

ZIONS BANCORPORATION /UT/  
Form 10-Q  
November 09, 2011  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended September 30, 2011

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 x No ..

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

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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, 2011 184,290,334 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)

|   | September 30,<br>2011<br>(Unaudited) | December 31,<br>2010 | September 30,<br>2010<br>(Unaudited) |
|---|--------------------------------------|----------------------|--------------------------------------|
| <b>ASSETS</b>   |                                      |                      |                                      |
| Cash and due from banks   | \$ 1,102,768                         | \$ 924,126           | \$ 1,060,646                         |
| Money market investments:   |                                      |                      |                                      |
| Interest-bearing deposits   | 5,118,066                            | 4,576,008            | 4,468,778                            |
| Federal funds sold and security resell agreements   | 165,106                              | 130,305              | 116,458                              |
| Investment securities:  |                                      |                      |                                      |
| Held-to-maturity, at adjusted cost (approximate fair value \$715,608, \$788,354, and \$783,362) | 791,569                              | 840,642              | 841,573                              |
| Available-for-sale, at fair value   | 3,970,602                            | 4,205,742            | 3,295,864                            |
| Trading account, at fair value  | 49,782                               | 48,667               | 42,811                               |
|   | 4,811,953                            | 5,095,051            | 4,180,248                            |
| Loans held for sale   | 159,300                              | 206,286              | 217,409                              |
| Loans:  |                                      |                      |                                      |
| Loans and leases excluding FDIC-supported loans   | 36,050,339                           | 35,896,395           | 36,579,470                           |
| FDIC-supported loans  | 800,530                              | 971,377              | 1,089,926                            |
|   | 36,850,869                           | 36,867,772           | 37,669,396                           |
| Less:   |                                      |                      |                                      |
| Unearned income and fees, net of related costs  | 126,361                              | 120,341              | 120,037                              |
| Allowance for loan losses   | 1,148,903                            | 1,440,341            | 1,529,955                            |
| Loans and leases, net of allowance  | 35,575,605                           | 35,307,090           | 36,019,404                           |
| Other noninterest-bearing investments   | 860,045                              | 858,367              | 858,402                              |
| Premises and equipment, net   | 726,503                              | 720,985              | 719,592                              |
| Goodwill  | 1,015,129                            | 1,015,161            | 1,015,161                            |
| Core deposit and other intangibles  | 72,571                               | 87,898               | 94,128                               |
| Other real estate owned   | 203,173                              | 299,577              | 356,923                              |
| Other assets  | 1,721,101                            | 1,814,032            | 1,940,627                            |
|   | \$ 51,531,320                        | \$ 51,034,886        | \$ 51,047,776                        |
| <b>LIABILITIES AND SHAREHOLDERS EQUITY</b>  |                                      |                      |                                      |
| Deposits:   |                                      |                      |                                      |
| Noninterest-bearing demand  | \$ 14,911,729                        | \$ 13,653,929        | \$ 13,264,415                        |
| Interest-bearing:   |                                      |                      |                                      |
| Savings and NOW   | 6,711,002                            | 6,362,138            | 6,394,964                            |
| Money market  | 14,576,527                           | 15,090,833           | 15,398,157                           |
| Time under \$100,000  | 1,696,302                            | 1,941,211            | 2,037,318                            |

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|   |                      |                      |                      |
|---|----------------------|----------------------|----------------------|
| Time \$100,000 and over   | 1,840,453            | 2,232,238            | 2,417,779            |
| Foreign   | 1,627,135            | 1,654,651            | 1,447,507            |
|   | 41,363,148           | 40,935,000           | 40,960,140           |
| Securities sold, not yet purchased  | 30,070               | 42,548               | 41,943               |
| Federal funds purchased and security repurchase agreements  | 630,901              | 722,258              | 738,551              |
| Other short-term borrowings   | 125,290              | 166,394              | 236,507              |
| Long-term debt  | 1,898,439            | 1,942,622            | 1,939,395            |
| Reserve for unfunded lending commitments  | 98,062               | 111,708              | 97,899               |
| Other liabilities   | 466,493              | 467,142              | 538,750              |
| <b>Total liabilities</b>  | <b>44,612,403</b>    | <b>44,387,672</b>    | <b>44,553,185</b>    |
| Shareholders' equity:   |                      |                      |                      |
| Preferred stock, without par value, authorized 4,400,000 shares   | 2,354,523            | 2,056,672            | 1,875,463            |
| Common stock, without par value; authorized 350,000,000 shares; issued and outstanding 184,294,782, 182,784,086, and 177,202,340 shares | 4,160,697            | 4,163,619            | 4,070,963            |
| Retained earnings   | 994,380              | 889,284              | 1,001,559            |
| Accumulated other comprehensive income (loss)   | (588,834)            | (461,296)            | (452,553)            |
| Controlling interest shareholders' equity   | 6,920,766            | 6,648,279            | 6,495,432            |
| Noncontrolling interests  | (1,849)              | (1,065)              | (841)                |
| <b>Total shareholders' equity</b>   | <b>6,918,917</b>     | <b>6,647,214</b>     | <b>6,494,591</b>     |
|   | <b>\$ 51,531,320</b> | <b>\$ 51,034,886</b> | <b>\$ 51,047,776</b> |

See accompanying notes to consolidated financial statements.

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## ZIONS BANCORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(In thousands, except per share amounts)

|   | Three Months Ended<br>September 30, |                 | Nine Months Ended<br>September 30, |                  |
|---|-------------------------------------|-----------------|------------------------------------|------------------|
|   | 2011                                | 2010            | 2011                               | 2010             |
| <b>Interest income:</b>   |                                     |                 |                                    |                  |
| Interest and fees on loans  | \$ 520,133                          | \$ 550,489      | \$ 1,562,031                       | \$ 1,645,787     |
| Interest on money market investments  | 3,482                               | 3,487           | 9,524                              | 7,527            |
| <b>Interest on securities:</b>  |                                     |                 |                                    |                  |
| Held-to-maturity  | 8,937                               | 6,063           | 26,610                             | 25,256           |
| Available-for-sale  | 21,382                              | 21,353          | 65,837                             | 65,563           |
| Trading account   | 462                                 | 542             | 1,452                              | 1,674            |
| <b>Total interest income</b>  | <b>554,396</b>                      | <b>581,934</b>  | <b>1,665,454</b>                   | <b>1,745,807</b> |
| <b>Interest expense:</b>  |                                     |                 |                                    |                  |
| Interest on deposits  | 31,093                              | 46,368          | 101,834                            | 155,197          |
| Interest on short-term borrowings   | 1,501                               | 3,566           | 5,464                              | 10,119           |
| Interest on long-term debt  | 51,207                              | 80,125          | 247,533                            | 259,970          |
| <b>Total interest expense</b>   | <b>83,801</b>                       | <b>130,059</b>  | <b>354,831</b>                     | <b>425,286</b>   |
| <b>Net interest income</b>  | <b>470,595</b>                      | <b>451,875</b>  | <b>1,310,623</b>                   | <b>1,320,521</b> |
| Provision for loan losses   | 14,553                              | 184,668         | 75,883                             | 678,896          |
| <b>Net interest income after provision for loan losses</b>  | <b>456,042</b>                      | <b>267,207</b>  | <b>1,234,740</b>                   | <b>641,625</b>   |
| <b>Noninterest income:</b>  |                                     |                 |                                    |                  |
| Service charges and fees on deposit accounts  | 44,154                              | 49,733          | 131,562                            | 153,250          |
| Other service charges, commissions and fees   | 45,308                              | 41,780          | 130,951                            | 124,217          |
| Trust and wealth management income  | 6,269                               | 6,310           | 20,202                             | 20,940           |
| Capital markets and foreign exchange  | 7,729                               | 8,055           | 23,301                             | 27,327           |
| Dividends and other investment income   | 9,356                               | 8,874           | 34,623                             | 25,453           |
| Loan sales and servicing income   | 6,165                               | 8,390           | 22,014                             | 20,439           |
| Fair value and nonhedge derivative loss   | (5,718)                             | (16,755)        | (303)                              | (16,119)         |
| Equity securities gains (losses), net   | 5,289                               | (1,082)         | 4,550                              | (5,747)          |
| Fixed income securities gains, net  | 13,035                              | 8,428           | 10,580                             | 10,214           |
| <b>Impairment losses on investment securities:</b>  |                                     |                 |                                    |                  |
| Impairment losses on investment securities  | (55,530)                            | (73,082)        | (64,974)                           | (141,209)        |
| Noncredit-related losses on securities not expected to be sold (recognized in other comprehensive income) | 42,196                              | 49,370          | 43,377                             | 68,174           |
| <b>Net impairment losses on investment securities</b>   | <b>(13,334)</b>                     | <b>(23,712)</b> | <b>(21,597)</b>                    | <b>(73,035)</b>  |
| Gain on subordinated debt exchange  |                                     |                 |                                    | 14,471           |
| Other   | 2,789                               | 20,179          | 27,651                             | 25,813           |
| <b>Total noninterest income</b>   | <b>121,042</b>                      | <b>110,200</b>  | <b>383,534</b>                     | <b>327,223</b>   |

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|  |                  |                    |                   |                     |
|--|------------------|--------------------|-------------------|---------------------|
| Noninterest expense:   |                  |                    |                   |                     |
| Salaries and employee benefits                                       | 216,855          | 207,947            | 654,003           | 618,056             |
| Occupancy, net   | 29,040           | 29,292             | 84,638            | 85,602              |
| Furniture and equipment  | 26,852           | 25,591             | 78,667            | 76,290              |
| Other real estate expense  | 20,564           | 44,256             | 62,634            | 119,348             |
| Credit related expense   | 15,379           | 17,438             | 47,416            | 51,921              |
| Provision for unfunded lending commitments                           | (2,202)          | 1,104              | (13,646)          | (18,546)            |
| Legal and professional services                                      | 8,897            | 9,305              | 24,018            | 28,168              |
| Advertising  | 6,511            | 5,575              | 19,384            | 17,721              |
| FDIC premiums  | 12,573           | 25,706             | 51,906            | 76,354              |
| Amortization of core deposit and other intangibles                   | 4,773            | 6,296              | 15,329            | 19,287              |
| Other  | 69,776           | 83,534             | 209,300           | 201,324             |
| <b>Total noninterest expense</b>                                     | <b>409,018</b>   | <b>456,044</b>     | <b>1,233,649</b>  | <b>1,275,525</b>    |
| <b>Income (loss) before income taxes</b>                             | <b>168,066</b>   | <b>(78,637)</b>    | <b>384,625</b>    | <b>(306,677)</b>    |
| Income taxes (benefit)   | 59,348           | (31,180)           | 150,706           | (82,722)            |
| <b>Net income (loss)</b>   | <b>108,718</b>   | <b>(47,457)</b>    | <b>233,919</b>    | <b>(223,955)</b>    |
| Net income (loss) applicable to noncontrolling interests             | (375)            | (132)              | (866)             | (3,427)             |
| <b>Net income (loss) applicable to controlling interest</b>          | <b>109,093</b>   | <b>(47,325)</b>    | <b>234,785</b>    | <b>(220,528)</b>    |
| Preferred stock dividends  | (43,928)         | (33,144)           | (125,815)         | (84,797)            |
| Preferred stock redemption   |                  |                    |                   | 3,107               |
| <b>Net earnings (loss) applicable to common shareholders</b>         | <b>\$ 65,165</b> | <b>\$ (80,469)</b> | <b>\$ 108,970</b> | <b>\$ (302,218)</b> |
| <b>Weighted average common shares outstanding during the period:</b> |                  |                    |                   |                     |
| Basic shares   | 182,676          | 172,865            | 182,289           | 161,996             |
| Diluted shares   | 182,858          | 172,865            | 182,531           | 161,996             |
| <b>Net earnings (loss) per common share:</b>                         |                  |                    |                   |                     |
| Basic  | \$ 0.35          | \$ (0.47)          | \$ 0.59           | \$ (1.87)           |
| Diluted  | 0.35             | (0.47)             | 0.59              | (1.87)              |

*See accompanying notes to consolidated financial statements.*

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## ZIONS BANCORPORATION AND SUBSIDIARIES

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

(Unaudited)

| (In thousands, except per share amounts)   | Common stock    |             |              | Retained earnings | Accumulated other comprehensive income (loss) |            | Noncontrolling interests | Total shareholders equity |
|--|-----------------|-------------|--------------|-------------------|---|------------|--------------------------|---------------------------|
|  | Preferred stock | Shares      | Amount       |                   |   |            |                          |                           |
| Balance at December 31, 2010   | \$ 2,056,672    | 182,784,086 | \$ 4,163,619 | \$ 889,284        | \$ (461,296)                                  | \$ (1,065) | \$ 6,647,214             |                           |
| Comprehensive income:  |                 |             |              |                   |   |            |                          |                           |
| Net gain (loss) for the period   |                 |             |              | 234,785           |   | (866)      | 233,919                  |                           |
| Other comprehensive income (loss), net of tax:   |                 |             |              |                   |   |            |                          |                           |
| Net realized and unrealized holding losses on investments                                |                 |             |              |                   | (90,109)                                      |            |                          |                           |
| Reclassification for net losses on investments included in earnings                      |                 |             |              |                   | 6,185   |            |                          |                           |
| Noncredit-related impairment losses on securities not expected to be sold                |                 |             |              |                   | (26,318)                                      |            |                          |                           |
| Accretion of securities with noncredit-related impairment losses not expected to be sold |                 |             |              |                   | 131   |            |                          |                           |
| Net unrealized losses on derivative instruments  |                 |             |              |                   | (17,427)                                      |            |                          |                           |
| Other comprehensive loss   |                 |             |              |                   | (127,538)                                     |            | (127,538)                |                           |
| Total comprehensive income   |                 |             |              |                   |   |            | 106,381                  |                           |
| Subordinated debt converted to preferred stock   | 281,759         |             | (40,607)     |                   |   |            | 241,152                  |                           |
| Issuance of common stock   |                 | 1,067,540   | 25,048       |                   |   |            | 25,048                   |                           |
| Net activity under employee plans and related tax benefits                               |                 | 443,156     | 12,637       |                   |   |            | 12,637                   |                           |
| Dividends on preferred stock   | 16,092          |             |              | (125,815)         |   |            | (109,723)                |                           |
| Dividends on common stock, \$0.03 per share  |                 |             |              | (5,478)           |   |            | (5,478)                  |                           |
| Change in deferred compensation  |                 |             |              | 1,604             |   |            | 1,604                    |                           |
| Other changes in noncontrolling interests  |                 |             |              |                   |   | 82         | 82                       |                           |
| Balance at September 30, 2011  | \$ 2,354,523    | 184,294,782 | \$ 4,160,697 | \$ 994,380        | \$ (588,834)                                  | \$ (1,849) | \$ 6,918,917             |                           |
| Balance at December 31, 2009   | \$ 1,502,784    | 150,425,070 | \$ 3,318,417 | \$ 1,308,356      | \$ (436,899)                                  | \$ 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 loss   |                 |             |              |                   | (15,654)                                      |            | (15,654)                 |                           |
| Total comprehensive loss   |                 |             |              |                   |   |            | (239,609)                |                           |



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|  |              |             |              |              |              |          |              |
|--|--------------|-------------|--------------|--------------|--------------|----------|--------------|
| 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 at September 30, 2010                              | \$ 1,875,463 | 177,202,340 | \$ 4,070,963 | \$ 1,001,559 | \$ (452,553) | \$ (841) | \$ 6,494,591 |

Total comprehensive income (loss) for the three months ended September 30, 2011 and 2010 was \$24,375 and \$(66,990), respectively.

*See accompanying notes to consolidated financial statements.*

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## ZIONS BANCORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

|   | Three Months Ended<br>September 30, |             | Nine Months Ended<br>September 30, |              |
|---|-------------------------------------|-------------|------------------------------------|--------------|
|   | 2011                                | 2010        | 2011                               | 2010         |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |                                     |             |                                    |              |
| Net income (loss) for the period  | \$ 108,718                          | \$ (47,457) | \$ 233,919                         | \$ (223,955) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities:  |                                     |             |                                    |              |
| Net impairment losses on investment securities  | 13,334                              | 23,712      | 21,597                             | 73,035       |
| Gain on subordinated debt exchange  |                                     |             |                                    | (14,471)     |
| Gain related to sale of subsidiary assets   |                                     | (13,864)    |                                    | (13,864)     |
| Provision for credit losses   | 12,351                              | 185,772     | 62,237                             | 660,350      |
| Depreciation and amortization   | 52,288                              | 65,488      | 247,884                            | 208,004      |
| Deferred income tax expense (benefit)   | 41,563                              | (21,039)    | 129,266                            | (72,997)     |
| Net decrease (increase) in trading securities   | 1,370                               | 42,896      | (1,115)                            | (19,268)     |
| Net decrease (increase) in loans held for sale  | 21,237                              | (23,475)    | 90,749                             | (12,736)     |
| Net write-down of and gains/losses from sales of other real estate owned                  | 15,550                              | 47,038      | 49,663                             | 112,296      |
| Change in other liabilities   | 33,697                              | 37,235      | 26,801                             | 375,930      |
| Change in other assets  | (84,465)                            | 100,464     | (24,977)                           | 91,610       |
| Other, net  | 261                                 | (24,142)    | (4,673)                            | (32,749)     |
| Net cash provided by operating activities   | 215,904                             | 372,628     | 831,351                            | 1,131,185    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |                                     |             |                                    |              |
| Net decrease (increase) in short term investments   | (235,048)                           | 380,309     | (576,859)                          | (3,853,731)  |
| Proceeds from maturities and paydowns of investment securities held-to-maturity           | 30,080                              | 36,328      | 72,111                             | 121,034      |
| Purchases of investment securities held-to-maturity                                       | (9,667)                             | (24,907)    | (36,476)                           | (55,293)     |
| Proceeds from sales, maturities, and paydowns of investment securities available-for-sale | 507,676                             | 279,045     | 1,087,345                          | 841,212      |
| Purchases of investment securities available-for-sale                                     | (523,772)                           | (202,836)   | (1,042,235)                        | (538,720)    |
| Proceeds from sales of loans and leases   | 8,836                               | 40,794      | 15,026                             | 133,154      |
| Net loan and lease collections (originations)   | (107,759)                           | 67,770      | (633,630)                          | 1,357,349    |
| Proceeds from surrender of bank-owned life insurance contracts                            |                                     | 34,164      |                                    | 209,796      |
| Net decrease in other noninterest-bearing investments                                     | 2,372                               | 15,309      | 12,690                             | 28,863       |
| Net purchases of premises and equipment   | (22,749)                            | (25,636)    | (62,229)                           | (58,223)     |
| Proceeds from sales of other real estate owned  | 89,245                              | 131,558     | 276,122                            | 369,435      |
| Net cash received from sale of subsidiary assets  |                                     | 21,149      |                                    | 21,149       |
| Net cash provided by (used in) investing activities                                       | (260,786)                           | 753,047     | (888,135)                          | (1,423,975)  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>   |                                     |             |                                    |              |
| Net increase (decrease) in deposits   | 171,934                             | (1,053,713) | 428,209                            | (878,108)    |
| Net change in short-term funds borrowed   | (34,498)                            | (175,146)   | (145,081)                          | 66,276       |
| Proceeds from issuance of long-term debt  | 23,527                              | 22,947      | 53,777                             | 85,413       |
| Repayments of long-term debt  | (8,191)                             | (7,999)     | (8,522)                            | (73,435)     |
|   | 237                                 | 110,041     | 25,644                             | 860,763      |

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Proceeds from the issuance of preferred stock, common stock, and common stock warrants

|   |              |              |              |              |
|---|--------------|--------------|--------------|--------------|
| Dividends paid on common and preferred stock        | (40,297)     | (29,772)     | (115,201)    | (74,633)     |
| Other, net  | (90)         | (142)        | (3,400)      | (3,029)      |
| Net cash provided by (used in) financing activities | 112,622      | (1,133,784)  | 235,426      | (16,753)     |
| Net increase (decrease) in cash and due from banks  | 67,740       | (8,109)      | 178,642      | (309,543)    |
| Cash and due from banks at beginning of period      | 1,035,028    | 1,068,755    | 924,126      | 1,370,189    |
| Cash and due from banks at end of period            | \$ 1,102,768 | \$ 1,060,646 | \$ 1,102,768 | \$ 1,060,646 |
| Cash paid for interest                              | \$ 71,220    | \$ 92,587    | \$ 213,540   | \$ 284,912   |
| Net cash paid (refund received) for income taxes    |              | (220)        | 428          | (324,792)    |

*See accompanying notes to consolidated financial statements.*

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ZIONS BANCORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

September 30, 2011

**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 ( GAAP ) 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 GAAP 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. References to GAAP as promulgated by the Financial Accounting Standards Board ( FASB ) are made according to sections of the Accounting Standards Codification ( ASC ) and to Accounting Standards Updates ( ASU ). 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, 2011 are not necessarily indicative of the results that may be expected in future periods. The consolidated balance sheet at December 31, 2010 is from the audited financial statements at that date, but does not include all of the information and footnotes required by GAAP for complete financial statements. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company s 2010 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 Parent also owns and operates certain nonbank subsidiaries that engage in wealth management and other financial related services.

**2. CERTAIN RECENT ACCOUNTING PRONOUNCEMENTS**

In September 2011, the FASB issued ASU 2011-08, *Testing Goodwill for Impairment*. This new accounting guidance amends ASC 350, *Intangibles - Goodwill and Other* and simplifies the process to test goodwill for impairment by allowing for greater emphasis to be placed on the assessment of qualitative factors. If, after considering the totality of events and circumstances, the likelihood is not more than 50% that the fair value of a reporting unit is less than carrying value, companies need not perform the two-step impairment test. This amendment is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Management is currently evaluating the effect this new guidance will have on the Company s financial statements.

In June 2011, the FASB issued ASU 2011-05, *Presentation of Comprehensive Income*. This new accounting guidance under ASC 220, *Comprehensive Income*, provides more convergence to International Financial Reporting Standards ( IFRS ) and no longer allows presentation of other comprehensive income ( OCI ) in the statement of changes in shareholders equity. Companies may present OCI in a continuous statement of comprehensive income or in a separate statement consecutive to the statement of income. For public entities, the new guidance is effective on a retrospective basis for interim and annual periods

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## ZIONS BANCORPORATION AND SUBSIDIARIES

beginning after December 15, 2011. On October 12, 2011, the FASB announced it will consider deferring the adoption of certain aspects of ASU 2011-05. Management is currently evaluating the impact this new guidance will have on the disclosures in the Company's financial statements.

In May 2011, the FASB issued ASU 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. This new accounting guidance under ASC 820, *Fair Value Measurement*, also provides more convergence to IFRS and amends fair value measurement and disclosure guidance. Among other things, new disclosures will be required for qualitative information and sensitivity analysis regarding Level 3 measurements. For public entities, the new guidance is effective for interim and annual periods beginning after December 15, 2011. Management is currently evaluating the impact this new guidance will have on the disclosures in the Company's financial statements.

In April 2011, the FASB issued ASU 2011-03, *Reconsideration of Effective Control for Repurchase Agreements*. The primary feature of this new accounting guidance under ASC 860, *Transfers and Servicing*, relates to the criteria that determine whether a sale or a secured borrowing occurred based on the transferor's maintenance of effective control over the transferred financial assets. The new guidance focuses on the transferor's contractual rights and obligations with respect to the transferred financial assets and not on the transferor's ability to perform under those rights and obligations. Accordingly, the collateral maintenance requirement is eliminated by ASU 2011-3 from the assessment of effective control. The new guidance will take effect prospectively for interim and annual periods beginning after December 15, 2011. Early adoption is not permitted. Management is currently evaluating the impact this new guidance may have on the Company's financial statements.

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

## 3. SUPPLEMENTAL CASH FLOW INFORMATION

Noncash activities are summarized as follows:

(In thousands)

|   | Three Months Ended<br>September 30, |            | Nine Months Ended<br>September 30, |            |
|---|-------------------------------------|------------|------------------------------------|------------|
|   | 2011                                | 2010       | 2011                               | 2010       |
| Loans transferred to other real estate owned  | \$ 75,769                           | \$ 139,374 | \$ 250,427                         | \$ 480,066 |
| Beneficial conversion feature transferred from common stock to preferred stock as a result of subordinated debt conversions | 2,863                               | 9,231      | 40,607                             | 31,843     |
| Subordinated debt exchanged for common stock  |                                     |            |                                    | 46,902     |
| Subordinated debt converted to preferred stock  | 16,834                              | 54,259     | 241,152                            | 191,917    |

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## ZIONS BANCORPORATION AND SUBSIDIARIES

## 4. INVESTMENT SECURITIES

Investment securities are summarized as follows:

| (In thousands)   | September 30, 2011 |                                |                         |                |                        |                         |                      |
|--|--------------------|--------------------------------|-------------------------|----------------|------------------------|-------------------------|----------------------|
|  | Amortized cost     | Recognized in OCI <sup>1</sup> |                         | Carrying value | Not recognized in OCI  |                         | Estimated fair value |
|  |                    | Gross unrealized gains         | Gross unrealized losses |                | Gross unrealized gains | Gross unrealized losses |                      |
| <b>Held-to-maturity</b>                                  |                    |                                |                         |                |                        |                         |                      |
| Municipal securities                                     | \$ 548,428         | \$                             | \$                      | \$ 548,428     | \$ 9,717               | \$ 703                  | \$ 557,442           |
| Asset-backed securities:                                 |                    |                                |                         |                |                        |                         |                      |
| Trust preferred securities banks and insurance           | 262,853            |                                | 40,988                  | 221,865        | 283                    | 78,092                  | 144,056              |
| Other  | 24,832             |                                | 3,656                   | 21,176         | 302                    | 7,468                   | 14,010               |
| Other debt securities                                    | 100                |                                |                         | 100            |                        |                         | 100                  |
|  | \$ 836,213         | \$                             | \$ 44,644               | \$ 791,569     | \$ 10,302              | \$ 86,263               | \$ 715,608           |
| <b>Available-for-sale</b>                                |                    |                                |                         |                |                        |                         |                      |
| U.S. Treasury securities                                 | \$ 705,736         | \$ 420                         | \$                      | \$ 706,156     |                        |                         | \$ 706,156           |
| U.S. Government agencies and corporations:               |                    |                                |                         |                |                        |                         |                      |
| Agency securities  | 154,335            | 5,442                          | 110                     | 159,667        |                        |                         | 159,667              |
| Agency guaranteed mortgage-backed securities             | 564,590            | 20,165                         | 61                      | 584,694        |                        |                         | 584,694              |
| Small Business Administration loan-backed securities     | 1,056,591          | 7,289                          | 8,697                   | 1,055,183      |                        |                         | 1,055,183            |
| Municipal securities                                     | 122,890            | 3,525                          | 929                     | 125,486        |                        |                         | 125,486              |
| Asset-backed securities:                                 |                    |                                |                         |                |                        |                         |                      |
| Trust preferred securities banks and insurance           | 1,813,503          | 12,389                         | 897,711                 | 928,181        |                        |                         | 928,181              |
| Trust preferred securities real estate investment trusts | 40,260             |                                | 20,774                  | 19,486         |                        |                         | 19,486               |
| Auction rate securities                                  | 72,172             | 103                            | 1,624                   | 70,651         |                        |                         | 70,651               |
| Other  | 65,322             | 1,096                          | 14,875                  | 51,543         |                        |                         | 51,543               |
|  | 4,595,399          | 50,429                         | 944,781                 | 3,701,047      |                        |                         | 3,701,047            |
| Mutual funds and stock                                   | 269,380            | 175                            |                         | 269,555        |                        |                         | 269,555              |
|  | \$ 4,864,779       | \$ 50,604                      | \$ 944,781              | \$ 3,970,602   |                        |                         | \$ 3,970,602         |

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## ZIONS BANCORPORATION AND SUBSIDIARIES

| (In thousands)   | September 30, 2010 |                                |                        |                |                         |           |                      |
|--|--------------------|--------------------------------|------------------------|----------------|-------------------------|-----------|----------------------|
|  | Amortized cost     | Recognized in OCI <sup>1</sup> |                        | Carrying value | Not recognized in OCI   |           | 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              |
| Small Business Administration loan-backed securities     | 844,545            | 5,965                          | 8,013                  | 842,497        |                         |           | 842,497              |
| 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            |
| Mutual funds and stock                                   | 155,305            | 140                            |                        | 155,445        |                         |           | 155,445              |
|  | \$ 4,016,330       | \$ 87,808                      | \$ 808,274             | \$ 3,295,864   |                         |           | \$ 3,295,864         |

<sup>1</sup> The gross unrealized losses recognized in OCI on held-to-maturity ( HTM ) securities primarily resulted from a transfer of available-for-sale ( AFS ) securities to HTM in 2008.

The amortized cost and estimated fair value of investment debt securities are shown subsequently as of September 30, 2011 by expected maturity distribution for structured asset-backed security collateralized debt obligations ( ABS CDOs ) and by contractual maturity distribution for other debt securities. Actual maturities may differ from expected or contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties:

Held-to-maturity

Available-for-sale

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| (In thousands)                         | Estimated         |               | Estimated         |               |
|--|-------------------|---------------|-------------------|---------------|
|  | Amortized<br>cost | fair<br>value | Amortized<br>cost | fair<br>value |
| Due in one year or less                | \$ 53,972         | \$ 54,539     | \$ 1,068,360      | \$ 1,057,303  |
| Due after one year through five years  | 215,952           | 212,535       | 1,059,819         | 975,381       |
| Due after five years through ten years | 160,927           | 146,697       | 780,976           | 655,206       |
| Due after ten years                    | 405,362           | 301,837       | 1,686,244         | 1,013,157     |
|  | \$ 836,213        | \$ 715,608    | \$ 4,595,399      | \$ 3,701,047  |

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:



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## ZIONS BANCORPORATION AND SUBSIDIARIES

| (In thousands)                                 | Less than 12 months           |                            | September 30, 2011<br>12 months or more |                            | Total                         |                            |
|--|-------------------------------|----------------------------|---|----------------------------|-------------------------------|----------------------------|
|  | Gross<br>unrealized<br>losses | Estimated<br>fair<br>value | Gross<br>unrealized<br>losses           | Estimated<br>fair<br>value | Gross<br>unrealized<br>losses | Estimated<br>fair<br>value |
| <b>Held-to-maturity</b>                        |                               |                            |   |                            |                               |                            |
| Municipal securities                           | \$ 176                        | \$ 4,595                   | \$ 527                                  | \$ 23,428                  | \$ 703                        | \$ 28,023                  |
| Asset-backed securities:                       |                               |                            |   |                            |                               |                            |
| Trust preferred securities banks and insurance |                               |                            | 119,080                                 | 143,710                    | 119,080                       | 143,710                    |
| Other  |                               |                            | 11,124                                  | 14,010                     | 11,124                        | 14,010                     |
|  | \$ 176                        | \$ 4,595                   | \$ 130,731                              | \$ 181,148                 | \$ 130,907                    | \$ 185,743                 |

**Available-for-sale**

|  |           |            |            |            |            |              |
|--|-----------|------------|------------|------------|------------|--------------|
| U.S. Government agencies and corporations:               |           |            |            |            |            |              |
| Agency securities  | \$ 58     | \$ 10,616  | \$ 52      | \$ 3,027   | \$ 110     | \$ 13,643    |
| Agency guaranteed mortgage-backed securities             | 61        | 58,635     |            |            | 61         | 58,635       |
| Small Business Administration loan-backed securities     | 4,566     | 420,228    | 4,131      | 215,632    | 8,697      | 635,860      |
| Municipal securities                                     | 569       | 9,702      | 360        | 4,535      | 929        | 14,237       |
| Asset-backed securities:                                 |           |            |            |            |            |              |
| Trust preferred securities banks and insurance           | 3,187     | 72,281     | 894,524    | 693,731    | 897,711    | 766,012      |
| Trust preferred securities real estate investment trusts |           |            | 20,774     | 19,487     | 20,774     | 19,487       |
| Auction rate securities                                  | 1,582     | 61,813     | 42         | 994        | 1,624      | 62,807       |
| Other  | 8         | 33         | 14,867     | 19,192     | 14,875     | 19,225       |
|  | \$ 10,031 | \$ 633,308 | \$ 934,750 | \$ 956,598 | \$ 944,781 | \$ 1,589,906 |

| (In thousands)                                 | Less than 12 months           |                            | September 30, 2010<br>12 months or more |                            | Total                         |                            |
|--|-------------------------------|----------------------------|---|----------------------------|-------------------------------|----------------------------|
|  | Gross<br>unrealized<br>losses | Estimated<br>fair<br>value | Gross<br>unrealized<br>losses           | Estimated<br>fair<br>value | Gross<br>unrealized<br>losses | Estimated<br>fair<br>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    |

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\$ 3,004    \$ 175,279    \$ 805,270    \$ 1,363,762    \$ 808,274    \$ 1,539,041

At September 30, 2011 and 2010, respectively, 50 and 53 HTM and 525 and 543 AFS investment securities were in an unrealized loss position.

We conduct a formal review of investment securities under ASC 320, *Investments - Debt and Equity Securities*, on a quarterly basis 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

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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. The more likely than not criteria is a lower threshold than the probable criteria under previous guidance.

Credit-related OTTI is recognized in earnings while noncredit-related OTTI on AFS securities not expected to be sold is recognized in OCI. Noncredit-related OTTI is based on other factors, including illiquidity. Presentation of OTTI is made in the statement of income on a gross basis with an offset for the amount of OTTI recognized in OCI. For securities classified as HTM, the amount of noncredit-related OTTI recognized in OCI is accreted to the credit-adjusted expected cash flow amounts of the securities over future periods.

Our 2010 Annual Report on Form 10-K describes in more detail our OTTI evaluation process. The following summarizes the conclusions from our OTTI evaluation for those security types that have significant gross unrealized losses at September 30, 2011:

*Asset-backed securities*

Trust preferred securities – banks and insurance: These CDO securities are interests in variable rate pools of trust preferred securities related to banks and insurance companies ( collateral issuers ). They are rated by one or more Nationally Recognized Statistical Rating Organizations ( NRSROs ), which are rating agencies registered with the Securities and Exchange Commission ( SEC ). They were purchased generally at par. The primary drivers that have given rise to the unrealized losses on CDOs with bank collateral are listed below:

- i. Market yield requirements for bank CDO securities remain very high. The credit crisis resulted in significant utilization of both the unique five-year deferral option each collateral issuer maintains during the life of the CDO and the ability of junior bonds to defer the payment of current interest. The resulting increase in the rate of return demanded by the market for trust preferred CDOs remains dramatically higher than the effective interest rates. All structured product fair values, including bank CDOs, deteriorated significantly during the credit crisis, generally reaching a low in mid-2009. Prices for some structured products, other than bank CDOs, have since rebounded as the crucial unknowns related to value became resolved and as trading increased in these securities. Unlike these other structured products, CDO tranches backed by bank trust preferred securities continue to have unresolved questions surrounding collateral behavior, specifically including, but not limited to, the future number, size and timing of bank failures, and of allowed deferrals and subsequent resumption of payment of contractual interest.
- ii. Structural features of the collateral make these CDO tranches difficult for market participants to model. The first feature unique to bank CDOs is the interest deferral feature previously discussed. During the credit crisis starting in 2008, certain banks within our CDO pools have exercised this prerogative. The extent to which these deferrals either transition to default or alternatively come current prior to the five-year deadline is extremely difficult for market participants to assess. Our CDO pools include banks which first exercised this deferral option in the second quarter of 2008. A significant number of banks in our CDO pools have already come current after a period of deferral, while others are still deferring but remain within the allowed deferral period. A second structural feature that is difficult to model is the payment in kind ( PIK ) feature which provides that upon reaching certain levels of collateral default or deferral, certain junior CDO tranches will not receive current interest but will instead have the interest amount that is unpaid be capitalized or deferred. The cash flow that would otherwise be paid to the junior CDO securities and

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the income notes is instead used to pay down the principal balance of the most senior CDO securities. If the current market yield required by market participants equaled the effective interest rate of a security, a market participant should be indifferent between receiving current interest and capitalizing and compounding interest for later payment. However, given the difference between current market rates and effective interest rates of the securities, market participants are not indifferent. The delay in payment caused by PIKing results in lower security fair values even if PIKing is projected to be fully cured. This feature is difficult to model and assess. It increases the risk premium the market applies to these securities.

- iii. Ratings are generally below-investment-grade for even some of the most senior tranches. Rating agency opinions can vary significantly on a CDO tranche. The presence of a below-investment-grade rating by even a single rating agency will severely limit the pool of buyers, which causes greater illiquidity and therefore most likely a higher implicit discount rate/lower price with regard to that CDO tranche.
- iv. There is a lack of consistent disclosure by each CDO's trustee of the identity of collateral issuers; in addition, complex structures make projecting tranche return profiles difficult for non-specialists in the product.
- v. At purchase, the expectation of cash flow variability was limited. As a result of the credit crisis, we have seen extreme variability of collateral performance both compared to expectations and between different pools.

Our ongoing review of these securities in accordance with the previous discussion determined that OTTI should be recorded at September 30, 2011.

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, collateral deterioration, widening of credit spreads for ABS securities, and general illiquidity in the CDO market. Based on our review, no OTTI was recorded for these securities at September 30, 2011.

Other asset-backed securities: Most of these CDO securities were purchased in 2009 from Lockhart Funding LLC at their carrying values and were then adjusted to fair value. Certain of these CDOs consist of ABS CDOs (also known as diversified structured finance CDOs). Unrealized losses since acquisition were caused mainly by deterioration in collateral quality, widening of credit spreads for asset backed securities, and ratings downgrades of the underlying residential mortgage-backed securities ( RMBS ) collateral. Our ongoing review of these securities in accordance with the previous discussion determined that OTTI should be recorded at September 30, 2011.

