

ZIONS BANCORPORATION /UT/  
Form 10-Q  
November 09, 2010  
Table of Contents

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

Washington, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended September 30, 2010

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

COMMISSION FILE NUMBER 001-12307

**ZIONS BANCORPORATION**

(Exact name of registrant as specified in its charter)

**UTAH**  
(State or other jurisdiction

of incorporation or organization)

**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**

**87-0227400**  
(I.R.S. Employer

Identification No.)

**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.

Yes  No

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

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, 2010

177,957,790 shares

**Table of Contents**

**ZIONS BANCORPORATION AND SUBSIDIARIES**

**INDEX**

	<b>Page</b>
<b>PART I. <u>FINANCIAL INFORMATION</u></b>	
ITEM 1. <u>Financial Statements (Unaudited)</u>	
<u>Consolidated Balance Sheets</u>	2
<u>Consolidated Statements of Income</u>	3
<u>Consolidated Statements of Changes in Shareholders' Equity and Comprehensive Income</u>	4
<u>Consolidated Statements of Cash Flows</u>	5
<u>Notes to Consolidated Financial Statements</u>	6
ITEM 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	38
ITEM 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	77
ITEM 4. <u>Controls and Procedures</u>	78
<b>PART II. <u>OTHER INFORMATION</u></b>	
ITEM 1. <u>Legal Proceedings</u>	78
ITEM 1A. <u>Risk Factors</u>	78
ITEM 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	79
ITEM 6. <u>Exhibits</u>	79
<b><u>SIGNATURES</u></b>	<b>82</b>

**Table of Contents**PART I. FINANCIAL INFORMATIONITEM 1. FINANCIAL STATEMENTS (Unaudited)

## ZIONS BANCORPORATION AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

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

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

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

See accompanying notes to consolidated financial statements.

**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

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

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

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

See accompanying notes to consolidated financial statements.

**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY AND COMPREHENSIVE INCOME

(Unaudited)

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



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

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

Total comprehensive loss for the three months ended September 30, 2010 and 2009 was \$(66,990) and \$(258,619), respectively.

See accompanying notes to consolidated financial statements.

**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

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

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

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

*See accompanying notes to consolidated financial statements.*

**Table of Contents**

ZIONS BANCORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

September 30, 2010

**1. BASIS OF PRESENTATION**

The accompanying unaudited consolidated financial statements of Zions Bancorporation ( the Parent ) and its majority-owned subsidiaries (collectively the Company, Zions, we, our, us ) have been prepared in accordance with U.S. generally accepted accounting principles for 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, 2010 are not necessarily indicative of the results that may be expected in future periods. The consolidated balance sheet at December 31, 2009 is from the audited financial statements at that date, but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company s 2009 Annual Report on Form 10-K.

The Company provides a full range of banking and related services through banking subsidiaries in ten Western and Southwestern states as follows: Zions First National Bank ( Zions Bank ), in Utah and Idaho; California Bank & Trust ( CB&T ); Amegy Corporation ( Amegy ) and its subsidiary, Amegy Bank, in Texas; National Bank of Arizona ( NBA ); Nevada State Bank ( NSB ); Vectra Bank Colorado ( Vectra ), in Colorado and New Mexico; The Commerce Bank of Washington ( TCBW ); and The Commerce Bank of Oregon ( TCBO ). The Company also owns and operates certain nonbank subsidiaries that engage in wealth management services and other activities. See Note 3.

**2. CERTAIN RECENT ACCOUNTING PRONOUNCEMENTS**

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

**Table of Contents**

ZIONS BANCORPORATION AND SUBSIDIARIES

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

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

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

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

**3. SALE OF SUBSIDIARY ASSETS**

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

**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

## 4. SUPPLEMENTAL CASH FLOW INFORMATION

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

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

## 5. INVESTMENT SECURITIES

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

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

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

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

**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

	September 30, 2009						
	Amortized cost	Recognized in OCI <sup>1</sup>		Carrying value	Not recognized in OCI <sup>1</sup>		Estimated fair value
		Gross unrealized gains	Gross unrealized losses		Gross unrealized gains	Gross unrealized losses	
<b>Held-to-maturity</b>							
Municipal securities	\$ 610,661	\$	\$	\$ 610,661	\$ 9,452	\$ 4,535	\$ 615,578
Asset-backed securities:							
Trust preferred securities banks and insurance	265,293		25,564	239,729	5	37,527	202,207
Other	32,304		5,689	26,615	546	9,230	17,931
Other debt securities	100			100		2	98
	\$ 908,358	\$	\$ 31,253	\$ 877,105	\$ 10,003	\$ 51,294	\$ 835,814
<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
Asset-backed securities:							
Trust preferred securities banks and insurance	2,133,893	41,633	784,219	1,391,307			1,391,307
Trust preferred securities real estate investment trusts	67,566		40,465	27,101			27,101
Auction rate securities	165,106	1,274	2,116	164,264			164,264
Other	146,518	2,006	54,538	93,986			93,986
	4,224,029	72,154	903,872	3,392,311			3,392,311
Other securities:							
Mutual funds and stock	154,770	11		154,781			154,781
	\$ 4,378,799	\$ 72,165	\$ 903,872	\$ 3,547,092			\$ 3,547,092

<sup>1</sup> Other comprehensive income

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

The amortized cost and estimated fair value of investment debt securities are shown subsequently as of September 30, 2010 by expected maturity distribution for asset-backed securities and by contractual maturity distribution for other debt securities. Actual maturities may differ



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

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*):

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

**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

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, 2010 12 months or more		Total	
	Gross		Gross		Gross	
	unrealized losses	Estimated fair value	unrealized losses	Estimated fair value	unrealized losses	Estimated fair value
<b>Held-to-maturity</b>						
Municipal securities	\$ 51	\$ 2,555	\$ 1,542	\$ 26,187	\$ 1,593	\$ 28,742
Asset-backed securities:						
Trust preferred securities banks and insurance			85,758	179,524	85,758	179,524
Other			12,525	17,395	12,525	17,395
	\$ 51	\$ 2,555	\$ 99,825	\$ 223,106	\$ 99,876	\$ 225,661

**Available-for-sale**

U.S. Government agencies and corporations:

Agency securities	\$ 86	\$ 10,181	\$ 27	\$ 980	\$ 113	\$ 11,161
Agency guaranteed mortgage-backed securities	146	14,194			146	14,194
Small Business Administration loan-backed securities	1,338	109,324	6,675	392,242	8,013	501,566
Municipal securities	63	6,104	26	3,372	89	9,476
Asset-backed securities:						
Trust preferred securities banks and insurance	1,099	13,957	740,218	866,668	741,317	880,625
Trust preferred securities real estate investment trusts			30,950	19,135	30,950	19,135
Auction rate securities	272	21,519	380	10,686	652	32,205
Other			26,994	70,679	26,994	70,679
	\$ 3,004	\$ 175,279	\$ 805,270	\$ 1,363,762	\$ 808,274	\$ 1,539,041

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

**Available-for-sale**

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

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

---

**Table of Contents**

ZIONS BANCORPORATION AND SUBSIDIARIES

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

***Asset-backed securities***

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

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

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

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

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

**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

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

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

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

<sup>1</sup> Relates to securities not previously impaired.

<sup>2</sup> Relates to additional impairment on securities previously impaired.

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

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

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

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

<sup>1</sup> Includes the transfer of \$76.7 million of OTTI when we reclassified HTM securities to AFS.

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

**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

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

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

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

<sup>1</sup> Represents the amount of OTTI reclassified to the gross losses for AFS securities, as a result of the previously discussed transfer of HTM securities to AFS.

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

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

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

6. PURCHASED LOANS

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

During 2009, CB&T and NSB acquired failed banks from the Federal Deposit Insurance Corporation ( FDIC ) as receiver and entered into loss sharing agreements with the FDIC for the acquired loans and foreclosed assets. The FDIC assumes 80% of credit losses up to a threshold specified for each acquisition and 95% above the threshold for a period of up to ten years. The loans acquired from the FDIC are presented separately in the Company's balance sheet as FDIC-supported loans.



**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

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

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

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

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

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

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

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

**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

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

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

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

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

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

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

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



**Table of Contents**

ZIONS BANCORPORATION AND SUBSIDIARIES

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

7. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

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

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

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

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

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

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

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

**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

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

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

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

Total derivatives not  
designated as hedging  
instruments

Total derivatives	\$ 13,905,210	\$ 135,535	\$ 130,733	\$ 3,279	\$ 14,724	\$ 16,050	\$ 51,249	\$ (16,351)	\$ (13,035)	\$ 723	\$ 2,412
-------------------	---------------	------------	------------	----------	-----------	-----------	-----------	-------------	-------------	--------	----------

**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

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

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

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		
Futures contracts	25,000							434	575		
Total derivatives not designated as hedging instruments	4,890,215	101,900	102,848					(2,026)	14,340		
Total derivatives	\$ 6,270,215	\$ 195,073	\$ 102,848	\$ 14,835	\$ 10,395	\$ 28,089	\$ 91,333	\$ 59,077	\$ 249,899	\$ 1,565	\$ 24,629

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

<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> Amounts for the nine months ended September 30, 2010 and 2009 of \$8,676 and \$74,259, respectively, which reflect the acceleration of OCI amounts reclassified to income that related to previously terminated hedges, together with the reclassification amounts of \$51,249 and \$91,333, or a total of \$59,925 and \$165,592, respectively, are the amounts of reclassification included in the changes in OCI presented in Note 9.

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

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

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



---

**Table of Contents**

ZIONS BANCORPORATION AND SUBSIDIARIES

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

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

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

**Total Return Swap**

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

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

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

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

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

**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

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

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

result in no payment by the Company.

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

- 1) The Company built on its fair valuation process for the underlying CDO portfolio and utilized those same projected cash flows to quantify the extent and timing of payments to be received from the Trustee related to each CDO and in aggregate. These cash flows, plus assumed reinvestment earnings constitute an estimated recovery amount, the extent of which will offset Deutsche Bank's required principal payments. The internal valuation utilized the Company's estimate of each of the cash flows to/from each leg of the derivative and from each covered CDO through maturity and also through the first date on which we may terminate. For valuation purposes, we assumed that a market participant would cancel the TRS at the first opportunity if the TRS did not have a positive value based on the best estimates of cash flows through maturity. Consequently, the fair value approximated the amount of required payments up to the earliest termination date.
- 2) A valuation from a market participant in possession of all relevant terms and costs of the TRS structure. We considered the observable input or inputs from market participants as well as the results of our internal modeling to estimate the fair value of the TRS. We expect to continue the use of this methodology in subsequent periods.

---

**Table of Contents**

ZIONS BANCORPORATION AND SUBSIDIARIES

8. GOODWILL

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

9. DEBT AND SHAREHOLDERS' EQUITY

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

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

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

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

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

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

**Table of Contents**

ZIONS BANCORPORATION AND SUBSIDIARIES

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

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

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

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

**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

The following summarizes the changes in accumulated other comprehensive income (loss) included in shareholders' equity (*in thousands*):

	Net unrealized gains (losses) on investments, retained interests and other	Net unrealized gains (losses) on derivative instruments	Pension and post- retirement	Total
<b>Nine Months Ended September 30, 2010:</b>				
Balance, December 31, 2009	\$ (462,412)	\$ 68,059	\$ (42,546)	\$ (436,899)
<b>Other comprehensive income (loss), net of tax:</b>				
Net realized and unrealized holding gains, net of income tax expense of \$9,156	15,682			15,682
Reclassification for net losses included in earnings, net of income tax benefit of \$24,220	38,601			38,601
Noncredit-related impairment losses on securities not expected to be sold, net of income tax benefit of \$26,071	(42,103)			(42,103)
Accretion of securities with noncredit-related impairment losses not expected to be sold, net of income tax expense of \$62	101			101
Net unrealized losses, net of reclassification to earnings of \$59,925 and income tax benefit of \$17,329		(27,872)		(27,872)
Pension and postretirement, net of income tax benefit of \$46			(63)	(63)
Other comprehensive income (loss)	12,281	(27,872)	(63)	(15,654)
Balance, September 30, 2010	\$ (450,131)	\$ 40,187	\$ (42,609)	\$ (452,553)
<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 ASC 320	(137,462)			(137,462)
<b>Other comprehensive income (loss), net of tax:</b>				
Net realized and unrealized holding losses, net of income tax benefit of \$50,543	(82,003)			(82,003)
Reclassification for net losses included in earnings, net of income tax benefit of \$61,639	96,545			96,545
Noncredit-related impairment losses on securities not expected to be sold, net of income tax benefit of \$101,821	(152,531)			(152,531)
Accretion of securities with noncredit-related impairment losses not expected to be sold, net of income tax expense of \$653	963			963
Net unrealized losses, net of reclassification to earnings of \$165,592 and income tax benefit of \$59,531		(95,666)		(95,666)
Other comprehensive loss	(137,026)	(95,666)		(232,692)
Balance, September 30, 2009	\$ (523,359)	\$ 100,990	\$ (46,743)	\$ (469,112)

10. INCOME TAXES

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

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

---

**Table of Contents**

ZIONS BANCORPORATION AND SUBSIDIARIES

11. FAIR VALUE

**Fair Value Measurements**

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

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

Level 1 Quoted prices in active markets for identical assets or liabilities; includes certain U.S. Treasury and other U.S. Government and agency securities actively traded in over-the-counter markets; certain securities sold, not yet purchased; and certain derivatives.

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

Level 3 Unobservable inputs supported by little or no market activity for financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation; also includes observable inputs for nonbinding single dealer quotes not corroborated by observable market data. This category generally includes certain private equity investments, most CDO securities, and the total return swap.

We use fair value to measure certain assets and liabilities on a recurring basis when fair value is the primary measure for accounting. This is done primarily for AFS and trading investment securities; private equity investments; securities sold, not yet purchased; and derivatives. Fair value is used on a nonrecurring basis to measure certain assets when applying lower of cost or market accounting or when adjusting 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.

## Table of Contents

### ZIONS BANCORPORATION AND SUBSIDIARIES

#### *Available-for-sale and trading*

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. The largest portion of AFS securities include certain CDOs backed by trust preferred securities issued by banks and insurance companies and, to a lesser extent, by REITs. These securities are fair valued primarily under Level 3.

#### *U.S. Treasury, agencies and corporations*

Valuation inputs utilized by the independent pricing service for those U.S. Treasury, agency and corporation securities under Level 2 include benchmark yields, reported trades, broker/dealer quotes, issuer spreads, benchmark securities, bids, offers, and reference data including market research publications. Also included are data from the vendor trading platform.

#### *Municipal securities*

Valuation inputs utilized by the independent pricing services for those municipal securities under Level 2 include the same inputs used for U.S. Treasury, agency and corporation securities. Also included are reported trades and material event notices from the Municipal Securities Rulemaking Board, plus new issue data. Municipal securities under Level 3 are fair valued similar to the auction rate securities discussed subsequently.

#### *Trust preferred collateralized debt obligations*

Substantially all the CDO portfolio is fair valued under Level 3 using an income-based cash flow modeling approach incorporating several methodologies that primarily include internal and third party models. The model used for estimating the fair value of bank and insurance trust preferred CDOs remains the same as disclosed in the Company's 2009 Annual Report on Form 10-K. Each quarter we seek to identify actual trades of securities in this asset class to determine whether the comparability of the security and the orderliness of the trades make such reported prices suitable for inclusion as or consideration in our fair value estimates in accordance with ASU 2010-06.

A licensed third party cash flow model, which requires the Company to input its own default assumptions, is used to estimate fair values of bank and insurance trust preferred CDOs. For privately owned banks, we utilize a statistical regression of quarterly regulatory ratios that we have identified as predictive of future bank failures to create a credit-specific probability of default ( PD ) for each issuer. The inputs and regression formula are updated quarterly to include the most recent available financial ratios and to utilize those financial ratios which have best predicted bank failures during this credit cycle ( ratio-based approach ).

For publicly traded banks, we first utilize a licensed third party proprietary reduced form model derived using logistic regression on a historical default database to produce PDs. This model requires equity valuation related inputs (along with other macro and issuer-specific inputs) to produce PDs, and therefore cannot be used for privately owned banks.

Nearly all of the failures within our predominantly bank CDO pools have come from those banks that have previously deferred the payment of 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.

We have found that for publicly traded deferring banks, the ratio-based approach generally resulted in higher PDs than did the licensed third party proprietary reduced model for banks that subsequently failed. To better project publicly traded bank failures, we utilize the higher of the PDs from our ratio-based approach and those from the licensed third party model for publicly traded deferring banks. Our ratio-based approach, while generally referencing trailing quarter regulatory ratios, seeks to incorporate the most recent available information. In the third quarter of 2010, we utilized pro forma capital ratios for six deferring publicly traded banks in order to reflect the significant capital raises completed by each bank during the quarter.





---

**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

After identifying collateral level PDs, we modify the PDs of deferring collateral by a calibration adjustment. The licensed third party cash flow model then projects the expected cash flows for CDO tranches. 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 CDO's structure to generate cash flow projections for each tranche of the CDO. The presence of 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. The fair value of each tranche is determined by discounting its resultant loss-adjusted cash flows with appropriate current market-based discount rates.

The discount rate assumption used for valuation purposes for each CDO tranche is derived from trading yields on publicly traded trust preferred securities and projected PDs on the underlying issuers. The data set includes a publicly traded trust preferred security which is in deferral with regard to the payment of current interest. The discount margins on the traded securities, including the deferring security, are used to determine a relationship between the discount margin and expected losses, which relationship is then applied to the CDOs.

For the third quarter of 2010, we utilized a discount rate range of LIBOR+3.77% for the highest quality/most over-collateralized tranches and LIBOR+43.1% for the lowest credit quality tranche in order to reflect market level assumptions for structured finance securities. These discount rates are in addition to the credit-related discounts applied to the cash flows for each tranche. The range of the projected cumulative credit loss of the CDO pools varies extensively across pools and ranges between 12.7% and 52.7%. We changed certain modeling assumptions in the third quarter, which included increasing prepayment speeds due to the probable early redemption by certain issuing banks of their trust preferred securities. The recently enacted Dodd-Frank Act includes a phased-in disallowance of certain trust preferred securities as Tier 1 capital. The effect of the assumption changes was not significant to the fair value of these securities, but did account for \$11.6 million of the \$23.7 million of OTTI discussed in Note 5.

CDO tranches with greater uncertainty in their cash flows are discounted at higher rates than those that market participants would use for tranches with more stable expected cash flows (e.g., 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 credit-stressed cash flows, which constitute each tranche's expected cash flows; discount rates are not applied to a hypothetical contractual cash flow.

Certain REIT and ABS CDOs are fair valued by third party services using their proprietary models. These models utilize relevant data assumptions, which we evaluate for reasonableness. These assumptions include, but are not limited to, discount rates, PDs, loss-given-default rates, over-collateralization levels, and rating transition probability matrices from rating agencies. Key assumptions are included subsequently. 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.

