ZIONS BANCORPORATION /UT/
Form 10-Q
November 09, 2006
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2006

OR

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

For the transition period from ________ to ________

COMMISSION FILE NUMBER 001-12307

ZIONS BANCORPORATION

(Exact name of registrant as specified in its charter)

UTAH	**87-0227400**
(State or other jurisdiction	**(I.R.S. Employer**

of incorporation or organization)	Identification No.)
ONE SOUTH MAIN, SUITE 1134	
SALT LAKE CITY, UTAH	**84111**
(Address of principal executive offices)	**(Zip Code)**

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

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

Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x Accelerated filer ____ Non-accelerated filer ____

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

Yes ¨ No x

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

Common Stock, without par value, outstanding at October 31, 2006	106,925,913 shares

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ZIONS BANCORPORATION AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS (Unaudited)

ZIONS BANCORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands, except share amounts)	September 30, 2006 (Unaudited)	December 31, 2005	September 30, 2005 (Unaudited)
ASSETS			
Cash and due from banks	$ 1,616,910	$ 1,706,590	$ 1,109,202
Money market investments:			
Interest-bearing deposits	39,882	22,179	13,350
Federal funds sold	72,036	414,281	460,167
Security resell agreements	272,643	230,282	528,763
Investment securities:			
Held to maturity, at cost (approximate market value $655,170, $642,258 and $641,737)	662,547	649,791	642,687
Available for sale, at market	5,062,409	5,305,859	3,997,593
Trading account, at market (includes $60,331, $43,444 and $141,535 transferred as collateral under repurchase agreements)	92,615	101,562	352,059
	5,817,571	6,057,212	4,992,339
Loans:			
Loans held for sale	268,305	256,236	213,223
Loans and leases	33,583,499	29,996,022	23,823,715
	33,851,804	30,252,258	24,036,938
Less:			
Unearned income and fees, net of related costs	145,694	125,322	106,921
Allowance for loan losses	356,342	338,399	287,237
Loans and leases, net of allowance	33,349,768	29,788,537	23,642,780
Other noninterest-bearing investments	1,005,989	938,515	708,368
Premises and equipment, net	587,807	564,745	410,800
Goodwill	1,884,328	1,887,588	639,120
Core deposit and other intangibles	168,135	199,166	47,670
Other real estate owned	9,986	19,966	15,176
Other assets	952,692	950,578	854,966
	$ 45,777,747	$ 42,779,639	$ 33,422,701
LIABILITIES AND SHAREHOLDERS EQUITY			
Deposits:			
Noninterest-bearing demand	$ 9,750,064	$ 9,953,833	$ 7,725,179
Interest-bearing:			
Savings and money market	15,824,048	16,055,754	13,442,012
Time under $100,000	2,154,894	1,938,789	1,554,064
Time $100,000 and over	3,613,164	2,514,596	1,892,210
Foreign	2,298,821	2,179,436	786,276

	33,640,991	32,642,408	25,399,741
Securities sold, not yet purchased	53,802	64,654	331,891
Federal funds purchased	2,286,561	1,255,662	1,262,646
Security repurchase agreements	1,108,771	1,027,658	756,631
Other liabilities	657,657	592,599	571,583
Commercial paper	265,769	167,188	149,089
Federal Home Loan Bank advances and other borrowings:			
One year or less	313,259	18,801	13,063
Over one year	132,854	234,488	226,482
Long-term debt	2,633,759	2,511,366	1,685,683
Total liabilities	41,093,423	38,514,824	30,396,809
Minority interest	41,158	27,551	26,719
Shareholders equity:			
Capital stock:			
Preferred stock, without par value; authorized 3,000,000 shares; issued and outstanding, none			
Common stock, without par value; authorized 350,000,000 shares; issued and outstanding 106,804,606, 105,147,562 and 90,067,016 shares	2,240,458	2,156,732	971,002
Retained earnings	2,501,625	2,179,885	2,084,439
Accumulated other comprehensive loss	(89,292)	(83,043)	(52,088)
Deferred compensation	(9,625)	(16,310)	(4,180)
Total shareholders equity	4,643,166	4,237,264	2,999,173
	$ 45,777,747	$ 42,779,639	$ 33,422,701

See accompanying notes to consolidated financial statements.

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ZIONS BANCORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(In thousands, except per share amounts)	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
Interest income:				
Interest and fees on loans	$ 638,610	$ 406,319	$ 1,772,533	$ 1,137,487
Interest on loans held for sale	4,275	2,462	12,376	6,683
Lease financing	4,690	3,980	13,316	12,069
Interest on money market investments	6,431	7,723	18,188	18,402
Interest on securities:				
Held to maturity taxable	2,217	1,827	6,641	5,465
Held to maturity nontaxable	5,732	6,066	16,946	18,057
Available for sale taxable	66,078	49,339	204,177	145,361
Available for sale nontaxable	2,089	808	6,547	2,498
Trading account	1,621	4,753	5,690	15,832
Total interest income	731,743	483,277	2,056,414	1,361,854
Interest expense:				
Interest on savings and money market deposits	109,410	59,539	293,164	149,511
Interest on time and foreign deposits	86,635	31,536	213,544	75,980
Interest on short-term borrowings	46,968	23,213	118,421	67,994
Interest on long-term debt	42,219	28,337	125,600	81,838
Total interest expense	285,232	142,625	750,729	375,323
Net interest income	446,511	340,652	1,305,685	986,531
Provision for loan losses	14,363	12,107	45,897	32,907
Net interest income after provision for loan losses	432,148	328,545	1,259,788	953,624
Noninterest income:				
Service charges and fees on deposit accounts	41,991	32,233	123,443	94,421
Loan sales and servicing income	10,972	21,649	41,861	56,507
Other service charges, commissions and fees	44,711	28,877	127,058	83,662
Trust and investment management income	5,549	3,923	15,557	11,994
Income from securities conduit	7,741	8,553	24,639	25,989
Dividends and other investment income	10,403	6,954	29,558	22,398
Market making, trading and nonhedge derivative income	3,641	4,069	13,510	14,362
Equity securities gains (losses), net	13,180	1,089	11,966	(3,076)
Fixed income securities gains, net	1,563	276	6,970	422
Other	5,578	2,872	16,766	12,647
Total noninterest income	145,329	110,495	411,328	319,326