*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, no OTTI was recorded for these securities at September 30, 2011.

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## ZIONS BANCORPORATION AND SUBSIDIARIES

The following is a tabular rollforward of the total amount of credit-related OTTI, including amounts recognized in earnings:

| (In thousands)  | Three Months Ended<br>September 30, 2011 |              |              | Nine Months Ended<br>September 30, 2011 |              |              |
|---|--|--------------|--------------|---|--------------|--------------|
|   | HTM                                      | AFS          | Total        | HTM                                     | AFS          | Total        |
| Balance of credit-related OTTI at beginning of period   | \$ (5,357)                               | \$ (290,209) | \$ (295,566) | \$ (5,357)                              | \$ (335,682) | \$ (341,039) |
| Additions recognized in earnings during the period:   |  |              |              |   |              |              |
| Credit-related OTTI not previously recognized <sup>1</sup>  | (769)                                    | (3,007)      | (3,776)      | (769)                                   | (3,007)      | (3,776)      |
| 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> |  | (9,558)      | (9,558)      |   | (17,821)     | (17,821)     |
| Subtotal of amounts recognized in earnings  | (769)                                    | (12,565)     | (13,334)     | (769)                                   | (20,828)     | (21,597)     |
| Reductions for securities sold during the period  |  |              |              |   | 53,736       | 53,736       |
| Balance of credit-related OTTI at end of period   | \$ (6,126)                               | \$ (302,774) | \$ (308,900) | \$ (6,126)                              | \$ (302,774) | \$ (308,900) |

| (In thousands)  | Three Months Ended<br>September 30, 2010 |              |              | Nine Months Ended<br>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)      |   | (3,899)      | (3,899)      |
| 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)                                   | (68,985)     | (69,136)     |
| 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) |

<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.

For those securities with credit-related OTTI recognized in the statement of income, the amounts of noncredit-related OTTI recognized in OCI are related to AFS securities for all periods presented, except for \$20.9 million related to HTM securities first identified as having credit-related OTTI during the three months ended September 30, 2011.

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During the three and nine months ended September 30, nontaxable interest income on securities was \$5.2 million and \$16.4 million in 2011, and \$6.6 million and \$20.7 million in 2010, respectively.

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## ZIONS BANCORPORATION AND SUBSIDIARIES

The following summarizes gains and losses, including OTTI, that were recognized in the statements of income:

| (In thousands)                                 | Three Months Ended |                 |                    |                    | Nine Months Ended  |                   |                    |                    |
|--|--------------------|-----------------|--------------------|--------------------|--------------------|-------------------|--------------------|--------------------|
|  | September 30, 2011 |                 | September 30, 2010 |                    | September 30, 2011 |                   | September 30, 2010 |                    |
|  | Gross gains        | Gross losses    | Gross gains        | Gross losses       | Gross gains        | Gross losses      | Gross gains        | Gross losses       |
| <b>Investment securities:</b>                  |                    |                 |                    |                    |                    |                   |                    |                    |
| Held-to-maturity                               | \$ 85              | \$ 769          | \$                 | \$                 | \$ 202             | \$ 769            | \$                 | \$ 151             |
| Available-for-sale                             | 12,950             | 12,565          | 8,427              | 23,711             | 20,532             | 30,982            | 10,241             | 72,911             |
| <b>Other noninterest-bearing investments:</b>  |                    |                 |                    |                    |                    |                   |                    |                    |
| Nonmarketable equity securities                | 5,482              | 193             | 1,141              | 2,223              | 6,550              | 2,000             | 5,217              | 10,964             |
|  | 18,517             | 13,527          | 9,568              | 25,934             | 27,284             | 33,751            | 15,458             | 84,026             |
| <b>Net gains (losses)</b>                      |                    | <b>\$ 4,990</b> |                    | <b>\$ (16,366)</b> |                    | <b>\$ (6,467)</b> |                    | <b>\$ (68,568)</b> |
| <b>Statement of income information:</b>        |                    |                 |                    |                    |                    |                   |                    |                    |
| Net impairment losses on investment securities |                    | \$ (13,334)     |                    | \$ (23,712)        |                    | \$ (21,597)       |                    | \$ (73,035)        |
| Equity securities gains (losses), net          |                    | 5,289           |                    | (1,082)            |                    | 4,550             |                    | (5,747)            |
| Fixed income securities gains, net             |                    | 13,035          |                    | 8,428              |                    | 10,580            |                    | 10,214             |
| <b>Net gains (losses)</b>                      |                    | <b>\$ 4,990</b> |                    | <b>\$ (16,366)</b> |                    | <b>\$ (6,467)</b> |                    | <b>\$ (68,568)</b> |

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

Securities with a carrying value of \$1.4 billion and \$1.6 billion at September 30, 2011 and 2010, respectively, were pledged to secure public and trust deposits, advances, and for other purposes as required by law. Securities are also pledged as collateral for security repurchase agreements.

##### 5. LOANS AND ALLOWANCE FOR CREDIT LOSSES

ASU 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*, requires certain additional disclosures under ASC 310, *Receivables*, which became effective at December 31, 2010. Certain other disclosures were required beginning March 31, 2011 and relate to additional detail for the rollforward of the allowance for credit losses and for impaired loans. The new guidance is incorporated in the following discussion. It relates only to financial statement disclosures and does not affect the Company's financial condition or results of operations.

Additional accounting guidance and disclosures for troubled debt restructurings ( TDRs ) were required for the Company beginning September 30, 2011 in accordance with ASU 2011-02, *A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring*. ASU 2011-02 provides criteria to evaluate if a TDR exists based on whether (1) the restructuring constitutes a concession by the creditor and (2) the debtor is experiencing financial difficulty. The new guidance for TDRs is incorporated in the following discussion and did not affect the Company's financial condition or results of operations.

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*Loans and Loans Held for Sale*

Loans are summarized as follows according to major portfolio segment and specific loan class:

(In thousands)

|   | September 30,<br>2011 | December 31,<br>2010 | September 30,<br>2010 |
|---|-----------------------|----------------------|-----------------------|
| Loans held for sale                         | \$ 159,300            | \$ 206,286           | \$ 217,409            |
| Commercial:                                 |                       |                      |                       |
| Commercial and industrial                   | \$ 9,787,273          | \$ 9,167,001         | \$ 9,152,487          |
| Leasing                                     | 409,458               | 410,174              | 401,504               |
| Owner occupied                              | 8,334,192             | 8,217,363            | 8,345,475             |
| Municipal                                   | 440,638               | 438,985              | 333,564               |
| <b>Total commercial</b>                     | <b>18,971,561</b>     | <b>18,233,523</b>    | <b>18,233,030</b>     |
| Commercial real estate:                     |                       |                      |                       |
| Construction and land development           | 2,476,838             | 3,499,103            | 4,205,820             |
| Term  | 7,743,629             | 7,649,494            | 7,550,283             |
| <b>Total commercial real estate</b>         | <b>10,220,467</b>     | <b>11,148,597</b>    | <b>11,756,103</b>     |
| Consumer:                                   |                       |                      |                       |
| Home equity credit line                     | 2,157,626             | 2,141,740            | 2,156,958             |
| 1-4 family residential                      | 3,884,618             | 3,499,149            | 3,508,948             |
| Construction and other consumer real estate | 303,680               | 343,257              | 366,697               |
| Bankcard and other revolving plans          | 278,343               | 296,936              | 286,808               |
| Other                                       | 234,044               | 233,193              | 270,926               |
| <b>Total consumer</b>                       | <b>6,858,311</b>      | <b>6,514,275</b>     | <b>6,590,337</b>      |
| <b>FDIC-supported loans</b>                 | <b>800,530</b>        | <b>971,377</b>       | <b>1,089,926</b>      |
| <b>Total loans</b>                          | <b>\$ 36,850,869</b>  | <b>\$ 36,867,772</b> | <b>\$ 37,669,396</b>  |

FDIC-supported loans were acquired during 2009 and are indemnified by the FDIC under loss sharing agreements. The FDIC-supported loan balances presented in the accompanying schedules include purchased loans accounted for under ASC 310-30 at their carrying values rather than their outstanding balances. See subsequent discussion under purchased loans.

Owner occupied and commercial real estate loans include unamortized premiums of approximately \$76.8 million at September 30, 2011 and \$88.4 million at December 31, 2010.

Municipal loans generally include loans to municipalities with the debt service being repaid from general funds or pledged revenues of the municipal entity, or to private commercial entities or 501(c)(3) not-for-profit entities utilizing a pass-through municipal entity to achieve favorable tax treatment.

Loans with a carrying value of approximately \$20.6 billion at September 30, 2011 and \$20.4 billion at December 31, 2010 have been made available for pledging at the Federal Reserve and various Federal Home Loan Banks as collateral for current and potential borrowings.



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We sold loans totaling \$353 million and \$1.2 billion for the three and nine months ended September 30, 2011 that were previously classified as loans held for sale. Amounts added to loans held for sale during these same periods were \$336 million and \$1.1 billion. Income from loans sold, excluding servicing, for these same periods was \$5.5 million and \$19.9 million.

### *Allowance for Credit Losses*

The allowance for credit losses ( ACL ) consists of the allowance for loan and lease losses ( ALLL, also

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referred to as the allowance for loan losses) and the reserve for unfunded lending commitments ( RULC ).

Allowance for Loan and Lease Losses: The ALLL represents our estimate of probable and estimable losses inherent in the loan and lease portfolio as of the balance sheet date. Losses are charged to the ALLL when recognized. Generally, commercial loans are charged off or charged down at the point at which they are determined to be uncollectible in whole or in part, or when 180 days past due unless the loan is well secured and in the process of collection. Consumer loans are either charged off or charged down to net realizable value no later than the month in which they become 180 days past due. Closed-end loans that are not secured by residential real estate are either charged off or charged down to net realizable value no later than the month in which they become 120 days past due. We establish the amount of the ALLL by analyzing the portfolio at least quarterly, and we adjust the provision for loan losses so the ALLL is at an appropriate level at the balance sheet date.

The methodologies we use to estimate the ALLL depend upon the impairment status and portfolio segment of the loan. The methodology for impaired loans is discussed subsequently. For the commercial and commercial real estate segments, we use a comprehensive loan grading system to assign probability of default and loss given default grades to each loan. The credit quality indicators discussed subsequently are based on this grading system. Probability of default and loss given default grades are based on both financial and statistical models and loan officers judgment. We create groupings of these grades for each subsidiary bank and loan class and calculate historic loss rates using a loss migration analysis that attributes historic realized losses to historic loan grades over the time period of the loss migration analysis, ranging from the previous 6 to 60 months.

For the consumer loan segment, we use roll rate models to forecast probable inherent losses. Roll rate models measure the rate at which consumer loans migrate from one delinquency bucket to the next worse delinquency bucket, and eventually to loss. We estimate roll rates for consumer loans using recent delinquency and loss experience. These roll rates are then applied to current delinquency levels to estimate probable inherent losses.

For FDIC-supported loans purchased with evidence of credit deterioration, we determine the ALLL according to ASC 310-30. The accounting for these loans, including the allowance calculation, is described in the purchased loans section following.

After applying historic loss experience, as described above, we review the quantitatively derived level of ALLL for each segment using qualitative criteria. We track various risk factors that influence our judgment regarding the level of the ALLL across the portfolio segments. Primary qualitative factors that may not be reflected in our quantitative models include:

Asset quality trends

Risk management and loan administration practices

Risk identification practices

Effect of changes in the nature and volume of the portfolio

Existence and effect of any portfolio concentrations

National economic and business conditions

Regional and local economic and business conditions

Data availability and applicability

We review changes in these factors to ensure that changes in the level of the ALLL are consistent with changes in these factors. The magnitude of the impact of each of these factors on our qualitative assessment

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of the ALLL changes from quarter to quarter according to the extent these factors are already reflected in historic loss rates and according to the extent these factors diverge from one another. We also consider the uncertainty inherent in the estimation process when evaluating the ALLL.

Reserve for Unfunded Lending Commitments: The Company also estimates a reserve for potential losses associated with off-balance sheet commitments and standby letters of credit. We determine the RULC using the same procedures and methodologies that we use for the ALLL. The loss factors used in the RULC are the same as the loss factors used in the ALLL, and the qualitative adjustments used in the RULC are the same as the qualitative adjustments used in the ALLL. We adjust the Company's unfunded lending commitments that are not unconditionally cancelable to an outstanding amount equivalent using credit conversion factors and we apply the loss factors to the outstanding equivalents.

Changes in ACL Assumptions: During the third quarter of 2011, we did not change any assumptions in our loss migration model that we use to estimate the ALLL and RULC for the commercial and commercial real estate segments. During the first quarter of 2011, we changed certain assumptions in our loss migration model by expanding the loss look-back periods for the commercial and commercial real estate segments to include losses as far back as 60 months. Prior to the first quarter of 2011, we used loss migration models based on the most recent 18 months of loss data to estimate probable losses for the portions of the segments that were collectively evaluated for impairment. The expansion of the look-back periods to a maximum of 60 months during the first quarter of 2011 increased the quantitative portion of the ACL by approximately \$63 million as of March 31, 2011 over what it would have been had the previous assumptions been used. We considered these assumption changes in assessing our qualitative adjustments to the ACL. The change was made so we could continue to capture the inherent risks in the portfolio, as we believe the high level of loss severity rates that occurred during the longer periods are still relevant to estimating probable inherent losses in those segments. Our quantitative models serve as the starting point for our estimation of the appropriate level of the ACL, and therefore we utilize the qualitative portion of the ACL to capture these risks not captured in the quantitative models.

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## ZIONS BANCORPORATION AND SUBSIDIARIES

Changes in the allowance for credit losses are summarized as follows:

| (In thousands)                                      | Three Months Ended September 30, 2011 |                        |            |                |              |
|---|---------------------------------------|------------------------|------------|----------------|--------------|
|   | Commercial                            | Commercial real estate | Consumer   | FDIC-supported | Total        |
| Allowance for loan losses:                          |                                       |                        |            |                |              |
| Balance at beginning of period                      | \$ 667,646                            | \$ 392,852             | \$ 149,773 | \$ 27,462      | \$ 1,237,733 |
| Additions:  |                                       |                        |            |                |              |
| Provision for loan losses                           | 47,764                                | (49,770)               | 15,618     | 941            | 14,553       |
| Change in allowance covered by FDIC indemnification |                                       |                        |            | (1,647)        | (1,647)      |
| Deductions:   |                                       |                        |            |                |              |
| Gross loan and lease charge-offs                    | (63,047)                              | (44,658)               | (18,475)   | (2,966)        | (129,146)    |
| Net charge-offs recoverable from FDIC               |                                       |                        |            | 127            | 127          |
| Recoveries  | 8,788                                 | 13,285                 | 3,185      | 2,025          | 27,283       |
| Net loan and lease charge-offs                      | (54,259)                              | (31,373)               | (15,290)   | (814)          | (101,736)    |
| Balance at end of period                            | \$ 661,151                            | \$ 311,709             | \$ 150,101 | \$ 25,942      | \$ 1,148,903 |
| Reserve for unfunded lending commitments:           |                                       |                        |            |                |              |
| Balance at beginning of period                      | \$ 75,082                             | \$ 23,852              | \$ 1,330   | \$             | \$ 100,264   |
| Provision charged (credited) to earnings            | 1,549                                 | (3,278)                | (473)      |                | (2,202)      |
| Balance at end of period                            | \$ 76,631                             | \$ 20,574              | \$ 857     | \$             | \$ 98,062    |
| Total allowance for credit losses:                  |                                       |                        |            |                |              |
| Allowance for loan losses                           | \$ 661,151                            | \$ 311,709             | \$ 150,101 | \$ 25,942      | \$ 1,148,903 |
| Reserve for unfunded lending commitments            | 76,631                                | 20,574                 | 857        |                | 98,062       |
| Total allowance for credit losses                   | \$ 737,782                            | \$ 332,283             | \$ 150,958 | \$ 25,942      | \$ 1,246,965 |

| (In thousands)                                      | Nine Months Ended September 30, 2011 |                        |            |                |              |
|---|--------------------------------------|------------------------|------------|----------------|--------------|
|   | Commercial                           | Commercial real estate | Consumer   | FDIC-supported | Total        |
| Allowance for loan losses:                          |                                      |                        |            |                |              |
| Balance at beginning of period                      | \$ 761,107                           | \$ 487,235             | \$ 154,326 | \$ 37,673      | \$ 1,440,341 |
| Additions:  |                                      |                        |            |                |              |
| Provision for loan losses                           | 37,864                               | (21,475)               | 53,564     | 5,930          | 75,883       |
| Change in allowance covered by FDIC indemnification |                                      |                        |            | (11,923)       | (11,923)     |
| Deductions:   |                                      |                        |            |                |              |
| Gross loan and lease charge-offs                    | (172,103)                            | (182,849)              | (68,407)   | (16,199)       | (439,558)    |
| Net charge-offs recoverable from FDIC               |                                      |                        |            | 5,727          | 5,727        |
| Recoveries  | 34,283                               | 28,798                 | 10,618     | 4,734          | 78,433       |

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|   |            |            |            |           |              |
|---|------------|------------|------------|-----------|--------------|
| Net loan and lease charge-offs            | (137,820)  | (154,051)  | (57,789)   | (5,738)   | (355,398)    |
| Balance at end of period                  | \$ 661,151 | \$ 311,709 | \$ 150,101 | \$ 25,942 | \$ 1,148,903 |
| Reserve for unfunded lending commitments: |            |            |            |           |              |
| Balance at beginning of period            | \$ 83,352  | \$ 26,373  | \$ 1,983   | \$        | \$ 111,708   |
| Provision credited to earnings            | (6,721)    | (5,799)    | (1,126)    |           | (13,646)     |
| Balance at end of period                  | \$ 76,631  | \$ 20,574  | \$ 857     | \$        | \$ 98,062    |
| Total allowance for credit losses:        |            |            |            |           |              |
| Allowance for loan losses                 | \$ 661,151 | \$ 311,709 | \$ 150,101 | \$ 25,942 | \$ 1,148,903 |
| Reserve for unfunded lending commitments  | 76,631     | 20,574     | 857        |           | 98,062       |
| Total allowance for credit losses         | \$ 737,782 | \$ 332,283 | \$ 150,958 | \$ 25,942 | \$ 1,246,965 |

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## ZIONS BANCORPORATION AND SUBSIDIARIES

The ALLL and outstanding loan balances according to the Company's impairment method are summarized as follows:

| <b>September 30, 2011</b>                             |                      |                                   |                     |                            |                      |
|---|----------------------|-----------------------------------|---------------------|----------------------------|----------------------|
| <b>(In thousands)</b>                                 | <b>Commercial</b>    | <b>Commercial<br/>real estate</b> | <b>Consumer</b>     | <b>FDIC-<br/>supported</b> | <b>Total</b>         |
| <b>Allowance for loan losses:</b>                     |                      |                                   |                     |                            |                      |
| Individually evaluated for impairment                 | \$ 20,089            | \$ 13,840                         | \$ 8,755            | \$ 571                     | \$ 43,255            |
| Collectively evaluated for impairment                 | 641,062              | 297,869                           | 141,346             | 18,091                     | 1,098,368            |
| Purchased loans with evidence of credit deterioration |                      |                                   |                     | 7,280                      | 7,280                |
| <b>Total</b>  | <b>\$ 661,151</b>    | <b>\$ 311,709</b>                 | <b>\$ 150,101</b>   | <b>\$ 25,942</b>           | <b>\$ 1,148,903</b>  |
| <b>Outstanding loan balances:</b>                     |                      |                                   |                     |                            |                      |
| Individually evaluated for impairment                 | \$ 416,682           | \$ 725,026                        | \$ 120,403          | \$ 4,811                   | \$ 1,266,922         |
| Collectively evaluated for impairment                 | 18,554,879           | 9,495,441                         | 6,737,908           | 667,777                    | 35,456,005           |
| Purchased loans with evidence of credit deterioration |                      |                                   |                     | 127,942                    | 127,942              |
| <b>Total</b>  | <b>\$ 18,971,561</b> | <b>\$ 10,220,467</b>              | <b>\$ 6,858,311</b> | <b>\$ 800,530</b>          | <b>\$ 36,850,869</b> |

| <b>December 31, 2010</b>                              |                      |                                   |                     |                            |                      |
|---|----------------------|-----------------------------------|---------------------|----------------------------|----------------------|
| <b>(In thousands)</b>                                 | <b>Commercial</b>    | <b>Commercial<br/>real estate</b> | <b>Consumer</b>     | <b>FDIC-<br/>supported</b> | <b>Total</b>         |
| <b>Allowance for loan losses:</b>                     |                      |                                   |                     |                            |                      |
| Individually evaluated for impairment                 | \$ 53,237            | \$ 37,545                         | \$ 6,335            | \$                         | \$ 97,117            |
| Collectively evaluated for impairment                 | 707,870              | 449,690                           | 147,991             | 30,684                     | 1,336,235            |
| Purchased loans with evidence of credit deterioration |                      |                                   |                     | 6,989                      | 6,989                |
| <b>Total</b>  | <b>\$ 761,107</b>    | <b>\$ 487,235</b>                 | <b>\$ 154,326</b>   | <b>\$ 37,673</b>           | <b>\$ 1,440,341</b>  |
| <b>Outstanding loan balances:</b>                     |                      |                                   |                     |                            |                      |
| Individually evaluated for impairment                 | \$ 544,243           | \$ 1,003,402                      | \$ 137,928          | \$                         | \$ 1,685,573         |
| Collectively evaluated for impairment                 | 17,689,280           | 10,145,195                        | 6,376,347           | 791,587                    | 35,002,409           |
| Purchased loans with evidence of credit deterioration |                      |                                   |                     | 179,790                    | 179,790              |
| <b>Total</b>  | <b>\$ 18,233,523</b> | <b>\$ 11,148,597</b>              | <b>\$ 6,514,275</b> | <b>\$ 971,377</b>          | <b>\$ 36,867,772</b> |

**Nonaccrual and Past Due Loans**

Loans are generally placed on nonaccrual status when payment in full of principal and interest is not expected, or 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. Factors we consider in determining whether a loan is placed on nonaccrual include delinquency status, collateral value, borrower or guarantor financial statement information, bankruptcy status, and other information which would indicate that the full and timely collection of interest and principal is uncertain.

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A nonaccrual loan may be returned to accrual status when all delinquent interest and principal become current in accordance with the terms of the loan agreement; the loan, if secured, is well secured; the borrower has paid according to the contractual terms for a minimum of six months; and analysis of the borrower indicates a reasonable assurance of the ability to maintain payments. Payments received on nonaccrual loans are applied as a reduction to the principal outstanding.

Closed-end loans with payments scheduled monthly are reported as past due when the borrower is in arrears



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for two or more monthly payments. Similarly, open-end credit such as charge-card plans and other revolving credit plans are reported as past due when the minimum payment has not been made for two or more billing cycles. Other multipayment obligations (i.e., quarterly, semiannual, etc.), single payment, and demand notes are reported as past due when either principal or interest is due and unpaid for a period of 30 days or more.

Nonaccrual loans are summarized as follows:

| (In thousands)                              | September 30,<br>2011 | December 31,<br>2010 | September 30,<br>2010 |
|---|-----------------------|----------------------|-----------------------|
| Loans held for sale                         | \$ 18,216             | \$                   | \$                    |
| Commercial:                                 |                       |                      |                       |
| Commercial and industrial                   | \$ 175,626            | \$ 224,499           | \$ 284,045            |
| Leasing                                     | 742                   | 801                  | 1,885                 |
| Owner occupied                              | 267,663               | 342,467              | 414,220               |
| Municipal                                   |                       | 2,002                |                       |
| Total commercial                            | 444,031               | 569,769              | 700,150               |
| Commercial real estate:                     |                       |                      |                       |
| Construction and land development           | 245,527               | 493,445              | 660,080               |
| Term  | 188,931               | 264,305              | 262,572               |
| Total commercial real estate                | 434,458               | 757,750              | 922,652               |
| Consumer:                                   |                       |                      |                       |
| Home equity credit line                     | 14,789                | 14,047               | 16,057                |
| 1-4 family residential                      | 107,992               | 124,470              | 145,134               |
| Construction and other consumer real estate | 15,579                | 23,719               | 22,397                |
| Bankcard and other revolving plans          | 418                   | 958                  | 600                   |
| Other                                       | 3,320                 | 2,156                | 2,580                 |
| Total consumer loans                        | 142,098               | 165,350              | 186,768               |
| FDIC-supported loans                        | 29,082                | 35,837               | 127                   |
| Total                                       | \$ 1,049,669          | \$ 1,528,706         | \$ 1,809,697          |

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## ZIONS BANCORPORATION AND SUBSIDIARIES

Past due loans (accruing and nonaccruing) are summarized as follows:

| (In thousands)                                 | September 30, 2011   |                        |                      |                   |                      | Accruing             | Nonaccruing                      |
|--|----------------------|------------------------|----------------------|-------------------|----------------------|----------------------|----------------------------------|
|  | Current              | 30-89 days<br>past due | 90+ days<br>past due | Total<br>past due | Total<br>loans       | loans                | loans                            |
|  |                      |                        |                      |                   |                      | 90+ days<br>past due | that are<br>current <sup>1</sup> |
| Loans held for sale                            | \$ 141,084           | \$                     | \$ 18,216            | \$ 18,216         | \$ 159,300           | \$                   | \$                               |
| Commercial:                                    |                      |                        |                      |                   |                      |                      |                                  |
| Commercial and industrial                      | \$ 9,638,035         | \$ 76,084              | \$ 73,154            | \$ 149,238        | \$ 9,787,273         | \$ 3,778             | \$ 77,789                        |
| Leasing  | 408,871              | 270                    | 317                  | 587               | 409,458              |                      | 408                              |
| Owner occupied                                 | 8,100,075            | 85,918                 | 148,199              | 234,117           | 8,334,192            | 4,237                | 90,362                           |
| Municipal                                      | 440,638              |                        |                      |                   | 440,638              |                      |                                  |
| <b>Total commercial</b>                        | <b>18,587,619</b>    | <b>162,272</b>         | <b>221,670</b>       | <b>383,942</b>    | <b>18,971,561</b>    | <b>8,015</b>         | <b>168,559</b>                   |
| Commercial real estate:                        |                      |                        |                      |                   |                      |                      |                                  |
| Construction and land development              | 2,322,117            | 30,243                 | 124,478              | 154,721           | 2,476,838            | 2,616                | 103,193                          |
| Term   | 7,621,388            | 51,702                 | 70,539               | 122,241           | 7,743,629            | 1,103                | 98,933                           |
| <b>Total commercial real estate</b>            | <b>9,943,505</b>     | <b>81,945</b>          | <b>195,017</b>       | <b>276,962</b>    | <b>10,220,467</b>    | <b>3,719</b>         | <b>202,126</b>                   |
| Consumer:                                      |                      |                        |                      |                   |                      |                      |                                  |
| Home equity credit line                        | 2,142,550            | 7,797                  | 7,279                | 15,076            | 2,157,626            |                      | 4,169                            |
| 1-4 family residential                         | 3,783,087            | 30,073                 | 71,458               | 101,531           | 3,884,618            | 2,828                | 31,803                           |
| Construction and other consumer<br>real estate | 292,616              | 2,970                  | 8,094                | 11,064            | 303,680              | 150                  | 7,167                            |
| Bankcard and other revolving plans             | 274,806              | 2,106                  | 1,431                | 3,537             | 278,343              | 1,130                | 76                               |
| Other  | 229,668              | 1,556                  | 2,820                | 4,376             | 234,044              | 21                   | 312                              |
| <b>Total consumer loans</b>                    | <b>6,722,727</b>     | <b>44,502</b>          | <b>91,082</b>        | <b>135,584</b>    | <b>6,858,311</b>     | <b>4,129</b>         | <b>43,527</b>                    |
| <b>FDIC-supported loans</b>                    | <b>685,512</b>       | <b>13,816</b>          | <b>101,202</b>       | <b>115,018</b>    | <b>800,530</b>       | <b>85,714</b>        | <b>13,594</b>                    |
| <b>Total</b>                                   | <b>\$ 35,939,363</b> | <b>\$ 302,535</b>      | <b>\$ 608,971</b>    | <b>\$ 911,506</b> | <b>\$ 36,850,869</b> | <b>\$ 101,577</b>    | <b>\$ 427,806</b>                |

| (In thousands)            | December 31, 2010 |                        |                      |                   |                | Accruing             | Nonaccruing                      |
|---------------------------|-------------------|------------------------|----------------------|-------------------|----------------|----------------------|----------------------------------|
|                           | Current           | 30-89 days<br>past due | 90+ days<br>past due | Total<br>past due | Total<br>loans | loans                | loans                            |
|                           |                   |                        |                      |                   |                | 90+ days<br>past due | that are<br>current <sup>1</sup> |
| Loans held for sale       | \$ 206,286        | \$                     | \$                   | \$                | \$ 206,286     | \$                   | \$                               |
| Commercial:               |                   |                        |                      |                   |                |                      |                                  |
| Commercial and industrial | \$ 8,938,120      | \$ 100,119             | \$ 128,762           | \$ 228,881        | \$ 9,167,001   | \$ 7,533             | \$ 77,406                        |
| Leasing                   | 408,015           | 1,352                  | 807                  | 2,159             | 410,174        | 66                   | 23                               |

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|   |                      |                   |                     |                     |                      |                   |                   |
|---|----------------------|-------------------|---------------------|---------------------|----------------------|-------------------|-------------------|
| Owner occupied                              | 7,905,193            | 83,658            | 228,512             | 312,170             | 8,217,363            | 3,876             | 91,527            |
| Municipal                                   | 438,985              |                   |                     |                     | 438,985              |                   | 2,002             |
| <b>Total commercial</b>                     | <b>17,690,313</b>    | <b>185,129</b>    | <b>358,081</b>      | <b>543,210</b>      | <b>18,233,523</b>    | <b>11,475</b>     | <b>170,958</b>    |
| Commercial real estate:                     |                      |                   |                     |                     |                      |                   |                   |
| Construction and land development           | 3,172,537            | 57,891            | 268,675             | 326,566             | 3,499,103            | 1,916             | 200,864           |
| Term  | 7,436,222            | 85,595            | 127,677             | 213,272             | 7,649,494            | 4,757             | 112,447           |
| <b>Total commercial real estate</b>         | <b>10,608,759</b>    | <b>143,486</b>    | <b>396,352</b>      | <b>539,838</b>      | <b>11,148,597</b>    | <b>6,673</b>      | <b>313,311</b>    |
| Consumer:                                   |                      |                   |                     |                     |                      |                   |                   |
| Home equity credit line                     | 2,126,505            | 7,494             | 7,741               | 15,235              | 2,141,740            |                   | 2,224             |
| 1-4 family residential                      | 3,383,420            | 26,345            | 89,384              | 115,729             | 3,499,149            | 2,966             | 34,425            |
| Construction and other consumer real estate | 322,341              | 8,261             | 12,655              | 20,916              | 343,257              | 532               | 10,089            |
| Bankcard and other revolving plans          | 290,879              | 3,912             | 2,145               | 6,057               | 296,936              | 1,572             | 311               |
| Other                                       | 227,654              | 4,586             | 953                 | 5,539               | 233,193              |                   | 959               |
| <b>Total consumer loans</b>                 | <b>6,350,799</b>     | <b>50,598</b>     | <b>112,878</b>      | <b>163,476</b>      | <b>6,514,275</b>     | <b>5,070</b>      | <b>48,008</b>     |
| <b>FDIC-supported loans</b>                 | <b>804,760</b>       | <b>27,256</b>     | <b>139,361</b>      | <b>166,617</b>      | <b>971,377</b>       | <b>118,760</b>    | <b>15,136</b>     |
| <b>Total</b>                                | <b>\$ 35,454,631</b> | <b>\$ 406,469</b> | <b>\$ 1,006,672</b> | <b>\$ 1,413,141</b> | <b>\$ 36,867,772</b> | <b>\$ 141,978</b> | <b>\$ 547,413</b> |

<sup>1</sup> Represents nonaccrual loans that are not past due more than 30 days; however, full payment of principal and interest is still not expected.

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### ZIONS BANCORPORATION AND SUBSIDIARIES

#### ***Credit Quality Indicators***

In addition to the past due and nonaccrual criteria, we also analyze loans using a loan grading system. We generally assign internal grades to loans with commitments less than \$500,000 based on the performance of those loans. Performance-based grades follow our definitions of Pass, Special Mention, Substandard, and Doubtful, which are consistent with published definitions of regulatory risk classifications.

Definitions of Pass, Special Mention, Substandard, and Doubtful are summarized as follows:

*Pass:* A Pass asset is higher quality and does not fit any of the other categories described below. The likelihood of loss is considered remote.

*Special Mention:* A Special Mention asset has potential weaknesses that may be temporary or, if left uncorrected, may result in a loss. While concerns exist, the bank is currently protected and loss is considered unlikely and not imminent.

*Substandard:* A Substandard asset is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Assets so classified have well defined weaknesses and are characterized by the distinct possibility that the bank may sustain some loss if deficiencies are not corrected.

*Doubtful:* A Doubtful asset has all the weaknesses inherent in a Substandard asset with the added characteristics that the weaknesses make collection or liquidation in full highly questionable.

We generally assign internal grades to commercial and commercial real estate loans with commitments equal to or greater than \$500,000 based on financial/statistical models and loan officer judgment. For these larger loans, we assign one of fourteen probability of default grades (in order of declining credit quality) and one of twelve loss-given-default grades. The first ten of the fourteen probability of default grades indicate a Pass grade. The remaining four grades are: Special Mention, Substandard, Doubtful, and Loss. Loss indicates that the outstanding balance has been charged-off. We evaluate our credit quality information such as risk grades at least quarterly, or as soon as we identify information that might warrant an upgrade or downgrade. Risk grades are then updated as necessary.

For consumer loans, we generally assign internal risk grades similar to those described above based on payment performance. These are generally assigned with either a Pass or Substandard grade and are reviewed as we identify information that might warrant an upgrade or downgrade.

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## ZIONS BANCORPORATION AND SUBSIDIARIES

Outstanding loan balances (accruing and nonaccruing) categorized by these credit quality indicators are summarized as follows:

| (In thousands)                              | September 30, 2011 |                    |                  |           |                |                    |
|---|--------------------|--------------------|------------------|-----------|----------------|--------------------|
|   | Pass               | Special<br>Mention | Sub-<br>standard | Doubtful  | Total<br>loans | Total<br>allowance |
| Loans held for sale                         | \$ 140,954         | \$                 | \$ 18,346        | \$        | \$ 159,300     | \$                 |
| Commercial:                                 |                    |                    |                  |           |                |                    |
| Commercial and industrial                   | \$ 9,041,851       | \$ 218,042         | \$ 512,683       | \$ 14,697 | \$ 9,787,273   |                    |
| Leasing                                     | 399,342            |                    | 10,116           |           | 409,458        |                    |
| Owner occupied                              | 7,569,305          | 199,421            | 556,035          | 9,431     | 8,334,192      |                    |
| Municipal                                   | 425,177            | 15,461             |                  |           | 440,638        |                    |
| Total commercial                            | 17,435,675         | 432,924            | 1,078,834        | 24,128    | 18,971,561     | \$ 661,151         |
| Commercial real estate:                     |                    |                    |                  |           |                |                    |
| Construction and land development           | 1,761,014          | 217,839            | 497,019          | 966       | 2,476,838      |                    |
| Term  | 6,978,372          | 258,644            | 502,697          | 3,916     | 7,743,629      |                    |
| Total commercial real estate                | 8,739,386          | 476,483            | 999,716          | 4,882     | 10,220,467     | 311,709            |
| Consumer:                                   |                    |                    |                  |           |                |                    |
| Home equity credit line                     | 2,109,662          | 108                | 47,812           | 44        | 2,157,626      |                    |
| 1-4 family residential                      | 3,723,268          | 6,709              | 154,395          | 246       | 3,884,618      |                    |
| Construction and other consumer real estate | 281,968            | 637                | 20,715           | 360       | 303,680        |                    |
| Bankcard and other revolving plans          | 266,400            | 3,631              | 8,312            |           | 278,343        |                    |
| Other                                       | 227,978            | 408                | 5,649            | 9         | 234,044        |                    |
| Total consumer loans                        | 6,609,276          | 11,493             | 236,883          | 659       | 6,858,311      | 150,101            |
| FDIC-supported loans                        | 529,954            | 43,559             | 227,006          | 11        | 800,530        | 25,942             |
| Total                                       | \$ 33,314,291      | \$ 964,459         | \$ 2,542,439     | \$ 29,680 | \$ 36,850,869  | \$ 1,148,903       |

| (In thousands)            | December 31, 2010 |                    |                  |           |                |                    |
|---------------------------|-------------------|--------------------|------------------|-----------|----------------|--------------------|
|                           | Pass              | Special<br>Mention | Sub-<br>standard | Doubtful  | Total<br>loans | Total<br>allowance |
| Loans held for sale       | \$ 206,286        | \$                 | \$               | \$        | \$ 206,286     | \$                 |
| Commercial:               |                   |                    |                  |           |                |                    |
| Commercial and industrial | \$ 8,234,515      | \$ 254,369         | \$ 658,400       | \$ 19,717 | \$ 9,167,001   |                    |
| Leasing                   | 395,081           | 1,170              | 13,923           |           | 410,174        |                    |
| Owner occupied            | 7,358,189         | 147,562            | 705,128          | 6,484     | 8,217,363      |                    |
| Municipal                 | 436,983           |                    | 2,002            |           | 438,985        |                    |
| Total commercial          | 16,424,768        | 403,101            | 1,379,453        | 26,201    | 18,233,523     | \$ 761,107         |
| Commercial real estate:   |                   |                    |                  |           |                |                    |

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|   |                      |                     |                     |                  |                      |                     |
|---|----------------------|---------------------|---------------------|------------------|----------------------|---------------------|
| Construction and land development           | 1,921,110            | 470,431             | 1,093,772           | 13,790           | 3,499,103            |                     |
| Term  | 6,768,022            | 252,814             | 624,196             | 4,462            | 7,649,494            |                     |
| <b>Total commercial real estate</b>         | <b>8,689,132</b>     | <b>723,245</b>      | <b>1,717,968</b>    | <b>18,252</b>    | <b>11,148,597</b>    | <b>487,235</b>      |
| Consumer:                                   |                      |                     |                     |                  |                      |                     |
| Home equity credit line                     | 2,098,365            | 855                 | 42,349              | 171              | 2,141,740            |                     |
| 1-4 family residential                      | 3,313,875            | 7,274               | 177,963             | 37               | 3,499,149            |                     |
| Construction and other consumer real estate | 310,209              | 3,424               | 29,176              | 448              | 343,257              |                     |
| Bankcard and other revolving plans          | 282,353              | 4,535               | 10,040              | 8                | 296,936              |                     |
| Other                                       | 226,832              | 111                 | 6,038               | 212              | 233,193              |                     |
| <b>Total consumer loans</b>                 | <b>6,231,634</b>     | <b>16,199</b>       | <b>265,566</b>      | <b>876</b>       | <b>6,514,275</b>     | <b>154,326</b>      |
| <b>FDIC-supported loans</b>                 | <b>646,476</b>       | <b>45,431</b>       | <b>278,044</b>      | <b>1,426</b>     | <b>971,377</b>       | <b>37,673</b>       |
| <b>Total</b>                                | <b>\$ 31,992,010</b> | <b>\$ 1,187,976</b> | <b>\$ 3,641,031</b> | <b>\$ 46,755</b> | <b>\$ 36,867,772</b> | <b>\$ 1,440,341</b> |

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## ZIONS BANCORPORATION AND SUBSIDIARIES

**Impaired Loans**

Loans are considered impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due in accordance with the contractual terms of the loan agreement, including scheduled interest payments. If a nonaccrual loan has a balance greater than \$500,000 or if a loan is a TDR (including TDRs that subsequently default), we consider the loan to be impaired and estimate a specific reserve for the loan according to ASC 310. Beginning in the third quarter of 2011, we increased this threshold to \$1,000,000. Smaller nonaccrual loans are pooled for ALLL estimation purposes. Our consideration of impairment also incorporates the same determining factors discussed previously under nonaccrual loans.