## **Table of Contents**

### ZIONS BANCORPORATION AND SUBSIDIARIES

#### *Auction rate securities*

Auction rate securities are fair valued under Level 3 using a market approach based on various market data inputs, including AAA municipal and corporate bond yield curves, credit ratings and leverage of each closed-end fund, and market yields for municipal bonds and commercial paper.

#### *Private equity investments*

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 material 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*

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 under Level 2 using third party services. Observable market inputs include yield curves (the LIBOR swap curve and applicable basis swap curves), foreign exchange rates, commodity prices, 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 schedule include the foreign currency exchange contracts that are not included in Note 7 in accordance with ASC 815. The amounts are also presented net of the cash collateral offsets discussed in Note 7. Also see the discussion in Note 7 for the determination of fair value of the total return swap.

#### *Securities sold, not yet purchased*

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.

**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

Assets and liabilities measured at fair value by class on a recurring basis, including one security in 2009 elected under the fair value option, are summarized as follows at September 30, 2010 and 2009 (*in thousands*):

	September 30, 2010			Total
	Level 1	Level 2	Level 3	
<b>ASSETS</b>				
Investment securities:				
Available-for-sale:				
U.S. Treasury, agencies and corporations	\$ 47,605	\$ 1,407,964		\$ 1,455,569
Municipal securities		159,281	\$ 23,434	182,715
Asset-backed securities:				
Trust preferred banks and insurance		1,714	1,263,887	1,265,601
Trust preferred real estate investment trusts			19,135	19,135
Auction rate			134,661	134,661
Other (including ABS CDOs)		12,091	70,647	82,738
Mutual funds and stock	148,688	6,757		155,445
	196,293	1,587,807	1,511,764	3,295,864
Trading account		42,811		42,811
Other noninterest-bearing investments:				
Private equity		5,077	144,337	149,414
Other assets:				
Derivatives:				
Interest rate related and other		36,721		36,721
Interest rate swaps for customers		97,934		97,934
Foreign currency exchange contracts	7,296			7,296
	7,296	134,655		141,951
	\$ 203,589	\$ 1,770,350	\$ 1,656,101	\$ 3,630,040
<b>LIABILITIES</b>				
Securities sold, not yet purchased	\$ 12,050	\$ 29,893		\$ 41,943
Other liabilities:				
Derivatives:				
Interest rate related and other		2,433		2,433
Interest rate swaps for customers		104,717		104,717
Foreign currency exchange contracts	6,786			6,786
Total return swap			\$ 20,855	20,855
	6,786	107,150	20,855	134,791
Other			451	451
	\$ 18,836	\$ 137,043	\$ 21,306	\$ 177,185



**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

	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
	187,782	1,642,560	1,716,750	3,547,092
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
<b>LIABILITIES</b>				
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

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

Selected additional information regarding key model inputs and assumptions used to fair value certain asset-backed securities by class under Level 2 and Level 3 include the following at September 30, 2010 (*dollars in thousands*):

	Fair value at September 30, 2010	Valuation approach	Constant default rate ( CDR )	Loss severity	Prepayment rate
Asset-backed securities:					
Trust preferred banks	\$ 1,059,056	Income	Pool specific <sup>3</sup>	100%	Pool specific <sup>7</sup>
Trust preferred insurance	363,864	Income	Pool specific <sup>4</sup>	100%	6.5% per year
Trust preferred individual	22,204	Market			
	1,445,124 <sup>1</sup>				
	19,135	Income	Pool specific <sup>5</sup>	10-100%	0% per year

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

Trust preferred real estate investment trusts

Other (including ABS CDOs)	100,130 <sup>2</sup>	Income	Collateral specific <sup>6</sup>	0-100%	Collateral weighted average life
----------------------------	----------------------	--------	----------------------------------	--------	----------------------------------

<sup>1</sup> Includes \$1,265.6 million of AFS securities and \$179.5 million of HTM securities.

<sup>2</sup> Includes \$82.7 million of AFS securities and \$17.4 million of HTM securities.

<sup>3</sup> CDR ranges: yr 1 0.03% to 22.8%; yrs 2-5 0.14% to 1.45%; yrs 6 to maturity 0.30%.

<sup>4</sup> CDR ranges: yr 1 0.22% to 0.31%; yrs 2-5 0.64% to 0.79%; yrs 6 to maturity 0.30%.

<sup>5</sup> CDR ranges: yr 1 3.8% to 8.5%; yrs 2-3 3.0% to 6.1%; yrs 4-6 1.0%; yrs 6 to maturity 0.50%.

<sup>6</sup> These are predominantly ABS CDOs whose collateral is rated. CDR and loss severities are built up from the loan level and vary by collateral ratings, asset class, and vintage.

<sup>7</sup> CPR ranges: yrs 1-3 0% to 5.2%; yrs 4-5 0% to 15.45%; yrs 6 to maturity 0.20%.

**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

In the discussion of our investment portfolio below, we have included certain credit rating information because the information is one indication of the degree of credit risk to which we are exposed, and significant changes in ratings classifications for our investment portfolio could indicate an increased level of risk for us.

The following presents the percentage of total fair value of bank trust preferred CDOs by vintage year (origination date) according to original rating (*dollars in thousands*):

Vintage year	Fair value at September 30, 2010	Percentage of total fair value			Percentage of total fair value by vintage
		AAA	A	BBB	
2001	\$ 118,972	10.3%	0.9%	0.0%	11.2%
2002	245,108	20.7%	2.5%	0.0%	23.2%
2003	395,475	28.0%	8.9%	0.5%	37.4%
2004	166,877	6.8%	8.9%	0.0%	15.7%
2005	17,813	1.0%	0.6%	0.1%	1.7%
2006	72,367	2.9%	3.4%	0.5%	6.8%
2007	42,445	4.0%	0.0%	0.0%	4.0%
	\$ 1,059,056	73.7%	25.2%	1.1%	100.0%

The following reconciles the beginning and ending balances of assets and liabilities for the three and nine months ended September 30, 2010 and 2009 that are measured at fair value by class on a recurring basis using Level 3 inputs (*in thousands*):

	Level 3 Instruments Three Months Ended September 30, 2010							
	Municipal securities	Trust preferred banks and insurance	Trust preferred REIT	Auction rate	Other asset-backed	Private equity investments	Derivatives	Other liabilities
Balance at June 30, 2010	\$ 57,755	\$ 1,311,398	\$ 23,493	\$ 157,078	\$ 71,821	\$ 147,612	\$	\$ (470)
Total net gains (losses) included in:								
Statement of income:								
Dividends and other investment income						1,848		
Fair value and nonhedge derivative income (loss)							(22,795)	
Equity securities losses, net						(1,472)		
Fixed income securities gains, net	3,662	1,480		3,201	3			
Net impairment losses on investment securities		(20,890)	(2,505)		(317)			
Other noninterest expense								19
Other comprehensive income (loss)	(588)	(24,361)	(1,853)	(38)	(128)			
Purchases, sales, issuances, and settlements, net	(37,395)	(3,740)		(25,580)	(732)	(3,651)	1,940	
Balance at September 30, 2010	\$ 23,434	\$ 1,263,887	\$ 19,135	\$ 134,661	\$ 70,647	\$ 144,337	\$ (20,855)	\$ (451)



	Level 3 Instruments							
	Nine Months Ended September 30, 2010							
	Municipal securities	Trust preferred banks and insurance	Trust preferred REIT	Auction rate	Other asset-backed	Private equity investments	Derivatives	Other liabilities
Balance at December 31, 2009	\$ 64,314	\$ 1,359,444	\$ 24,018	\$ 159,440	\$ 62,430	\$ 158,941	\$	\$ (522)
Total net gains (losses) included in:								
Statement of income:								
Dividends and other investment income						7,132		
Fair value and nonhedge derivative income (loss)							(22,795)	
Equity securities losses, net						(6,139)		
Fixed income securities gains, net	4,095	2,138		3,466	358			
Net impairment losses on investment securities		(62,750)	(6,230)		(4,103)			
Other noninterest expense								71
Other comprehensive income (loss)	(1,051)	(26,321)	1,297	925	24,595			
Purchases, sales, issuances, and settlements, net	(43,924)	(8,624)	50	(29,170)	(12,633)	(15,597)	1,940	
Balance at September 30, 2010	\$ 23,434	\$ 1,263,887	\$ 19,135	\$ 134,661	\$ 70,647	\$ 144,337	\$ (20,855)	\$ (451)

**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

	Level 3 Instruments							
	Three Months Ended September 30, 2009							
	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:								
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)

	Level 3 Instruments							
	Nine Months Ended September 30, 2009							
	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 December 31, 2008	\$	\$ 659,253	\$ 23,897	\$ 1,710	\$ 65,557	\$ 956	\$ 143,511	\$ (527)
Total net gains (losses) included in:								
Statement of income:								
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)

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

The preceding reconciling amounts using Level 3 inputs include the following realized gains (losses) (in thousands):

Three Months Ended		Nine Months Ended	
September 30,		September 30,	
2010	2009	2010	2009

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

Dividends and other investment income	\$ 3,121	\$ 535	\$ 5,315	\$ 783
Equity securities gains (losses), net	(2,272)		(1,367)	
Fixed income securities gains, net	8,346		10,057	247
Net impairment losses on investment securities sold				(67,015)

**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

Assets with fair value changes during the periods indicated that are measured at fair value by class on a nonrecurring basis are summarized as follows (*in thousands*):

	Fair value at September 30, 2010				Gains (losses) from fair value changes	
	Level 1	Level 2	Level 3	Total	Three months ended September 30, 2010	Nine months ended
<b>ASSETS</b>						
HTM securities adjusted for OTTI			\$ 3,502	\$ 3,502	\$	\$ (151)
Loans held for sale		\$ 29,436		29,436		
Impaired loans			94,674	94,674	(13,495)	(106,640)
Other real estate owned		154,452		154,452	(41,543)	(122,849)
	\$	\$ 183,888	\$ 98,176	\$ 282,064	\$ (55,038)	\$ (229,640)

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

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. At September 30, 2010, approximately \$104 million of impaired loans that began making payments during the quarter were reclassified from collateral-dependent to noncollateral-dependent. The loan valuations were therefore based on the present value of future cash flows discounted at the expected coupon rates over the lives of the loans. Because the loans were not discounted at market interest rates, the valuations do not represent fair value under ASC 820, and have been excluded from the nonrecurring fair value balance in the preceding table for 2010.

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**

ASC 825, *Financial Instruments*, 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. The one AFS REIT trust preferred CDO security indicated previously was sold in December 2009.

**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

**Fair Value of Certain Financial Instruments**

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

	September 30, 2010		September 30, 2009	
	Carrying value	Estimated fair value	Carrying value	Estimated fair value
<b>Financial assets:</b>				
HTM investment securities	\$ 841,573	\$ 783,362	\$ 877,105	\$ 835,814
Loans and leases (including loans held for sale), net of allowance	36,236,813	36,177,960	40,028,776	38,692,650
<b>Financial liabilities:</b>				
Time deposits	4,455,097	4,520,046	6,734,277	6,820,665
Foreign deposits	1,447,507	1,448,640	2,014,626	2,015,542
FHLB advances and other borrowings	256,746	262,573	64,214	66,504
Long-term debt	1,904,632	2,384,088	2,293,899	2,635,120

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 fair value on a recurring basis, as previously described.

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. The estimate of lifetime credit losses is adjusted quarterly as necessary to reflect the most recent loss experience during the current 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 (i.e., an asset value) 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 schedule do not, by themselves, represent the underlying value of the Company as a whole.

**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

## 12. GUARANTEES, COMMITMENTS AND CONTINGENCIES

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

	September 30, 2010	December 31, 2009	September 30, 2009
Standby letters of credit:			
Financial	\$ 1,033,119	\$ 1,071,851	\$ 1,120,252
Performance	210,811	182,423	189,350
	\$ 1,243,930	\$ 1,254,274	\$ 1,309,602

The Company's 2009 Annual Report on Form 10-K contains further information about these letters of credit including their terms and collateral requirements. At September 30, 2010, the Company had recorded approximately \$12.9 million as a liability for these guarantees, which consisted of \$7.6 million attributable to the reserve for unfunded lending commitments and \$5.3 million of deferred commitment fees.

As of September 30, 2010, the Parent has guaranteed approximately \$300.0 million of debt of affiliated trusts issuing trust preferred securities.

## 13. RETIREMENT PLANS

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

	Pension benefits		Supplemental retirement benefits		Postretirement benefits		Pension benefits		Supplemental retirement benefits		Postretirement benefits	
	Three Months Ended September 30,		September 30,		September 30,		Nine Months Ended September 30,		September 30,		September 30,	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
Service cost	\$ 29	\$ 19	\$	\$	\$ 9	\$ 9	\$ 135	\$ 172	\$	\$	\$ 27	\$ 26
Interest cost	2,125	2,235	153	165	17	16	6,448	6,666	472	495	43	47
Expected return on plan assets	(2,053)	(1,775)					(6,159)	(5,306)				
Amortization of prior service cost (credit)			31	31	(61)	(61)			93	94	(183)	(183)
Settlement gain									13			
Amortization of net actuarial (gain) loss	1,325	1,692	3	(7)	(37)	(49)	4,301	4,976	21	(22)	(112)	(147)
Net periodic benefit cost (credit)	\$ 1,426	\$ 2,171	\$ 187	\$ 189	\$ (72)	\$ (85)	\$ 4,725	\$ 6,508	\$ 599	\$ 567	\$ (225)	\$ (257)

As disclosed in the Company's 2009 Annual Report on Form 10-K, 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.





**Table of Contents**

ZIONS BANCORPORATION AND SUBSIDIARIES

14. 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, 2010, we operate eight community/regional banks in distinct geographical areas. Performance assessment and resource allocation are based upon this geographical structure. Zions Bank operates 106 branches in Utah and 27 branches in Idaho. CB&T operates 106 branches in California. Amegy operates 84 branches in Texas. NBA operates 75 branches in Arizona. NSB operates 55 branches in Nevada. Vectra operates 37 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. See Note 3 for a discussion of the sale of NetDeposit assets during the third quarter of 2010. ZMSC provides internal technology and operational services to affiliated operating businesses of the Company. ZMSC charges most of its costs to the affiliates on an approximate break-even basis.

The accounting policies of the individual operating segments are the same as those of the Company. Transactions between operating segments are primarily conducted at fair value, resulting in profits that are eliminated for reporting consolidated results of operations. Operating segments pay for centrally provided services based upon estimated or actual usage of those services.

**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

The following table presents selected operating segment information for the three months ended September 30, 2010 and 2009:

(In millions)	Zions Bank		CB&T		Amegy		NBA		NSB	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
<b>CONDENSED INCOME STATEMENT</b>										
Net interest income	\$ 179.1	\$ 184.1	\$ 130.6	\$ 119.0	\$ 98.4	\$ 99.4	\$ 43.5	\$ 44.5	\$ 34.3	\$ 34.2
Provision for loan losses	87.8	87.8	37.6	104.6	18.5	44.1	19.0	41.0	11.9	240.8
Net interest income after provision for loan losses	91.3	96.3	93.0	14.4	79.9	55.3	24.5	3.5	22.4	(206.6)
Net impairment losses on investment securities		(24.2)		(12.6)						
Loss on sale of investment securities to Parent		(37.6)		(136.0)						
Acquisition related gains				146.4						(0.3)
Other noninterest income	53.2	46.8	29.2	41.9	37.6	27.0	8.6	9.9	10.7	17.5
Noninterest expense	147.3	121.2	94.6	81.3	88.7	100.0	38.7	40.0	38.6	54.7
Income (loss) before income taxes	(2.8)	(39.9)	27.6	(27.2)	28.8	(17.7)	(5.6)	(26.6)	(5.5)	(244.1)
Income tax expense (benefit)	(4.7)	(19.8)	10.2	(12.7)	9.0	(7.6)	(2.2)	(10.5)	(1.9)	(85.5)
Net income (loss)	1.9	(20.1)	17.4	(14.5)	19.8	(10.1)	(3.4)	(16.1)	(3.6)	(158.6)
Net income (loss) applicable to noncontrolling interests										
Net income (loss) applicable to controlling interest	1.9	(20.1)	17.4	(14.5)	19.8	(10.1)	(3.4)	(16.1)	(3.6)	(158.6)
Preferred stock dividends										
Net earnings (loss) applicable to common shareholders	\$ 1.9	\$ (20.1)	\$ 17.4	\$ (14.5)	\$ 19.8	\$ (10.1)	\$ (3.4)	\$ (16.1)	\$ (3.6)	\$ (158.6)

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

**AVERAGE  
BALANCE SHEET  
DATA**

Total assets	\$ 17,978	\$ 20,268	\$ 11,156	\$ 11,398	\$ 11,873	\$ 11,465	\$ 4,406	\$ 4,759	\$ 4,001	\$ 4,319
Total securities	1,765	2,280	310	516	540	701	235	218	364	243
Net loans and leases	13,319	14,340	8,474	9,175	7,654	8,582	3,283	3,825	2,493	3,070
Allowance for loan losses	396	367	250	154	393	306	156	224	274	205
Goodwill, core deposit and other intangibles	20	20	394	397	673	690	14	18	9	10
Noninterest-bearing demand deposits	2,731	2,297	3,289	2,904	4,610	3,384	1,093	995	1,209	1,098
Total deposits	14,199	15,265	9,699	9,533	9,361	9,051	3,669	3,949	3,402	3,751
Shareholders' equity:										
Preferred equity	482	256	262	262	489	119	307	430	360	361
Common equity	1,301	1,207	1,160	1,213	1,461	1,434	323	240	247	175
Noncontrolling interests		1								
Total shareholders' equity	1,783	1,464	1,422	1,475	1,950	1,553	630	670	607	536

	<b>Vectra</b>		<b>TCBW</b>		<b>Other</b>		<b>Consolidated Company</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>

**CONDENSED  
INCOME  
STATEMENT**

Net interest income	\$ 27.0	\$ 27.4	\$ 7.4	\$ 8.0	\$ (68.4)	\$ (44.4)	451.9	472.2
Provision for loan losses	4.2	35.0	5.1	11.2	0.6	1.4	184.7	565.9
Net interest income after provision for loan losses	22.8	(7.6)	2.3	(3.2)	(69.0)	(45.8)	267.2	(93.7)
Net impairment losses on investment securities	(0.4)	(0.2)	(0.3)	(0.3)	(23.0)	(19.2)	(23.7)	(56.5)
Loss on sale of investment securities to Parent						173.6		
Acquisition related gains								146.1
Other noninterest income	6.7	8.9	0.8	4.4	(12.9)	24.7	133.9	181.1
Noninterest expense	23.0	24.4	3.4	3.8	21.8	9.3	456.1	434.7
Income (loss) before income taxes	6.1	(23.3)	(0.6)	(2.9)	(126.7)	124.0	(78.7)	(257.7)
Income tax expense (benefit)	2.0	(9.3)	(0.2)	(1.1)	(43.4)	46.5	(31.2)	(100.0)
Net income (loss)	4.1	(14.0)	(0.4)	(1.8)	(83.3)	77.5	(47.5)	(157.7)
Net income (loss) applicable to noncontrolling interests					(0.2)	(2.4)	(0.2)	(2.4)