Noninterest expense:				
Salaries and employee benefits	190,554	142,590	562,052	418,960
Occupancy, net	25,807	19,048	74,437	56,005
Furniture and equipment	20,361	16,979	66,102	49,158
Legal and professional services	11,386	8,575	28,900	24,792
Postage and supplies	8,313	6,510	24,674	19,796
Advertising	6,566	5,875	19,365	15,303
Impairment losses on long-lived assets			1,304	633
Restructuring charges			17	92
Merger related expense	2,549	207	18,262	207
Amortization of core deposit and other intangibles	10,716	3,684	32,101	10,813
Provision for unfunded lending commitments	1,045	435	517	3,148
Other	52,731	43,815	159,780	130,095
Total noninterest expense	330,028	247,718	987,511	729,002
Income before income taxes and minority interest	247,449	191,322	683,605	543,948
Income taxes	83,790	68,200	237,869	194,279
Minority interest	9,985	152	9,119	(2,345)
Net income	$ 153,674	$ 122,970	$ 436,617	$ 352,014
Weighted average shares outstanding during the period:				
Basic shares	106,285	89,980	105,922	89,901
Diluted shares	108,061	91,605	107,950	91,606
Net income per common share:				
Basic	$ 1.45	$ 1.37	$ 4.12	$ 3.92
Diluted	1.42	1.34	4.04	3.84

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)	Common stock	Retained earnings	Accumulated other comprehensive income (loss)	Deferred compensation	Total shareholders equity
Balance, December 31, 2005	$ 2,156,732	$ 2,179,885	$ (83,043)	$ (16,310)	$ 4,237,264
Comprehensive income:					
Net income for the period		436,617			436,617
Other comprehensive loss, net of tax:					
Net realized and unrealized holding losses on investments and retained interests			(11,134)		
Foreign currency translation			646		
Reclassification for net realized gains on investments recorded in operations			(2,424)		
Net unrealized gains on derivative instruments			6,663		
Other comprehensive loss			(6,249)		(6,249)
Total comprehensive income					430,368
Stock redeemed and retired	(1,439)				(1,439)
Net stock options exercised	79,014				79,014
Reclassification of deferred compensation, adoption of SFAS 123R	(11,111)			11,111	
Share-based compensation	17,262				17,262
Cash dividends common, $1.08 per share		(114,877)			(114,877)
Change in deferred compensation				(4,426)	(4,426)
Balance, September 30, 2006	$ 2,240,458	$ 2,501,625	$ (89,292)	$ (9,625)	$ 4,643,166
Balance, December 31, 2004	$ 972,065	$ 1,830,064	$ (7,932)	$ (4,218)	$ 2,789,979
Comprehensive income:					
Net income for the period		352,014			352,014
Other comprehensive loss, net of tax:					
Net realized and unrealized holding losses on investments and retained interests			(9,122)		
Foreign currency translation			(1,313)		
Reclassification for net realized gains on investments recorded in operations			(323)		
Net unrealized losses on derivative instruments			(33,398)		
Other comprehensive loss			(44,156)		(44,156)
Total comprehensive income					307,858
Stock redeemed and retired	(80,795)				(80,795)
Net stock options exercised and restricted stock issued	79,732				79,732
Cash dividends common, $1.08 per share		(97,639)			(97,639)

Change in deferred compensation				38	38
Balance, September 30, 2005	$ 971,002	$ 2,084,439	$ (52,088)	$ (4,180)	$ 2,999,173

Total comprehensive income for the three months ended September 30, 2006 and 2005 was $212,709 and $83,787, respectively.

See accompanying notes to consolidated financial statements.

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ZIONS BANCORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income	$ 153,674	$ 122,970	$ 436,617	$ 352,014
Adjustments to reconcile net income to net cash provided by (used in) operating activities:				
Impairment losses on long lived assets			1,304	633
Provision for loan losses	14,363	12,107	45,897	32,907
Depreciation of premises and equipment	17,097	14,718	56,445	44,160
Amortization	18,345	10,061	43,352	27,116
Deferred income tax benefit	(1,212)	(9,155)	(1,117)	(28,830)
Share-based compensation	6,752	565	17,731	1,020
Excess tax benefits from share-based compensation	(2,729)		(12,697)	
Gain (loss) allocated to minority interest	9,985	152	9,119	(2,345)
Equity securities losses (gains), net	(13,180)	(1,089)	(11,966)	3,076
Fixed income securities gains, net	(1,563)	(276)	(6,970)	(422)
Net decrease (increase) in trading securities	(21,969)	(69,977)	8,947	(61,989)
Principal payments on and proceeds from sales of loans held for sale	249,065	233,122	862,072	703,106
Additions to loans held for sale	(264,261)	(224,648)	(854,320)	(684,140)
Net gains on sales of loans, leases and other assets	(3,577)	(15,131)	(20,702)	(36,495)
Net increase in cash surrender value of bank owned life insurance	(7,239)	(4,372)	(19,978)	(13,581)
Undistributed earnings of affiliates	(2,106)	(1,702)	(5,048)	(6,169)
Change in accrued income taxes	27,115	20,631	42,477	26,364
Change in accrued interest receivable	(17,985)	4,448	(27,978)	(202)
Change in other assets	176,738	(119,792)	38,058	(118,519)
Change in other liabilities	(181,253)	(745)	(13,638)	113,158
Change in accrued interest payable	20,402	7,308	32,785	9,507
Other, net	17,972	6,357	35,592	(96)
Net cash provided by (used in) operating activities	194,434	(14,448)	655,982	360,273
CASH FLOWS FROM INVESTING ACTIVITIES:				
Net decrease (increase) in money market investments	191,070	(401,622)	282,181	(409,193)
Proceeds from maturities of investment securities held to maturity	25,982	39,795	86,624	95,245
Purchases of investment securities held to maturity	(48,852)	(32,525)	(99,128)	(96,064)
Proceeds from sales of investment securities available for sale	721,554	1,016,707	2,745,840	1,672,979
Proceeds from maturities of investment securities available for sale	457,115	162,697	1,605,643	1,129,569
Purchases of investment securities available for sale	(1,131,722)	(1,214,851)	(4,132,068)	(2,622,369)
Proceeds from sales of loans and leases	46,073	880,965	188,043	1,100,060
Net increase in loans and leases	(1,067,187)	(1,001,829)	(3,829,526)	(2,435,084)
Net increase in other noninterest-bearing investments	(2,966)	(2,815)	(40,840)	(3,808)