When loans are impaired, we estimate a specific reserve for the loan based on the projected present value of the loan's future cash flows discounted at the loan's effective interest rate, the observable market price of the loan, or the fair value of the loan's underlying collateral less the cost to sell. When we base the impairment amount on the fair value of the loan's underlying collateral, we generally charge off the portion of the balance that is impaired, such that these loans do not have a specific reserve in the ALLL. Payments received on impaired loans that are accruing are recognized in interest income, according to the contractual loan agreement. Payments received on impaired loans that are on nonaccrual are not recognized in interest income, but are applied as a reduction to the principal outstanding. Payments are recognized when cash is received.

Information on impaired loans is summarized as follows, including the average recorded investment and interest income recognized for the three and nine months ended September 30, 2011:

| (In thousands)                              | Unpaid<br>principal<br>balance | September 30, 2011<br>Recorded investment |                   | Total<br>recorded<br>investment | Related<br>allowance | Three Months Ended<br>September 30, 2011 |                                  | Nine Months Ended<br>September 30, 2011 |                                  |
|---|--------------------------------|---|-------------------|---------------------------------|----------------------|--|----------------------------------|---|----------------------------------|
|   |                                | with no<br>allowance                      | with<br>allowance |                                 |                      | Average<br>recorded<br>investment        | Interest<br>income<br>recognized | Average<br>recorded<br>investment       | Interest<br>income<br>recognized |
| <b>Commercial:</b>                          |                                |   |                   |                                 |                      |  |                                  |   |                                  |
| Commercial and industrial                   | \$ 247,439                     | \$ 87,778                                 | \$ 85,525         | \$ 173,303                      | \$ 12,637            | \$ 176,884                               | \$ 468                           | \$ 194,582                              | \$ 1,608                         |
| Leasing                                     |                                |   |                   |                                 |                      | 240                                      |                                  | 124                                     |                                  |
| Owner occupied                              | 301,079                        | 148,384                                   | 94,995            | 243,379                         | 7,452                | 269,455                                  | 634                              | 297,808                                 | 2,066                            |
| Municipal                                   |                                |   |                   |                                 |                      | 3,872                                    |                                  | 3,256                                   |                                  |
| Total commercial                            | 548,518                        | 236,162                                   | 180,520           | 416,682                         | 20,089               | 450,451                                  | 1,102                            | 495,770                                 | 3,674                            |
| <b>Commercial real estate:</b>              |                                |   |                   |                                 |                      |  |                                  |   |                                  |
| Construction and land development           | 449,789                        | 249,888                                   | 99,122            | 349,010                         | 6,641                | 406,510                                  | 1,229                            | 480,834                                 | 3,803                            |
| Term  | 435,832                        | 232,159                                   | 143,857           | 376,016                         | 7,199                | 387,178                                  | 2,082                            | 412,378                                 | 6,381                            |
| Total commercial real estate                | 885,621                        | 482,047                                   | 242,979           | 725,026                         | 13,840               | 793,688                                  | 3,311                            | 893,212                                 | 10,184                           |
| <b>Consumer:</b>                            |                                |   |                   |                                 |                      |  |                                  |   |                                  |
| Home equity credit line                     | 1,702                          | 1,374                                     | 226               | 1,600                           | 3                    | 1,133                                    |                                  | 1,265                                   | 1                                |
| 1-4 family residential                      | 122,606                        | 61,685                                    | 42,206            | 103,891                         | 7,804                | 103,983                                  | 353                              | 106,439                                 | 977                              |
| Construction and other consumer real estate | 15,594                         | 4,446                                     | 6,818             | 11,264                          | 945                  | 12,034                                   | 29                               | 12,744                                  | 51                               |
| Bankcard and other revolving plans          |                                |   |                   |                                 |                      |  |                                  | 21                                      |                                  |
| Other                                       | 3,719                          | 3,619                                     | 29                | 3,648                           | 3                    | 3,723                                    |                                  | 3,793                                   |                                  |

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|                      |              |            |            |              |           |              |                     |              |                     |
|----------------------|--------------|------------|------------|--------------|-----------|--------------|---------------------|--------------|---------------------|
| Total consumer loans | 143,621      | 71,124     | 49,279     | 120,403      | 8,755     | 120,873      | 382                 | 124,262      | 1,029               |
| FDIC-supported loans | 376,757      | 58,181     | 74,572     | 132,753      | 7,851     | 133,911      | 12,661 <sup>1</sup> | 152,241      | 41,164 <sup>1</sup> |
| Total                | \$ 1,954,517 | \$ 847,514 | \$ 547,350 | \$ 1,394,864 | \$ 50,535 | \$ 1,498,923 | \$ 17,456           | \$ 1,665,485 | \$ 56,051           |

<sup>1</sup> Interest income recognized results primarily from accretion on impaired FDIC-supported loans.



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## ZIONS BANCORPORATION AND SUBSIDIARIES

| (In thousands)                              | December 31, 2010              |                     |                   |                                 |                      |
|---|--------------------------------|---------------------|-------------------|---------------------------------|----------------------|
|   | Unpaid<br>principal<br>balance | Recorded investment |                   | Total<br>recorded<br>investment | Related<br>allowance |
|   | with no<br>allowance           | with<br>allowance   |                   |                                 |                      |
| <b>Commercial:</b>                          |                                |                     |                   |                                 |                      |
| Commercial and industrial                   | \$ 322,674                     | \$ 95,316           | \$ 114,959        | \$ 210,275                      | \$ 38,021            |
| <b>Leasing</b>                              |                                |                     |                   |                                 |                      |
| Owner occupied                              | 430,997                        | 233,418             | 98,548            | 331,966                         | 14,743               |
| Municipal                                   | 2,002                          |                     | 2,002             | 2,002                           | 473                  |
| <b>Total commercial</b>                     | <b>755,673</b>                 | <b>328,734</b>      | <b>215,509</b>    | <b>544,243</b>                  | <b>53,237</b>        |
| <b>Commercial real estate:</b>              |                                |                     |                   |                                 |                      |
| Construction and land development           | 862,433                        | 478,181             | 118,663           | 596,844                         | 16,964               |
| Term  | 500,956                        | 251,745             | 154,813           | 406,558                         | 20,581               |
| <b>Total commercial real estate</b>         | <b>1,363,389</b>               | <b>729,926</b>      | <b>273,476</b>    | <b>1,003,402</b>                | <b>37,545</b>        |
| <b>Consumer:</b>                            |                                |                     |                   |                                 |                      |
| Home equity credit line                     | 5,160                          | 3,152               | 630               | 3,782                           | 180                  |
| 1-4 family residential                      | 138,965                        | 91,721              | 23,811            | 115,532                         | 5,456                |
| Construction and other consumer real estate | 27,308                         | 16,682              | 1,369             | 18,051                          | 465                  |
| Bankcard and other revolving plans          | 60                             |                     | 30                | 30                              | 30                   |
| Other                                       | 629                            |                     | 533               | 533                             | 204                  |
| <b>Total consumer loans</b>                 | <b>172,122</b>                 | <b>111,555</b>      | <b>26,373</b>     | <b>137,928</b>                  | <b>6,335</b>         |
| FDIC-supported loans                        | 547,566                        | 131,680             | 48,110            | 179,790                         | 6,989                |
| <b>Total</b>                                | <b>\$ 2,838,750</b>            | <b>\$ 1,301,895</b> | <b>\$ 563,468</b> | <b>\$ 1,865,363</b>             | <b>\$ 104,106</b>    |

Amounts at December 31, 2010 in the preceding table presenting the unpaid principal balance have been adjusted from balances previously reported as of this same date, for which the total was \$2.7 billion. This clarification in reporting was made to properly reflect our accounting for these items. The change did not have an impact on the Company's balance sheet or results of operations.

**Modified and Restructured Loans**

Loans may be modified in the normal course of business for competitive reasons or to strengthen the Company's position. Loan modifications and restructurings may also occur when the borrower experiences financial difficulty and needs temporary or permanent relief from the original contractual terms of the loan. These 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. Loans that have been modified to accommodate a borrower who is experiencing financial difficulties, and for which the Company has granted a concession that it would not otherwise consider, are considered a TDR.

We consider many factors in determining whether to agree to a loan modification involving concessions, and seek a solution that will both minimize potential loss to the Company and attempt to help the borrower. We evaluate borrowers' current and forecasted future cash flows, their ability and willingness to make current contractual or proposed modified payments, the value of the underlying collateral (if applicable), the possibility of obtaining additional security or guarantees, and the potential costs related to a repossession or foreclosure and the subsequent sale of the collateral.

TDRs are classified as either accrual or nonaccrual loans. A loan on nonaccrual and restructured as a TDR will remain on nonaccrual status until the borrower has proven the ability to perform 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. Performance prior to the restructuring, or significant events that coincide with the

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restructuring, are included in assessing whether the borrower can meet the new terms and may result in the loan being returned to accrual at the time of restructuring or after a shorter performance period. If the borrower's ability to meet the revised payment schedule is uncertain, the loan remains classified as a nonaccrual loan. A TDR loan that specifies an interest rate that at the time of the restructuring is greater than or equal to the rate the bank is willing to accept for a new loan with comparable risk may not be reported as a TDR or an impaired loan in the calendar years subsequent to the restructuring if it is in compliance with its modified terms.

Selected information on TDRs that includes the recorded investment on an accruing and nonaccruing basis by loan class and modification type is summarized in the following table. This information reflects all TDRs at September 30, 2011:

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| (In thousands)                              | September 30, 2011   |                            |                       |                  |                    |  | Total     |
|---|--|----------------------------|-----------------------|------------------|--------------------|--|-----------|
|   | Recorded investment resulting from the following modification types: |                            |                       |                  |                    |  |           |
|   | Interest rate below market   | Maturity or term extension | Principal forgiveness | Payment deferral | Other <sup>1</sup> | Multiple modification types <sup>2</sup> |           |
| <b>Accruing</b>                             |  |                            |                       |                  |                    |  |           |
| Commercial:                                 |  |                            |                       |                  |                    |  |           |
| Commercial and industrial                   | \$ 306   | \$ 16,129                  | \$                    | \$ 3,280         | \$ 7,993           | \$ 4,567                                 | \$ 32,275 |
| Leasing                                     |  |                            |                       |                  |                    |  |           |
| Owner occupied                              | 1,896  | 15,518                     |                       | 2,478            | 12,639             | 9,265                                    | 41,796    |
| Municipal                                   |  |                            |                       |                  |                    |  |           |
| Total commercial                            | 2,202  | 31,647                     |                       | 5,758            | 20,632             | 13,832                                   | 74,071    |
| Commercial real estate:                     |  |                            |                       |                  |                    |  |           |
| Construction and land development           | 7,160  | 53,944                     | 712                   |                  | 22,675             | 25,200                                   | 109,691   |
| Term  | 3,801  | 31,513                     | 3,044                 | 24,059           | 33,060             | 111,553                                  | 207,030   |
| Total commercial real estate                | 10,961   | 85,457                     | 3,756                 | 24,059           | 55,735             | 136,753                                  | 316,721   |
| Consumer:                                   |  |                            |                       |                  |                    |  |           |
| Home equity credit line                     |  |                            |                       |                  | 34                 | 73                                       | 107       |
| 1-4 family residential                      | 3,291  | 1,673                      | 224                   |                  | 2,635              | 29,265                                   | 37,088    |
| Construction and other consumer real estate | 18   | 598                        |                       |                  | 637                | 984                                      | 2,237     |
| Bankcard and other revolving plans          |  |                            |                       |                  |                    |  |           |
| Other                                       |  | 29                         |                       |                  |                    |  | 29        |
| Total consumer loans                        | 3,309  | 2,300                      | 224                   |                  | 3,306              | 30,322                                   | 39,461    |
| Total accruing                              | 16,472   | 119,404                    | 3,980                 | 29,817           | 79,673             | 180,907                                  | 430,253   |
| <b>Nonaccruing</b>                          |  |                            |                       |                  |                    |  |           |
| Commercial:                                 |  |                            |                       |                  |                    |  |           |
| Commercial and industrial                   | 3,720  | 3,386                      | 37                    | 1,413            | 826                | 17,661                                   | 27,043    |
| Leasing                                     |  |                            |                       |                  |                    |  |           |
| Owner occupied                              | 2,903  | 1,720                      | 770                   | 8,589            | 7,188              | 10,817                                   | 31,987    |
| Municipal                                   |  |                            |                       |                  |                    |  |           |
| Total commercial                            | 6,623  | 5,106                      | 807                   | 10,002           | 8,014              | 28,478                                   | 59,030    |
| Commercial real estate:                     |  |                            |                       |                  |                    |  |           |
| Construction and land development           | 15,360   | 4,661                      | 36                    | 4,386            | 7,485              | 97,233                                   | 129,161   |
| Term  | 10,837   | 56                         |                       | 5,229            | 4,178              | 66,936                                   | 87,236    |
| Total commercial real estate                | 26,197   | 4,717                      | 36                    | 9,615            | 11,663             | 164,169                                  | 216,397   |
| Consumer:                                   |  |                            |                       |                  |                    |  |           |
| Home equity credit line                     | 197  |                            |                       |                  |                    |  | 197       |
| 1-4 family residential                      | 1,393  | 914                        | 1,256                 | 2,976            | 5,997              | 15,725                                   | 28,261    |
| Construction and other consumer real estate | 969  | 3,233                      |                       |                  |                    | 72                                       | 4,274     |
| Bankcard and other revolving plans          |  |                            |                       |                  |                    |  |           |
| Other                                       |  |                            |                       |                  |                    |  |           |

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|                      |           |            |          |           |            |            |            |
|----------------------|-----------|------------|----------|-----------|------------|------------|------------|
| Total consumer loans | 2,559     | 4,147      | 1,256    | 2,976     | 5,997      | 15,797     | 32,732     |
| Total nonaccruing    | 35,379    | 13,970     | 2,099    | 22,593    | 25,674     | 208,444    | 308,159    |
| Total                | \$ 51,851 | \$ 133,374 | \$ 6,079 | \$ 52,410 | \$ 105,347 | \$ 389,351 | \$ 738,412 |

<sup>1</sup> Includes TDRs that resulted from other modification types including, but not limited to, a legal judgment awarded on different terms, a bankruptcy plan confirmed on different terms, a settlement that includes the delivery of collateral in exchange for debt reduction; etc.

<sup>2</sup> Includes TDRs that resulted from a combination of any of the previous modification types.

At September 30, 2011, the recorded investment in loans modified with interest rates or other terms more favorable than market was \$262.8 million. The net financial impact on interest income due to interest rate changes for accruing TDR loans is summarized in the following table:

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## ZIONS BANCORPORATION AND SUBSIDIARIES

| (In thousands)                              | September 30, 2011              |                                |
|---|---------------------------------|--------------------------------|
|   | Three months ended <sup>1</sup> | Nine months ended <sup>1</sup> |
| <b>Commercial:</b>                          |                                 |                                |
| Commercial and industrial                   | \$ (24)                         | \$ (110)                       |
| <b>Leasing</b>                              |                                 |                                |
| Owner occupied                              | (954)                           | (2,268)                        |
| <b>Municipal</b>                            |                                 |                                |
| Total commercial                            | (978)                           | (2,378)                        |
| <b>Commercial real estate:</b>              |                                 |                                |
| Construction and land development           | (25)                            | 1,431                          |
| Term  | (2,194)                         | (10,225)                       |
| Total commercial real estate                | (2,219)                         | (8,794)                        |
| <b>Consumer:</b>                            |                                 |                                |
| Home equity credit line                     | (4)                             | (13)                           |
| 1-4 family residential                      | (2,966)                         | (6,646)                        |
| Construction and other consumer real estate | (22)                            | (121)                          |
| <b>Bankcard and other revolving plans</b>   |                                 |                                |
| <b>Other</b>                                |                                 |                                |
| Total consumer loans                        | (2,992)                         | (6,780)                        |
| Total decrease to interest income           | \$ (6,189)                      | \$ (17,952)                    |

<sup>1</sup> Calculated based on the difference between the modified rate and the pre-modified rate applied to the recorded investment.

On an ongoing basis, we monitor the performance of all TDR loans according to their restructured terms. Subsequent payment default is defined in terms of delinquency, when principal or interest payments are past due 90 days or more for commercial loans, or 60 days or more for consumer loans.

The recorded investment of accruing and nonaccruing loans modified as TDRs within the previous 12 months (October 1, 2010 to September 30, 2011) that had a payment default during the three and nine months ended September 30, 2011 is as follows:

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## ZIONS BANCORPORATION AND SUBSIDIARIES

| (In thousands)                                     | Three Months Ended<br>September 30, 2011 |             |           | Nine Months Ended<br>September 30, 2011 |             |           |
|--|--|-------------|-----------|---|-------------|-----------|
|  | Accruing                                 | Nonaccruing | Total     | Accruing                                | Nonaccruing | Total     |
| <b>Commercial:</b>                                 |  |             |           |   |             |           |
| Commercial and industrial                          | \$ 1,105                                 | \$ 3,595    | \$ 4,700  | \$ 1,105                                | \$ 3,595    | \$ 4,700  |
| <b>Leasing</b>                                     |  |             |           |   |             |           |
| Owner occupied                                     |  |             |           |   | 1,100       | 1,100     |
| <b>Municipal</b>                                   |  |             |           |   |             |           |
| Total commercial                                   | 1,105                                    | 3,595       | 4,700     | 1,105                                   | 4,695       | 5,800     |
| <b>Commercial real estate:</b>                     |  |             |           |   |             |           |
| Construction and land development                  | 4,860                                    | 8,337       | 13,197    | 4,860                                   | 20,207      | 25,067    |
| Term   |  |             |           |   | 5,552       | 5,552     |
| Total commercial real estate                       | 4,860                                    | 8,337       | 13,197    | 4,860                                   | 25,759      | 30,619    |
| <b>Consumer:</b>                                   |  |             |           |   |             |           |
| <b>Home equity credit line</b>                     |  |             |           |   |             |           |
| 1-4 family residential                             |  | 1,375       | 1,375     |   | 1,375       | 1,375     |
| <b>Construction and other consumer real estate</b> |  |             |           |   |             |           |
| <b>Bankcard and other revolving plans</b>          |  |             |           |   |             |           |
| Other  | 29                                       |             | 29        | 29                                      |             | 29        |
| Total consumer loans                               | 29                                       | 1,375       | 1,404     | 29                                      | 1,375       | 1,404     |
| Total  | \$ 5,994                                 | \$ 13,307   | \$ 19,301 | \$ 5,994                                | \$ 31,829   | \$ 37,823 |

Note: Total loans modified as TDRs during the 12 months previous to September 30, 2011 were \$393.3 million.

As a result of adopting ASU 2011-02, we reassessed all restructurings that occurred on or after January 1, 2011, the beginning of the current fiscal year for identification as TDRs. We identified as TDRs certain loans for which the ALLL had previously been measured under our general ALLL methodology. Upon identifying those loans as TDRs, we identified them as impaired under the guidance in ASC 310-10-35, *Receivables Subsequent Measurement*. ASU 2011-02 requires prospective application of the impairment measurement guidance in ASC 310-10-35 for those loans newly identified as impaired. For the third quarter of 2011, the first interim period of adoption, the recorded investment in loans for which the ALLL was previously measured under our general ALLL methodology and are now impaired under ASC 310-10-35 was \$19.8 million, and the ALLL associated with those loans, on the basis of a current evaluation of loss, was \$0.9 million.

**Concentrations of Credit Risk**

We perform an ongoing analysis of our loan portfolio to evaluate whether there is any significant exposure to an individual borrower or group(s) of borrowers as a result of any concentrations of credit risk. Such credit risks (whether on- or off-balance sheet) may occur when groups of borrowers or counterparties have similar economic characteristics and are similarly affected by changes in economic or other conditions. Credit risk also includes the loss that would be recognized subsequent to the reporting date if counterparties failed to perform as contracted. Our analysis as of September 30, 2011 has concluded that no significant exposure exists from such credit risks. See Note 6 for a discussion of counterparty risk associated with the Company's derivative transactions.

**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.





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During 2009, CB&T and NSB acquired failed banks from the 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.

During the first quarter of 2011, certain FDIC-supported loans charged off at the time of acquisition were determined by the FDIC to be covered under the loss sharing agreement. The FDIC remitted \$18.9 million to the Company, which was recognized in other noninterest income.

Upon acquisition, in accordance with applicable accounting guidance, the acquired loans were recorded at their fair value without a corresponding ALLL. The acquired foreclosed assets and subsequent real estate foreclosures were included with other real estate owned in the balance sheet and amounted to \$33.2 million at September 30, 2011, \$40.0 million at December 31, 2010, and \$52.4 million at September 30, 2010.

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 are 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,<br>2011 | December 31,<br>2010 | September 30,<br>2010 |
|------------------------|-----------------------|----------------------|-----------------------|
| Commercial             | \$ 343,659            | \$ 413,783           | \$ 444,130            |
| Commercial real estate | 588,069               | 746,206              | 852,693               |
| Consumer               | 60,124                | 79,393               | 85,578                |
| Outstanding balance    | \$ 991,852            | \$ 1,239,382         | \$ 1,382,401          |
| Carrying amount        | \$ 714,322            | \$ 877,857           | \$ 980,937            |
| ALLL                   | 23,916                | 35,123               | 43,503                |
| Carrying amount, net   | \$ 690,406            | \$ 842,734           | \$ 937,434            |

At the time of acquisition, we determine the loan's contractually required payments in excess of all cash flows expected to be collected as an amount that should not be accreted (nonaccretable difference). With respect to the cash flows expected to be collected, 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.

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Changes in the accretable yield are as follows:

| (In thousands)                                 | Three Months Ended<br>September 30, |            | Nine Months Ended<br>September 30, |            |
|--|-------------------------------------|------------|------------------------------------|------------|
|  | 2011                                | 2010       | 2011                               | 2010       |
| Balance at beginning of period                 | \$ 242,199                          | \$ 252,228 | \$ 277,005                         | \$ 161,976 |
| Accretion                                      | (30,568)                            | (24,759)   | (93,258)                           | (67,854)   |
| Reclassification from nonaccretable difference | (16)                                | 12,731     | 25,896                             | 140,987    |
| Disposals and other                            | 877                                 | 2,682      | 2,849                              | 7,773      |
| Balance at end of period                       | \$ 212,492                          | \$ 242,882 | \$ 212,492                         | \$ 242,882 |

*Note: Amounts have been adjusted based on refinements to the original estimates of the accretable yield. Because of the estimation process required, we expect that additional adjustments to these amounts may be necessary in future periods.*

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 below their carrying value, and if so, we record a provision for loan losses. The present value of any subsequent increase in these loans' actual or expected cash flows is used first to reverse any existing ALLL. During the three and nine months ended September 30, 2011, total reversals to the ALLL, including the impact of increases in estimated cash flows, were \$3.5 million and \$12.6 million, respectively. No such reversals were made for these same periods in 2010.

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 this increase in interest income. The primary driver of reclassifications to accretable yield from nonaccretable difference related to the enhanced economic status of borrowers whose financial stress is diminishing or was not as severe as originally evaluated.

Additionally, with respect to FDIC-supported loans, 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. The FDIC indemnification asset is included in other assets in the balance sheet.

For the three and nine months ended September 30, the impact of the increased cash flow estimates recognized in the statement of income was approximately \$20.6 million and \$61.3 million in 2011, and \$18.7 million and \$27.8 million in 2010, respectively, of additional interest income, and \$15.4 million and \$43.5 million in 2011, and \$15.0 million and \$23.9 million in 2010, respectively, of additional noninterest expense due to the reduction of the FDIC indemnification asset.

The determination of the ALLL for FDIC-supported loans follows the same process described previously. However, this allowance is only established for credit deterioration subsequent to the date of acquisition and represents our estimate of the inherent losses in excess of the book value of FDIC-supported loans. The allowance for loan losses for loans acquired in FDIC-supported transactions is determined without giving consideration to the amounts recoverable through loss sharing agreements (since the loss sharing agreements are separately accounted for and thus presented gross in the balance sheet). The ALLL is included in the overall ALLL in the balance sheet. The provision for loan losses is reported net of changes in the amounts recoverable under the loss sharing agreements.

Certain acquired loans within the scope of ASC 310-30 are not accounted for as previously described

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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. The carrying amounts in the preceding table also include the amounts for these loans. The net carrying amount of these loans was approximately \$48.9 million at September 30, 2011, \$78.3 million at December 31, 2010, and \$103.4 million at September 30, 2010.

During the three and nine months ended September 30, we adjusted the ALLL for FDIC-supported loans by recording an increase (decrease) on a gross basis to the provision for loan losses of \$(0.6) million and \$(0.3) million in 2011, and \$27.9 million and \$56.7 million in 2010, respectively. As described subsequently and in accordance with the loss sharing agreements, portions of the increases to the provision are recoverable from the FDIC and comprise part of the FDIC indemnification asset. Charge-offs, net of recoveries and before FDIC indemnification, for the three and nine months ended September 30 were \$0.9 million and \$11.4 million in 2011, and \$7.1 million and \$10.2 million in 2010, respectively.

Any changes to the FDIC indemnification asset are recognized immediately in the quarterly period the change in estimated cash flows is determined. All claims submitted to the FDIC have been reimbursed in a timely manner.

Changes in the FDIC indemnification asset are as follows:

| (In thousands)   | Three Months Ended    |                       | Nine Months Ended     |                       |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
|  | September 30,<br>2011 | September 30,<br>2010 | September 30,<br>2011 | September 30,<br>2010 |
| Balance at beginning of period   | \$ 150,557            | \$ 243,824            | \$ 195,516            | \$ 293,308            |
| Amounts filed with the FDIC and collected or in process                              | 1,551 <sup>1</sup>    | (17,780)              | (11,360)              | (78,919)              |
| Net change in asset balance due to reestimation of projected cash flows <sup>2</sup> | (16,809)              | 7,586                 | (48,857)              | 20,930                |
| Other  |                       |                       |                       | (1,689) <sup>3</sup>  |
| Balance at end of period   | \$ 135,299            | \$ 233,630            | \$ 135,299            | \$ 233,630            |

<sup>1</sup> The positive amount for the three months ended September 30, 2011 results from a change by the FDIC in the indemnification submission process. Submitted expenses must be paid, not just incurred, to qualify for reimbursement.

<sup>2</sup> Negative amounts result from the accretion of loan balances based on increases in cash flow estimates on the underlying indemnified loans.

<sup>3</sup> Amount did not qualify for FDIC reimbursement under the loss sharing agreement.

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

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### ZIONS BANCORPORATION AND SUBSIDIARIES

#### 6. 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 9 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 that follows 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. These hedges have been terminated and their remaining balances are being amortized 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 objectives in using derivatives are 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/or to directly offset derivatives sold to our customers. To accomplish these objectives, we use interest rate swaps 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.

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.

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## ZIONS BANCORPORATION AND SUBSIDIARIES

Selected information with respect to notional amounts and recorded gross fair values at September 30, 2011 and 2010, 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<br>to interest income   |   | Noninterest income                             |   | Offset to<br>interest<br>expense               |   |
|   | Notional<br>amount<br>September 30, 2011                 | Other<br>assets | Other<br>liabilities | Three<br>months<br>ended<br>September 30, 2011 | Nine<br>months<br>ended<br>September 30, 2011 | Three<br>months<br>ended<br>September 30, 2011 | Nine<br>months<br>ended<br>September 30, 2011 | Three<br>months<br>ended<br>September 30, 2011 | Nine<br>months<br>ended<br>September 30, 2011 | Three<br>months<br>ended<br>September 30, 2011 | Nine<br>months<br>ended<br>September 30, 2011 |
| Derivatives designated<br>as hedging instruments          |  |                 |                      |  |   |  |   |  |   |  |   |
| under ASC 815   |  |                 |                      |  |   |  |   |  |   |  |   |
| Asset derivatives   |  |                 |                      |  |   |  |   |  |   |  |   |
| Cash flow hedges <sup>1</sup> :                           |  |                 |                      |  |   |  |   |  |   |  |   |
| Interest rate swaps                                       | \$ 405,000   | \$ 10,890       | \$                   | \$ 585   | \$ 2,077                                      | \$ 7,471                                       | \$ 28,890                                     |  |   |  |   |
| Interest rate floors                                      |  |                 |                      | 38   | 221   | 264  | 1,950   |  |   |  |   |
| Terminated swaps and<br>floors                            |  |                 |                      |  |   |  |   | \$   | \$  |  |   |
|   | 405,000  | 10,890          |                      | 623  | 2,298   | 7,735  | 30,840  |  |   |  | <sup>3</sup>                                  |
| Liability derivatives                                     |  |                 |                      |  |   |  |   |  |   |  |   |
| Fair value hedges:  |  |                 |                      |  |   |  |   |  |   |  |   |
| Terminated swaps on<br>long-term debt                     |  |                 |                      |  |   |  |   |  |   | \$ 747   | \$ 2,198                                      |
| Total derivatives<br>designated as hedging<br>instruments | 405,000  | 10,890          |                      | 623  | 2,298   | 7,735  | 30,840  |  |   | 747  | 2,198   |
| Derivatives not<br>designated as hedging<br>instruments   |  |                 |                      |  |   |  |   |  |   |  |   |
| under ASC 815   |  |                 |                      |  |   |  |   |  |   |  |   |
| Interest rate swaps                                       | 145,388  | 2,467           | 2,510                |  |   |  |   | 181  | 105   |  |   |
| Interest rate swaps for<br>customers <sup>2</sup>         | 2,498,793  | 83,289          | 88,977               |  |   |  |   | (514)  | 813   |  |   |
| Energy commodity<br>swaps for customers <sup>2</sup>      |  |                 |                      |  |   |  |   |  | 56  |  |   |
| Basis swaps   | 85,000   | 6               |                      |  |   |  |   | 4  | 153   |  |   |
| Futures contracts   | 610,000  |                 |                      |  |   |  |   | 2,030  | 6,808   |  |   |
| Options contracts   | 2,200,000  | 21              |                      |  |   |  |   | (519)  | (17)  |  |   |
| Total return swap   | 1,159,686  |                 | 5,270                |  |   |  |   | (5,337)  | (5,337)                                       |  |   |

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|   |              |           |           |        |          |          |           |            |          |        |          |
|---|--------------|-----------|-----------|--------|----------|----------|-----------|------------|----------|--------|----------|
| Total derivatives not designated as hedging instruments | 6,698,867    | 85,783    | 96,757    |        |          |          |           | (4,155)    | 2,581    |        |          |
| Total derivatives                                       | \$ 7,103,867 | \$ 96,673 | \$ 96,757 | \$ 623 | \$ 2,298 | \$ 7,735 | \$ 30,840 | \$ (4,155) | \$ 2,581 | \$ 747 | \$ 2,198 |

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| (In thousands)  | Fair value      |              |                   | Amount of derivative gain (loss) recognized/reclassified |                                      |   |                                      |                                       |                                      | Offset to interest expense |          |
|---|-----------------|--------------|-------------------|--|--------------------------------------|---|--------------------------------------|---------------------------------------|--------------------------------------|----------------------------|----------|
|   |                 |              |                   | OCI  |                                      | Reclassified from AOCI to interest income |                                      | Noninterest income                    |                                      |                            |          |
|   |                 |              |                   | Three months ended September 30, 2010                    | Nine months ended September 30, 2010 | Three months ended September 30, 2010     | Nine months ended September 30, 2010 | Three months ended September 30, 2010 | Nine months ended September 30, 2010 |                            |          |
| Derivatives designated as hedging instruments under ASC 815     | Notional amount | Other assets | Other liabilities |  |                                      |   |                                      |                                       |                                      |                            |          |
| 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   | 3,061,877       | 97,934       | 104,717           |  |                                      |   |                                      | (32)                                  | (3,369)                              |                            |          |

|   |               |            |            |          |           |           |           |             |             |        |          |
|---|---------------|------------|------------|----------|-----------|-----------|-----------|-------------|-------------|--------|----------|
| customers <sup>2</sup>                                  |               |            |            |          |           |           |           |             |             |        |          |
| 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)    |             |        |          |
| Total derivatives not designated as hedging instruments | 13,290,210    | 103,426    | 130,733    |          |           |           | (18,439)  | (21,711)    |             |        |          |
| Total derivatives                                       | \$ 13,905,210 | \$ 135,535 | \$ 130,733 | \$ 3,279 | \$ 14,724 | \$ 16,050 | \$ 51,249 | \$ (16,351) | \$ (13,035) | \$ 723 | \$ 2,412 |

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, 2011 and 2010 of \$0 and \$8,676, respectively, which reflect the acceleration of OCI amounts reclassified to income that related to previously terminated hedges, together with the reclassification amounts of \$30,840 and \$51,249, or a total of \$30,840 and \$59,925, respectively, are the amounts of reclassification included in the changes in OCI presented in Note 7.

At September 30, the fair values of derivative assets and liabilities were reduced (increased) by net credit valuation adjustments of \$5.5 million and \$(0.3) million in 2011, and \$6.7 million and \$(0.2) million in 2010, 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 and \$0.3 million at September 30, 2011, and \$0.9 million and \$2.9 million at September 30, 2010, respectively.

We offer to our customers interest rate swaps and, through the third quarter of 2010, energy commodity swaps to assist them 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



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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.

Futures and options contracts primarily consist of Eurodollar futures contracts that allow us to extend the duration of certain overnight cash account balances. These contracts reference the 90-day London Interbank Offered Rate ( LIBOR ). Options contracts are used to economically hedge certain rate exposures of the underlying Eurodollar futures contracts. The accounts for these 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 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, 2011, we estimate that an additional \$17 million will be reclassified.

During the third quarter of 2011, we terminated the majority of the Eurodollar contracts and all of the federal funds contracts that were used to adjust cash flows with varying interest rates. The remaining notional amount of futures contracts was \$610 million at September 30, 2011, whereas the balance was \$5.9 billion at June 30, 2011.

***Total Return Swap***

On July 28, 2010, we entered into a total return swap and related interest rate swaps ( TRS ) with Deutsche Bank AG ( DB ) relating to a portfolio of \$1.16 billion notional amount of our bank and insurance trust preferred CDOs. As a result of the TRS, DB 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). Contractual due dates for principal are at each individual security's maturity, which ranges from 2030 to 2042. We can cancel the TRS quarterly, with the next cancellation date on January 28, 2012, and remove individual securities on or after July 28, 2016, the end of the sixth year. Additionally, with the consent of DB, we can transfer the TRS to a third party in part or in whole. DB 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 but later downgraded, and carry some of the highest risk-weightings of the securities in the Company's portfolio. In contrast, claims which are unconditionally guaranteed by banks belonging to the Organisation for Economic Co-operation and Development ( OECD ) such as DB are risk-weighted at only 20%. 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 and structuring costs of \$11.6 million. The negative initial value was approximately equal to the first-year fees we incurred for the TRS (that is, during the period we were unable to cancel the transaction). The fair value

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of the TRS derivative liability was \$5.3 million at September 30, 2011, \$15.9 million at December 31, 2010, and \$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. The period that we are unable to cancel the transaction has shortened to and will remain at one calendar quarter. Accordingly, absent major changes in these projected cash flows, we expect the value of the TRS liability to continue to approximate its September 30, 2011 fair value. 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 DB to the Company of all scheduled payments of interest and principal when contractually due to the Company, and payment by the Company to DB 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 DB pays the Company a fixed interest rate and the Company pays to DB 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 DB 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 DB would otherwise be required to make.

