit card consumer loans are charged off when they become 180 days past due. Nonaccrual loans also include nonaccrual restructured loans to provide a reduction or deferral of interest or principal payments. This generally occurs when the financial condition of a borrower deteriorates to the point that the borrower needs to be given temporary or permanent relief from the original contractual terms of the loan. Other real estate owned is acquired primarily through or in lieu of foreclosure on loans secured by real estate.

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### ZIONS BANCORPORATION AND SUBSIDIARIES

The following table sets forth the Company's nonperforming lending related assets:

| (Amounts in millions)                                                                                 | September 30,<br>2009 | December 31,<br>2008 | September 30,<br>2008 |
|-------------------------------------------------------------------------------------------------------|-----------------------|----------------------|-----------------------|
| Nonaccrual loans                                                                                      | \$ 1,812              | \$ 946               | \$ 765                |
| Other real estate owned                                                                               | 359                   | 192                  | 157                   |
| Nonperforming assets, excluding FDIC-supported assets                                                 | 2,171                 | 1,138                | 922                   |
| FDIC-supported assets <sup>1</sup>                                                                    | 599                   |                      |                       |
| Total                                                                                                 | \$ 2,770              | \$ 1,138             | \$ 922                |
| % of net loans and leases <sup>2</sup> , excluding FDIC-supported assets, and other real estate owned | 5.40%                 | 2.71%                | 2.19%                 |
| % of net loans and leases <sup>2</sup> and other real estate owned                                    | 6.56%                 | 2.71%                | 2.19%                 |
| Accruing loans past due 90 days or more, excluding FDIC-supported assets                              | \$ 187                | \$ 130               | \$ 98                 |
| FDIC-supported assets past due 90 days or more                                                        | 36                    |                      |                       |
| % of net loans and leases <sup>2</sup> , excluding FDIC-supported assets                              | 0.47%                 | 0.31%                | 0.23%                 |
| % of net loans and leases <sup>2</sup>                                                                | 0.53%                 | 0.31%                | 0.23%                 |
| Accruing loans past due 30 - 89 days, excluding FDIC-supported assets                                 | \$ 571                | \$ 529               | \$ 420                |
| FDIC-supported assets past due 30 - 89 days                                                           | 74                    |                      |                       |
| Restructured loans included in nonaccrual loans                                                       | \$ 107                | \$ 16                | \$                    |
| Restructured loans on accrual                                                                         | 116                   | 2                    | 2                     |

<sup>1</sup> FDIC-supported assets represent assets acquired from the FDIC subject to loss sharing agreements.

<sup>2</sup> Includes loans held for sale.

Total nonperforming lending related assets were \$2,770 million at September 30, 2009 (\$2,171 million excluding FDIC-supported assets) compared to \$1,138 million at December 31, 2008 and \$922 million at September 30, 2008. The increase related mainly to commercial real estate loans primarily in Arizona, Texas, Nevada, and Utah and to commercial and industrial loans primarily in California, Utah, and Texas.

Total nonaccrual loans at September 30, 2009 increased \$866 million from the balances at December 31, 2008, which included increases of \$381 million for nonaccrual construction and land development loans and \$283 million for commercial lending. Nonperforming lending related assets are expected to increase further over the next several quarters. Nonperforming assets excluding FDIC-supported assets increased \$248 million during the quarter, compared to increases of \$275 million and \$510 million during the second and first quarters of 2009, respectively.

Included in nonaccrual loans are loans that we have determined to be impaired. Loans, other than those included in large groups of smaller-balance homogeneous loans, are considered impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due in accordance with the contractual terms of the loan agreement, including scheduled interest payments. The amount of the impairment is measured based on the present value of expected cash flows, the observable fair value of the loan, or the fair value of the collateral securing the loan.

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### **ZIONS BANCORPORATION AND SUBSIDIARIES**

The Company's total recorded investment in impaired loans was \$1,647 million at September 30, 2009, compared with \$770 million at December 31, 2008 and \$646 million at September 30, 2008. Estimated losses on impaired loans are included in the allowance for loan losses. At September 30, 2009, the allowance for loan losses included \$79 million for impaired loans with a recorded investment of \$369 million. At December 31, 2008, the allowance included \$52 million for impaired loans with a \$306 million recorded investment, and at September 30, 2008 the allowance included \$32 million for impaired loans with a \$235 million recorded investment.

The amount of accruing loans past due 90 days or more excluding FDIC-supported assets was \$187 million at September 30, 2009 compared to \$130 million at December 31, 2008 and \$98 million at September 30, 2008.

In addition to the lending related nonperforming assets, the Company also has \$147 million in carrying value of investments in debt securities that are on nonaccrual status at September 30, 2009.

### ***Allowance and Reserve for Credit Losses***

Allowance for Loan Losses In analyzing the adequacy of the allowance for loan losses, we utilize a comprehensive loan grading system to determine the risk potential in the portfolio and also consider the results of independent internal credit reviews. To determine the adequacy of the allowance, the Company's loan and lease portfolio is broken into segments based on loan type.

For commercial loans, we use historical loss experience factors by loan segment, adjusted for changes in trends and conditions, to help determine an indicated allowance for each portfolio segment. During the third quarter of 2009, the Company re-estimated all nonconsumer loss reserve factors based on very recent loss experience. These factors are evaluated and updated using migration analysis techniques and other considerations based on the makeup of the specific segment. These other considerations include:

volumes and trends of delinquencies;

levels of nonaccruals, repossessions and bankruptcies;

trends in criticized and classified loans;

expected losses on real estate secured loans;

new credit products and policies;

economic conditions;

concentrations of credit risk; and

experience and abilities of the Company's lending personnel.

In addition to the segment evaluations, nonaccrual commercial loans graded substandard or doubtful with an outstanding balance of \$500 thousand or more, as well as consumer loans designated as troubled debt restructurings, are individually evaluated in accordance with the

receivables subsequent measurement topic in FASB ASC 310, to determine the level of impairment and establish a specific reserve. A specific allowance is established for loans adversely graded below \$500 thousand when it is determined that the risk associated with the loan differs significantly from the risk factor amounts established for its loan segment.

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ZIONS BANCORPORATION AND SUBSIDIARIES

The allowance for consumer loans is determined using historically developed loss experience rates at which loans migrate from one delinquency level to the next higher level. Using current roll rates and comparing projected losses to actual loss experience, the models estimate expected losses in dollars for the forecasted period. By refreshing the models with updated data, we are able to project losses for a new twelve-month period each month, segmenting the portfolio into nine product groupings with similar risk profiles. The residential mortgage and home equity portfolios' models implicitly take into consideration housing price depreciation (appreciation) and homeowners' loss (gain) of equity in the collateral by incorporating current roll rates and loss severity rates. The models make no assumptions about future housing price changes. This methodology is an accepted industry practice, and the Company believes it has a sufficient volume of information to produce reliable projections.

