ZIONS BANCORPORATION /UT/
Form 10-Q
May 11, 2009

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 March 31, 2009

OR

__ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ________ to ________

COMMISSION FILE NUMBER 001-12307

# ZIONS BANCORPORATION

(Exact name of registrant as specified in its charter)

| UTAH<br>(State or other jurisdiction of incorporation or organization) | 87-0227400<br>(I.R.S. Employer Identification No.) |
|---|---|
| ONE SOUTH MAIN, 15TH FLOOR | |
| SALT LAKE CITY, UTAH<br>(Address of principal executive offices) | 84133<br>(Zip Code) |

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No __

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes __ No __

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer X 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 X

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

| | |
|---|---|
| Common Stock, without par value, outstanding at April 30, 2009 | 115,297,366 shares |

ZIONS BANCORPORATION AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (Unaudited)

ZIONS BANCORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

| (In thousands, except share amounts) | March 31, 2009 (Unaudited) | December 31, 2008 | March 31, 2008 (Unaudited) |
|---|---|---|---|
| ASSETS | | | |
| Cash and due from banks | $ 1,321,972 | $ 1,475,976 | $ 1,660,539 |
| Money market investments: | | | |
| Interest-bearing deposits and commercial paper | 1,952,555 | 2,332,759 | 1,243,860 |
| Federal funds sold | 13,277 | 83,451 | 121,892 |
| Security resell agreements | 305,111 | 286,707 | 689,235 |
| Investment securities: | | | |
| Held-to-maturity, at adjusted cost (approximate fair value $1,361,460, $1,443,555 and $704,156) | 1,648,971 | 1,790,989 | 701,658 |
| Available-for-sale, at fair value | 3,086,788 | 2,676,255 | 4,259,742 |
| Trading account, at fair value (includes $0, $538 and $0 transferred as collateral under repurchase agreements) | 65,198 | 42,064 | 40,807 |
| | 4,800,957 | 4,509,308 | 5,002,207 |
| Loans held for sale | 262,785 | 200,318 | 208,529 |
| Loans: | | | |
| Loans and leases excluding FDIC-supported assets | 41,220,610 | 41,791,237 | 39,855,365 |
| FDIC-supported assets | 836,454 | | |
| | 42,057,064 | 41,791,237 | 39,855,365 |
| Less: | | | |
| Unearned income and fees, net of related costs | 124,749 | 132,499 | 158,139 |
| Allowance for loan losses | 832,878 | 686,999 | 501,283 |
| Loans and leases, net of allowance | 41,099,437 | 40,971,739 | 39,195,943 |
| Other noninterest-bearing investments | 1,051,956 | 1,044,092 | 1,114,902 |
| Premises and equipment, net | 701,742 | 687,096 | 657,183 |
| Goodwill | 1,034,465 | 1,651,377 | 2,009,517 |
| Core deposit and other intangibles | 124,585 | 125,935 | 140,672 |
| Other real estate owned | 226,634 | 191,792 | 36,476 |
| Other assets | 1,649,536 | 1,532,241 | 1,327,338 |
| | $ 54,545,012 | $ 55,092,791 | $ 53,408,293 |
| LIABILITIES AND SHAREHOLDERS EQUITY | | | |
| Deposits: | | | |
| Noninterest-bearing demand | $ 10,517,910 | $ 9,683,385 | $ 9,464,122 |
| Interest-bearing: | | | |
| Savings and NOW | 4,710,899 | 4,452,919 | 4,661,963 |
| Money market | 18,103,564 | 16,826,846 | 12,986,387 |
| Time under $100,000 | 3,112,864 | 2,974,566 | 2,564,434 |
| Time $100,000 and over | 4,647,015 | 4,756,218 | 4,548,009 |
| Foreign | 2,214,981 | 2,622,562 | 3,291,422 |
| | 43,307,233 | 41,316,496 | 37,516,337 |
| Securities sold, not yet purchased | 39,892 | 35,657 | 184,522 |
| Federal funds purchased | 1,213,970 | 965,835 | 1,817,587 |
| Security repurchase agreements | 551,686 | 899,751 | 1,144,178 |

| | | | |
|---|---|---|---|
| Other liabilities | 578,768 | 669,111 | 620,528 |
| Commercial paper | 984 | 15,451 | 164,657 |
| Federal Home Loan Bank advances and other borrowings: | | | |
| One year or less | 429,655 | 2,039,853 | 3,956,775 |
| Over one year | 127,680 | 128,253 | 127,006 |
| Long-term debt | 2,715,310 | 2,493,368 | 2,518,489 |
| Total liabilities | 48,965,178 | 48,563,775 | 48,050,079 |
| Shareholders equity: | | | |
| Preferred stock, without par value, authorized 3,000,000 shares | 1,587,027 | 1,581,834 | 240,000 |
| Common stock, without par value; authorized 350,000,000 shares; issued and outstanding 115,335,668, 115,344,813 and 107,139,188 shares | 2,607,541 | 2,599,916 | 2,219,905 |
| Retained earnings | 1,713,897 | 2,433,363 | 2,957,511 |
| Accumulated other comprehensive income (loss) | (340,727) | (98,958) | (76,429) |
| Deferred compensation | (14,732) | (14,459) | (13,186) |
| Controlling interest shareholders equity | 5,553,006 | 6,501,696 | 5,327,801 |
| Noncontrolling interests | 26,828 | 27,320 | 30,413 |
| Total shareholders equity | 5,579,834 | 6,529,016 | 5,358,214 |
| | $ 54,545,012 | $ 55,092,791 | $ 53,408,293 |

*See accompanying notes to consolidated financial statements.*

ZIONS BANCORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

| (In thousands, except per share amounts) | Three Months Ended March 31, 2009 | 2008 |
|---|---|---|
| Interest income: | | |
| Interest and fees on loans | $ 579,852 | $ 688,439 |
| Interest on loans held for sale | 2,756 | 3,017 |
| Lease financing | 4,593 | 5,818 |
| Interest on money market investments | 3,376 | 19,028 |
| Interest on securities: | | |
| Held-to-maturity taxable | 18,908 | 2,455 |
| Held-to-maturity nontaxable | 6,265 | 6,429 |
| Available-for-sale taxable | 21,703 | 62,356 |
| Available-for-sale nontaxable | 1,678 | 1,892 |
| Trading account | 571 | 681 |
| Total interest income | 639,702 | 790,115 |
| Interest expense: | | |
| Interest on savings and money market deposits | 74,553 | 103,987 |
| Interest on time and foreign deposits | 62,679 | 106,222 |
| Interest on short-term borrowings | 6,020 | 63,273 |
| Interest on long-term borrowings | 21,675 | 30,175 |
| Total interest expense | 164,927 | 303,657 |
| Net interest income | 474,775 | 486,458 |
| Provision for loan losses | 297,624 | 92,282 |
| Net interest income after provision for loan losses | 177,151 | 394,176 |
| Noninterest income: | | |
| Service charges and fees on deposit accounts | 52,788 | 49,585 |
| Other service charges, commissions and fees | 38,227 | 41,981 |
| Trust and wealth management income | 7,165 | 9,693 |
| Capital markets and foreign exchange | 13,204 | 10,397 |
| Dividends and other investment income | 8,408 | 12,910 |
| Loan sales and servicing income | 5,851 | 7,810 |
| Income from securities conduit | 1,235 | 2,581 |
| Fair value and nonhedge derivative income (loss) | 4,004 | 3,787 |
| Equity securities gains (losses), net | 2,763 | 10,068 |
| Fixed income securities gains (losses), net | 195 | 1,775 |
| Impairment losses on investment securities: | | |
| Impairment losses on investment securities | (165,616) | (40,785) |
| Noncredit-related losses on securities not expected to be sold (recognized in other comprehensive income) | 82,943 | |
| Net impairment losses on investment securities | (82,673) | (40,785) |
| Valuation losses on securities purchased | (200,391) | (5,204) |
| Other | 3,962 | 6,402 |
| Total noninterest income | (145,262) | 111,000 |
| Noninterest expense: | | |

| | | |
|---|---|---|
| Salaries and employee benefits | 204,161 | 209,354 |
| Occupancy, net | 28,327 | 26,799 |
| Furniture and equipment | 24,999 | 23,738 |
| Other real estate expense | 18,343 | 1,838 |
| Legal and professional services | 8,543 | 7,880 |
| Postage and supplies | 8,410 | 9,789 |
| Advertising | 7,148 | 6,351 |
| FDIC premiums | 14,171 | 4,203 |
| Amortization of core deposit and other intangibles | 6,886 | 8,820 |
| Other | 55,217 | 51,331 |
| Total noninterest expense | 376,205 | 350,103 |
| Impairment loss on goodwill | 633,992 | |
| Income (loss) before income taxes | (978,308) | 155,073 |
| Income taxes (benefit) | (151,727) | 49,896 |
| Net income (loss) | (826,581) | 105,177 |
| Net loss applicable to noncontrolling interests | (540) | (1,572) |
| Net income (loss) applicable to controlling interest | (826,041) | 106,749 |
| Preferred stock dividends | 26,286 | 2,453 |
| Net earnings (loss) applicable to common shareholders | $ (852,327) | $ 104,296 |
| Weighted average common shares outstanding during the period: | | |
| Basic shares | 114,106 | 106,514 |
| Diluted shares | 114,106 | 106,687 |
| Net earnings (loss) per common share: | | |
| Basic | $ (7.47) | $ 0.97 |
| Diluted | (7.47) | 0.97 |

*See accompanying notes to consolidated financial statements.*

ZIONS BANCORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY AND COMPREHENSIVE INCOME

(Unaudited)

| (In thousands, except per share amounts) | | Common stock | | | Accumulated other comprehensive income (loss) | | | |
|---|---|---|---|---|---|---|---|---|
| | Preferred stock | Shares | Amount | Retained earnings | | Deferred compensation | Noncontrolling interests | Total shareholders equity |
| Balance, December 31, 2008 | $ 1,581,834 | 115,344,813 | $ 2,599,916 | $ 2,433,363 | $ (98,958) | $ (14,459) | $ 27,320 | $ 6,529,016 |
| Cumulative effect of change in accounting principle, adoption of FSP FAS 115-2 and 124-2 | | | | 137,462 | (137,462) | | | |
| Comprehensive loss: | | | | | | | | |
| Net loss for the period | | | | (826,041) | | | (540) | (826,581) |
| Other comprehensive income (loss), net of tax: | | | | | | | | |
| Net realized and unrealized holding losses on investments and retained interests | | | | | (83,553) | | | |
| Reclassification for net realized losses on investments recorded in operations | | | | | 38,862 | | | |
| Noncredit-related impairment losses on securities not expected to be sold | | | | | (49,928) | | | |
| Accretion of securities with noncredit-related impairment losses not expected to be sold | | | | | 896 | | | |
| Net unrealized losses on derivative instruments | | | | | (10,584) | | | |
| Other comprehensive loss | | | | | (104,307) | | | (104,307) |
| Total comprehensive loss | | | | | | | | (930,888) |
| Net stock issued under employee plans and related tax benefits | | (9,145) | 7,625 | | | | | 7,625 |
| Dividends on preferred stock | 5,193 | | | (26,286) | | | | (21,093) |
| Dividends on common stock, $.04 per share | | | | (4,601) | | | | (4,601) |
| Change in deferred compensation | | | | | | (273) | | (273) |
| Other changes in noncontrolling interests | | | | | | | 48 | 48 |
| Balance, March 31, 2009 | $ 1,587,027 | 115,335,668 | $ 2,607,541 | $ 1,713,897 | $ (340,727) | $ (14,732) | $ 26,828 | $ 5,579,834 |
| | | | | | | | | |
| Balance, December 31, 2007 | $ 240,000 | 107,116,505 | $ 2,212,237 | $ 2,910,692 | $ (58,835) | $ (11,294) | $ 30,939 | $ 5,323,739 |
| Cumulative effect of change in accounting principle, adoption of SFAS 159 | | | | (11,471) | 11,471 | | | |
| Comprehensive income: | | | | | | | | |
| Net income (loss) for the period | | | | 106,749 | | | (1,572) | 105,177 |
| Other comprehensive income (loss), net of tax: | | | | | | | | |
| Net realized and unrealized holding losses on investments and retained interests | | | | | (126,852) | | | |
| Foreign currency translation | | | | | (1) | | | |
| Reclassification for net realized losses on investments recorded in operations | | | | | 24,087 | | | |
| Net unrealized gains on derivative instruments | | | | | 73,701 | | | |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Other comprehensive loss | | | | | (29,065) | | | (29,065) |
| Total comprehensive income | | | | | | | | 76,112 |
| Net stock issued under employee plans and related tax benefits | | 22,683 | 7,668 | | | | | 7,668 |
| Dividends on preferred stock | | | | (2,453) | | | | (2,453) |
| Dividends on common stock, $.43 per share | | | | (46,006) | | | | (46,006) |
| Change in deferred compensation | | | | | | (1,892) | | (1,892) |
| Other changes in noncontrolling interests | | | | | | | 1,046 | 1,046 |
| Balance, March 31, 2008 | $ 240,000 | 107,139,188 | $ 2,219,905 | $ 2,957,511 | $ (76,429) | $ (13,186) | $ 30,413 | $ 5,358,214 |