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

Net income (loss) applicable to controlling interest	4.1	(14.0)	(0.4)	(1.8)	(83.1)	79.9	(47.3)	(155.3)
Preferred stock dividends		(0.1)			(33.2)	(26.5)	(33.2)	(26.6)

Net earnings (loss) applicable to common shareholders	\$ 4.1	\$ (14.1)	\$ (0.4)	\$ (1.8)	\$ (116.3)	\$ 53.4	\$ (80.5)	\$ (181.9)
---	--------	-----------	----------	----------	------------	---------	-----------	------------

AVERAGE  
BALANCE SHEET  
DATA

Total assets	\$ 2,275	\$ 2,484	\$ 840	\$ 816	\$ (750)	\$ (2,014)	\$ 51,779	\$ 53,495
Total securities	284	265	153	181	534	355	4,185	4,759
Net loans and leases	1,861	2,033	572	597	19	120	37,675	41,742
Allowance for loan losses	74	44	11	15	3	2	1,557	1,317
Goodwill, core deposit and other intangibles					3	9	1,113	1,144
Noninterest-bearing demand deposits	633	563	235	196	(13)	(8)	13,787	11,429
Total deposits	1,848	2,026	645	609	(1,135)	(835)	41,688	43,349
Shareholder s equity:								
Preferred equity	68	13	15		(163)	77	1,820	1,518
Common equity	198	175	70	73	(158)	(207)	4,602	4,310
Noncontrolling interests					(1)	22	(1)	23
Total shareholder s equity	266	188	85	73	(322)	(108)	6,421	5,851

**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

The following table presents selected operating segment information for the nine months ended September 30, 2010 and 2009:

(In millions)	Zions Bank		CB&T		Amegy		NBA		NSB	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
<b>CONDENSED INCOME STATEMENT</b>										
Net interest income	\$ 545.4	\$ 511.5	\$ 363.3	\$ 343.7	\$ 297.6	\$ 286.0	\$ 133.3	\$ 135.0	\$ 104.3	\$ 104.5
Provision for loan losses	265.4	374.6	120.1	197.0	115.7	257.6	45.0	240.0	98.9	481.1
Net interest income after provision for loan losses	280.0	136.9	243.2	146.7	181.9	28.4	88.3	(105.0)	5.4	(376.6)
Net impairment losses on investment securities		(32.5)		(29.4)						(1.4)
Loss on sale of investment securities to Parent	(54.8)	(37.6)		(136.0)						
Valuation losses on securities purchased		(203.0)				(7.5)				
Gain on subordinated debt exchange										
Gain on subordinated debt modification										
Acquisition related gains				152.9						16.2
Other noninterest income	138.3	146.8	81.0	113.1	110.0	103.4	24.4	37.3	30.5	45.6
Noninterest expense	422.4	378.8	251.4	216.8	242.1	253.8	126.2	126.4	114.6	137.3
Impairment loss on goodwill						633.3				
Income (loss) before income taxes	(58.9)	(368.2)	72.8	30.5	49.8	(762.8)	(13.5)	(194.1)	(78.7)	(453.5)
Income tax expense (benefit)	(13.2)	(148.3)	31.2	9.2	13.9	(49.0)	(5.3)	(76.8)	(27.7)	(158.9)
Net income (loss)	(45.7)	(219.9)	41.6	21.3	35.9	(713.8)	(8.2)	(117.3)	(51.0)	(294.6)
Net income (loss) applicable to noncontrolling interests	0.1									
Net income (loss) applicable to controlling interest	(45.8)	(219.9)	41.6	21.3	35.9	(713.8)	(8.2)	(117.3)	(51.0)	(294.6)
Preferred stock dividends				(0.9)		(1.5)				
Preferred stock redemption										

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

Net earnings (loss) applicable to common shareholders	\$ (45.8)	\$ (219.9)	\$ 41.6	\$ 20.4	\$ 35.9	\$ (715.3)	\$ (8.2)	\$ (117.3)	\$ (51.0)	\$ (294.6)
---	-----------	------------	---------	---------	---------	------------	----------	------------	-----------	------------

AVERAGE BALANCE SHEET DATA

Total assets	\$ 18,460	\$ 20,715	\$ 11,095	\$ 10,886	\$ 11,694	\$ 11,819	\$ 4,428	\$ 4,824	\$ 4,058	\$ 4,240
Total securities	1,852	1,985	304	636	575	673	221	206	352	217
Net loans and leases	13,583	14,448	8,629	8,665	7,933	8,796	3,395	3,941	2,593	3,166
Allowance for loan losses	380	278	240	136	399	202	178	165	286	142
Goodwill, core deposit and other intangibles	20	20	394	395	679	901	16	20	9	10
Noninterest-bearing demand deposits	2,583	2,218	3,161	2,692	4,396	3,138	1,079	944	1,183	1,015
Total deposits	14,160	15,944	9,695	8,817	9,249	8,988	3,693	3,943	3,439	3,674
Shareholder's equity:										
Preferred equity	474	252	262	193	456	93	338	430	360	314
Common equity	1,293	1,101	1,146	1,158	1,449	1,635	293	303	261	222
Noncontrolling interests		1								
Total shareholder's equity	1,767	1,354	1,408	1,351	1,905	1,728	631	733	621	536

	Vectra		TCBW		Other		Consolidated Company	
	2010	2009	2010	2009	2010	2009	2010	2009

CONDENSED INCOME STATEMENT

Net interest income	\$ 81.4	\$ 77.7	\$ 22.4	\$ 24.4	\$ (227.2)	\$ (42.2)	\$ 1,320.5	\$ 1,440.6
Provision for loan losses	21.4	56.0	11.8	18.4	0.6	1.5	678.9	1,626.2
Net interest income after provision for loan losses	60.0	21.7	10.6	6.0	(227.8)	(43.7)	641.6	(185.6)
Net impairment losses on investment securities	(1.3)	(2.2)	(0.3)	(0.3)	(71.4)	(115.3)	(73.0)	(181.1)
Loss on sale of investment securities to Parent					54.8	173.6		
Valuation losses on securities purchased						(1.6)		(212.1)
Gain on subordinated debt exchange					14.5		14.5	
Gain on subordinated debt modification						493.7		493.7
Acquisition related gains								169.1
Other noninterest income	22.7	24.1	1.9	8.1	(23.1)	(9.8)	385.7	468.6
Noninterest expense	68.7	73.4	12.2	12.1	37.9	31.7	1,275.5	1,230.3
Impairment loss on goodwill						0.7		634.0
Income (loss) before income taxes	12.7	(29.8)	(0.0)	1.7	(290.9)	464.5	(306.7)	(1,311.7)
Income tax expense (benefit)	8.4	(12.3)	(0.1)	0.4	(89.9)	160.2	(82.7)	(275.5)
Net income (loss)	4.3	(17.5)	0.1	1.3	(201.0)	304.3	(224.0)	(1,036.2)
Net income (loss) applicable to					(3.6)	(4.1)	(3.5)	(4.1)

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

noncontrolling interests

Net income (loss) applicable to controlling interest	4.3	(17.5)	0.1	1.3	(197.4)	308.4	(220.5)	(1,032.1)
Preferred stock dividends		(0.2)			(84.8)	(75.7)	(84.8)	(78.3)
Preferred stock redemption					3.1	52.4	3.1	52.4
Net earnings (loss) applicable to common shareholders	\$ 4.3	\$ (17.7)	\$ 0.1	\$ 1.3	\$ (279.1)	\$ 285.1	\$ (302.2)	\$ (1,058.0)

AVERAGE BALANCE SHEET DATA

Total assets	\$ 2,338	\$ 2,541	\$ 826	\$ 820	\$ (1,165)	\$ (1,531)	\$ 51,734	\$ 54,314
Total securities	292	261	159	189	524	551	4,279	4,718
Net loans and leases	1,889	2,043	574	591	48	123	38,644	41,773
Allowance for loan losses	74	36	13	11	2	1	1,572	971
Goodwill, core deposit and other intangibles					1	8	1,119	1,354
Noninterest-bearing demand deposits	621	494	223	192	(25)	(11)	13,221	10,682
Total deposits	1,925	2,046	625	587	(866)	(1,182)	41,920	42,817
Shareholder's equity:								
Preferred equity	68	11	15		(320)	270	1,653	1,563
Common equity	198	179	70	75	(308)	(255)	4,402	4,418
Noncontrolling interests					10	24	10	25
Total shareholder's equity	266	190	85	75	(618)	39	6,065	6,006

**Table of Contents**

ZIONS BANCORPORATION AND SUBSIDIARIES

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**  
**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, including, but not limited to, those presented in 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 without limitation the political and economic effects of the current economic crisis, delay of recovery from 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;



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

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

changes in fiscal, monetary, regulatory, trade and tax policies and laws, and regulatory assessments and fees, including policies of the U.S. Department of Treasury, the Board of Governors of the Federal Reserve Board System (the FRB or the Federal Reserve Board), and the Federal Deposit Insurance Corporation ( FDIC );

**Table of Contents**

ZIONS BANCORPORATION AND SUBSIDIARIES

the Company's participation, lack of participation in, or exit from, 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 ) and the Capital Purchase Program ( CPP ) 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 rules and regulations, and changes in those 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, 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 the financial reform bill, known as the Dodd-Frank Wall Street Reform and Consumer Protection Act, and rules and regulations thereunder, most of which have not yet been promulgated;

new capital and liquidity requirements, which U.S. regulatory agencies are expected to establish in response to new international standards known as Basel III;

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;

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

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 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 2009 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>).

---

**Table of Contents**

ZIONS BANCORPORATION AND SUBSIDIARIES

Except to the extent required by law, 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**

The Company has made no significant changes in its critical accounting policies and significant estimates from those disclosed in its 2009 Annual Report on Form 10-K.

**RESULTS OF OPERATIONS**

The Company reported a net loss applicable to common shareholders of \$80.5 million or \$0.47 per diluted share for the third quarter of 2010 compared to a net loss applicable to common shareholders of \$181.9 million or \$1.43 per diluted share for the third quarter of 2009. The improved result is primarily due to a \$381.3 million decrease in the provision for loan losses, a \$35.4 million decline in the provision for unfunded lending commitments, a \$32.8 million reduction in net impairment losses on investment securities, and a \$16.2 million increase in other noninterest income. The positive impact of these developments was partially offset by a \$146.2 million reduction in acquisition related gains, an \$79.9 million decrease in fair value and nonhedge derivative income, a \$68.9 million decline in income tax benefit, a \$27.8 million increase in other noninterest expense, a \$20.3 million reduction in net interest income, and a \$13.8 million increase in other real estate expense.

Net loss applicable to common shareholders for the first nine months of 2010 was \$302.2 million, or \$1.87 per diluted share, compared to net loss applicable to common shareholders of \$1,058.0 million, or \$8.87 per diluted share for the first nine months of 2009. The significant reduction in net loss was mainly caused by a \$947.3 million drop in provision for loan losses, a \$634.0 million fall in impairment loss on goodwill, a \$212.1 million decrease in valuation losses on securities purchased, a \$108.1 million reduction in net impairment losses on investment securities, a \$64.8 million decline in provision for unfunded lending commitments, a \$15.0 million growth in other noninterest income, a \$14.5 million increase in gain on subordinated debt exchange, and an \$11.8 million improvement in dividends and other investment income. The impact of these events was partially offset by a \$493.7 million reduction in gain on subordinated debt modification, a \$192.8 million decrease in income tax benefit, a \$169.1 million decline in acquisition related gains, a \$120.1 million drop in net interest income, \$103.6 million fall in fair value and nonhedge derivative income, a \$46.8 million increase in other real estate expense, a \$31.3 million growth in other noninterest expense, and a \$23.3 million rise in credit related expense.

During the second quarter of 2009, the Company executed a subordinated debt modification and exchange transaction which resulted in an initial discount of approximately \$666 million on the modified convertible subordinated debt, which included the following components:

The fair value discount on the debt, and

The value of the beneficial conversion feature added the right of the debt holder to convert the debt into preferred stock. This discount has been and will continue to be amortized as interest expense over the remaining life of the debt. However, if debt holders exercise their option to convert their debt securities to preferred stock, the amortization of the discount will be accelerated at the time of conversion. Thus, each quarter's expenses include:

Ongoing amortization expense related to modified, but unconverted debt,

**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

Accelerated amortization expense related to debt that converts in the quarter, a portion of which is not tax deductible. These expenses do not reflect the ongoing operations of the Company. Excluding the impact of these ongoing nonoperational expenses, net loss before income taxes decreased to \$36.5 million in the third quarter of 2010 from \$228.7 million and \$61.1 million in the third quarter of 2009 and second quarter of 2010, respectively.

(In thousands)	Three Months Ended					
	September 30, 2010	June 30, 2010	March 31, 2010	December 31, 2009	September 30, 2009	June 30, 2009
Income (loss) before income taxes (GAAP)	\$ (78,637)	\$ (136,259)	\$ (91,781)	\$ (311,296)	\$ (257,717)	\$ (75,699)
Gain on subordinated debt modification				(15,220)		(493,725)
Convertible subordinated debt discount amortization	14,711	14,728	14,761	13,735	13,220	
Accelerated convertible subordinated debt discount amortization	27,462	60,481	11,182	19,967	15,762	
Income (loss) before income taxes and subordinated debt modification and conversions (non-GAAP)	\$ (36,464)	\$ (61,050)	\$ (65,838)	\$ (292,814)	\$ (228,735)	\$ (569,424)

The impact of these conversions of convertible subordinated debt into preferred stock is further detailed in the [Capital Management](#) section.

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

Net interest income is the difference between interest earned on interest-bearing assets and interest incurred on interest-bearing liabilities. Taxable-equivalent net interest income for the third quarter of 2010 was \$457.2 million while it had been \$478.1 million for the comparable period of 2009. This decline reflects the effect of many factors, including lower balances of interest-earning assets, higher balances of money market investments, higher discount amortization and higher accelerated discount amortization on convertible subordinated debt, partially offset by better-than expected performance of loans acquired from the FDIC, lower balances of and lower interest rates paid on interest bearing deposits. On March 31, 2010, the balance of nonaccrual loans (excluding FDIC-supported loans) had reached \$2.1 billion, but as of September 30, 2010 the amount has declined to \$1.8 billion. The decrease is the result of fewer loans becoming non-accruing and the resolution of problem credits, as well as write-downs and collections of existing loans.

By its nature, net interest income is especially vulnerable to changes in the mix and amounts of interest-earning assets and interest-bearing liabilities. In addition, changes in the interest rates and yields associated with these assets and liabilities significantly impacted net interest income. During the first nine months of 2010, customer deposits decreased at a slower rate than the decrease in loan balances. The Company has undertaken efforts to actively reduce the excess liquidity while preserving key customer relationships. See [Interest Rate and Market Risk Management](#) for further discussion of how we manage the portfolios of interest-earning assets, interest-bearing liabilities, and associated risk.

A gauge that we use to measure the Company's success in managing its net interest income is the level and stability of the net interest margin. The net interest margin was 3.84% for the third quarter of 2010, compared to 3.58% for the second quarter of 2010 and 3.91% for the third quarter of 2009. During the third quarter of 2010, the net interest margin was negatively impacted by 23 basis points by the accelerated discount amortization resulting from the conversion of convertible subordinated debt to preferred stock, and by 12 basis points for the discount amortization related to the convertible subordinated debt. This unfavorable impact was partially mitigated by increased interest income resulting from the accretion on acquired loans based on increased projected cash flows, and by the low cost of noninterest-bearing deposit funding.



**Table of Contents**

ZIONS BANCORPORATION AND SUBSIDIARIES

The Company believes that the core net interest margin is more reflective of its operating performance than the reported net interest margin. The core net interest margin is calculated by excluding the impact of discount amortization on convertible subordinated debt, accelerated discount amortization on convertible subordinated debt, and additional accretion of interest income on acquired loans from the net interest margin. The core net interest margin was 4.03% and 4.14% for the third and second quarters of 2010, respectively, and 4.13% for third quarter of 2009.

The spread on average interest-bearing funds for the third quarter of 2010 was 3.26%, compared to 2.89% for the second quarter of 2010 and 3.44% for the third quarter of 2009. The spread on average interest-bearing funds for the third quarter of 2010 was affected by the same factors that had an impact on the net interest margin.

The net interest margin will continue to be adversely affected in future quarters due to the level of nonperforming assets and the amortization and accelerated amortization of debt discount related to the debt modification transactions that occurred in 2009. These transactions resulted in a discount on the modified convertible subordinated debt, which as of September 30, 2010 was \$472.9 million. This discount is 49.5% of the total \$954.5 million of outstanding convertible subordinated notes and will be amortized as interest expense over the remaining life of the debt using the interest method. If debt holders exercise their options to convert debt to preferred stock in future periods, 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 has allowed its balance sheet to become more asset-sensitive than has historically been the case. With interest rates at historically low levels, there is also a reduced need to protect against falling interest rates. Our estimates of the Company's actual rate risk position are highly dependent upon a number of assumptions regarding the re-pricing behavior of various deposit and loan types in response to changes in both short-term and long-term interest rates, balance sheet composition, and other modeling assumptions, as well as the actions of competitors and customers in response to those changes. Further detail on interest rate risk is discussed in the Company's 2009 Annual Report on Form 10-K in Interest Rate Risk on page 117 and in this filing in Interest Rate Risk.