Proceeds from sales of premises and equipment	1,137	1,170	5,992	3,158
Purchases of premises and equipment	(33,078)	(16,889)	(87,761)	(49,640)
Proceeds from sales of other real estate owned	9,264	1,114	34,172	11,666
Net cash paid for acquisitions		(200)	(1,691)	(200)
Net cash paid for net liabilities on branches sold				(16,076)
Net cash used in investing activities	(831,610)	(568,283)	(3,242,519)	(1,619,757)

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ZIONS BANCORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(Unaudited)

(In thousands)	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
CASH FLOWS FROM FINANCING ACTIVITIES:				
Net increase in deposits	$ 386,781	$ 1,001,206	$ 998,583	$ 2,131,330
Net change in short-term funds borrowed	(28,190)	(516,755)	1,494,199	(503,045)
Proceeds from FHLB advances and other borrowings over one year			150	
Payments on FHLB advances and other borrowings over one year	(596)	(557)	(101,784)	(1,670)
Proceeds from issuance of long-term debt	145,000		395,000	
Payments on long-term debt	(37)		(254,193)	
Proceeds from issuance of common stock	13,089	8,795	68,521	69,507
Payments to redeem common stock	(101)	(737)	(1,439)	(80,795)
Excess tax benefits from share-based compensation	2,729		12,697	
Dividends paid	(38,418)	(32,546)	(114,877)	(97,639)
Net cash provided by financing activities	480,257	459,406	2,496,857	1,517,688
Net increase (decrease) in cash and due from banks	(156,919)	(123,325)	(89,680)	258,204
Cash and due from banks at beginning of period	1,773,829	1,232,527	1,706,590	850,998
Cash and due from banks at end of period	$ 1,616,910	$ 1,109,202	$ 1,616,910	$ 1,109,202
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:				
Cash paid for:				
Interest	$ 266,766	$ 133,205	$ 718,386	$ 361,239
Income taxes	56,435	55,438	207,005	189,471
Noncash items:				
Loans transferred to other real estate owned	2,058	5,835	19,909	16,329

See accompanying notes to consolidated financial statements.

ZIONS BANCORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

September 30, 2006

1. BASIS OF PRESENTATION AND CHANGES IN ACCOUNTING ESTIMATES

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

Operating results for the three- and nine-month periods ended September 30, 2006 are not necessarily indicative of the results that may be expected in future periods. The balance sheet at December 31, 2005 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 Zions Bancorporation s Annual Report on Form 10-K for the year ended December 31, 2005.

The Company provides a full range of banking and related services through banking subsidiaries in ten states as follows: Zions First National Bank (Zions Bank), in Utah and Idaho; California Bank & Trust (CB&T); Amegy Corporation (Amegy), 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). Amegy was acquired effective December 3, 2005 as discussed in Note 3. TCBO was opened in October 2005 and is not expected to have a material effect on consolidated operations for several years.

As discussed more fully in the management s discussion and analysis section of this filing, during the three months ended September 30, 2006 the Company adjusted its valuation assumptions for retained beneficial interests from securitization transactions. The Company recognized a pretax impairment loss of $4.1 million on the carrying value of certain of these retained interests, which has been charged in the statement of income to loans sales and servicing income.

2. CERTAIN RECENT ACCOUNTING PRONOUNCEMENTS

On September 20, 2006, the Emerging Issues Task Force (EITF) of the Financial Accounting Standards Board (FASB) ratified EITF Issue No. 06-4, *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements*, and EITF Issue No. 06-5, *Accounting for Purchases of Life Insurance Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4, Accounting for Purchases of Life Insurance*. EITF 06-4 provides that an employer should recognize a liability for future benefits based on the substantive agreement with the employee. The Issue should be applied to fiscal years beginning after December 15, 2007, with earlier application permitted. EITF 06-5 provides that in determining the amount recognized as an asset, a policyholder should consider the cash surrender value as well as any additional amounts included in the contractual terms of the policy that will be paid upon surrender. The amount that could be realized should be calculated at the individual policy level and consider any probable contractual limitations, including the exclusion of any additional amounts paid for the surrender of an entire group of policies. The Issue is effective for fiscal years beginning after December 15, 2006. Certain banking subsidiaries of the Company have life insurance arrangements that may be affected by these Issues. Management is evaluating the impact these Issues may have on the Company s financial statements.

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ZIONS BANCORPORATION AND SUBSIDIARIES

On September 29, 2006, the FASB issued SFAS No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R)*. SFAS 158 requires an entity to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and to recognize changes in that funded status through other comprehensive income in the years in which changes occur. The Statement also requires an entity to measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions. While the Statement does not change the determination of net periodic benefit cost included in net income, it does expand disclosure requirements about certain effects on net periodic benefit cost that may arise in subsequent fiscal years. The recognition and disclosure requirements are effective for fiscal years ending after December 15, 2006 for public entities. The measurement requirement is effective for fiscal years ending after December 15, 2008. Early adoption is encouraged, but must apply to all of an entity s benefit plans. Management is evaluating the impact this Statement may have on the Company s financial statements. However, due to the frozen status of the Company s pension and postretirement plans, as disclosed in Note 8 and in the Company s Annual Report on Form 10-K for the year ended December 31, 2005, and other factors, management believes that the recognition and disclosure requirements of this Statement will not have a material impact on the Company s financial statements.

On September 15, 2006, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*. SFAS 157 provides enhanced guidance for using fair value to measure assets and liabilities and expands disclosures about fair value measurements. The Statement applies under other accounting pronouncements that require or permit fair value measurements; however, it does not expand the use of fair value measurements in any new circumstances. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Early adoption is permitted. Management is evaluating the impact this Statement may have on the Company s financial statements.