*See accompanying notes to consolidated financial statements.*

ZIONS BANCORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

| (In thousands) | Three Months Ended March 31, 2009 | 2008 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income (loss) for the period | $ (826,581) | $ 105,177 |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Impairment and valuation losses on investment securities and goodwill | 917,056 | 45,989 |
| Provision for credit losses | 299,451 | 95,900 |
| Depreciation of premises and equipment | 18,613 | 18,250 |
| Amortization | 17,783 | 10,364 |
| Deferred income tax benefit | (158,607) | (32,237) |
| Share-based compensation | 8,137 | 6,596 |
| Excess tax benefits from share-based compensation | (17) | (257) |
| Equity securities gains, net | (2,763) | (10,068) |
| Fixed income securities gains, net | (195) | (1,775) |
| Net increase in trading securities | (23,134) | (10,857) |
| Principal payments on and proceeds from sales of loans held for sale | 476,030 | 288,070 |
| Originations of loans held for sale | (543,368) | (301,247) |
| Net write-down of and losses from sales of other real estate owned | 16,270 | 1,698 |
| Net gains on sales of loans, leases and other assets | (5,046) | (7,468) |
| Income from increase in cash surrender value of bank-owned life insurance | (5,829) | (6,328) |
| Change in accrued income taxes | 5,483 | 60,131 |
| Change in accrued interest receivable | 27,336 | 16,753 |
| Change in other assets | 35,086 | 106,423 |
| Change in other liabilities | (85,853) | (87,751) |
| Change in accrued interest payable | (5,035) | 3,104 |
| Other, net | (10,319) | 5,830 |
| Net cash provided by operating activities | 154,498 | 306,297 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Net decrease (increase) in money market investments | 435,569 | (554,779) |
| Proceeds from maturities and paydowns of investment securities held-to-maturity | 29,670 | 23,811 |
| Purchases of investment securities held-to-maturity | (16,488) | (20,918) |
| Proceeds from sales of investment securities available-for-sale | 223,267 | 456,307 |
| Proceeds from maturities and paydowns of investment securities available-for-sale | 121,192 | 969,910 |
| Purchases of investment securities available-for-sale | (942,368) | (765,838) |
| Proceeds from sales of loans and leases | 16,311 | 18,961 |
| Securitized loans purchased | | (283,204) |
| Loan and lease originations, net of collections | 374,228 | (606,436) |
| Net decrease (increase) in other noninterest-bearing investments | 5,858 | (73,754) |
| Proceeds from sales of premises and equipment and other assets | 4,715 | 7,258 |
| Purchases of premises and equipment | (37,275) | (25,778) |
| Proceeds from sales of other real estate owned | 27,275 | 5,928 |
| Net cash received from acquisition | 113,471 | |
| Net cash provided by (used in) investing activities | 355,425 | (848,532) |

ZIONS BANCORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(Unaudited)

| (In thousands) | Three Months Ended March 31, 2009 | 2008 |
|---|---|---|
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Net increase in deposits | $ 947,125 | $ 593,538 |
| Net change in short-term funds borrowed | (1,830,753) | (197,962) |
| Repayments of FHLB advances and other borrowings over one year | (573) | (606) |
| Proceeds from issuance of long-term debt | 255,167 | |
| Debt issuance costs | (9,024) | (131) |
| Repayments of long-term debt | (69) | |
| Proceeds from issuance of common stock | | 1,219 |
| Payments to redeem common stock | (123) | (237) |
| Excess tax benefits from share-based compensation | 17 | 257 |
| Dividends paid on preferred stock | (21,093) | (2,453) |
| Dividends paid on common stock | (4,601) | (46,006) |
| Net cash provided by (used in) financing activities | (663,927) | 347,619 |
| Net decrease in cash and due from banks | (154,004) | (194,616) |
| Cash and due from banks at beginning of period | 1,475,976 | 1,855,155 |
| Cash and due from banks at end of period | $ 1,321,972 | $ 1,660,539 |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION: | | |
| Cash paid for: | | |
| Interest | $ 159,327 | $ 302,021 |
| Net payment made (cash refund received) for income taxes | (224) | 20,429 |
| Noncash items: | | |
| Amortized cost of investment securities held-to-maturity transferred to investment securities available-for-sale | 41,304 | |
| Loans transferred to other real estate owned | 79,440 | 30,232 |
| Acquisitions: | | |
| Assets acquired | 1,145,251 | |
| Liabilities assumed | 1,157,240 | |

*See accompanying notes to consolidated financial statements.*

ZIONS BANCORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

March 31, 2009

1. BASIS OF PRESENTATION

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

Operating results for the three-month periods ended March 31, 2009 are not necessarily indicative of the results that may be expected in future periods. The consolidated balance sheet at December 31, 2008 is from the audited financial statements at that date, but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2008.

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

2. CERTAIN RECENT ACCOUNTING PRONOUNCEMENTS

Effective January 1, 2009, we adopted Statement of Financial Accounting Standards ( SFAS ) No. 160, *Accounting and Reporting of Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51*, issued by the Financial Accounting Standards Board ( FASB ). Under the new view of an economic entity in consolidated financial statements, SFAS 160 changes the presentation of noncontrolling (or minority) interests in that all operating amounts attributable to a noncontrolling interest are included in the statement of income and accumulated balances are included as a separate component of equity. Also required is the allocation of losses to a noncontrolling interest even when such losses result in a negative carrying balance. The effect of adopting SFAS 160 was not significant to the Company s financial statements. As of January 1, 2009, minority interest of $27.3 million was reclassified to shareholders equity and reported as noncontrolling interests. As required, retrospective application was made to all prior periods for comparative presentation.

ZIONS BANCORPORATION AND SUBSIDIARIES

Effective January 1, 2009, we adopted FASB Staff Position ( FSP ) No. EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities*. This FSP clarifies that unvested share-based payment awards with rights to receive nonforfeitable dividends are participating securities and should be included in the computation of earnings per share. Adoption of this FSP required retrospective adjustment of earnings per share information, which was not significant to any prior period included in the accompanying financial statements.

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

3. MERGER AND ACQUISITION ACTIVITY

Effective January 1, 2009, we adopted SFAS No. 141 (revised 2007), *Business Combinations*. Among the most significant changes, SFAS 141(R) eliminates the step acquisition model under SFAS 141. Upon initially obtaining control, the acquirer will recognize 100% of all acquired assets (including goodwill) and all assumed liabilities regardless of the percentage owned. Certain transaction and restructuring costs must be expensed as incurred. Changes to the acquirer s existing income tax valuation allowances and uncertainty accruals from a business combination must be recognized as an adjustment to current income tax expense and not to goodwill over the subsequent annual period.

On February 6, 2009, CB&T acquired the banking operations of the failed Alliance Bank headquartered in Culver City, California from the Federal Deposit Insurance Corporation ( FDIC ) as receiver. The acquisition consisted of approximately $1.1 billion of assets, including the entire loan portfolio, $1.0 billion of deposits, and five branches. In addition to the excess of assets over liabilities, CB&T received approximately $10 million in cash from the FDIC and entered into a loss sharing agreement in which the FDIC generally will assume 80% of the first $275 million of credit losses and 95% of the credit losses in excess of $275 million. As a result of the loss sharing agreement, the acquired loans are presented in the Company s balance sheet as FDIC-supported assets. In accordance with SFAS 141(R), these loans were recorded at fair value without a corresponding allowance for loan losses.

Statement of Position 03-3 ( SOP 03-3 ), *Accounting for Certain Loans or Debt Securities Acquired in a Transfer*, provides guidance for the initial recognition and ongoing accounting of acquired loans which have evidence of credit deterioration and for which it is probable that not all contractual payments will be collected. Similar to SFAS 141(R), SOP 03-3 prohibits carrying over or creating an allowance for loan losses upon initial recognition.

The carrying value of FDIC-supported assets at March 31, 2009 consisted of loans accounted for in accordance with SOP 03-3, loans not subject to SOP 03-3, and other assets as follows *(in thousands)*:

| | SOP 03-3 loans | Non-SOP 03-3 loans | Other | Total |
|---|---|---|---|---|
| Commercial lending | $ 15,802 | $ 365,377 | | $ 381,179 |
| Commercial real estate | 38,916 | 180,535 | | 219,451 |
| Consumer | 5,060 | 55,201 | | 60,261 |
| Other real estate owned | | | $ 16,976 | 16,976 |
| Estimated loss reimbursement from FDIC | 76,014 | 82,573 | | 158,587 |
| Total | $ 135,792 | $ 683,686 | $ 16,976 | $ 836,454 |

ZIONS BANCORPORATION AND SUBSIDIARIES

As of the acquisition date, the preliminary estimate of the contractually required payments receivable for SOP 03-3 loans was $174.0 million, the cash flows expected to be collected were $155.9 million including interest, and the estimated fair value of the loans was $153.5 million. These amounts were determined based upon the estimated remaining life of the underlying loans, which included the effects of estimated prepayments. At March 31, 2009, approximately $89.9 million of these loans were classified as nonperforming assets because the expected cash flows were primarily based on the liquidation of underlying collateral and the timing and amount of the cash flows could not be reasonably estimated. Because of the estimation process required, certain refinements may be made to the above estimates in future 2009 reporting periods.

Changes in the carrying amount and accretable yield for SOP 03-3 loans were as follows from the date of acquisition to March 31, 2009 *(in thousands)*:

| | Accretable yield | Carrying amount of loans |
|---|---|---|
| Fair value of acquired loans | $ 379 | $ 153,547 |
| Payments received | | (17,314) |
| Charge-offs | | (571) |
| Accretion | (130) | 130 |
| Balance at March 31, 2009 | $ 249 | $ 135,792 |

On April 17, 2009, NSB acquired the banking operations of the failed Great Basin Bank of Nevada headquartered in Elko, Nevada. The acquisition consisted of approximately $212 million of assets, including the entire loan portfolio, $209 million of deposits, and five branches in Northern Nevada. NSB received approximately $17.8 million in cash from the FDIC and entered into a loss sharing agreement in which the FDIC generally will assume 80% of the first $40 million of credit losses and 95% of the credit losses in excess of $40 million.

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4. INVESTMENT SECURITIES

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

| | March 31, 2009 | | | | | | |
|---|---|---|---|---|---|---|---|
| | | Recognized in OCI [1] | | | Not recognized in OCI [1] | | |
| | Amortized cost | Gross unrealized gains | Gross unrealized losses | Carrying value | Gross unrealized gains | Gross unrealized losses | Estimated fair value |
| **Held-to-maturity** | | | | | | | |
| Municipal securities | $ 679,709 | $ | $ | $ 679,709 | $ 7,862 | $ 9,962 | $ 677,609 |
| Asset-backed securities: | | | | | | | |
| Trust preferred securities banks and insurance | 1,224,597 | | 341,155 | 883,442 | 33,670 | 289,051 | 628,061 |
| Trust preferred securities real estate investment trusts | 36,055 | | 8,599 | 27,456 | | 9,036 | 18,420 |
| Other | 76,374 | 48 | 18,158 | 58,264 | 586 | 21,578 | 37,272 |
| Other debt securities | 100 | | | 100 | | 2 | 98 |
| | $ 2,016,835 | $ 48 | $ 367,912 | $ 1,648,971 | $ 42,118 | $ 329,629 | $ 1,361,460 |
| **Available-for-sale** | | | | | | | |
| U.S. Treasury securities | $ 26,977 | $ 888 | $ | $ 27,865 | | | $ 27,865 |
| U.S. Government agencies and corporations: | | | | | | | |
| Agency securities | 305,317 | 3,014 | 312 | 308,019 | | | 308,019 |
| Agency guaranteed mortgage-backed securities | 465,285 | 9,370 | 483 | 474,172 | | | 474,172 |
| Small Business Administration loan-backed securities | 682,179 | 92 | 26,487 | 655,784 | | | 655,784 |
| Municipal securities | 241,444 | 2,588 | 172 | 243,860 | | | 243,860 |
| Asset-backed securities: | | | | | | | |
| Trust preferred securities banks and insurance | 1,235,636 | 5,513 | 342,169 | 898,980 | | | 898,980 |
| Trust preferred securities real estate investment trusts | 59,188 | | 38,169 | 21,019 | | | 21,019 |
| Auction rate securities | 177,880 | | | 177,880 | | | 177,880 |
| Other | 123,900 | 200 | 34,756 | 89,344 | | | 89,344 |
| | 3,317,806 | 21,665 | 442,548 | 2,896,923 | | | 2,896,923 |
| Other securities: | | | | | | | |
| Mutual funds and stock | 189,865 | | | 189,865 | | | 189,865 |
| | $ 3,507,671 | $ 21,665 | $ 442,548 | $ 3,086,788 | | | $ 3,086,788 |

[1] *Other comprehensive income*

As part of our ongoing review of the investment securities portfolio, we reassessed the classification of certain asset-backed and trust preferred collateralized debt obligation ( CDO ) securities. On March 31, 2009, we reclassified approximately $39 million at fair value of held-to-maturity ( HTM ) securities to available-for-sale ( AFS ). These securities were downgraded by a ratings agency from investment grade to noninvestment grade during the first quarter of 2009. No gain or loss was recognized in the statement of income at the time of reclassification.

