

ZIONS BANCORPORATION /UT/
Form 10-Q
August 09, 2007
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2007

OR

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

For the transition period from _____ to _____

COMMISSION FILE NUMBER 001-12307

ZIONS BANCORPORATION

(Exact name of registrant as specified in its charter)

UTAH

87-0227400

(State or other jurisdiction)

(I.R.S. Employer)

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of incorporation or organization)
ONE SOUTH MAIN, 15TH FLOOR
SALT LAKE CITY, UTAH

Identification No.)

84111

(Address of principal executive offices)

(Zip Code)

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

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

Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

Yes No

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 July 31, 2007

107,578,083 shares

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ZIONS BANCORPORATION AND SUBSIDIARIES

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ZIONS BANCORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands, except share amounts)	June 30, 2007	December 31, 2006	June 30, 2006
	(Unaudited)		(Unaudited)
ASSETS			
Cash and due from banks	\$ 1,640,946	\$ 1,938,810	\$ 1,773,829
Money market investments:			
Interest-bearing deposits	39,881	43,203	87,512
Federal funds sold	120,959	55,658	262,959
Security resell agreements	482,893	270,415	225,160
Investment securities:			
Held to maturity, at cost (approximate market value \$685,521, \$648,828, and \$620,786)	702,189	653,124	639,593
Available for sale, at market	4,564,183	5,050,907	5,086,840
Trading account, at market (includes \$1,745, \$34,494, and \$50,684 transferred as collateral under repurchase agreements)	22,808	63,436	70,646
	<u>5,289,180</u>	<u>5,767,467</u>	<u>5,797,079</u>
Loans:			
Loans held for sale	226,041	252,818	248,948
Loans and leases	36,715,752	34,566,118	32,576,017
	<u>36,941,793</u>	<u>34,818,936</u>	<u>32,824,965</u>
Less:			
Unearned income and fees, net of related costs	153,588	151,380	142,630
Allowance for loan losses	380,295	365,150	348,475
Loans and leases, net of allowance	<u>36,407,910</u>	<u>34,302,406</u>	<u>32,333,860</u>
Other noninterest-bearing investments	972,830	1,022,383	993,379
Premises and equipment, net	648,731	609,472	574,154
Goodwill	2,013,314	1,900,517	1,881,256
Core deposit and other intangibles	180,867	162,134	177,692
Other real estate owned	10,646	9,250	16,024
Other assets	883,288	888,511	1,019,182
	<u>\$ 48,691,445</u>	<u>\$ 46,970,226</u>	<u>\$ 45,142,086</u>
LIABILITIES AND SHAREHOLDERS EQUITY			
Deposits:			
Noninterest-bearing demand	\$ 9,857,638	\$ 10,010,310	\$ 10,163,834
Interest-bearing:			
Savings and money market	14,712,294	14,673,478	14,870,507
Internet money market	1,544,031	1,185,409	943,621

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Time under \$100,000	2,535,881	2,257,967	2,030,717
Time \$100,000 and over	4,881,994	4,302,056	3,402,314
Foreign	2,653,734	2,552,526	1,843,217
	<u>36,185,572</u>	<u>34,981,746</u>	<u>33,254,210</u>
Securities sold, not yet purchased	28,456	175,993	27,388
Federal funds purchased	2,221,887	1,993,483	1,397,694
Security repurchase agreements	1,061,598	934,057	1,169,296
Other liabilities	602,173	621,922	789,222
Commercial paper	228,607	220,507	245,126
Federal Home Loan Bank advances and other borrowings:			
One year or less	664,509	517,925	1,216,848
Over one year	128,832	137,058	133,450
Long-term debt	2,313,015	2,357,721	2,432,903
	<u>43,434,649</u>	<u>41,940,412</u>	<u>40,666,137</u>
Minority interest	32,094	42,791	28,619
Shareholders' equity:			
Capital stock:			
Preferred stock, without par value, authorized 3,000,000 shares:			
Series A (liquidation preference \$1,000 per share); issued and outstanding 240,000 shares	240,000	240,000	
Common stock, without par value; authorized 350,000,000 shares; issued and outstanding 108,034,079, 106,720,884, and 106,611,731 shares	2,279,722	2,230,303	2,218,711
Retained earnings	2,828,613	2,602,189	2,386,369
Accumulated other comprehensive loss	(112,840)	(75,849)	(148,327)
Deferred compensation	(10,793)	(9,620)	(9,423)
	<u>5,224,702</u>	<u>4,987,023</u>	<u>4,447,330</u>
	<u>\$ 48,691,445</u>	<u>\$ 46,970,226</u>	<u>\$ 45,142,086</u>

See accompanying notes to consolidated financial statements.