In July 2006, the FASB issued FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109, Accounting for Income Taxes*. FIN 48 prescribes that a tax position must meet a minimum more-likely-than-not threshold before it can be recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure, and transition. In addition, FIN 48 removes income taxes from the scope of SFAS No. 5, *Accounting for Contingencies*. FIN 48 is effective for fiscal years beginning after December 15, 2006, or January 1, 2007 for calendar year-end companies. Management is evaluating the impact this Interpretation may have on the Company s financial statements.

In March 2006, the FASB issued SFAS No. 156, *Accounting for Servicing of Financial Assets, an amendment of FASB Statement No. 140.* This Statement permits entities to choose to either subsequently measure recorded servicing rights at fair value and report changes in fair value in earnings, or amortize servicing rights in proportion to the estimated net servicing income or loss and assess the rights for impairment or the need for an increased obligation. In addition, the Statement, among other things, clarifies when a servicer should separately recognize servicing assets and liabilities, and requires initial fair value measurement, if practicable, of such recognized assets and liabilities.

In February 2006, the FASB issued SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments, an amendment of FASB Statements No. 133 and 140.* This Statement amends SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, to require evaluation of all interests in securitized financial assets under SFAS 133, eliminating a previous exemption under SFAS 133 for such financial instruments. Entities must now distinguish interests that are freestanding derivatives, hybrid financial instruments containing embedded derivatives requiring bifurcation, or hybrid financial instruments containing embedded derivatives that do not require bifurcation. In addition, the Statement permits fair value remeasurement for any hybrid instrument (on an instrument-by-instrument basis) that contains an embedded derivative that would otherwise require bifurcation. The Statement also amends SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, by eliminating the prohibition on a qualifying special-purpose entity (QSPE) from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument.

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ZIONS BANCORPORATION AND SUBSIDIARIES

In general, both SFAS 155 and SFAS 156 are effective as of the beginning of an entity s fiscal year after September 15, 2006, or January 1, 2007 for calendar year-end companies. Management is evaluating the impact both of these Statements may have on the Company s financial statements.

The Company s adoption of SFAS No. 123R, *Share-Based Payment*, is discussed in Note 6.

3. MERGER AND ACQUISITION ACTIVITY

On September 11, 2006, the Company announced that it had signed a definitive agreement to acquire The Stockmen s Bancorp, Inc. (Stockmen s), headquartered in Kingman, Arizona. As of September 30, 2006, Stockmen s had approximately $1.2 billion of total assets, $1.1 billion of total deposits, and 32 branches in Arizona and 11 in central California. Consideration of approximately $206 million will consist of approximately 2.6 million shares of the Company s common stock. The merger is subject to approval by regulators and by Stockmen s shareholders. Upon completion of the transaction, which is expected in the first quarter of 2007, Stockmen s parent company will merge into the Company and the banking subsidiary will merge into the Company s NBA subsidiary.

Effective December 3, 2005, we acquired 100% of the outstanding stock of Amegy Bancorporation, Inc. headquartered in Houston, Texas. The tax-free merger included the formation of a new holding company, Amegy Corporation (Amegy), which became a wholly-owned subsidiary of the Company. The merger expanded the Company s banking presence into Texas. Amegy s results of operations for the month of December 2005 and for the nine months ended September 30, 2006 were included with the Company s results of operations.

Details of the merger, including the allocation of the purchase price, are included in the Company s Annual Report on Form 10-K for the year ended December 31, 2005. The allocation of the purchase price is subject to change when the determination of Amegy s asset and liability values is finalized within one year from the merger date. As of September 30, 2006, the allocation had not changed from December 31, 2005. Management currently anticipates that any changes will not be significant.

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The following unaudited pro forma condensed combined financial information presents the Company s results of operations assuming the merger had taken place as of January 1, 2005. Also shown for comparative purposes are the historical results of operations for the Company without Amegy *(in thousands, except per share amounts)*:

	Three Months Ended September 30, 2005		Nine Months Ended September 30, 2005	
	Pro forma combined	**Zions historical without Amegy**	**Pro forma combined**	**Zions historical without Amegy**
Net interest income	$ 399,725	$ 340,652	$ 1,160,764	$ 986,531
Provision for loan losses	14,007	12,107	39,407	32,907
Noninterest income	140,939	110,495	409,669	319,326
Noninterest expense	317,063	247,718	940,847	729,002
Income before income taxes and minority interest	209,594	191,322	590,179	543,948
Net income	136,797	122,970	387,706	352,014
Net income per common share:				
Basic	$ 1.31	$ 1.37	$ 3.72	$ 3.92
Diluted	1.28	1.34	3.64	3.84
Weighted average shares outstanding during the period:				
Basic	104,331	89,980	104,252	89,901
Diluted	106,622	91,605	106,603	91,606

The above pro forma amounts do not reflect cost savings or revenue enhancements anticipated from the acquisition, and are not necessarily indicative of what actually would have occurred if the acquisition had been completed as of the beginning of the period presented, nor are they necessarily indicative of future consolidated results.

Merger related expenses for this merger of $2.5 million and $18.3 million for the three- and nine-month periods ended September 30, 2006 consisted of systems integration and related charges of $0.2 million and $10.3 million, and severance and other employee-related costs of $2.3 million and $8.0 million, respectively.

At September 30, 2006, Amegy s unpaid accrual for certain exit and termination costs as of the merger date was approximately $3.8 million.

4. LONG-TERM DEBT

On March 31, 2006, we filed an automatic shelf registration statement with the Securities and Exchange Commission (SEC) as a well-known seasoned issuer. The shelf registration replaced a previous shelf registration and covers security issuances of the Company, Zions Capital Trust C and Zions Capital Trust D.

On April 27, 2006 under the new shelf registration, we issued $250 million of floating rate senior notes due April 15, 2008. The notes require quarterly interest payments at three-month LIBOR plus 0.12%. They are not redeemable prior to maturity and are not listed on any national securities exchange. Proceeds from the notes were used to retire all of the $150 million of 2.70% senior notes due May 1, 2006 and all of the remaining $104.2 million of 6.95% subordinated notes due May 15, 2011 and redeemable May 15, 2006.