The amortized cost and estimated fair value of investment debt securities as of March 31, 2009 by maturity are not materially different from December 31, 2008, after certain adjustments described elsewhere, including other-than-temporary-impairment ( OTTI ), the cumulative effect adjustment, purchase of auction rate securities, and purchases of securities from Lockhart Funding LLC ( Lockhart ).

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The following is a summary of the amount of gross unrealized losses and the estimated fair value by length of time that the securities have been in an unrealized loss position *(in thousands)*:

| | March 31, 2009 | | | | | |
|---|---|---|---|---|---|---|
| | Less than 12 months | | 12 months or more | | Total | |
| | Gross unrealized losses | Estimated fair value | Gross unrealized losses | Estimated fair value | Gross unrealized losses | Estimated fair value |
| **Held-to-maturity** | | | | | | |
| Municipal securities | $ 4,253 | $ 101,875 | $ 5,709 | $ 33,820 | $ 9,962 | $ 135,695 |
| Asset-backed securities: | | | | | | |
| Trust preferred securities banks and insurance | 143 | 720 | 630,063 | 627,342 | 630,206 | 628,062 |
| Trust preferred securities real estate investment trusts | | | 17,635 | 18,420 | 17,635 | 18,420 |
| Other | 12,474 | 10,697 | 27,262 | 26,575 | 39,736 | 37,272 |
| Other debt securities | 2 | 98 | | | 2 | 98 |
| | $ 16,872 | $ 113,390 | $ 680,669 | $ 706,157 | $ 697,541 | $ 819,547 |
| **Available-for-sale** | | | | | | |
| U.S. Government agencies and corporations: | | | | | | |
| Agency securities | $ 24 | $ 5,773 | $ 288 | $ 34,430 | $ 312 | $ 40,203 |
| Agency guaranteed mortgage-backed securities | 414 | 61,623 | 69 | 6,814 | 483 | 68,437 |
| Small Business Administration loan-backed securities | 2,834 | 159,802 | 23,653 | 469,221 | 26,487 | 629,023 |
| Municipal securities | 147 | 76,499 | 25 | 2,579 | 172 | 79,078 |
| Asset-backed securities: | | | | | | |
| Trust preferred securities banks and insurance | 8,796 | 95,783 | 333,373 | 436,875 | 342,169 | 532,658 |
| Trust preferred securities real estate investment trusts | 1,932 | 14,155 | 36,237 | 6,865 | 38,169 | 21,020 |
| Other | 4,572 | 16,201 | 30,184 | 58,518 | 34,756 | 74,719 |
| | $ 18,719 | $ 429,836 | $ 423,829 | $ 1,015,302 | $ 442,548 | $ 1,445,138 |

We conduct a formal review of investment securities on a quarterly basis for the presence of OTTI. For the first quarter of 2009, we adopted FSP FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*, issued by the FASB on April 9, 2009. We assess whether OTTI is present when the fair value of a debt security is less than its amortized cost basis at the balance sheet date. Under these circumstances as required by the new FSP, OTTI is considered to have occurred (1) if we intend to sell the security; (2) if it is more likely than not we will be required to sell the security before recovery of its amortized cost basis; or (3) the present value of expected cash flows is not sufficient to recover the entire amortized cost basis. The more likely than not criteria is a lower threshold than the probable criteria used under previous guidance.

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

As stated in our 2008 Annual Report on Form 10-K, our OTTI evaluation process also follows the guidance of SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, Emerging Issues Task Force ( EITF ) Issue No. 99-20, *Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets*, and FSP No. EITF 99-20-1, *Amendments to the Impairment and Interest Income Measurement Guidance of EITF Issue No. 99-20.* This guidance requires the Company to take into consideration current market conditions, fair value in relationship to cost, extent and nature of change in fair value, issuer rating changes and trends, volatility of earnings, current analysts evaluations, all available information relevant to the collectibility of debt securities, our ability and intent to

hold investments until a recovery of fair value, which may be maturity, and other factors when evaluating for the existence of OTTI in our securities portfolio. FSP EITF 99-20-1 was issued on January 12, 2009 and is effective for reporting periods ending after December 15, 2008. This FSP amends EITF 99-20 by eliminating the requirement that a holder s best estimate of cash flows be based upon those that a market participant would use. Instead, the FSP requires that OTTI be recognized as a realized loss through earnings when there has been an adverse change in the holder s expected cash flows such that it is probable that the full amount will not be received. This requirement is consistent with the impairment model in SFAS 115.

In addition, our disclosure and related discussion of unrealized losses is presented pursuant to FSP FAS 115-1 and FAS 124-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*, and EITF Issue No. 03-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*. FSP FAS 115-1 and 124-1 replaces certain impairment evaluation guidance of EITF 03-1; however, the disclosure requirements of EITF 03-1 remain in effect. This FSP addresses the determination of when an investment is considered impaired, whether the impairment is considered to be other-than-temporary, and the measurement of an impairment loss. The FSP also supersedes EITF Topic No. D-44, *Recognition of Other-Than-Temporary Impairment upon the Planned Sale of a Security Whose Cost Exceeds Fair Value*, and clarifies that an impairment loss should be recognized no later than when the impairment is deemed other-than-temporary, even if a decision to sell an impaired security has not been made.

For all security types discussed below where no OTTI is considered necessary at March 31, 2009, we applied the criteria of FSP FAS 115-2 and 124-1. That is, we do not intend to sell the securities and it is not more likely than not that we will be required to sell the securities before recovery of their amortized cost basis.

*Municipal securities*

The HTM securities are purchased directly from the municipalities and are generally not rated by a credit rating agency. The AFS securities are rated as investment grade by various credit rating agencies. Both the HTM and AFS securities are at fixed and variable rates with maturities from one to 25 years. Fair values of these securities are highly driven by interest rates. We perform credit quality reviews on these issues at each reporting period. The decline in fair value is attributable to changes in interest rates and not credit quality. As such, no OTTI is considered necessary for these securities at March 31, 2009.

*Asset-backed securities*

Trust preferred securities banks and insurance: These CDO securities are variable rate pools of trust preferred securities related to banks and insurance companies. They are rated by one or more Nationally Recognized Statistical Rating Organizations ( NRSROs ) which are rating agencies registered with the Securities and Exchange Commission ( SEC ). They were purchased generally at par. Unrealized losses were caused mainly by the following factors: (1) collateral deterioration due to bank failures and credit concerns across the banking sector; (2) widening of credit spreads for asset-backed securities; and (3) general illiquidity in the market for CDOs. Our ongoing review of these securities in accordance with the previous discussion and the policy in our 2008 Annual Report on Form 10-K determined that OTTI should be recorded on certain of these securities. See subsequent summary.

Trust preferred securities real estate investment trusts ( REIT ): These CDO securities are variable rate pools of trust preferred securities related to real estate investment trusts, and are rated by one or more NRSROs. They were purchased generally at par. Unrealized losses were caused mainly by severe deterioration in mortgage REITs and homebuilder credit in addition to the same factors previously discussed for banks and insurance CDOs. Our ongoing review of these securities in accordance with the previous discussion and the policy in our 2008 Annual Report on Form 10-K determined that OTTI should be recorded on certain of these securities. See subsequent summary.

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Other asset-backed securities: The majority of these CDO securities were purchased from Lockhart at their carrying value and were adjusted to fair value. Certain of these CDOs consist of structured asset-backed CDOs ( ABS CDOs ) (also known as diversified structured finance CDOs). Our ongoing review of these securities in accordance with the previous discussion and the policy in our 2008 Annual Report on Form 10-K determined that OTTI should be recorded on certain of these securities. See subsequent summary.

*U.S. Government agencies and corporations*

Agency securities: Unrealized losses were caused by changes in interest rates. The agency securities consist of discount notes and medium term notes issued by the Federal Agricultural Mortgage Corporation ( FAMC ), Federal Home Loan Bank ( FHLB ), Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation ( FHLMC ), and Federal National Mortgage Association ( FNMA ). These securities are fixed rate and were purchased at premiums or discounts. They have maturity dates from one to 30 years and have contractual cash flows guaranteed by agencies of the U.S. Government. In the latter half of 2008, the U.S. Government provided substantial liquidity to FNMA and FHLMC to bolster their creditworthiness. The decline in fair value is generally attributable to interest rates and not credit quality. As such, no OTTI is considered necessary for these securities at March 31, 2009.

Agency guaranteed mortgage-backed securities: Unrealized losses were caused by changes in interest rates. The agency mortgage-backed securities are comprised largely of fixed and variable rate residential mortgage-backed securities issued by the Government National Mortgage Association ( GNMA ), FNMA, FAMC, or FHLMC. They have maturity dates from one to 30 years and have contractual cash flows guaranteed by agencies of the U.S. Government. In the latter half of 2008, the U.S. Government provided substantial liquidity to both FNMA and FHLMC to bolster their creditworthiness. The decline in fair value is generally attributable to changes in interest rates and not credit quality. As such, no OTTI is considered necessary for these securities at March 31, 2009.

Small Business Administration ( SBA ) loan-backed securities: These securities were generally purchased at premiums with maturities from five to 25 years and have principal cash flows guaranteed by the SBA. The decline in fair value is not attributable to credit quality. As such, no OTTI is considered necessary for these securities at March 31, 2009.

The following summarizes the amounts of credit related OTTI recognized in earnings during the first quarter of 2009 according to the previously discussed categories *(in thousands)*:

| | HTM | AFS | Total |
|---|---|---|---|
| Asset-backed securities: | | | |
| Trust preferred securities banks and insurance | $ (16,751) | $ (13,935) | $ (30,686) |
| Trust preferred securities real estate investment trusts | | (49,211) | (49,211) |
| Other (including ABS CDOs) | (955) | (1,821) | (2,776) |
| | $ (17,706) | $ (64,967) | $ (82,673) |

In addition to the discussion above and to the estimation of fair value discussed in Note 10, for OTTI purposes the discount rate used is a security-specific coupon rate after credit-stressing contractual cash flows rather than a market level discount rate used to estimate fair value.

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

| | HTM | AFS | Total |
|---|---|---|---|
| Balance of credit-related OTTI at January 1, 2009 | $ (29,142) | $ (153,262) | $ (182,404) |
| Additions for credit-related OTTI not previously recognized | (15,219) | (1,251) | (16,470) |
| Additional increases for credit-related OTTI previously recognized when there is no intent to sell and no requirement to sell before recovery of amortized cost basis | (2,487) | (63,716) | (66,203) |
| Subtotal of additions | (17,706) | (64,967) | (82,673) |
| Balance of credit-related OTTI at March 31, 2009 | $ (46,848) | $ (218,229) | $ (265,077) |

Noncredit-related OTTI of $82.9 million ($49.9 million after-tax) on securities not expected to be sold, and for which it is not more likely than not that we will be required to sell the securities before recovery of their amortized cost basis, was recognized in OCI during the first quarter of 2009. As of January 1, 2009, we reclassified $137.5 million after-tax as a cumulative effect adjustment for the noncredit-related portion of OTTI losses previously recognized in earnings.

At March 31, 2009, 428 HTM and 719 AFS investment securities were in an unrealized loss position, with a vast majority of the dollar amount residing in the CDO portfolio.

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

| | Three Months Ended March 31, 2009 | |
|---|---|---|
| | Gross gains | Gross losses |
| Investment securities: | | |
| Held-to-maturity | $ | $ 17.7 |
| Available-for-sale | 2.9 | 265.4 |
| Other noninterest-bearing investments: | | |
| Securities held by consolidated SBICs | 0.1 | |
| | 3.0 | 283.1 |
| Net losses | | $ (280.1) |
| | | |
| Statement of income information: | | |
| Net impairment losses on investment securities | | $ (82.7) |
| Valuation losses on securities purchased | | (200.4) |
| | | (283.1) |
| Equity securities gains, net | | 2.8 |
| Fixed income securities gains, net | | 0.2 |
| Net losses | | $ (280.1) |

Valuation losses on securities purchased of $200.4 million during the first quarter of 2009 include $181.7 million for securities purchased from Lockhart, as discussed in Note 5. The remaining $18.7 million resulted from our voluntary purchase of all of the $255.3 million of auction rate securities previously sold to customers by certain Company subsidiaries.

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

5. OFF-BALANCE SHEET ARRANGEMENT

Zions Bank provides a liquidity facility for a fee to Lockhart, which is an off-balance sheet qualifying special-purpose entity securities conduit. Lockhart was structured to purchase floating rate U.S. Government and AAA-rated securities with funds from the issuance of asset-backed commercial paper. Zions Bank also provides interest rate hedging support and administrative and investment advisory services for a fee.

Pursuant to the Liquidity Agreement, Zions Bank is required to purchase nondefaulted securities from Lockhart to provide funds for Lockhart to repay maturing commercial paper upon Lockhart s inability to access a sufficient amount of funding in the commercial paper market, or upon a commercial paper market disruption as specified in governing documents for Lockhart. Pursuant to the governing documents, including the Liquidity Agreement, if any security in Lockhart is downgraded below AA-, or the downgrade of one or more securities results in more than ten securities having ratings of AA+ to AA-, Zions Bank must either 1) place its letter of credit on the security, 2) obtain credit enhancement from a third party, or 3) purchase the security from Lockhart at book value. Zions Bank may incur losses if it is required to purchase securities from Lockhart when the fair value of the securities at the time of purchase is less than book value.