The net result of the payment streams described in the preceding paragraph is the approximate \$5.3 million expense per quarter noted previously. 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 began 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 DB 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 DB, if we do not then elect to terminate the transaction. Termination by the Company for such regulatory changes applicable to DB after year one will result in no payment by the Company.

At September 30, 2011, 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 DB'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 earliest 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 the market participant, who is the counterparty to this

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transaction, as well as the results of our internal modeling in estimating the fair value of the TRS. We expect to continue the use of this methodology in subsequent periods.

**7. DEBT AND SHAREHOLDERS' EQUITY**

During the three and nine months ended September 30, 2011, we issued short-term senior medium-term notes of \$7.5 million and \$74.4 million, respectively, and long-term senior medium term notes of \$19.3 million and \$49.6 million, respectively. Maturities for the short-term notes range from February 2012 to September 2012, with interest rates from 2.00% to 3.00%. Maturities for the long-term notes range from November 2012 to August 2016, with interest rates from 4.00% to 5.50%. During these same periods, we redeemed the same total of short- and long-term senior medium term notes.

During the three months ended September 30, 2011, \$16.8 million of convertible subordinated debt was converted into depositary shares each representing a 1/40<sup>th</sup> interest in a share of the Company's preferred stock. This conversion added 16,811 shares of Series C and 23 shares of Series A to the Company's preferred stock. For the nine months ended September 30, 2011, a total of \$241.2 million of convertible subordinated debt was converted into depositary shares of the Company's preferred stock. These conversions consisted of 240,909 shares of Series C and 243 shares of Series A of the Company's preferred stock.

For the nine months ended September 30, 2011 in connection with these conversions, the \$281.8 million added to preferred stock included the transfer from common stock of \$40.6 million 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. The remaining balance in common stock of this conversion feature was approximately \$94.4 million at September 30, 2011. Accelerated discount amortization on the converted debt increased interest expense for the three and nine months ended September 30, 2011 by approximately \$7.5 million and \$109.8 million, respectively. At September 30, 2011, the balance at par of the convertible subordinated debt was \$562.3 million and the remaining balance of the convertible debt discount was \$240.8 million.

As of October 18, 2011 subsequent to quarter-end, holders of approximately \$15.0 million of subordinated convertible notes elected to convert their debt into depositary shares of the Company's preferred stock. This anticipated conversion will add 14,957 shares of Series C to the Company's preferred stock.

During the first quarter of 2011, we sold 1,067,540 shares of common stock for \$25.5 million (average price of \$23.89). The sales were made under an equity distribution program announced February 10, 2011 to sell up to \$200 million of common stock, which superseded all prior programs. Net of commissions and fees, these sales added \$25.0 million to common stock, as reflected in the statement of changes in shareholders' equity for the nine months ended September 30, 2011.

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

| (In thousands)  | Net unrealized<br>gains (losses)<br>on investments<br>and other | Net unrealized<br>gains (losses)<br>on derivative<br>instruments | Pension<br>and post-<br>retirement | Total            |
|---|---|--|------------------------------------|------------------|
| <b>Nine Months Ended September 30, 2011:</b>  |   |  |                                    |                  |
| Balance at December 31, 2010  | \$ (456,264)  | \$ 30,702  | \$ (35,734)                        | \$ (461,296)     |
| Other comprehensive income (loss), net of tax:  |   |  |                                    |                  |
| Net realized and unrealized holding losses, net of income tax benefit of \$55,668   | (90,109)  |  |                                    | (90,109)         |
| Reclassification for net losses included in earnings, net of income tax benefit of \$4,063                                  | 6,185   |  |                                    | 6,185            |
| Noncredit-related impairment losses on securities not expected to be sold, net of income tax benefit of \$17,058            | (26,318)  |  |                                    | (26,318)         |
| Accretion of securities with noncredit-related impairment losses not expected to be sold, net of income tax expense of \$77 | 131   |  |                                    | 131              |
| Net unrealized losses, net of reclassification to earnings of \$30,840 and income tax benefit of \$11,115                   |   | (17,427)   |                                    | (17,427)         |
| <b>Other comprehensive loss</b>   | <b>(110,111)</b>  | <b>(17,427)</b>  |                                    | <b>(127,538)</b> |
| Balance at September 30, 2011   | \$ (566,375)  | \$ 13,275  | \$ (35,734)                        | \$ (588,834)     |
| <b>Nine Months Ended September 30, 2010:</b>  |   |  |                                    |                  |
| Balance at December 31, 2009  | \$ (462,412)  | \$ 68,059  | \$ (42,546)                        | \$ (436,899)     |
| Other comprehensive income (loss), net of tax:  |   |  |                                    |                  |
| Net realized and unrealized holding gains, net of income tax expense of \$9,156   | 15,682  |  |                                    | 15,682           |
| Reclassification for net losses included in earnings, net of income tax benefit of \$24,220                                 | 38,601  |  |                                    | 38,601           |
| Noncredit-related impairment losses on securities not expected to be sold, net of income tax benefit of \$26,071            | (42,103)  |  |                                    | (42,103)         |
| Accretion of securities with noncredit-related impairment losses not expected to be sold, net of income tax expense of \$62 | 101   |  |                                    | 101              |
| Net unrealized losses, net of reclassification to earnings of \$59,925 and income tax benefit of \$17,329                   |   | (27,872)   |                                    | (27,872)         |
| Pension and postretirement, net of income tax benefit of \$46   |   |  | (63)                               | (63)             |
| <b>Other comprehensive income (loss)</b>  | <b>12,281</b>   | <b>(27,872)</b>  | <b>(63)</b>                        | <b>(15,654)</b>  |
| Balance at September 30, 2010   | \$ (450,131)  | \$ 40,187  | \$ (42,609)                        | \$ (452,553)     |

**8. INCOME TAXES**

The income tax expense rate for the nine months ended September 30, 2011 was increased by the nondeductibility of a portion of the accelerated discount amortization from the conversion of subordinated debt to preferred stock. The tax benefit rate for the nine months ended September 30,

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2010 was increased by the proportional increase of nontaxable items relative to the loss before income taxes, and reduced by the impact of the taxable surrender of certain bank-owned life insurance policies and by the nondeductibility of a portion of the accelerated discount amortization previously described.

The balance of net deferred tax assets was approximately \$493 million at September 30, 2011, \$540 million at December 31, 2010, and \$585 million at September 30, 2010. 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, 2011.

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## 9. FAIR VALUE

***Fair Value Measurements***

ASU No. 2010-06, *Improving Disclosures about Fair Value Measurements*, requires certain additional fair value disclosures under ASC 820, *Fair Value Measurements and Disclosures*, which began January 1, 2010. One of the new requirements did not become effective until January 1, 2011 and requires the gross, rather than net, basis for certain Level 3 rollforward information. The following information incorporates this new disclosure requirement.

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 for the Company as follows:

Level 1 Quoted prices in active markets for identical assets or liabilities; includes U.S. Treasury and other U.S. Government and agency securities actively traded in over-the-counter markets; mutual funds and stock; securities sold, not yet purchased; and 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 U.S. Government and agency securities; municipal securities; CDO securities; mutual funds and stock; private equity investments; securities sold, not yet purchased; and 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 municipal securities; 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 ( OREO ). 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.

***Utilization of Third Party Pricing Services***

We use third party pricing services for our Level 1 and 2 security valuations and a third party model to estimate fair value for our Level 3 security valuations. We work closely with the third party pricing services as they develop their fair value estimations and we perform on a quarterly basis a variety of review procedures on their output. Because of our close involvement, we do not adjust prices from our third party pricing services.

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In the case of valuations under Levels 1 and 2, we discuss the methodology used by the third party pricing services and the manner employed to collect market information. For model-driven valuations under Level 3, we also compare assumptions used with other third party services and with our internal models and the information we have about market trends and trading data. Such procedures help ensure that the fair value information received was determined in accordance with ASC 820.

*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 includes 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, 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. In addition, each quarter we seek to obtain information for trades of securities in this asset class. We consider this information 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.

**Trust preferred CDO internal model:** 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 are updated quarterly to include the most recent available financial ratios and the regression formula is updated periodically to utilize those financial ratios that have best predicted bank failures during this credit cycle ( ratio-based approach ). Our ratio-based approach, while generally referencing trailing quarter regulatory ratios, seeks to incorporate the most recent available information.

Prior to the fourth quarter of 2010 for publicly traded performing banks, we exclusively utilized 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

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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. Therefore, in order to better project publicly traded bank failures, historically we utilized the higher of the PDs from our ratio-based approach and those from the licensed third party model for publicly traded deferring banks. During the fourth quarter of 2010, we began utilizing the same approach for publicly traded performing banks.

After identifying collateral level PDs, we modified the PDs of deferring collateral by a calibration adjustment for the period from the fourth quarter of 2009 through the second quarter of 2011. The ratio-based approach's predictive ability increased over the period and the calibration adjustment declined. The calibration adjustment was not used in the third quarter of 2011.

Effective the third quarter of 2011, we utilized a minimum one-year PD of 0.30% for all collateral and a minimum PD for years 6 to maturity of 0.65% for bank collateral.

The resulting five-year PDs at September 30, 2011 ranged from 100% for the worst deferring banks to 1.49% for the best deferring banks. The weighted average assumed loss rate on deferring collateral was 27% at September 30, 2011, 35% at both June 30, 2011 and March 31, 2011, and 30% and 44% at December 31, 2010 and 2009, respectively. This loss rate is calculated as a percentage of the par amount of deferring collateral within a pool that is expected to default prior to the end of a five-year deferral period.

Prior to March 31, 2011, we had little evidence with which to assess the likelihood of previously deferring collateral returning to a current status prior to or at the end of the allowable five-year deferral period. Accordingly, our third party cash flow model assumed that the par amount of deferring collateral within each pool that did not default would be paid off at par after five years of deferral. No receipt of back interest or return to current status was assumed.

During the first quarter of 2011, we observed improvement in the performance of certain deferring collateral such that payment of interest resumed and interest payments that had been deferred for one or more quarters were paid in full. By the end of the first quarter of 2011, this pattern was seen in 7% of all surviving bank deferrals within our CDO pools, although none had reached the end of the allowable deferral period. Accordingly, expectations have been revised regarding the extent of deferring collateral ultimately repaying contractually due interest. Effective March 31, 2011, the third party cash flow valuation model was enhanced and incorporated these revised expectations. By September 30, 2011, payment of interest had resumed and interest payments that had been deferred for one or more quarters were paid in full on 9.3% of all surviving bank deferrals within our CDO pools.

The licensed third party cash flow model projects the expected cash flows for CDO tranches, including the expectation that deferrals that do not default will pay their contractually required back interest and return to a current status at the end of five years. Estimates of expected loss for the



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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.

We utilize a present value technique both to identify the OTTI present in the CDO tranches and to estimate fair value. For purposes of determining the portion of the difference between fair value and amortized cost that is due to credit, we follow ASC 310, which includes paragraphs 12-16 of the former FASB Statement No. 114. The standard specifies that a cash flow projection can be present valued at the security specific effective interest rate and the resulting present value compared to the amortized cost in order to quantify the credit component of impairment. Since our early adoption of the new guidance under ASC 320 on January 1, 2009, we have followed this methodology to identify the credit component of impairment to be recognized in earnings each quarter.

We discount this expected and already credit adjusted cash flow of each CDO tranche at a tranche-specific discount rate which reflects the risk that the actual cash flow may vary from the expected credit adjusted cash flow for that CDO tranche. This rate is consistent with market participants' assumptions, which include market illiquidity, and is applied to credit adjusted cash flows, as outlined in ASC 820. We follow the guidance on illiquid markets such that risk premiums should be reflective of an orderly transaction between market participants under current market conditions. Because these securities are not traded on exchanges and trading prices are not posted on the TRACE<sup>®</sup> system (Trade Reporting and Compliance Engine<sup>®</sup>), we also seek information from market participants to obtain trade price information.

Prior to March 31, 2011, the discount rate assumption used for valuation purposes for each CDO tranche was derived from trading yields on publicly traded trust preferred securities and projected PDs on the underlying issuers. The data set generally included one or more publicly-traded trust preferred securities in deferral with regard to the payment of current interest. The effective yields on the traded securities, including the deferring securities, were then used to determine a relationship between the effective yield and expected loss. Expected loss for this purpose is a measure of the variability of cash flows from the mean estimate of cash flow across all Monte Carlo simulations. This relationship was then considered along with other third party or market data in order to identify appropriate discount rates to be applied to the CDOs.

During each quarter of 2011, we observed trades in our CDO tranches which appeared to be either orderly (that is, not distressed or forced); or whose orderliness could not be definitively refuted. Trading data was generally limited to a single transaction in each of several of our original AAA-rated tranches and several of our original A-rated tranches. In accordance with ASU 2010-06, this market price information was incorporated into our valuation process. The trading levels and effective yields of each tranche were included along with the trading yields of publicly traded trust preferred securities in order to identify the relationship between effective yield and expected loss as described above. This relationship was then used to identify appropriate discount rates to be applied to our CDO tranches.

Our September 30, 2011 valuations for bank and insurance tranches utilized a discount rate range of LIBOR + 3.75% for the highest quality/most over-collateralized insurance-only tranches and LIBOR + 40.4% for the lowest credit quality tranche, which included bank collateral, in order to reflect market level assumptions for structured finance securities. For tranches that include bank collateral, the discount rate was at least LIBOR + 5.91% for the highest quality/most over-collateralized tranches. These discount rates are applied to already credit-adjusted cash flows for each tranche. The range of the projected cumulative credit loss of the CDO pools varies extensively across pools, and at

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September 30, 2011 ranged between 9.9% and 66.0%.

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 rate spectrum was applied to tranches in which minor changes in default assumption timing 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.

At September 30, 2011, the discount rates we utilized for fair value purposes for tranches that include bank collateral were:

- 1) LIBOR + 5.9% to 7.6% and averaged LIBOR + 6.3% for first priority original AAA-rated bonds;
- 2) LIBOR + 6.1% to 8.2% and averaged LIBOR + 6.8% for lower priority original AAA-rated bonds;
- 3) LIBOR + 6.9% to 30.5% and averaged LIBOR + 17.8% for original A-rated bonds; and
- 4) LIBOR + 14.8% to 40.4% and averaged LIBOR + 36.2% for original BBB-rated bonds.

Accordingly, the wide difference between the effective interest rate used in the determination of the credit component of OTTI and the discount rate on the CDOs used in the determination of fair value results in the unrealized losses. The discount rate used for fair value purposes significantly exceeds the effective interest rate for the CDOs. The differences average approximately 6% for the original AAA-rated CDO tranches, 16% for the original A-rated CDO tranches, and 34% for the original BBB-rated CDO tranches. With the exception of certain of the most senior CDOs, most of the principal payments are not expected prior to the final maturity date, which is generally 2029 or later. High market discount rates and the long maturities of the CDO tranches result in full principal repayment contributing little to CDO tranche fair values.

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. See subsequent discussion regarding key model inputs and assumptions. The model prices obtained from third party services are 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.

*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 certain financial services and real estate companies, some of which are publicly traded. Fair values are determined from net asset values, or their equivalents, provided by the partnerships. These fair values are determined on the last business day of the month using values from the primary exchange. In the case of illiquid or nontraded assets, the partnerships obtain fair values from independent sources. We have no



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unfunded commitments to these partnerships and redemption is available annually.

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, including those for customers, consist of interest rate swaps and options. 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 schedules include the foreign currency exchange contracts that are not included in Note 6 in accordance with ASC 815. The amounts are also presented net of the cash collateral offsets discussed in Note 6. Also see the discussion in Note 6 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.

Assets and liabilities measured at fair value by class on a recurring basis are summarized as follows:

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| (In thousands)                                | September 30, 2011 |              |              | Total        |
|---|--------------------|--------------|--------------|--------------|
|   | Level 1            | Level 2      | Level 3      |              |
| <b>ASSETS</b>                                 |                    |              |              |              |
| Investment securities:                        |                    |              |              |              |
| Available-for-sale:                           |                    |              |              |              |
| U.S. Treasury, agencies and corporations      | \$ 704,627         | \$ 1,801,073 |              | \$ 2,505,700 |
| Municipal securities                          |                    | 107,314      | \$ 18,172    | 125,486      |
| Asset-backed securities:                      |                    |              |              |              |
| Trust preferred banks and insurance           |                    | 554          | 927,627      | 928,181      |
| Trust preferred real estate investment trusts |                    |              | 19,486       | 19,486       |
| Auction rate                                  |                    |              | 70,651       | 70,651       |
| Other (including ABS CDOs)                    |                    | 7,348        | 44,195       | 51,543       |
| Mutual funds and stock                        | 263,454            | 6,101        |              | 269,555      |
|   | 968,081            | 1,922,390    | 1,080,131    | 3,970,602    |
| Trading account                               |                    | 49,782       |              | 49,782       |
| Other noninterest-bearing investments:        |                    |              |              |              |
| Private equity                                |                    | 5,011        | 130,200      | 135,211      |
| Other assets:                                 |                    |              |              |              |
| Derivatives:                                  |                    |              |              |              |
| Interest rate related and other               |                    | 13,680       |              | 13,680       |
| Interest rate swaps for customers             |                    | 83,289       |              | 83,289       |
| Foreign currency exchange contracts           | 9,877              |              |              | 9,877        |
|   | 9,877              | 96,969       |              | 106,846      |
|   | \$ 977,958         | \$ 2,074,152 | \$ 1,210,331 | \$ 4,262,441 |
| <b>LIABILITIES</b>                            |                    |              |              |              |
| Securities sold, not yet purchased            | \$                 | \$ 30,070    |              | \$ 30,070    |
| Other liabilities:                            |                    |              |              |              |
| Derivatives:                                  |                    |              |              |              |
| Interest rate related and other               |                    | 2,322        |              | 2,322        |
| Interest rate swaps for customers             |                    | 88,977       |              | 88,977       |
| Foreign currency exchange contracts           | 8,513              |              |              | 8,513        |
| Total return swap                             |                    |              | \$ 5,270     | 5,270        |
|   | 8,513              | 91,299       | 5,270        | 105,082      |
| Other   |                    |              | 58           | 58           |
|   | \$ 8,513           | \$ 121,369   | \$ 5,328     | \$ 135,210   |

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## ZIONS BANCORPORATION AND SUBSIDIARIES

| (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   |

Selected additional information regarding key model inputs and assumptions used to fair value certain asset-backed securities by class under Level 3 include the following at September 30, 2011:

| (Amounts in thousands) | Fair value at<br>September 30,<br>2011 | Valuation<br>approach | Constant<br>default | Loss<br>severity | Prepayment rate |
|------------------------|--|-----------------------|---------------------|------------------|-----------------|
|------------------------|--|-----------------------|---------------------|------------------|-----------------|

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rate ( CDR )

| Asset-backed securities:   |                         |                        |        |                                  |         |                                  |
|----------------------------|-------------------------|------------------------|--------|----------------------------------|---------|----------------------------------|
| Trust preferred            | predominantly banks     | \$ 729,323             | Income | Pool specific <sup>3</sup>       | 100%    | Pool specific <sup>7</sup>       |
| Trust preferred            | predominantly insurance | 325,245                | Income | Pool specific <sup>4</sup>       | 100%    | 4.5% per year                    |
| Trust preferred            | individual banks        | 17,114                 | Market |                                  |         |                                  |
|                            |                         | 1,071,682 <sup>1</sup> |        |                                  |         |                                  |
| Trust preferred            | real estate             |                        |        |                                  |         |                                  |
| investment trusts          |                         | 19,486                 | Income | Pool specific <sup>5</sup>       | 22-100% | 0% per year                      |
| Other (including ABS CDOs) |                         | 58,205 <sup>2</sup>    | Income | Collateral specific <sup>6</sup> | 20-100% | Collateral weighted average life |

<sup>1</sup> Includes \$927.6 million of AFS securities and \$144.1 million of HTM securities.

<sup>2</sup> Includes \$44.2 million of AFS securities and \$14.0 million of HTM securities.

<sup>3</sup> CDR ranges: yr 1 0% to 4.76%; yrs 2-5 0% to 0.56%; yrs 6 to maturity 0.58% to 0.69%.

<sup>4</sup> CDR ranges: yr 1 0.30% to 0.36%; yrs 2-5 0.29% to 0.30%; yrs 6 to maturity 0.50% to 0.54%.

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<sup>5</sup> CDR ranges: yr 1 5.6% to 9.2%; yrs 2-3 4.4% to 6.0%; 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: 3.00% to 15.06% annually until 2016; 2016 to maturity 3.00% annually.

In the following discussion of our investment portfolio, 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 Level 3 predominantly bank trust preferred CDOs by vintage year (origination date) according to original rating:

| Vintage year | Fair value at September 30, 2011 | Percentage of total fair value |       |      | Percentage of total fair value by vintage |
|--------------|----------------------------------|--------------------------------|-------|------|---|
|              |                                  | AAA                            | A     | BBB  |   |
| 2001         | \$ 67,236                        | 8.1%                           | 1.1%  | 0.1% | 9.3%                                      |
| 2002         | 220,519                          | 27.9                           | 2.3   |      | 30.2                                      |
| 2003         | 248,678                          | 25.8                           | 8.3   |      | 34.1                                      |
| 2004         | 111,198                          | 8.0                            | 7.3   |      | 15.3                                      |
| 2005         | 10,491                           | 0.9                            | 0.5   |      | 1.4                                       |
| 2006         | 37,494                           | 2.9                            | 2.0   | 0.2  | 5.1                                       |
| 2007         | 33,707                           | 4.6                            |       |      | 4.6                                       |
|              | \$ 729,323                       | 78.2%                          | 21.5% | 0.3% | 100.0%                                    |

The following reconciles the beginning and ending balances of assets and liabilities that are measured at fair value by class on a recurring basis using Level 3 inputs:

| (In thousands)  | Level 3 Instruments<br>Three Months Ended September 30, 2011 |                                     |                      |              |                    |                            |             |                   |
|---|--|-------------------------------------|----------------------|--------------|--------------------|----------------------------|-------------|-------------------|
|   | 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, 2011  | \$ 18,862  | \$ 1,097,917                        | \$ 19,131            | \$ 91,104    | \$ 45,376          | \$ 136,079                 | \$ (5,420)  | \$ (442)          |
| Total net gains (losses) included in:                           |  |                                     |                      |              |                    |                            |             |                   |
| Statement of income:  |  |                                     |                      |              |                    |                            |             |                   |
| Accretion of purchase discount on securities available-for-sale | 21   | 1,127                               |                      | 1            | 66                 |                            |             |                   |
| Dividends and other investment income                           |  |                                     |                      |              |                    | 1,735                      |             |                   |
| Fixed income securities gains, net                              | 19   | 11,771                              |                      | 1,018        | 10                 |                            |             |                   |
| Net impairment losses on investment securities                  |  | (10,647)                            |                      |              | (1,919)            |                            |             |                   |



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|                               |           |            |           |           |           |            |            |         |     |
|-------------------------------|-----------|------------|-----------|-----------|-----------|------------|------------|---------|-----|
| Other noninterest expense     |           |            |           |           |           |            |            |         | 384 |
| Other comprehensive income    |           |            |           |           |           |            |            |         |     |
| (loss)                        | (530)     | (123,705)  | 355       | (522)     | 2,832     |            |            |         |     |
| Purchases                     |           |            |           |           |           |            |            | 3,127   |     |
| Sales                         |           |            |           |           |           |            |            | (9,331) |     |
| Redemptions and paydowns      | (200)     | (48,836)   |           | (20,950)  | (2,170)   | (1,410)    |            |         | 150 |
| Balance at September 30, 2011 | \$ 18,172 | \$ 927,627 | \$ 19,486 | \$ 70,651 | \$ 44,195 | \$ 130,200 | \$ (5,270) | \$ (58) |     |

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| (In thousands)  | Level 3 Instruments                  |                                     |                      |              |                    |                            |             |                   |
|---|--------------------------------------|-------------------------------------|----------------------|--------------|--------------------|----------------------------|-------------|-------------------|
|   | Nine Months Ended September 30, 2011 |                                     |                      |              |                    |                            |             |                   |
|   | 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, 2010                                    | \$ 22,289                            | \$ 1,241,694                        | \$ 19,165            | \$ 109,609   | \$ 69,630          | \$ 141,690                 | \$ (15,925) | \$ (561)          |
| Total net gains (losses) included in:                           |                                      |                                     |                      |              |                    |                            |             |                   |
| Statement of income:  |                                      |                                     |                      |              |                    |                            |             |                   |
| Accretion of purchase discount on securities available-for-sale | 211                                  | 4,017                               |                      | 10           | 139                |                            |             |                   |
| Dividends and other investment income                           |                                      |                                     |                      |              |                    | 7,300                      |             |                   |
| Equity securities losses, net                                   |                                      |                                     |                      |              |                    | (738)                      |             |                   |
| Fixed income securities gains (losses), net                     | 37                                   | 18,834                              | (3,605)              | 1,900        | (6,918)            |                            |             |                   |
| Net impairment losses on investment securities                  |                                      | (15,513)                            | (1,285)              |              | (4,031)            |                            |             |                   |
| Other noninterest expense                                       |                                      |                                     |                      |              |                    |                            |             | 503               |
| Other comprehensive income (loss)                               | (1,045)                              | (181,598)                           | 5,749                | (583)        | 9,232              |                            |             |                   |
| Purchases   |                                      |                                     |                      |              |                    | 15,926                     |             |                   |
| Sales   | (895)                                | (72,881)                            | (538)                | (135)        | (19,310)           | (16,617)                   |             |                   |
| Redemptions and paydowns  | (2,425)                              | (66,926)                            |                      | (40,150)     | (4,547)            | (17,361)                   | 10,655      |                   |
| Balance at September 30, 2011                                   | \$ 18,172                            | \$ 927,627                          | \$ 19,486            | \$ 70,651    | \$ 44,195          | \$ 130,200                 | \$ (5,270)  | \$ (58)           |

| (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 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       |                   |

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Balance at September 30, 2010    \$ 23,434    \$ 1,263,887    \$ 19,135    \$ 134,661    \$ 70,647    \$ 144,337    \$ (20,855)    \$ (451)

| (In thousands)                                    | 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 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)          |

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

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| (In thousands)                        | Three Months Ended<br>September 30, |          | Nine Months Ended<br>September 30, |          |
|---------------------------------------|-------------------------------------|----------|------------------------------------|----------|
|                                       | 2011                                | 2010     | 2011                               | 2010     |
| Dividends and other investment income | \$ 2,245                            | \$ 3,121 | \$ 5,495                           | \$ 5,315 |
| Equity securities losses, net         |                                     | (2,272)  |                                    | (1,367)  |
| Fixed income securities gains, net    | 12,818                              | 8,346    | 10,248                             | 10,057   |

Assets with fair value changes that are measured at fair value by class on a nonrecurring basis are summarized as follows:

| (In thousands)                   | Fair value at September 30, 2011 |            |          |            | Gains (losses) from<br>fair value changes      |   |
|----------------------------------|----------------------------------|------------|----------|------------|--|---|
|                                  | Level 1                          | Level 2    | Level 3  | Total      | Three<br>months<br>ended<br>September 30, 2011 | Nine<br>months<br>ended<br>September 30, 2011 |
| <b>ASSETS</b>                    |                                  |            |          |            |  |   |
| HTM securities adjusted for OTTI |                                  |            | \$ 8,724 | \$ 8,724   | \$ (769) <sup>1</sup>                          | \$ (769)                                      |
| Impaired loans                   |                                  | \$ 8,867   |          | 8,867      | (371)  | (5,844)                                       |
| Other real estate owned          |                                  | 95,262     |          | 95,262     | (15,943)                                       | (51,746)                                      |
|                                  | \$                               | \$ 104,129 | \$ 8,724 | \$ 112,853 | \$ (17,083)                                    | \$ (58,359)                                   |

| (In thousands)                   | Fair value at September 30, 2010 |            |           |            | Gains (losses) from<br>fair value changes      |   |
|----------------------------------|----------------------------------|------------|-----------|------------|--|---|
|                                  | Level 1                          | Level 2    | Level 3   | Total      | Three<br>months<br>ended<br>September 30, 2010 | Nine<br>months<br>ended<br>September 30, 2010 |
| <b>ASSETS</b>                    |                                  |            |           |            |  |   |
| HTM securities adjusted for OTTI |                                  |            | \$ 3,502  | \$ 3,502   | \$   | \$ (151)                                      |
| Impaired loans                   |                                  |            | 94,674    | 94,674     | (13,495)                                       | (106,640)                                     |
| Other real estate owned          |                                  | 154,452    |           | 154,452    | (41,543)                                       | (122,849)                                     |
|                                  | \$                               | \$ 154,452 | \$ 98,176 | \$ 252,628 | \$ (55,038)                                    | \$ (229,640)                                  |

<sup>1</sup> An additional \$20.9 million of OTTI was recognized in OCI.

Impaired (or nonperforming) loans that are collateral-dependent are fair valued under Level 2 based on the fair value of the collateral. Performing loans are not generally considered to be collateral-dependent because the primary source of loan repayment is not the liquidation of the collateral by the bank. Land loans do require the selling of parcels to meet loan repayments. OREO is fair valued under Level 2 at the lower of cost or fair value based on property appraisals at the time the property is recorded in OREO and as appropriate thereafter.

Measurement of impairment for collateral-dependent loans and OREO is based on third party appraisals performed and validated independently within the 90 days previous to the balance sheet date. If a third party appraisal has not been performed within the previous 90 days, we use an automated valuation service or our informed judgment (e.g., written offers, listings or appraisals on similar properties in the same market, brokers' opinions, or a new appraisal on the subject property) to determine the appropriate value of the collateral, referencing the most recently completed and validated appraisal and comparable sales and listings as the starting point of our analysis.

The fair value of collateral is estimated based on appraisals that utilize one or more valuation techniques

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(income, market and/or cost approaches). The valuation method we use for our construction impaired loans is as is. Any adjustments to calculated fair value are made based on recently completed and validated third party appraisals, an automated valuation service, or our informed judgment. Evaluations are made to determine that the appraisal process meets the relevant concepts and requirements of ASC 820.

The potential for outdated appraisals is addressed on a loan-by-loan basis during the impairment analysis according to ASC 310. We do not make high level adjustments for potentially outdated appraisals in our determination of the ALLL. As discussed in Note 5, the ASC 450 portion of our quantitative ALLL is based on a comprehensive grading system and historic loss rates. Outdated appraisals are incorporated as part of our quantitative ALLL analysis that incorporates recent loan loss history.

Impaired loans not collateral-dependent are fair valued 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 schedules. Impaired loans were reported as being fair valued under Level 3 in certain previous periods; however, upon reconsideration, the fair value process for impaired loans that are collateral dependent is considered to be substantially the same as for OREO, and accordingly, has been included under Level 2.

**Fair Value Option**

At September 30, 2011, no financial assets or liabilities were recorded at fair value under the fair value option allowed in ASC 825, *Financial Instruments*.

**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, 2011 |                      | September 30, 2010 |                      |
|--|--------------------|----------------------|--------------------|----------------------|
|  | Carrying value     | Estimated fair value | Carrying value     | Estimated fair value |
| <b>Financial assets:</b>   |                    |                      |                    |                      |
| HTM investment securities  | \$ 791,569         | \$ 715,608           | \$ 841,573         | \$ 783,362           |
| Loans and leases (including loans held for sale), net of allowance | 35,734,905         | 35,531,946           | 36,236,813         | 36,177,960           |
| <b>Financial liabilities:</b>                                      |                    |                      |                    |                      |
| Time deposits  | 3,536,755          | 3,573,780            | 4,455,097          | 4,520,046            |
| Foreign deposits   | 1,627,135          | 1,627,937            | 1,447,507          | 1,448,640            |
| Other short-term borrowings  | 125,290            | 126,698              | 236,507            | 238,546              |
| Long-term debt (less fair value hedges)                            | 1,886,843          | 2,178,386            | 1,924,871          | 2,408,115            |

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, and 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





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## ZIONS BANCORPORATION AND SUBSIDIARIES

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, and other short-term borrowings, is estimated by discounting future cash flows using the LIBOR yield curve. 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.

## 10. GUARANTEES, COMMITMENTS AND CONTINGENCIES

The following are guarantees issued by the Company:

| (In thousands)             | September 30,<br>2011 | December 31,<br>2010 | September 30,<br>2010 |
|----------------------------|-----------------------|----------------------|-----------------------|
| Standby letters of credit: |                       |                      |                       |
| Financial                  | \$ 923,291            | \$ 921,257           | \$ 1,033,119          |
| Performance                | 172,912               | 185,854              | 210,811               |
|                            | \$ 1,096,203          | \$ 1,107,111         | \$ 1,243,930          |

The Company's 2010 Annual Report on Form 10-K contains further information about these letters of credit including their terms and collateral requirements. At September 30, 2011, the Company had recorded approximately \$13.5 million as a liability for these guarantees, which consisted of \$8.6 million attributable to the reserve for unfunded lending commitments and \$4.9 million of deferred commitment fees.

As of September 30, 2011, the Parent has guaranteed approximately \$300 million of debt of affiliated trusts issuing trust preferred securities.

We are subject to litigation in court and arbitral proceedings, as well as proceedings and other actions brought or considered by governmental and self-regulatory agencies. At any given time, such litigation, proceedings and actions typically include claims relating to lending, deposit and other customer relationships, vendor and contractual issues, employee matters, intellectual property matters, personal injuries and torts, and regulatory compliance. Based on our current knowledge and consultations with legal counsel, and subject to the following paragraph, we believe that our current estimated liability for these matters, determined in accordance with ASC 450-20, *Loss Contingencies*, is adequate and that the amount of any incremental liability arising from litigation and governmental and self-regulatory actions will not

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## ZIONS BANCORPORATION AND SUBSIDIARIES

have a material adverse effect on our consolidated financial condition, cash flows, or results of operations. However, it is possible that the ultimate resolution of our litigation and governmental and self-regulatory actions may differ from our current assessments, based on facts and legal theories not currently known or fully appreciated, unpredicted decisions by courts, arbitrators or governmental or self-regulatory agencies, or other factors, and could have a material adverse effect on our results of operations for a particular reporting period depending, in part, on our results for that period.

On October 5, 2011, a putative class action complaint was filed on behalf of certain customers of Zions Bank relating to the processing of overdraft fees on debit card transactions. Zions Bank was only recently served with the complaint and is still in the process of assessing the merits of the claims, the defenses available to the bank, and the amounts at issue.

**11. RETIREMENT PLANS**

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

| (In thousands)                              | Pension benefits                 |          | Supplemental retirement benefits |        | Postretirement benefits          |         | Pension benefits                |          | Supplemental retirement benefits |        | Postretirement benefits         |          |
|---|----------------------------------|----------|----------------------------------|--------|----------------------------------|---------|---------------------------------|----------|----------------------------------|--------|---------------------------------|----------|
|   | Three Months Ended September 30, |          | Three Months Ended September 30, |        | Three Months Ended September 30, |         | Nine Months Ended September 30, |          | Nine Months Ended September 30,  |        | Nine Months Ended September 30, |          |
|   | 2011                             | 2010     | 2011                             | 2010   | 2011                             | 2010    | 2011                            | 2010     | 2011                             | 2010   | 2011                            | 2010     |
| Service cost                                | \$ 22                            | \$ 29    | \$                               | \$     | \$ 8                             | \$ 9    | \$ 73                           | \$ 135   | \$ 418                           | \$     | \$ 24                           | \$ 27    |
| Interest cost                               | 1,815                            | 2,125    | 140                              | 153    | 13                               | 17      | 6,068                           | 6,448    |                                  | 472    | 41                              | 43       |
| Expected return on plan assets              | (2,710)                          | (2,053)  |                                  |        |                                  |         | (9,058)                         | (6,159)  |                                  |        |                                 |          |
| Loss due to settlement                      |                                  |          |                                  |        |                                  |         |                                 |          |                                  | 13     |                                 |          |
| Amortization of prior service cost (credit) |                                  |          | 31                               | 31     | (61)                             | (61)    |                                 |          | 94                               | 93     | (183)                           | (183)    |
| Amortization of net actuarial (gain) loss   | 1,152                            | 1,325    | (4)                              | 3      | (31)                             | (37)    | 3,851                           | 4,301    | (12)                             | 21     | (94)                            | (112)    |
| Net periodic benefit cost (credit)          | \$ 279                           | \$ 1,426 | \$ 167                           | \$ 187 | \$ (71)                          | \$ (72) | \$ 934                          | \$ 4,725 | \$ 500                           | \$ 599 | \$ (212)                        | \$ (225) |

As disclosed in the Company's 2010 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.

**12. 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, 2011, 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 103 branches in California. Amegy operates 82 branches in Texas. NBA operates 74 branches in Arizona. NSB operates 53 branches in Nevada. Vectra operates 38 branches in Colorado and one branch in New Mexico. TCBW operates one branch in the state of Washington. TCBO operates one branch in Oregon. Additionally, each subsidiary bank, except for NSB, NBA and TCBO, operates a foreign branch in the Grand Cayman Islands.

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The operating segment identified as Other includes the Parent, Zions Management Services Company ( ZMSC ), certain nonbank financial service subsidiaries, TCBO, and eliminations of transactions between segments. ZMSC provides internal technology and operational services to affiliated operating businesses of the Company. ZMSC charges most of its costs to the affiliates on an approximate break-even basis.