**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

## CONSOLIDATED AVERAGE BALANCE SHEETS, YIELDS AND RATES

(Unaudited)

(In thousands)	Three Months Ended September 30, 2010			Three Months Ended September 30, 2009		
	Average balance	Amount of interest <sup>1</sup>	Average rate	Average balance	Amount of interest <sup>1</sup>	Average rate
<b>ASSETS</b>						
Money market investments	\$ 5,192,847	\$ 3,487	0.27%	\$ 1,861,523	\$ 1,195	0.25%
Securities:						
Held-to-maturity	843,268	8,789	4.14%	914,648	13,797	5.98%
Available-for-sale	3,282,056	22,199	2.68%	3,749,566	26,275	2.78%
Trading account	59,216	542	3.63%	94,658	842	3.53%
Total securities	4,184,540	31,530	2.99%	4,758,872	40,914	3.41%
Loans held for sale	188,794	2,223	4.67%	194,596	2,434	4.96%
Loans:						
Net loans and leases excluding FDIC-supported loans <sup>2</sup>	36,525,416	515,419	5.60%	40,246,789	570,652	5.63%
FDIC-supported loans	1,149,976	34,572	11.93%	1,494,857	22,562	5.99%
Total loans and leases	37,675,392	549,991	5.79%	41,741,646	593,214	5.64%
Total interest-earning assets	47,241,573	587,231	4.93%	48,556,637	637,757	5.21%
Cash and due from banks	1,063,000			1,187,594		
Allowance for loan losses	(1,556,558)			(1,317,078)		
Goodwill	1,015,161			1,017,387		
Core deposit and other intangibles	97,741			126,614		
Other assets	3,917,955			3,923,371		
Total assets	\$ 51,778,872			\$ 53,494,525		
<b>LIABILITIES</b>						
Interest-bearing deposits:						
Savings and NOW	\$ 6,186,704	5,060	0.32%	\$ 5,162,852	5,262	0.40%
Money market	15,584,312	24,840	0.63%	17,538,319	49,292	1.12%
Time under \$100,000	2,103,818	6,623	1.25%	2,954,680	16,612	2.23%
Time \$100,000 and over	2,462,904	7,495	1.21%	4,363,017	22,690	2.06%
Foreign	1,563,090	2,350	0.60%	1,901,789	3,478	0.73%
Total interest-bearing deposits	27,900,828	46,368	0.66%	31,920,657	97,334	1.21%



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

Borrowed funds:						
Securities sold, not yet purchased	38,789	423	4.33%	45,866	590	5.10%
Federal funds purchased and security repurchase agreements	873,954	315	0.14%	1,708,888	1,207	0.28%
FHLB advances and other borrowings:						
One year or less	210,235	2,828	5.34%	47,965	528	4.37%
Over one year	18,415	220	4.74%	18,854	228	4.80%
Long-term debt	1,927,360	79,905	16.45%	1,955,725	59,735	12.12%
<b>Total borrowed funds</b>	<b>3,068,753</b>	<b>83,691</b>	<b>10.82%</b>	<b>3,777,298</b>	<b>62,288</b>	<b>6.54%</b>
<b>Total interest-bearing liabilities</b>	<b>30,969,581</b>	<b>130,059</b>	<b>1.67%</b>	<b>35,697,955</b>	<b>159,622</b>	<b>1.77%</b>
Noninterest-bearing deposits	13,786,784			11,428,774		
Other liabilities	601,439			517,200		
<b>Total liabilities</b>	<b>45,357,804</b>			<b>47,643,929</b>		
Shareholders' equity:						
Preferred equity	1,819,889			1,518,289		
Common equity	4,601,920			4,309,497		
<b>Controlling interest shareholders' equity</b>	<b>6,421,809</b>			<b>5,827,786</b>		
Noncontrolling interest	(741)			22,810		
<b>Total shareholders' equity</b>	<b>6,421,068</b>			<b>5,850,596</b>		
<b>Total liabilities and shareholders' equity</b>	<b>\$ 51,778,872</b>			<b>\$ 53,494,525</b>		
Spread on average interest-bearing funds						
Taxable-equivalent net interest income and net yield on interest-earning assets			3.26%			3.44%
		\$ 457,172	3.84%		\$ 478,135	3.91%

<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.

**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

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

(Unaudited)

(In thousands)	Nine Months Ended September 30, 2010			Nine Months Ended September 30, 2009		
	Average balance	Amount of interest <sup>1</sup>	Average rate	Average balance	Amount of interest <sup>1</sup>	Average rate
<b>ASSETS</b>						
Money market investments	\$ 3,768,631	\$ 7,527	0.27%	\$ 2,251,822	\$ 6,114	0.36%
Securities:						
Held-to-maturity	876,901	33,703	5.14%	1,394,335	60,627	5.81%
Available-for-sale	3,341,349	68,251	2.73%	3,247,096	80,277	3.31%
Trading account	60,985	1,674	3.67%	76,914	2,236	3.89%
Total securities	4,279,235	103,628	3.24%	4,718,345	143,140	4.06%
Loans held for sale	178,314	6,523	4.89%	231,662	8,272	4.77%
Loans:						
Net loans and leases excluding FDIC-supported loans <sup>2</sup>	37,375,465	1,564,403	5.60%	40,869,880	1,728,742	5.66%
FDIC-supported loans	1,268,797	80,311	8.46%	903,494	40,526	6.00%
Total loans and leases	38,644,262	1,644,714	5.69%	41,773,374	1,769,268	5.66%
Total interest-earning assets	46,870,442	1,762,392	5.03%	48,975,203	1,926,794	5.26%
Cash and due from banks	1,261,657			1,262,255		
Allowance for loan losses	(1,572,138)			(971,468)		
Goodwill	1,015,161			1,227,331		
Core deposit and other intangibles	104,145			126,380		
Other assets	4,055,102			3,694,381		
Total assets	\$ 51,734,369			\$ 54,314,082		
<b>LIABILITIES</b>						
Interest-bearing deposits:						
Savings and NOW	\$ 6,019,848	15,450	0.34%	\$ 4,876,646	16,353	0.45%
Money market	16,127,412	84,963	0.70%	17,602,491	177,703	1.35%
Time under \$100,000	2,237,947	22,646	1.35%	2,999,739	57,659	2.57%
Time \$100,000 and over	2,653,117	24,688	1.24%	4,580,349	84,651	2.47%
Foreign	1,660,104	7,450	0.60%	2,075,197	15,726	1.01%
Total interest-bearing deposits	28,698,428	155,197	0.72%	32,134,422	352,092	1.46%
Borrowed funds:						
Securities sold, not yet purchased	43,460	1,465	4.51%	42,425	1,666	5.25%

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

Federal funds purchased and security repurchase agreements	960,071	1,182	0.16%	2,027,743	4,648	0.31%
<b>FHLB advances and other borrowings:</b>						
One year or less	189,483	7,472	5.27%	376,740	5,692	2.02%
Over one year	16,583	610	4.92%	60,458	2,507	5.54%
Long-term debt	1,972,746	259,360	17.58%	2,440,626	101,952	5.59%
<b>Total borrowed funds</b>	<b>3,182,343</b>	<b>270,089</b>	<b>11.35%</b>	<b>4,947,992</b>	<b>116,465</b>	<b>3.15%</b>
<b>Total interest-bearing liabilities</b>	<b>31,880,771</b>	<b>425,286</b>	<b>1.78%</b>	<b>37,082,414</b>	<b>468,557</b>	<b>1.69%</b>
<b>Noninterest-bearing deposits</b>	<b>13,221,238</b>			<b>10,682,344</b>		
<b>Other liabilities</b>	<b>567,423</b>			<b>543,197</b>		
<b>Total liabilities</b>	<b>45,669,432</b>			<b>48,307,955</b>		
<b>Shareholders' equity:</b>						
<b>Preferred equity</b>	<b>1,652,452</b>			<b>1,562,994</b>		
<b>Common equity</b>	<b>4,402,098</b>			<b>4,417,885</b>		
<b>Controlling interest shareholders' equity</b>	<b>6,054,550</b>			<b>5,980,879</b>		
<b>Noncontrolling interests</b>	<b>10,387</b>			<b>25,248</b>		
<b>Total shareholders' equity</b>	<b>6,064,937</b>			<b>6,006,127</b>		
<b>Total liabilities and shareholders' equity</b>	<b>\$ 51,734,369</b>			<b>\$ 54,314,082</b>		
<b>Spread on average interest-bearing funds</b>			<b>3.25%</b>			<b>3.57%</b>
<b>Taxable-equivalent net interest income and net yield on interest-earning assets</b>		<b>\$ 1,337,106</b>	<b>3.81%</b>		<b>\$ 1,458,237</b>	<b>3.98%</b>

<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.

---

**Table of Contents**
**ZIONS BANCORPORATION AND SUBSIDIARIES**
**Provisions for Credit Losses**

The provision for loan losses is the amount of expense that, in our judgment, is required to maintain the allowance for loan losses at an adequate level based upon the inherent risks in the loan 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 associated with such commitments. The reserve for unfunded lending commitments is separately included with other liabilities in the balance sheet. 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 2010 was \$184.7 million compared to \$565.9 million for the same period in 2009, and is 19.2% lower than the second quarter 2010 provision of \$228.7 million. The decrease in the provision reflected an improvement in the credit quality metrics of the loan portfolio.

Net loan and lease charge-offs fell to \$235.7 million in the third quarter of 2010, compared to \$381.3 million in the third quarter of 2009. Net charge-offs in the second quarter of 2010 were \$255.2 million. See [Nonperforming Assets](#) and [Allowance and Reserve for Credit Losses](#) for further details.

The provision for unfunded lending commitments was \$1.1 million for the third quarter of 2010, while the provision had been \$36.5 million in the third quarter of 2009. During the first quarter of 2010, the Company had released \$20.1 million from the reserve due to a decrease in such commitments. From period to period, the amounts of unfunded lending commitments may be subject to sizeable fluctuations due to changes in the timing and volume of loan commitments, originations, and fundings.

The provision for loan losses for the nine months ended September 30, 2010 dropped to \$678.9 million, a 58.3% decrease from the \$1,626.2 million incurred in the comparable period in 2009. Net loan and lease charge-offs were \$718.0 million for the first nine months of 2010, and \$880.5 million for the same period in 2009. During the first nine months of 2010, the Company decreased the reserve for unfunded lending commitments resulting in a \$64.8 million reduction in the provision for unfunded lending commitments when compared to the first nine months of 2009. Explanations previously provided for the quarterly changes also apply to the year-to-date changes.

Although the quality of the loan portfolio continues to be a concern, most measures of credit quality have shown some improvement or signs of stabilization during the second and third quarters of 2010, but with variations among geographies and loan types. During the first nine months of 2010, the Company experienced a decrease in special mention, nonaccrual, and adversely graded loans, as well as improvements in other credit metrics.

**Noninterest Income**

For the third quarter of 2010, noninterest income was \$110.2 million compared to \$270.7 million for the third quarter of 2009. The decrease is mostly due a \$146.2 million decrease in the gain recognized as a result of the FDIC asset purchase executed during the third quarter of 2009, a \$79.9 million decrease in fair value and nonhedge derivative income, partially offset by a \$32.8 million decrease in net impairment losses on investment securities, and a \$16.2 million increase in other noninterest income. Other significant changes in income that contributed to the change for the third quarter of 2010 are discussed below.

Service charges and fees on deposit accounts decreased to \$49.7 million from \$54.5 million earned during the third quarter of 2009. This decline is a reflection of the decrease in deposits, as well as a decrease in non-sufficient-funds fees and overdraft fees. Non-sufficient-funds fees and overdraft fees may continue to decline in the fourth quarter of 2010 due to the provisions of the Dodd-Frank Bill. Customers are now required to specifically request overdraft protection for their accounts.

**Table of Contents**

ZIONS BANCORPORATION AND SUBSIDIARIES

Capital markets and foreign exchange income for the third quarter of 2010 increased by 8.7% to \$13.2 million from the \$12.1 million earned during the third quarter of 2009 due to increased trading income.

Dividends and other investment income grew by \$6.3 million in the third quarter of 2010 from the \$2.6 million earned in corresponding period in the prior year. The increase is mainly attributable to an \$8.4 million increase in income generated by noninterest bearing investments in various companies and investment funds, a portion of which was offset by a \$2.1 million decrease in earnings from bank owned life insurance.

Loan sales and servicing income for the third quarter of 2010 increased to \$8.4 million from \$2.4 million earned in the same period during 2009. The increase is primarily the result of increased gains on loan sales and an increase in mortgage servicing income.

Fair value and nonhedge derivative loss was \$21.9 million for the third quarter of 2010 compared to income of \$58.1 million for the third quarter of 2009. The decrease is primarily caused by a \$36.0 million decrease in acceleration of OCI amounts reclassified to income, which related to terminated hedges, and the \$22.8 million negative fair value of the total return swap agreement entered into during the third quarter of 2010.

Net gains from fixed income securities increased by \$6.5 million for the third quarter of 2010 from the \$1.9 million earned in the corresponding period in 2009. The increase is attributable to a sale of certain auction rate securities, which had been redeemed from customers in 2009. These securities had been previously written down, but were sold at par.

The Company recognized net impairment losses on investment securities of \$23.7 million during the third quarter of 2010 compared to \$56.5 million during the corresponding period in 2009. The total impairment loss for the third quarter of 2010 was \$73.1 million and included \$49.4 million of noncredit-related OTTI which was charged against OCI. These OTTI losses were for certain CDOs, including bank and insurance CDOs. See Investment Securities Portfolio for additional information, including certain changes in modeling assumptions that resulted from the passage of the Dodd-Frank Act and their impact.

Other noninterest income was \$20.2 million for the third quarter of 2010, compared to \$4.0 million during the same period in 2009. In September 2010, the Company sold substantially all of the assets of a wholly-owned subsidiary, NetDeposit, to BServ, Inc. The sale generated a pre-tax gain of approximately \$13.9 million, which is recorded in other noninterest income.

The sale of NetDeposit's assets is expected to decrease future quarterly noninterest income by \$3.4 million and decrease noninterest expenses by \$6.0 million, thus having a positive impact on pretax income of \$2.6 million

During the first nine months of 2010, the Company earned \$327.2 million of noninterest income, compared to \$738.2 million in the same period in 2009. Explanations previously provided for the quarterly changes also apply to the year-to-date changes. Additional explanations of variances follow.

Other service charges, commissions, and fees increased by \$6.5 million during the first nine months of 2010 compared to the \$117.8 million earned during the first nine months of 2009. Some of the fees which contributed to this fluctuation were increased loan fees, ATM fees, credit card fees, and accounts receivable factoring fees.

---

**Table of Contents**

ZIONS BANCORPORATION AND SUBSIDIARIES

Capital markets and foreign exchange income for the first nine months of 2010 was \$32.4 million, compared to \$41.6 million for the corresponding period in 2009. The decrease is caused mainly by a decline in income from trading fixed income corporate bonds and commissions, partially offset by a decrease in unrealized foreign exchange losses.

For the first nine months of 2010, the Company suffered \$5.7 million of net losses from investments in equity securities, while it had earned a \$0.3 million gain during the same period in 2009. The majority of the losses recognized in 2010 are unrealized losses caused by investments in equity securities of several venture funds.

In the first quarter of 2010, the Company exchanged \$55.6 million of nonconvertible subordinated debt for 2,165,391 shares of common stock, resulting in a \$14.5 million gain.

**Noninterest Expense**

Noninterest expense for the third quarter of 2010 was \$456.0 million, an increase of 4.9% from \$434.7 million for the third quarter of 2009. The increase is primarily due to a \$27.8 million increase in other noninterest expense, a \$13.8 million increase in other real estate expense, a \$5.9 million increase in FDIC premiums, and a \$5.6 million increase in credit related expense, partially offset by a \$35.4 million reduction in provision for unfunded lending commitments.

Salaries and employee benefits were \$208.0 million for the third quarter of 2010, and had increased by only 1.2% from the \$205.4 million incurred in the third quarter of 2009.

Other real estate expense increased by \$13.8 million from the \$30.4 million incurred in the third quarter of 2009. The increase is primarily due the active management of the OREO portfolio and increased write-downs of OREO asset values, partially offset by an increase in net gains from property sales. Most of the increase in OREO expenses occurred in Utah, Texas, and Arizona, partially mitigated by a decrease in California.

Credit related expense includes costs incurred during the foreclosure process prior to the Company obtaining the title to the collateral and recording the asset in OREO, and other out-of-pocket costs related to the management of problem loans and other assets. These costs were \$17.4 million for the third quarter of 2010, compared to \$11.8 million in the corresponding period in 2009. The increase is a reflection the Company's stepped-up effort to resolve problem loans, and to liquidate OREO.

The provision for unfunded lending commitments decreased by \$35.4 million during the third quarter of 2010 when compared to the corresponding period of 2009. The decrease is due to reduced levels of such commitments.

FDIC premiums were \$25.7 million for the third quarter of 2010, compared to \$19.8 million in the same period in 2009. The increase is caused by higher FDIC premiums.

Other noninterest expense for the third quarter of 2010 was \$83.5 million, compared to \$55.8 million during the corresponding period in 2009. The increase was mostly caused by a one-time structuring fee related to the TRS transaction, and a write-down of the FDIC indemnification asset attributable to loans purchased from the FDIC during 2009. The loans have performed better than expected, and therefore the indemnification asset has declined in value.

For the first nine months of 2010, noninterest expense totaled \$1,275.5 million while they had been \$1,230.4 million in the corresponding period in 2009. Explanations previously provided for the quarterly changes also apply to the year-to-date changes. At September 30, 2010, the Company had 10,553 full-time equivalent employees, compared to 10,616 at September 30, 2009.

---

**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

**Income Taxes**

The Company's income tax benefit for the third quarter of 2010 was \$31.2 million compared to an income tax benefit of \$100.0 million for the same period in 2009. The effective income tax rates, including the effects of noncontrolling interests, for the third quarter of 2010 and 2009 were 39.7% and 39.2% and the first nine months of 2010 and 2009 were 27.3% and 21.1%. The tax rate through the third quarter of 2010 as compared to the tax rate through the same period of 2009 was impacted by the proportional increase of nontaxable items relative to the loss before income taxes. This increased tax benefit rate for 2010 was reduced by the taxable surrender of certain bank-owned life insurance policies and the non-deductibility of a portion of the accelerated discount amortization from the conversion of subordinated debt to preferred stock during the second and third quarters of 2010. 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 increase income tax benefit by \$1.5 million for the third quarters of both 2010 and 2009.

The Company had a net deferred tax asset ( DTA ) balance of approximately \$585 million at September 30, 2010 compared to \$498 million at December 31, 2009. The increase in the net DTA has resulted primarily from items related to nonaccruing loans, securities, OREO, and the decrease in the deferred tax liability related to the nondeductibility of a portion of the accelerated discount amortization from the conversion of subordinated debt to preferred stock. The Company did not record a valuation allowance for GAAP purposes as of September 30, 2010. In assessing the need for a valuation allowance, both the positive and negative evidence about the realization of DTAs were evaluated. The ultimate realization of DTAs is based on the Company's ability to carry-back net operating losses to prior tax periods, tax planning strategies that are prudent and feasible and current forecasts of future taxable income, including the reversal of deferred tax liabilities ( DTLs ), which can absorb losses generated in or carried forward to a particular tax year. After evaluating all of the factors and considering the weight of the positive evidence compared to the negative evidence, management has concluded it is more likely than not that the Company will realize the existing DTAs and that a valuation allowance is not needed. In addition, the Company has pursued strategies which may have the effect of mitigating the future possibility of a DTA valuation allowance.

**Table of Contents**

ZIONS BANCORPORATION AND SUBSIDIARIES

**BALANCE SHEET ANALYSIS**

**Interest-Earning Assets**

Interest-earning assets are those assets that have interest rates or yields associated with them. One of our goals is to maintain a high level of interest-earning assets relative to total assets, while keeping nonearning assets at a minimum. Interest-earning assets consist of money market investments, securities, loans, and leases. Another one of our goals is to maintain a higher-yielding mix of interest earning assets, such as loans, relative to lower-yielding assets, such as money market investments and securities. The recent and current period of economic weakness and historically weak loan demand has made it difficult to consistently achieve these goals.