The commitment of Zions Bank to Lockhart cannot exceed the book value of Lockhart s securities portfolio. Lockhart is limited in size by program agreements, agreements with rating agencies, and the size of the liquidity facility.

During the first quarter of 2009, Zions Bank recorded valuation losses of $181.7 million when it purchased $537.0 million of securities at book value from Lockhart due to investment downgrades. At March 31, 2009, Lockhart had remaining assets of approximately $186 million at book value, which exceeded the fair value by approximately $6 million. Due to recent ratings downgrades of Zions Bank and to the diminished size of Lockhart, Zions Bank will acquire the remaining assets of Lockhart during the second quarter of 2009. This consolidation will not be significant to the financial position of the Company.

6. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

Effective January 1, 2009, we adopted SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133*. SFAS 161, among other things, requires greater transparency in disclosing information about derivatives including the objectives for their use, the volume of derivative activity, tabular disclosure of financial statement amounts, and any credit-risk-related features. The new disclosures are required for interim as well as annual financial statements and were not significantly different from the Company s previous annual disclosures.

As required by SFAS 133, as amended, we record all derivatives on the balance sheet at fair value. See Note 10 for a discussion of the application of SFAS No. 157, *Fair Value Measurements*, in determining the fair value of derivatives. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative and the resulting designation. Derivatives used to hedge the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives used to hedge the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges.

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. For derivatives designated as cash flow hedges, the effective portion of changes in the fair value of the derivative are recorded in other comprehensive income and recognized in earnings when the hedged transaction affects earnings. The ineffective portion of changes in the fair value of cash flow hedges is recognized directly in earnings. We assess the effectiveness of each hedging relationship by comparing the changes in fair value or cash flows on the derivative hedging instrument with the changes in fair value or cash flows on the designated hedged item or transaction. For derivatives not designated as hedges, changes in fair value are recognized in earnings.

Our objective in using derivatives is to add stability to interest income or expense, to modify the duration of specific assets or liabilities as we consider advisable, and to manage exposure to interest rate movements or other identified risks. To accomplish this objective, we use interest rate swaps and floors as part of our cash flow hedging strategy. These derivatives are used to hedge the variable cash flows associated with designated commercial loans. We use fair value hedges to manage interest rate exposure to certain long-term debt. During the first quarter of 2009, all fair value derivatives were terminated. As of March 31, 2009, no derivatives were designated for hedges of investments in foreign operations.

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

Interest rate swap agreements designated as cash flow hedges involve the receipt of fixed-rate amounts in exchange for variable-rate payments over the life of the agreements without exchange of the underlying principal amount. Fair value hedges are used to swap certain long-term debt from fixed-rate to floating rate. Derivatives not designated as hedges, including basis swap agreements, are not speculative and are used to manage our exposure to interest rate movements and other identified risks, but do not meet the strict hedge accounting requirements of SFAS 133.

Selected information with respect to notional amounts, recorded gross fair values, and related gain (loss) of derivative instruments is summarized as follows *(in thousands)*:

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| | March 31, 2009 | | | Three Months Ended March 31, 2009 Amount of derivative gain (loss) recognized/reclassified | | | |
|---|---|---|---|---|---|---|---|
| | | Fair value | | | | | |
| | Notional amount | Other assets | Other liabilities | OCI | Reclassified from AOCI to interest income | Other income | Offset to interest expense |
| Derivatives designated as hedging instruments under SFAS 133 | | | | | | | |
| Asset derivatives | | | | | | | |
| Cash flow hedges[1,2]: | | | | | | | |
| Interest rate swaps | $ 2,030,000 | $ 191,554 | $ | $ 12,795 | $ 29,741 | | |
| Interest rate floors | 230,000 | 7,190 | | 577 | 1,387 | | |
| | 2,260,000 | 198,744 | | 13,372 | 31,128 | | |
| Liability derivatives | | | | | | | |
| Fair value hedges: | | | | | | | |
| Long-term debt | | | | | | | $ 12,903 |
| Total derivatives designated as hedging instruments under SFAS 133 | 2,260,000 | 198,744 | | 13,372 | 31,128 | | 12,903 |
| Derivatives not designated as hedging instruments under SFAS 133 | | | | | | | |
| Interest rate swaps | 242,948 | 6,891 | 5,881 | | | $ 942 | |
| Interest rate swaps for customers | 2,913,355 | 100,158 | 101,318 | | | 4,136 | |
| Energy commodity swaps for customers | 430,282 | 34,746 | 34,722 | | | 298 | |
| Basis swaps | 1,420,000 | | 8,233 | | | 1,881 | |
| Total derivatives not designated as hedging instruments under SFAS 133 | 5,006,585 | 141,795 | 150,154 | | | 7,257 | |
| Total derivatives | $ 7,266,585 | $ 340,539 | $ 150,154 | $ 13,372 | $ 31,128 | $ 7,257 | $ 12,903 |

[1] *Amounts recognized in OCI and reclassified from accumulated OCI (  AOCI  ) represent the effective portion of the derivative gain (loss).*
[2] *Amounts recognized in other income for the ineffective portion of the derivative gain (loss) on cash flow hedges were immaterial.*

At March 31, 2009 in accordance with SFAS 157, the fair values of derivative assets and liabilities were reduced by net credit valuation adjustments of $6.7 million and $4.0 million, respectively. These adjustments are required to reflect both our own nonperformance risk and the respective counterparty s nonperformance risk.

FSP FIN 39-1 permits entities to offset fair value amounts recognized for the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) against recognized fair value amounts of derivatives executed with the same counterparty under a master netting arrangement. At March 31, 2009, cash collateral was used to reduce recorded amounts of derivative assets by $41.9 million and derivative liabilities by $17.2 million.

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

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

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Amounts are reclassified to interest income as interest payments are received on variable rate loans and as amounts for terminated hedges are accreted or amortized to earnings. For the 12 months following March 31, 2009, we estimate that an additional $124 million of gains and accretion/amortization will be reclassified.

7. GOODWILL

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

| | Zions Bank | CB&T | Amegy | Other | Consolidated company |
|---|---|---|---|---|---|
| Balance at December 31, 2008 | $ 19,514 | $ 379,024 | $ 1,248,950 | $ 3,889 | $ 1,651,377 |
| Goodwill acquired during the period | | 17,080 | | | 17,080 |
| Impairment losses | | | (633,327) | (665) | (633,992) |
| Balance at March 31, 2009 | $ 19,514 | $ 396,104 | $ 615,623 | $ 3,224 | $ 1,034,465 |

The goodwill of $17.1 million acquired by CB&T resulted from the acquisition of Alliance Bank as discussed in Note 3.

The impairment losses totaling $634.0 million reflect additional impairment due to continued market deterioration during the first quarter of 2009. The losses primarily reflect impairment at Amegy. The amount of the impairment losses was determined based on the calculation process specified in SFAS No. 142, *Goodwill and Other Intangible Assets*, which compares carrying value to the estimated fair values of assets and liabilities. These fair values were estimated with the assistance of independent valuation consultants utilizing the provisions of SFAS 157. The estimation process took into account market value approaches including management estimates of projected discounted cash flows. For Amegy, the process included a review of transaction information and recent declines in market values of peer banks in and near Texas and a weaker economic outlook in that state.

8. DEBT

On January 15, 2009, we issued $254.9 million of senior floating rate notes due June 21, 2012 at a coupon rate of three-month LIBOR plus 37 basis points. The debt is guaranteed under the FDIC s Temporary Liquidity Guarantee Program that became effective on November 21, 2008.

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9. SHAREHOLDERS EQUITY

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

| | Net unrealized gains (losses) on investments, retained interests and other | Net unrealized gains (losses) on derivative instruments | Pension and post-retirement | Total |
|---|---|---|---|---|
| Three Months Ended March 31, 2009: | | | | |
| Balance, December 31, 2008 | $ (248,871) | $ 196,656 | $ (46,743) | $ (98,958) |
| Cumulative effect of change in accounting principle, adoption of FSP FAS 115-2 and 124-2 | (137,462) | | | (137,462) |
| Other comprehensive income (loss), net of tax: | | | | |
| Net realized and unrealized holding losses, net of income tax benefit of $50,008 | (83,553) | | | (83,553) |
| Reclassification for net realized losses recorded in operations, net of income tax benefit of $24,732 | 38,862 | | | 38,862 |
| Noncredit-related impairment losses on securities not expected to be sold, net of income tax benefit of $33,014 | (49,928) | | | (49,928) |
| Accretion of securities with noncredit-related impairment losses not expected to be sold, net of income tax expense of $611 | 896 | | | 896 |
| Net unrealized losses, net of reclassification to operations of $31,128 and income tax benefit of $7,172 | | (10,584) | | (10,584) |
| Other comprehensive loss | (93,723) | (10,584) | | (104,307) |
| Balance, March 31, 2009 | $ (480,056) | $ 186,072 | $ (46,743) | $ (340,727) |
| Three Months Ended March 31, 2008: | | | | |
| Balance, December 31, 2007 | $ (108,766) | $ 65,213 | $ (15,282) | $ (58,835) |
| Cumulative effect of change in accounting principle, adoption of SFAS 159 | 11,471 | | | 11,471 |
| Other comprehensive income (loss), net of tax: | | | | |
| Net realized and unrealized holding losses, net of income tax benefit of $82,930 | (126,852) | | | (126,852) |
| Foreign currency translation | (1) | | | (1) |
| Reclassification for net realized losses recorded in operations, net of income tax benefit of $14,921 | 24,087 | | | 24,087 |
| Net unrealized gains, net of reclassification to operations of $6,380 and income tax expense of $46,304 | | 73,701 | | 73,701 |
| Other comprehensive income (loss) | (102,766) | 73,701 | | (29,065) |
| Balance, March 31, 2008 | $ (200,061) | $ 138,914 | $ (15,282) | $ (76,429) |

10. FAIR VALUE

SFAS No. 157, *Fair Value Measurements*, and SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, address the application of fair value accounting and reporting. Effective January 1, 2009, we adopted SFAS 157 for nonfinancial assets and nonfinancial liabilities. This adoption had been delayed by FSP FAS 157-2 for one year and the primary impact was to include other real estate owned in our accounting and reporting of fair value.

ZIONS BANCORPORATION AND SUBSIDIARIES

On April 9, 2009, the FASB issued FSP FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly, and FSP FAS 107 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments. We adopted both of these FSPs for the first quarter of 2009.*

FSP FAS 157-4 provides additional guidance on estimating fair value when the volume and level of activity for an asset or liability have significantly decreased in relation to normal market activity. FSP FAS 157-4 also requires additional disclosures on fair value measurements and provides additional guidance on circumstances that may indicate that a transaction is not orderly. This FSP supersedes FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active*.

FSP FAS 107 and APB 28-1 extends the annual fair value disclosure requirements of SFAS No. 107, *Disclosures about Fair Value of Financial Instruments*, to interim financial statements. The disclosure is provided subsequently herein.

**Fair Value Measurements**

SFAS 157 defines fair value, establishes a consistent framework for measuring fair value, and enhances disclosures about fair value measurements. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. To measure fair value, SFAS 157 has established a hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs. This hierarchy uses three levels of inputs to measure the fair value of assets and liabilities as follows:

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

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

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

We use fair value to measure certain assets and liabilities on a recurring basis when fair value is the primary measure for accounting. This is done primarily for AFS and trading investment securities; private equity investments; securities sold, not yet purchased; and derivatives. Fair value is used on a nonrecurring basis to measure certain assets when applying lower of cost or market accounting or when adjusting carrying values, such as for loans held for sale, impaired loans, and other real estate owned. Fair value is also used when evaluating impairment on certain assets, including HTM and AFS securities, goodwill, core deposit and other intangibles, long-lived assets, and for disclosures required by SFAS 107.

ZIONS BANCORPORATION AND SUBSIDIARIES

AFS and trading investment securities are fair valued under Level 1 using quoted market prices when available for identical securities. When quoted prices are not available, fair values are determined under Level 2 using quoted prices for similar securities or independent pricing services that incorporate observable market data when possible. AFS securities also include certain CDOs that consist of trust preferred securities related to banks and insurance companies and to REITs.

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

A licensed third party model is used internally to fair value bank and insurance trust preferred CDOs. This model uses estimated values of expected losses on underlying collateral and applies market-based discount rates on resultant cash flows to estimate fair value. Adverse market developments that continued in the first quarter of 2009 made it more difficult to determine appropriate assumptions for this model. These developments related to ratings downgrades, declines in trading volumes, increases in the number of defaulting and deferring collateral issuers, and other factors. Assumptions for discount rates, expected losses, probabilities of default, recovery rates, etc., reflect related risk assessments on specific CDO securities and tranches within those securities. The guidance of FSP FAS 157-4 has been utilized in our first quarter of 2009 analysis.

Third party models are used to fair value certain REIT and ABS CDOs. These models utilize relevant data assumptions, which we evaluate for reasonableness. These assumptions include but are not limited to probability of default, collateral recovery rates, discount rates, over-collateralization levels, and rating transition probability matrices from rating agencies. The model prices obtained from third party services were evaluated for reasonableness including quarter to quarter changes in assumptions and comparison to other available data which included third party and internal model results and valuations.