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ZIONS BANCORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
(In thousands, except per share amounts)				
Interest income:				
Interest and fees on loans	\$ 697,022	\$ 591,139	\$ 1,371,599	\$ 1,133,923
Interest on loans held for sale	4,322	4,055	8,197	8,101
Lease financing	5,234	4,496	10,440	8,626
Interest on money market investments	7,756	5,925	14,098	12,357
Interest on securities:				
Held to maturity taxable	2,064	2,209	4,267	4,424
Held to maturity nontaxable	6,227	5,683	12,318	11,214
Available for sale taxable	63,825	68,995	132,332	138,099
Available for sale nontaxable	2,398	2,119	4,856	4,458
Trading account	766	1,995	1,958	4,069
Total interest income	789,614	686,616	1,560,065	1,325,271
Interest expense:				
Interest on savings and money market deposits	117,295	97,131	230,398	183,754
Interest on time and foreign deposits	120,445	67,424	233,330	126,909
Interest on short-term borrowings	43,369	43,490	92,061	72,053
Interest on long-term debt	39,158	42,244	77,846	83,381
Total interest expense	320,267	250,289	633,635	466,097
Net interest income	469,347	436,327	926,430	859,174
Provision for loan losses	17,763	17,022	26,874	31,534
Net interest income after provision for loan losses	451,584	419,305	899,556	827,640
Noninterest income:				
Service charges and fees on deposit accounts	45,116	40,059	88,501	78,668
Loan sales and servicing income	8,998	15,421	18,256	30,889
Other service charges, commissions and fees	49,911	42,165	95,064	81,097
Trust and wealth management income	9,125	7,291	17,341	14,766
Income from securities conduit	5,968	8,492	12,483	16,898
Dividends and other investment income	11,271	9,946	22,364	19,155
Trading and nonhedge derivative income	5,224	5,444	10,424	9,869
Equity securities gains (losses), net	100	(1,764)	5,298	(1,214)
Fixed income securities gains, net	13	5,156	3,714	5,407
Other	5,615	5,301	13,310	10,464
Total noninterest income	141,341	137,511	286,755	265,999

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Noninterest expense:				
Salaries and employee benefits	198,668	185,643	404,255	371,498
Occupancy, net	26,334	24,549	52,923	48,630
Furniture and equipment	24,272	22,737	47,539	45,741
Legal and professional services	11,242	9,005	20,779	17,514
Postage and supplies	9,025	8,646	17,072	16,361
Advertising	7,517	6,814	13,974	12,799
Impairment losses on long-lived assets				1,304
Merger related expense	1,491	8,906	3,897	15,713
Amortization of core deposit and other intangibles	11,812	10,692	22,941	21,385
Provision for unfunded lending commitments	1,222	(249)	1,528	(528)
Other	56,029	56,285	114,683	107,066
	<u>347,612</u>	<u>333,028</u>	<u>699,591</u>	<u>657,483</u>
Total noninterest expense				
Income before income taxes and minority interest	245,313	223,788	486,720	436,156
Income taxes	86,065	78,821	174,919	154,079
Minority interest	34	(343)	(671)	(866)
	<u>159,214</u>	<u>145,310</u>	<u>312,472</u>	<u>282,943</u>
Net income				
Preferred stock dividend	3,607		7,210	
	<u>155,607</u>	<u>145,310</u>	<u>305,262</u>	<u>282,943</u>
Net earnings applicable to common shareholders				
	<u>\$ 155,607</u>	<u>\$ 145,310</u>	<u>\$ 305,262</u>	<u>\$ 282,943</u>
Weighted average common shares outstanding during the period:				
Basic shares	107,803	106,001	108,107	105,738
Diluted shares	109,124	107,883	109,639	107,867
Net earnings per common share:				
Basic	\$ 1.44	\$ 1.37	\$ 2.82	\$ 2.68
Diluted	1.43	1.35	2.78	2.62

See accompanying notes to consolidated financial statements.