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On September 28, 2006 under the new shelf registration, we issued $145 million of floating rate senior notes due September 15, 2008. The notes require quarterly interest payments at three-month LIBOR plus 0.12%. They are not redeemable prior to maturity and are not listed on any national securities exchange. Proceeds from the notes will be used to retire all of the remaining $98.4 million of 6.50% subordinated notes due October 15, 2011 and redeemable October 15, 2006, and applied to the redemption of the $176.3 million of 8.536% trust preferred securities due December 15, 2026 and redeemable December 15, 2006. The Company will incur a premium of approximately $7.3 million on the expected redemption of the trust preferred securities, which will be charged to the statement of income in the fourth quarter of 2006.

5. SHAREHOLDERS EQUITY

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

	Net unrealized gains (losses) on investments, retained interests and other	Net unrealized gains (losses) on derivative instruments	Minimum pension liability	Total
Nine Months Ended September 30, 2006:				
Balance, December 31, 2005	$ (10,772)	$ (50,264)	$ (22,007)	$ (83,043)
Other comprehensive loss, net of tax:				
Net realized and unrealized holding losses during the period, net of income tax benefit of $6,897	(11,134)			(11,134)
Foreign currency translation	646			646
Reclassification for net realized gains recorded in operations, net of income tax expense of $1,501	(2,424)			(2,424)
Net unrealized gains on derivative instruments, net of reclassification to operations of $(27,568) and income tax expense of $3,278		6,663		6,663
Other comprehensive income (loss)	(12,912)	6,663		(6,249)
Balance, September 30, 2006	$ (23,684)	$ (43,601)	$ (22,007)	$ (89,292)
Nine Months Ended September 30, 2005:				
Balance, December 31, 2004	$ 19,774	$ (9,493)	$ (18,213)	$ (7,932)
Other comprehensive loss, net of tax:				
Net realized and unrealized holding losses during the period, net of income tax benefit of $5,650	(9,122)			(9,122)
Foreign currency translation	(1,313)			(1,313)
	(323)			(323)

Reclassification for net realized gains recorded in operations, net of income tax expense of $200				
Net unrealized losses on derivative instruments, net of reclassification to operations of $10,618 and income tax benefit of $20,991		(33,398)		(33,398)
Other comprehensive loss	(10,758)	(33,398)		(44,156)
Balance, September 30, 2005	$ 9,016	$ (42,891)	$ (18,213)	$ (52,088)

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ZIONS BANCORPORATION AND SUBSIDIARIES

6. SHARE-BASED COMPENSATION

We have a stock option and incentive plan which allows us to grant stock options and restricted stock to employees and nonemployee directors. The total shares authorized under the plan are 8,900,000 of which 6,679,070 shares are available for future grant as of September 30, 2006.

Prior to January 1, 2006, we accounted for share-based compensation under the recognition and measurement provisions of Accounting Principles Board Opinion No. 25 (APB 25), *Accounting for Stock Issued to Employees*, and related Interpretations, as permitted by SFAS No. 123, *Accounting for Stock-Based Compensation*. Accordingly, we did not record any compensation expense for stock options, as the exercise price of the option was equal to the quoted market price of the stock on the date of grant.

Effective January 1, 2006, we adopted SFAS No. 123R, *Share-Based Payment*, which requires all share-based payments to employees, including grants of employee stock options, to be recognized in the statement of income based on their fair values. This accounting utilizes a modified grant-date approach in which the fair value of an equity award is estimated on the grant date without regard to service or performance vesting conditions. We adopted SFAS 123R using the modified prospective transition method. Under this transition method, compensation expense is recognized beginning January 1, 2006 based on the requirements of SFAS 123R for all share-based payments granted after December 31, 2005, and based on the requirements of SFAS 123 for all awards granted to employees prior to January 1, 2006 that remain unvested as of that date. Results of operations for prior periods have not been restated.

The adoption of SFAS 123R, compared to the previous accounting for share-based compensation under APB 25, reduced the Company s income before income taxes and minority interest and net income along with the related basic and diluted per common share amounts as follows *(in thousands, except per share amounts)*:

	September 30, 2006	
	Three Months Ended	**Nine Months Ended**
Reduction in:		
Income before income taxes and minority interest	$ 4,815	$ 12,881
Net income	3,597	9,166
Net income per common share:		
Basic	$ 0.03	$ 0.09
Diluted	0.03	0.08

As required by SFAS 123R, upon adoption, we reclassified $11.1 million of unearned compensation related to restricted stock from deferred compensation and common stock.

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The impact on net income and net income per common share if we had applied the provisions of SFAS 123 to stock options for the three- and nine-month periods ended September 30, 2005 was as follows *(in thousands, except per share amounts)*:

	September 30, 2005	
	Three Months Ended	**Nine Months Ended**
Net income, as reported	$ 122,970	$ 352,014
Deduct: Total share-based compensation expense determined under fair value based method for stock options, net of related tax effects	(3,002)	(7,456)
Pro forma net income	$ 119,968	$ 344,558
Net income per common share:		
Basic as reported	$ 1.37	$ 3.92
Basic pro forma	1.33	3.83
Diluted as reported	1.34	3.84
Diluted pro forma	1.31	3.76

We classify all share-based awards as equity instruments and recognize the vesting of the awards ratably over their respective terms. As of September 30, 2006, compensation expense not yet recognized for nonvested share-based awards was approximately $49.2 million, which is expected to be recognized over a weighted average period of 1.4 years.

SFAS 123R also requires the benefits of tax deductions in excess of recognized compensation expense resulting from the exercise of share-based awards to be reported as a financing cash flow. For the three- and nine month periods ended September 30, 2006, this requirement reduced net operating cash flows and increased net financing cash flows by approximately $2.7 million and $12.7 million, respectively.

Stock Options

Options granted to employees vest at the rate of one third each year and expire seven years after the date of grant. Options granted to nonemployee directors vest in increments from six months to three and a half years and expire ten years after the date of grant.

In 2005, we discontinued our broad-based employee stock option plan under which options were made available to substantially all employees; however, existing options continue to vest at the rate of one third each year and expire four years after the date of grant.