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ZIONS BANCORPORATION AND SUBSIDIARIES

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

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## ZIONS BANCORPORATION AND SUBSIDIARIES

The following table presents selected operating segment information for the three months ended September 30, 2011 and 2010:

| (Amounts in millions)                                    | Zions Bank    |             | CB&T        |             | Amegy        |             | NBA                         |             | NSB      |          |
|--|---------------|-------------|-------------|-------------|--------------|-------------|-----------------------------|-------------|----------|----------|
|  | 2011          | 2010        | 2011        | 2010        | 2011         | 2010        | 2011                        | 2010        | 2011     | 2010     |
| <b>CONDENSED INCOME STATEMENT</b>                        |               |             |             |             |              |             |                             |             |          |          |
| Net interest income                                      | \$ 177.6      | \$ 179.1    | \$ 127.8    | \$ 130.6    | \$ 99.4      | \$ 98.4     | \$ 43.0                     | \$ 43.5     | \$ 33.5  | \$ 34.3  |
| Provision for loan losses                                | 30.5          | 87.8        | (1.5)       | 37.6        | (13.0)       | 18.5        | 7.6                         | 19.0        | (15.6)   | 11.9     |
| Net interest income after provision for loan losses      | 147.1         | 91.3        | 129.3       | 93.0        | 112.4        | 79.9        | 35.4                        | 24.5        | 49.1     | 22.4     |
| Net impairment losses on investment securities           | (0.3)         |             | (0.5)       |             |              |             |                             |             |          |          |
| Loss on sale of investment securities to Parent          |               |             | (7.2)       |             |              |             |                             |             |          |          |
| Other noninterest income                                 | 55.7          | 53.2        | 22.1        | 29.2        | 37.8         | 37.6        | 8.8                         | 8.6         | 9.8      | 10.7     |
| Noninterest expense                                      | 142.2         | 147.3       | 89.3        | 94.6        | 74.3         | 88.7        | 36.3                        | 38.7        | 35.4     | 38.6     |
| Income (loss) before income taxes                        | 60.3          | (2.8)       | 54.4        | 27.6        | 75.9         | 28.8        | 7.9                         | (5.6)       | 23.5     | (5.5)    |
| Income tax expense (benefit)                             | 20.5          | (4.7)       | 21.4        | 10.2        | 25.6         | 9.0         | 3.1                         | (2.2)       | 8.1      | (1.9)    |
| Net income (loss)  | 39.8          | 1.9         | 33.0        | 17.4        | 50.3         | 19.8        | 4.8                         | (3.4)       | 15.4     | (3.6)    |
| Net income (loss) applicable to noncontrolling interests |               |             |             |             |              |             |                             |             |          |          |
| Net income (loss) applicable to controlling interest     | 39.8          | 1.9         | 33.0        | 17.4        | 50.3         | 19.8        | 4.8                         | (3.4)       | 15.4     | (3.6)    |
| Preferred stock dividends                                |               |             | (3.7)       |             | (6.1)        |             |                             |             |          |          |
| Net earnings (loss) applicable to common shareholders    | \$ 39.8       | \$ 1.9      | \$ 29.3     | \$ 17.4     | \$ 44.2      | \$ 19.8     | \$ 4.8                      | \$ (3.4)    | \$ 15.4  | \$ (3.6) |
| <b>AVERAGE BALANCE SHEET DATA</b>                        |               |             |             |             |              |             |                             |             |          |          |
| Total assets   | \$ 16,259     | \$ 17,978   | \$ 10,960   | \$ 11,156   | \$ 11,362    | \$ 11,873   | \$ 4,458                    | \$ 4,406    | \$ 4,232 | \$ 4,001 |
| Net loans and leases                                     | 12,686        | 13,319      | 8,257       | 8,474       | 7,858        | 7,654       | 3,277                       | 3,283       | 2,360    | 2,493    |
| Total deposits   | 13,741        | 14,199      | 9,336       | 9,699       | 8,831        | 9,361       | 3,722                       | 3,669       | 3,595    | 3,402    |
| Shareholder's equity:                                    |               |             |             |             |              |             |                             |             |          |          |
| Preferred equity   | 480           | 482         | 262         | 262         | 488          | 489         | 305                         | 307         | 360      | 360      |
| Common equity  | 1,351         | 1,301       | 1,260       | 1,160       | 1,580        | 1,461       | 337                         | 323         | 252      | 247      |
| Noncontrolling interests                                 |               |             |             |             |              |             |                             |             |          |          |
| Total shareholder's equity                               | 1,831         | 1,783       | 1,522       | 1,422       | 2,068        | 1,950       | 642                         | 630         | 612      | 607      |
|  | <b>Vectra</b> |             | <b>TCBW</b> |             | <b>Other</b> |             | <b>Consolidated Company</b> |             |          |          |
|  | <b>2011</b>   | <b>2010</b> | <b>2011</b> | <b>2010</b> | <b>2011</b>  | <b>2010</b> | <b>2011</b>                 | <b>2010</b> |          |          |

**CONDENSED INCOME STATEMENT**

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|  |         |         |        |          |           |            |          |           |
|--|---------|---------|--------|----------|-----------|------------|----------|-----------|
| Net interest income                                      | \$ 26.5 | \$ 27.0 | \$ 7.6 | \$ 7.4   | \$ (44.8) | \$ (68.4)  | \$ 470.6 | \$ 451.9  |
| Provision for loan losses                                | 5.3     | 4.2     | 1.3    | 5.1      | 0.0       | 0.6        | 14.6     | 184.7     |
| Net interest income after provision for loan losses      | 21.2    | 22.8    | 6.3    | 2.3      | (44.8)    | (69.0)     | 456.0    | 267.2     |
| Net impairment losses on investment securities           | (0.5)   | (0.4)   |        | (0.3)    | (12.0)    | (23.0)     | (13.3)   | (23.7)    |
| Loss on sale of investment securities to Parent          |         |         |        |          | 7.2       |            |          |           |
| Other noninterest income                                 | 5.7     | 6.7     | 0.8    | 0.8      | (6.3)     | (12.9)     | 134.4    | 133.9     |
| Noninterest expense                                      | 23.7    | 23.0    | 4.3    | 3.4      | 3.5       | 21.8       | 409.0    | 456.1     |
| Income (loss) before income taxes                        | 2.7     | 6.1     | 2.8    | (0.6)    | (59.4)    | (126.7)    | 168.1    | (78.7)    |
| Income tax expense (benefit)                             | 0.7     | 2.0     | 1.0    | (0.2)    | (21.0)    | (43.4)     | 59.4     | (31.2)    |
| Net income (loss)  | 2.0     | 4.1     | 1.8    | (0.4)    | (38.4)    | (83.3)     | 108.7    | (47.5)    |
| Net income (loss) applicable to noncontrolling interests |         |         |        |          | (0.4)     | (0.2)      | (0.4)    | (0.2)     |
| Net income (loss) applicable to controlling interest     | 2.0     | 4.1     | 1.8    | (0.4)    | (38.0)    | (83.1)     | 109.1    | (47.3)    |
| Preferred stock dividends                                |         |         |        |          | (34.1)    | (33.2)     | (43.9)   | (33.2)    |
| Net earnings (loss) applicable to common shareholders    | \$ 2.0  | \$ 4.1  | \$ 1.8 | \$ (0.4) | \$ (72.1) | \$ (116.3) | \$ 65.2  | \$ (80.5) |

AVERAGE BALANCE SHEET DATA

|                            |          |          |        |        |          |          |           |           |
|----------------------------|----------|----------|--------|--------|----------|----------|-----------|-----------|
| Total assets               | \$ 2,273 | \$ 2,275 | \$ 891 | \$ 840 | \$ 1,139 | \$ (750) | \$ 51,574 | \$ 51,779 |
| Net loans and leases       | 1,864    | 1,861    | 583    | 572    | (101)    | 19       | 36,784    | 37,675    |
| Total deposits             | 1,906    | 1,848    | 700    | 645    | (434)    | (1,135)  | 41,397    | 41,688    |
| Shareholder's equity:      |          |          |        |        |          |          |           |           |
| Preferred equity           | 70       | 68       | 15     | 15     | 355      | (163)    | 2,335     | 1,820     |
| Common equity              | 206      | 198      | 74     | 70     | (426)    | (158)    | 4,634     | 4,602     |
| Noncontrolling interests   |          |          |        |        | (2)      | (1)      | (2)       | (1)       |
| Total shareholder's equity | 276      | 266      | 89     | 85     | (73)     | (322)    | 6,967     | 6,421     |

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ZIONS BANCORPORATION AND SUBSIDIARIES

The following table presents selected operating segment information for the nine months ended September 30, 2011 and 2010:

| (Amounts in millions)                                    | Zions Bank |           | CB&T     |          | Amegy    |          | NBA      |          | NSB      |           |
|--|------------|-----------|----------|----------|----------|----------|----------|----------|----------|-----------|
|  | 2011       | 2010      | 2011     | 2010     | 2011     | 2010     | 2011     | 2010     | 2011     | 2010      |
| <b>CONDENSED INCOME STATEMENT</b>                        |            |           |          |          |          |          |          |          |          |           |
| Net interest income                                      | \$ 526.6   | \$ 545.4  | \$ 384.9 | \$ 363.3 | \$ 290.7 | \$ 297.6 | \$ 129.4 | \$ 133.3 | \$ 101.9 | \$ 104.3  |
| Provision for loan losses                                | 91.1       | 265.4     | 3.9      | 120.1    | (9.9)    | 115.7    | 10.1     | 45.0     | (33.0)   | 98.9      |
| Net interest income after provision for loan losses      | 435.5      | 280.0     | 381.0    | 243.2    | 300.6    | 181.9    | 119.3    | 88.3     | 134.9    | 5.4       |
| Net impairment losses on investment securities           | (0.3)      |           | (0.5)    |          |          |          |          |          |          |           |
| Loss on sale of investment securities to Parent          |            | (54.8)    | (20.7)   |          |          |          |          |          |          |           |
| Other noninterest income                                 | 154.8      | 138.3     | 84.3     | 81.0     | 111.1    | 110.0    | 26.8     | 24.4     | 28.5     | 30.5      |
| Noninterest expense                                      | 407.8      | 422.4     | 272.7    | 251.4    | 238.3    | 242.1    | 118.4    | 126.2    | 105.7    | 114.6     |
| Income (loss) before income taxes                        | 182.2      | (58.9)    | 171.4    | 72.8     | 173.4    | 49.8     | 27.7     | (13.5)   | 57.7     | (78.7)    |
| Income tax expense (benefit)                             | 61.7       | (13.2)    | 67.9     | 31.2     | 57.5     | 13.9     | 10.9     | (5.3)    | 20.0     | (27.7)    |
| Net income (loss)  | 120.5      | (45.7)    | 103.5    | 41.6     | 115.9    | 35.9     | 16.8     | (8.2)    | 37.7     | (51.0)    |
| Net income (loss) applicable to noncontrolling interests |            | 0.1       |          |          |          |          |          |          |          |           |
| Net income (loss) applicable to controlling interest     | 120.5      | (45.8)    | 103.5    | 41.6     | 115.9    | 35.9     | 16.8     | (8.2)    | 37.7     | (51.0)    |
| Preferred stock dividends                                |            |           | (3.7)    |          | (6.1)    |          |          |          |          |           |
| Preferred stock redemption                               |            |           |          |          |          |          |          |          |          |           |
| Net earnings (loss) applicable to common shareholders    | \$ 120.5   | \$ (45.8) | \$ 99.8  | \$ 41.6  | \$ 109.8 | \$ 35.9  | \$ 16.8  | \$ (8.2) | \$ 37.7  | \$ (51.0) |

|                                   |           |           |           |           |           |           |          |          |          |          |
|-----------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|----------|----------|----------|----------|
| <b>AVERAGE BALANCE SHEET DATA</b> |           |           |           |           |           |           |          |          |          |          |
| Total assets                      | \$ 16,192 | \$ 18,460 | \$ 10,844 | \$ 11,095 | \$ 11,273 | \$ 11,694 | \$ 4,456 | \$ 4,428 | \$ 4,167 | \$ 4,058 |
| Net loans and leases              | 12,771    | 13,583    | 8,296     | 8,629     | 7,742     | 7,933     | 3,285    | 3,395    | 2,397    | 2,593    |
| Total deposits                    | 13,619    | 14,160    | 9,257     | 9,695     | 8,748     | 9,249     | 3,726    | 3,693    | 3,544    | 3,439    |
| Shareholder's equity:             |           |           |           |           |           |           |          |          |          |          |
| Preferred equity                  | 480       | 474       | 262       | 262       | 488       | 456       | 305      | 338      | 360      | 360      |
| Common equity                     | 1,310     | 1,293     | 1,225     | 1,146     | 1,545     | 1,449     | 331      | 293      | 238      | 261      |
| Noncontrolling interests          |           |           |           |           |           |           |          |          |          |          |
| Total shareholder's equity        | 1,790     | 1,767     | 1,487     | 1,408     | 2,033     | 1,905     | 636      | 631      | 598      | 621      |

| Vectra |      | TCBW |      | Other |      | Consolidated Company |      |
|--------|------|------|------|-------|------|----------------------|------|
| 2011   | 2010 | 2011 | 2010 | 2011  | 2010 | 2011                 | 2010 |

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CONDENSED INCOME STATEMENT

|  |         |         |         |         |            |            |            |            |
|--|---------|---------|---------|---------|------------|------------|------------|------------|
| Net interest income                                      | \$ 78.3 | \$ 81.4 | \$ 22.8 | \$ 22.4 | \$ (224.0) | \$ (227.2) | \$ 1,310.6 | \$ 1,320.5 |
| Provision for loan losses                                | 7.2     | 21.4    | 6.4     | 11.8    | 0.1        | 0.6        | 75.9       | 678.9      |
| Net interest income after provision for loan losses      | 71.1    | 60.0    | 16.4    | 10.6    | (224.1)    | (227.8)    | 1,234.7    | 641.6      |
| Net impairment losses on investment securities           | (0.5)   | (1.3)   |         | (0.3)   | (20.3)     | (71.4)     | (21.6)     | (73.0)     |
| Loss on sale of investment securities to Parent          |         |         |         |         | 20.7       | 54.8       |            |            |
| Other noninterest income                                 | 16.5    | 22.7    | 2.1     | 1.9     | (19.0)     | (8.6)      | 405.1      | 400.2      |
| Noninterest expense                                      | 74.7    | 68.7    | 12.7    | 12.2    | 3.3        | 37.9       | 1,233.6    | 1,275.5    |
| Income (loss) before income taxes                        | 12.4    | 12.7    | 5.8     | (0.0)   | (246.0)    | (290.9)    | 384.6      | (306.7)    |
| Income tax expense (benefit)                             | 3.8     | 8.4     | 1.9     | (0.1)   | (73.0)     | (89.9)     | 150.7      | (82.7)     |
| Net income (loss)  | 8.6     | 4.3     | 3.9     | 0.1     | (173.0)    | (201.0)    | 233.9      | (224.0)    |
| Net income (loss) applicable to noncontrolling interests |         |         |         |         | (0.9)      | (3.6)      | (0.9)      | (3.5)      |
| Net income (loss) applicable to controlling interest     | 8.6     | 4.3     | 3.9     | 0.1     | (172.1)    | (197.4)    | 234.8      | (220.5)    |
| Preferred stock dividends                                |         |         |         |         | (116.0)    | (84.8)     | (125.8)    | (84.8)     |
| Preferred stock redemption                               |         |         |         |         |            | 3.1        |            | 3.1        |
| Net earnings (loss) applicable to common shareholders    | \$ 8.6  | \$ 4.3  | \$ 3.9  | \$ 0.1  | \$ (288.1) | \$ (279.1) | \$ 109.0   | \$ (302.2) |

AVERAGE BALANCE SHEET DATA

|                            |          |          |        |        |          |            |           |           |
|----------------------------|----------|----------|--------|--------|----------|------------|-----------|-----------|
| Total assets               | \$ 2,257 | \$ 2,338 | \$ 865 | \$ 826 | \$ 1,039 | \$ (1,165) | \$ 51,093 | \$ 51,734 |
| Net loans and leases       | 1,813    | 1,889    | 579    | 574    | (119)    | 48         | 36,764    | 38,644    |
| Total deposits             | 1,884    | 1,925    | 680    | 625    | (498)    | (866)      | 40,960    | 41,920    |
| Shareholder's equity:      |          |          |        |        |          |            |           |           |
| Preferred equity           | 70       | 68       | 15     | 15     | 240      | (320)      | 2,220     | 1,653     |
| Common equity              | 204      | 198      | 72     | 70     | (300)    | (308)      | 4,625     | 4,402     |
| Noncontrolling interests   |          |          |        |        | (1)      | 10         | (1)       | 10        |
| Total shareholder's equity | 274      | 266      | 87     | 85     | (61)     | (618)      | 6,844     | 6,065     |



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ITEM 2. **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**  
**FORWARD-LOOKING INFORMATION**

Statements in this Quarterly Report on Form 10-Q 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, u

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 the Management's Discussion and Analysis. Factors that might cause such differences include, but are not limited to:

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

changes in political and economic conditions, including without limitation the political and economic effects of the current economic crisis, delay of recovery from the current economic crisis, potential downgrade of ratings of U.S. sovereign debt and debt guaranteed by the U.S., failure of the U.S. government to timely discharge its financial obligations, and other major developments, including wars, military actions, and terrorist attacks;

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

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

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

acquisitions and integration of acquired businesses;

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

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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, and the Federal Deposit Insurance Corporation ( FDIC );

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the Company's participation in and exit from governmental programs implemented under the EESA and the ARRA, including the TARP and 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, many 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;

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.

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.

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**GLOSSARY OF ACRONYMS**

|        |  |
|--------|--|
| ABS    | Asset-Backed Security                                  |
| ACL    | Allowance for Credit Losses                            |
| AFS    | Available-for-Sale                                     |
| ALCO   | Asset/Liability Committee                              |
| ALLL   | Allowance for Loan and Lease Losses                    |
| Amegy  | Amegy Corporation                                      |
| AOCI   | Accumulated Other Comprehensive Income                 |
| ARRA   | American Recovery and Reinvestment Act                 |
| ASC    | Accounting Standards Codification                      |
| ASU    | Accounting Standards Update                            |
| ATM    | Automated Teller Machine                               |
| bps    | Basis Points   |
| BSA    | Bank Secrecy Act                                       |
| CB&T   | California Bank & Trust                                |
| CDO    | Collateralized Debt Obligation                         |
| CDR    | Constant Default Rate                                  |
| CPP    | Capital Purchase Program                               |
| CPR    | Constant Prepayment Rate                               |
| CRE    | Commercial Real Estate                                 |
| DB     | Deutsche Bank AG                                       |
| DBRS   | Dominion Bond Rating Service                           |
| DTA    | Deferred Tax Asset                                     |
| DTL    | Deferred Tax Liability                                 |
| EESA   | Emergency Economic Stabilization Act                   |
| FASB   | Financial Accounting Standards Board                   |
| FDIC   | Federal Deposit Insurance Corporation                  |
| FHLB   | Federal Home Loan Bank                                 |
| FICO   | Fair Isaac Corporation                                 |
| GAAP   | Generally Accepted Accounting Principles               |
| HTM    | Held-to-Maturity                                       |
| IFRS   | International Financial Reporting Standards            |
| ISDA   | International Swap Dealer Association                  |
| LIBOR  | London Inter-Bank Offered Rate                         |
| NBA    | National Bank of Arizona                               |
| NRSRO  | Nationally Recognized Statistical Rating Organization  |
| NSB    | Nevada State Bank                                      |
| NSF    | Non-Sufficient Funds                                   |
| OCI    | Other Comprehensive Income                             |
| OECD   | Organisation for Economic Co-Operation and Development |
|        | Other Real Estate Owned                                |
| OREO   |  |
| OTC    | Over-the-Counter                                       |
| OTTI   | Other-Than-Temporary-Impairment                        |
| Parent | Zions Bancorporation                                   |
| PD     | Probability of Default                                 |
| PIK    | Payment in Kind  |
| REIT   | Real Estate Investment Trust                           |

|        |  |
|--------|--|
| RMBS   | Residential Mortgage-Backed Securities   |
| RULC   | Reserve for Unfunded Lending Commitments |
| SBA    | Small Business Administration            |
| SBIC   | Small Business Investment Company        |
| SEC    | Securities and Exchange Commission       |
| TARP   | Troubled Asset Relief Program            |
| TCBO   | The Commerce Bank of Oregon              |
| TCBW   | The Commerce Bank of Washington          |
| TDR    | Troubled Debt Restructuring              |
| TRS    | Total Return Swap                        |
| Vectra | Vectra Bank Colorado                     |
| ZMSC   | Zions Management Services Company        |

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

The Company made no significant changes in its critical accounting policies and significant estimates from those disclosed in its 2010 Annual Report on Form 10-K.

### **RESULTS OF OPERATIONS**

The Company reported net earnings applicable to common shareholders of \$65.2 million or \$0.35 per diluted share for the third quarter of 2011 compared to a net loss applicable to common shareholders of \$80.5 million or \$0.47 per diluted share for the same period in 2010. The improved result was mainly caused by the following favorable changes:

\$170.1 million decrease in the provision for loan losses;

\$23.7 million decrease in other real estate expense;

\$18.7 million increase in net interest income;

\$13.8 million decrease in other noninterest expense;

\$13.1 million decrease in FDIC premiums;

\$11.0 million decrease in fair value and nonhedge derivative loss;

\$10.4 million decrease in net impairment losses on investment securities; and

\$6.4 million increase in equity securities gains.

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The impact of these items was partially offset by the following:

\$90.5 million increase in income taxes;

\$17.4 million decrease in other noninterest income;

\$10.8 million increase in preferred stock dividends;

\$8.9 million increase in salaries and employee benefits; and

\$5.6 million decrease in service charges and fees on deposit accounts.

Net earnings applicable to common shareholders for the first nine months of 2011 were \$109.0 million, or \$0.59 per diluted share, compared to a net loss applicable to common shareholders of \$302.2 million, or \$1.87 per diluted share for the corresponding period in 2010. The improved result reflects the following:

\$603.0 million decrease in the provision for loan losses;

\$56.7 million decrease in other real estate expense;

\$51.4 million decrease in net impairment losses on investment securities;

\$24.4 million decrease in FDIC premiums;

\$15.8 million decrease in fair value and nonhedge derivative loss;

\$10.3 million increase in equity securities gains;

\$9.2 million increase in dividends and other investment income; and

\$6.7 million increase in other service charges, commissions, and fees.

The impact of these items was partially offset by the following:

\$233.4 million increase in income taxes;

\$41.0 million increase in preferred stock dividends;

\$35.9 million increase in salaries and employee benefits;

\$21.7 million decrease in service charges and fees on deposit accounts;

\$14.5 million decrease in gain on subordinated debt exchange;

\$9.9 million decrease in net interest income; and

\$8.0 million increase in other noninterest expense.

During the second quarter of 2009, the Company executed a subordinated debt modification and exchange transaction. The original discount on the convertible subordinated debt was \$679 million and the remaining discount at September 30, 2011 was \$241 million. It included the following components:

The fair value discount on the debt, and

The value of the beneficial conversion feature which added the right of the debt holder to convert the debt into preferred stock. The discount associated with the convertible subordinated debt is amortized to interest expense, a noncash expense, using the interest method over the remaining terms of the subordinated debt. When holders of the convertible subordinated notes convert to preferred stock, the rate of amortization is accelerated by immediately expensing any unamortized discount associated with the converted debt.

Excluding the impact of these noncash expenses, income before income taxes and subordinated debt conversions for the third quarter of 2011 increased to \$186.2 million compared to a loss of \$36.5 million in the third quarter of 2010.



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## ZIONS BANCORPORATION AND SUBSIDIARIES

| (In thousands)   | Three Months Ended    |                  |                   |                      |                       |
|--|-----------------------|------------------|-------------------|----------------------|-----------------------|
|  | September 30,<br>2011 | June 30,<br>2011 | March 31,<br>2011 | December 31,<br>2010 | September 30,<br>2010 |
| Income (loss) before income taxes (GAAP)                                       | \$ 168,066            | \$ 126,935       | \$ 89,624         | \$ (96,491)          | \$ (78,637)           |
| Convertible subordinated debt discount amortization                            | 10,645                | 11,439           | 13,120            | 13,763               | 14,711                |
| Accelerated convertible subordinated debt discount amortization                | 7,498                 | 61,353           | 40,994            | 73,320               | 27,462                |
| Income (loss) before income taxes and subordinated debt conversions (non-GAAP) | \$ 186,209            | \$ 199,727       | \$ 143,738        | \$ (9,408)           | \$ (36,464)           |

The impact of the conversion 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 2011 was \$475.6 million compared to \$457.2 million for the comparable period of 2010. The increase reflects the effect of many factors as discussed below. The tax rate used for calculating all taxable-equivalent adjustments was 35% for all periods presented.

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 3.99% for the third quarter of 2011, compared to 3.84% for the same period in 2010, and 3.62% for the second quarter of 2011; however, the Company believes that its core net interest margin is more reflective of its operating performance than the reported net interest margin. We calculate the core net interest margin 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 3.97% and 4.03% for the third quarters of 2011 and 2010, respectively. See [GAAP to non-GAAP Reconciliations](#) for a reconciliation between the GAAP net interest margin and the non-GAAP core net interest margin.

Net interest margin and net interest income are especially sensitive 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 can significantly impact net interest income. Average total loans and leases for the first nine months of 2011 were \$1.9 billion or 4.9% lower than average total loans and leases for the first nine months of 2010, while average interest-bearing liabilities were \$2.4 billion or 7.4% lower for the same comparable periods. The average interest rate earned on net loans and leases excluding FDIC-supported loans decreased 14 basis points from 5.60% to 5.46% for the first nine months of 2011, compared to the first nine months of 2010, while the rate paid on interest-bearing deposits declined 21 basis points from 0.72% to 0.51%, improving our net interest spread. Additionally, the mix of deposit funding improved. For the nine months ended September 30, 2011 average noninterest-bearing deposits accounted for 34.7% of total average deposits, while for the same period in 2010 they accounted for 31.5%. The composition of low-yielding money market investments increased to 10.6% of interest-earning assets for the first nine months of 2011 as compared to 8.0% for the first nine months of 2010, which adversely affected the net interest margin. 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.

During the third quarter of 2011, the Company had lower amortization and accelerated amortization of convertible subordinated debt discount expense impacting the net interest margin compared to prior quarters. In the third quarter of 2011, the net interest margin was negatively impacted by 9 basis points for the discount amortization resulting from the conversion of convertible subordinated debt to preferred stock and by 6 basis

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points for the accelerated discount amortization related to the convertible subordinated debt. The net interest margin for the third quarter of 2010 was negatively impacted by 23 basis points for 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.

The spread on average interest-bearing funds improved for the third quarter of 2011 to 3.56%, compared to 3.26% in the same period in 2010. The spread on average interest-bearing funds for the third quarter of 2011 was also affected by most of the same factors that had an impact on the net interest margin.

The net interest margin will continue to be positively impacted in future quarters by the decreased level of nonperforming assets and adversely affected by the amortization of the discount related to the debt modification transactions, including the accelerated amortization of discount to the extent that holders of the modified debt elect to convert their holdings to preferred stock. The unamortized discount on the convertible subordinated debt was \$240.8 million as of September 30, 2011, or 42.8% of the total \$562.3 million of remaining outstanding convertible subordinated notes and will be amortized as interest expense over the remaining life of the debt using the interest method. Other factors that will impact the net interest margin adversely include the competitive market pricing for high quality loans, repricing of variable rate loans, and the potential reduction of noninterest-bearing deposits when the unlimited deposit insurance ends December 31, 2012.

The Company expects to continue its efforts over the long run to maintain a slightly asset-sensitive position with regard to interest rate risk. For a number of quarters in the recent period of historically low interest rates, the Company has maintained an interest rate risk position that is more asset sensitive than it was prior to the economic crisis, and it expects to maintain this more asset sensitive position for a prolonged period. With interest rates at historically low levels, there is a reduced need to protect against falling interest rates. Our estimates of the Company's actual rate risk position 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 2010 Annual Report on Form 10-K in "Interest Rate Risk" on page 75 and in this filing in "Interest Rate Risk."

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## ZIONS BANCORPORATION AND SUBSIDIARIES

## CONSOLIDATED AVERAGE BALANCE SHEETS, YIELDS AND RATES

(Unaudited)

| (In thousands)   | Three Months Ended<br>September 30, 2011 |                                       |                 | Three Months Ended<br>September 30, 2010 |                                       |                 |
|--|--|---------------------------------------|-----------------|--|---------------------------------------|-----------------|
|  | Average<br>balance                       | Amount<br>of<br>interest <sup>1</sup> | Average<br>rate | Average<br>balance                       | Amount<br>of<br>interest <sup>1</sup> | Average<br>rate |
| <b>ASSETS</b>  |  |                                       |                 |  |                                       |                 |
| Money market investments   | \$ 5,519,190                             | \$ 3,482                              | 0.25%           | \$ 5,192,847                             | \$ 3,487                              | 0.27%           |
| Securities:  |  |                                       |                 |  |                                       |                 |
| Held-to-maturity   | 821,510                                  | 11,158                                | 5.39%           | 843,268                                  | 8,789                                 | 4.14%           |
| Available-for-sale   | 3,951,546                                | 21,977                                | 2.21%           | 3,282,056                                | 22,199                                | 2.68%           |
| Trading account  | 55,214                                   | 462                                   | 3.32%           | 59,216                                   | 542                                   | 3.63%           |
| Total securities   | 4,828,270                                | 33,597                                | 2.76%           | 4,184,540                                | 31,530                                | 2.99%           |
| Loans held for sale  | 118,054                                  | 1,215                                 | 4.08%           | 188,794                                  | 2,223                                 | 4.67%           |
| Loans:   |  |                                       |                 |  |                                       |                 |
| Net loans and leases excluding FDIC-supported loans <sup>2</sup> | 35,964,005                               | 488,472                               | 5.39%           | 36,525,416                               | 515,419                               | 5.60%           |
| FDIC-supported loans   | 819,696                                  | 32,615                                | 15.79%          | 1,149,976                                | 34,572                                | 11.93%          |
| Total loans and leases   | 36,783,701                               | 521,087                               | 5.62%           | 37,675,392                               | 549,991                               | 5.79%           |
| Total interest-earning assets                                    | 47,249,215                               | 559,381                               | 4.70%           | 47,241,573                               | 587,231                               | 4.93%           |
| Cash and due from banks  | 1,036,218                                |                                       |                 | 1,063,000                                |                                       |                 |
| Allowance for loan losses  | (1,210,111)                              |                                       |                 | (1,556,558)                              |                                       |                 |
| Goodwill   | 1,015,161                                |                                       |                 | 1,015,161                                |                                       |                 |
| Core deposit and other intangibles                               | 75,153                                   |                                       |                 | 97,741                                   |                                       |                 |
| Other assets   | 3,407,914                                |                                       |                 | 3,917,955                                |                                       |                 |
| Total assets   | \$ 51,573,550                            |                                       |                 | \$ 51,778,872                            |                                       |                 |
| <b>LIABILITIES</b>   |  |                                       |                 |  |                                       |                 |
| Interest-bearing deposits:                                       |  |                                       |                 |  |                                       |                 |
| Savings and NOW  | \$ 6,637,565                             | 4,563                                 | 0.27%           | \$ 6,186,704                             | 5,060                                 | 0.32%           |
| Money market   | 14,838,406                               | 16,174                                | 0.43%           | 15,584,312                               | 24,840                                | 0.63%           |
| Time under \$100,000   | 1,750,372                                | 3,804                                 | 0.86%           | 2,103,818                                | 6,623                                 | 1.25%           |
| Time \$100,000 and over  | 1,879,652                                | 4,483                                 | 0.95%           | 2,462,904                                | 7,495                                 | 1.21%           |
| Foreign  | 1,494,995                                | 2,069                                 | 0.55%           | 1,563,090                                | 2,350                                 | 0.60%           |
| Total interest-bearing deposits                                  | 26,600,990                               | 31,093                                | 0.46%           | 27,900,828                               | 46,368                                | 0.66%           |
| Borrowed funds:  |  |                                       |                 |  |                                       |                 |
| Securities sold, not yet purchased                               | 31,077                                   | 333                                   | 4.25%           | 38,789                                   | 423                                   | 4.33%           |

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|   |                      |               |              |                      |               |               |
|---|----------------------|---------------|--------------|----------------------|---------------|---------------|
| Federal funds purchased and security repurchase agreements                      | 616,150              | 183           | 0.12%        | 873,954              | 315           | 0.14%         |
| Short-term borrowings   | 140,252              | 985           | 2.79%        | 210,235              | 2,828         | 5.34%         |
| Long-term debt  | 1,893,251            | 51,207        | 10.73%       | 1,945,775            | 80,125        | 16.34%        |
| <b>Total borrowed funds</b>   | <b>2,680,730</b>     | <b>52,708</b> | <b>7.80%</b> | <b>3,068,753</b>     | <b>83,691</b> | <b>10.82%</b> |
| Total interest-bearing liabilities  | 29,281,720           | 83,801        | 1.14%        | 30,969,581           | 130,059       | 1.67%         |
| Noninterest-bearing deposits  | 14,795,706           |               |              | 13,786,784           |               |               |
| Other liabilities   | 529,343              |               |              | 601,439              |               |               |
| <b>Total liabilities</b>  | <b>44,606,769</b>    |               |              | <b>45,357,804</b>    |               |               |
| Shareholders' equity:   |                      |               |              |                      |               |               |
| Preferred equity  | 2,334,784            |               |              | 1,819,889            |               |               |
| Common equity   | 4,633,555            |               |              | 4,601,920            |               |               |
| Controlling interest shareholders' equity                                       | 6,968,339            |               |              | 6,421,809            |               |               |
| Noncontrolling interest   | (1,558)              |               |              | (741)                |               |               |
| <b>Total shareholders' equity</b>   | <b>6,966,781</b>     |               |              | <b>6,421,068</b>     |               |               |
| <b>Total liabilities and shareholders' equity</b>                               | <b>\$ 51,573,550</b> |               |              | <b>\$ 51,778,872</b> |               |               |
| Spread on average interest-bearing funds  |                      |               | 3.56%        |                      |               | 3.26%         |
| Taxable-equivalent net interest income and net yield on interest-earning assets |                      | \$ 475,580    | 3.99%        |                      | \$ 457,172    | 3.84%         |

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

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

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## ZIONS BANCORPORATION AND SUBSIDIARIES

| (In thousands)   | Nine Months Ended<br>September 30, 2011 |                                    |                 | Nine Months Ended<br>September 30, 2010 |                                    |                 |
|--|---|------------------------------------|-----------------|---|------------------------------------|-----------------|
|  | Average<br>balance                      | Amount of<br>interest <sup>1</sup> | Average<br>rate | Average<br>balance                      | Amount of<br>interest <sup>1</sup> | Average<br>rate |
| <b>ASSETS</b>  |   |                                    |                 |   |                                    |                 |
| Money market investments   | \$ 4,945,625                            | \$ 9,524                           | 0.26%           | \$ 3,768,631                            | \$ 7,527                           | 0.27%           |
| Securities:  |   |                                    |                 |   |                                    |                 |
| Held-to-maturity   | 825,384                                 | 33,494                             | 5.43%           | 876,901                                 | 33,703                             | 5.14%           |
| Available-for-sale   | 4,029,559                               | 67,805                             | 2.25%           | 3,341,349                               | 68,251                             | 2.73%           |
| Trading account  | 55,312                                  | 1,452                              | 3.51%           | 60,985                                  | 1,674                              | 3.67%           |
| Total securities   | 4,910,255                               | 102,751                            | 2.80%           | 4,279,235                               | 103,628                            | 3.24%           |
| Loans held for sale  | 140,571                                 | 4,341                              | 4.13%           | 178,314                                 | 6,523                              | 4.89%           |
| Loans:   |   |                                    |                 |   |                                    |                 |
| Net loans and leases excluding FDIC-supported loans <sup>2</sup> | 35,880,936                              | 1,464,170                          | 5.46%           | 37,375,465                              | 1,564,403                          | 5.60%           |
| FDIC-supported loans   | 883,203                                 | 100,082                            | 15.15%          | 1,268,797                               | 80,311                             | 8.46%           |
| Total loans and leases   | 36,764,139                              | 1,564,252                          | 5.69%           | 38,644,262                              | 1,644,714                          | 5.69%           |
| Total interest-earning assets                                    | 46,760,590                              | 1,680,868                          | 4.81%           | 46,870,442                              | 1,762,392                          | 5.03%           |
| Cash and due from banks  | 1,050,373                               |                                    |                 | 1,261,657                               |                                    |                 |
| Allowance for loan losses  | (1,317,521)                             |                                    |                 | (1,572,138)                             |                                    |                 |
| Goodwill   | 1,015,161                               |                                    |                 | 1,015,161                               |                                    |                 |
| Core deposit and other intangibles                               | 80,121                                  |                                    |                 | 104,145                                 |                                    |                 |
| Other assets   | 3,504,741                               |                                    |                 | 4,055,102                               |                                    |                 |
| Total assets   | \$ 51,093,465                           |                                    |                 | \$ 51,734,369                           |                                    |                 |
| <b>LIABILITIES</b>   |   |                                    |                 |   |                                    |                 |
| Interest-bearing deposits:                                       |   |                                    |                 |   |                                    |                 |
| Savings and NOW  | \$ 6,530,029                            | 14,120                             | 0.29%           | \$ 6,019,848                            | 15,450                             | 0.34%           |
| Money market   | 14,894,182                              | 53,111                             | 0.48%           | 16,127,412                              | 84,963                             | 0.70%           |
| Time under \$100,000   | 1,831,019                               | 12,901                             | 0.94%           | 2,237,947                               | 22,646                             | 1.35%           |
| Time \$100,000 and over  | 2,014,560                               | 15,399                             | 1.02%           | 2,653,117                               | 24,688                             | 1.24%           |
| Foreign  | 1,475,075                               | 6,303                              | 0.57%           | 1,660,104                               | 7,450                              | 0.60%           |
| Total interest-bearing deposits                                  | 26,744,865                              | 101,834                            | 0.51%           | 28,698,428                              | 155,197                            | 0.72%           |
| Borrowed funds:  |   |                                    |                 |   |                                    |                 |
| Securities sold, not yet purchased                               | 33,703                                  | 1,070                              | 4.24%           | 43,460                                  | 1,465                              | 4.51%           |
| Federal funds purchased and security repurchase agreements       | 659,726                                 | 614                                | 0.12%           | 960,071                                 | 1,182                              | 0.16%           |
| Other short-term borrowings                                      | 160,937                                 | 3,780                              | 3.14%           | 189,483                                 | 7,472                              | 5.27%           |
| Long-term debt   | 1,910,182                               | 247,533                            | 17.33%          | 1,989,329                               | 259,970                            | 17.47%          |
| Total borrowed funds   | 2,764,548                               | 252,997                            | 12.24%          | 3,182,343                               | 270,089                            | 11.35%          |

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|   |                      |              |              |                      |              |              |
|---|----------------------|--------------|--------------|----------------------|--------------|--------------|
| Total interest-bearing liabilities  | 29,509,413           | 354,831      | 1.61%        | 31,880,771           | 425,286      | 1.78%        |
| Noninterest-bearing deposits  | 14,214,733           |              |              | 13,221,238           |              |              |
| Other liabilities   | 525,437              |              |              | 567,423              |              |              |
| <b>Total liabilities</b>  | <b>44,249,583</b>    |              |              | <b>45,669,432</b>    |              |              |
| Shareholders' equity:   |                      |              |              |                      |              |              |
| Preferred equity  | 2,220,418            |              |              | 1,652,452            |              |              |
| Common equity   | 4,624,810            |              |              | 4,402,098            |              |              |
| <b>Controlling interest shareholders' equity</b>                                | <b>6,845,228</b>     |              |              | <b>6,054,550</b>     |              |              |
| Noncontrolling interests  | (1,346)              |              |              | 10,387               |              |              |
| <b>Total shareholders' equity</b>   | <b>6,843,882</b>     |              |              | <b>6,064,937</b>     |              |              |
| <b>Total liabilities and shareholders' equity</b>                               | <b>\$ 51,093,465</b> |              |              | <b>\$ 51,734,369</b> |              |              |
| <b>Spread on average interest-bearing funds</b>                                 |                      |              | <b>3.20%</b> |                      |              | <b>3.25%</b> |
| Taxable-equivalent net interest income and net yield on interest-earning assets |                      | \$ 1,326,037 | 3.79%        |                      | \$ 1,337,106 | 3.81%        |

<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.