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ZIONS BANCORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY AND COMPREHENSIVE INCOME

(Unaudited)

(In thousands, except per share amounts)	Preferred stock	Common stock	Retained earnings	Accumulated other comprehensive income (loss)	Deferred compensation	Total shareholders equity
Balance, December 31, 2006	\$ 240,000	\$ 2,230,303	\$ 2,602,189	\$ (75,849)	\$ (9,620)	\$ 4,987,023
Cumulative effect of change in accounting principle, adoption of FIN 48			10,408			10,408
Comprehensive income:						
Net income for the period			312,472			312,472
Other comprehensive loss, net of tax:						
Net realized and unrealized holding losses on investments and retained interests				(15,672)		
Foreign currency translation				5		
Reclassification for net realized gains on investments recorded in operations				(3,854)		
Net unrealized losses on derivative instruments				(17,470)		
Other comprehensive loss				(36,991)		(36,991)
Total comprehensive income						275,481
Stock redeemed and retired		(231,845)				(231,845)
Net stock options exercised		62,518				62,518
Common stock issued in acquisition		206,075				206,075
Share-based compensation		12,671				12,671
Dividends declared on preferred stock			(7,210)			(7,210)
Cash dividends on common stock, \$.82 per share			(89,246)			(89,246)
Change in deferred compensation					(1,173)	(1,173)
Balance, June 30, 2007	\$ 240,000	\$ 2,279,722	\$ 2,828,613	\$ (112,840)	\$ (10,793)	\$ 5,224,702
Balance, December 31, 2005	\$	\$ 2,156,732	\$ 2,179,885	\$ (83,043)	\$ (16,310)	\$ 4,237,264
Comprehensive income:						
Net income for the period			282,943			282,943
Other comprehensive loss, net of tax:						
Net realized and unrealized holding losses on investments and retained interests				(31,281)		
Foreign currency translation				543		
Reclassification for net realized gains on investments recorded in operations				(1,456)		
Net unrealized losses on derivative instruments				(33,090)		
Other comprehensive loss				(65,284)		(65,284)
Total comprehensive income						217,659
Stock redeemed and retired		(1,338)				(1,338)
Net stock options exercised		63,449				63,449

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Reclassification of deferred compensation, adoption of SFAS 123R		(11,111)			11,111	
Share-based compensation		10,979				10,979
Cash dividends on common stock, \$.72 per share			(76,459)			(76,459)
Change in deferred compensation					(4,224)	(4,224)
Balance, June 30, 2006	\$	\$ 2,218,711	\$ 2,386,369	\$ (148,327)	\$ (9,423)	\$ 4,447,330

Total comprehensive income for the three months ended June 30, 2007 and 2006 was \$115,631 and \$120,082, respectively.

See accompanying notes to consolidated financial statements.