As a final step to the evaluation process, we perform an additional review of the adequacy of the allowance based on the loan portfolio in its entirety. This enables us to mitigate the imprecision inherent in most estimates of expected credit losses. This review of the allowance includes our judgmental consideration of any adjustments necessary for subjective factors such as economic uncertainties and excessive concentration risks.

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## ZIONS BANCORPORATION AND SUBSIDIARIES

The following table shows the changes in the allowance for loan losses and a summary of loan loss experience:

| (Amounts in millions)                                                                                                                                                                                                                                                                                       | Nine Months<br>Ended<br>September 30,<br>2009 | Twelve Months<br>Ended<br>December 31,<br>2008 | Nine Months<br>Ended<br>September 30,<br>2008 |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------|------------------------------------------------|-----------------------------------------------|
| Loans and leases outstanding, excluding FDIC-supported assets (net of unearned income)                                                                                                                                                                                                                      | \$ 39,648                                     | \$ 41,659                                      | \$ 41,736                                     |
| Average loans and leases outstanding, excluding FDIC-supported assets (net of unearned income)                                                                                                                                                                                                              | \$ 40,870                                     | \$ 40,795                                      | \$ 40,467                                     |
| Allowance for loan losses:                                                                                                                                                                                                                                                                                  |                                               |                                                |                                               |
| Balance at beginning of period                                                                                                                                                                                                                                                                              | \$ 687                                        | \$ 459                                         | \$ 459                                        |
| Allowance associated with purchased securitized loans                                                                                                                                                                                                                                                       |                                               | 2                                              | 2                                             |
| Allowance of loans and leases sold                                                                                                                                                                                                                                                                          |                                               | (1)                                            | (1)                                           |
| Provision charged against earnings                                                                                                                                                                                                                                                                          | 1,626                                         | 648                                            | 363                                           |
| Loans and leases charged-off:                                                                                                                                                                                                                                                                               |                                               |                                                |                                               |
| Commercial lending                                                                                                                                                                                                                                                                                          | (262)                                         | (100)                                          | (63)                                          |
| Commercial real estate                                                                                                                                                                                                                                                                                      | (543)                                         | (269)                                          | (138)                                         |
| Consumer                                                                                                                                                                                                                                                                                                    | (95)                                          | (45)                                           | (28)                                          |
| Total                                                                                                                                                                                                                                                                                                       | (900)                                         | (414)                                          | (229)                                         |
| Recoveries:                                                                                                                                                                                                                                                                                                 |                                               |                                                |                                               |
| Commercial lending                                                                                                                                                                                                                                                                                          | 7                                             | 9                                              | 6                                             |
| Commercial real estate                                                                                                                                                                                                                                                                                      | 9                                             | 7                                              | 5                                             |
| Consumer                                                                                                                                                                                                                                                                                                    | 4                                             | 5                                              | 4                                             |
| Total                                                                                                                                                                                                                                                                                                       | 20                                            | 21                                             | 15                                            |
| Net loan and lease charge-offs                                                                                                                                                                                                                                                                              | (880)                                         | (393)                                          | (214)                                         |
| Reclassification to reserve for unfunded lending commitments                                                                                                                                                                                                                                                |                                               | (28)                                           |                                               |
| Balance at end of period                                                                                                                                                                                                                                                                                    | \$ 1,433                                      | \$ 687                                         | \$ 609                                        |
| Ratio of annualized net charge-offs to average loans and leases, excluding FDIC-supported assets                                                                                                                                                                                                            | 2.87%                                         | 0.96%                                          | 0.70%                                         |
| Ratio of allowance for loan losses to net loans and leases, excluding FDIC-supported assets, at period end                                                                                                                                                                                                  | 3.61%                                         | 1.65%                                          | 1.46%                                         |
| Ratio of allowance for loan losses to nonperforming loans, excluding FDIC-supported assets, at period end                                                                                                                                                                                                   | 79.08%                                        | 72.58%                                         | 79.61%                                        |
| Ratio of allowance for loan losses to nonaccrual loans and accruing loans past due 90 days or more, excluding FDIC-supported assets                                                                                                                                                                         | 71.70%                                        | 63.84%                                         | 70.59%                                        |
| The increased provision for the first nine months of 2009 resulted from continued deterioration in commercial real estate and commercial and industrial loan portfolios, and after the Company completed its implementation of loss migration factors that are more weighted toward recent loss experience. |                                               |                                                |                                               |

Reserve for Unfunded Lending Commitments The Company also estimates a reserve for potential losses associated with off-balance sheet commitments and standby letters of credit. We determine the reserve for unfunded lending commitments using a process that is similar to the one we use for commercial lending and commercial real estate loans. Based on historical experience, we have developed experience-based loss factors that we apply to the Company's unfunded lending commitments to estimate the potential for loss in that portfolio. The reserve is included with other liabilities in the Company's consolidated balance sheet, with any related increases or decreases in the reserve included in noninterest expense in the statement of income.

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The following table sets forth the reserve for unfunded lending commitments:

| (In millions)                                   | Nine Months<br>Ended<br>September 30, 2009 | Twelve Months<br>Ended<br>December 31, 2008 | Nine Months<br>Ended<br>September 30, 2008 |
|-------------------------------------------------|--------------------------------------------|---------------------------------------------|--------------------------------------------|
| Balance at beginning of period                  | \$ 50.9                                    | \$ 21.5                                     | \$ 21.5                                    |
| Reclassification from allowance for loan losses |                                            | 27.9                                        |                                            |
| Provision charged against earnings              | 46.3                                       | 1.5                                         | 2.0                                        |
| Balance at end of period                        | \$ 97.2                                    | \$ 50.9                                     | \$ 23.5                                    |

The provision for unfunded lending commitments was \$46.3 million for the first nine months of 2009 compared to \$2.0 million for the first nine months of 2008 due to the application of updated loss migration factors during the first nine months of 2009 that incorporate reserve factors based on very recent loss experience.

The following table sets forth the total allowance and reserve for credit losses:

| (In millions)                                 | September 30,<br>2009 | December 31,<br>2008 | September 30,<br>2008 |
|-----------------------------------------------|-----------------------|----------------------|-----------------------|
| Allowance for loan losses                     | \$ 1,433              | \$ 687               | \$ 609                |
| Reserve for unfunded lending commitments      | 97                    | 51                   | 24                    |
| Total allowance and reserve for credit losses | \$ 1,530              | \$ 738               | \$ 633                |

**Interest Rate and Market Risk Management**

Interest rate and market risk are managed centrally. Interest rate risk is the potential for loss resulting from adverse changes in the level of interest rates on the Company's net interest income. Market risk is the potential for loss arising from adverse changes in the fair value of fixed income securities, equity securities, other earning assets and derivative financial instruments as a result of changes in interest rates or other factors. As a financial institution that engages in transactions involving an array of financial products, the Company is exposed to both interest rate risk and market risk.