Average interest-earning assets decreased by 4.3% to \$46.9 billion for the first nine months of 2010 compared to \$49.0 billion for the same period in 2009. Average interest-earning assets as a percentage of total average assets for the first nine months of 2010 was 90.6% compared to 90.2% for the comparable period of 2009.

Average money market investments, consisting of interest-bearing deposits and commercial paper, federal funds sold and security resell agreements, increased by 67.4% to \$3.8 billion for the first nine months of 2010 compared to \$2.3 billion for the same period of 2009. Average securities decreased by 9.3%, and average net loans and leases decreased by 7.5% for the first nine months of 2010 compared to the first nine months of 2009. These fluctuations are a reflection of decreased customer deposits, lower investment in held-to-maturity securities, and decreased customer demand for new and refinanced loans.

**Investment Securities Portfolio**

We invest in securities both to generate revenues for the Company and to manage liquidity. The following schedules present a profile of the Company's investment portfolios at September 30, 2010, December 31, 2009, and September 30, 2009, with asset-backed securities classified by credit ratings. 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 value measurement levels and methodology are discussed in detail in Note 11 of the Notes to Consolidated Financial Statements.

The first two tables present the Company's asset-backed securities, classified by the highest of the ratings and the lowest of the ratings from any of Moody's Investors Service, Fitch Ratings or Standard & Poors. During the first nine months of 2010, the Company continued to observe a large variance in ratings on these securities among the various rating agencies.

In the discussion of our investment portfolio below, we have included certain credit rating information because the information is one indication of the degree of credit risk to which we are exposed, and significant changes in ratings classifications for our investment portfolio could indicate an increased level of risk for us.



**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

## INVESTMENT SECURITIES PORTFOLIO

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

As of September 30, 2010

(In millions)	Par value	Amortized cost	Net unrealized gains (losses) recognized in OCI <sup>1</sup>	Carrying value	Net unrealized gains (losses) not recognized in OCI <sup>1</sup>	Estimated fair value
<b>Held-to-maturity:</b>						
Municipal securities	\$ 580	\$ 577	\$	\$ 577	\$ 9	\$ 586
Asset-backed securities:						
Trust preferred securities predominately bank						
Noninvestment grade	88	88	(11)	77	(31)	46
Noninvestment grade OTTI/PIK <sup>2</sup> d	2	1	(1)		1	1
	90	89	(12)	77	(30)	47
Trust preferred securities predominately insurance						
Noninvestment grade	176	176	(14)	162	(29)	133
	176	176	(14)	162	(29)	133
Other						
AAA rated	3	3		3		3
Noninvestment grade	21	19	(1)	18	(7)	11
Noninvestment grade OTTI/PIK <sup>2</sup> d	12	7	(3)	4	(1)	3
	36	29	(4)	25	(8)	17
	882	871	(30)	841	(58)	783
<b>Available-for-sale:</b>						
U.S. Treasury securities	49	49		49		49
U.S. Government agencies and corporations:						
Agency securities	202	203	6	209		209
Agency guaranteed mortgage-backed securities	338	341	14	355		355
Small Business Administration loan-backed securities	793	844	(2)	842		842
Municipal securities	181	178	5	183		183
Asset-backed securities:						
Trust preferred securities predominately bank						
AAA rated	11	10		10		10
AA rated	114	78	16	94		94

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

A rated	365	301	(17)	284	284	
BBB rated	252	205	(42)	163	163	
Noninvestment grade	351	317	(100)	217	217	
Noninvestment grade OTTI/PIK <sup>2</sup> d	983	723	(478)	245	245	
	2,076	1,634	(621)	1,013	1,013	
Trust preferred securities predominately insurance						
AAA rated	5	5	(1)	4	4	
AA rated	103	95	(2)	93	93	
Not rated	1		4	4	4	
Noninvestment grade	194	194	(64)	130	130	
	303	294	(63)	231	231	
Trust preferred securities single banks						
A rated	1	1		1	1	
Not rated	25	25	(4)	21	21	
	26	26	(4)	22	22	
Trust preferred securities real estate investment trusts						
Noninvestment grade	25	16	(2)	14	14	
Noninvestment grade OTTI/PIK <sup>2</sup> d	70	34	(29)	5	5	
	95	50	(31)	19	19	
Auction rate securities						
AAA rated	141	131	1	132	132	
BBB rated	3	3		3	3	
	144	134	1	135	135	
Other						
AAA rated	41	39	(5)	34	34	
A rated	29	29	(1)	28	28	
Noninvestment grade	6	4	(1)	3	3	
Noninvestment grade OTTI/PIK <sup>2</sup> d	97	36	(18)	18	18	
	173	108	(25)	83	83	
	4,380	3,861	(720)	3,141	3,141	
Other securities:						
Mutual funds and stock	155	155		155	155	
	4,535	4,016	(720)	3,296	3,296	
Total	\$ 5,417	\$ 4,887	\$ (750)	\$ 4,137	\$ (58)	\$ 4,079

\* 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 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.*

**Table of Contents**

ZIONS BANCORPORATION AND SUBSIDIARIES

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

As of September 30, 2010

(In millions)	Par value	Amortized cost	Net unrealized gains (losses) recognized in OCI <sup>1</sup>	Carrying value	Net unrealized gains (losses) not recognized in OCI <sup>1</sup>	Estimated fair value
<b>Held-to-maturity:</b>						
Municipal securities	\$ 580	\$ 577	\$	\$ 577	\$ 9	\$ 586
Asset-backed securities:						
Trust preferred securities predominately bank						
Noninvestment grade	88	88	(11)	77	(31)	46
Noninvestment grade OTTI/PIK <sup>2</sup> d	2	1	(1)		1	1
	90	89	(12)	77	(30)	47
Trust preferred securities predominately insurance						
Noninvestment grade	176	176	(14)	162	(29)	133
	176	176	(14)	162	(29)	133
Other						
A rated	3	3		3		3
Noninvestment grade	21	19	(1)	18	(7)	11
Noninvestment grade OTTI/PIK <sup>2</sup> d	12	7	(3)	4	(1)	3
	36	29	(4)	25	(8)	17
	882	871	(30)	841	(58)	783
<b>Available-for-sale:</b>						
U.S. Treasury securities	49	49		49		49
U.S. Government agencies and corporations:						
Agency securities	202	203	6	209		209
Agency guaranteed mortgage-backed securities	338	341	14	355		355
Small Business Administration loan-backed securities	793	844	(2)	842		842
Municipal securities	181	178	5	183		183
Asset-backed securities:						
Trust preferred securities predominately bank						
A rated	1	1		1		1
BBB rated	114	78	15	93		93
Noninvestment grade	978	832	(158)	674		674

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

Noninvestment grade	OTTI/PIK <sup>2</sup> d	983	723	(478)	245	245
		2,076	1,634	(621)	1,013	1,013
Trust preferred securities predominately insurance						
AA rated		71	64	1	65	65
A rated		5	5	(1)	4	4
Not rated		1		4	4	4
Noninvestment grade		226	225	(67)	158	158
		303	294	(63)	231	231
Trust preferred securities single banks						
BBB rated		1	1		1	1
Not rated		25	25	(4)	21	21
		26	26	(4)	22	22
Trust preferred securities real estate investment trusts						
Noninvestment grade		25	16	(2)	14	14
Noninvestment grade	OTTI/PIK <sup>2</sup> d	70	34	(29)	5	5
		95	50	(31)	19	19
Auction rate securities						
AAA rated		141	131	1	132	132
Noninvestment grade		3	3		3	3
		144	134	1	135	135
Other						
AAA rated		23	22	(4)	18	18
AA rated		16	16	(2)	14	14
A rated		29	28		28	28
BBB rated		2	2		2	2
Noninvestment grade		6	4	(1)	3	3
Noninvestment grade	OTTI/PIK <sup>2</sup> d	97	36	(18)	18	18
		173	108	(25)	83	83
		4,380	3,861	(720)	3,141	3,141
Other securities:						
Mutual funds and stock		155	155		155	155
		4,535	4,016	(720)	3,296	3,296
Total		\$ 5,417	\$ 4,887	\$ (750)	\$ 4,137	\$ (58)
						\$ 4,079

\* 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 lowest rating level.

**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

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

<sup>2</sup> Consists of securities determined to have 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.

(In millions)	September 30, 2010			December 31, 2009			September 30, 2009		
	Amortized cost	Carrying value	Estimated fair value	Amortized cost	Carrying value	Estimated fair value	Amortized cost	Carrying value	Estimated fair value
<b>HELD-TO-MATURITY:</b>									
Municipal securities	\$ 577	\$ 577	\$ 586	\$ 606	\$ 606	\$ 609	\$ 611	\$ 611	\$ 616
Asset-backed securities:									
Trust preferred securities - banks and insurance	265	239	180	265	239	208	266	240	202
Other	29	25	17	30	25	16	31	26	18
	\$ 871	\$ 841	\$ 783	\$ 901	\$ 870	\$ 833	\$ 908	\$ 877	\$ 836
<b>AVAILABLE-FOR-SALE:</b>									
U.S. Treasury securities	\$ 49	\$ 49	\$ 49	\$ 26	\$ 26	\$ 26	\$ 41	\$ 41	\$ 41
U.S. Government agencies and corporations:									
Agency securities	203	209	209	243	249	249	243	249	249
Agency guaranteed mortgage-backed securities	341	355	355	374	385	385	386	398	398
Small Business Administration loan-backed securities	844	842	842	782	768	768	799	780	780
Municipal securities	178	183	183	237	242	242	241	246	246
Asset-backed securities:									
Trust preferred securities - banks and insurance	1,954	1,266	1,266	2,023	1,361	1,361	2,134	1,391	1,391
Trust preferred securities - real estate investment trusts	50	19	19	56	24	24	68	27	27
Auction rate securities	134	135	135	160	160	160	165	165	165
Other	108	83	83	127	77	77	147	95	95
	3,861	3,141	3,141	4,028	3,292	3,292	4,224	3,392	3,392
Other securities:									
Mutual funds and stock	155	155	155	364	364	364	155	155	155
	4,016	3,296	3,296	4,392	3,656	3,656	4,379	3,547	3,547
<b>Total</b>	<b>\$ 4,887</b>	<b>\$ 4,137</b>	<b>\$ 4,079</b>	<b>\$ 5,293</b>	<b>\$ 4,526</b>	<b>\$ 4,489</b>	<b>\$ 5,287</b>	<b>\$ 4,424</b>	<b>\$ 4,383</b>

The amortized cost of investment securities on September 30, 2010 decreased by 7.7% and 7.6% from the balances on December 31, 2009 and September 30, 2009, respectively. The change from December 31, 2009 to September 30, 2010 was primarily due to a reduction in mutual funds and stock, as well as OTTI write-downs on AFS securities.

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

On September 30, 2010, 5.9% of the \$3.3 billion of fair value of available-for-sale securities portfolio was valued at Level 1, 48.2% was valued at Level 2, and 45.9% was valued at Level 3 under the GAAP fair value accounting valuation hierarchy. See Note 11 of the Notes to Consolidated Financial Statements for further discussion of fair value accounting.

The amortized cost of available-for-sale investment securities valued at Level 3 was \$2,257 million and the fair value of these securities was \$1,512 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 of 2010 was \$745 million. As of September 30, 2010, we believe that we will receive on settlement or maturity the amortized cost amounts of the Level 3 available-for-sale securities for which no OTTI has been recognized.

**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

**Valuation and Sensitivity Analysis of Level 3 Bank and Insurance CDOs**

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 CDOs at Level 3			
	Held-to-maturity		Available-for-sale	
Fair value balance at September 30, 2010	\$	180	\$	1,186
<b>Expected collateral credit losses <sup>1</sup></b>				
		<b>Incremental</b>	<b>Cumulative</b>	<b>Incremental</b>
				<b>Cumulative</b>
<b>Weighted average:</b>				
Loss percentage from currently defaulted or deferring collateral <sup>2</sup>			4.2%	19.6%
Projected loss percentage from currently performing collateral				
1-year		0.4%	4.6%	20.4%
years 2-5		2.7%	7.3%	22.9%
years 6-30		6.5%	13.8%	27.6%
<b>Sensitivity to greater than expected losses</b>				
Decrease in fair value due to increase in projected loss percentage from currently performing collateral <sup>3</sup>				
	25%	\$		\$ (5.9)
	50%	(0.3)		(14.3)
	100%	(1.2)		(31.8)
Decrease in fair value due to increase in projected loss percentage from currently performing collateral <sup>3</sup> and the immediate default of all deferring collateral with no recovery				
	25%	\$ (2.7)		\$ (162.5)
	50%	(3.2)		(171.0)
	100%	(4.2)		(187.7)
<b>Discount rate <sup>4</sup></b>				
Weighted average spread over LIBOR			549 bp	780 bp
Decrease in fair value due to increase in discount rate		\$		\$ (96.5)
	+ 100 bp	(16.5)		(181.0)
	+ 200 bp	(30.9)		

<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. These current and projected losses are reflected in the CDO's fair value.

<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 probability of default on deferring collateral which ranges from 5.22% to 100%.

<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 31.6% = 27.6% + 50% (0.8%+2.5%+4.7%) and 35.6% = 27.6% + 100% (0.8%+2.5%+4.7%) respectively.

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



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

The third quarter 2010 sensitivity analysis of valuation assumptions, when compared to the same analysis of the second quarter 2010, was positively impacted due to changes the Company experienced in the loss percentage from currently defaulted or deferring collateral. The changes were driven by loss experience due to default as well as generally lower future loss projections from deferring institutions. This was offset by the assumption change which slightly increased assumed default rates for years 6 to maturity for many of the CDO pools.

**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

During the third quarter of 2010, the Company recognized credit-related net impairment losses on trust preferred CDOs of \$23.7 million, compared to a loss of \$56.5 million for the corresponding period in 2009. The Dodd-Frank Act became effective during the third quarter of 2010, and it disallows the inclusion of trust preferred securities in Tier 1 capital. We believe that this may prompt certain issuing banks to redeem their trust preferred securities early, and have therefore changed some of our assumptions used in estimating the fair values of CDO securities. Of the \$23.7 million of net impairment loss recognized for the third quarter of 2010, \$11.6 million is the result of this change in modeling assumptions.

The following schedules provide additional information on the below-investment-grade rated bank and insurance trust preferred CDOs portion of the AFS and HTM portfolios with aggregate data on those securities which have been determined to not have OTTI at September 30, 2010 and those which have been determined to be other-than-temporarily impaired at or prior to September 30, 2010. The schedules utilize the 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 and 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 in the later schedule are from the same security. The remaining statistics may not be from the same security.

The Company's loss and recovery experience as of September 30, 2010 (and our Level 3 modeling assumption) is essentially a 100% loss on defaults, although we have, to date, received a few, small recoveries on defaults. Our experience with deferring bank collateral has been that of all collateral that has elected to defer beginning in 2007 or thereafter, 45.7% has defaulted and approximately 52.9% remains within the allowable deferrable period. Older deferrals are more likely to have defaulted. Approximately 83% of the bank collateral which first deferred prior to January 1, 2009 had defaulted by September 30, 2010. For bank collateral which first deferred on or after January 1, 2009, 30% had defaulted by September 30, 2010. Four issuing banks, with collateral aggregating to 1.4% of all deferrals, have come current and resumed interest payments on their trust preferred securities after previously deferring some payments. A total of \$410 million of bank collateral elected to defer during the third quarter of 2010, compared to \$234 million in the second quarter of 2010, and \$1,019 million in the third quarter of 2009. Further details on the Company's valuation process are detailed in Note 11 of the Notes to Consolidated Financial Statements.

The following schedules 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, 2010**

(Amounts in millions)	Number		Par value	Total			Unrealized gain (loss)	Average holding <sup>1</sup>		
	of securities portfolio	% of portfolio		Amortized cost	Estimated Fair Value	Estimated Unrealized gain (loss)		Par value	Amortized cost	Fair Value
Original ratings of securities, non-OTTI:										
Original AAA	28	40.5%	\$ 992.9	\$ 845.5	\$ 692.0	\$ (153.6)	\$ 34.2	\$ 29.2	\$ 23.9	\$ (5.3)
Original A	22	19.7%	482.0	482.0	311.3	(170.8)	16.1	16.1	10.4	(5.7)
Original BBB	6	2.4%	58.5	58.4	31.3	(27.1)	9.7	9.7	5.2	(4.5)
<b>Total Non-OTTI</b>		<b>62.6%</b>	<b>1,533.4</b>	<b>1,385.9</b>	<b>1,034.6</b>	<b>(351.5)</b>				
Original ratings of securities, OTTI:										
Original AAA	1	2.0%	50.0	43.4	22.5	(20.9)	50.0	43.4	22.5	(20.9)
Original A	40	32.2%	790.6	592.7	192.5	(400.1)	15.5	11.6	3.8	(7.8)

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

Original BBB	9	3.2%	78.4	22.5	6.0	(16.5)	8.7	2.5	0.7	(1.8)
Total OTTI		37.4%	919.0	658.6	221.0	(437.5)				
Total noninvestment grade bank and insurance CDOs		100.0%	\$ 2,452.4	\$ 2,044.5	\$ 1,255.6	\$ (789.0)				

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

**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

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

As of September 30, 2010

	Current lowest rating	# of issuers in collateral pool	# of issuers currently performing <sup>1</sup>	% of original collateral defaulted <sup>2</sup>	% of original collateral deferring <sup>3</sup>	Subordination as a % of performing collateral <sup>4</sup>	Collateralization % <sup>5</sup>	Present value of expected cash flows discounted at coupon rate as a % of par <sup>6</sup>	Lifetime additional projected loss from performing collateral <sup>7</sup>
Original ratings of securities, Non-OTTI:									
Original AAA									
Best	BB	25	24		2.62%	84.00%	676.44%	100%	
Weighted average		55	37	14.29%	14.13%	41.33%	254.36%	99% <sup>8</sup>	7.71%
Worst	CC	19	6	27.73%	27.17%	14.19%	149.64%	94% <sup>8</sup>	9.78%
Original A									
Best	B	36	36			26.43%	305.51%	100%	6.94%
Weighted average		32	29	2.71%	5.62%	10.42%	136.41%	100%	9.37%
Worst	C	6	4	11.07%	26.37%	-7.51% <sup>9</sup>	77.59% <sup>10</sup>	100%	10.09%
Original BBB									
Best	CCC	36	36			15.43%	386.35%	100%	9.10%
Weighted average		17	16	1.24%	3.45%	7.75%	237.65%	100%	9.69%
Worst	C	43	39	6.03%	6.13%	-2.52% <sup>9</sup>	56.49%	100%	10.04%
Original ratings of securities, OTTI:									
Original AAA									
Single security	CCC	43	29	15.37%	17.46%	32.46%	261.61%	88%	8.85%
Original A									
Best	BB	43	35			37.13%	159.07%	100%	1.92%
Weighted average		39	25	14.16%	16.56%	-12.53%	67.26%	80%	7.77%
Worst	C	19	6	20.57%	32.54%	-53.63%	14.23%	53%	9.43%
Original BBB									
Best	C	39	29	5.97%	9.00%	-7.06%	81.12%	89%	6.52%
Weighted average		55	37	13.08%	19.86%	-16.65%	-135.62%	49%	8.07%
Worst	C	37	20	17.00%	32.54%	-23.31%	-289.47%	1%	8.85%

<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 5.22% to 100% dependent on credit for each deferring piece of collateral. 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 sum of the projected net loss amounts 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 sum of the projected net loss amounts for each piece of deferring but not defaulted collateral.*
- <sup>5</sup> *Utilizes the Company's loss assumption of 100% on defaulted collateral and the Company's issuer specific loss assumption of from 5.22% to 100% dependent on credit for each deferring piece of collateral. Collateralization in the schedule identifies the portion of a CDO tranche that is backed by nondefaulted collateral. The numerator is all collateral less the sum of (i) 100% of the defaulted collateral, (ii) the sum of the projected net loss amounts for each piece of deferring but not defaulted collateral and (iii) the amount of each CDO's debt which is senior to our security's priority level. The denominator is the par amount of the tranche. Par is defined as the original par less any principal paydowns.*
- <sup>6</sup> *For OTTI securities, this statistic approximates the extent of OTTI credit losses taken.*
- <sup>7</sup> *This is the same statistic presented in the preceding sensitivity schedule 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.*
- <sup>8</sup> *Although cash flows project a return of less than par, they project full recovery of amortized cost and therefore no OTTI exists.*
- <sup>9</sup> *Negative subordination is projected to be remedied by excess spread prior to maturity.*
- <sup>10</sup> *Collateralization shortfall is projected to be remedied by excess spread prior to maturity.*

**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

**Other-than-Temporary Impairment ( OTTI ) Investments in Debt Securities**

We review investments in debt 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, the 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 amortized cost which may be maturity, and other factors. For securities where an internal income-based cash flow model or third party valuation service produces a loss-adjusted expected cash flow for the security, the presence of OTTI is identified and the amount of the credit component of OTTI is calculated by discounting this loss-adjusted cash flow at the security's coupon rate and comparing that value to the Company's amortized cost of the security.