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ZIONS BANCORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2007	2006	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income for the period	\$ 159,214	\$ 145,310	\$ 312,472	\$ 282,943
Adjustments to reconcile net income to net cash provided by operating activities:				
Impairment losses on long lived assets				1,304
Provision for loan losses	17,763	17,022	26,874	31,534
Depreciation of premises and equipment	19,548	19,376	39,652	39,348
Amortization	12,494	12,967	22,995	25,007
Deferred income tax expense (benefit)	(1,294)	8,905	(22,024)	95
Share-based compensation	6,577	6,081	12,982	10,979
Excess tax benefits from share-based compensation	(2,837)	(7,863)	(10,593)	(13,045)
Gain (loss) allocated to minority interest	34	(343)	(671)	(866)
Equity securities losses (gains), net	(100)	1,764	(5,298)	1,214
Fixed income securities gains, net	(13)	(5,156)	(3,714)	(5,407)
Net decrease in trading securities	9,630	81,278	40,628	30,916
Principal payments on and proceeds from sales of loans held for sale	328,588	333,884	567,917	613,007
Additions to loans held for sale	(317,163)	(263,367)	(605,000)	(590,059)
Net gains on sales of loans, leases and other assets	(2,040)	(8,247)	(5,954)	(17,125)
Increase in cash surrender value of bank-owned life insurance	(6,366)	(6,487)	(13,157)	(12,739)
Change in accrued income taxes	(86,060)	(58,740)	13,061	15,362
Change in accrued interest receivable	(4,389)	(14,904)	972	(9,993)
Change in other assets	26,384	(203,323)	(3,937)	(138,443)
Change in other liabilities	31,420	178,098	(45,780)	167,378
Change in accrued interest payable	(5,052)	(1,680)	(2,171)	12,383
Other, net	(7,253)	11,012	(12,937)	14,678
Net cash provided by operating activities	179,085	245,587	306,317	458,471
CASH FLOWS FROM INVESTING ACTIVITIES:				
Net decrease (increase) in money market investments	341,005	(106,521)	2,323	91,111
Proceeds from maturities of investment securities held to maturity	30,243	23,662	54,034	60,642
Purchases of investment securities held to maturity	(41,899)	(18,873)	(79,752)	(50,276)
Proceeds from sales of investment securities available for sale	232,713	148,555	358,585	454,778
Proceeds from maturities of investment securities available for sale	771,463	489,888	1,355,188	1,148,528
Purchases of investment securities available for sale	(684,502)	(554,373)	(1,281,328)	(1,430,838)
Proceeds from sales of loans and leases	19,786	82,553	30,717	141,970
Net increase in loans and leases	(906,609)	(1,720,493)	(1,429,318)	(2,762,339)
Net decrease (increase) in other noninterest-bearing investments	20,390	(13,431)	87,214	(37,874)
Proceeds from sales of premises and equipment and other assets	1,838	2,699	3,754	4,855
Purchases of premises and equipment	(26,188)	(31,117)	(48,887)	(54,683)
Proceeds from sales of other real estate owned	2,630	20,351	5,091	24,908
Net cash received from (paid for) acquisitions	(1,668)	(1,691)	40,244	(1,691)
Net cash received from sale of nonbank subsidiary			6,995	

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Net cash used in investing activities	(240,798)	(1,678,791)	(895,140)	(2,410,909)
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ZIONS BANCORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(Unaudited)

(In thousands)	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2007	2006	2007	2006
CASH FLOWS FROM FINANCING ACTIVITIES:				
Net increase (decrease) in deposits	\$ (139,490)	\$ 381,502	\$ 109,069	\$ 611,802
Net change in short-term funds borrowed	445,999	1,262,756	482,668	1,522,389
Proceeds from FHLB advances and other borrowings over one year				150
Payments on FHLB advances and other borrowings over one year	(614)	(593)	(8,226)	(101,188)
Proceeds from issuance of long-term debt		250,000		250,000
Payments on long-term debt	(19,713)	(254,156)	(27,250)	(254,156)
Proceeds from issuance of common stock	17,827	14,438	52,406	55,432
Payments to redeem common stock	(128,603)	(1,310)	(231,845)	(1,338)
Excess tax benefits from share-based compensation	2,837	7,863	10,593	13,045
Dividends paid on preferred stock	(3,607)		(7,210)	
Dividends paid on common stock	(46,496)	(38,324)	(89,246)	(76,459)
Net cash provided by financing activities	128,140	1,622,176	290,959	2,019,677
Net increase (decrease) in cash and due from banks	66,427	188,972	(297,864)	67,239
Cash and due from banks at beginning of period	1,574,519	1,584,857	1,938,810	1,706,590
Cash and due from banks at end of period	\$ 1,640,946	\$ 1,773,829	\$ 1,640,946	\$ 1,773,829
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:				
Cash paid for:				
Interest	\$ 322,947	\$ 251,212	\$ 628,986	\$ 451,620
Income taxes	171,999	143,415	171,983	150,570
Noncash items:				
Loans transferred to other real estate owned	6,455	9,584	9,804	17,851
Acquisition of The Stockmen's Bancorp, Inc.				
Common stock issued			206,075	
Assets acquired			1,348,233	
Liabilities assumed			1,142,158	

See accompanying notes to consolidated financial statements.