***Interest Rate Risk***

Interest rate risk is one of the most significant risks to which the Company is regularly exposed. In general, our goal in managing interest rate risk is to have the net interest margin increase slightly in a rising interest rate environment. We refer to this goal as being slightly asset-sensitive. This approach is based on our belief that in a rising interest rate environment, the market cost of equity, or implied rate at which future earnings are discounted, would also tend to rise.

We attempt to minimize the impact of changing interest rates on net interest income primarily through the use of interest rate swaps, and by avoiding large exposures to fixed rate interest-earning assets that have significant negative convexity. The prime lending rate and the LIBOR curves are the primary indices used for pricing the Company's loans. The interest rates paid on deposit accounts are set by individual banks so as to be competitive in each local market.



**Table of Contents****ZIONS BANCORPORATION AND SUBSIDIARIES**

We monitor interest rate risk through the use of two complementary measurement methods: duration of equity and income simulation. In the duration of equity method, we measure the expected changes in the fair values of equity in response to changes in interest rates. The Company's policy is to maintain duration of equity between -3% to +7%. At the present time, management has deemed it appropriate to operate with negative duration greater than -3% due to the unusually low level of interest rates and the potential for future inflationary pressures to apply upward pressure on interest rates.

In the income simulation method, we analyze the expected changes in income in response to changes in interest rates. For income simulation, Company policy requires that interest sensitive income from a static balance sheet be limited to a decline of no more than 10% during one year if rates were to immediately rise or fall in parallel by 200 basis points.

As of the dates indicated, the following table shows the Company's estimated range of duration of equity and percentage change in interest sensitive income, based on a static balance sheet, in the first year after the rate change if interest rates were to sustain an immediate parallel change of 200 basis points; the fast and slow results differ based on the assumed speed of repricing of administered-rate deposits (money market, interest-on-checking, and savings):

|                                                        | September 30,<br>2009      |       | December 31,<br>2008 |       |
|--------------------------------------------------------|----------------------------|-------|----------------------|-------|
|                                                        | Low                        | High  | Low                  | High  |
| Duration of equity:                                    |                            |       |                      |       |
| Range (in years)                                       |                            |       |                      |       |
| Base case                                              | -6.1                       | -3.4  | -2.5                 | 0.9   |
| Increase interest rates by 200 bp                      | -5.2                       | -3.1  | -2.4                 | 0.7   |
|                                                        |                            |       |                      |       |
|                                                        | Deposit Repricing Response |       |                      |       |
|                                                        | Fast                       | Slow  | Fast                 | Slow  |
| Income simulation change in interest sensitive income: |                            |       |                      |       |
| Increase interest rates by 200 bp                      | 1.0%                       | 3.9%  | -1.1%                | 1.5%  |
| Decrease interest rates by 200 bp <sup>1</sup>         | -3.6%                      | -3.8% | -1.8%                | -2.4% |

<sup>1</sup> In the event that a 200 basis point rate parallel decrease cannot be achieved, the applicable rate changes are limited to lesser amounts such that interest rates cannot be less than zero.

During the first nine months of 2009, the duration of equity became shorter as compared to December 31, 2008. The reduction of the duration of equity was due to the longer duration of liabilities from increased deposit balances with longer expected lives and increased long term debt, shorter duration of assets, and management decisions to eliminate fair value interest rate swaps on fixed rate debt, and terminate without replacement a number of receive fixed interest rate swaps on pools of floating rate loans.

As discussed previously under the section Net Interest Income, Margin and Interest Rate Spreads, the Company believes that in the current quarter, the dynamic balance sheet changes, including levels of money market investments, increases in noninterest-bearing deposits, reductions in higher cost funding sources, increased spreads on new and renewed loans, changes in levels of nonperforming assets, and the effects of debt modification actions taken in the second quarter of 2009, have tended to have a somewhat larger effect on the net interest spread and net interest margin than has the Company's interest rate risk position.

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### **ZIONS BANCORPORATION AND SUBSIDIARIES**

#### ***Market Risk Fixed Income***

The Company engages in the underwriting and trading of municipal and corporate securities. This trading activity exposes the Company to a risk of loss arising from adverse changes in the prices of these fixed income securities held by the Company.

At September 30, 2009, the Company had \$76.7 million of trading account assets and \$39.4 million of securities sold, not yet purchased compared with \$42.1 million and \$45.8 million of trading assets and \$35.7 million and \$29.5 million of securities sold, not yet purchased at December 31, 2008 and September 30, 2008, respectively.

The Company is exposed to market risk through changes in fair value and other than temporary impairment of investment securities. The Company also is exposed to market risk for interest rate swaps used to hedge interest rate risk. Changes in fair value in available-for-sale securities and interest rate swaps are included in OCI each quarter. During the third quarter of 2009, the after-tax change in OCI attributable to held-to-maturity and available-for-sale securities was \$(54.1) million, and the change attributable to interest rate swaps was \$(46.0) million, decreasing shareholders' equity by \$(100.1) million. If any of the AFS securities or HTM securities transferred from AFS become other than temporarily impaired, any loss in OCI is reversed and the impairment is charged to operations. See Investment Securities Portfolio for additional information on other-than-temporary impairment.

#### ***Market Risk Equity Investments***

Through its equity investment activities, the Company owns equity securities that are publicly traded and subject to fluctuations in their market prices or values. In addition, the Company owns equity securities in companies that are not publicly traded and that are accounted for under cost, fair value, equity, or full consolidation methods of accounting, depending upon the Company's ownership position and degree of involvement in influencing the investees' affairs. In either case, the value of the Company's investment is subject to fluctuation. Since the fair value associated with these securities may fall below the Company's investment costs, the Company is exposed to the possibility of loss. These equity investments are approved, monitored and evaluated by the Company's Equity Investment Committee.

The Company also invests in prepublic venture capital companies through various venture funds. In addition to the program, Amegy has in place an alternative investments program. These investments are primarily directed towards equity buyout and mezzanine funds with a key strategy of deriving ancillary commercial banking business from the portfolio companies. Early stage venture capital funds are not part of the strategy since the underlying companies are typically not credit worthy.

The Company also, from time to time, either starts and funds businesses or makes significant investments in companies of strategic interest. These investments may result in either minority or majority ownership positions, and usually give the Parent or its subsidiaries board representation. These strategic investments generally are in companies that are financial services or financial technologies providers.

A more comprehensive discussion of the Company's interest rate and market risk management is contained in Zions' Annual Report on Form 10-K for the year ended December 31, 2008.

#### **Liquidity Risk Management**

Liquidity risk is the possibility that the Company's cash flows may not be adequate to fund its ongoing operations and meet its commitments in a timely and cost-effective manner. Since liquidity risk is closely linked to both credit risk and market risk, many of the previously discussed risk control mechanisms also apply to the monitoring and management of liquidity risk. We manage the Company's liquidity to provide adequate funds to meet its anticipated financial and contractual obligations, including withdrawals by depositors, debt service requirements and lease obligations, as well as to fund customers' needs for credit.