**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.

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commitments at an adequate level based upon the inherent risks associated with such commitments. 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 credit trends and environmental factors. See Note 5 of the Notes to Consolidated Financial Statements and 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 2011 was \$14.6 million compared to \$184.7 million for the same period in 2010. For the first nine months of 2011 and 2010 the provision for loan losses was \$75.9 million and \$678.9 million, respectively. The decrease in the provision reflects an improvement in credit metrics, including lower levels of criticized and classified loans, lower realized loss rates in most loan segments, and lower balances in construction and land development loans, which declined by 41.1% from September 30, 2010. The impact of these improvements on the provision and the allowance for loan and lease losses was partially offset by increases in qualitative factors related to management's judgment about the impact of weaker national economic conditions and economic uncertainty.

Net loan and lease charge-offs fell to \$101.7 million in the third quarter of 2011, compared to \$235.7 million in the corresponding period in 2010. See Nonperforming Assets and Allowance and Reserve for Credit Losses for further details.

During the third quarter of 2011, the Company experienced improved credit quality of unfunded lending commitments and released \$2.2 million from the related reserve, while it had incurred \$1.1 million of provision expense in the corresponding prior year quarter. From period to period, the expense related to the reserve for unfunded lending commitments may be subject to sizeable fluctuations due to changes in the timing and volume of loan commitments, originations, and funding, as well as fluctuations in credit quality and historical loss experience.

Although classified and nonperforming loan volumes continue to be elevated, most measures of credit quality continued to show significant improvement during the first nine months of 2011. The Company also experienced a decrease in special mention, classified, nonaccrual, and past due loans, as well as improvements in other credit metrics. Barring any significant economic downturn, the Company expects continued low credit costs for the next several quarters due to reductions in loan balances in loan categories that have exhibited higher loss rates, such as construction and land development loans. We also anticipate continued reductions in criticized and classified loans of most types, and continued reduction in net charge-offs for at least the next several quarters, compared to the elevated levels experienced in 2009 and 2010.

**Noninterest Income**

Noninterest income represents revenues the Company earns for products and services that have no interest rate or yield associated with them. For the third quarter of 2011, noninterest income was \$121.0 million compared to \$110.2 million for the third quarter of 2010. The increase is mainly due to an \$11.0 million decrease in losses from fair value and nonhedge derivatives, a \$10.4 million reduction in net impairment losses on investment securities, a \$6.4 million increase in gains from equity securities, a \$4.6 million increase in gains from fixed income securities, partially offset by a \$17.4 million decrease in other noninterest income, and a \$5.6 million decline in services charges and fees on deposit accounts. Other significant changes in income that contributed to the change for the third quarter of 2011 are discussed below.

On June 29, 2011, the Federal Reserve voted to adopt regulations implementing the Durbin Amendment of The Dodd-Frank Act, which will limit debit card interchange fees charged by banks. The Company estimates the annual negative impact on bankcard fees to be approximately \$20 million to \$28 million pretax, or \$5.0 million to \$7.0 million quarterly beginning in the fourth quarter of 2011. This negative impact will reduce fee income recognized in other service charges, commissions and fees.

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Other service charges, commissions, and fees earned during the third quarter of 2011 increased by \$3.5 million from the corresponding prior year period. The increase was primarily caused by higher fees on letters of credit, fees earned from other banks' customers using Company's ATMs, and debit card interchange fees charged to merchants. These increases were partially offset by a decrease in remote deposit capture fees, which was due to Company selling substantially all of the assets of NetDeposit in the third quarter of 2010.

Fixed income securities gains were \$4.6 million higher in the third quarter of 2011 compared to the same prior year period. Most of the \$13.0 million recognized in the third quarter of 2011 was generated by a partial prepayment, at par, received for a CDO which the Company had previously written down to market value.

Other noninterest income was \$2.8 million and \$20.2 million in the third quarters of 2011 and 2010, respectively. In September 2010 the Company sold substantially all of the assets of a wholly-owned subsidiary, NetDeposit, realizing a \$13.9 million pretax gain, which was recorded in other noninterest income.

For the first nine months of 2011, the Company earned \$383.5 million of noninterest income compared to \$327.2 million in the same prior year period. Explanations provided previously for the quarterly changes also apply to the year-to-date changes. Additional explanations of variances follow.

Service charges and fees on deposit accounts decreased by \$21.7 million during the first nine months of 2011 compared to the \$153.3 million earned in the same prior year period. The decrease in fees is mostly due to lower NSF fees and lower service fees from business accounts.

Capital markets and foreign exchange income was \$23.3 million for the first nine months of 2011, compared to \$27.3 million earned in the same prior year period. The decrease is caused mainly by decreased income from trading fixed income corporate bonds and a reduction in fees earned from acting as a fiscal agent for customers issuing bonds.

Dividend and other investment income increased by 36.0% from the \$25.5 million earned during the first nine months of 2010. Most of this increase is attributable to higher earnings from Farmer Mac and investments in ADC arrangements, as well as a one-time gain related to the increase in the value of the Company's ownership interest in IdenTrust.

Losses from fair value and nonhedge derivatives decreased to \$0.3 million in the first nine months of 2011 compared to a \$16.1 million loss in the same prior year period. The decrease was primarily the result of decreased expense related to the total return swap agreement and an increase in the value of Eurodollar futures, partially offset by increased valuation losses related to interest rate hedges.

During the first nine months of 2011, the Company recorded \$4.6 million in gains from equity securities, compared to a loss of \$5.7 million in the same prior year period. The gains recognized in the first nine months of 2011 were principally due to the sale of BServ, Inc. stock, which the Company had acquired in September 2010 when it sold the assets of its NetDeposit subsidiary. The increase from the prior year also resulted from the smaller losses on venture fund investments.

The Company recognized net credit related impairment losses on CDO investment securities of \$21.6 million and \$73.0 million in the first nine months of 2011 and 2010, respectively. See Investment Securities Portfolio for additional information.

During the first nine months 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.



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ZIONS BANCORPORATION AND SUBSIDIARIES

**Noninterest Expense**

Noninterest expense for the third quarter of 2011 was \$409.0 million, a 10.3% decrease from the corresponding period in 2010. The decrease is primarily due to a \$23.7 million decrease in OREO expense, a \$13.8 million decrease in other noninterest expense, and a \$13.1 million decrease in FDIC premiums, partially offset by an \$8.9 million increase in salaries and employee benefits.

Salaries and employee benefits were \$216.9 million and \$207.9 million for the third quarters of 2011 and 2010, respectively. Most of the increase is due to higher base salary and bonus expenses, which resulted from the Company's improved financial performance.

Other real estate expense decreased by 53.5% compared to the third quarter of 2010. The decrease is primarily driven by a 43.1% reduction in OREO balances between September 30, 2011 and September 30, 2010, as well as lower write-downs of OREO values during work-out.

FDIC premiums for the third quarter of 2011 decreased by \$13.1 million from the corresponding period in 2010. The decrease is mostly caused by the change in the premium assessment formulas prescribed by the FDIC.

Other noninterest expense decreased by \$13.8 million from the third quarter of 2010. The decrease was primarily due to the \$11.6 million one-time structuring fee related to the TRS transaction which was incurred in 2010.

For the first nine months of 2011, noninterest expense was \$1,233.6 million compared to \$1,275.5 million in the corresponding prior year period. Explanations provided previously for the quarterly changes also apply to the year-to-date changes.

At September 30, 2011, the Company had 10,548 full-time equivalent employees, compared to 10,524 at December 31, 2010 and 10,553 at September 30, 2010.

**Income Taxes**

The Company's income tax expense for the third quarter of 2011 was \$59.3 million compared to an income tax benefit of \$31.2 million for the same period in 2010. The effective income tax rates, including the effects of noncontrolling interests, for the third quarter of 2011 and 2010 were 35.2% and 39.7%, respectively. The tax expense rate for the third quarter of 2011 and the tax benefit rate for third quarter of 2010 were favorably impacted by the benefit of net nontaxable items. The increased benefit rate for 2010 was reduced primarily by the impact of the nondeductibility of a portion of the accelerated discount amortization from the subordinated debt conversions. As discussed in previous filings, the Company has received federal income tax credits under the U.S. Government's Community Development Financial Institutions Fund that are recognized over a seven-year period from the year of investment. The effect of these tax credits was to reduce income tax expense by \$0.6 million for the third quarter of 2011 and by \$1.5 million for the third quarter of 2010.

The Company had a net deferred tax asset (DTA) balance of \$493 million at September 30, 2011, compared to \$540 million at December 31, 2010. The decrease in the net DTA resulted primarily from loan charge-offs in excess of loan loss provisions and the utilization of net operating loss and tax credit carryforward items. This decrease in DTA was offset in part by an increase in DTA related to security and derivative fair value adjustments 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 an additional valuation allowance as of September 30, 2011. 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

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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 an additional 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.

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**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 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, while maintaining adequate levels of highly liquid assets. The current period of slow economic growth, accompanied by the low loan demand experienced in recent quarters, has made it difficult to consistently achieve these goals due to higher levels of deposit funding that cannot be deployed in other than low-yielding, liquid assets.

Average interest-earning assets were \$46.8 billion for the first nine months of 2011 compared to \$46.9 billion for the same period in 2010. Average interest-earning assets as a percentage of total average assets for the first nine months of 2011 was 91.5% compared to 90.6% for the comparable period of 2010. Average loans and leases were \$36.8 billion for the first nine months of 2011 compared to \$38.6 billion for the same period in 2010. Average loans and leases as a percentage of total average assets for the first nine months of 2011 was 72.0% compared to 74.7% for the same period in 2010.

Average money market investments, consisting of interest-bearing deposits, federal funds sold and security resell agreements, grew by 31.2% to \$4.9 billion for the first nine months of 2011 compared to \$3.8 billion for the same period of 2010. Average securities increased by 14.7%, but average net loans and leases decreased by 4.9% for the first nine months of 2011 compared to the same period in 2010. The increases in average money market investments and average securities are a reflection of the fact that loan balances have decreased at a faster pace than the net decrease in customer deposits and other funding sources.

**Investment Securities Portfolio**

We invest in securities to generate revenues for the Company; portions of the portfolio are also available as a source of liquidity. The following schedules present a profile of the Company's investment securities portfolio 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 9 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.

In the discussion of our investment portfolio below, we have included certain credit rating information, because that 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 the Company. We note that the Dodd-Frank Act requires that the use of rating agency ratings cannot be mandated by any Federal agency for any purpose after July 21, 2011. However, regulations have not yet been proposed to implement this requirement, and therefore the Company cannot assess the impact, if any, this new requirement will have on the valuations and regulatory treatment of the Company's investment securities, or when this might occur.

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## ZIONS BANCORPORATION AND SUBSIDIARIES

## INVESTMENT SECURITIES PORTFOLIO

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

As of September 30, 2011

| (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                                 | \$ 551    | \$ 548         | \$   | \$ 548         | \$ 10  | \$ 558               |
| Asset-backed securities:                             |           |                |  |                |  |                      |
| Trust preferred securities predominantly bank        |           |                |  |                |  |                      |
| Noninvestment grade                                  | 57        | 57             | (6)  | 51             | (34)   | 17                   |
| Noninvestment grade OTTI/PIK <sup>2</sup> d          | 31        | 30             | (21)   | 9              |  | 9                    |
|  | 88        | 87             | (27)   | 60             | (34)   | 26                   |
| Trust preferred securities predominantly insurance   |           |                |  |                |  |                      |
| Noninvestment grade                                  | 176       | 176            | (14)   | 162            | (44)   | 118                  |
|  | 176       | 176            | (14)   | 162            | (44)   | 118                  |
| Other  |           |                |  |                |  |                      |
| Noninvestment grade                                  | 19        | 18             |  | 18             | (8)  | 10                   |
| Noninvestment grade OTTI/PIK <sup>2</sup> d          | 11        | 7              | (3)  | 4              |  | 4                    |
|  | 30        | 25             | (3)  | 22             | (8)  | 14                   |
|  | 845       | 836            | (44)   | 792            | (76)   | 716                  |
| <b>Available-for-sale:</b>                           |           |                |  |                |  |                      |
| U.S. Treasury securities                             | 706       | 706            |  | 706            |  | 706                  |
| U.S. Government agencies and corporations:           |           |                |  |                |  |                      |
| Agency securities                                    | 154       | 154            | 6  | 160            |  | 160                  |
| Agency guaranteed mortgage-backed securities         | 546       | 565            | 20   | 585            |  | 585                  |
| Small Business Administration loan-backed securities | 979       | 1,057          | (2)  | 1,055          |  | 1,055                |
| Municipal securities                                 | 125       | 123            | 2  | 125            |  | 125                  |
| Asset-backed securities:                             |           |                |  |                |  |                      |
| Trust preferred securities predominantly bank        |           |                |  |                |  |                      |
| AAA rated  | 4         | 4              |  | 4              |  | 4                    |
| AA rated   | 69        | 48             | 1  | 49             |  | 49                   |
| A rated  | 272       | 220            | (12)   | 208            |  | 208                  |
| BBB rated  | 172       | 168            | (60)   | 108            |  | 108                  |
| Noninvestment grade                                  | 384       | 350            | (162)  | 188            |  | 188                  |
| Noninvestment grade OTTI/PIK <sup>2</sup> d          | 971       | 713            | (566)  | 147            |  | 147                  |

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|  |          |          |          |          |         |          |
|--|----------|----------|----------|----------|---------|----------|
|  | 1,872    | 1,503    | (799)    | 704      | 704     |          |
| Trust preferred securities – predominantly insurance       |          |          |          |          |         |          |
| AA rated   | 66       | 60       |          | 60       | 60      |          |
| A rated  | 32       | 31       | (4)      | 27       | 27      |          |
| Noninvestment grade  | 188      | 189      | (72)     | 117      | 117     |          |
| Noninvestment grade OTTI/PIK <sup>2</sup> d                | 6        | 6        | (3)      | 3        | 3       |          |
|  | 292      | 286      | (79)     | 207      | 207     |          |
| Trust preferred securities – single banks                  |          |          |          |          |         |          |
| Not rated  | 25       | 25       | (8)      | 17       | 17      |          |
|  | 25       | 25       | (8)      | 17       | 17      |          |
| Trust preferred securities – real estate investment trusts |          |          |          |          |         |          |
| Noninvestment grade  | 25       | 16       | (1)      | 15       | 15      |          |
| Noninvestment grade OTTI/PIK <sup>2</sup> d                | 45       | 24       | (20)     | 4        | 4       |          |
|  | 70       | 40       | (21)     | 19       | 19      |          |
| Auction rate securities                                    |          |          |          |          |         |          |
| AAA rated  | 77       | 72       | (1)      | 71       | 71      |          |
|  | 77       | 72       | (1)      | 71       | 71      |          |
| Other  |          |          |          |          |         |          |
| AAA rated  | 7        | 6        | 1        | 7        | 7       |          |
| AA rated   | 11       | 11       | (4)      | 7        | 7       |          |
| A rated  | 25       | 25       |          | 25       | 25      |          |
| Noninvestment grade  | 6        | 4        | (2)      | 2        | 2       |          |
| Noninvestment grade OTTI/PIK <sup>2</sup> d                | 48       | 19       | (8)      | 11       | 11      |          |
|  | 97       | 65       | (13)     | 52       | 52      |          |
|  | 4,943    | 4,596    | (895)    | 3,701    | 3,701   |          |
| Mutual funds and stock                                     |          |          |          |          |         |          |
|  | 269      | 269      |          | 269      | 269     |          |
|  | 5,212    | 4,865    | (895)    | 3,970    | 3,970   |          |
| Total  | \$ 6,057 | \$ 5,701 | \$ (939) | \$ 4,762 | \$ (76) | \$ 4,686 |

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

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

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

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## ZIONS BANCORPORATION AND SUBSIDIARIES

## INVESTMENT SECURITIES PORTFOLIO

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

As of September 30, 2011

| (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                                 | \$ 551    | \$ 548         | \$   | \$ 548         | \$ 10  | \$ 558               |
| Asset-backed securities:                             |           |                |  |                |  |                      |
| Trust preferred securities – predominantly bank      |           |                |  |                |  |                      |
| Noninvestment grade                                  | 57        | 57             | (6)  | 51             | (34)   | 17                   |
| Noninvestment grade OTTI/PIK <sup>2</sup> d          | 31        | 30             | (21)   | 9              |  | 9                    |
|  | 88        | 87             | (27)   | 60             | (34)   | 26                   |
| Trust preferred securities – predominantly insurance |           |                |  |                |  |                      |
| Noninvestment grade                                  | 176       | 176            | (14)   | 162            | (44)   | 118                  |
|  | 176       | 176            | (14)   | 162            | (44)   | 118                  |
| Other  |           |                |  |                |  |                      |
| Noninvestment grade                                  | 19        | 18             |  | 18             | (8)  | 10                   |
| Noninvestment grade OTTI/PIK <sup>2</sup> d          | 11        | 7              | (3)  | 4              |  | 4                    |
|  | 30        | 25             | (3)  | 22             | (8)  | 14                   |
|  | 845       | 836            | (44)   | 792            | (76)   | 716                  |
| <b>Available-for-sale:</b>                           |           |                |  |                |  |                      |
| U.S. Treasury securities                             | 706       | 706            |  | 706            |  | 706                  |
| U.S. Government agencies and corporations:           |           |                |  |                |  |                      |
| Agency securities                                    | 154       | 154            | 6  | 160            |  | 160                  |
| Agency guaranteed mortgage-backed securities         | 546       | 565            | 20   | 585            |  | 585                  |
| Small Business Administration loan-backed securities | 979       | 1,057          | (2)  | 1,055          |  | 1,055                |
| Municipal securities                                 | 125       | 123            | 2  | 125            |  | 125                  |
| Asset-backed securities:                             |           |                |  |                |  |                      |
| Trust preferred securities – predominantly bank      |           |                |  |                |  |                      |
| BBB rated  | 69        | 48             | 1  | 49             |  | 49                   |
| Noninvestment grade                                  | 832       | 742            | (234)  | 508            |  | 508                  |
| Noninvestment grade OTTI/PIK <sup>2</sup> d          | 971       | 713            | (566)  | 147            |  | 147                  |
|  | 1,872     | 1,503          | (799)  | 704            |  | 704                  |

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|  |          |          |          |          |         |          |
|--|----------|----------|----------|----------|---------|----------|
| Trust preferred securities – predominantly insurance       |          |          |          |          |         |          |
| AA rated   | 62       | 56       |          | 56       |         | 56       |
| A rated  | 4        | 4        |          | 4        |         | 4        |
| Noninvestment grade  | 220      | 220      | (76)     | 144      |         | 144      |
| Noninvestment grade – OTTI/PIK <sup>2</sup> d              | 6        | 6        | (3)      | 3        |         | 3        |
|  | 292      | 286      | (79)     | 207      |         | 207      |
| Trust preferred securities – single banks                  |          |          |          |          |         |          |
| Not rated  | 25       | 25       | (8)      | 17       |         | 17       |
|  | 25       | 25       | (8)      | 17       |         | 17       |
| Trust preferred securities – real estate investment trusts |          |          |          |          |         |          |
| Noninvestment grade  | 25       | 16       | (1)      | 15       |         | 15       |
| Noninvestment grade – OTTI/PIK <sup>2</sup> d              | 45       | 24       | (20)     | 4        |         | 4        |
|  | 70       | 40       | (21)     | 19       |         | 19       |
| Auction rate securities                                    |          |          |          |          |         |          |
| AAA rated  | 77       | 72       | (1)      | 71       |         | 71       |
|  | 77       | 72       | (1)      | 71       |         | 71       |
| Other  |          |          |          |          |         |          |
| AAA rated  | 6        | 5        | 1        | 6        |         | 6        |
| AA rated   | 11       | 11       | (4)      | 7        |         | 7        |
| A rated  | 26       | 26       |          | 26       |         | 26       |
| Noninvestment grade  | 6        | 4        | (2)      | 2        |         | 2        |
| Noninvestment grade – OTTI/PIK <sup>2</sup> d              | 48       | 19       | (8)      | 11       |         | 11       |
|  | 97       | 65       | (13)     | 52       |         | 52       |
|  | 4,943    | 4,596    | (895)    | 3,701    |         | 3,701    |
| Mutual funds and stock                                     |          |          |          |          |         |          |
|  | 269      | 269      |          | 269      |         | 269      |
|  | 5,212    | 4,865    | (895)    | 3,970    |         | 3,970    |
| Total  | \$ 6,057 | \$ 5,701 | \$ (939) | \$ 4,762 | \$ (76) | \$ 4,686 |

\* 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.

<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.

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| (In millions)  | September 30,<br>2011 |                   |                            | December 31,<br>2010 |                   |                            | September 30,<br>2010 |                   |                            |
|--|-----------------------|-------------------|----------------------------|----------------------|-------------------|----------------------------|-----------------------|-------------------|----------------------------|
|  | Amortized<br>cost     | Carrying<br>value | Estimated<br>fair<br>value | Amortized<br>cost    | Carrying<br>value | Estimated<br>fair<br>value | Amortized<br>cost     | Carrying<br>value | Estimated<br>fair<br>value |
| <b>Held-to-maturity</b>                                  |                       |                   |                            |                      |                   |                            |                       |                   |                            |
| Municipal securities                                     | \$ 548                | \$ 548            | \$ 558                     | \$ 578               | \$ 578            | \$ 582                     | \$ 577                | \$ 577            | \$ 586                     |
| Asset-backed securities:                                 |                       |                   |                            |                      |                   |                            |                       |                   |                            |
| Trust preferred securities banks and insurance           | 263                   | 222               | 144                        | 263                  | 239               | 189                        | 265                   | 239               | 180                        |
| Other  | 25                    | 22                | 14                         | 28                   | 24                | 17                         | 29                    | 25                | 17                         |
|  | \$ 836                | \$ 792            | \$ 716                     | \$ 869               | \$ 841            | \$ 788                     | \$ 871                | \$ 841            | \$ 783                     |
| <b>Available-for-sale</b>                                |                       |                   |                            |                      |                   |                            |                       |                   |                            |
| U.S. Treasury securities                                 | \$ 706                | \$ 706            | \$ 706                     | \$ 705               | \$ 706            | \$ 706                     | \$ 49                 | \$ 49             | \$ 49                      |
| U.S. Government agencies and corporations:               |                       |                   |                            |                      |                   |                            |                       |                   |                            |
| Agency securities  | 154                   | 160               | 160                        | 201                  | 208               | 208                        | 203                   | 209               | 209                        |
| Agency guaranteed mortgage-backed securities             | 565                   | 585               | 585                        | 566                  | 576               | 576                        | 341                   | 355               | 355                        |
| Small Business Administration loan-backed securities     | 1,057                 | 1,055             | 1,055                      | 867                  | 868               | 868                        | 844                   | 842               | 842                        |
| Municipal securities                                     | 123                   | 125               | 125                        | 156                  | 158               | 158                        | 178                   | 183               | 183                        |
| Asset-backed securities:                                 |                       |                   |                            |                      |                   |                            |                       |                   |                            |
| Trust preferred securities banks and insurance           | 1,814                 | 928               | 928                        | 1,947                | 1,243             | 1,243                      | 1,954                 | 1,266             | 1,266                      |
| Trust preferred securities real estate investment trusts | 40                    | 19                | 19                         | 46                   | 19                | 19                         | 50                    | 19                | 19                         |
| Auction rate securities                                  | 72                    | 71                | 71                         | 111                  | 110               | 110                        | 134                   | 135               | 135                        |
| Other  | 65                    | 52                | 52                         | 103                  | 81                | 81                         | 108                   | 83                | 83                         |
|  | 4,596                 | 3,701             | 3,701                      | 4,702                | 3,969             | 3,969                      | 3,861                 | 3,141             | 3,141                      |
| Mutual funds and stock                                   | 269                   | 269               | 269                        | 237                  | 237               | 237                        | 155                   | 155               | 155                        |
|  | 4,865                 | 3,970             | 3,970                      | 4,939                | 4,206             | 4,206                      | 4,016                 | 3,296             | 3,296                      |
| Total  | \$ 5,701              | \$ 4,762          | \$ 4,686                   | \$ 5,808             | \$ 5,047          | \$ 4,994                   | \$ 4,887              | \$ 4,137          | \$ 4,079                   |

The amortized cost of investment securities on September 30, 2011 decreased by 1.8% from the balances on December 31, 2010, and increased by 16.7% from the balances on September 30, 2010. The increase from September 30, 2010 to September 30, 2011 was due to increased investments in U.S. Treasury securities, agency guaranteed mortgage-backed securities, and SBA loan-backed securities.

As of September 30, 2011, 24.4% of the \$4.0 billion fair value of available-for-sale securities portfolio was valued at Level 1, 48.4% was valued at Level 2, and 27.2% was valued at Level 3 under the GAAP fair value accounting valuation hierarchy. As of December 31, 2010 the fair value of available-for-sale securities totaled \$4.2 billion, of which 22.2% was valued at Level 1, 43.0% at Level 2, and 34.8% at Level 3. See Note 9 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 \$2,003 million at September 30, 2011 and the fair value of these securities was \$1,080 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 2011 was \$923 million. As of September 30, 2011, we believe that we will receive on settlement or maturity at least the amortized cost amounts of the Level 3 available-for-sale securities. This expectation applies to both those securities for which OTTI has been recognized and those for which no OTTI has been recognized.

***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:

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**SENSITIVITY OF INTERNAL MODEL**

(Amounts in millions)

|   | Bank and Insurance<br>CDOs at Level 3 |            |                    |            |
|---|---------------------------------------|------------|--------------------|------------|
|   | Held-to-maturity                      |            | Available-for-sale |            |
| Fair value balance at September 30, 2011  | \$ 144                                |            | \$ 905             |            |
|   | Incremental                           | Cumulative | Incremental        | Cumulative |
| <b>Currently Modeled Assumptions</b>  |                                       |            |                    |            |
| <b>Expected collateral credit losses <sup>1</sup></b>   |                                       |            |                    |            |
| Loss percentage from currently defaulted or deferring collateral <sup>2</sup>   |                                       | 4.3%       |                    | 20.0%      |
| Projected loss percentage from currently performing collateral  |                                       |            |                    |            |
| 1-year  | 0.3%                                  | 4.7%       | 0.6%               | 20.6%      |
| years 2-5   | 1.1%                                  | 5.8%       | 0.9%               | 21.5%      |
| years 6-30  | 11.1%                                 | 16.9%      | 9.3%               | 30.9%      |
| <b>Discount rate <sup>3</sup></b>   |                                       |            |                    |            |
| Weighted average spread over LIBOR  | 829 bp                                |            | 1206 bp            |            |
| <b>Sensitivity of Modeled Assumptions</b>   |                                       |            |                    |            |
| Increase (decrease) in fair value due to increase in projected loss percentage from currently performing collateral <sup>4</sup>  |                                       |            |                    |            |
|   | 25%                                   | \$ (0.4)   | \$ (4.4)           |            |
|   | 50%                                   | (0.9)      | (8.9)              |            |
|   | 100%                                  | (2.0)      | (18.1)             |            |
| Increase (decrease) in fair value due to increase in projected loss percentage from currently performing collateral <sup>4</sup> and the immediate default of all deferring collateral with no recovery |                                       |            |                    |            |
|   | 25%                                   | \$ (5.7)   | \$ (103.9)         |            |
|   | 50%                                   | (6.0)      | (107.3)            |            |
|   | 100%                                  | (6.9)      | (114.1)            |            |
| Increase (decrease) in fair value due to increase in discount rate  |                                       |            |                    |            |
|   | + 100 bp                              | \$ (12.8)  | \$ (62.5)          |            |
|   | + 200 bp                              | (24.2)     | (118.2)            |            |
| Increase (decrease) in fair value due to increase in Forward Libor Curve  |                                       |            |                    |            |
|   | + 100 bp                              | \$ 7.6     | \$ 41.9            |            |
| Increase (decrease) in fair value due to:   |                                       |            |                    |            |
| increase in prepayment assumption <sup>5</sup>  | +1%                                   | \$ 3.1     | \$ 29.5            |            |
| decrease in prepayment assumption <sup>6</sup>  | -1%                                   | (3.0)      | (31.9)             |            |

<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 1.49% to 100%.

<sup>3</sup> The discount rate is a spread over the LIBOR swap yield curve at the date of valuation.

<sup>4</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  $36.3\% = 30.9\% + 50\%(0.6\% + 0.9\% + 9.3\%)$  and  $41.7\% = 30.9\% + 100\%(0.6\% + 0.9\% + 9.3\%)$  respectively.

<sup>5</sup> Prepayment rate for small banks increased to 4% per year for each year through maturity.

<sup>6</sup> *Prepayment rate for small banks decreased to 2% per year for each year through maturity.*

For the third quarter of 2011, the Company increased the prepayment rate assumption for small banks from 0% for five years and 2% thereafter to 3% per year for each year. In recent quarters our CDO pools have experienced significant and increasing prepayments of small bank trust preferred securities. We define *small banks* as collateral that is not subject to the phased-in disallowance of bank trust preferred securities as Tier 1 Capital required by the Dodd-Frank Act. These are primarily banks with assets below \$15 billion and, to a lesser extent, insurance companies in mixed bank and insurance company CDOs. This assumption change related to prepayments from small banks increased the fair value of these CDOs by approximately \$52 million, but it also required the company to record \$11 million of credit-related OTTI in the third quarter of 2011. Essentially, the increased prepayments that we have experienced and are now projecting strengthen the senior tranches that we own, since they benefit first from increased cash flows, and weaken the

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mezzanine tranches, since there will be less future cash flow to support them. This resulted in a reduction of the negative change in the fair value of the senior tranches and additional OTTI in the mezzanine tranches that the Company owns.

We continue to assume that large banks with investment grade ratings will fully prepay by the end of 2015. We also assume that prepayment behaviors will be skewed toward the end of the disallowance period. The Dodd-Frank Act became effective during the third quarter of 2010, and it phases in the disallowance of the inclusion of trust preferred securities in Tier 1 capital for banks with assets over \$15 billion ( large banks ). For those institutions within each pool with investment grade ratings, we assume that trust preferred securities will be called prior to the end of the disallowance period. Prior to the third quarter of 2010 and the enactment of this legislation, we had assumed a prepayment rate for large banks of 0% for five years for each CDO pool, followed by a 2% annual prepayment rate thereafter. In the third quarter of 2010 these assumptions changed to a pool-specific prepayment rate to 2015 calculated with reference to the percentage of each pool s performing collateral which consisted of collateral from large banks with investment grade ratings.

Effective from the third quarter of 2011, the pool specific prepayment rate until the end of 2015 is calculated with reference to both (a) the percentage of each pool s performing collateral consisting of small banks, as well as, (b) the percentage which consists of collateral from large banks with investment grade ratings. After 2015 each pool is assumed to prepay at a 3% annual rate.

For the third quarter of 2011, the resulting average annual prepayment rate assumption for pools which include both large and small banks is 6.23% for each year through 2015, followed by an annual prepayment rate assumption of 3% thereafter. For pools without large banks, we assume a 3% annual prepayment rate. Increased prepayment rates are generally favorable for the fair value of the most senior tranches and adverse to the fair value of the more junior tranches. Prepayment sensitivities are provided in the previous schedule. Increasing the prepayment rate for small bank collateral from the assumed 3% constant prepayment rate ( CPR ) to a 4% CPR increases the fair value of the portfolio, while decreasing the rate to 1% reduces the fair value.

For the third quarter of 2011, the Company set a floor PD of 30 bps for years 1 through 5 for collateral where the higher of the 1 year PDs from our ratio based approach and those from our third party licensed model would have been lower. The Company also raised its long term floor PD for bank collateral for years six to maturity from 50 bps to 65 bps. The changes had no material impact on fair value. Expected collateral credit losses increased slightly as the effect of adding floor PDs offset financial ratio improvement in certain bank collateral. For more information refer to Note 9 of the Notes to Consolidated Financial Statements.

The short term 30 bps PD is similar to the PD we would apply if we had direct lending exposures to CDO pool collateral. We will continue to assess each quarter the extent to which our approach creates short term failure rate expectations that are consistent with those actually experienced.

The assumption change to 65 bps minimum floor PD for bank collateral starting in year 6 is consistent with weighting more recent bank failure rates and assuming that banks which issued trust preferred may continue to fail at rates in excess of the failure rate of the general universe of banks.

The valuation of CDOs is further discussed in Note 9 of the Notes to Consolidated Financial Statements.

The weighted average discount rate increased by 274 bps during the third quarter of 2011, causing most of the decline in the fair value of the portfolio. Discount rates generally increased for all bank and insurance tranches with the most significant increases occurring in the original A-rated and BBB-rated tranches. The

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valuation of the AFS and HTM portfolios, including the use of trading prices, is further discussed in Note 9 of the Notes to Consolidated Financial Statements.

During the third quarter of 2011, the Company recognized credit-related net impairment losses on CDOs of \$13.3 million, compared to losses of \$23.7 million for the corresponding period in 2010. Credit-related net impairment losses were \$21.6 million and \$73.0 million during the first nine months of 2011 and 2010, respectively.

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. The schedules reflect data and assumptions that are included in the calculations of fair value and OTTI. The schedules utilize the lowest rating to identify those securities below investment grade. The schedules segment the securities by whether or not they have been determined to have OTTI, and by original ratings level to provide granularity on the seniority level of the securities and the distribution of unrealized losses. 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.