The Company incurred \$23.7 million and \$73.0 million of credit-related OTTI charges recorded in earnings and \$49.4 million and \$68.2 million pretax of OTTI related to illiquidity recorded in OCI during the third quarter and first nine months of 2010, respectively. The securities deemed to have OTTI were primarily collateralized by bank and insurance trust preferred debt. Future reviews for OTTI will consider the particular facts and circumstances during the reporting period in review.

**Loan Portfolio**

As of September 30, 2010, net loans and leases were \$37.5 billion, reflecting a 9.0% and a 6.6% decrease from September 30, 2009 and December 31, 2009, respectively. The decrease is due to pay-downs, charge-offs, and a lower demand for new loans.

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

(Amounts in millions)	September 30, 2010		December 31, 2009		September 30, 2009	
	Amount	% of total loans	Amount	% of total loans	Amount	% of total loans
<b>Commercial lending:</b>						
Commercial and industrial	\$ 9,402	25.0%	\$ 9,922	24.6%	\$ 10,124	24.5%
Leasing	402	1.1%	466	1.2%	449	1.1%
Owner occupied	8,345	22.1%	8,752	21.7%	8,745	21.1%
<b>Total commercial lending</b>	<b>18,149</b>		<b>19,140</b>		<b>19,318</b>	
<b>Commercial real estate:</b>						
Construction and land development	4,206	11.2%	5,552	13.8%	6,087	14.7%
Term	7,550	20.0%	7,255	18.0%	7,279	17.6%
<b>Total commercial real estate</b>	<b>11,756</b>		<b>12,807</b>		<b>13,366</b>	
<b>Consumer:</b>						
Home equity credit line	2,157	5.7%	2,135	5.3%	2,114	5.1%
1-4 family residential	3,509	9.3%	3,642	9.0%	3,698	8.9%
Construction and other consumer real estate	366	1.0%	459	1.1%	537	1.3%
Bankcard and other revolving plans	287	0.8%	341	0.8%	333	0.8%
Other	271	0.7%	293	0.7%	343	0.8%
<b>Total consumer</b>	<b>6,590</b>		<b>6,870</b>		<b>7,025</b>	
Foreign loans	84	0.2%	65	0.2%	74	0.2%

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

FDIC-supported loans <sup>1</sup>	1,090	2.9%	1,445	3.6%	1,607	3.9%
Total loans	\$ 37,669	100.0%	\$ 40,327	100.0%	\$ 41,390	100.0%

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

**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

The loan portfolio contraction during the first nine months of 2010 was concentrated primarily in commercial construction and land development principally at Amegy, NBA, CB&T, and NSB, and secondarily in commercial lending principally at Zions Bank, Amegy, and Vectra.

During the third quarter of 2010, loan originations, renewals, and new advances increased to \$2.4 billion from the \$1.8 billion and \$1.4 billion produced during the second and first quarters of 2010, respectively, even though loan demand has remained weak when compared to historic levels. Pay-downs, charge-offs, and other reductions continue to more than offset new loan originations. We expect that construction and land development loans may continue to decline, as they have during recent quarters.

**Other Noninterest-Bearing Investments**

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

(In millions)	September 30, 2010	December 31, 2009	September 30, 2009
Bank-owned life insurance	\$ 424	\$ 620	\$ 614
Federal Home Loan Bank stock	129	136	136
Federal Reserve stock	127	122	101
SBIC investments <sup>1</sup>	39	65	64
Non-SBIC investment funds and other	98	102	98
Investments in ADC arrangements <sup>2</sup>	17	19	19
Other public companies	10	22	15
Trust preferred securities	14	14	14
	\$ 858	\$ 1,100	\$ 1,061

<sup>1</sup> Amounts include noncontrolling investors' interests in Zions' managed SBIC investments of approximately \$18 million on December 31, 2009 and \$21 million on September 30, 2009. As of September 30, 2010, such investments have been either liquidated or deconsolidated.

<sup>2</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.

Bank-owned life insurance decreased by \$190 million and by \$196 million from September 30, 2009 and December 31, 2009, respectively. This was due to the Company surrendering life insurance contracts as a part of its strategy to become more asset sensitive, and to increase liquid assets at the affiliate banks.

**Deposits**

Deposits, both interest-bearing and noninterest-bearing, are a primary source of funding for the Company. Average total deposits for the first nine months of 2010 decreased by 2.1% compared to the same period in 2009, with average interest-bearing deposits decreasing 10.7% and average noninterest-bearing deposits increasing 23.8%. The decline in deposits resulted from actions by the Company to reduce higher cost deposits, including time deposits and brokered deposits, as well as to reduce excess noninterest-bearing deposits held by some large customers through the use of off-balance sheet sweep products. Core deposits at September 30, 2010, which exclude time deposits larger than \$100,000 and brokered deposits, increased by 2.0%, or \$737.5 million, from December 31, 2009.



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

Demand, savings and money market deposits comprised 85.6% of total deposits at the end of the third quarter of 2010, compared with 82.6% and 79.7% as of December 31, 2009 and September 30, 2009, respectively.

## **Table of Contents**

### ZIONS BANCORPORATION AND SUBSIDIARIES

During 2010 and 2009, the Company has reduced brokered deposits due to excess liquidity and weak loan demand. At September 30, 2010, total deposits included \$502 million of brokered deposits compared to \$1,608 million at December 31, 2009 and \$2,527 million at September 30, 2009.

### **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.

Centralized oversight of credit risk is provided 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 has added 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. New, expanded, or modified products and services, as well as new lines of business, are approved by a New Product Review Committee at the bank level or Parent level, depending on the inherent risk of the new activity.

Both the credit policy and the credit examination functions are managed centrally. Each affiliate bank is able 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 of 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, in like transactions, 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 very little exposure to credit default swaps.

**Table of Contents**

ZIONS BANCORPORATION AND SUBSIDIARIES

The Company's credit risk management strategy includes diversification of its loan portfolio. The Company maintains a diversified loan portfolio, which includes commercial real estate loans. The Company attempts to avoid the risk of an undue concentration of credits in a particular property type or with an individual customer or counterparty. During 2009, the Company adopted new concentration limits on various types of commercial real estate lending, particularly construction and land development lending, which have contributed to further reducing the Company's exposure to this type of lending. The majority of the Company's business activity is with customers located within the geographical footprint of its banking subsidiaries.

The Company's loan portfolio includes loans that were acquired from failed banks: Alliance Bank, Great Basin Bank, and Vineyard Bank. These loans include 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. Most of these loans are covered under loss sharing agreements with the FDIC for which the FDIC generally will assume 80% of the first \$275 million of credit losses for the Alliance Bank assets, \$40 million of credit losses for the Great Basin Bank assets, \$465 million of credit losses for the Vineyard Bank assets and 95% of the credit losses in excess of those amounts. Therefore, the Company's financial exposure to losses from these assets is substantially limited. FDIC-supported loans represent approximately 2.9% of the Company's total loan portfolio.

The credit quality of the Company's loan portfolio began to show signs of stabilization and improvement during the first nine months of 2010. Nonperforming lending related assets decreased by 17% from December 31, 2009. Gross charge-offs dropped to \$791 million in the first nine months of 2010, while \$900 million was charged-off during the comparable period in 2009. Net charge-offs, in turn, decreased to \$718 million from \$880 million in the same periods.

Lending to finance residential land acquisition, development and construction is an important business for the Company, yet during the first nine months of 2010, the Company has reduced its portfolio of these types of loans. In some geographic markets, significant declines in the availability of mortgage financing to buyers of newly constructed homes, declining home values and general uncertainty in the residential real estate market continue to have an adverse impact on the operations of many of the Company's developer and builder customers.

The Company did not pursue subprime residential mortgage lending, including option ARM and negative amortization loans. It does have approximately \$405 million of stated income loans with generally high FICO scores at origination, including one-time close loans to finance the construction of a home, which convert into permanent jumbo mortgages. As of September 30, 2010, approximately \$58 million of the \$405 million of stated income loans had FICO scores of less than 620. These totals exclude held-for-sale loans. Stated income loans account for approximately \$14 million, or 35%, of our credit losses in 1-4 family residential first mortgage loans through the first nine months of 2010, and were primarily in Utah and Arizona.

The Company is engaged in home equity credit line lending. Approximately \$931 million of the Company's \$2.2 billion portfolio is secured by first deeds of trust, while the remaining balance is secured by second liens. As of September 30, 2010, loans representing approximately 14.7% of the outstanding balance in this portfolio were estimated to have loan-to-value ratios above 100%. Of the total home equity credit line portfolio 0.47% was 90 or more days past due at September 30, 2010 as compared to 0.42% as of December 31, 2009. During the third quarter of 2010, the Company modified a nominal number of home equity loans. The annualized credit losses for this portfolio were 121 basis points for the nine months ended September 30, 2010.

**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

A more comprehensive discussion of our credit risk management is contained in the Company's 2009 Annual Report on Form 10-K.

**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 COLLATERAL LOCATION**

(Amounts in millions)		Collateral Location										% of total CRE
Loan Type	As of Date	Arizona	Northern California	Southern California	Nevada	Colorado	Texas	Utah/Idaho	Washington	Other <sup>1</sup>	Total	
<b>Commercial term</b>												
Balance outstanding	9/30/10	\$ 1,016.5	390.8	1,844.0	741.1	516.6	1,126.6	787.7	226.0	901.0	7,550.3	64.2%
% of loan type		13.5%	5.2%	24.4%	9.8%	6.9%	14.9%	10.4%	3.0%	11.9%	100.0%	
Delinquency rates <sup>2</sup> :												
30-89 days	9/30/10	2.1%	2.5%	1.4%	4.2%	2.3%	1.8%	2.4%	0.0%	7.3%	2.7%	
	12/31/09	1.8%	2.4%	2.4%	7.6%	1.4%	4.3%	2.4%	0.3%	9.2%	4.0%	
≥ 90 days	9/30/10	1.1%	2.4%	0.7%	3.0%	1.7%	0.8%	1.8%	0.0%	6.1%	1.9%	
	12/31/09	1.4%	1.6%	1.6%	3.9%	0.8%	3.3%	1.1%		5.6%	2.5%	
Accruing loans past due 90 days or more												
	9/30/10	\$ 5.2	3.8	0.2	2.9	3.5	0.5	0.1		3.4	19.6	
	12/31/09	1.2		0.6	0.5		1.2	0.6		2.6	6.7	
Nonaccrual loans												
	9/30/10	18.1	5.9	28.1	85.7	9.4	12.8	22.5	4.5	75.9	262.9	
	12/31/09	14.5	6.5	30.3	60.9	6.5	36.3	10.0	1.4	62.1	228.5	
<b>Residential construction and land development</b>												
Balance outstanding	9/30/10	\$ 183.8	26.8	123.6	65.1	141.3	434.0	258.9	16.9	145.7	1,396.1	11.9%
% of loan type		13.2%	1.9%	8.9%	4.7%	10.1%	31.1%	18.5%	1.2%	10.4%	100.0%	
Delinquency rates <sup>2</sup> :												
30-89 days	9/30/10	16.8%	6.7%	22.9%	67.8%	12.9%	22.2%	13.6%		12.3%	19.5%	
	12/31/09	20.9%	8.3%	6.2%	18.0%	12.7%	14.2%	20.1%	0.2%	15.8%	15.5%	
≥ 90 days	9/30/10	12.8%	6.7%	20.4%	55.8%	4.7%	15.8%	13.4%		8.7%	15.0%	
	12/31/09	17.9%	8.3%	4.6%	5.6%	11.1%	7.3%	19.7%		6.9%	11.3%	
Accruing loans past due 90 days or more												
	9/30/10	\$ 0.4		3.9			0.1	1.2		0.1	5.7	
	12/31/09	6.2					0.1	1.9		0.1	8.3	
	9/30/10	42.2	1.8	30.5	40.3	37.7	91.1	54.0		26.6	324.2	

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

Nonaccrual loans													
	12/31/09		66.2	4.8	33.7	44.5	23.0	103.4	100.1		19.8	395.5	
<b>Commercial construction and land development</b>													
Balance outstanding													
	9/30/10	\$	314.8	57.5	284.7	285.8	201.4	1,053.8	354.6	76.7	180.4	2,809.7	23.9%
% of loan type													
			11.2%	2.1%	10.1%	10.2%	7.2%	37.5%	12.6%	2.7%	6.4%	100.0%	
Delinquency rates <sup>2</sup> :													
30-89 days													
	9/30/10		5.8%		0.9%	17.8%	8.2%	7.5%	9.3%		7.9%	7.6%	
	12/31/09		12.9%		3.9%	23.4%	7.9%	9.4%	14.5%	24.6%	4.1%	11.3%	
≥ 90 days													
	9/30/10		5.3%		0.8%	16.1%	8.2%	6.4%	6.0%		7.6%	6.6%	
	12/31/09		7.3%		3.0%	19.1%	1.6%	5.5%	7.7%		4.1%	6.9%	
Accruing loans past due 90 days or more													
	9/30/10	\$							3.5		0.1	3.6	
	12/31/09		4.1			9.1	0.8	0.9	3.0		0.1	18.0	
Nonaccrual loans													
	9/30/10		26.4		2.4	123.5	16.6	102.7	24.0		40.6	336.2	
	12/31/09		57.1		12.8	107.2	4.7	198.8	37.0		11.8	429.4	
Total construction and land development													
	9/30/10		498.6	84.3	408.3	350.9	342.7	1,487.8	613.5	93.6	326.1	4,205.8	
Total commercial real estate													
	9/30/10	\$	1,515.1	475.1	2,252.3	1,092.0	859.3	2,614.4	1,401.2	319.6	1,227.1	11,756.1	100.0%

<sup>1</sup> No other geography exceeds \$182 million for all three loan types.

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

---

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

Approximately 33% of the commercial real estate term loans consist of mini-perm loans. For such loans, construction has been completed and the project has stabilized to a level that supports the granting of a mini-perm loan in accordance with our underwriting standards. Mini-perm loans generally have initial maturities of 3 to 7 years. The remaining 67% of commercial real estate loans are term loans with initial maturities generally of 15 to 20 years. The stabilization criteria for a project to qualify for a term loan differ by product and are dependent on the cash flow created by the project as well as occupancy rates.

Approximately 26.0% of the commercial construction and land development portfolio's balance consists of acquisition and development loans. 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. We generally require that the owner's equity be injected prior to bank advances. Remargining 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 these determine 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 lending for 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, remargining 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 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 each bank's appraisal review function, which is staffed by certified appraisers. In some cases, reports from automated valuation services are used. 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, on an as completed basis, will vary based on the viability of the project and the creditworthiness of the sponsor, but corporate guidelines generally limit advances to 50% for raw land, 65% for land development, 65% for finished commercial lots, 75% for finished residential lots, 80% for pre-sold homes, 75% for models and spec homes, and 75% for commercial properties. Exceptions may be granted on a case-by-case basis.

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 construction and land development loans at Zions Bank, California Bank & Trust, Amegy Bank, National Bank of Arizona, Nevada State Bank, and Vectra Bank.

Interest reserves are generally established as an expense item in the budget for real estate construction or development loans. We generally require the borrower to put their equity into the project at the inception of the construction. This enables the bank to ensure the availability of equity in the project. The Company's practice is to monitor the construction, sales and/or leasing progress to determine whether or not the project remains viable. If at any time during the life of the credit the project is determined not to be viable, the bank takes appropriate action to protect its collateral position via negotiation and/or legal action as deemed appropriate. The bank then usually evaluates the appropriate use of interest reserves. At September 30, 2010, Zions affiliates had 368 loans with an outstanding balance of \$575 million where available interest reserves amount to \$53 million. In instances where projects have been determined not to be viable, the interest reserves and other appropriate disbursements have been frozen.

**Table of Contents**

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 using a loan-by-loan Monte Carlo simulation that 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. This testing is back tested and the results are reviewed regularly with management, rating agencies and various banking regulators.

***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. A consumer loan is placed on nonaccrual status when the loan is 90 days past due. Generally, closed-end nonreal-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 when they are 90 days past due. Open-end credit card consumer loans are charged off when they become 180 days past due.

Nonaccrual loans also include nonperforming loans which have been restructured. The Company modified \$101 million and \$371 million of CRE loans during the third quarter and first nine months of 2010, respectively.

Loan modifications and restructurings generally occur 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. The modifications are structured on a loan-by-loan basis, and depending on the circumstances, may include extended payment terms, a modified interest rate, forgiveness of principal, or other concessions. Even though the Company may occasionally modify a loan for competitive reasons, most of the modifications performed during the first nine months of 2010 were to restructure troubled loans. After such a loan has been restructured, it will remain in the nonaccrual status until the borrower has made all scheduled interest and principal payments and the source of the payments (e.g. cash flow from the property securing the loan) has performed under the modified structure for a minimum of six months, and there is evidence that such payments can and are likely to continue as agreed. During the first nine months of 2010, the Company has also participated in the Home Affordable Modification Program ( HAMP ), which has resulted in a nominal number of modified consumer loans.