For the three- and nine-month periods ended September 30, 2006, the additional compensation expense of $4.8 million and $12.9 million, respectively, for stock options under SFAS 123R is included in salaries and employee benefits in the statements of income with the corresponding increase, excluding the effects of stock option expense on subsidiary stock, included in common stock in shareholders equity. The related tax benefit recognized as a reduction of income tax expense was $1.2 million and $3.7 million, respectively, for the same periods.

During the three- and nine-month periods ended September 30, 2006, the amount of cash received from the exercise of stock options was $13.1 million and $68.5 million, respectively, and the tax benefit realized as a reduction of income taxes payable was $3.1 million and $14.4 million, respectively. Of these amounts, $0.4 million and $3.9 million reduced goodwill for the tax benefit of vested share-based awards converted in the Amegy acquisition that were exercised during the three- and nine-month periods, and $2.7 million and $10.5 million, respectively, were included in common stock as part of net stock options exercised.

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Compensation expense was determined from the estimates of fair values of stock options granted using the Black-Scholes option-pricing model. We granted stock options in the second quarter of 2006, but did not grant any stock options in the first and third quarters of 2006. The following significant assumptions were used for options granted:

Weighted average of fair value for options granted	$ 15.02
Weighted average assumptions used:	
Expected dividend yield	2.0%
Expected volatility	18.0%
Risk-free interest rate	4.96%
Expected life (in years)	4.1

The methodology used to estimate the fair values of stock options is consistent with the estimates used for the pro forma presentation in periods prior to the adoption of SFAS 123R. The preceding assumptions reflect management s judgment and include consideration of historical experience. The risk-free interest rate is based on the U. S. Treasury yield curve in effect at the time of grant for periods corresponding with the expected life of the option.

The following summarizes our stock option activity for the nine months ended September 30, 2006:

	Number of shares	Weighted average exercise price
Balance at December 31, 2005	7,497,566	$ 52.79
Granted	977,024	81.14
Exercised	(1,414,688)	49.23
Expired	(40,663)	52.05
Forfeited	(85,116)	61.81
Balance at September 30, 2006	6,934,123	57.40
Outstanding options exercisable as of September 30, 2006	4,416,162	$ 50.33

We issue new authorized shares for the exercise of stock options. During the three- and nine-month periods ended September 30, 2006, the total intrinsic value of options exercised was approximately $7.9 million and $44.3 million, respectively.

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Additional selected information on stock options at September 30, 2006 follows:

	Outstanding options			Exercisable options	
Exercise price range	Number of shares	Weighted average exercise price	Weighted average remaining contractual life (years)	Number of shares	Weighted average exercise price
$ 0.32 to $ 19.99	92,443	$ 11.92	0.9 (1)	92,443	$ 16.14
$ 20.00 to $ 39.99	189,562	27.76	2.5	189,562	27.76
$ 40.00 to $ 44.99	1,346,599	42.21	2.8	1,347,403	42.21
$ 45.00 to $ 49.99	377,219	48.29	4.7	370,219	48.28
$ 50.00 to $ 54.99	1,044,061	53.72	2.7	1,039,414	53.72
$ 55.00 to $ 59.99	1,629,474	56.95	4.7	924,742	56.97
$ 60.00 to $ 64.99	200,366	61.46	2.8	60,224	62.08
$ 65.00 to $ 69.99	204,350	67.29	6.7	141,398	67.47
$ 70.00 to $ 74.99	765,149	70.86	5.8	249,049	70.89
$ 75.00 to $ 82.92	1,084,900	80.58	6.6	1,708	75.58
	6,934,123	57.40	4.4 (1)	4,416,162	50.33

(1) The weighted average remaining contractual life excludes 35,023 stock options which expire between the date of termination and one year from the date of termination, depending upon certain circumstances.

For outstanding options at September 30, 2006, the aggregate intrinsic value was $156.7 million. For exercisable options at September 30, 2006, the aggregate intrinsic value was $131.8 million and the weighted average remaining contractual life was 3.6 years.

Restricted Stock

Restricted stock granted vests over four years. During the vesting period, the holder has full voting rights and receives dividend equivalents. For the three- and nine-month periods ended September 30, 2006, compensation expense recognized for issuances of restricted stock and included in salaries and employee benefits in the statement of income was $1.9 million and $4.8 million, respectively. Amounts for the corresponding periods in 2005 were $0.6 million and $1.0 million, respectively. The corresponding increase to shareholders equity was included in common stock. Compensation expense was determined based on the number of restricted shares granted and the market price of our common stock at the grant date.

The following summarizes our restricted stock activity for the nine months ended September 30, 2006:

	Number of shares	Weighted average grant price
Nonvested restricted shares at December 31, 2005	203,983	$ 68.99
Granted	289,125	80.14
Vested	(51,627)	71.42
Forfeited	(18,044)	75.14
Nonvested restricted shares at September 30, 2006	423,437	77.17

The total fair value of restricted stock vesting during the three- and nine-month periods ended September 30, 2006 was $0.4 million and $4.2 million, respectively. Amounts for the corresponding periods in 2005 were not significant.

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7. GUARANTEES

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

	September 30, 2006	December 31, 2005
Standby letters of credit:		
Financial	$ 1,158,028	$ 1,015,019
Performance	311,424	240,763
	$ 1,469,452	$ 1,255,782

The Company s Annual Report on Form 10-K for the year ended December 31, 2005 contains further information on the nature of these letters of credit along with their terms and collateral requirements. At September 30, 2006, the carrying value recorded by the Company as a liability for these guarantees was $4.7 million.

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

As of September 30, 2006, the Parent has guaranteed approximately $476.1 million of debt issued by affiliated trusts issuing trust preferred securities. The trusts and related trust preferred securities are described in the Company s Annual Report on Form 10-K for the year ended December 31, 2005.