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ZIONS BANCORPORATION AND SUBSIDIARIES

Liquidity is managed centrally for both the Parent and its subsidiary banks. The Parent's cash requirements consist primarily of debt service, investment in and advances to subsidiaries, operating expenses, income taxes, and dividends to preferred and common shareholders, including the CPP preferred equity issued to the Treasury. The Parent's cash needs are met through a combination of dividends from its subsidiaries, investment income, subsidiaries' proportionate share of current income taxes, management and other fees, bank lines, equity contributed through the exercise of stock options, commercial paper, and long-term debt and equity issuances.

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**ZIONS BANCORPORATION AND SUBSIDIARIES**

Most of the Company's subsidiary banks have seen reduced profitability or posted losses in recent quarters, and therefore are currently unable to reliably pay dividends. Also, earnings on the Parent's investment portfolio have been reduced. Cash earnings from subsidiaries and investments currently do not cover the Parent's interest and dividend payments, and the Company does not expect cash receipts from its subsidiaries and investments to cover those payments for the remainder of 2009. In addition, the Parent has had to increase its investment in several of its bank subsidiaries in order to maintain their well capitalized status. The Company has reduced the dividend on its common stock in several stages to \$.01 per share per quarter, in order to conserve both capital and cash. Federal Reserve Board Supervisory Letter SR 09-4, dated February 24, 2009, reiterates and expands previous guidance regarding the payment of common dividends and dividends on more senior capital instruments in times of stress on earnings and capital ratios.

General financial market and economic conditions, both of which have been highly stressed since mid-2008 or earlier, as well as the Company's debt ratings, have adversely impacted the Company's access to external financing. One rating agency, Moody's, has downgraded the Company's senior debt rating to B2, while Standard & Poors, Fitch and DBRS all rate the Company's senior debt at a low investment grade. All of the agencies have indicated that continued high loan losses and/or losses related to the Company's investment portfolio of CDOs could erode capital levels and cause further downgrades in the Company's debt ratings. Additional information regarding rating actions may be found subsequently.

During 2009, the primary sources of cash available to the Parent in the capital markets have been (1) unsecured 1-2 year senior notes issued by the Parent, (2) issuance of new shares of common stock, (3) the FDIC's TLGP debt program under which the Company issued its maximum allowed \$254.9 million on January 21, 2009, and (4) on September 23, 2009, the Company issued at a discount \$450 million of 7.75% unsecured senior notes which added approximately \$387 million to the Parent's cash balance. The Parent's cash balance was \$859 million at September 30, 2009 compared to \$675 million at June 30, 2009.

During third quarter 2009, the Parent's operating expenses included approximately \$30 million of interest expense excluding amortization. Additionally, the Parent paid \$23 million of preferred and common stock dividends.

Additional information regarding financing actions may be found subsequently. In the summer of 2009 some other financing markets began to reopen for regional and larger banking companies, but there can be no assurance that the Company will have access to these markets at any given time.

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The following table presents the Parent's balance sheets at September 30, 2009, June 30, 2009, and December 31, 2008:

**Parent Only Condensed Balance Sheets**

| (In thousands)                                                                                                 | September 30,<br>2009 | June 30,<br>2009 | December 31,<br>2008 |
|----------------------------------------------------------------------------------------------------------------|-----------------------|------------------|----------------------|
| <b>ASSETS</b>                                                                                                  |                       |                  |                      |
| Cash and due from banks                                                                                        | \$ 4                  | \$ 78            | \$ 2,135             |
| Interest-bearing deposits                                                                                      | 858,668               | 674,829          | 980,528              |
| Investment securities:                                                                                         |                       |                  |                      |
| Held-to-maturity, at adjusted cost (approximate fair value of \$3,668, \$3,735, and \$191,952)                 | 3,899                 | 3,847            | 197,841              |
| Available-for-sale, at fair value                                                                              | 328,343               | 322,734          | 59,153               |
| Trading account, at fair value                                                                                 | 49                    | 49               | 956                  |
| Loans, net of unearned fees of \$47, \$328, and \$379 and allowance for loan losses of \$52, \$703, and \$643) | 6,353                 | 23,963           | 22,901               |
| Other noninterest-bearing investments                                                                          | 75,515                | 78,372           | 76,219               |
| Investments in subsidiaries:                                                                                   |                       |                  |                      |
| Commercial banks and bank holding company                                                                      | 6,502,858             | 5,814,675        | 6,266,229            |
| Other operating companies                                                                                      | 74,661                | 78,203           | 69,291               |
| Nonoperating Zions Municipal Funding, Inc.                                                                     | 91,691                | 141,302          | 464,570              |
| Receivables from subsidiaries:                                                                                 |                       |                  |                      |
| Commercial banks                                                                                               |                       | 511,000          | 760,500              |
| Other                                                                                                          | 3,700                 | 3,700            | 14,800               |
| Other assets                                                                                                   | 94,929                | 19,520           | 411,584              |
|                                                                                                                | \$ 8,040,670          | \$ 7,672,272     | \$ 9,326,707         |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                                                                    |                       |                  |                      |
| Other liabilities                                                                                              | \$ 189,566            | \$ 189,232       | \$ 252,519           |
| Commercial paper:                                                                                              |                       |                  |                      |
| Due to affiliates                                                                                              | 49,988                | 29,989           | 55,996               |
| Due to others                                                                                                  | 2,449                 | 1,019            | 15,451               |
| Other short-term borrowings                                                                                    | 29,687                | 31,636           | 235,550              |
| Subordinated debt to affiliated trusts                                                                         | 309,278               | 309,278          | 309,300              |
| Long-term debt                                                                                                 | 1,786,994             | 1,380,444        | 1,956,195            |
| Total liabilities                                                                                              | 2,367,962             | 1,941,598        | 2,825,011            |
| Shareholders' equity:                                                                                          |                       |                  |                      |
| Preferred stock                                                                                                | 1,529,462             | 1,491,730        | 1,581,834            |
| Common stock                                                                                                   | 3,125,344             | 2,935,724        | 2,599,916            |
| Retained earnings                                                                                              | 1,502,232             | 1,685,522        | 2,433,363            |
| Accumulated other comprehensive income (loss)                                                                  | (469,112)             | (368,164)        | (98,958)             |
| Deferred compensation                                                                                          | (15,218)              | (14,138)         | (14,459)             |
| Total shareholders' equity                                                                                     | 5,672,708             | 5,730,674        | 6,501,696            |
|                                                                                                                | \$ 8,040,670          | \$ 7,672,272     | \$ 9,326,707         |

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<sup>1</sup> *Zions Municipal Funding, Inc. is a wholly-owned nonoperating subsidiary whose sole purpose is to hold a portfolio of municipal bonds, loans and leases.*

Operating cash flows, while normally constituting a funding source for the Company, are not large enough to provide funding in the amounts that fulfill the needs of the Parent and its subsidiary banks. For the first nine months of 2009, operations contributed \$726 million toward these needs. As a result, the Company utilizes other sources at its disposal to manage its liquidity needs.