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ZIONS BANCORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

June 30, 2007

1. BASIS OF PRESENTATION

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

Operating results for the three- and six-month periods ended June 30, 2007 are not necessarily indicative of the results that may be expected in future periods. The balance sheet at December 31, 2006 is from the audited financial statements at that date, but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. For further information, refer to the consolidated financial statements and footnotes thereto included in Zions Bancorporation s Annual Report on Form 10-K for the year ended December 31, 2006.

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), in Arizona and California; 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).

2. CERTAIN RECENT ACCOUNTING PRONOUNCEMENTS

In February 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115*. SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value at specified election dates. The fair value option may be applied instrument by instrument with certain exceptions and is applied generally on an irrevocable basis to the particular instrument. SFAS 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company will adopt SFAS 159 effective January 1, 2008. Management is currently evaluating the impact this Statement may have on the Company s financial statements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS 157 provides enhanced guidance for using fair value to measure assets and liabilities and expands disclosures about fair value measurements. The Statement impacts other accounting pronouncements

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that require or permit fair value measurements; however, it does not expand the use of fair value measurements in any new circumstances. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company will adopt SFAS 157 effective January 1, 2008. Management is currently evaluating the impact this Statement may have on the Company's financial statements.

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ZIONS BANCORPORATION AND SUBSIDIARIES

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

3. ACQUISITIONS AND DIVESTITURES

In June 2007, Amegy Bank of Texas entered into a definitive merger agreement to acquire for cash Intercontinental Bank Shares Corporation (Intercon), located in San Antonio, Texas. The acquisition is expected to close in the third quarter of 2007 and is estimated to add approximately \$53 million in loans and \$96 million in deposits to the Company's balance sheet.

On January 17, 2007, we completed the acquisition of The Stockmen's Bancorp, Inc. (Stockmen's), headquartered in Kingman, Arizona. As of the date of acquisition, Stockmen's had approximately \$1.2 billion of total assets, \$1.1 billion of total deposits, and a total of 43 branches—32 in Arizona and 11 in central California. Consideration of approximately \$206.1 million consisted of 2.6 million shares of the Company's common stock plus a small amount of cash paid for fractional shares. Stockmen's parent company merged into the Parent and Stockmen's banking subsidiary merged into NBA. As of June 30, 2007, the acquisition had resulted in approximately \$114.2 million of goodwill, which is subject to adjustment as the purchase price allocation is finalized during the year following the acquisition. In June 2007, NBA entered into an agreement to sell the 11 California branches. The sale is expected to close in the fourth quarter of 2007 and will include approximately \$171 million of loans and \$209 million of deposits.

In January 2007, Zions Bank sold the Grant Hatch insurance agency and certain other insurance assets. For the six months ended June 30, 2007, the net pretax gain recognized in other noninterest income was approximately \$2.9 million.

4. LONG-TERM DEBT

On June 6, 2007, under provisions of the borrowing agreements, the Company redeemed the entire \$19.7 million net par amount of the 11.75% trust preferred securities.

5. INCOME TAXES

Effective January 1, 2007, the Company adopted FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109*. FIN 48 prescribes a more-likely-than-not threshold for the financial statement recognition of uncertain tax positions.

We have a liability for unrecognized tax benefits relating to uncertain tax positions primarily for various state tax contingencies in several jurisdictions. As a result of adopting FIN 48, we reduced this liability by approximately \$10.4 million at January 1, 2007 and recognized a

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cumulative effect adjustment as an increase to retained earnings. Our total gross unrecognized tax benefits subsequent to this adjustment were approximately \$46.3 million at January 1, 2007. Of this amount, approximately \$25.9 million (net of the federal benefit on state issues) relates to unrecognized tax benefits that, if recognized, would affect the effective tax rate. Gross unrecognized tax benefits that may decrease during the 12 months subsequent to June 30, 2007 could range up to approximately \$22.6 million as a result of the resolution of various state tax positions.