As reflected in the following schedule, the Company's nonperforming assets as a percentage of net loans and leases and OREO decreased during the first nine months of 2010. The percentage was 6.01% at September 30, 2010, compared with 6.62% on September 30, 2009 and 6.79% on December 31, 2009. Total nonperforming lending related assets were \$2,293 million at September 30, 2010 (\$2,114 million excluding FDIC-supported assets) compared to \$2,770 million at September 30, 2009 and \$2,769 million at December 31, 2009.

**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

Total nonaccrual loans, excluding FDIC-supported loans, at September 30, 2010 decreased by \$213 million from December 31, 2009. The decrease included \$165 million for construction and land development loans, \$60 million for owner occupied real estate loans, and \$35 million for commercial and industrial loans. Their positive impact was partially offset by a \$35 million increase in commercial real estate term loans, and a \$32 million increase in 1-4 family residential consumer loans. The decrease in nonaccrual loans occurred primarily at Zions Bank, Amegy, and NBA, while CB&T experienced an increase. Total nonaccrual loans, excluding FDIC-supported loans, decreased by \$2 million from September 30, 2009.

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

(Amounts in millions)	September 30, 2010	December 31, 2009	September 30, 2009
Nonaccrual loans	\$ 1,810	\$ 2,023	\$ 1,812
Other real estate owned	304	336	359
Nonperforming lending-related assets, excluding FDIC-supported assets	2,114	2,359	2,171
FDIC-supported nonaccrual loans	127	356	544
FDIC-supported other real estate owned	52	54	55
FDIC-supported nonperforming lending-related assets	179	410	599
Total nonperforming lending-related assets	\$ 2,293	\$ 2,769	\$ 2,770
Ratio of nonperforming lending-related assets to net loans and leases <sup>1</sup> and other real estate owned	6.01%	6.79%	6.62%
Accruing loans past due 90 days or more, excluding FDIC-supported loans	\$ 75	\$ 107	\$ 186
FDIC-supported loans past due 90 days or more	10	56	36
Ratio of accruing loans past due 90 days or more to net loans and leases <sup>1</sup>	0.22%	0.40%	0.54%
Nonaccrual loans and accruing loans past due 90 days or more	\$ 2,021	\$ 2,543	\$ 2,578
Ratio of nonaccrual loans and accruing loans past due 90 days or more to net loans and leases <sup>1</sup>	5.35%	6.29%	6.22%
Accruing loans past due 30 - 89 days, excluding FDIC-supported loans	\$ 303	\$ 428	\$ 571
FDIC-supported loans past due 30 - 89 days	9	27	74
Restructured loans included in nonaccrual loans	354	299	107
Restructured loans on accrual	334	204	116

<sup>1</sup> Includes loans held for sale.

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 of the 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.



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

The Company's total recorded investment in impaired loans decreased to \$1,957 million at September 30, 2010, compared to \$1,976 million at June 30, 2010. Total investment in impaired loans amounted to \$1,647 million at September 30, 2009 and \$1,925 million at December 31, 2009. Estimated losses on impaired loans are included in the allowance for loan losses. At September 30, 2010, the allowance for loan losses included \$128 million for impaired loans with a recorded investment of \$644 million. At September 30, 2009, the allowance included \$79 million for impaired loans with a recorded investment of \$369 million. At December 31, 2009 the allowance included \$105 million for impaired loans with a recorded investment of \$435 million.

## **Table of Contents**

### ZIONS BANCORPORATION AND SUBSIDIARIES

As previously noted, the Company did not originate sub-prime, option, or negative amortization residential mortgage loans. It has primarily been an originator of prime first and second mortgages. Its practice historically has been to sell conforming fixed rate loans to Fannie Mae or Freddie Mac, and to hold variable rate loans in its portfolio. In the past two years, Fannie and Freddie have successfully put back to the Company's subsidiary banks fewer than ten loans due to deficiencies in underwriting or loan documentation. In addition, the Company has not made use of so-called robo-signers in foreclosing on residential real estate, and it has not been subject to any foreclosure moratorium whether self-imposed or imposed by others. The Company does not estimate that it has any material financial risk as a result of loan put-backs or its foreclosure practices, and has not established any reserves related to these items.

In addition to the lending related nonperforming assets, the Company also has \$194 million in carrying value of investments in debt securities that were on nonaccrual status at September 30, 2010.

#### ***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 type and quality grade, adjusted for changes in trends and conditions, to help determine an indicated allowance for each portfolio segment. Currently, the Company re-estimates all commercial loss reserve factors based on very recent loss experience on a quarterly basis. 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;

new credit products and policies;

economic conditions;

concentrations of credit risk;

experience and abilities of the Company's lending personnel; and

estimated loss realization period.

Currently we estimate the loss realization period to be approximately eighteen months for commercial and commercial real estate loans.

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

In addition to the segment evaluations, nonaccrual commercial loans with an outstanding balance of \$500 thousand or more, as well as all loans designated as troubled debt restructurings, are individually evaluated in accordance with FASB ASC 310, *Receivables*, to determine the level of impairment and to establish a specific reserve.

**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

The allowance for consumer loans is determined using historically developed loss experience roll rates at which loans migrate from one delinquency level to the next higher level. Using current roll rates for the most recent six month period and comparing projected losses to actual loss experience, the models estimate expected losses in dollars for the forecasted period of twelve months. By refreshing the models with updated data, losses are projected for a new twelve-month period each month, segmenting the portfolio into twelve consumer loan product groupings and four bankcard 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, but not to eliminate, the imprecision inherent in loan- and segment-level 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.

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

(Amounts in millions)	Nine Months Ended September 30, 2010	Twelve Months Ended December 31, 2009	Nine Months Ended September 30, 2009
Loans and leases outstanding (net of unearned income)	\$ 37,549	\$ 40,189	\$ 41,255
Average loans and leases outstanding (net of unearned income)	\$ 38,644	\$ 41,513	\$ 41,773
Allowance for loan losses:			
Balance at beginning of period	\$ 1,531	\$ 687	\$ 687
Provision charged against earnings	679	2,017	1,626
Increase in allowance covered by FDIC indemnification	38		
Loans and leases charged-off:			
Commercial lending	(308)	(373)	(264)
Commercial real estate	(377)	(713)	(503)
Consumer	(106)	(170)	(133)
<b>Total</b>	<b>(791)</b>	<b>(1,256)</b>	<b>(900)</b>
Recoveries:			
Commercial lending	27	51	6
Commercial real estate	29	21	8
Consumer	9	9	6
<b>Total</b>	<b>65</b>	<b>81</b>	<b>20</b>
Charge-offs recoverable from FDIC	8	2	
Net loan and lease charge-offs	(718)	(1,173)	(880)
<b>Balance at end of period</b>	<b>\$ 1,530</b>	<b>\$ 1,531</b>	<b>\$ 1,433</b>

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

Ratio of annualized net charge-offs to average loans and leases	2.48%	2.83%	2.81%
Ratio of allowance for loan losses to net loans and leases, at period end	4.07%	3.81%	3.47%
Ratio of allowance for loan losses to nonperforming loans, at period end	79.02%	64.36%	60.80%
Ratio of allowance for loan losses to nonaccrual loans and accruing loans past due 90 days or more, at period end	75.71%	60.22%	55.56%

**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

**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. 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.

We determine the reserve for unfunded lending commitments using a process that is similar to the one we use for commercial 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 such commitments. The September 30, 2010 reserve for unfunded lending commitments increased by \$0.7 million from the comparable period in the prior year, and decreased by \$18.5 million from December 31, 2009. This decrease is primarily due to a lower level of such commitments, especially to criticized and classified credits.

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

(In millions)	Nine Months Ended September 30, 2010	Twelve Months Ended December 31, 2009	Nine Months Ended September 30, 2009
Balance at beginning of period	\$ 116.4	\$ 50.9	\$ 50.9
Provision charged (credited) to earnings	(18.5)	65.5	46.3
Balance at end of period	\$ 97.9	\$ 116.4	\$ 97.2

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

(In millions)	September 30, 2010	December 31, 2009	September 30, 2009
Allowance for loan losses	\$ 1,530	\$ 1,531	\$ 1,433
Reserve for unfunded lending commitments	98	117	97
Total allowance for credit losses	\$ 1,628	\$ 1,648	\$ 1,530

**Interest Rate and Market Risk Management**

Interest rate and market risk are managed centrally. Interest rate risk is the potential for reduced income 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.

The Company's Board of Directors is responsible for approving the overall policies relating to the management of the financial risk of the Company. The Boards of Directors of the Company's subsidiary banks are also required to review and approve these policies. In addition, the Board reviews the key strategies set by management for managing risk, establishes and periodically revises policy limits, and reviews reported limit exceptions. The Board has established the management Asset/Liability Committee (ALCO) to which it has delegated the functional management of interest rate and market risk for the Company.



## **Table of Contents**

### ZIONS BANCORPORATION AND SUBSIDIARIES

#### ***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. The Company has positioned its balance sheet to be more asset sensitive than it was on September 30, 2009.

We attempt to minimize the impact of changing interest rates on net interest income primarily through the use of interest rate floors on variable rate loans, interest rate swaps, use of interest rate futures, and by avoiding large exposures to long-term 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.

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. In the income simulation method, we analyze the expected changes in income in response to changes in interest rates.

Duration of equity is derived by first calculating the dollar duration of all assets, liabilities and derivative instruments. Dollar duration is determined by calculating the fair value of each instrument assuming interest rates sustain immediate and parallel movements up 1% and down 1%. The average of these two changes in fair value is the dollar duration. Subtracting the dollar duration of liabilities from the dollar duration of assets and adding the net dollar duration of derivative instruments results in the dollar duration of equity. Duration of equity is computed by dividing the dollar duration of equity by the fair value of equity. The Company's policy is generally to maintain duration of equity between -3 years to +7 years. However, in the current low interest rate environment, the Company is operating with a duration of equity of less than -3 years in some planning scenarios.

Income simulation is an estimate of the net interest income that would be recognized under different rate environments. Net interest income is measured under several parallel and nonparallel interest rate environments and deposit repricing assumptions, taking into account an estimate of the possible exercise of options within the portfolio.

Both of these measurement methods require that we assess a number of variables and make various assumptions in managing the Company's exposure to changes in interest rates. The assessments address loan and security prepayments, early deposit withdrawals, and other embedded options and noncontrollable events. As a result of uncertainty about the maturity and repricing characteristics of both deposits and loans, the Company estimates ranges of duration and income simulation under a variety of assumptions and scenarios. The Company's interest rate risk position changes as the interest rate environment changes and is managed actively to try to maintain a consistent slightly asset-sensitive position. However, positions at the end of any period may not be reflective of the Company's position in any subsequent period.

We should note that estimated duration of equity and the income simulation results are highly sensitive to the assumptions used for deposits that do not have specific maturities, such as checking, savings, and money market accounts and also to prepayment assumptions used for loans with prepayment options. Given the uncertainty of these estimates, we view both the duration of equity and the income simulation results as falling within a wide range of possibilities.



**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

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, 2010		December 31, 2009	
	Low	High	Low	High
<b>Duration of equity:</b>				
Range (in years)				
Base case	-4.1	-1.6	-2.9	-0.8
Increase interest rates by 200 bp	-3.9	-1.9	-2.7	-0.8
<b>Income simulation change in interest sensitive income:</b>				
	Deposit repricing response			
	Fast	Slow	Fast	Slow
Increase interest rates by 200 bp	5.4%	8.6%	2.2%	5.0%
Decrease interest rates by 200 bp <sup>1</sup>	-2.2%	-2.5%	-4.1%	-4.3%

<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 2010, the duration of equity became shorter as compared to December 31, 2009. The reduction of the duration of equity was caused by an increase in demand deposits and a decrease in loans. The impact was partially offset by an increase in interest rate futures contracts.

**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, 2010, the Company had \$42.8 million of trading assets and \$41.9 million of securities sold, not yet purchased, compared with \$23.5 million and \$43.4 million on December 31, 2009 and \$76.7 million and \$39.4 million on September 30, 2009, respectively.

The Company is exposed to market risk through changes in fair value and OTTI of HTM and AFS securities. The Company also is exposed to market risk for interest rate swaps and Eurodollar and Federal Funds futures contracts used to hedge interest rate risk. Changes in fair value in available-for-sale securities and in interest rate swaps that qualify as cash flow hedges are included in OCI each quarter. During the third quarter of 2010, the after-tax change in OCI attributable to held-to-maturity and available-for-sale securities was \$(12.1) million, and the change attributable to interest rate swaps was \$(9.1) million. If any of the AFS securities or HTM securities transferred from AFS become other than temporarily impaired, any credit loss in OCI is reversed and the impairment is charged to operations. See Investment Securities Portfolio for additional information on OTTI.

## **Table of Contents**

### ZIONS BANCORPORATION AND SUBSIDIARIES

#### ***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 of 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 pre-public venture capital companies through various venture funds. Additionally, 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 generally are not part of the strategy since the underlying companies are typically not creditworthy.

A more comprehensive discussion of the Company's interest rate and market risk management is contained in the Company's 2009 Annual Report on Form 10-K.

#### **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.

The management of liquidity and funding is performed centrally for both the Parent and its subsidiary banks. The Parent's cash requirements consist primarily of debt service, investments in and advances to subsidiaries, operating expenses, income taxes, and dividends to preferred and common shareholders, including the CPP preferred equity issued to the U.S. Department of the Treasury. The Parent's cash needs are usually met through dividends from its subsidiaries, interest and 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. The subsidiary banks' primary source of funding is their core deposits. Operational cash flows, while 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. As a result, the Company supplements operations with other sources to manage its liquidity needs.

Most of the Company's subsidiary banks have seen reduced profitability or recorded losses in recent quarters, and therefore are currently unable to reliably pay dividends. Also, earnings on the Parent's investment securities portfolio have been reduced. Cash earnings from subsidiaries and investments currently do not cover the Parent's interest and dividend payments. In addition, the Parent had to increase its investment in several of its bank subsidiaries in 2009 and in the first quarter of 2010 in order to maintain capital levels appropriate to current weak economic and credit quality conditions. The Company has reduced the dividend on its common stock to \$0.01 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.

**Table of Contents**

ZIONS BANCORPORATION AND SUBSIDIARIES

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. Access to funding markets for the Parent and subsidiary banks is directly impacted by the credit ratings they receive from various rating agencies. The ratings not only influence the costs associated with the borrowings but can also influence the sources of the borrowings. The Parent's credit ratings did not change during the first nine months of 2010. One rating agency, Moody's, rates the Company's senior debt as B2 or noninvestment grade, while Standard & Poors, Fitch and DBRS all rate the Company's senior debt at a low investment grade. In August 2010, Moody's changed its outlook for the Company to positive from negative. The other three agencies have a negative outlook for the Company.

During the first nine months of 2010, the primary sources of cash available to the Parent in the capital markets have been (1) issuance of new shares of common stock, (2) issuance of new shares of Series E preferred stock, (3) issuance of common stock warrants, (4) issuance of unsecured 1-2.5 year senior notes, and (5) issuance of five-year 7.75% unsecured senior notes. In total these sources added approximately \$1,058 million to the Parent's cash balance. The Parent became more liquid during the third quarter of 2010, with its cash balance increasing to \$1,209 million at September 30, 2010, compared with \$1,116 million at June 30, 2010 and \$542 million at December 31, 2009.

For the three and nine months ended September 30, 2010, the Parent's operating expenses included \$35.4 million and \$108.3 million of interest expense, excluding amortization, respectively. Additionally, the Parent paid \$29.8 million and \$74.6 million of dividends on preferred and common stock, respectively, for the same applicable periods.

Additional information regarding financing actions may be found subsequently. During 2009, and in the first nine months of 2010, 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.

**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

The following table presents the Parent's balance sheet at September 30, 2010, December 31, 2009, and September 30, 2009.

**Parent Only Condensed Balance Sheets**

(In thousands)	September 30, 2010	December 31, 2009	September 30, 2009
<b>ASSETS</b>			
Cash and due from banks	\$ 1,950	\$ 2,254	\$ 4
Interest-bearing deposits	1,206,647	539,874	858,668
Investment securities:			
Held-to-maturity, at adjusted cost (approximate fair value of \$3,502, \$2,633, and \$3,668)	3,690	2,633	3,899
Available-for-sale, at fair value	465,751	432,761	328,343
Trading account, at fair value			49
Loans, net of unearned fees of \$0, \$45, and \$47 and allowance for loan losses of \$58, \$112, and \$52)	2,865	6,292	6,353
Other noninterest-bearing investments	53,068	83,780	75,515
Investments in subsidiaries:			
Commercial banks and bank holding company	6,722,326	6,579,075	6,502,858
Other operating companies	71,067	66,254	74,661
Nonoperating ZMFU II, Inc.	92,881	92,184	91,691
Receivables from nonbank subsidiaries	1,400	2,050	3,700
Other assets	165,978	76,574	94,929
	\$ 8,787,623	\$ 7,883,731	\$ 8,040,670
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Other liabilities	\$ 203,505	\$ 233,550	\$ 189,566
Commercial paper:			
Due to affiliates	45,985	49,991	49,988
Due to others	29,142	1,084	2,449
Other short-term borrowings	204,252	117,263	29,687
Subordinated debt to affiliated trusts	309,278	309,278	309,278
Long-term debt			
Due to affiliates	117,851		
Due to others	1,382,178	1,479,907	1,786,994
<b>Total liabilities</b>	<b>2,292,191</b>	<b>2,191,073</b>	<b>2,367,962</b>
Shareholders' equity:			
Preferred stock	1,875,463	1,502,784	1,529,462
Common stock	4,070,963	3,318,417	3,125,344
Retained earnings	1,017,428	1,324,516	1,502,232
Accumulated other comprehensive income (loss)	(452,553)	(436,899)	(469,112)
Deferred compensation	(15,869)	(16,160)	(15,218)
<b>Total shareholders' equity</b>	<b>6,495,432</b>	<b>5,692,658</b>	<b>5,672,708</b>

\$ 8,787,623	\$ 7,883,731	\$ 8,040,670
--------------	--------------	--------------

<sup>1</sup> *ZMFU II, Inc. is a wholly-owned nonoperating subsidiary whose sole purpose is to hold a portfolio of municipal bonds, loans and leases.* During the first nine months of 2010, on a consolidated basis, issuances of long-term debt exceeded repayments, which resulted in net cash inflows of \$12 million. Cash received from the issuance of long-term debt for the first nine months of 2010 included \$40 million from the issuance of additional 7.75% unsecured notes due September 23, 2014, \$41 million from the issuance of senior medium-term notes due between November 2012 and February 2013.

---

**Table of Contents**

ZIONS BANCORPORATION AND SUBSIDIARIES

On a consolidated basis, issuances of short-term borrowings exceeded repayments, which resulted in \$66 million of cash inflows during the first nine months of 2010. This included \$116 million from the issuance of one-year senior medium-term notes.