At September 30, 2009, the Parent also has secured a line of credit of \$100 million with one of its subsidiary banks. No amounts were outstanding under this line at September 30, 2009. Interest on this line is at a variable rate based on specified indices. Actual amounts that may be borrowed at any given time are based on determined collateral requirements.

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### **ZIONS BANCORPORATION AND SUBSIDIARIES**

On April 20, 2009, Moody's downgraded its ratings for the Parent on senior unsecured debt to B2, on subordinated debt to B3, and on short-term/commercial paper to NP; also its outlook was Negative. Additionally, on April 22, 2009, S&P downgraded its ratings for the Parent on long-term issuer/senior unsecured debt to BBB-, on subordinated debt to BB+, and on short-term/commercial paper to A-3; also its outlook was Negative. On April 22, 2009, Dominion downgraded its ratings for the Parent on long-term issuer/senior unsecured debt to BBB, on subordinated debt to BBB (low), and on short-term/commercial paper to R-2(middle); also its outlook was Watch Negative. On June 30, 2009, Fitch downgraded its ratings for the Parent on long-term issuer/senior unsecured debt to BBB, on subordinated debt to BBB-, and on short-term/commercial paper to F2; also its outlook was Negative.

On July 22, 2009, Dominion downgraded the ratings of Zions and its related entities, including its Issuer and Senior debt rating to BBB (low) from BBB. It also downgraded Zions' banking subsidiaries' Deposits and Senior debt ratings to BBB from BBB (high). With the exception of its AAA rated FDIC-guaranteed debt, which remains on Stable trend, all ratings were placed on Negative trend.

On January 21, 2009, we issued \$254.9 million of senior floating rate notes due June 21, 2012 at a coupon rate of three-month LIBOR plus 37 basis points. The debt is guaranteed under the FDIC's TLGP that became effective on November 21, 2008.

During the three and nine months ended September 30, 2009, we issued senior medium-term notes of approximately \$44.9 million and \$81.1 million, and redeemed approximately \$31.6 million and \$235.6 million, respectively. At September 30, 2009, maturities of these notes ranged from May 2010 to September 2011 with rates from 5.25% to 6.00%.

During the third quarter the Company issued \$450 million of 7.75% unsecured senior notes due September 23, 2014 at a price of 86.888%. Issuance of these notes added approximately \$387 million to the Parent's cash balance.

In the third quarter the Company received \$188 million of cash net of expense from the issuance of common stock. For the first nine months of 2009 we received \$311 million of cash from the issuance of common stock and used \$46.4 million of cash to tender for \$100.5 million par value of Series A preferred stock.

The subsidiary banks' primary source of funding is their core deposits, consisting of demand, savings and money market deposits, time deposits under \$100,000 and foreign deposits. At September 30, 2009, these core deposits, excluding brokered deposits, in aggregate, constituted 85.8% of consolidated deposits, compared with 81.9% of consolidated deposits at December 31, 2008. The Company has also obtained brokered deposits to serve as an additional source of liquidity for the Company. At September 30, 2009, total brokered deposits were \$2.5 billion, down from \$3.3 billion at December 31, 2008 and up from \$791 million at September 30, 2008. For the first nine months of 2009, decreases in deposits resulted in net cash outflows of \$989 million. Total deposits increased \$1.7 billion during first nine months of 2009 primarily due to the assumption of deposits from acquired failed banks previously disclosed.

On October 3, 2008, the FDIC increased deposit insurance to \$250,000 through December 31, 2009 and in May 2009 extended the increased insurance coverage through December 31, 2013. The FDIC has also implemented a program to provide full deposit insurance coverage for noninterest-bearing transaction deposit accounts through December 31, 2009, unless insured banks elected to opt out of the program. On August 26, 2009 the FDIC extended this program through June 30, 2010. The Company did not opt out of this program.

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### **ZIONS BANCORPORATION AND SUBSIDIARIES**

The Federal Home Loan Bank ( FHLB ) system is also a significant source of liquidity for each of the Company's subsidiary banks. Zions Bank and TCBW are members of the FHLB of Seattle. CB&T, NSB, and NBA are members of the FHLB of San Francisco. Vectra is a member of the FHLB of Topeka and Amegy Bank is a member of the FHLB of Dallas. The FHLB allows member banks to borrow against their eligible loans to satisfy liquidity requirements. For the first nine months of 2009, the activity in short-term FHLB borrowings resulted in a net cash inflow of approximately \$10 million. The subsidiary banks are required to invest in FHLB stock to maintain their borrowing capacity. The Company is aware of recent news reports and FHLB member bank press releases regarding the financial strength of the FHLB system. The Company is actively monitoring its ability to borrow from the FHLB. At September 30, 2009, the subsidiary banks' total investment in FHLB stock was \$136 million.

The Federal Reserve Board has a temporary program to make 28-day loans to banks in the United States and to foreign banks through foreign central banks. These loans are made using an auction process. The Company's banking subsidiaries Zions Bank, CB&T, and Amegy participate in this program and may continue to do so as long as money can be borrowed at an attractive rate. Amounts that can be borrowed are based upon the amount of collateral pledged to the Federal Reserve Bank. Borrowings outstanding under this program were \$200 million at March 31, 2009 and \$1.8 billion at December 31, 2008. The \$200 million outstanding at March 31, 2009 matured and was repaid on April 24, 2009 and no amounts have subsequently been borrowed under the program.

At September 30, 2009, the amount available for additional FHLB and Federal Reserve borrowings was approximately \$12.8 billion. An additional \$1.4 billion could be borrowed upon the pledging of additional available collateral.

Zions Bank has in prior years used asset securitizations to sell loans and provide a flexible alternative source of funding. As a QSPE securities conduit sponsored by Zions Bank, Lockhart has purchased and held credit-enhanced securitized assets resulting from certain small business loan securitizations. During the first nine months of 2009 Zions Bank purchased \$678 million of securities from Lockhart at book value under the terms of a liquidity facility Zions Bank provided to Lockhart. During the second quarter of 2009, Lockhart was consolidated onto the books of Zions Bank as a result of Zions Bank holding of over 90% of Lockhart's asset backed commercial paper and in September 2009 Lockhart was terminated. See Termination of Off-Balance Sheet Arrangement for information about Lockhart and the Liquidity Agreement.

The Company's investment activities can provide or use cash. For the first nine months of 2009, investment securities activities resulted in an increase in investment securities holdings primarily due to Zions Bank purchasing securities from Lockhart under the terms of the Liquidity Agreement and a net decrease of cash in the amount of \$389 million.