**BELOW-INVESTMENT-GRADE RATED BANK AND INSURANCE TRUST PREFERRED CDOS BY ORIGINAL RATINGS LEVEL AT SEPTEMBER 30, 2011**

| (Dollar amounts in millions)                             | Number<br>of securities | % of<br>portfolio | Par<br>value      | Total             |                            | Unrealized<br>loss | Credit loss      |                   | Valuation<br>losses <sup>1</sup> |
|--|-------------------------|-------------------|-------------------|-------------------|----------------------------|--------------------|------------------|-------------------|----------------------------------|
|  |                         |                   |                   | Amortized<br>cost | Estimated<br>fair<br>value |                    | Current<br>year  | Life-to-<br>date  | Life-to-<br>date                 |
| Original ratings of securities, non-OTTI:                |                         |                   |                   |                   |                            |                    |                  |                   |                                  |
| Original AAA   | 27                      | 37.3%             | \$ 859.2          | \$ 767.0          | \$ 530.4                   | \$ (236.6)         | \$               | \$                | \$ (99.6)                        |
| Original A   | 20                      | 19.7%             | 451.5             | 451.6             | 248.6                      | (203.0)            |                  |                   |                                  |
| Original BBB   | 5                       | 2.0%              | 46.5              | 46.5              | 23.0                       | (23.4)             |                  |                   |                                  |
| <b>Total Non-OTTI</b>                                    |                         | <b>59.0%</b>      | <b>1,357.2</b>    | <b>1,265.1</b>    | <b>802.0</b>               | <b>(463.0)</b>     |                  |                   | <b>(99.6)</b>                    |
| Original ratings of securities, OTTI:                    |                         |                   |                   |                   |                            |                    |                  |                   |                                  |
| Original AAA   | 1                       | 2.2%              | 50.0              | 43.4              | 17.7                       | (25.7)             |                  | (4.8)             | (1.9)                            |
| Original A   | 42                      | 35.7%             | 820.0             | 604.2             | 123.3                      | (480.9)            | (12.5)           | (214.8)           |                                  |
| Original BBB   | 6                       | 2.9%              | 67.1              | 30.5              | 2.4                        | (28.1)             | (3.8)            | (36.3)            |                                  |
| <b>Total OTTI</b>  |                         | <b>40.8%</b>      | <b>937.1</b>      | <b>678.1</b>      | <b>143.4</b>               | <b>(534.7)</b>     | <b>(16.3)</b>    | <b>(255.9)</b>    | <b>(1.9)</b>                     |
| <b>Total noninvestment grade bank and insurance CDOs</b> |                         | <b>99.8%</b>      | <b>\$ 2,294.3</b> | <b>\$ 1,943.2</b> | <b>\$ 945.4</b>            | <b>\$ (997.7)</b>  | <b>\$ (16.3)</b> | <b>\$ (255.9)</b> | <b>\$ (101.5)</b>                |

<sup>1</sup> Valuation losses were taken in securities purchased from Lockhart Funding LLC prior to its consolidation in June 2009.

| Par<br>value | Average holding <sup>1</sup> |                   |
|--------------|------------------------------|-------------------|
|              | Amortized<br>cost            | Estimated<br>fair |

|  |         |         | value   | Unrealized<br>gain<br>(loss) |
|--|---------|---------|---------|------------------------------|
| <b>Original ratings of securities, non-OTTI:</b> |         |         |         |                              |
| Original AAA                                     | \$ 30.7 | \$ 27.4 | \$ 18.9 | \$ (8.5)                     |
| Original A                                       | 16.1    | 16.1    | 8.9     | (7.3)                        |
| Original BBB                                     | 9.3     | 9.3     | 4.6     | (4.7)                        |
| <b>Original ratings of securities, OTTI:</b>     |         |         |         |                              |
| Original AAA                                     | 50.0    | 43.4    | 17.7    | (25.7)                       |
| Original A                                       | 15.5    | 11.4    | 2.3     | (9.1)                        |
| Original BBB                                     | 11.2    | 5.1     | 0.4     | (4.7)                        |

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

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

At September 30, 2011

|   | 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 % 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                    | 23                              | 21   | 1.14%   | 4.26%   | 88.92%   | 1,521.79%                        | 100%  | 0.00%  |
| Weighted Average                          |                       | 75                              | 49   | 15.44%  | 13.26%  | 38.29%   | 283.97%                          | 100%  | 10.42%   |
| Worst                                     | CC                    | 18                              | 7  | 28.71%  | 26.07%  | 8.35%  | 160.63%                          | 100%  | 14.55%   |
| Original A                                |                       |                                 |  |   |   |  |                                  |   |  |
| Best                                      | B                     | 35                              | 35   | 0.00%   | 0.00%   | 27.71%   | 344.30%                          | 100%  | 10.53%   |
| Weighted Average                          |                       | 17                              | 15   | 3.39%   | 6.46%   | 11.13%   | 143.69%                          | 100%  | 12.12%   |
| Worst                                     | C                     | 6                               | 4  | 10.31%  | 26.07%  | (9.19%) <sup>8</sup>                                     | 85.69% <sup>9</sup>              | 100%  | 14.58%   |
| Original BBB                              |                       |                                 |  |   |   |  |                                  |   |  |
| Best                                      | CCC                   | 35                              | 35   | 0.00%   | 0.00%   | 16.33%   | 356.97%                          | 100%  | 10.70%   |
| Weighted Average                          |                       | 26                              | 23   | 1.75%   | 4.05%   | 9.10%  | 244.54%                          | 100%  | 11.96%   |
| Worst                                     | CC                    | 24                              | 20   | 6.13%   | 9.26%   | 0.02%  | 102.65%                          | 100%  | 13.09%   |
| Original Ratings of Securities, OTTI:     |                       |                                 |  |   |   |  |                                  |   |  |
| Original AAA                              |                       |                                 |  |   |   |  |                                  |   |  |
| Single Security                           | CCC                   | 43                              | 25   | 16.89%  | 22.84%  | 25.55%   | 291.90%                          | 94%   | 10.43%   |
| Original A                                |                       |                                 |  |   |   |  |                                  |   |  |
| Best                                      | CCC                   | 37                              | 31   | 0.00%   | 1.89%   | 50.76%   | 235.62%                          | 100%  | 0.00%  |
| Weighted Average                          |                       | 53                              | 33   | 11.60%  | 17.31%  | (12.92%)   | 84.82%                           | 82%   | 10.82%   |
| Worst                                     | C                     | 3                               | 0  | 25.18%  | 25.97%  | (46.04%)   | 39.58%                           | 56%   | 14.93%   |
| Original BBB                              |                       |                                 |  |   |   |  |                                  |   |  |
| Best                                      | C                     | 42                              | 38   | 9.04%   | 1.84%   | (6.15%)  | 95.97%                           | 85%   | 9.25%  |
| Weighted Average                          |                       | 78                              | 52   | 14.53%  | 17.63%  | (19.93%)   | (22.25%)                         | 47%   | 11.16%   |
| Worst                                     | C                     | 37                              | 18   | 18.55%  | 25.77%  | (31.54%)   | (70.59%)                         | 28%   | 14.58%   |

<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 1.49% 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.

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- <sup>5</sup> Utilizes the Company's loss assumption of 100% on defaulted collateral and the Company's issuer specific loss assumption ranging from 1.49% 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> *Negative subordination is projected to be remedied by excess spread prior to maturity.*

<sup>9</sup> *Collateralization shortfall is projected to be remedied by excess spread prior to maturity.*

Certain original A-rated securities described in the schedule above currently have negative subordination and are therefore under-collateralized, and yet are not identified as having OTTI. This is because each security's cash flow projection shows negative subordination being cured prior to the security's maturity. The collateral that backs a tranche can increase if the more senior liabilities of the CDO decrease. This occurs when collateral deterioration due to defaults and deferral triggers alternative waterfall provisions for the cash flow. A structural credit protection feature reroutes cash (interest collections) from the more junior classes of debt

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and income notes to pay down the principal of the most senior liabilities. As the most senior liabilities are paid down while the collateral remains unchanged (and if there are no additional unexpected defaults), the next level of tranches become better secured. The rerouting continues to divert cash away from the most junior classes of debt or income notes and gives better security to our tranche. Our cash flow projections predict full payment of amortized cost and interest.

The Company's loss and recovery experience as of September 30, 2011 (and our Level 3 modeling assumption) is essentially a 100% loss on defaults, although we have, to date, received several, generally 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, 48.3% has defaulted, and approximately 46.9% remains within the allowable deferral period. Twenty-four issuing banks, with collateral aggregating to 4.8% of all deferrals and 9.3% of all surviving deferrals, have come current and resumed interest payments on their trust preferred securities after previously deferring some payments. Older deferrals are more likely to have defaulted. Approximately 89% of the bank collateral which first deferred prior to January 1, 2009 had defaulted by September 30, 2011. For bank collateral which first deferred on or after January 1, 2009, 33% had defaulted by September 30, 2011. New deferrals peaked in 2009. In 2008, 9.2% of collateral performing at the start of the year elected to defer by year end. This contrasts with 19.1% in 2009 and 10% in 2010. A total of \$424.4 million of bank collateral elected to defer during the first nine months of 2011. This comprises 3.8% of the collateral performing at the start of 2011. Further information on the Company's valuation process is detailed in Note 9 of the Notes to Consolidated Financial Statements.

***Other-than-Temporary Impairment 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.

Under ASC 320, the full extent of the difference between amortized cost and fair value is recognized through earnings if fair value is below amortized cost and the investor either intends to sell the security or has found that it is more likely than not that the investor will be forced to sell prior to recovery of its amortized cost basis. ASC 320 distinguishes the difference between amortized cost and fair value that is due to credit, from the difference that is due to illiquidity and all other factors. For holders who neither intend to sell nor judge it more likely than not that they will be required to sell prior to recovery of amortized cost, which might be maturity, only the amount of impairment representing credit loss is recognized in earnings.

We review the relevant facts and circumstances each quarter in order to assess our intentions regarding any potential sales of securities, as well as the likelihood that we would be required to sell prior to recovery of amortized cost. To date, for each security whose fair value is below amortized cost, we have determined that we do not intend to sell the security, and that it is not more likely than not that we will be required to sell the security before recovery of its amortized cost basis. We then evaluate the difference between the fair value and the amortized cost of each security and identify if any of the difference is due to credit. The credit component of the difference is recognized in earnings and the amortized cost is written down for each security found to have OTTI.

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For some CDO tranches, for which we previously recorded OTTI, expected future cash flows have remained stable or have slightly improved subsequent to the quarter that OTTI was identified and recorded. In these cases, while a large difference may remain between fair value and amortized cost, the difference is not due to credit. The expected future cash flow substantiates the return of the full amortized cost as described below. For other CDO tranches, an adverse change in the expected future cash flow has resulted in the recording of additional OTTI.

We utilize a present value technique to both identify the OTTI present in the CDO tranches and to estimate fair value. For purposes of determining the portion of the difference between fair value and amortized cost that is due to credit, we follow ASC 310, which includes paragraphs 12-16 of the former FASB Statement No. 114. The standard specifies that a cash flow projection can be present valued at the security specific effective interest rate and the resulting present value compared to the amortized cost in order to quantify the credit component of impairment. Since our early adoption of the new guidance under ASC 320 on January 1, 2009, we have followed this methodology to identify the credit component of impairment to be recognized in earnings each quarter.

The Company incurred \$13.3 million of credit-related OTTI charges recorded in earnings during the third quarter of 2011. One of the securities deemed to have OTTI was an ABS CDO, one was an RMBS security and 13 were CDOs collateralized by bank trust preferred securities. Future reviews for OTTI will consider the particular facts and circumstances during the reporting period in review.

**Exposure to State and Local Governments**

The Company provides multiple services to state and local governments (referred to together as municipalities), including deposit services, loans, investment banking services, and by investing in securities issued by them.

The following table summarizes the Company's exposure to state and local municipalities:

| (In thousands)                                 | September 30,<br>2011 | December 31,<br>2010 |
|--|-----------------------|----------------------|
| Loans and leases                               | \$ 440,638            | \$ 438,985           |
| Held-to-maturity municipal securities          | 548,428               | 577,527              |
| Available-for-sale municipal securities        | 125,486               | 157,708              |
| Available-for-sale auction rate securities     | 70,536                | 109,281              |
| Trading account municipal securities           | 13,846                | 12,446               |
| Unused commitments to extend credit            | 33,425                | 31,492               |
| <b>Total direct exposure to municipalities</b> | <b>\$ 1,232,359</b>   | <b>\$ 1,327,439</b>  |

Company policy requires that extensions of credit to municipalities be subjected to specific underwriting standards. At September 30, 2011 all of the outstanding municipal loans were performing and none were on nonaccrual. A significant amount of the municipal loan and lease portfolio is secured by real estate and equipment, and approximately 82% of the outstanding credits were originated by ZFNB, Vectra, and CB&T. See Note 5 of the Notes to the Consolidated Financial Statements for additional information about the credit quality of these municipal loans.

All municipal securities are reviewed quarterly for OTTI. HTM securities consist of unrated bonds issued by small local governmental entities and are purchased through private placements. Prior to purchase, the issuers of HTM and AFS municipal securities are evaluated by the Company for their credit worthiness, and some of the securities are guaranteed by third parties. Of the AFS municipal securities, 97% are rated by

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major credit rating agencies and were rated investment grade as of September 30, 2011. Municipal securities in the trading account are held for resale to customers. The Company underwrites municipal bonds which are sold to third party investors.

**European Exposure**

The Company has not granted loans to and does not own securities issued by the governments of Portugal, Ireland, Italy, Greece, or Spain. Our strategy is to focus on serving individuals, businesses, and municipalities located in the United States and, therefore, we do not have any significant direct exposure to these governments.

**Loan Portfolio**

As of September 30, 2011, net loans and leases were \$36.7 billion, reflecting a 0.1% decrease from December 31, 2010, and a 2.2% decrease from September 30, 2010.

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

| (Amounts in millions)                       | September 30, 2011 |                  | December 31, 2010 |                  | September 30, 2010 |                  |
|---|--------------------|------------------|-------------------|------------------|--------------------|------------------|
|   | Amount             | % of total loans | Amount            | % of total loans | Amount             | % of total loans |
| <b>Commercial:</b>                          |                    |                  |                   |                  |                    |                  |
| Commercial and industrial                   | \$ 9,787           | 26.6%            | \$ 9,167          | 24.9%            | \$ 9,152           | 24.3%            |
| Leasing                                     | 410                | 1.1%             | 410               | 1.1%             | 402                | 1.1%             |
| Owner occupied                              | 8,334              | 22.6%            | 8,218             | 22.3%            | 8,345              | 22.1%            |
| Municipal                                   | 441                | 1.2%             | 439               | 1.2%             | 334                | 0.9%             |
| Total commercial                            | 18,972             |                  | 18,234            |                  | 18,233             |                  |
| <b>Commercial real estate:</b>              |                    |                  |                   |                  |                    |                  |
| Construction and land development           | 2,477              | 6.7%             | 3,499             | 9.5%             | 4,206              | 11.2%            |
| Term  | 7,743              | 21.0%            | 7,650             | 20.8%            | 7,550              | 20.0%            |
| Total commercial real estate                | 10,220             |                  | 11,149            |                  | 11,756             |                  |
| <b>Consumer:</b>                            |                    |                  |                   |                  |                    |                  |
| Home equity credit line                     | 2,158              | 5.9%             | 2,142             | 5.8%             | 2,157              | 5.7%             |
| 1-4 family residential                      | 3,884              | 10.5%            | 3,499             | 9.5%             | 3,509              | 9.3%             |
| Construction and other consumer real estate | 304                | 0.8%             | 343               | 0.9%             | 366                | 1.0%             |
| Bankcard and other revolving plans          | 278                | 0.8%             | 297               | 0.8%             | 287                | 0.8%             |
| Other                                       | 234                | 0.6%             | 233               | 0.6%             | 271                | 0.7%             |
| Total consumer                              | 6,858              |                  | 6,514             |                  | 6,590              |                  |
| FDIC-supported loans                        | 801                | 2.2%             | 971               | 2.6%             | 1,090              | 2.9%             |
| Total loans                                 | \$ 36,851          | 100.0%           | \$ 36,868         | 100.0%           | \$ 37,669          | 100.0%           |

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

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Growth in the loan portfolio during the first nine months of 2011 occurred in commercial and industrial, commercial owner occupied, commercial real estate term, and 1-4 family residential consumer loans, but was offset by declines in commercial real estate construction and land development and FDIC-supported loans. The total loan portfolio grew primarily at Amegy, Vectra, and TCBW while balances at Zions Bank, CB&T, and NSB declined. Some construction loans have been converted to term loans as projects have been completed. We expect commercial construction and land development loans to continue to decline in future quarters as demand for these types of loans remains weak. However, we expect the total loan portfolio to remain relatively stable in the fourth quarter.

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**Other Noninterest-Bearing Investments**

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

| (In millions)                       | September 30,<br>2011 | December 31,<br>2010 | September 30,<br>2010 |
|-------------------------------------|-----------------------|----------------------|-----------------------|
| Bank-owned life insurance           | \$ 440                | \$ 428               | \$ 424                |
| Federal Home Loan Bank stock        | 118                   | 125                  | 129                   |
| Federal Reserve stock               | 130                   | 128                  | 127                   |
| SBIC investments                    | 41                    | 38                   | 39                    |
| Non-SBIC investment funds and other | 117                   | 125                  | 125                   |
| Trust preferred securities          | 14                    | 14                   | 14                    |
|                                     | \$ 860                | \$ 858               | \$ 858                |

**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 2011 decreased by 2.3% compared to the same period in 2010. Average interest-bearing deposits decreased by 6.8%, mostly due to lower balances in money market and time deposit accounts. Average noninterest-bearing deposits grew by 7.5%, primarily due to higher balances in business customers' accounts. Core deposits at September 30, 2011, which exclude time deposits larger than \$100,000 and brokered deposits, grew by 2.6%, or \$1.0 billion, from December 31, 2010.

Demand, savings and money market deposits comprised 87.5% of total deposits at the end of the third quarter of 2011, compared with 85.8% and 85.6% as of December 31, 2010 and September 30, 2010, respectively.

During 2010 and 2011, the Company reduced brokered deposits due to excess liquidity and weak loan demand. At September 30, 2011, total deposits included \$251 million of brokered deposits compared to \$435 million at December 31, 2010 and \$502 million at September 30, 2010.

**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, guarantor, or another obligor 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 unfunded lending commitments.

Centralized oversight of credit risk is provided through a uniform credit policy, credit administration, and credit examination functions at the Parent. 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



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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.

Credit risk associated with counterparties to off-balance sheet credit instruments is generally limited to the hedging of interest rate risk through the use of swaps and futures. Our subsidiary banks that engage in this activity 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 our subsidiaries 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 Company's maximum exposure that is not cash collateralized to any single counterparty did not exceed \$10 million at September 30, 2011.

The Company's credit risk management strategy includes diversification of its loan portfolio. The Company attempts to avoid the risk of an undue concentration of credits in a particular collateral 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. Subsequently the Company has adopted concentration limits related to other types of lending, for example, leveraged lending, and over time expects to extend this concentration limit framework to most parts of the loan portfolio. 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. Substantially all 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. In addition, the acquired loans have performed better than expected. FDIC-supported loans represented approximately 2.2% of the Company's total loan portfolio at September 30, 2011.

The Company participates in various lending programs where guarantees are supplied by U.S. government agencies, such as the Small Business Administration, Federal Housing Authority, Veterans Administration, and U.S. Department of Agriculture. As of September 30, 2011, the principal balance of such loans was \$600 million, and the guaranteed portion amounted to \$450 million. Most of these loans were guaranteed by the Small Business Administration. Government agency guaranteed loans, excluding FDIC-supported loans, consisted of the following as of September 30, 2011:



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| (Amounts in millions)                | September 30,<br>2011 | Percent<br>guaranteed |
|--------------------------------------|-----------------------|-----------------------|
| Commercial                           | \$ 579                | 74%                   |
| Commercial real estate               | 19                    | 77%                   |
| Consumer                             | 2                     | 100%                  |
| Total excluding FDIC-supported loans | \$ 600                | 75%                   |

The credit quality of the Company's loan portfolio improved further during the third quarter of 2011. Nonperforming lending related assets decreased by 30.5% and 44.6% from December 31, 2010 and September 30, 2010, respectively. Gross charge-offs declined to \$439 million in the first nine months of 2011 compared to \$791 million in the first nine months of 2010. Net charge-offs decreased to \$355 million from \$718 million in the same periods.

A more comprehensive discussion of our credit risk management is contained in the Company's 2010 Annual Report on Form 10-K.

**Commercial Lending**

The following schedule provides selected information regarding lending concentrations to certain industries in our commercial lending portfolio:

| (Amounts in millions)                            | September 30, 2011 |         | December 31, 2010 |         |
|--|--------------------|---------|-------------------|---------|
|  | Amount             | Percent | Amount            | Percent |
| Real estate, rental and leasing                  | \$ 2,751           | 14.5%   | \$ 2,488          | 13.6%   |
| Manufacturing                                    | 2,032              | 10.7%   | 1,984             | 10.9%   |
| Retail trade                                     | 1,586              | 8.4%    | 1,585             | 8.7%    |
| Wholesale trade                                  | 1,540              | 8.1%    | 1,500             | 8.2%    |
| Mining, quarrying, and oil and gas extraction    | 1,580              | 8.3%    | 1,346             | 7.4%    |
| Healthcare and social assistance                 | 1,260              | 6.7%    | 1,264             | 6.9%    |
| Construction                                     | 1,011              | 5.3%    | 1,110             | 6.1%    |
| Professional, scientific, and technical services | 934                | 4.9%    | 966               | 5.3%    |
| Transportation and warehousing                   | 917                | 4.8%    | 866               | 4.8%    |
| Finance and insurance                            | 915                | 4.8%    | 963               | 5.3%    |
| Hospitality and food services                    | 826                | 4.4%    | 809               | 4.4%    |
| Other  | 3,620              | 19.1%   | 3,353             | 18.4%   |
| Total  | \$ 18,972          | 100.0%  | \$ 18,234         | 100.0%  |

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**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)<br>Loan Type                    | As of<br>Date | Collateral Location |                        |                        |          |          |            |                |            |                    | Total      | % of total<br>CRE |
|--|---------------|---------------------|------------------------|------------------------|----------|----------|------------|----------------|------------|--------------------|------------|-------------------|
|  |               | Arizona             | Northern<br>California | Southern<br>California | Nevada   | Colorado | Texas      | Utah/<br>Idaho | Washington | Other <sup>1</sup> |            |                   |
| <b>Commercial term</b>                               |               |                     |                        |                        |          |          |            |                |            |                    |            |                   |
| Balance outstanding                                  | 9/30/11       | \$ 953.9            | \$ 400.4               | \$ 2,029.1             | \$ 675.2 | \$ 527.6 | \$ 1,101.6 | \$ 856.6       | \$ 264.6   | \$ 934.6           | \$ 7,743.6 | 75.8%             |
| of loan type   |               | 12.3%               | 5.2%                   | 26.2%                  | 8.7%     | 6.8%     | 14.2%      | 11.1%          | 3.4%       | 12.1%              | 100.0%     |                   |
| Delinquency rates <sup>2</sup> :                     |               |                     |                        |                        |          |          |            |                |            |                    |            |                   |
| 90-89 days   | 9/30/11       | 1.6%                | 1.0%                   | 0.7%                   | 2.1%     | 0.7%     | 2.4%       | 1.0%           | 0.5%       | 3.6%               | 1.6%       |                   |
|  | 12/31/10      | 1.6%                | 1.5%                   | 1.7%                   | 3.7%     | 8.2%     | 2.7%       | 2.1%           | 0.3%       | 7.3%               | 3.1%       |                   |
| 90 days  | 9/30/11       | 0.9%                | 0.6%                   | 0.5%                   | 0.7%     | 0.6%     | 0.8%       | 1.0%           |            | 2.6%               | 0.9%       |                   |
|  | 12/31/10      | 1.1%                | 1.5%                   | 0.9%                   | 2.8%     | 1.4%     | 1.6%       | 1.8%           |            | 3.9%               | 1.7%       |                   |
| Accruing loans past<br>the 90 days or more           | 9/30/11       | \$ 0.7              | \$                     | \$                     | \$       | \$       | \$ 0.4     | \$             | \$         | \$                 | \$ 1.1     |                   |
|  | 12/31/10      |                     |                        | 0.2                    |          |          | 4.3        |                |            | 0.3                | 4.8        |                   |
| Nonaccrual loans                                     | 9/30/11       | 14.3                | 4.7                    | 31.0                   | 29.8     | 18.1     | 25.6       | 16.0           | 1.8        | 47.6               | 188.9      |                   |
|  | 12/31/10      | 23.4                | 6.2                    | 36.3                   | 70.5     | 19.4     | 32.8       | 20.1           | 1.7        | 53.9               | 264.3      |                   |
| <b>Residential construction and land development</b> |               |                     |                        |                        |          |          |            |                |            |                    |            |                   |
| Balance outstanding                                  | 9/30/11       | \$ 112.0            | \$ 27.7                | \$ 103.2               | \$ 12.7  | \$ 34.5  | \$ 318.2   | \$ 186.0       | \$ 0.8     | \$ 72.9            | \$ 868.0   | 8.5%              |
| of loan type   |               | 12.9%               | 3.2%                   | 11.9%                  | 1.5%     | 4.0%     | 36.6%      | 21.4%          | 0.1%       | 8.4%               | 100.0%     |                   |
| Delinquency rates <sup>2</sup> :                     |               |                     |                        |                        |          |          |            |                |            |                    |            |                   |
| 90-89 days   | 9/30/11       | 6.3%                |                        | 5.9%                   | 49.4%    | 4.4%     | 15.5%      | 8.9%           | 22.0%      | 1.0%               | 10.1%      |                   |
|  | 12/31/10      | 9.8%                | 6.0%                   | 5.3%                   | 55.6%    | 1.4%     | 19.9%      | 13.6%          |            | 9.6%               | 14.3%      |                   |
| 90 days  | 9/30/11       | 2.9%                |                        | 2.8%                   | 46.7%    | 3.1%     | 9.9%       | 8.1%           | 22.0%      | 0.9%               | 7.0%       |                   |
|  | 12/31/10      | 8.6%                | 6.0%                   | 3.4%                   | 55.6%    | 0.4%     | 19.2%      | 10.0%          |            | 5.0%               | 12.6%      |                   |
| Accruing loans past<br>the 90 days or more           | 9/30/11       | \$ 0.2              | \$                     | \$ 0.2                 | \$       | \$       | \$ 0.1     | \$             | \$         | \$                 | \$ 0.5     |                   |
|  | 12/31/10      | 0.8                 |                        |                        |          |          | 0.1        | 0.6            |            | 0.1                | 1.6        |                   |
| Nonaccrual loans                                     | 9/30/11       | 15.4                |                        | 5.5                    | 7.7      | 1.5      | 59.3       | 18.3           | 0.2        | 0.6                | 108.5      |                   |
|  | 12/31/10      | 29.9                | 1.8                    | 8.1                    | 30.3     | 41.4     | 80.9       | 39.1           |            | 8.3                | 239.8      |                   |
| <b>Commercial construction and land development</b>  |               |                     |                        |                        |          |          |            |                |            |                    |            |                   |
| Balance outstanding                                  | 9/30/11       | \$ 203.4            | \$ 28.2                | \$ 148.2               | \$ 114.3 | \$ 174.0 | \$ 565.4   | \$ 303.9       | \$ 31.8    | \$ 39.6            | \$ 1,608.8 | 15.7%             |
| of loan type   |               | 12.6%               | 1.8%                   | 9.2%                   | 7.1%     | 10.8%    | 35.1%      | 18.9%          | 2.0%       | 2.5%               | 100.0%     |                   |
| Delinquency rates <sup>2</sup> :                     |               |                     |                        |                        |          |          |            |                |            |                    |            |                   |
| 90-89 days   | 9/30/11       | 2.2%                |                        | 1.6%                   | 6.2%     | 5.2%     | 6.8%       | 1.9%           |            | 0.3%               | 4.2%       |                   |
|  | 12/31/10      | 5.0%                |                        | 0.5%                   | 23.7%    | 8.1%     | 5.7%       | 6.4%           | 2.7%       | 12.4%              | 7.1%       |                   |
| 90 days  | 9/30/11       | 2.2%                |                        | 1.6%                   | 6.2%     | 5.2%     | 6.3%       | 1.8%           |            | 0.3%               | 4.0%       |                   |
|  | 12/31/10      | 4.2%                |                        | 0.5%                   | 16.4%    | 8.1%     | 4.3%       | 4.2%           |            | 12.4%              | 5.5%       |                   |
| Accruing loans past<br>the 90 days or more           | 9/30/11       | \$ 0.3              | \$                     | \$ 1.7                 | \$       | \$       | \$         | \$             | \$         | \$ 0.1             | \$ 2.1     |                   |
|  | 12/31/10      |                     |                        |                        |          |          |            | 0.2            |            | 0.1                | 0.3        |                   |
| Nonaccrual loans                                     | 9/30/11       | 8.1                 |                        | 0.8                    | 16.3     | 9.1      | 81.1       | 21.6           |            |                    | 137.0      |                   |
|  | 12/31/10      | 18.9                |                        | 2.2                    | 73.9     | 19.8     | 91.5       | 35.7           |            | 11.6               | 253.6      |                   |

|   |         |            |          |            |          |          |            |            |          |            |             |        |
|---|---------|------------|----------|------------|----------|----------|------------|------------|----------|------------|-------------|--------|
| total construction<br>and land<br>development | 9/30/11 | \$ 315.4   | \$ 55.9  | \$ 251.4   | \$ 127.0 | \$ 208.5 | \$ 883.6   | \$ 489.9   | \$ 32.6  | \$ 112.5   | \$ 2,476.8  |        |
| total commercial<br>real estate               | 9/30/11 | \$ 1,269.3 | \$ 456.3 | \$ 2,280.5 | \$ 802.2 | \$ 736.1 | \$ 1,985.2 | \$ 1,346.5 | \$ 297.2 | \$ 1,047.1 | \$ 10,220.4 | 100.0% |

<sup>1</sup> No other geography exceeds \$128 million for all three loan types.

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

Approximately 34% of the commercial real estate term loans consist of mini-perm loans as of September 30, 2011. 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 66% 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

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differ by product type and includes, for example, criteria related to the cash flow generated by the project and occupancy rates.

Approximately 32% of the commercial construction and land development portfolio's September 30, 2011 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. Re-margining requirements are often included in the loan agreement along with guarantees of the sponsor. Recognizing that debt is paid via cash flow, the projected economics of the project are primary in the underwriting because these determine the ultimate value of the property and its 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 coverage ratio of 1.20.

Although lending for residential construction and development involves a different product type, many of the requirements previously mentioned, such as credit worthiness of the developer, up-front injection of the developer's equity, re-margining requirements, and the viability of the project are also important in underwriting a residential development loan. Heavy consideration is given to market acceptance of the product, location, strength of the developer, and the ability of the developer to stay within budget. Progress inspections by qualified independent inspectors are routinely performed before disbursements are made.

Real estate appraisals are ordered and validated independently of the credit officer and the borrower, generally by each bank's appraisal review function, which is staffed by certified appraisers. Appraisals are ordered from outside appraisers at the inception, renewal, or for CRE loans, upon the occurrence of any event causing a downgrade to a criticized or classified designation. 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 of pass grade loans has been increased to quarterly for all commercial and residential construction and land development loans at Zions Bank, Amegy, NBA, NSB, and Vectra. At CB&T such reviews are performed semi-annually.

Interest reserves are generally established as an expense item in the budget for real estate construction or development loans. We generally require borrowers 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 necessary. The bank then usually evaluates the appropriate use of interest reserves. At September 30, 2011, and September 30, 2010, Zions' affiliates had 369 and 368 loans with an outstanding balance of \$388 million, and \$575 million for which available interest reserves amounted to \$33 million and \$53 million,

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respectively. In instances where projects have been determined not to be viable, the interest reserves and other appropriate disbursements have been frozen.

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.

Commercial real estate loans are sometimes modified to increase the likelihood of collecting as much as possible of the Company's investment in the loan. In general, the existence of a guarantee that improves the likelihood of repayment is taken into consideration when analyzing a loan for impairment. If the support of the guarantor is quantifiable and documented, it is included in the potential cash flows and liquidity available for debt repayment and most likely indicates that the appropriate impairment methodology takes into consideration this repayment source.

Additionally, when we modify or extend a loan, we give consideration to whether the borrower is in financial difficulty, and whether a concession has been granted. In determining if an interest rate concession has been granted, we consider whether the interest rate on the modified loan is equivalent to current market rates (including a premium for risk) for new debt with similar risk characteristics. If the rate in the modification is less than current market rates, it may be indicative of a concession having been granted. However, if additional collateral is obtained or if a strong guarantor exists who is believed to be able and willing to support the loan on an extended basis, we also consider the nature and amount of the additional collateral and guarantees in the ultimate determination of whether a concession has been granted. We obtain and consider updated financial information for the guarantor as part of our determination to extend a loan. The quality and frequency of financial reporting collected and analyzed varies depending on the contractual requirements for reporting, the size of the transaction, and the strength of the guarantor.

Complete underwriting on the guarantor includes, but is not limited to, an analysis of the guarantor's current financial statements, leverage, liquidity, global cash flow, global debt service coverage, contingent liabilities, etc. The analysis also includes a qualitative analysis of the guarantor's willingness to perform in the event of a problem and demonstrated history of performing in similar situations. Additional analysis may include personal financial statements, tax returns, liquidity (brokerage) confirmations and other reports, as appropriate. All personal financial statements of customers entering into new relationships with the applicable bank must not be more than 60 days old on the date the transaction is approved. Personal financial statements that are required for existing customers must be no more than 13 months old. Evaluations of the financial strength of the guarantor are performed at least annually.

A qualitative assessment is performed on a case-by-case basis to evaluate the guarantor's experience, performance track record, reputation, performance of other related projects with which we are familiar, and willingness to work with us, and consideration of market information sources, rating and scoring services. This qualitative analysis has less of a positive impact on the allowance and charge-off considerations as does a documented quantitative ability to support the loan. A previously documented financial ability to support the loan is discounted if there is any indication of a lack of willingness to support the loan under a guarantee at any point.

In the event of default, we pursue any and all appropriate potential sources of repayment, which may come from multiple sources, including the guarantee. A number of factors are considered when deciding whether or not to pursue a guarantor, including, but not limited to, the value and liquidity of other sources of repayment (collateral), the financial strength and liquidity of the guarantor, possible statutory limitations (e.g., single action rule on real estate) and the overall cost of pursuing a guarantee compared to the ultimate

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amount we may be able to recover. In other instances, the guarantor may voluntarily support a loan without any formal pursuit.

***Consumer Loans***

The Company has a portfolio of \$364 million of stated income mortgage 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, 2011, approximately \$36 million of the \$364 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 \$9 million, or 43%, of our credit losses in 1-4 family residential first mortgage loans during the first nine months of 2011, and were primarily in Utah and Arizona.

The Company has mainly been an originator of first and second mortgages, generally considered to be of prime quality. Its practice historically has been to sell conforming fixed rate loans to third parties, including Fannie Mae and Freddie Mac, for which it makes representations and warranties as to meeting certain underwriting and collateral documentation standards. It has also been the Company's practice historically to hold variable rate loans in its portfolio. The Company does not estimate that it has any material financial risk as a result of its foreclosure practices or loan put-backs by Fannie Mae or Freddie Mac, and has not established any reserves related to these items.

The Company is engaged in home equity credit line lending. Including FDIC-supported loans, approximately \$994 million of the Company's \$2.2 billion portfolio is secured by first deeds of trust, while the remaining balance is secured by junior liens. As of September 30, 2011, loans representing approximately 19% 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, 0.42% was 90 or more days past due at September 30, 2011 as compared to 0.47% as of September 30, 2010. During the first nine months of 2011, the Company modified \$0.2 million of home equity credit lines. The annualized credit losses for this portfolio were 103 and 121 basis points for the nine months ended September 30, 2011 and September 30, 2010, respectively.

***Nonperforming Assets***

As reflected in the following table, the Company's nonperforming lending-related assets as a percentage of net loans and leases and OREO decreased during the third quarter of 2011. The percentage was 3.43% at September 30, 2011, compared with 4.91% at December 31, 2010 and 6.01% at September 30, 2010.

Total nonaccrual loans, excluding FDIC-supported loans, at September 30, 2011 decreased by \$454 million from December 31, 2010, which included a decrease of \$249 million in construction and land development loans, \$75 million in commercial real estate term loans, and \$74 million in commercial owner occupied loans. The greatest decreases in nonaccrual loans occurred at Zions Bank, NSB, and Amegy.

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

| (Amounts in millions)  | September 30,<br>2011 | December 31,<br>2010 | September 30,<br>2010 |
|--|-----------------------|----------------------|-----------------------|
| Nonaccrual loans   | \$ 1,039              | \$ 1,493             | \$ 1,810              |
| Other real estate owned  | 170                   | 259                  | 304                   |
| <b>Nonperforming lending-related assets, excluding FDIC-supported assets</b>                                   | <b>1,209</b>          | <b>1,752</b>         | <b>2,114</b>          |
| FDIC-supported nonaccrual loans  | 29                    | 36                   | 127                   |
| FDIC-supported other real estate owned   | 33                    | 40                   | 52                    |
| FDIC-supported nonperforming lending-related assets  | 62                    | 76                   | 179                   |
| <b>Total nonperforming lending-related assets</b>  | <b>\$ 1,271</b>       | <b>\$ 1,828</b>      | <b>\$ 2,293</b>       |
| Ratio of nonperforming lending-related assets to net loans and leases <sup>1</sup> and other real estate owned | 3.43%                 | 4.91%                | 6.01%                 |
| Accruing loans past due 90 days or more, excluding FDIC-supported loans  | \$ 16                 | \$ 23                | \$ 75                 |
| FDIC-supported loans past due 90 days or more  | 86                    | 119                  | 10                    |
| Ratio of accruing loans past due 90 days or more to net loans and leases <sup>1</sup>                          | 0.28%                 | 0.38%                | 0.22%                 |
| Nonaccrual loans and accruing loans past due 90 days or more   | \$ 1,169              | \$ 1,671             | \$ 2,021              |
| Ratio of nonaccrual loans and accruing loans past due 90 days or more to net loans and leases <sup>1</sup>     | 3.17%                 | 4.52%                | 5.35%                 |
| Accruing loans past due 30 - 89 days, excluding FDIC-supported loans   | \$ 174                | \$ 263               | \$ 303                |
| FDIC-supported loans past due 30 - 89 days   | 14                    | 27                   | 9                     |
| Restructured loans included in nonaccrual loans  | 308                   | 367                  | 354                   |
| Restructured loans on accrual  | 430                   | 388                  | 334                   |
| Classified loans, excluding FDIC-supported loans   | 2,362                 | 3,408                | 4,438                 |

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

**Restructured Loans**

Nonaccrual loans also include nonperforming loans that have been restructured and classified as troubled debt restructured ( TDR ) loans.