Private equity investments valued under Level 2 on a recurring basis are investments in partnerships that invest in financial institutions. Fair values are determined from net asset values provided by the partnerships. Private equity investments valued under Level 3 on a recurring basis are recorded initially at acquisition cost, which is considered the best indication of fair value unless there have been significant subsequent positive or negative developments that justify an adjustment in the fair value estimate. Subsequent adjustments to recorded fair values are based as necessary on current and projected financial performance, recent financing activities, economic and market conditions, market comparables, market liquidity, sales restrictions, and other factors.

Derivatives are fair valued according to their classification as either exchange-traded or over-the-counter ( OTC ). Exchange-traded derivatives consist of forward currency exchange contracts that have been fair valued under Level 1 because they are traded in active markets. OTC derivatives consist of interest rate swaps and options as well as energy commodity derivatives for customers. These derivatives are fair valued primarily under Level 2 using third party services. Observable market inputs include yield curves, option volatilities, counterparty credit risk, and other related data. Credit valuation adjustments are required to reflect both our own nonperformance risk and the respective counterparty s nonperformance risk. These adjustments are determined generally by applying a credit spread for the counterparty or the Company as appropriate to the total expected exposure of the derivative. Amounts disclosed in the following table are also net of the cash collateral offsets pursuant to the guidance of FSP FIN 39-1, as discussed in Note 6.

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.

ZIONS BANCORPORATION AND SUBSIDIARIES

Assets and liabilities measured at fair value on a recurring basis, including one security elected under SFAS 159, are summarized as follows in accordance with FSP FAS 157-4 at March 31, 2009 and at December 31, 2008 *(in thousands)*:

| | March 31, 2009 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| **ASSETS** | | | | |
| Investment securities: | | | | |
| Available-for-sale: | | | | |
| U.S. Treasury and agencies | $ 26,513 | $ 1,439,327 | | $ 1,465,840 |
| Municipal securities | | 175,219 | $ 68,641 | 243,860 |
| Asset-backed securities: | | | | |
| Trust preferred banks and insurance | | 1,330 | 897,650 | 898,980 |
| Trust preferred real estate investment trusts | | | 21,019 | 21,019 |
| Auction rate | | | 177,880 | 177,880 |
| Other | | 24,051 | 65,293 | 89,344 |
| Mutual funds and stock | 186,074 | 3,791 | | 189,865 |
| Trading account | | 65,149 | 49 [1] | 65,198 |
| Other noninterest-bearing investments: | | | | |
| Private equity | | 31,505 | 150,504 | 182,009 |
| Other assets: | | | | |
| Derivatives | 6,671 | 298,764 | | 305,435 |
| | $ 219,258 | $ 2,039,136 | $ 1,381,036 | $ 3,639,430 |
| **LIABILITIES** | | | | |
| Securities sold, not yet purchased | | $ 39,892 | | $ 39,892 |
| Other liabilities: | | | | |
| Derivatives | $ 6,483 | 132,956 | | 139,439 |
| Other | | | $ 136 | 136 |
| | $ 6,483 | $ 172,848 | $ 136 | $ 179,467 |

| | December 31, 2008 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| **ASSETS** | | | | |
| Investment securities: | | | | |
| Available-for-sale | $ 27,756 | $ 1,898,082 | $ 750,417 | $ 2,676,255 |
| Trading account | | 41,108 | 956 [1] | 42,064 |
| Other noninterest-bearing investments: | | | | |
| Private equity | | 29,037 | 143,511 | 172,548 |
| Other assets: | | | | |
| Derivatives | 9,922 | 395,272 | | 405,194 |
| | $ 37,678 | $ 2,363,499 | $ 894,884 | $ 3,296,061 |
| **LIABILITIES** | | | | |
| Securities sold, not yet purchased | | $ 35,657 | | $ 35,657 |
| Other liabilities: | | | | |
| Derivatives | $ 8,812 | 175,670 | | 184,482 |
| Other | | | $ 527 | 527 |
| | $ 8,812 | $ 211,327 | $ 527 | $ 220,666 |

[1] *Elected under SFAS 159 for fair value option, as discussed subsequently.*

ZIONS BANCORPORATION AND SUBSIDIARIES

The following reconciles the beginning and ending balances of assets and liabilities for the three-months ended March 31, 2009 and 2008 that are measured at fair value on a recurring basis using Level 3 inputs *(in thousands):*

| | Three Months Ended March 31, 2009 Level 3 Instruments | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Municipal securities | Trust preferred banks and insurance | Trust preferred REIT | Auction rate | Other asset-backed | Trading account[1] | Private equity investments | Other liabilities |
| Balance at January 1, 2009 | $ | $ 659,253 | $ 23,897 | $ 1,710 | $ 65,557 | $ 956 | $ 143,511 | $ (527) |
| Total net gains (losses) included in: | | | | | | | | |
| Statement of income[2]: | | | | | | | | |
| Dividends and other investment income (loss) | | | | | | | (89) | |
| Fair value and nonhedge derivative income (loss) | | | | | | (907) | | |
| Equity securities gains, net | | | | | | | 109 | |
| Net impairment losses on investment securities | | (6,563) | (48,915) | | (927) | | | |
| Valuation losses on securities purchased | (4,184) | (172,729) | (8,945) | (14,532) | | | | |
| Other noninterest expense | | | | | | | | 391 |
| Other comprehensive income (loss) | (1) | (128,517) | 29,982 | (1) | 10 | | | |
| Fair value of HTM securities transferred to AFS | | 36,014 | | | 3,210 | | | |
| Purchases, sales, issuances, and settlements, net | 69,551 | 510,192 | 25,000 | 185,523 | (2,557) | | 6,973 | |
| Net transfers in (out) | 3,275 | | | 5,180 | | | | |
| Balance at March 31, 2009 | $ 68,641 | $ 897,650 | $ 21,019 | $ 177,880 | $ 65,293 | $ 49 | $ 150,504 | $ (136) |

| | Three Months Ended March 31, 2008 Level 3 Instruments | | | |
|---|---|---|---|---|
| | Investment securities | | | |
| | Available-for-sale | Trading account[1] | Retained interests from securitizations[1] | Other liabilities |
| Balance at January 1, 2008 | $ 337,338 | $ 8,100 | $ 42,426 | $ (44) |
| Total net gains (losses) included in: | | | | |
| Statement of income[2]: | | | | |
| Fair value and nonhedge derivative income (loss) | | (2,333) | 1,724 | |
| Net impairment losses on investment securities | (40,785) | | | |
| Valuation losses on securities purchased | (793) | | | |
| Other noninterest expense | | | | 21 |
| Other comprehensive income (loss) | (73,131) | | | |
| Purchases, sales, issuances, and settlements, net | 1,755 | | (5,362) | |
| Net transfers in (out) | 362,809 | | | |
| Balance at March 31, 2008 | $ 587,193 | $ 5,767 | $ 38,788 | $ (23) |

[1] *Elected under SFAS 159 for fair value option, as discussed subsequently.*

[2] *All amounts are unrealized except for realized gains in 2009 of $0.3 million in dividends and other investment income (loss).*

ZIONS BANCORPORATION AND SUBSIDIARIES

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

| | Fair value at March 31, 2009 | | | | Gains (losses) from fair value changes Three months ended March 31, | |
|---|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total | 2009 | 2008 |
| **ASSETS** | | | | | | |
| HTM securities adjusted for OTTI | | | $ 61,180 | $ 61,180 | $ (17,706) [1] | $ |
| Loans held for sale | | $ 43,922 | | 43,922 | 60 | (185) |
| Impaired loans | | 309,876 | | 309,876 | (57,387) | (4,130) |
| Other real estate owned | | 30,986 | | 30,986 | (11,178) | (771) |
| | $ | $ 384,784 | $ 61,180 | $ 445,964 | $ (86,211) | $ (5,086) |

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

[1] *An additional $76.7 million pretax loss was recognized in OCI.*

Loans held for sale relate to loans purchased under the Small Business Administration 7(a) program. They are fair valued under Level 2 based on quotes of comparable instruments.

Impaired loans that are collateral-dependent are fair valued under Level 2 based on the fair value of the collateral, which is determined when appropriate from appraisals and other observable market data.

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

**Fair Value Option**

SFAS 159 allows for the option to report certain financial assets and liabilities at fair value initially and at subsequent measurement dates with changes in fair value included in earnings. The option may be applied instrument by instrument, but is on an irrevocable basis. As of January 1, 2008, the Company elected the fair value option for one available-for-sale REIT trust preferred CDO security and three retained interests on selected small business loan securitizations. The cumulative effect of adopting SFAS 159 decreased retained earnings at January 1, 2008 by approximately $11.5 million.

The REIT trust preferred CDO was selected as part of a directional hedging program to hedge the credit exposure the Company has to homebuilders in its REIT CDO portfolio. This allows the Company to avoid complex hedge accounting provisions associated with the implemented hedging program. Management selected this security because it had the most exposure to the homebuilder market compared to the other REIT CDOs in the Company s portfolio, both in dollar amount and as a percentage, and was therefore considered the most suitable for hedging.

The retained interests had been selected to more appropriately reflect their fair value and to account for increases and decreases in their fair value through earnings. During 2008, Zions Bank purchased securities from Lockhart that comprised the entire remaining small business loan securitizations created by Zions Bank and held by Lockhart. These retained interests related to the securities purchased and, as part of the

purchase transaction, were included with the premium recorded with the loan balances at Zions Bank.

ZIONS BANCORPORATION AND SUBSIDIARIES

As required by SFAS 107, the following is a summary of the carrying values and estimated fair values of certain financial instruments *(in thousands)*:

| | March 31, 2009 | | December 31, 2008 | |
|---|---|---|---|---|
| | Carrying value | Estimated fair value | Carrying value | Estimated fair value |
| Financial assets: | | | | |
| HTM investment securities | $ 1,648,971 | $ 1,361,460 | $ 1,790,989 | $ 1,443,555 |
| Loans and leases (including loans held for sale), net of allowance | 41,362,222 | 40,519,516 | 41,172,057 | 40,646,816 |
| Financial liabilities: | | | | |
| Time deposits | 7,759,879 | 7,913,320 | 7,730,784 | 7,923,883 |
| Foreign deposits | 2,214,981 | 2,215,924 | 2,622,562 | 2,625,869 |
| FHLB advances and other borrowings | 557,335 | 564,083 | 2,168,106 | 2,179,652 |
| Long-term debt | 2,512,164 | 1,905,593 | 2,257,633 | 1,838,555 |

This summary excludes financial assets and liabilities for which carrying value approximates fair value. For financial assets, these include cash and due from banks and money market investments. For financial liabilities, these include demand, savings, and money market deposits, federal funds purchased, and security repurchase agreements. The estimated fair value of demand, savings, and money market deposits is the amount payable on demand at the reporting date. SFAS 107 requires the use of carrying value because the accounts have no stated maturity and the customer has the ability to withdraw funds immediately. Also excluded from the summary are financial instruments recorded at value fair on a recurring basis, as previously described.

The fair value of loans is estimated by discounting future cash flows on pass grade loans using the LIBOR yield curve adjusted by a factor which reflects the credit and interest rate risk inherent in the loan. These future cash flows are then reduced by the estimated life-of-the-loan aggregate credit losses in the loan portfolio. These adjustments for lifetime future credit losses are highly judgmental because the Company does not have a validated model to estimate lifetime losses on large portions of its loan portfolio. Loans accounted for under SFAS 114 are not included in this credit adjustment as they are already considered to be held at fair value. Loans, other than those held for sale, are not normally purchased and sold by the Company, and there are no active trading markets for most of this portfolio.

The fair value of time and foreign deposits, FHLB advances, and other borrowings is estimated by discounting future cash flows using the LIBOR yield curve. Variable rate FHLB advances reprice with changes in market rates; as such, their carrying amounts approximate fair value. The estimated fair value of long-term debt is based on discounting cash flows using the LIBOR yield curve plus credit spreads, adjusted for an estimate of credit losses as required by SFAS 157.

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.

ZIONS BANCORPORATION AND SUBSIDIARIES

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

11. GUARANTEES, COMMITMENTS AND CONTINGENCIES

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

| | March 31, 2009 | December 31, 2008 |
|---|---|---|
| Standby letters of credit: | | |
| Financial | $ 1,213,356 | $ 1,293,729 |
| Performance | 230,306 | 250,836 |
| | $ 1,443,662 | $ 1,544,565 |

The Company s Annual Report on Form 10-K for the year ended December 31, 2008 contains further information on these letters of credit including their terms and collateral requirements. At March 31, 2009, the carrying value recorded by the Company as a liability for these guarantees was $6.4 million.

As of March 31, 2009, the Parent has guaranteed approximately $300.3 million of debt of affiliated trusts issuing trust preferred securities.

See Note 5 for a discussion of Zions Bank s commitment to Lockhart.

12. 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 | |
|---|---|---|---|---|---|---|
| | Three Months Ended March 31, | | | | | |
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| Service cost | $ 76 | $ 107 | $ | $ | $ 9 | $ 27 |
| Interest cost | 2,216 | 2,345 | 165 | 170 | 16 | 82 |
| Expected return on plan assets | (1,765) | (2,990) | | | | |
| Amortization of prior service cost (credit) | | | 31 | 31 | (61) | |
| Amortization of net actuarial (gain) loss | 1,642 | 258 | (7) | (7) | (49) | (55) |
| Net periodic benefit cost (credit) | $ 2,169 | $ (280) | $ 189 | $ 194 | $ (85) | $ 54 |

As disclosed in the Company s Annual Report on Form 10-K for the year ended December 31, 2008, the Company has frozen its participation and benefit accruals for the pension plan and its contributions for individual benefit payments in the postretirement benefit plan.