Zions Bank provides a liquidity facility (Liquidity Facility) for a fee to Lockhart Funding, LLC (Lockhart), a QSPE securities conduit. Lockhart purchases floating rate U.S. Government and AAA-rated securities with funds from the issuance of commercial paper. Zions Bank also provides interest rate hedging support and administrative and investment advisory services for a fee. Pursuant to the Liquidity Facility contract, Zions Bank is required to purchase securities from Lockhart to provide funds for Lockhart to repay maturing commercial paper upon Lockhart s inability to access the commercial paper market, or upon a commercial paper market disruption as specified in governing documents for Lockhart. Pursuant to the governing documents, including the liquidity agreement, if any security in Lockhart is downgraded below AA-, Zions Bank must either 1) place its letter of credit on the security, 2) obtain credit enhancement from a third party, or 3) purchase the security from Lockhart at book value. At any given time, the maximum commitment of Zions Bank is the book value of Lockhart s securities portfolio, which is not allowed to exceed the size of the Liquidity Facility commitment. At September 30, 2006, the book value of Lockhart s securities portfolio was $4.7 billion, which approximated market value, and the size of the Liquidity Facility commitment was $6.12 billion. No amounts were outstanding under the Liquidity Facility at September 30, 2006.

The FASB continues to deliberate other projects that propose to amend SFAS 140 in addition to those discussed in Note 2. These include criteria for legal isolation of transferred assets and restrictions on permitted activities of QSPEs. The proposed amendments, among other things, may require changes to the operating activities of QSPEs and other aspects relating to the transfer of financial assets. Subject to the requirements of any final standards when they are issued, Lockhart s operations may need to be modified to preserve its off-balance sheet status.

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8. RETIREMENT PLANS

The following disclosures are required for interim financial statements by SFAS No. 132R, *Employers Disclosures about Pensions and Other Postretirement Benefits (in thousands)*:

	Pension benefits		Postretirement benefits		Pension benefits		Postretirement benefits	
	Three Months Ended September 30,				Nine Months Ended September 30,			
	2006	2005	2006	2005	2006	2005	2006	2005
Service cost (credit)	$ 168	$ 373	$ (33)	$ 29	$ 426	$ 659	$ 32	$ 89
Interest cost (credit)	2,900	5,775	(105)	86	7,200	10,044	66	261
Expected return on plan assets	(3,447)	(6,833)			(8,627)	(12,041)		
Amortization of net actuarial (gain) loss	672	1,238	108	(86)	1,655	1,958	(26)	(261)
Net periodic benefit cost (credit)	$ 293	$ 553	$ (30)	$ 29	$ 654	$ 620	$ 72	$ 89

These disclosures include revisions made to the annual estimate of net periodic pension benefit cost by the Company s actuary in the third quarters of 2006 and 2005.

As disclosed in the Company s Annual Report on Form 10-K for the year ended December 31, 2005, we expect to contribute $634 thousand in 2006 to meet estimated benefit payments to participants in our postretirement health and welfare plan. As of September 30, 2006, we have contributed $472 thousand of this amount and expect to contribute the remaining portion during the rest of 2006. In September 2006, we contributed $10 million to the pension plan. As disclosed in the Company s Annual Report on Form 10-K for the year ended December 31, 2005, the Company s contributions for individual benefit payments in the postretirement plan were frozen in 2000 and participation and benefit accruals for the pension plan were frozen effective January 1, 2003.

9. 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, 2006, we operate eight community/regional banks in distinct geographical areas. Performance assessment and resource allocation are based upon this geographical structure. Zions Bank operates 111 branches in Utah and 24 in Idaho. CB&T operates 91 branches in California. Amegy operates 77 branches in Texas. NBA operates 53 branches in Arizona. NSB operates 72 branches in Nevada. Vectra operates 39 branches in Colorado and one branch in New Mexico. TCBW operates one branch in the state of Washington. TCBO operates one branch in Oregon. The operating segment identified as Other includes the Parent, certain nonbank financial service and financial technology subsidiaries, other smaller nonbank operating units, TCBO, and eliminations of transactions between segments. Results for Amegy only include the three- and nine month periods ended September 30, 2006.

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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The following table presents selected operating segment information for the three months ended September 30, 2006 and 2005:

(In millions)	Zions Bank		CB&T		Amegy		NBA		NSB	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
CONDENSED INCOME STATEMENT										
Net interest income excluding hedge income	$ 122.1	$ 104.2	$ 122.5	$ 113.3	$ 77.4		$ 56.4	$ 48.3	$ 51.5	$ 44.7
Hedge income recorded directly at subsidiary	(0.6)	(0.3)	(5.8)	(0.5)	(0.6)		(1.3)	0.4	(1.3)	0.2
Allocated hedge income	0.3	0.7					(0.1)	(0.2)		(0.1)
Net interest income	121.8	104.6	116.7	112.8	76.8		55.0	48.5	50.2	44.8
Provision for loan losses	1.7	6.0	5.0	4.5	2.8		0.9	1.9	1.7	(0.9)
Net interest income after provision for loan losses	120.1	98.6	111.7	108.3	74.0		54.1	46.6	48.5	45.7
Noninterest income	61.1	68.7	22.7	19.1	29.5		7.0	6.0	8.5	7.7
Amortization of core deposit and other intangibles	0.4	0.5	1.9	1.9	7.1		0.4	0.5	0.2	0.2
Other noninterest expense	106.4	97.7	59.7	57.7	65.2		26.2	23.8	28.3	26.6
Income before income taxes and minority interest	74.4	69.1	72.8	67.8	31.2		34.5	28.3	28.5	26.6
Income tax expense (benefit)	25.4	23.1	29.4	27.3	9.6		13.8	11.2	10.0	9.2
Minority interest					0.5					
Net income (loss)	$ 49.0	$ 46.0	$ 43.4	$ 40.5	$ 21.1		$ 20.7	$ 17.1	$ 18.5	$ 17.4
AVERAGE BALANCE SHEET DATA										
Assets	$ 13,882	$ 12,497	$ 10,739	$ 10,236	$ 9,188		$ 4,509	$ 3,972	$ 3,984	$ 3,693
Net loans and leases	9,768	8,523	8,139	7,269	5,794		4,005	3,464	3,257	2,791
Deposits	9,945	8,620	8,390	8,627	6,441		3,467	3,420	3,370	3,271
Shareholder s equity	933	791	1,133	1,048	1,786		339	289	265	234