Maturing balances in the various loan portfolios also provide additional flexibility in managing cash flows. In most cases, loan growth has resulted in net cash outflows from a funding standpoint; however, for the first nine months of 2009, organic loan activity resulted in a net cash inflow of \$992 million. Net loans and leases were flat during first nine months of 2009 primarily due to the acquisition of loans from acquired failed banks previously disclosed.

A more comprehensive discussion of our liquidity management is contained in Zions' Annual Report on Form 10-K for the year ended December 31, 2008.

### **Operational Risk Management**

Operational risk is the potential for unexpected losses attributable to human error, systems failures, fraud, or inadequate internal controls and procedures. In its ongoing efforts to identify and manage operational risk, the Company has a Corporate Risk Management Department whose responsibility is to help Company management identify and assess key risks and monitor the key internal controls and processes that the Company has in place to mitigate operational risk. We have documented controls and the Control Self Assessment related to financial reporting under Section 404 of the Sarbanes-Oxley Act of 2002 and the Federal Deposit Insurance Corporation Improvement Act of 1991.

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### **ZIONS BANCORPORATION AND SUBSIDIARIES**

To manage and minimize its operating risk, the Company has in place transactional documentation requirements, systems and procedures to monitor transactions and positions, regulatory compliance reviews, and periodic reviews by the Company's internal audit and credit examination departments. In addition, reconciliation procedures have been established to ensure that data processing systems consistently and accurately capture critical data. Further, we maintain contingency plans and systems for operations support in the event of natural or other disasters. Efforts are ongoing to further strengthen the Company's oversight of operational risk, including enhancement of risk-control self assessments and of antifraud measures.

### **CAPITAL MANAGEMENT**

We believe that a strong capital position is vital to continued profitability and to promoting depositor and investor confidence.

On August 27, 2009, Zions Bancorporation completed its \$250 million offering of shares of common stock, which commenced on June 1, 2009. The registered sales took place through the common equity distribution program announced June 1, 2009 with Goldman, Sachs & Co. (Goldman Sachs) acting as sales agent. During the second quarter, Zions issued common shares for gross proceeds of \$126.5 million. During the third quarter, Zions completed the offering, issuing 7,655,267 common shares at an average price of \$16.13 per share, for gross proceeds of \$123.5 million. The cumulative offering totaled 16,832,925 common shares at an average price of \$14.85. Net of issuance costs and fees, including \$4.2 million in commissions paid to Goldman Sachs, these sales added \$245.5 million to common equity.

On September 17, 2009, the Company entered into a new equity distribution agreement (the Equity Distribution Agreement) with Goldman Sachs, pursuant to which the Company may offer and sell through or to Goldman Sachs, from time to time, shares of the Company's common stock, in an aggregate amount of up to \$250,000,000. Sales of common stock are made by means of ordinary brokers' transactions on the Nasdaq Global Select Market or otherwise at market prices or to Goldman Sachs for resale at a price to be agreed upon by the Company and Goldman Sachs. During the period from September 17 through September 30, 2009, the Company issued \$67.2 million of new common stock consisting of 3,671,000 shares at an average share price of \$18.31 per share under the Equity Distribution Agreement. Net of issuance costs and fees, including \$1.3 million in commissions paid to Goldman Sachs, these sales added \$65.8 million to common equity.

During the second quarter of 2009, the Company purchased 4,020,435 depository shares (each share representing a 1/40<sup>th</sup> ownership interest in a share of preferred stock) at a price of \$11.50 per depository share, or an aggregate amount of \$46.4 million including accrued dividends. At a \$25 per depository share liquidation preference, the purchase reduced the \$240 million carrying value of the Series A preferred stock by approximately \$100.5 million. Net of related costs, the redemption resulted in a \$54.0 million increase to common shareholders' equity. Finally, the Company recognized \$201.2 million after-tax directly in equity for the intrinsic value of the beneficial conversion feature related to the subordinated debt modification discussed below.

Also, as disclosed previously, during the second quarter of 2009, the Company modified \$1.2 billion of subordinated notes to permit conversion on a par for par basis into either the Company's Series A or Series C preferred stock. Net of issuance costs and debt discount on the previous debt, the pretax gain recognized in earnings from this subordinated debt modification was approximately \$493.7 million.

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### ZIONS BANCORPORATION AND SUBSIDIARIES

During the third quarter and as a result of the subordinated debt modifications previously announced, \$27.8 million of subordinated debt was converted into shares of the Company's Series C preferred stock. This conversion accelerated the discount amortization, resulting in a \$15.8 million increase to interest expense in the third quarter of 2009.

Total controlling interest shareholders' equity on September 30, 2009 was \$5,673 million compared to \$6,502 million at December 31, 2008, and \$5,566 million at September 30, 2008. The Company's capital ratios were as follows:

|                                                          | September 30,<br>2009 | December 31,<br>2008 | September 30,<br>2008 | Percentage<br>required to be<br>well capitalized |
|----------------------------------------------------------|-----------------------|----------------------|-----------------------|--------------------------------------------------|
| Tangible common equity ratio                             | 5.76%                 | 5.89%                | 6.05%                 | na                                               |
| Tangible equity ratio                                    | 8.73%                 | 8.91%                | 6.66%                 | na                                               |
| Average equity to average assets<br>(three months ended) | 10.94%                | 11.18%               | 10.01%                | na                                               |
| Risk-based capital ratios:                               |                       |                      |                       |                                                  |
| Tier 1 leverage                                          | 10.40%                | 9.99%                | 7.64%                 | na <sup>1</sup>                                  |
| Tier 1 risk-based capital                                | 10.34%                | 10.22%               | 8.07%                 | 6.00%                                            |
| Total risk-based capital                                 | 13.08%                | 14.32%               | 12.30%                | 10.00%                                           |

<sup>1</sup> There is no Tier 1 leverage component in the definition of a well capitalized holding company.

The Parent and its subsidiary banks are required to maintain adequate levels of capital as measured by several regulatory capital ratios. As of September 30, 2009, the Company and each of its subsidiary banks exceeded the well capitalized guidelines under regulatory standards.

The decrease in total controlling interest shareholders' equity from December 31, 2008 is primarily due to net losses recognized during the first nine months of 2009 including noncash expenses resulting from goodwill impairment and the negative impact of increased after tax unrealized losses of \$233 million on investment securities and derivatives included in OCI and a preferred stock redemption offset by capital raising actions including issuance of common stock and a subordinated debt modification gain. The decrease in total controlling interest shareholders' equity from September 30, 2008 is primarily due to the impact of net losses recognized offset by several capital raising actions taken during in 2009 as described previously and capital raising actions taken during 2008 which included the Company receiving \$1.4 billion from the issuance of nonvoting senior preferred stock to the U.S. Department of Treasury under the Treasury's CPP in November 2008.

At September 30, 2009, regulatory Tier 1 risk-based capital and total risk-based capital were \$5,447 million and \$6,892 million compared to \$5,269 million and \$7,386 million at December 31, 2008, and \$3,985 million and \$6,073 million at September 30, 2008, respectively.