13. OPERATING SEGMENT INFORMATION

We manage our operations and prepare management reports and other information with a primary focus on geographical area. As of March 31, 2009, we operate eight community/regional banks in distinct

geographical areas. Performance assessment and resource allocation are based upon this geographical structure. Zions Bank operates 103 branches in Utah and 25 branches in Idaho. CB&T operates 95 branches in California. Amegy operates 83 branches in Texas. NBA operates 76 branches in Arizona. NSB operates 54 branches in Nevada. Vectra operates 40 branches in Colorado and one branch in New Mexico. TCBW operates one branch in the state of Washington. TCBO operates one branch in Oregon. Additionally, Zions Bank, CB&T, Amegy, NBA, Vectra, and TCBW each operate a foreign branch in the Grand Cayman Islands.

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

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

ZIONS BANCORPORATION AND SUBSIDIARIES

The following table presents selected operating segment information for the three months ended March 31, 2009 and 2008:

| (In millions) | Zions Bank | | CB&T | | Amegy | | NBA | | NSB | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| CONDENSED INCOME STATEMENT | | | | | | | | | | |
| Net interest income | $ 154.3 | $ 162.2 | $ 112.6 | $ 99.8 | $ 92.4 | $ 87.9 | $ 47.1 | $ 57.8 | $ 34.0 | $ 40.7 |
| Provision for loan losses | 65.0 | 30.6 | 34.8 | 24.5 | 45.5 | 10.4 | 51.9 | 19.5 | 89.3 | 4.5 |
| Net interest income after provision for loan losses | 89.3 | 131.6 | 77.8 | 75.3 | 46.9 | 77.5 | (4.8) | 38.3 | (55.3) | 36.2 |
| Impairment losses on investment securities | (6.4) | | (52.2) | | | | | | (9.3) | |
| Noncredit-related losses on securities not expected to be sold (recognized in other comprehensive income) | 3.9 | | 42.3 | | | | | | 8.3 | |
| Net impairment losses on investment securities | (2.5) | | (9.9) | | | | | | (1.0) | |
| Valuation losses on securities purchased | (191.3) | (5.2) | | | (7.5) | | | | | |
| Other noninterest income | 67.5 | 72.8 | 23.5 | 22.4 | 41.5 | 36.6 | 14.5 | 8.4 | 11.2 | 12.8 |
| Noninterest expense | 118.8 | 111.8 | 64.1 | 61.1 | 74.9 | 77.3 | 42.2 | 33.7 | 38.8 | 28.3 |
| Impairment loss on goodwill | | | | | 633.3 | | | | | |
| Income (loss) before income taxes | (155.8) | 87.4 | 27.3 | 36.6 | (627.3) | 36.8 | (32.5) | 13.0 | (83.9) | 20.7 |
| Income tax expense (benefit) | (62.9) | 30.1 | 10.3 | 14.3 | 0.4 | 11.9 | (12.9) | 5.0 | (29.4) | 7.2 |
| Net income (loss) | (92.9) | 57.3 | 17.0 | 22.3 | (627.7) | 24.9 | (19.6) | 8.0 | (54.5) | 13.5 |
| Net income (loss) applicable to noncontrolling interests | | | | | | 0.3 | | | | |
| Net income (loss) applicable to controlling interest | (92.9) | 57.3 | 17.0 | 22.3 | (627.7) | 24.6 | (19.6) | 8.0 | (54.5) | 13.5 |
| Preferred stock dividends | | | 0.9 | | 0.5 | | | | | |
| Net earnings (loss) applicable to common shareholders | $ (92.9) | $ 57.3 | $ 16.1 | $ 22.3 | $ (628.2) | $ 24.6 | $ (19.6) | $ 8.0 | $ (54.5) | $ 13.5 |
| AVERAGE BALANCE SHEET DATA | | | | | | | | | | |
| Total assets | $ 21,031 | $ 18,620 | $ 10,572 | $ 10,168 | $ 12,344 | $ 11,739 | $ 4,849 | $ 5,322 | $ 4,104 | $ 3,909 |
| Total securities | 1,686 | 1,844 | 713 | 925 | 642 | 770 | 201 | 243 | 175 | 330 |
| Net loans and leases | 14,531 | 13,123 | 8,355 | 7,806 | 8,979 | 7,969 | 4,056 | 4,514 | 3,201 | 3,219 |
| Allowance for loan losses | 220 | 138 | 119 | 108 | 128 | 72 | 123 | 70 | 87 | 56 |
| Goodwill, core deposit and other intangibles | 20 | 21 | 399 | 389 | 1,324 | 1,352 | 22 | 194 | 8 | 21 |
| Noninterest-bearing demand deposits | 2,107 | 2,085 | 2,500 | 2,417 | 2,868 | 2,107 | 891 | 1,037 | 919 | 908 |
| Total deposits | 16,369 | 11,297 | 8,381 | 7,990 | 8,814 | 8,133 | 3,918 | 3,864 | 3,548 | 3,290 |
| Shareholder s equity: | | | | | | | | | | |
| Preferred equity | 250 | | 157 | | 80 | | 430 | | 268 | |
| Common equity | 1,058 | 1,065 | 1,107 | 1,071 | 2,051 | 1,956 | 355 | 593 | 261 | 276 |
| Noncontrolling interests | 1 | 1 | | | | | | | | |
| Total shareholder s equity | 1,309 | 1,066 | 1,264 | 1,071 | 2,131 | 1,956 | 785 | 593 | 529 | 276 |

| (In millions) | Vectra | | TCBW | | Other | | Consolidated Company | |
|---|---|---|---|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| CONDENSED INCOME STATEMENT | | | | | | | | |
| Net interest income | $ 23.5 | $ 26.2 | $ 8.3 | $ 8.4 | $ 2.6 | $ 3.5 | $ 474.8 | $ 486.5 |
| Provision for loan losses | 8.9 | 2.2 | 2.2 | 0.4 | | 0.2 | 297.6 | 92.3 |
| Net interest income after provision for loan losses | 14.6 | 24.0 | 6.1 | 8.0 | 2.6 | 3.3 | 177.2 | 394.2 |
| Impairment losses on investment securities | (23.3) | | | | (74.4) | (40.8) | (165.6) | (40.8) |
| Noncredit-related losses on securities not expected to be sold (recognized in other comprehensive income) | 21.4 | | | | 7.0 | | 82.9 | |
| Net impairment losses on investment securities | (1.9) | | | | (67.4) | (40.8) | (82.7) | (40.8) |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Valuation losses on securities purchased | | | | | (1.6) | | (200.4) | (5.2) |
| Other noninterest income | 6.8 | 6.9 | 1.1 | 0.6 | (28.2) | (3.5) | 137.9 | 157.0 |
| Noninterest expense | 22.5 | 22.1 | 4.4 | 3.7 | 10.5 | 12.1 | 376.2 | 350.1 |
| Impairment loss on goodwill | | | | | 0.7 | | 634.0 | |
| Income (loss) before income taxes | (3.0) | 8.8 | 2.8 | 4.9 | (105.8) | (53.1) | (978.2) | 155.1 |
| Income tax expense (benefit) | (1.4) | 3.2 | 0.9 | 1.6 | (56.7) | (23.4) | (151.7) | 49.9 |
| Net income (loss) | (1.6) | 5.6 | 1.9 | 3.3 | (49.1) | (29.7) | (826.5) | 105.2 |
| Net income (loss) applicable to noncontrolling interests | | | | | (0.5) | (1.9) | (0.5) | (1.6) |
| Net income (loss) applicable to controlling interest | (1.6) | 5.6 | 1.9 | 3.3 | (48.6) | (27.8) | (826.0) | 106.8 |
| Preferred stock dividends | | | | | 24.9 | 2.5 | 26.3 | 2.5 |
| Net earnings (loss) applicable to common shareholders | $ (1.6) | $ 5.6 | $ 1.9 | $ 3.3 | $ (73.5) | $ (30.3) | $ (852.3) | $ 104.3 |
| AVERAGE BALANCE SHEET DATA | | | | | | | | |
| Total assets | $ 2,626 | $ 2,741 | $ 835 | $ 921 | $ (961) | $ (506) | $ 55,400 | $ 52,914 |
| Total securities | 262 | 320 | 196 | 306 | 611 | 603 | 4,486 | 5,341 |
| Net loans and leases | 2,050 | 2,009 | 590 | 517 | 127 | 81 | 41,889 | 39,238 |
| Allowance for loan losses | 29 | 27 | 7 | 5 | 2 | 1 | 715 | 477 |
| Goodwill, core deposit and other intangibles | | 152 | | | 8 | 27 | 1,781 | 2,156 |
| Noninterest-bearing demand deposits | 446 | 456 | 192 | 127 | (18) | (162) | 9,905 | 8,975 |
| Total deposits | 2,096 | 1,721 | 573 | 607 | (1,570) | (307) | 42,129 | 36,595 |
| Shareholder s equity: | | | | | | | | |
| Preferred equity | 10 | | | | 388 | 240 | 1,583 | 240 |
| Common equity | 190 | 335 | 75 | 68 | (164) | (237) | 4,933 | 5,127 |
| Noncontrolling interests | | | | | 27 | 29 | 28 | 30 |
| Total shareholder s equity | 200 | 335 | 75 | 68 | 251 | 32 | 6,544 | 5,397 |

ZIONS BANCORPORATION AND SUBSIDIARIES

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
FINANCIAL HIGHLIGHTS

(Unaudited)

| (In thousands, except per share and ratio data) | Three Months Ended March 31, 2009 | 2008 | % Change |
|---|---|---|---|
| EARNINGS | | | |
| Taxable-equivalent net interest income | $ 480,670 | $ 492,537 | (2.41)% |
| Taxable-equivalent revenue | 335,408 | 603,537 | (44.43)% |
| Net interest income | 474,775 | 486,458 | (2.40)% |
| Noninterest income | (145,262) | 111,000 | (230.87)% |
| Provision for loan losses | 297,624 | 92,282 | 222.52 % |
| Noninterest expense | 376,205 | 350,103 | 7.46 % |
| Impairment loss on goodwill | 633,992 | | |
| Income (loss) before income taxes | (978,308) | 155,073 | (730.87)% |
| Income taxes (benefit) | (151,727) | 49,896 | (404.09)% |
| Net income (loss) | (826,581) | 105,177 | (885.90)% |
| Net income (loss) applicable to noncontrolling interests | (540) | (1,572) | (65.65)% |
| Net income (loss) applicable to controlling interest | (826,041) | 106,749 | (873.82)% |
| Net earnings (loss) applicable to common shareholders | (852,327) | 104,296 | (917.22)% |
| **PER COMMON SHARE** | | | |
| Net earnings (loss) (diluted) | (7.47) | 0.97 | (870.10)% |
| Dividends | 0.04 | 0.43 | (90.70)% |
| Book value per common share | 34.39 | 47.49 | (27.58)% |
| **SELECTED RATIOS** | | | |
| Return on average assets | (6.05)% | 0.81% | |
| Return on average common equity | (70.07)% | 8.18% | |
| Efficiency ratio | 112.16 % | 58.01% | |
| Net interest margin | 3.93 % | 4.23% | |

ZIONS BANCORPORATION AND SUBSIDIARIES

FINANCIAL HIGHLIGHTS (Continued)

(Unaudited)

| (In thousands, except share and ratio data) | Three Months Ended March 31, 2009 | 2008 | % Change |
|---|---|---|---|
| **AVERAGE BALANCES** | | | |
| Total assets | $ 55,399,675 | $ 52,913,823 | 4.70 % |
| Total interest-earning assets | 49,581,062 | 46,853,435 | 5.82 % |
| Securities | 4,486,050 | 5,341,287 | (16.01)% |
| Net loans and leases | 41,888,624 | 39,237,811 | 6.76 % |
| Goodwill | 1,654,222 | 2,009,477 | (17.68)% |
| Core deposit and other intangibles | 126,759 | 146,363 | (13.39)% |
| Total deposits | 42,128,652 | 36,594,674 | 15.12 % |
| Shareholders equity: | | | |
| Preferred equity | 1,583,659 | 240,000 | 559.86 % |
| Common equity | 4,932,977 | 5,126,621 | (3.78)% |
| Noncontrolling interests | 27,720 | 30,676 | (9.64)% |
| Weighted average common and common-equivalent shares outstanding | 114,106,164 | 106,687,211 | 6.95 % |
| **AT PERIOD END** | | | |
| Total assets | $ 54,545,012 | $ 53,408,293 | 2.13 % |
| Total interest-earning assets | 49,267,000 | 46,962,949 | 4.91 % |
| Securities | 4,800,957 | 5,002,207 | (4.02)% |
| Net loans and leases | 41,932,315 | 39,697,226 | 5.63 % |
| Allowance for loan losses | 832,878 | 501,283 | 66.15 % |
| Reserve for unfunded lending commitments | 52,761 | 25,148 | 109.80 % |
| Goodwill | 1,034,465 | 2,009,517 | (48.52)% |
| Core deposit and other intangibles | 124,585 | 140,672 | (11.44)% |
| Total deposits | 43,307,233 | 37,516,337 | 15.44 % |
| Shareholders equity: | | | |
| Preferred equity | 1,587,027 | 240,000 | 561.26 % |
| Common equity | 3,965,979 | 5,087,801 | (22.05)% |
| Noncontrolling interests | 26,828 | 30,413 | (11.79)% |
| Common shares outstanding | 115,335,668 | 107,139,188 | 7.65 % |
| Average equity to average assets | 11.81% | 10.20% | |
| Common dividend payout | na | 44.11% | |
| Tangible common equity ratio | 5.26% | 5.73% | |
| Tangible equity ratio | 8.28% | 6.26% | |
| Nonperforming assets, excluding FDIC-supported assets | $ 1,663,246 | $ 434,293 | 282.98 % |
| Ratio of nonperforming assets, excluding FDIC-supported assets, to net loans and leases and other real estate owned | 4.00% | 1.09% | |
| Accruing loans past due 90 days or more, excluding FDIC-supported assets | $ 88,035 | $ 84,637 | 4.01 % |

ZIONS BANCORPORATION AND SUBSIDIARIES

**FORWARD-LOOKING INFORMATION**

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

- statements with respect to the beliefs, plans, objectives, goals, guidelines, expectations, anticipations, and future financial condition, results of operations and performance of Zions Bancorporation ( the Parent ) and its subsidiaries (collectively the Company, Zions, we, our, us );
- statements preceded by, followed by or that include the words may, could, should, would, believe, anticipate, estimate, expect, projects, or similar expressions.