(In millions)	Vectra		TCBW		Other		Consolidated Company	
	2006	2005	2006	2005	2006	2005	2006	2005
CONDENSED INCOME STATEMENT								
Net interest income excluding hedge income	$ 25.5	$ 22.6	$ 8.7	$ 7.5	$ (4.7)	$ 0.2	$ 459.4	$ 340.8
Hedge income recorded directly at subsidiary	(1.9)	(0.1)	(0.5)	(0.1)	(0.8)	0.2	(12.8)	(0.2)
Allocated hedge income	(0.1)	(0.3)	(0.1)	(0.1)				
Net interest income	23.5	22.2	8.1	7.3	(5.5)	0.4	446.6	340.6
Provision for loan losses	2.1	0.3	0.2	0.3			14.4	12.1
Net interest income after provision for loan losses	21.4	21.9	7.9	7.0	(5.5)	0.4	432.2	328.5
Noninterest income	8.0	6.3	0.5	0.4	8.0	2.3	145.3	110.5
Amortization of core deposit and other intangibles	0.5	0.5			0.2	0.1	10.7	3.7
Other noninterest expense	20.4	21.6	3.4	3.0	9.7	13.6	319.3	244.0

Income before income taxes and minority interest	8.5	6.1	5.0	4.4	(7.4)	(11.0)	247.5	191.3
Income tax expense (benefit)	3.0	2.2	1.6	1.3	(9.0)	(6.1)	83.8	68.2
Minority interest					9.5	0.1	10.0	0.1
Net income (loss)	$ 5.5	$ 3.9	$ 3.4	$ 3.1	$ (7.9)	$ (5.0)	$ 153.7	$ 123.0
AVERAGE BALANCE SHEET DATA								
Assets	$ 2,332	$ 2,324	$ 800	$ 781	$ (754)	$ (285)	$ 44,680	$ 33,218
Net loans and leases	1,648	1,511	417	375	78	76	33,106	24,009
Deposits	1,654	1,645	457	429	(760)	(1,205)	32,964	24,807
Shareholder s equity	307	296	54	50	(271)	265	4,546	2,973

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The following table presents selected operating segment information for the nine months ended September 30, 2006 and 2005:

	Zions Bank		CB&T		Amegy		NBA		NSB	
(In millions)	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**
CONDENSED INCOME STATEMENT										
Net interest income excluding hedge income	$ 344.1	$ 300.7	$ 365.6	$ 330.9	$ 227.8		$ 162.1	$ 134.8	$ 149.6	$ 123.9
Hedge income recorded directly at subsidiary	(1.6)	2.6	(12.9)	2.4	(0.6)		(2.1)	1.3	(2.5)	1.1
Allocated hedge income	0.4	(0.5)					(0.1)	0.1		
Net interest income	342.9	302.8	352.7	333.3	227.2		159.9	136.2	147.1	125.0
Provision for loan losses	15.6	19.7	11.5	7.0	5.1		3.5	4.8	6.6	(0.4)
Net interest income after provision for loan losses	327.3	283.1	341.2	326.3	222.1		156.4	131.4	140.5	125.4
Noninterest income	185.4	200.1	61.0	56.7	85.4		19.0	16.5	23.3	23.4
Amortization of core deposit and other intangibles	1.4	1.5	5.6	5.6	21.3		1.3	1.5	0.4	0.4
Other noninterest expense	306.7	284.7	180.0	177.3	191.2		76.8	70.5	83.3	77.5
Income before income taxes and minority interest	204.6	197.0	216.6	200.1	95.0		97.3	75.9	80.1	70.9
Income tax expense (benefit)	69.1	65.2	87.8	80.7	29.4		38.6	30.2	27.9	24.5
Minority interest	(0.1)	(0.1)			0.5					
Net income (loss)	$ 135.6	$ 131.9	$ 128.8	$ 119.4	$ 65.1		$ 58.7	$ 45.7	$ 52.2	$ 46.4
AVERAGE BALANCE SHEET DATA										
Assets	$ 13,516	$ 12,367	$ 10,908	$ 10,165	$ 9,176		$ 4,375	$ 3,809	$ 3,872	$ 3,518
Net loans and leases	9,213	8,265	7,980	7,163	5,591		3,863	3,297	3,109	2,679
Deposits	9,656	8,335	8,437	8,450	6,490		3,522	3,255	3,281	3,086
Shareholder s equity	874	771	1,113	1,044	1,786		317	279	251	228

	Vectra		TCBW		Other		Consolidated Company	
(In millions)	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**
CONDENSED INCOME STATEMENT								
Net interest income excluding hedge income	$ 74.7	$ 64.7	$ 26.2	$ 21.5	$ (16.9)	$ (0.6)	$ 1,333.2	$ 975.9
Hedge income recorded directly at subsidiary	(4.2)	1.5	(1.3)	0.1	(2.3)	1.6	(27.5)	10.6
Allocated hedge income	(0.2)	0.3	(0.1)	0.1				
Net interest income	70.3	66.5	24.8	21.7	(19.2)	1.0	1,305.7	986.5
Provision for loan losses	2.9	0.9	0.6	0.9	0.1		45.9	32.9
Net interest income after provision for loan losses	67.4	65.6	24.2	20.8	(19.3)	1.0	1,259.8	953.6
Noninterest income	20.7	19.8	1.4	1.2	15.1	1.6	411.3	319.3
Amortization of core deposit and other intangibles	1.6	1.6			0.5	0.2	32.1	10.8
Other noninterest expense	62.4	63.8	10.2	9.2	44.8	35.2	955.4	718.2

Income before income taxes and minority interest	24.1	20.0	15.4	12.8	(49.5)	(32.8)	683.6	543.9
Income tax expense (benefit)	8.7	7.1	5.0	3.9	(28.6)	(17.3)	237.9	194.3
Minority interest					8.7	(2.3)	9.1	(2.4)
Net income (loss)	$ 15.4	$ 12.9	$ 10.4	$ 8.9	$ (29.6)	$ (13.2)	$ 436.6	$ 352.0
AVERAGE BALANCE SHEET DATA								
Assets	$ 2,314	$ 2,302	$ 796	$ 761	$ (1,246)	$ (390)	$ 43,711	$ 32,532