Dividends of \$0.01 per common share were paid in the third quarter of 2009 and \$0.43 per common share were paid in the third quarter of 2008. For the three months ended September 30, 2009, the Company paid \$1.3 million in dividends on common stock compared to \$45.5 million in the same period of 2008. At its October 2009 meeting, the Company's Board of Directors declared a dividend of \$0.01 per share of common stock. The dividend is payable November 20, 2009 to shareholders of record as of the close of business on November 12, 2009. Under the terms of the CPP, the Company may not increase the dividend on its common stock above \$0.32 per share per quarter during the period the senior preferred shares are outstanding without adversely impacting the Company's interest in the program or without permission from the U.S. Department of the Treasury.

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### **ZIONS BANCORPORATION AND SUBSIDIARIES**

During the nine months ended September 30, 2009, the Company recorded \$78.3 million for preferred dividends compared to \$9.3 million during the comparable period in 2008. During the third quarter of 2009, the Company recorded \$26.6 million for preferred dividends compared to \$4.4 million during the comparable period in 2008. Preferred dividends for 2009 includes \$68.1 million year-to-date and \$22.7 million for the third quarter related to the TARP preferred stock issued to the U.S. Department of Treasury.

### **GAAP to NON-GAAP RECONCILIATION**

This document presents computations of equity ratios excluding intangible assets such as goodwill and core deposits and other intangibles (hereinafter collectively referred to as "tangible equity"). The goodwill and core deposits and other intangibles are included in financial results presented in accordance with generally accepted accounting principles ("GAAP"). Zions believes the exclusion of these intangible assets from the computation of the tangible common equity ratio and the tangible equity ratio provides a meaningful base for period-to-period and company-to-company comparisons, which management believes will assist investors in analyzing the operating results and capital of the Company and predicting future performance. These non-GAAP financial ratio measures are also used by management to assess the performance of Zions' business, because management does not consider intangible assets to be relevant to the overall equity capital position. Management and the Board of Directors utilize these non-GAAP financial measures for the following purposes:

Evaluation of bank reporting segment performance

Presentations of Company performance to investors

Zions believes that presenting these non-GAAP financial measures will permit investors to assess the performance of the Company on the same basis as that applied by management and the Board of Directors.

Non-GAAP financial measures have inherent limitations, are not required to be uniformly applied, and are not audited. Although these non-GAAP financial measures are frequently used by stakeholders in the evaluation of a company, they have limitations as analytical tools, and should not be considered in isolation or as a substitute for analyses of results as reported under GAAP. In particular, a measure of equity that excludes these intangible assets does not represent the amount of total shareholders' equity.

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## ZIONS BANCORPORATION AND SUBSIDIARIES

| (Amounts in millions)                                     | September 30,<br>2009 | December 31,<br>2008 | September 30,<br>2008 |
|-----------------------------------------------------------|-----------------------|----------------------|-----------------------|
| Total shareholders' equity                                | \$ 5,694.2            | \$ 6,529.0           | \$ 5,596.3            |
| Subtract:                                                 |                       |                      |                       |
| Goodwill                                                  | 1,017.4               | 1,651.4              | 2,009.5               |
| Core deposit and other intangibles                        | 123.6                 | 125.9                | 134.0                 |
| Tangible shareholders' equity                             | 4,553.2               | 4,751.7              | 3,452.8               |
| Subtract:                                                 |                       |                      |                       |
| Preferred stock                                           | 1,529.5               | 1,581.8              | 286.9                 |
| Noncontrolling interests                                  | 21.5                  | 27.3                 | 30.3                  |
| Tangible common controlling interest shareholders' equity | \$ 3,002.2            | \$ 3,142.6           | \$ 3,135.6            |
| Total assets                                              | \$ 53,298.2           | \$ 55,092.8          | \$ 53,974.2           |
| Subtract:                                                 |                       |                      |                       |
| Goodwill                                                  | 1,017.4               | 1,651.4              | 2,009.5               |
| Core deposit and other intangibles                        | 123.6                 | 125.9                | 134.0                 |
| Tangible assets                                           | \$ 52,157.2           | \$ 53,315.5          | \$ 51,830.7           |
| Tangible common equity ratio                              | 5.76%                 | 5.89%                | 6.05%                 |
| Tangible equity ratio                                     | 8.73%                 | 8.91%                | 6.66%                 |

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Interest rate and market risks are among the most significant risks regularly undertaken by the Company, and they are closely monitored as previously discussed. A discussion regarding the Company's management of interest rate and market risk is included in the section entitled "Interest Rate and Market Risk Management" in this Form 10-Q.

**ITEM 4. CONTROLS AND PROCEDURES****Evaluation of Disclosure Controls and Procedures**

The Company maintains disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) that are designed to ensure that information required to be disclosed in the Company's reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission, and that such information is accumulated and communicated to the Company's management, including the principal executive officer and principal financial officer, as appropriate, to allow for timely decisions regarding required disclosures.

In connection with the presentation of the Form 10-Q, management, under the supervision and with the participation of the principal executive officer and principal financial officer, evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures as of the end of the fiscal quarter ended September 30, 2009. In this original evaluation, the principal executive officer and principal financial officer concluded that the design and operation of the Company's disclosure controls and procedures were effective as of September 30, 2009.



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### **ZIONS BANCORPORATION AND SUBSIDIARIES**

In connection with the revision to the financial statements as described in the Explanatory Note and Items 1 and 2 of this Amendment No. 1, management reevaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures as of the end of the fiscal quarter ended September 30, 2009. In connection therewith, management identified a material weakness in internal control over financial reporting. Management determined that the Company did not maintain effective controls over the process utilized to interpret the applicable accounting literature for computing and allocating the amount attributable to the beneficial conversion feature related to the subordinated debt modification. Management believes this control deficiency resulted in a misstatement of the net loss applicable to common shareholders and shareholders' equity. As a result of this material weakness, management concluded that the Company's disclosure controls were not effective as of September 30, 2009.

In light of the material weakness described above, management revised its consolidated financial statements in this Form 10-Q/A as discussed previously to ensure that the computation and allocation of the beneficial conversion feature related to the debt modification was in conformity with the applicable accounting guidance. Management also believes that the consolidated financial statements included in this Form 10-Q/A were prepared in accordance with generally accepted accounting principles (GAAP) in all material respects.

While management had identified the appropriate accounting guidance and recognized that the terms of the debt modification included a beneficial conversion feature, management misinterpreted how to compute and allocate the amount attributable to this feature. Management does not routinely execute debt modifications with terms similar to this transaction and management believes that as a result of the process to reassess the accounting treatment, this material weakness has been remediated. Management will continue to assess the actions necessary to maintain effective controls over the process utilized to evaluate the accounting for complex transactions such as debt modifications.