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

- the Company s ability to successfully execute its business plans, manage its risks, and achieve its objectives;
- changes in political and economic conditions, including the political and economic effects of the current economic crisis and other major developments, including wars, military actions and terrorist attacks;
- changes in financial market conditions, either internationally, nationally or locally in areas in which the Company conducts its operations, including without limitation, reduced rates of business formation and growth, commercial and residential real estate development and real estate prices;
- fluctuations in markets for equity, fixed-income, commercial paper and other securities, including availability, market liquidity levels, and pricing;
- changes in interest rates, the quality and composition of the loan and securities portfolios, demand for loan products, deposit flows and competition;
- acquisitions and integration of acquired businesses;
- increases in the levels of losses, customer bankruptcies, claims and assessments;
- changes in fiscal, monetary, regulatory, trade and tax policies and laws, including policies of the U.S. Department of Treasury and the Federal Reserve Board;
- the Company s participation or lack of participation in governmental programs implemented under the Emergency Economic Stabilization Act ( EESA ) and the American Recovery and Reinvestment Act ( ARRA ), including without limitation the Troubled Asset Relief Program ( TARP ), the Capital Purchase Program ( CPP ), and the Temporary Liquidity Guarantee Program ( TLGP ) and the impact of such programs and related regulations on the Company and on international, national, and local economic and financial markets and conditions;
- the impact of the EESA and the ARRA and related 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 certain provisions of the EESA and ARRA and related rules and regulations on the attractiveness of governmental programs to mitigate the effects of the current economic crisis, including the risks that certain financial institutions may elect not to participate in such programs, thereby decreasing the effectiveness of such programs;
- continuing consolidation in the financial services industry;
- new litigation or changes in existing litigation;

- success in gaining regulatory approvals, when required;
- changes in consumer spending and savings habits;
- increased competitive challenges and expanding product and pricing pressures among financial institutions;
- demand for financial services in the Company s market areas;
- inflation and deflation;
- technological changes and the Company s implementation of new technologies;
- the Company s ability to develop and maintain secure and reliable information technology systems;
- legislation or regulatory changes which adversely affect the Company s operations or business;
- the Company s ability to comply with applicable laws and regulations;
- changes in accounting policies or procedures as may be required by the Financial Accounting Standards Board or regulatory agencies; and
- increased costs of deposit insurance and changes with respect to Federal Deposit Insurance Corporation ( FDIC ) insurance coverage levels.

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

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

**CRITICAL ACCOUNTING POLICIES AND SIGNIFICANT ESTIMATES**

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

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

The Company values ABS available-for-sale and held-to-maturity securities using several methodologies based on the appropriate fair value hierarchy consistent with currently available market information. At March 31, 2009, the Company valued substantially all of the ABS portfolio using Level 3 pricing methods as follows:

ZIONS BANCORPORATION AND SUBSIDIARIES

**ASSET-BACKED SECURITIES FAIR VALUES**

| (In millions) | Held-to-maturity | | Available-for-sale | |
|---|---|---|---|---|
| | Amortized cost | Estimated fair value | Amortized cost | Estimated fair value |
| Trust preferred securities bank and insurance: | | | | |
| Internal model | 1,205 | 625 | 1,204 | 878 |
| Third party models | 20 | 3 | 5 | 5 |
| Dealer quotes | | | 25 | 15 |
| Other Level 2 | | | 2 | 2 |
| | 1,225 | 628 | 1,236 | 900 |
| Trust preferred securities real estate investment trusts: | | | | |
| Third party models | 36 | 18 | 59 | 21 |
| | 36 | 18 | 59 | 21 |
| Other: | | | | |
| Third party models | 76 | 37 | 10 | 7 |
| Dealer quotes | | | 19 | 6 |
| CDS spreads | | | 70 | 52 |
| Other Level 2 | | | 25 | 24 |
| | 76 | 37 | 124 | 89 |
| Municipal securities: | | | | |
| Third party models | | | 25 | 25 |
| CDS spreads | | | 44 | 44 |
| | | | 69 | 69 |
| Auction rate securities: | | | | |
| Dealer quotes | | | 2 | 2 |
| Third party models | | | 158 | 158 |
| CDS spreads | | | 18 | 18 |
| | | | 178 | 178 |
| Total | $ 1,337 | $ 683 | $ 1,666 | $ 1,257 |

*Internal Model*

In the third quarter of 2008, the Company began using a licensed third party model to value bank and insurance trust preferred collateralized debt obligations ( CDOs ). The model uses market-based estimates of expected loss for the individual pieces of underlying collateral to arrive at a pool-level expected loss rate for each CDO. These loss assumptions are applied to the CDO s structure to generate cash flow projections for each tranche of the CDO. The fair value of each tranche is determined by discounting its resultant loss-adjusted cash flows with appropriate market based discount rates.

During fourth quarter of 2008 and continuing into 2009, several market developments made it increasingly difficult to use rating levels referenced to collateralized loan obligations ( CLOs ) when discounting CDO cash flows. Included in these developments are the following:

Moody s downgraded a large portion of the CDO tranches resulting in most of the securities carrying a split rating of either investment grade or non investment grade. A significant number of securities exhibited substantial differences in ratings at March 31, 2009. This resulted in an increasing lack of consistency in rating levels of CDO tranches. See Investments Securities Portfolio for schedules that outline the effect of an April 2009 downgrade by Fitch which resulted in similarity of ratings at below investment grade as of the date of this filing.

Trading volume including new issuance in CLOs, which had been among the most liquid structured products, declined significantly. As a result, the market information became less reliable for CLOs and less relevant for other structured products.

As the number of deferring and defaulted securities within the bank and insurance trust preferred CDO pools increased, each CDO has become more unique. At the end of the first quarter of 2009, the amount of currently deferring collateral ranged from none up to nearly 61% in the fifty-eight CDO deals of which Zions owns tranches.

As the credit quality of the performing securities within the bank and insurance trust preferred CDO pools diverged, the Company s projection for further collateral defaults became more pool specific. For example, the additional projected 5 year cumulative defaults for the CDO collateral pools ranged from 7% to 24% at the end of the quarter.

Finally, the FASB s April 9, 2009 issuance of FASB Staff Position ( FSP ) FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Indentifying Transactions That Are Not Orderly,* provided additional guidance on determining fair value for assets when the markets for such assets have low or no activity. The FASB view is that a significant decrease in the volume and level of activity for the asset or liability is an indication that transactions or quoted prices may not be determinative of fair value.

The method for deriving loss expectation for collateral underlying the CDOs depends on whether the collateral is from a public or private company. For public companies, a term structure of Probabilities of Default ( PDs ) is obtained from a commercially available service. The service estimates PDs using a proprietary reduced form model derived using logistic regression on a historical default database. Because the service s model requires equity valuation related inputs (along with other macro and firm specific inputs) to produce default probabilities, the service does not produce results for private firms and some very small public firms that do not have readily available market data.

For private companies (and the few small public companies not evaluated by the service) PDs are estimated based on credit ratings. The credit ratings come from two external rating sources; one specific to banks, and the other to insurers. The Company has credit ratings for each piece of collateral whether private or public. Using the PD data on the public companies obtained from the commercial service, the Company calculates the average PD for each credit rating level by industry. The rating level average is then applied to all corresponding credits within each rating level that do not have a PD from the commercial service.

The PDs for the underlying collateral are then used to develop CDO deal-level expected loss curves. An external service which models the unique cash-flow waterfall and structure of each CDO deal is used to generate tranche-level cash flows using the Company s derived CDO deal-level loss assumptions (along with other relevant assumptions). The resultant cash-flows are discounted using the discount rate assumptions described below in order to produce valuations.

Due to the ongoing developments outlined above, the Company determined it would no longer be appropriate to bucket securities by ratings level in order to establish the discount margins required to estimate fair value of CDO securities by discounting projected credit adjusted cash flows. Instead, a more granular approach was developed to reflect the specific risks embedded in every deal.

The discount rate assumption for each CDO tranche was derived from trading yields on publicly traded trust preferred securities and projected default probabilities on the underlying financial companies. The discount margins on the traded securities were regressed to those of the CDOs by comparing expected levels of cash flow impairments between the two types of securities. CDO tranches with greater uncertainty in their cash flow should be discounted at rates in excess of those market participants would use for tranches with more stable expected cash flows as a result of more subordination and/or better credit quality in the underlying collateral. The effect of this assumption methodology after credit stressing the contractual cash flows was discount margins between LIBOR + 5% and LIBOR + 15% with the low end applied to tranches with substantial current subordination and/or high credit quality of remaining performing collateral. The high end of the discount margin spectrum was applied to tranches in which minor changes in future default assumptions produced substantial deterioration in tranche cash flows.

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During the first quarter of 2009, the Company modified its recovery rate assumption which is a component of the CDO loss assumption. As of March 31, 2009, the model incorporated a recovery rate assumption of 40% for trust preferred collateral where the deferral option of the issuer had been exercised as permitted under the terms of the security. The assumption is supported by observable data on default probabilities for banks with deferring collateral, trading levels for deferring collateral and other data relevant to banks in deferral. An option to defer current interest and capitalize such interest for up to five years is a standard in trust preferred securities. If and when a deferring issuer were to default, the model would revert to a 0% recovery rate.

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

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

**CHANGES OF CURRENT MODEL KEY VALUATION ASSUMPTIONS**

| (Amounts in millions) | | Bank and insurance CDOs at Level 3 | | | |
|---|---|---|---|---|---|
| | | Held-to-maturity | | Available-for-sale | |
| Fair value balance at March 31, 2009 | | $ 625 | | $ 878 | |
| **Expected collateral credit losses** [1] | | | | | |
| | | Incremental | Cumulative | Incremental | Cumulative |
| Weighted average: | | | | | |
| Loss percentage from currently defaulted or deferring collateral [2] | | | 8.2% | | 12.9% |
| Projected loss percentage from currently performing collateral | | | | | |
| 1-year | | 3.4% | 11.6% | 4.0% | 16.9% |
| years 2-5 | | 5.2% | 16.8% | 6.0% | 22.9% |
| years 6-30 | | 6.7% | 23.5% | 7.3% | 30.2% |
| Decrease in fair value due to increase in projected loss percentage from currently performing collateral [3] | 25% | $ (1.8) | | $ (11.3) | |
| | 50% | (31.1) | | (21.7) | |
| | 100% | (111.3) | | (39.5) | |
| **Discount rate** [4] | | | | | |
| Weighted average spread over LIBOR | | 817 bp | | 601 bp | |
| Decrease in fair value due to increase in discount rate | + 100 bp | $ (76.4) | | $ (105.4) | |
| | + 200 bp | (122.6) | | (163.7) | |

[1] *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.*

[2] *Weighted average percentage of collateral that is defaulted due to bank failures or deferring payment as allowed under the terms of security, including a 0% recovery rate on defaulted collateral and a 40% recovery rate on deferring collateral.*

[3] *Percentage increase is applied to incremental projected loss percentages from currently performing collateral. For example, the 50% and 100% stress scenarios would result in cumulative 30 year losses of 31.2% = 23.5% + 50%(3.4%+5.2%+6.7%) and 38.8%= 23.5% + 100%(3.4%+5.2%+6.7%) respectively.*

[4] *The discount rate is a spread over the LIBOR swap yield curve at the date of valuation.*

The adverse changes in expected cumulative credit losses resulted in a generally larger decrease in fair value for held-to-maturity ( HTM ) than available-for-sale ( AFS ) securities because the AFS portfolio is composed primarily of more senior CDO tranches. In general these senior tranches receive accelerated principal payments under scenarios of high credit losses provided that the credit losses do not exceed the available subordination in the CDO deal. By contrast more junior tranches which are in our HTM portfolio absorb credit losses and defer principal and interest payments upon increasing credit losses.