TDRs are loans that have been modified to accommodate a borrower who is experiencing financial difficulties, and for which the Company has granted a concession that it would not otherwise consider. Commercial loans may be modified to provide the borrower more time to complete the project, to achieve a higher lease-up percentage, to sell the property, or for other reasons. Consumer loan TDRs represent loan modifications in which a concession has been granted to the borrower who is unable to refinance the loan with a new loan from another lender, or who is experiencing economic hardship. Such TDRs may include first-lien residential mortgage loans and home equity loans.

For certain troubled debt restructurings, we split the loan into two new notes - A and B notes. The A note is structured to comply with our current lending standards at current market rates, and is tailored to suit the customer's ability to make timely interest and principal payments. The B note includes the granting of the concession to the borrower and varies by situation. We may defer principal and interest payments until the A note

has been paid in full. The B note is charged-off but the obligation is not forgiven to the borrower, and any payments collected are accounted for as recoveries.



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At the time of restructuring, the A note is identified and classified as a TDR. If the loan performs for at least six months according to the modified terms, the A note may be returned to accrual status. The borrower's payment performance prior to and following the restructuring is taken into account in determining whether or not a note should be returned to accrual status. In the periods following the calendar year in which a loan was restructured, a loan may no longer be reported as a TDR if it is on accrual, is in compliance with its modified terms, and yields a market rate (as determined and documented at the time of the modification or restructure). Company policy requires that the removal of TDR status be approved at the same management level that approves the upgrading of a loan's classification. Refer also to the Modified and Restructured Loans section in Note 5 of the Notes to Consolidated Financial Statements.

The outstanding balance of loans restructured using the A/B note restructure workout strategy was approximately \$241 million at September 30, 2011 and \$245 million at June 30, 2011.

***Other Nonperforming Assets***

In addition to the lending related nonperforming assets, the Company had \$121 million in carrying value of investments in debt securities that were on nonaccrual status at September 30, 2011, compared to \$195 million at December 31, 2010 and \$194 million at September 30, 2010.

***Allowance and Reserve for Credit 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.

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

| (Amounts in millions)   | Nine Months<br>Ended<br>September 30,<br>2011 | Twelve Months<br>Ended<br>December<br>31,<br>2010 | Nine Months<br>Ended<br>September 30,<br>2010 |
|---|---|---|---|
| Loans and leases outstanding (net of unearned income)   | \$ 36,725                                     | \$ 36,747   | \$ 37,549                                     |
| Average loans and leases outstanding (net of unearned income)   | \$ 36,764                                     | \$ 38,250   | \$ 38,644                                     |
| Allowance for loan losses:  |   |   |   |
| Balance at beginning of period  | \$ 1,440                                      | \$ 1,531  | \$ 1,531                                      |
| Provision charged against earnings  | 76  | 852   | 679   |
| Increase (decrease) in allowance covered by FDIC indemnification  | (12)  | 26  | 38  |
| Loans and leases charged-off:   |   |   |   |
| Commercial  | (183)   | (417)   | (308)   |
| Commercial real estate  | (186)   | (517)   | (377)   |
| Consumer  | (70)  | (140)   | (106)   |
| <b>Total</b>  | <b>(439)</b>                                  | <b>(1,074)</b>                                    | <b>(791)</b>                                  |
| Recoveries:   |   |   |   |
| Commercial  | 39  | 35  | 27  |
| Commercial real estate  | 29  | 44  | 29  |
| Consumer  | 10  | 12  | 9   |
| <b>Total</b>  | <b>78</b>                                     | <b>91</b>   | <b>65</b>                                     |
| Charge-offs recoverable from FDIC   | 6   | 14  | 8   |
| Net loan and lease charge-offs  | (355)   | (969)   | (718)   |
| <b>Balance at end of period</b>   | <b>\$ 1,149</b>                               | <b>\$ 1,440</b>                                   | <b>\$ 1,530</b>                               |
| Ratio of annualized net charge-offs to average loans and leases   | 1.29%   | 2.53%   | 2.48%   |
| Ratio of allowance for loan losses to net loans and leases, at period end   | 3.13%   | 3.92%   | 4.07%   |
| Ratio of allowance for loan losses to nonperforming loans, at period end  | 107.59%                                       | 94.22%  | 79.02%  |
| Ratio of allowance for loan losses to nonaccrual loans and accruing loans past due 90 days or more, at period end | 98.24%  | 86.21%  | 75.71%  |

The allowance for loan losses declined during the first nine months of 2011 due to the improved credit quality metrics observed across the loan portfolio. Although actual credit quality continues to improve, the Company increased the portion of its provision related to national economic conditions in light of reported weaker economic data and fiscal uncertainty in Europe.

The reserve for unfunded lending commitments represents a reserve for potential losses associated with off-balance sheet commitments and standby letters of credit. The reserve is separately shown in the Company's consolidated balance sheet, and any related increases or decreases in the reserve are included in noninterest expense in the statement of income. The reserve balance decreased by \$14 million from December 31,

2010, and is primarily due to improvements in the credit quality of lending commitments. See Note 5 of the Notes to Consolidated Financial Statements for additional information related to the allowance for credit losses.

**Interest Rate and Market Risk Management**

Interest rate and market risk are managed centrally. Interest rate risk is the potential for reduced net interest income resulting from adverse changes in the level of interest rates. Market risk is the potential for loss arising from adverse changes in the fair value of fixed income securities, equity securities, other earning

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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 establishes and periodically revises policy limits, and reviews limit exceptions reported by management. 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.

***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's balance sheet is more asset sensitive on September 30, 2011 than it was on December 31, 2010.

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, interest rate futures, and by avoiding large exposures to long-term fixed rate interest-earning assets that have significant negative convexity. Our earning assets are largely tied to the shorter end of the interest rate curve. 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. A positive value implies that an increase in interest rates decreases the dollar value of equity, whereas a negative value implies that an increase in interest rates increases the dollar value of equity. The Company's policy is generally to maintain a duration of equity between -3% to +7%. However, in the current low interest rate environment, the Company is operating with a duration of equity of less than -3% in some planning scenarios.

Income simulation is an estimate of the net interest income and total rate sensitive income that would be recognized under different rate environments. Net interest income and total rate sensitive income are 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. 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.

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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 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.

As of the dates indicated, the following table shows the Company's estimated 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 Company estimates interest rate risk with two sets of deposit repricing scenarios. The first scenario assumes that administered-rate deposits (money market, interest-earning checking, and savings) reprice at a faster speed in response to changes in interest rates. The second scenario assumes that those deposits reprice at a slower speed.

|  | September 30,<br>2011      |       | December 31,<br>2010 |       |
|--|----------------------------|-------|----------------------|-------|
|  | Fast                       | Slow  | Fast                 | Slow  |
| Duration of equity <sup>1</sup> :                      |                            |       |                      |       |
| Base case  | -0.6%                      | -3.9% | -1.2%                | -3.1% |
| Increase interest rates by 200 bps                     | -1.2%                      | -3.5% | -1.4%                | -3.0% |
|  |                            |       |                      |       |
|  | Deposit repricing response |       |                      |       |
|  | Fast                       | Slow  | Fast                 | Slow  |
| Income simulation change in interest sensitive income: |                            |       |                      |       |
| Increase interest rates by 200 bps                     | 6.2%                       | 9.3%  | 3.1%                 | 6.0%  |
| Decrease interest rates by 200 bps <sup>2</sup>        | -2.6%                      | -2.0% | -2.5%                | -2.7% |

<sup>1</sup> The duration of equity is the modified duration reported in percentages.

<sup>2</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 2011, the duration of equity became shorter compared to December 31, 2010. The reduction in the duration of equity was caused by the fact that demand deposits increased while loans remained practically unchanged. The changes in the income simulation sensitivity can be attributed to the increase of noninterest-bearing deposits as a percentage of total deposits from 33.4% at December 31, 2010 to 36.1% at September 30, 2011, a reduction in the long position we hold in Eurodollar futures, and the termination of certain receive-fixed-rate interest rate swaps. See Note 6 of Notes to Consolidated Financial Statements for more information on the interest rate derivatives portfolio.

**Market Risk Fixed Income**

The Company engages in the underwriting and trading of U.S. agency, municipal and corporate securities.

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This trading activity exposes the Company to a risk of loss arising from adverse changes in the prices of these fixed income securities.

At September 30, 2011, the Company had \$50 million of trading assets and \$30 million of securities sold, not yet purchased, compared with \$49 million and \$43 million at December 31, 2010, and \$43 million and \$42 million at September 30, 2010, respectively.

The Company is exposed to market risk through changes in fair value and OTTI of HTM and AFS securities. The Company is also exposed to market risk for interest rate swaps and Eurodollar futures contracts used to hedge interest rate risk. Changes in the fair value of AFS securities and in interest rate swaps that qualify as cash flow hedges are included in OCI each quarter. During the third quarter of 2011, the after-tax decrease in OCI attributable to AFS securities was \$81.9 million, and the decrease attributable to interest rate swaps was \$4.3 million. If any of the AFS or HTM securities become other than temporarily impaired, the credit impairment is charged to operations. See Investment Securities Portfolio for additional information on OTTI.

***Market Risk Equity Investments***

Through its equity investment activities, the Company owns equity securities that are publicly traded. In addition, the Company owns equity securities in companies that are not publicly traded, 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 holds investments in pre-public companies through various venture capital 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.

Under provisions of the Dodd-Frank Act, the Company is allowed to fund remaining unfunded portions of existing private equity fund commitments, such as those described above, but is not allowed to make any new commitments to invest in private equity funds.

A more comprehensive discussion of the Company's interest rate and market risk management is contained in the Company's 2010 Annual Report on Form 10-K.

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**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.

Consolidated cash and interest-bearing deposits held by the Parent and its subsidiaries increased to \$6.2 billion at September 30, 2011 from \$6.0 billion at June 30, 2011 and \$5.5 billion at December 31, 2010. The Parent and its subsidiaries also held \$706 million of U.S. Treasury securities at September 30, 2011, June 30, 2011, and December 31, 2010.

**Parent Company Liquidity:** 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 under the TARP program. The Parent's cash needs are usually met through dividends from its subsidiaries, interest and investment income, subsidiaries' proportionate share of current income taxes, equity contributed through the exercise of stock options, and long-term debt and equity issuances.

The Parent received common dividends of \$18.0 million from one of its bank subsidiaries and preferred dividends totaling approximately \$9.8 million from two of its bank subsidiaries during the third quarter of 2011. Also, in October 2011 the Parent received cash of \$100 million from another bank subsidiary as a result of the redemption of preferred stock issued to the Parent. The dividends bank subsidiaries can pay to the Parent are restricted by current and historical earning levels, retained earnings, and risk-based and other regulatory capital requirements. During 2011 all of the Company's bank subsidiaries have recorded a profit. We expect that this profitability will be sustained and may permit additional payments of dividends by the banks to the Parent, and/or a return of capital to the Parent in the next few quarters. The Company has held the dividend on its common stock to \$0.01 per share per quarter in order to conserve both capital and cash at the Parent.

Federal Reserve Board Supervisory Letter SR 09-4, dated February 24, 2009 (as revised March 27, 2009), reiterates and expands previous guidance to bank holding companies regarding the payment of common dividends, preferred dividends, and dividends on more senior capital instruments in times of stress on earnings and capital ratios. On November 17, 2010, the Federal Reserve Board issued a revised temporary addendum to this letter stating that bank holding companies should consult with the Federal Reserve staff before taking any capital actions, including actions that could result in a diminished capital base, such as increasing dividends, implementing common stock repurchase programs, or redeeming or repurchasing capital instruments.

General financial market and economic conditions have adversely impacted the Company's access to and cost of external financing. However, these adverse impacts have begun to moderate in recent quarters. Access to funding markets for the Parent and subsidiary banks is directly affected 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 debt ratings and outlooks issued by the various rating agencies for the Company did not change during the first nine months of 2011. One rating agency, Moody's, rates the Company's senior debt as B2 or noninvestment grade, while Standard & Poor's, Fitch and DBRS all rate the Company's senior debt at a low investment grade level. In addition, all four rating agencies rate the Company's subordinated debt as noninvestment grade. Moody's and Fitch's outlooks for

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## ZIONS BANCORPORATION AND SUBSIDIARIES

the Company are positive and stable, respectively, while Standard & Poor's and DBRS have a negative outlook for the Company.

During the first nine months of 2011, the primary sources of additional cash to the Parent in the capital markets were (1) \$74 million from the issuance of 1-year unsecured senior notes, (2) \$50 million from the issuance of 5-year unsecured senior notes, and (3) \$25 million from the issuance of new shares of common stock. The Parent had a cash balance of \$392 million at September 30, 2011 compared to a cash balance of \$450 million at June 30, 2011. In addition, the Parent had \$700 million of U.S. Treasury Bills at both September 30, 2011 and June 30, 2011.

The following table presents the Parent's balance sheet at September 30, 2011, December 31, 2010, and September 30, 2010:

**Parent Only Condensed Balance Sheets**

| (In thousands)   | September 30,<br>2011 | December 31,<br>2010 | September 30,<br>2010 |
|--|-----------------------|----------------------|-----------------------|
| <b>ASSETS</b>  |                       |                      |                       |
| Cash and due from banks  | \$ 2,010              | \$ 1,848             | \$ 1,950              |
| Interest-bearing deposits  | 389,972               | 547,665              | 1,206,647             |
| Investment securities:   |                       |                      |                       |
| Held-to-maturity, at adjusted cost (approximate fair value of \$7,761, \$4,056 and \$3,502)          | 15,163                | 3,593                | 3,690                 |
| Available-for-sale, at fair value  | 1,039,863             | 1,146,797            | 465,751               |
| Loans, net of unearned fees of \$0, \$0 and \$0 and allowance for loan losses of \$25, \$71 and \$58 | 1,503                 | 2,852                | 2,865                 |
| Other noninterest-bearing investments  | 49,090                | 55,560               | 53,068                |
| Investments in subsidiaries:   |                       |                      |                       |
| Commercial banks and bank holding company  | 7,080,508             | 6,739,699            | 6,722,326             |
| Other operating companies  | 51,651                | 70,272               | 71,067                |
| Nonoperating ZMFU II, Inc.   | 92,988                | 93,003               | 92,881                |
| Receivables from subsidiaries:   |                       |                      |                       |
| Other  | 6,615                 | 1,150                | 1,400                 |
| Other assets   | 268,411               | 253,773              | 165,978               |
|  | \$ 8,997,774          | \$ 8,916,212         | \$ 8,787,623          |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>  |                       |                      |                       |
| Other liabilities  | \$ 102,140            | \$ 182,094           | \$ 203,505            |
| Commercial paper:  |                       |                      |                       |
| Due to affiliates  | 45,991                | 45,991               | 45,985                |
| Due to others  | 3,164                 | 2,647                | 29,142                |
| Other short-term borrowings:   |                       |                      |                       |
| Due to affiliates  | 108,870               | 72,204               |                       |
| Due to others  | 118,773               | 160,604              | 204,252               |
| Subordinated debt to affiliated trusts   | 309,278               | 309,278              | 309,278               |
| Long-term debt:  |                       |                      |                       |
| Due to affiliates  | 51,912                | 110,208              | 117,851               |
| Due to others  | 1,336,880             | 1,384,907            | 1,382,178             |
| Total liabilities  | 2,077,008             | 2,267,933            | 2,292,191             |



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|   |                  |                  |                  |
|---|------------------|------------------|------------------|
| Shareholders' equity:                         |                  |                  |                  |
| Preferred stock                               | 2,354,523        | 2,056,672        | 1,875,463        |
| Common stock                                  | 4,160,697        | 4,163,619        | 4,070,963        |
| Retained earnings                             | 994,380          | 889,284          | 1,001,559        |
| Accumulated other comprehensive income (loss) | (588,834)        | (461,296)        | (452,553)        |
| <b>Total shareholders' equity</b>             | <b>6,920,766</b> | <b>6,648,279</b> | <b>6,495,432</b> |
|   | \$ 8,997,774     | \$ 8,916,212     | \$ 8,787,623     |

<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.

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ZIONS BANCORPORATION AND SUBSIDIARIES

Interest-bearing deposits at September 30, 2011 include \$184 million pledged to certain subsidiary banks for intercompany borrowings.

During the first nine months of 2011 and 2010, the Parent's operating expenses included cash payments for interest of approximately \$104 million and \$116 million, respectively. Additionally, the Parent paid approximately \$115 million and \$75 million of dividends on preferred and common stock, respectively, for the same applicable periods.

Repayments of short-term borrowings by the Parent exceeded new issuances, which resulted net cash outflows of \$41 million during the first nine months of 2011.

At September 30, 2011, maturities of the Company's long-term senior and subordinated debt ranged from June 2012 to August 2016.

**Subsidiary Bank Liquidity:** The subsidiary banks' primary source of funding is their core deposits, consisting of demand, savings and money market deposits, time deposits under \$100,000, and foreign deposits. At September 30, 2011, these core deposits, excluding brokered deposits, in aggregate, constituted 94.9% of consolidated deposits, compared with 94.4% of consolidated deposits at June 30, 2011 and 93.0% at September 30, 2010. On a consolidated basis, the Company's gross loan to total deposit ratio as of September 30, 2011 is historically low at 89.1%, another measure of strong bank liquidity.

Noninterest-bearing deposits and total deposits increased during the third quarter of 2011 by \$436 million and \$172 million, respectively. Savings and NOW and foreign deposits also increased during the third quarter of 2011, but were offset by larger decreases in money market, time under \$100,000 and time over \$100,000 deposits. For the first nine months of 2011, noninterest-bearing deposits increased by \$1,258 million while total deposits increased by only \$428 million, as all other deposit categories, except savings and NOW, decreased.

Although the increase in noninterest-bearing deposits generated excess funding, it was created primarily through increased balances in long-term core relationship accounts that we want to maintain. We expect that noninterest-bearing deposits will continue to remain at a high level, and may even continue to increase through 2012, while the FDIC provides unlimited insurance coverage for noninterest-bearing transaction accounts and yields on other low risk investments remain at historical lows. On November 9, 2010 the FDIC issued a final rule providing temporary unlimited insurance coverage for noninterest-bearing transaction accounts at all FDIC-insured depository institutions, effective December 31, 2010 through December 31, 2012. Also, On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act made permanent the maximum deposit insurance amount of \$250,000.

The FHLB system has, from time to time, been a significant source of funding and back-up 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. At September 30, 2011, the amount available for additional FHLB and Federal Reserve borrowings was approximately \$12.9 billion. At September 30, 2011 and June 30, 2011 the Company had de minimus amounts of long-term borrowings outstanding with the FHLB-approximately \$24 million and \$20 million, respectively.

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 taken. For the first nine months of

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### ZIONS BANCORPORATION AND SUBSIDIARIES

2011, investment securities activities resulted in a decrease in investment securities holdings and a net increase of cash in the amount of \$81 million.

Maturing balances in our subsidiary banks' loan portfolios also provide additional flexibility in managing cash flows. Lending activity for the first nine months of 2011 resulted in a net cash outflow of \$634 million.

During the first nine months of 2011 the Company paid a net \$0.4 million of income taxes, whereas the Company received net cash income tax refunds of \$325 million during the first nine months of 2010. The majority of the income tax refunds were for the benefit of our subsidiary banks and the remainder for the benefit of the Parent.

A more comprehensive discussion of our liquidity management is contained in Zions' 2010 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 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 reporting to the Enterprise Risk Management Committee and the Board. We also mitigate operational risk through the purchase of insurance, including errors and omissions and professional liability insurance.

### **CAPITAL MANAGEMENT**

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

Note 7 of the Notes to Consolidated Financial Statements discusses the Company's debt and equity transactions during the first nine months of 2011.

Total controlling interest shareholders' equity at September 30, 2011 was \$6,920.8 million compared to \$6,648.3 million at December 31, 2010, and \$6,495.4 million at September 30, 2010. The increase in total controlling interest shareholders' equity from December 31, 2010 is primarily due to \$241.2 million of subordinated debt converting into preferred stock, \$234.8 million of net income applicable to controlling interest, and \$25.0 million from the issuance of common stock partially offset by \$126.8 million of unrealized losses on investment securities and derivative instruments recorded in other comprehensive income and \$115.2 million of dividends paid on preferred and common stock.

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The net increase in unrealized losses on securities and derivatives recognized in other comprehensive income was \$86.2 million during the third quarter of 2011, compared to \$4.7 million during the second quarter of 2011. The increased unrealized losses resulted from the effects of recent higher levels of volatility and increased credit spreads in fixed income securities markets, due in part to the uncertainty of the resolution of the European debt situation.

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 September 30, 2011, \$648 million of debt has been extinguished and \$756 million of preferred capital has been added. The following schedule shows the effect the conversions had on Tier 1 capital and outstanding convertible subordinated debt between the third quarter of 2010 and the third quarter of 2011:

| (In millions)   | Three Months Ended    |                  |                   |                      |                       |
|---|-----------------------|------------------|-------------------|----------------------|-----------------------|
|   | September 30,<br>2011 | June 30,<br>2011 | March 31,<br>2011 | December 31,<br>2010 | September 30,<br>2010 |
| <b>Preferred equity</b>   |                       |                  |                   |                      |                       |
| Convertible subordinated debt converted to preferred stock                | \$ 16,834             | \$ 138,469       | \$ 85,849         | \$ 151,034           | \$ 54,259             |
| Beneficial conversion feature reclassified from common to preferred stock | 2,863                 | 23,139           | 14,605            | 24,991               | 9,231                 |
| Change in preferred equity  | 19,697                | 161,608          | 100,454           | 176,025              | 63,490                |
| <b>Common equity</b>  |                       |                  |                   |                      |                       |
| Accelerated convertible subordinated debt amortization, net of tax        | (6,095)               | (50,037)         | (33,322)          | (59,887)             | (22,322)              |
| Beneficial conversion feature reclassified from common to preferred stock | (2,863)               | (23,139)         | (14,605)          | (24,991)             | (9,231)               |
| Change in common equity   | (8,958)               | (73,176)         | (47,927)          | (84,878)             | (31,553)              |
| <b>Net impact on Tier 1 capital</b>                                       | <b>\$ 10,739</b>      | <b>\$ 88,432</b> | <b>\$ 52,527</b>  | <b>\$ 91,147</b>     | <b>\$ 31,937</b>      |
| Convertible subordinated debt outstanding                                 | \$ 562,322            | \$ 579,156       | \$ 717,625        | \$ 803,474           | \$ 954,509            |

Additionally, on October 19, 2011, the Company filed a Form 8-K disclosing that as of October 18, 2011, holders of convertible subordinated notes elected to convert approximately \$15.0 million principal amount of these notes into the Company's preferred stock. The Company expects an additional 14,957 shares of Series C preferred stock will be issued on November 16, 2011, unless the elections are revoked prior to that date. Also, \$2.5 million of the original beneficial conversion feature will be reclassified into preferred stock from common stock as a result of this conversion. The expected pretax accelerated discount amortization attributable to the conversions is approximately \$5.8 million in the fourth quarter of 2011, which compares to \$7.5 million in the third quarter of 2011.

The Company paid \$5.5 million in dividends on common stock during the first nine months of 2011. The dividends paid per share of \$0.01 during the third quarter of 2011 were unchanged from the rate paid since the third quarter of 2009. Under the terms of the CPP, the Company may not increase the dividend on its common stock above \$0.32 per share per quarter during the period the senior preferred shares are outstanding without adversely impacting the Company's interest in the program or without permission from the U.S. Department of the Treasury. The Company does not expect to increase its common dividend until sometime after all of its TARP CPP preferred stock has been repaid.

The Company recorded preferred stock dividends of \$125.8 million and \$84.8 million during the first nine months of 2011 and 2010, respectively. Preferred dividends for the first nine months of 2011 and 2010



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## ZIONS BANCORPORATION AND SUBSIDIARIES

include \$68.6 million and \$67.5 million, respectively, related to the TARP preferred stock issued to the U.S. Department of the Treasury, consisting of cash payments of \$52.5 million in both the first nine months of 2011 and 2010 and accretion of \$16.1 million and \$15.0 million in the first nine months of 2011 and 2010, respectively, for the difference between the fair value and par amount of the TARP preferred stock when issued.

Banking organizations are required under published regulations to maintain adequate levels of capital as measured by several regulatory capital ratios. As of September 30, 2011, the Company's capital ratios were as follows:

## CAPITAL RATIOS

|   | September 30,<br>2011 | December 31,<br>2010 | September 30,<br>2010 |
|---|-----------------------|----------------------|-----------------------|
| Tangible common equity ratio                          | 6.90%                 | 6.99%                | 7.03%                 |
| Tangible equity ratio                                 | 11.56%                | 11.10%               | 10.78%                |
| Average equity to average assets (three months ended) | 13.51%                | 12.80%               | 12.40%                |
| Risk-based capital ratios:                            |                       |                      |                       |
| Tier 1 common to risk-weighted assets                 | 9.53%                 | 8.95%                | 8.66%                 |
| Tier 1 leverage                                       | 13.48%                | 12.56%               | 12.00%                |
| Tier 1 risk-based capital                             | 16.10%                | 14.78%               | 13.97%                |
| Total risk-based capital                              | 18.12%                | 17.15%               | 16.54%                |

The Company expects that it (and the banking industry as a whole) will be required by market forces and/or regulation, including new standards (Basel III) promulgated in December 2010 and revised in June 2011 by the Basel Committee on Banking Supervision, to operate with higher capital ratios than in the past. In addition, the CPP capital preferred dividend is scheduled to increase from 5% to 9% in the fourth quarter of 2013, making it more expensive as a source of capital if not redeemed at or prior to that time. Thus, in addition to maintaining higher levels of capital, the Company's capital structure may continue to be subject to greater variation over the next few years than has been true historically, due to the still highly uncertain economic and regulatory environments. Therefore, during the first nine months of 2011 we have continued our efforts to preserve and augment capital in response to these uncertainties and in preparation for the eventual repayment of TARP CPP preferred stock, rather than return more capital to shareholders in the form of higher dividends or share repurchases.

At September 30, 2011, regulatory Tier 1 risk-based capital and total risk-based capital were \$6,871 million and \$7,733 million compared to \$6,350 million and \$7,364 million at December 31, 2010, and \$6,109 million and \$7,230 million at September 30, 2010, respectively.

**GAAP to NON-GAAP RECONCILIATIONS****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. The Tier 1 common equity ratio is the core capital component of the Basel III standards, and we believe that it increasingly is becoming a key ratio considered by regulators, investors and analysts. There is a difference between this ratio calculated using Basel I definitions of Tier 1

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common equity capital and those definitions using Basel III rules when fully phased in (which have not yet been formalized in regulation). The Tier 1 common risk-based capital ratios in the Capital Ratios table presented previously use the current Basel I definitions for determining the numerator. Because Tier 1 common equity is not formally defined by generally accepted accounting principles ( 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 the Company's disclosed calculations. Since banking regulators, investors and analysts may assess the Company's capital adequacy using Tier 1 common equity, we believe that it is useful to provide them the ability to assess the Company's capital adequacy on this same basis.

Tier 1 common equity is often expressed as a percentage of risk-weighted assets. Under the current 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 Basel I risk categories for banks, like our banking subsidiaries, that have not adopted the Basel II Advanced Measurement Approach. 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) using current U.S. regulatory treatment and not proposed Basel III calculations:

## TIER 1 COMMON EQUITY (NON-GAAP)

| (Amounts in millions)                            | September 30,<br>2011 | December 31,<br>2010 | September 30,<br>2010 |
|--|-----------------------|----------------------|-----------------------|
| Controlling interest shareholders' equity (GAAP) | \$ 6,921              | \$ 6,648             | \$ 6,495              |
| Accumulated other comprehensive loss             | 589                   | 461                  | 453                   |
| Nonqualifying goodwill and intangibles           | (1,088)               | (1,103)              | (1,109)               |
| Disallowed deferred tax assets                   |                       | (106)                | (179)                 |
| Other regulatory adjustments                     | 1                     | 2                    | 1                     |
| Qualifying trust preferred securities            | 448                   | 448                  | 448                   |
| <b>Tier 1 capital (regulatory)</b>               | <b>6,871</b>          | <b>6,350</b>         | <b>6,109</b>          |
| Qualifying trust preferred securities            | (448)                 | (448)                | (448)                 |
| Preferred stock                                  | (2,355)               | (2,057)              | (1,876)               |
| <b>Tier 1 common equity (non-GAAP)</b>           | <b>\$ 4,068</b>       | <b>\$ 3,845</b>      | <b>\$ 3,785</b>       |
| <b>Risk-weighted assets (regulatory)</b>         | <b>\$ 42,680</b>      | <b>\$ 42,950</b>     | <b>\$ 43,719</b>      |
| Tier 1 common to risk-weighted assets (non-GAAP) | 9.53%                 | 8.95%                | 8.66%                 |

**2. Core net interest margin**

This Form 10-Q presents a core net interest margin which excludes the effects of the (1) periodic discount amortization on convertible subordinated debt; (2) accelerated discount amortization on convertible subordinated debt which has been converted; and (3) additional accretion of interest income on acquired loans based on increased projected cash flows.

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





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## ZIONS BANCORPORATION AND SUBSIDIARIES

|  | Three Months Ended    |                       |
|--|-----------------------|-----------------------|
|  | September 30,<br>2011 | September 30,<br>2010 |
| Net interest margin as reported (GAAP)                             | 3.99%                 | 3.84%                 |
| Addback for the impact on net interest margin of:                  |                       |                       |
| Discount amortization on convertible subordinated debt             | 0.09%                 | 0.12%                 |
| Accelerated discount amortization on convertible subordinated debt | 0.06%                 | 0.23%                 |
| Additional accretion of interest income on acquired loans          | -0.17%                | -0.16%                |
| Core net interest margin (non-GAAP)                                | 3.97%                 | 4.03%                 |

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

This Form 10-Q presents income (loss) before income taxes and subordinated debt conversions which excludes the effects of the (1) periodic discount amortization on convertible subordinated debt and (2) accelerated discount amortization on convertible subordinated debt which has been converted.

The schedule on page 62 provides a reconciliation of income (loss) before income taxes (GAAP) to income (loss) before income taxes and subordinated debt conversions (non-GAAP).

**4. Total shareholders equity to tangible equity and tangible common equity**

This Form 10-Q presents tangible equity and tangible common equity which excludes goodwill and core deposit and other intangibles for both measures and preferred stock and noncontrolling interests for tangible common equity.

The following schedule provides a reconciliation of total shareholders equity (GAAP) to both tangible equity (non-GAAP) and tangible common equity (non-GAAP):

## TANGIBLE EQUITY (NON-GAAP) AND

## TANGIBLE COMMON EQUITY (NON-GAAP)

| (Amounts in millions)                 | September 30,<br>2011 | December 31,<br>2010 | September 30,<br>2010 |
|---------------------------------------|-----------------------|----------------------|-----------------------|
| Total shareholders equity (GAAP)      | \$ 6,919              | \$ 6,647             | \$ 6,494              |
| Goodwill                              | (1,015)               | (1,015)              | (1,015)               |
| Core deposit and other intangibles    | (72)                  | (88)                 | (94)                  |
| Tangible equity (non-GAAP) (a)        | 5,832                 | 5,544                | 5,385                 |
| Preferred stock                       | (2,355)               | (2,057)              | (1,875)               |
| Noncontrolling interests              | 2                     | 1                    | 1                     |
| Tangible common equity (non-GAAP) (b) | \$ 3,479              | \$ 3,488             | \$ 3,511              |
| Total assets (GAAP)                   | \$ 51,531             | \$ 51,035            | \$ 51,048             |
| Goodwill                              | (1,015)               | (1,015)              | (1,015)               |
| Core deposit and other intangibles    | (72)                  | (88)                 | (94)                  |

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|                                    |           |           |           |
|------------------------------------|-----------|-----------|-----------|
| Tangible assets (non-GAAP) (c)     | \$ 50,444 | \$ 49,932 | \$ 49,939 |
| Tangible equity ratio (a/c)        | 11.56%    | 11.10%    | 10.78%    |
| Tangible common equity ratio (b/c) | 6.90%     | 6.99%     | 7.03%     |

For items 2, 3 and 4, the identified adjustments to reconcile from the applicable GAAP financial measures to the non-GAAP financial measures are included where applicable in financial results or in the balance sheet

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presented in accordance with GAAP. We consider these adjustments to be relevant to ongoing operating results and financial position.

We believe that excluding the amounts associated with these adjustments to present the non-GAAP financial measures provides a meaningful base for period-to-period and company-to-company comparisons, which will assist investors and analysts in analyzing the operating results or financial position of the Company and in predicting future performance. These non-GAAP financial measures are used by management and the Board of Directors to assess the performance of the Company's business or its financial position for evaluating bank reporting subsidiary performance, for presentations of Company performance to investors, and for other reasons as may be requested by investors and analysts. We further believe that presenting these non-GAAP financial measures will permit investors and analysts to assess the performance of the Company on the same basis as that applied by management and the Board of Directors.

Non-GAAP financial measures have inherent limitations, are not required to be uniformly applied, and are not audited. Although these non-GAAP financial measures are frequently used by stakeholders in the evaluation of a company, they have limitations as 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**

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

ITEM 4. **CONTROLS AND PROCEDURES**

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, 2011. 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, 2011. There were no material changes in the Company's internal control over financial reporting during the first nine months of 2011.

PART II. **OTHER INFORMATION**

ITEM 1. **LEGAL PROCEEDINGS**

The information contained in Note 10 of the Notes to Consolidated Financial Statements is incorporated by reference herein.

ITEM 1A. **RISK FACTORS**

Other than discussed subsequently, the Company believes there have been no significant changes in risk factors compared to the factors identified in Zions Bancorporation's 2010 Annual Report on Form 10-K; however, this filing contains updated disclosures related to significant risk factors discussed in "Investment Securities Portfolio," "Exposure to State and Local Governments," "European Exposure," "Credit Risk Management," "Market Risk - Fixed Income," and "Liquidity Risk Management."

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## ZIONS BANCORPORATION AND SUBSIDIARIES

*The Company has been and could continue to be negatively affected by adverse economic conditions.*

The United States and many other countries recently faced a severe economic crisis, including a major recession. These adverse economic conditions have negatively affected, and are likely to continue for some time to adversely affect, the Company's assets, including its loans and securities portfolios, capital levels, results of operations, and financial condition. In response to the economic crisis, the United States and other governments established a variety of programs and policies designed to mitigate the effects of the crisis. These programs and policies appear to have stabilized the severe financial crisis that occurred in the second half of 2008, but the extent to which these programs and policies will assist in an economic recovery or may lead to adverse consequences, whether anticipated or unanticipated, is still unclear. If these programs and policies are ineffective in bringing about an economic recovery or result in substantial adverse developments, the economic conditions may again become more severe, or adverse economic conditions may continue for a substantial period of time. In addition, economic uncertainty that may result from recent statements by rating agencies regarding the possible downgrade of U.S. sovereign debt, and fiscal imbalances in federal, state, and local municipal finances combined with political difficulties in resolving these imbalances, may directly or indirectly adversely impact economic conditions faced by the Company and its customers. Any increase in the severity or duration of adverse economic conditions, including a double-dip recession or delay in the recovery, would adversely affect the Company.

*Our information systems may experience an interruption or security breach.*

We rely heavily on communications and information systems to conduct our business. Any failure, interruption or breach in security of these systems could result in failures or disruptions in our customer relationship management, general ledger, deposit, loan and other systems. While we have policies and procedures designed to prevent or limit the effect of the possible failure, interruption or security breach of our information systems, there can be no assurance that any such failure, interruption or security breach will not occur or, if they do occur, that they will be adequately addressed. The occurrence of any failure, interruption or security breach of our information systems could damage our reputation, result in a loss of customer business, subject us to additional regulatory scrutiny, or expose us to civil litigation and possible financial liability.

**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 2011:

| <b>Period</b> | <b>Total number of shares repurchased <sup>1</sup></b> | <b>Average price paid per share</b> | <b>Total number of shares purchased as part of publicly announced plans or programs</b> | <b>Approximate dollar value of shares that may yet be purchased under the plan</b> |
|---------------|--|-------------------------------------|---|--|
| July          | 839  | \$ 24.39                            |   | \$   |
| August        | 6,786  | 17.48                               |   |  |
| September     | 510  | 16.26                               |   |  |
| Third quarter | 8,135  | 18.12                               |   |  |

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*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.*

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## ZIONS BANCORPORATION AND SUBSIDIARIES

ITEM 6. **EXHIBITS**

## a) Exhibits

| Exhibit<br>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.      | * |
| 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.                         | * |

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## ZIONS BANCORPORATION AND SUBSIDIARIES

| Exhibit<br>Number | Description   |   |
|-------------------|---|---|
| 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 1, 2010, incorporated by reference to Exhibit 3.1 of Form 8-K filed June 3, 2010.  | * |
| 3.12              | 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.  | * |
| 3.13              | Restated Bylaws of Zions Bancorporation dated November 8, 2011 (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, 2011, December 31, 2010, and September 30, 2010, (ii) the Consolidated Statements of Income for the three months ended September 30, 2011 and September 30, 2010 and the nine months ended September 30, 2011 and September 30, 2010, (iii) the Consolidated Statements of Changes in Shareholders' Equity and Comprehensive Income for the nine months ended September 30, 2011 and September 30, 2010, (iv) the Consolidated Statements of Cash Flows for the three months ended September 30, 2011 and September 30, 2010 and the nine months ended September 30, 2011 and September 30, 2010, and (v) the Notes to the Consolidated Financial Statements (furnished herewith). |   |

\* *Incorporated by reference*

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ZIONS BANCORPORATION AND SUBSIDIARIES

**SIGNATURES**

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

ZIONS BANCORPORATION

/s/ Harris H. Simmons  
Harris H. Simmons, Chairman, President and Chief  
Executive Officer

/s/ Doyle L. Arnold  
Doyle L. Arnold, Vice Chairman and Chief Financial  
Officer

Date: November 9, 2011