Interest and penalties related to unrecognized tax benefits are included in income taxes in the statement of income and amounted to approximately \$1.0 million on a gross basis for the six months ended June 30, 2007. Gross accrued interest and penalties were approximately \$8.3 million at January 1, 2007 and \$9.3 million at June 30, 2007.

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ZIONS BANCORPORATION AND SUBSIDIARIES

The Company and its subsidiaries file income tax returns in U.S. federal and various state jurisdictions. In general, the Company is no longer subject to income tax examinations for years prior to 2003 for federal returns and prior to 2000 for state returns.

During the first quarter of 2007, the Company surrendered certain bank-owned life insurance contracts and incurred taxes and penalties of approximately \$2.9 million, which were included in income taxes in the statement of income.

6. SHAREHOLDERS EQUITY

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

	Net unrealized gains (losses) on investments, retained interests and other	Net unrealized losses on derivative instruments	Pension and post- retirement	Total
Six Months Ended June 30, 2007:				
Balance, December 31, 2006	\$ (18,371)	\$ (41,716)	\$ (15,762)	\$ (75,849)
Other comprehensive loss, net of tax:				
Net realized and unrealized holding losses, net of income tax benefit of \$9,707	(15,672)			(15,672)
Foreign currency translation	5			5
Reclassification for net realized gains recorded in operations, net of income tax expense of \$2,388	(3,854)			(3,854)
Net unrealized losses, net of reclassification to operations of \$(22,011) and income tax benefit of \$10,836		(17,470)		(17,470)
Other comprehensive loss	(19,521)	(17,470)		(36,991)
Balance, June 30, 2007	\$ (37,892)	\$ (59,186)	\$ (15,762)	\$ (112,840)
Six Months Ended June 30, 2006:				
Balance, December 31, 2005	\$ (10,772)	\$ (50,264)	\$ (22,007)	\$ (83,043)
Other comprehensive loss, net of tax:				
Net realized and unrealized holding losses, net of income tax benefit of \$19,376	(31,281)			(31,281)
Foreign currency translation	543			543
Reclassification for net realized gains recorded in operations, net of income tax expense of \$902	(1,456)			(1,456)
Net unrealized losses, net of reclassification to operations of \$(14,745) and income tax benefit of \$21,988		(33,090)		(33,090)

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Other comprehensive loss	(32,194)	(33,090)		(65,284)
Balance, June 30, 2006	\$ (42,966)	\$ (83,354)	\$ (22,007)	\$ (148,327)

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ZIONS BANCORPORATION AND SUBSIDIARIES

From May 4-7, 2007, the Company successfully conducted an auction of its patent-pending Employee Stock Option Appreciation Rights Securities (ESOARS). As allowed by SFAS No. 123R, *Share-Based Payment*, the Company used the results of that auction to value its employee stock options issued on May 4. The value established was \$12.06 per option, which the Company estimates is approximately 14% below its Black-Scholes model valuation on that date. The Company recorded the related estimated future settlement obligation of ESOARS as a liability in the balance sheet.

7. GUARANTEES

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

	June 30, 2007	December 31, 2006
Standby letters of credit:		
Financial	\$ 1,172,531	\$ 1,157,205
Performance	347,723	330,056
	\$ 1,520,254	\$ 1,487,261

The Company's Annual Report on Form 10-K for the year ended December 31, 2006 contains further information on the nature of these letters of credit along with their terms and collateral requirements. At June 30, 2007, the carrying value recorded by the Company as a liability for these guarantees was \$5.5 million.

As of June 30, 2007, the Parent has guaranteed approximately \$307.5 million of debt issued by affiliated trusts issuing trust preferred securities.