At September 30, 2010, maturities of short- and long-term senior medium-term notes ranged from October 2010 to February 2013 with rates from 3.25% to 6.00%.

The subsidiaries' 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, 2010, these core deposits, excluding brokered deposits, in aggregate, constituted 93.0% of consolidated deposits, compared with 93.1% and 89.3% of consolidated deposits at June 30, 2010 and December 31, 2009 respectively. The Company's subsidiary banks have also obtained brokered deposits to serve as an additional source of liquidity. At September 30, 2010, total brokered deposits were \$0.5 billion, down from \$1.6 billion at December 31, 2009 and \$2.5 billion at September 30, 2009.

Total deposits decreased by \$1,054 million during the third quarter of 2010 due to our efforts to reduce excess liquidity. Except for savings and NOW deposits, all deposit categories decreased during the third quarter of 2010. We worked with a number of business and governmental customers to help them move excess cash balances into sweep accounts at third-party money market funds. We will continue to reduce non-core and non-relationship deposits to improve profitability and return on capital, but as loan demand improves we anticipate bringing these deposits back onto the balance sheet.

For the first nine months of 2010, total deposits decreased by \$880 million, resulting in net cash outflows of \$878 million. Money market, time, and foreign deposits decreased, while lower-rate savings and NOW and noninterest-bearing demand deposits increased.

On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act made permanent the current standard maximum deposit insurance amount of \$250,000. The FDIC has also implemented a program to provide full deposit insurance coverage for noninterest-bearing transaction deposit accounts, currently through December 31, 2010. The Company did not opt out of this program. The Dodd-Frank Wall Street Reform and Consumer Protection Act continues full deposit insurance coverage for noninterest-bearing transaction deposit accounts for two more years until December 31, 2012 for all banks.

The Federal Home Loan Bank ( FHLB ) system, has, from time to time, been 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. Borrowings from the FHLB may increase in the future, depending on availability of funding from other sources such as deposits. The subsidiary banks are required to invest in FHLB stock to maintain their borrowing capacity. At September 30, 2010 and December 31, 2009 the Company had \$20 million and \$16 million, respectively, of long-term borrowings outstanding from the FHLB, but did not have any short-term borrowings outstanding from the FHLB for the same applicable periods. At September 30, 2010 and December 31, 2009 the subsidiary banks' total investment in FHLB stock was approximately \$129 million and \$136 million, respectively.

At September 30, 2010, the amount available for additional FHLB and Federal Reserve borrowings was approximately \$12.5 billion. An additional \$0.7 billion could be borrowed at September 30, 2010 upon the pledging of additional available collateral.

## **Table of Contents**

### ZIONS BANCORPORATION AND SUBSIDIARIES

While not considered a primary source of funding, the Company's investment activities can provide or use cash, depending on the asset-liability management posture that is being observed. For the first nine months of 2010, investment securities activities resulted in a decrease in investment securities holdings and a net increase of cash in the amount of \$368 million.

During the first nine months of 2010, several of the Company's subsidiary banks surrendered certain bank-owned life insurance contracts and received cash of \$210 million for the settlement of the cash surrender values of the policies.

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 both 2009 and for the first nine months of 2010, organic loan activity resulted in a net cash inflow \$1.4 billion.

During the nine months ended September 30, 2010, the Company received net cash income tax refunds totaling \$325 million.

Consolidated cash at the Parent and its subsidiaries increased to \$5.5 billion at September 30, 2010 from \$2.0 billion at December 31, 2009 and \$3.2 billion at September 30, 2009. During the first nine months of 2010 we had a significant increase in cash mainly due to our capital raising transactions and a net decrease in loans, partially offset by a decrease in total deposits. However, during the third quarter of 2010, consolidated cash decreased by \$0.4 billion from \$5.9 billion at June 30, 2010, reflecting our efforts to reduce excess liquidity.

A more comprehensive discussion of our liquidity management is contained in Zions' 2009 Annual Report on Form 10-K.

### **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.

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 continually underway to improve 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.

Note 9 of the Notes to Consolidated Financial Statements discusses the Company's debt and equity transactions during the first nine months of 2010.

**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

These debt and equity issuances, along with the Total Return Swap ( TRS ) with regard to certain of the Company s CDO investments have significantly bolstered the Company s capital position and ratios. However, the Company anticipates that it may continue to raise additional common equity in amounts sufficient to cover losses and dividends until it returns to profitability in order to preserve this capital position.

Total controlling interest shareholders equity at September 30, 2010 was \$6,495 million compared to \$5,693 million at December 31, 2009, and \$5,673 million at September 30, 2009. The increase in total controlling interest shareholders equity from December 31, 2009 is primarily due to the capital actions previously discussed partially offset by a net loss for the first nine months of 2010 and dividends paid on common and preferred stock for the same applicable period.

Conversions of convertible subordinated debt into preferred stock have augmented the Company s capital position and reduced future refinancing needs. From the original modification in June 2009 through the announced conversions that will occur in the fourth quarter of 2010, \$406.4 million of debt will have been extinguished and \$474.2 million of preferred capital will have been added. The following schedule shows the effect the conversion had on Tier 1 capital and outstanding convertible subordinated debt.

(In millions)	Three Months Ended					
	September 30, 2010	June 30, 2010	March 31, 2010	December 31, 2009	September 30, 2009	June 30, 2009
<b>Preferred equity</b>						
Convertible subordinated debt converted to preferred stock	\$ 54,259	\$ 116,624	\$ 21,034	\$ 35,682	\$ 27,757	\$
Beneficial conversion feature reclassified from common to preferred stock	9,231	19,034	3,578	6,212	4,786	
Change in preferred equity	63,490	135,658	24,612	41,894	32,543	
<b>Common equity</b>						
Gain on subordinated debt modification, net of tax				9,398		304,875
Accelerated convertible subordinated debt amortization, net of tax	(22,322)	(58,663)	(6,905)	(12,330)	(9,733)	
Beneficial conversion feature added to common stock				1,660		201,154
Beneficial conversion feature reclassified from common to preferred stock	(9,231)	(19,034)	(3,578)	(6,212)	(4,786)	
Change in common equity	(31,553)	(77,697)	(10,483)	(7,484)	(14,519)	506,029
Net impact on Tier 1 capital	\$ 31,937	\$ 57,961	\$ 14,129	\$ 34,410	\$ 18,024	\$ 506,029
Convertible subordinated debt outstanding	\$ 954,509	\$ 1,008,768	\$ 1,125,392	\$ 1,146,426	\$ 1,142,108	\$ 1,169,865

Additionally, on October 21, 2010, the Company filed a Form 8-K disclosing that holders of subordinated notes elected to convert a combined \$151.0 million principal amount of these notes into the Company s preferred stock. The Company expects an additional 150,972 of Series C and 63 shares of Series A preferred stock will be issued on November 15, 2010 and November 16, 2010, unless the elections are revoked prior to that date. Also \$25 million of the original beneficial conversion feature will be reclassified into preferred stock from common stock as a result of this conversion. The expected discount amortization attributable to the conversions (i.e. accelerated discount amortization) is approximately \$73.3 million in the fourth quarter, which compares to \$27.5 million of accelerated discount amortization for the September 2010 conversions.



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

Dividends of \$0.03 per common share (a total of \$4.9 million) were paid in the first nine months of 2010. This rate is unchanged from the rate paid since the third quarter of 2009. At its October 2010 meeting, the Company's Board of Directors declared a dividend of \$0.01 per share of common stock. The dividend is payable November 23, 2010 to shareholders of record as of the close of business on November 10, 2010.

**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

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.

The Company recorded preferred stock dividends of \$84.8 million and \$78.3 million during the first nine months of 2010 and 2009, respectively. Preferred dividends for the first nine months of 2010 and 2009 include \$67.5 million and \$68.1 million, respectively, related to the TARP preferred stock issued to the U.S. Department of the Treasury.

Banking organizations are required under published regulations to maintain adequate levels of capital as measured by several regulatory capital ratios. As of September 30, 2010, the Company and each of its subsidiary banks exceeded the "well capitalized" guidelines under regulatory standards.

The Company's capital ratios were as follows:

	September 30, 2010	December 31, 2009	September 30, 2009	Percentage required to be well capitalized
Tangible common equity ratio	7.03%	6.12%	5.76%	na
Tangible equity ratio	10.78%	9.16%	8.73%	na
Average equity to average assets (three months ended)	12.40%	10.76%	10.94%	na
Risk-based capital ratios:				
Tier 1 common to risk-weighted assets	8.66%	6.73%	6.59%	na
Tier 1 leverage	12.00%	10.38%	10.40%	na <sup>1</sup>
Tier 1 risk-based capital	13.97%	10.53%	10.34%	6.00%
Total risk-based capital	16.54%	13.28%	13.08%	10.00%

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

At September 30, 2010, regulatory Tier 1 risk-based capital and total risk-based capital were \$6,109 million and \$7,230 million compared to \$5,407 million and \$6,823 million at December 31, 2009, and \$5,447 million and \$6,892 million at September 30, 2009, respectively.

**GAAP to NON-GAAP RECONCILIATION****1. Tier 1 common equity**

Traditionally, the Federal Reserve and other banking regulators have assessed a bank's capital adequacy based on Tier 1 capital, the calculation of which is codified in federal banking regulations. Regulators have begun supplementing their assessment of the capital adequacy of a bank based on a variation of Tier 1 capital, known as Tier 1 common equity. While not codified, analysts and banking regulators have assessed Zions capital adequacy using the Tier 1 common equity measure. Because Tier 1 common equity is not formally defined by GAAP or codified in the federal banking regulations, this measure is considered to be a non-GAAP financial measure and other entities may calculate them differently than Zions' disclosed calculations. Since analysts and banking regulators may assess Zions' capital adequacy using Tier 1 common equity, Zions believes that it is useful to provide investors the ability to assess Zions' capital adequacy on this same basis.



**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

Tier 1 common equity is often expressed as a percentage of risk-weighted assets. Under the risk-based capital framework, a bank's balance sheet assets and credit equivalent amounts of off-balance sheet items are assigned to one of four broad risk categories. The aggregated dollar amount in each category is then multiplied by the risk weighting assigned to that category. The resulting weighted values from each of the four categories are added together and this sum is the risk-weighted assets total that, as adjusted, comprises the denominator of certain risk-based capital ratios. Tier 1 capital is then divided by this denominator (risk-weighted assets) to determine the Tier 1 capital ratio. Adjustments are made to Tier 1 capital to arrive at Tier 1 common equity. Tier 1 common equity is also divided by the risk-weighted assets to determine the Tier 1 common equity ratio. The amounts disclosed as risk-weighted assets are calculated consistent with banking regulatory requirements.

The Schedule below provides a reconciliation of controlling interest shareholders' equity (GAAP) to Tier 1 capital (regulatory) and to Tier 1 common equity (non-GAAP).

(Amounts in millions)	September 30, 2010	December 31, 2009	September 30, 2009
Controlling interest shareholders' equity (GAAP)	\$ 6,495	\$ 5,693	\$ 5,673
Accumulated other comprehensive loss (income)	453	437	469
Nonqualifying goodwill and intangibles	(1,109)	(1,129)	(1,143)
Disallowed deferred tax assets	(179)	(43)	
Other regulatory adjustments	1	1	
Qualifying trust preferred securities	448	448	448
<b>Tier 1 capital (regulatory)</b>	<b>6,109</b>	<b>5,407</b>	<b>5,447</b>
Qualifying trust preferred securities	(448)	(448)	(448)
Preferred stock	(1,876)	(1,503)	(1,529)
<b>Tier 1 common equity (non-GAAP)</b>	<b>\$ 3,785</b>	<b>\$ 3,456</b>	<b>\$ 3,470</b>
<b>Risk-weighted assets (regulatory)</b>	<b>43,719</b>	<b>51,360</b>	<b>52,685</b>
<b>Tier 1 common to risk-weighted assets (non-GAAP)</b>	<b>8.66%</b>	<b>6.73%</b>	<b>6.59%</b>

**2. Core net interest margin**

This 10-Q presents a core net interest margin which excludes the effects of the (1) discount amortization on convertible subordinated debt; (2) accelerated discount amortization on convertible subordinated debt; and (3) additional accretion of interest income on acquired loans based on increased projected cash flows (hereinafter collectively referred to as the net interest margin adjustments). The net interest margin adjustments are included in financial results presented in accordance with generally accepted accounting principles (GAAP). Management considers the net interest margin adjustments to be relevant to ongoing operating results.

The Company believes the exclusion of these net interest margin adjustments to present a core net interest margin provides a meaningful base for period-to-period and company-to-company comparisons, which management believes will assist investors in analyzing the operating results of the Company and predicting future performance. As a non-GAAP financial measure, the core net interest margin is used by management and the Board of Directors to assess the performance of the Company's business for the following purposes:

Evaluation of bank reporting segment performance

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

Presentations of Company performance to investors

The Company believes that presenting the core net interest margin will permit investors to assess the performance of the Company on the same basis as that applied by management and the Board of Directors.

**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

The Schedule below provides a reconciliation of net interest margin (GAAP) to core net interest margin (non-GAAP).

	<b>Three Months Ended</b>		
	<b>September 30, 2010</b>	<b>June 30, 2010</b>	<b>September 30, 2009</b>
Net interest margin as reported (GAAP)	3.84%	3.58%	3.91%
Addback for the impact on net interest margin of:			
Discount amortization on convertible subordinated debt	0.12%	0.12%	0.10%
Accelerated discount amortization on convertible subordinated debt	0.23%	0.52%	0.12%
Additional accretion of interest income on acquired loans	-0.16%	-0.08%	
Core net interest margin (non-GAAP)	4.03%	4.14%	4.13%

**3. Income (loss) before income taxes and subordinated debt modification and conversions**

This 10-Q also presents Income (loss) before income taxes and subordinated debt modification and conversions which excludes the effects of the (1) discount amortization on convertible subordinated debt, (2) accelerated discount amortization on convertible subordinated debt, and (3) gain on subordinated debt modification. The adjustments are included in financial results presented in accordance with GAAP. Management considers the income (loss) adjustments to be relevant to ongoing operating results.

The Company believes the exclusion of these adjustments to present income before income taxes and subordinated debt modification and conversions provides a meaningful base for period-to-period and company-to-company comparisons, which management believes will assist investors in analyzing the operating results of the Company and predicting future performance. As a non-GAAP financial measure, income (loss) before income taxes and subordinated debt modification and conversions is used by management and the Board of Directors to assess the performance of the Company's business for the following purposes:

Evaluation of bank reporting segment performance

Presentations of Company performance to investors

The Company believes that presenting the income (loss) before income taxes and subordinated debt modification and conversions will permit investors to assess the performance of the Company on the same basis as that applied by management and the Board of Directors. The schedule on page 41 provides a reconciliation of income (loss) before income taxes (GAAP) to Income (loss) before income taxes and subordinated debt modification and conversions (non-GAAP).

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 an analytical tool, and should not be considered in isolation or as a substitute for analyses of results as reported under GAAP.

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

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

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.

**Table of Contents**

ZIONS BANCORPORATION AND SUBSIDIARIES

ITEM 4. **CONTROLS AND PROCEDURES**

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures as of September 30, 2010. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of September 30, 2010. There were no material changes in the Company's internal control over financial reporting during the third quarter of 2010.

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.

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 2009 Annual Report on Form 10-K; however, this filing contains updated disclosures related to significant risk factors discussed in Investment Securities Portfolio, Credit Risk Management, Market Risk Fixed Income, and Liquidity Risk Management.

During the first nine months of 2010, the Company identified the following additional risk factor:

***Recently adopted financial reform legislation will impose significant new limitations on our business activities and subject us to increased regulation and additional costs.***

The Dodd-Frank Wall Street Reform and Consumer Protection Act enacted on July 21, 2010 will have material implications for the Company and the entire financial services industry. Among other things it will or potentially could:

Result in the Company being defined as systemically important, which brings significant additional regulatory oversight and requirements;

Affect the levels of capital and liquidity with which the Company must operate and how it plans capital and liquidity levels (including a phased-in elimination of the Company's existing trust preferred securities as Tier 1 capital);

Subject the Company to new and/or higher fees paid to various regulatory entities, including but not limited to deposit insurance fees to the FDIC;

Impact the Company's ability to invest in certain types of entities or engage in certain activities;

Impact a number of the Company's business and risk management strategies;



Restrict the revenue that the Company generates from certain businesses;

Subject the Company to a new Consumer Financial Protection Bureau, with very broad rule-making and enforcement authorities; and

Subject the Company to new and different litigation and regulatory enforcement risks.

**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

As the Act requires that many studies be conducted and that hundreds of regulations be written in order to fully implement it, the full impact of this legislation on the Company, its business strategies, and financial performance cannot be known at this time, and may not be known for a number of years. However, these impacts are expected to be substantial and some of them are likely to adversely affect the Company and its financial performance. The extent to which the Company can adjust its strategies to offset such adverse impacts also is not knowable at this time.

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 2010:

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	752	\$ 21.45		\$
August	6,964	20.01		
September	443	19.73		
Third quarter	8,159	20.13		

<sup>1</sup> Represents common shares acquired from employees in connection with the Company's stock compensation plan. Shares were acquired from employees to pay for their payroll taxes upon the vesting of restricted stock under the withholding shares provision of an employee share-based compensation plan

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.	*
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.	*



**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

<b>Exhibit Number</b>	<b>Description</b>	
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	Articles of Amendment to the Restated Articles of Incorporation of Zions Bancorporation dated June 2, 2010, incorporated by reference to Exhibit 3.1 of Form 8-K filed June 3, 2010.	*
3.13	Articles of Amendment to the Restated Articles of Incorporation of Zions Bancorporation dated June 14, 2010, incorporated by reference to Exhibit 3.1 of Form 8-K filed June 15, 2010.	*

**Table of Contents**

## ZIONS BANCORPORATION AND SUBSIDIARIES

<b>Exhibit</b>		
<b>Number</b>	<b>Description</b>	
3.14	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.	*
4.1	Warrant Agreement, between Zions Bancorporation and Zions First National Bank, and Warrant Certificate (filed herewith).	
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).	
101	Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Consolidated Balance Sheets as of September 30, 2010, December 31, 2009, and September 30, 2009, (ii) the Consolidated Statements of Income for the three months ended September 30, 2010 and September 30, 2009 and the nine months ended September 30, 2010 and September 30, 2009, (iii) the Consolidated Statements of Changes in Shareholders' Equity and Comprehensive Income for the nine months ended September 30, 2010 and September 30, 2009, (iv) the Consolidated Statements of Cash Flows for the three months ended September 30, 2010 and September 30, 2009 and the nine months ended September 30, 2010 and September 30, 2009, and (v) the Notes to the Consolidated Financial Statements, tagged as blocks of text (furnished herewith).	

*\*Incorporated by reference*

**Table of Contents**

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: November 9, 2010