### **Changes in Internal Control Over Financial Reporting**

Other than as set forth in this Amendment No. 1, there have been no changes in the Company's internal control over financial reporting during the quarter ended September 30, 2009, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## **PART II. OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

The Company is a defendant in various legal proceedings arising in the normal course of business. The Company does not believe that the outcome of any such proceedings will have a material effect on its consolidated financial position, operations, or liquidity.

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## ZIONS BANCORPORATION AND SUBSIDIARIES

ITEM 1A. **RISK FACTORS**

The Company believes there have been no significant changes in risk factors compared to the factors identified in Zions Bancorporation's Annual Report on Form 10-K for the year ended December 31, 2008; however, this filing contains updated disclosures related to significant risk factors discussed in Investment Securities Portfolio, Termination of Off-Balance Sheet Arrangement, Credit Risk Management, Market Risk Fixed Income, and Liquidity Risk Management. Further, restrictions on executive compensation in the Emergency Economic Stabilization Act and the American Recovery and Reinvestment Act (for which the Treasury published implementing regulations during the second quarter of 2009) may adversely impact the Company's ability to recruit and retain senior executive talent.

See Income Taxes for a further discussion about the Company's net deferred tax asset balance as of September 30, 2009.

ITEM 2. **UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS****Share Repurchases**

The following table summarizes the Company's share repurchases for the third quarter of 2009:

| Period    | Total number of shares repurchased <sup>1</sup> | Average price paid per share | Total number of shares purchased as part of publicly announced plans or programs | Approximate dollar value of shares that may yet be purchased under the plan |
|-----------|-------------------------------------------------|------------------------------|----------------------------------------------------------------------------------|-----------------------------------------------------------------------------|
| July      | 709                                             | \$ 11.53                     |                                                                                  | \$ 56,250,315                                                               |
| August    | 8,205                                           | 15.96                        |                                                                                  | 56,250,315                                                                  |
| September | 448                                             | 16.64                        |                                                                                  | 56,250,315                                                                  |
| Quarter   | 9,362                                           | 15.66                        |                                                                                  |                                                                             |

<sup>1</sup> All share repurchases during the third quarter of 2009 were made to pay for payroll taxes upon the vesting of restricted stock.

ITEM 6. **EXHIBITS**

## a) Exhibits

| Exhibit Number | Description                                                                                                                                                                                               |   |
|----------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---|
| 3.1            | Restated Articles of Incorporation of Zions Bancorporation dated November 8, 1993, incorporated by reference to Exhibit 3.1 of Form S-4 filed on November 22, 1993.                                       | * |
| 3.2            | Articles of Amendment to the Restated Articles of Incorporation of Zions Bancorporation dated April 30, 1997, incorporated by reference to Exhibit 3.2 of Form 10-Q for the quarter ended March 31, 2008. | * |



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ZIONS BANCORPORATION AND SUBSIDIARIES

| <b>Exhibit<br/>Number</b> | <b>Description</b>                                                                                                                                                                                             |   |
|---------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---|
| 3.3                       | Articles of Amendment to the Restated Articles of Incorporation of Zions Bancorporation dated April 24, 1998, incorporated by reference to Exhibit 3.3 of Form 10-Q for the quarter ended March 31, 2009.      | * |
| 3.4                       | Articles of Amendment to Restated Articles of Incorporation of Zions Bancorporation dated April 25, 2001, incorporated by reference to Exhibit 3.6 of Form S-4 filed July 13, 2001.                            | * |
| 3.5                       | Articles of Amendment to the Restated Articles of Incorporation of Zions Bancorporation, dated December 5, 2006, incorporated by reference to Exhibit 3.1 of Form 8-K filed December 7, 2006.                  | * |
| 3.6                       | Articles of Merger of The Stockmen's Bancorp, Inc. with and into Zions Bancorporation, effective January 17, 2007, incorporated by reference to Exhibit 3.6 of Form 10-K for the year ended December 31, 2006. | * |
| 3.7                       | Articles of Amendment to the Restated Articles of Incorporation of Zions Bancorporation, dated July 7, 2008, incorporated by reference to Exhibit 3.1 of Form 8-K filed July 8, 2008.                          | * |
| 3.8                       | Articles of Amendment to the Restated Articles of Incorporation of Zions Bancorporation, dated November 12, 2008, incorporated by reference to Exhibit 3.1 of Form 8-K filed November 17, 2008.                | * |
| 3.9                       | Articles of Amendment to the Restated Articles of Incorporation of Zions Bancorporation, dated June 30, 2009, incorporated by reference to Exhibit 3.1 of Form 8-K filed July 2, 2009.                         | * |
| 3.10                      | Articles of Amendment to the Restated Articles of Incorporation of Zions Bancorporation dated June 30, 2009, incorporated by reference to Exhibit 3.10 of Form 10-Q for the quarter ended June 30, 2009.       | * |
| 3.11                      | Articles of Amendment to the Restated Articles of Incorporation of Zions Bancorporation dated June 30, 2009, incorporated by reference to Exhibit 3.11 of Form 10-Q for the quarter ended June 30, 2009.       | * |
| 3.12                      | Amended and Restated Bylaws of Zions Bancorporation dated May 4, 2007, incorporated by reference to Exhibit 3.2 of Form 8-K filed on May 9, 2007.                                                              | * |

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ZIONS BANCORPORATION AND SUBSIDIARIES

| <b>Exhibit<br/>Number</b> | <b>Description</b>                                                                                                                                                                                                               |   |
|---------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---|
| 10.1                      | Fifth amendment to the Restated and Amended Zions Bancorporation Pension Plan, dated September 29, 2008, incorporated by reference to Exhibit 10.1 of Form 10-Q for the quarter ended September 30, 2009.                        | * |
| 10.2                      | Sixth amendment to the Restated and Amended Zions Bancorporation Pension Plan, dated September 15, 2009, incorporated by reference to Exhibit 10.2 of Form 10-Q for the quarter ended September 30, 2009.                        | * |
| 10.3                      | Tenth amendment to the Zions Bancorporation Payshelter 401(k) and Employee Stock Ownership Plan, dated September 15, 2009, incorporated by reference to Exhibit 10.3 of Form 10-Q for the quarter ended September 30, 2009.      | * |
| 31.1                      | Certification by Chief Executive Officer required by Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934 (filed herewith).                                                                                   |   |
| 31.2                      | Certification by Chief Financial Officer required by Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934 (filed herewith).                                                                                   |   |
| 32                        | Certification by Chief Executive Officer and Chief Financial Officer required by Sections 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 (15 U.S.C. 78m) and 18 U.S.C. Section 1350 (furnished herewith). |   |

\* *Incorporated by reference*

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ZIONS BANCORPORATION AND SUBSIDIARIES

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ZIONS BANCORPORATION

/s/ HARRIS H. SIMMONS

**Harris H. Simmons, Chairman, President**

**and Chief Executive Officer**

/s/ DOYLE L. ARNOLD

**Doyle L. Arnold, Vice Chairman  
and Chief Financial Officer**

Date: February 11, 2010