Zions Bank provides a liquidity facility (Liquidity Facility) for a fee to Lockhart Funding, LLC (Lockhart), a qualifying special-purpose entity (QSPE) securities conduit. Lockhart purchases floating rate U.S. Government and AAA-rated securities with funds from the issuance of commercial paper. Zions Bank also provides interest rate hedging support and administrative and investment advisory services for a fee. Pursuant to the Liquidity Facility contract, Zions Bank is required to purchase securities from Lockhart to provide funds for Lockhart to repay maturing commercial paper upon Lockhart's inability to access the commercial paper market, or upon a commercial paper market disruption as specified in governing documents for Lockhart. Pursuant to the governing documents, including the liquidity agreement, if any security in Lockhart is downgraded below AA-, Zions Bank must either 1) place its letter of credit on the security, 2) obtain credit enhancement from a third party, or 3) purchase the security from Lockhart at book value. At any given time, the maximum commitment of Zions Bank is the book value of Lockhart's securities portfolio, which is not allowed to exceed the size of the Liquidity Facility commitment. At June 30, 2007, the book value of Lockhart's securities portfolio was \$3.5 billion, which approximated market value, and the size of the Liquidity Facility commitment was \$6.12 billion. No amounts were outstanding under the Liquidity Facility at June 30, 2007.

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The FASB is pursuing an alternative to the derecognition model in SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. Alternatives to the current derecognition requirements have been collectively referred to as the Linked Presentation model. This model would eliminate the concept of a QSPE and, if certain criteria are met, allow for the linked presentation of the transferred assets and related liabilities within a single asset caption on the face of the balance sheet. It is too early in the process to determine what, if any, impact this would have on the Company's securitization program.

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ZIONS BANCORPORATION AND SUBSIDIARIES

8. 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 June 30,						Six Months Ended June 30,					
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
Service cost	\$ 122	\$ 129	\$	\$	\$ 27	\$ 32	\$ 243	\$ 258	\$	\$	\$ 53	\$ 64
Interest cost	2,121	2,148	177	179	82	86	4,243	4,300	355	359	158	172
Expected return on plan assets	(2,899)	(2,588)					(5,798)	(5,180)				
Amortization of prior service cost			31	31					62	62		
Amortization of transition liability			4	4					8	8		
Amortization of net actuarial (gain) loss	255	491	(3)	(3)	(69)	(67)	510	983	(6)	(5)	(134)	(134)
Net periodic benefit cost (credit)	\$ (401)	\$ 180	\$ 209	\$ 211	\$ 40	\$ 51	\$ (802)	\$ 361	\$ 419	\$ 424	\$ 77	\$ 102

As disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2006, the Company's contributions for individual benefit payments in the postretirement benefit plan were frozen in 2000 and participation and benefit accruals for the pension plan were frozen effective January 1, 2003.

9. OPERATING SEGMENT INFORMATION

We manage our operations and prepare management reports and other information with a primary focus on geographical area. As of June 30, 2007, we operate eight community/regional banks in distinct geographical areas. Performance assessment and resource allocation are based upon this geographical structure. Zions Bank operates 114 branches in Utah, 24 in Idaho, and one foreign branch in the Grand Cayman Islands. CB&T operates 91 branches in California. Amegy operates 80 branches in Texas and one foreign branch in the Grand Cayman Islands. NBA operates 77 branches in Arizona and 11 in California. NSB operates 74 branches in Nevada. Vectra operates 40 branches in Colorado and one branch in New Mexico. TCBW operates one branch in the state of Washington. TCBO operates one branch in Oregon. The operating segment identified as Other includes the Parent, certain nonbank financial service and financial technology subsidiaries, other smaller nonbank operating units, TCBO, and eliminations of transactions between segments.

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

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ZIONS BANCORPORATION AND SUBSIDIARIES

The following table presents selected operating segment information for the three months ended June 30, 2007 and 2006:

(In millions)	Zions Bank		CB&T		Amegy		NBA		NSB	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
CONDENSED INCOME STATEMENT										
Net interest income	\$ 135.7	\$ 113.7	\$ 109.8	\$ 118.3	\$ 81.0	\$ 76.0	\$ 64.5	\$ 53.3	\$ 47.0	\$ 50.1
Provision for loan losses	3.0	8.0	4.0	4.0	5.7	0.3	3.6	1.8	1.2	2.4
Net interest income after provision for loan losses	132.7	105.7	105.8	114.3	75.3	75.7	60.9	51.5	45.8	47.7
Noninterest income	63.5	62.5	19.1	20.0	31.1	28.3	8.3	6.1	8.5	7.5
Noninterest expense	112.8	103.5	58.7	62.0	74.5	72.7	36.0	26.5	27.0	28.0
Income (loss) before income taxes and minority interest	83.4	64.7	66.2	72.3	31.9	31.3	33.2	31.1	27.3	27.2
Income tax expense (benefit)	28.3	21.5	26.5	29.3	9.8	9.8	13.0	12.3	9.6	9.4
Minority interest		(0.1)								
Net income (loss)	55.1	43.3	39.7	43.0	22.1	21.5	20.2	18.8	17.7	17.8
Preferred stock dividend										
Net earnings applicable to common shareholders	\$ 55.1	\$ 43.3	\$ 39.7	\$ 43.0	\$ 22.1	\$ 21.5	\$ 20.2	\$ 18.8	\$ 17.7	\$ 17.8
AVERAGE BALANCE SHEET DATA										
Total assets	\$ 15,444	\$ 13,734	\$ 10,102	\$ 11,109	\$ 9,934	\$ 9,123	\$ 5,474	\$ 4,380	\$ 3,859	\$ 3,935
Net loans and leases	11,389	9,182	7,871	8,028	6,698	5,575	4,667	3,858	3,207	3,169
Total deposits	11,262	9,682	8,142	8,387	7,029	6,414	4,355	3,524	3,327	3,280
Shareholder's equity:										
Preferred equity										
Common equity	997	857	1,111	1,114	1,834	1,793	613	309	263	248
Total shareholder's equity	997	857	1,111	1,114	1,834	1,793	613	309	263	248

(In millions)	Vectra		TCBW		Other		Consolidated Company	
	2007	2006	2007	2006	2007	2006	2007	2006
CONDENSED INCOME STATEMENT								
Net interest income	\$ 23.5	\$ 23.7	\$ 8.6	\$ 8.0	\$	\$ (6.8)	\$ 469.3	\$ 436.3
Provision for loan losses	0.2	0.6		(0.2)		0.1	17.8	17.0
Net interest income after provision for loan losses	23.3	23.1	8.6	8.2		(6.9)	451.5	419.3
Noninterest income	6.9	5.9	0.4	0.5	3.6	6.7	141.4	137.5
Noninterest expense	20.9	21.6	3.5	3.4	14.2	15.3	347.6	333.0
Income (loss) before income taxes and minority interest	9.3	7.4	5.5	5.3	(10.6)	(15.5)	245.3	223.8
Income tax expense (benefit)	3.4	2.7	1.8	1.8	(6.3)	(8.0)	86.1	78.8
Minority interest						(0.2)		(0.3)

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Net income (loss)	5.9	4.7	3.7	3.5	(4.3)	(7.3)	159.2	145.3
Preferred stock dividend					3.6		3.6	
Net earnings applicable to common shareholders	\$ 5.9	\$ 4.7	\$ 3.7	\$ 3.5	\$ (7.9)	\$ (7.3)	\$ 155.6	\$ 145.3

AVERAGE BALANCE SHEET DATA

Total assets	\$ 2,410	\$ 2,329	\$ 821	\$ 794	\$ (122)	\$ (1,621)	\$ 47,922	\$ 43,783
Net loans and leases	1,769	1,600	462	412	80	76	36,143	31,900
Total deposits	1,711	1,627	509	459	(370)	(1,198)	35,964	32,175
Shareholder's equity:								
Preferred equity					240		240	
Common equity	314	296	58	52	(196)	(254)	4,993	4,415
Total shareholder's equity	314	296	58	52	44	(254)	5,233	4,415

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ZIONS BANCORPORATION AND SUBSIDIARIES

The following table presents selected operating segment information for the six months ended June 30, 2007 and 2006:

(In millions)	Zions Bank		CB&T		Amegy		NBA		NSB	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
CONDENSED INCOME STATEMENT										
Net interest income	\$ 262.7	\$ 221.1	\$ 220.2	\$ 236.0	\$ 158.4	\$ 150.4	\$ 127.8	\$ 104.9	\$ 94.8	\$ 96.9
Provision for loan losses	8.5	13.9	5.0	6.5	7.1	2.3	3.5	2.6	3.0	4.9
Net interest income after provision for loan losses	254.2	207.2	215.2	229.5	151.3	148.1				