ZIONS BANCORPORATION AND SUBSIDIARIES

*Third Party Models*

At March 31, 2009, the Company utilized third party valuation services for eighteen securities with an aggregate amortized cost of $206 million in the ABS CDO and trust preferred asset classes. These securities continued to have insufficient observable market data available to directly determine prices. The Company reviewed the methodologies employed by third party models. This included a review of all relevant data inputs and the appropriateness of key model assumptions. These assumptions included, but were not limited to, probability of default, collateral recovery rates, discount rates, over-collateralization levels, and rating transition probability matrices from rating agencies. The model valuations obtained from third party services were evaluated for reasonableness including quarter to quarter changes in assumptions and comparison to other available data which included third party and internal model results and valuations. A range of value estimates is not provided because third party vendors utilized point estimates.

A total of $183 million of auction rate and municipal securities were valued using third party created matrix referencing ratings as the key variable with regards to valuation.

*Dealer Quotes*

The $44 million of asset-backed securities at amortized cost are valued using nonbinding and unadjusted dealer quotes. Multiple quotes are not available and the values provided are based on a combination of proprietary dealer quotes. Broker disclosure levels vary and the Company seeks to minimize dependence on this Level 3 source. Of the $44 million of securities, approximately $16 million are AAA rated. Also, a total of $2 million of auction rate securities were valued using dealer quotes.

*CDS Spreads*

A total of $70 million at amortized cost of insured securities purchased out of Lockhart were valued using the relevant monoline insurers credit derivative levels.

In addition, a total of $62 million of auction rate and municipal securities with puts back to the underwriter in 2010 were valued using the CDS Spread of the underwriter.

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

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

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

The Company s OTTI evaluation process conforms with the rules contained in Emerging Issues Task Force ( EITF ) Issue No. 99-20, *Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets*, FSP No. EITF 99-20-1, *Amendments to the Impairment Guidance of EITF Issue No. 99-20*, FSP FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*, and SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. These rules require the Company to take into consideration current market conditions, fair value in relationship to cost, extent and nature of change in fair value, issuer rating changes and trends, volatility of earnings, current analysts evaluations, all available information relevant to the collectability of debt securities, our ability and intent to hold investments until a recovery of fair value, which may be maturity, and other factors when evaluating for the existence of OTTI in our securities portfolio.

On January 12, 2009, the FASB issued FSP EITF 99-20-1, Amendments to the Impairment Guidance of EITF Issue No. 99-20. This FSP is effective for interim and annual reporting periods ending after December 15, 2008, and shall be applied prospectively. The FSP amends EITF 99-20 by eliminating the requirement that a holder s best estimate of cash flows be based upon those that a market participant would use. Instead, the FSP requires that OTTI be recognized as a realized loss through earnings when it is probable there has been an adverse change in the holder s estimated cash flows from the cash flows previously projected, which is consistent with the impairment model in SFAS 115.

On April 9, 2009, the FASB issued FSP FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*. This FSP is effective for interim and annual reporting periods ending after June 15, 2009, with the option to early adopt this FSP for the first quarter of 2009, and shall be applied prospectively with a cumulative effect adjustment for prior OTTI illiquidity losses. The Company elected to early adopt this FSP effective this reporting period ending March 31, 2009. The Company recorded a $137.5 million after tax cumulative effect adjustment upon adoption of the FSP. Retained earnings were increased and other comprehensive income decreased. The FSP amends FAS 115 and FAS 124 and significantly changes how an entity evaluates whether impairment is other than temporary and how to recognize OTTI for debt securities classified as available-for-sale or held-to-maturity.

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

The Company recognized pretax OTTI losses of $165.6 million during the first quarter of 2009 and $40.8 million during the first quarter of 2008 on investment debt securities. All of the impairment for 2009 related to securities valued using Level 3 inputs. Management determined that $82.7 million of the impairment for the first quarter of 2009 related to credit loss impairment. The significant inputs used in the methodology to calculate this credit loss impairment is described under Valuation of Asset Backed Securities with the exception that while the discount rate used for valuation is a market level discount rate, the discount rate used to determine the presence and amount of credit impairment is the security specific coupon rate after credit stressing the contractual cash flows.

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

**Accounting for Goodwill**

Goodwill arises from business acquisitions and represents the value attributable to the unidentifiable intangible elements in our acquired businesses. Goodwill is initially recorded at fair value and is subsequently evaluated at least annually for impairment in accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*. The Company performs this annual test as of October 1 of each year. Evaluations are also performed on a more frequent basis if events or circumstances indicate impairment could have taken place. Such events could include, among others, a significant adverse change in the business climate, a significant adverse change in market values of similar businesses, an adverse action by a regulator, an unanticipated change in the competitive environment, and a decision to change the operations or dispose of a reporting unit.

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

Upon completion of step 1 of the evaluation process, we concluded that potential impairment existed at the Company s Amegy reporting unit. Step 2 was completed with the assistance of an independent valuation consultant and the Company s internal valuation resources and resulted in $634.0 million of impairment losses. This evaluation process required us to make estimates and assumptions with regard to the fair value of the Company s reporting units and actual values may differ significantly from these estimates. Such differences could result in future impairment of goodwill that would, in turn, negatively impact the Company s results of operations and the business segments where the goodwill is recorded. Significant remaining amounts of goodwill at March 31, 2008 were as follows: Amegy $616 million, CB&T $396 million, and Zions Bank $20 million.

We expect that the current disrupted market conditions may require us to evaluate goodwill more frequently, including quarterly, as the circumstances warrant. Any differences between estimated fair values and carrying values could result in future impairment of goodwill.

**RESULTS OF OPERATIONS**

The Company reported a net loss applicable to common shareholders of $852.3 million or $7.47 per diluted share for the first quarter of 2009 compared to net earnings applicable to common shareholders of $104.3 million or $0.97 per diluted share for the first quarter of 2008. The decrease is mainly due to a $634.0 million goodwill impairment charge during the first quarter of 2009, a $205.3 million increase in the provision for loan losses, a $176.5 million increase in valuation losses on securities purchased from Lockhart Funding, a $41.9 million increase in net impairment losses on investment securities, $18.7 million of valuation losses on auction rate securities purchased from customers, and a $23.8 million increase in preferred stock dividends.

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

Taxable-equivalent net interest income for the first quarter of 2009 decreased 2.4% to $480.7 million compared with $492.5 million for the comparable period of 2008. This decline reflects a significant increase in nonaccrual loans and nonaccrual securities and higher money market investment balances earning lower rates during the first three months of 2009. The tax rate used for calculating all taxable-equivalent adjustments was 35% for all periods presented.

The Company s net interest margin was 3.93% for the first quarter of 2009 compared to 4.20% for the fourth quarter of 2008 and 4.23% for first quarter of 2008. The spread on average interest-bearing funds for the first quarter of 2009 was 3.53%, which decreased from 3.73% for the fourth quarter of 2008 and 3.61% for the first quarter of 2008. The margin decrease for the first quarter of 2009 compared to the fourth quarter of 2008 and to the first quarter of 2008 primarily resulted from lower average money market asset yields on higher average

money market balances. Also the spread on average interest-bearing funds for 2009 has benefited from improved loan spreads on newly originated and renewed loans; however, increased nonperforming assets throughout the year negatively impacted the affect of the aforementioned improved loan spreads.

The Company expects to continue its efforts over the long run to maintain a slightly asset-sensitive position with regard to interest rate risk. Our estimates of the Company s actual rate risk position is highly dependent upon changes in both short-term and long-term interest rates, modeling assumptions, and the actions of competitors and customers in response to those changes. Further detail on interest rate risk is discussed in the Company s Annual Report on Form 10-K for the year ended December 31, 2008 in Interest Rate Risk on page 111 and this filing in Interest Rate Risk.

ZIONS BANCORPORATION AND SUBSIDIARIES

CONSOLIDATED AVERAGE BALANCE SHEETS, YIELDS AND RATES

(Unaudited)

| (In thousands) | Three Months Ended March 31, 2009 | | | Three Months Ended March 31, 2008 | | |
|---|---|---|---|---|---|---|
| | Average balance | Amount of interest [1] | Average rate | Average balance | Amount of interest [1] | Average rate |
| ASSETS | | | | | | |
| Money market investments | $ 2,961,701 | $ 3,376 | 0.46% | $ 2,059,839 | $ 19,028 | 3.72% |
| Securities: | | | | | | |
| Held-to-maturity | 1,786,617 | 28,546 | 6.48% | 700,302 | 12,346 | 7.09% |
| Available-for-sale | 2,643,327 | 24,285 | 3.73% | 4,599,258 | 65,267 | 5.71% |
| Trading account | 56,106 | 571 | 4.13% | 41,727 | 681 | 6.56% |
| Total securities | 4,486,050 | 53,402 | 4.83% | 5,341,287 | 78,294 | 5.90% |
| Loans held for sale | 244,687 | 2,756 | 4.57% | 214,498 | 3,017 | 5.66% |
| Loans: | | | | | | |
| Net loans and leases excluding FDIC-supported assets [2] | 41,383,829 | 579,020 | 5.67% | 39,237,811 | 695,855 | 7.13% |
| FDIC-supported assets | 504,795 | 7,043 | 5.66% | | | |
| Total loans and leases | 41,888,624 | 586,063 | 5.67% | 39,237,811 | 695,855 | 7.13% |
| Total interest-earning assets | 49,581,062 | 645,597 | 5.28% | 46,853,435 | 796,194 | 6.83% |
| Cash and due from banks | 1,364,473 | | | 1,417,356 | | |
| Allowance for loan losses | (714,642) | | | (476,614) | | |
| Goodwill | 1,654,222 | | | 2,009,477 | | |
| Core deposit and other intangibles | 126,759 | | | 146,363 | | |
| Other assets | 3,387,801 | | | 2,963,806 | | |
| Total assets | $ 55,399,675 | | | $ 52,913,823 | | |
| LIABILITIES | | | | | | |
| Interest-bearing deposits: | | | | | | |
| Savings and NOW | $ 4,529,097 | $ 5,799 | 0.52% | $ 4,519,149 | $ 10,469 | 0.93% |
| Money market | 17,480,861 | 68,754 | 1.60% | 12,770,480 | 93,518 | 2.95% |
| Time under $100,000 | 3,103,857 | 21,793 | 2.85% | 2,578,166 | 27,165 | 4.24% |
| Time $100,000 and over | 4,753,453 | 33,486 | 2.86% | 4,461,327 | 49,074 | 4.42% |
| Foreign | 2,356,293 | 7,400 | 1.27% | 3,290,090 | 29,983 | 3.67% |
| Total interest-bearing deposits | 32,223,561 | 137,232 | 1.73% | 27,619,212 | 210,209 | 3.06% |
| Borrowed funds: | | | | | | |
| Securities sold, not yet purchased | 33,469 | 439 | 5.32% | 33,577 | 333 | 3.99% |
| Federal funds purchased and security repurchase agreements | 2,333,675 | 1,850 | 0.32% | 3,314,956 | 24,206 | 2.94% |
| Commercial paper | 3,383 | 14 | 1.68% | 205,520 | 2,332 | 4.56% |
| FHLB advances and other borrowings: | | | | | | |
| One year or less | 935,108 | 3,717 | 1.61% | 4,093,201 | 36,402 | 3.58% |
| Over one year | 127,942 | 1,803 | 5.72% | 127,291 | 1,825 | 5.77% |
| Long-term debt | 2,659,678 | 19,872 | 3.03% | 2,493,625 | 28,350 | 4.57% |
| Total borrowed funds | 6,093,255 | 27,695 | 1.84% | 10,268,170 | 93,448 | 3.66% |

| | | | | | | |
|---|---|---|---|---|---|---|
| Total interest-bearing liabilities | 38,316,816 | 164,927 | 1.75% | 37,887,382 | 303,657 | 3.22% |
| Noninterest-bearing deposits | 9,905,091 | | | 8,975,462 | | |
| Other liabilities | 633,412 | | | 653,682 | | |
| Total liabilities | 48,855,319 | | | 47,516,526 | | |
| Shareholders equity: | | | | | | |
| Preferred equity | 1,583,659 | | | 240,000 | | |
| Common equity | 4,932,977 | | | 5,126,621 | | |
| Controlling interest shareholders equity | 6,516,636 | | | 5,366,621 | | |
| Noncontrolling interests | 27,720 | | | 30,676 | | |
| Total shareholders equity | 6,544,356 | | | 5,397,297 | | |
| Total liabilities and shareholders equity | $ 55,399,675 | | | $ 52,913,823 | | |
| Spread on average interest-bearing funds | | | 3.53% | | | 3.61% |
| Taxable-equivalent net interest income and net yield on interest-earning assets | | $ 480,670 | 3.93% | | $ 492,537 | 4.23% |

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

The provision for loan losses for the first quarter of 2009 was $297.6 million compared to $92.3 million for the same period of 2008. On an annualized basis, the provision was 2.88% of average loans excluding FDIC-supported assets for the first quarter of 2009 compared to 0.94% for the first quarter of 2008. Net loan and lease charge-offs increased to $151.7 million in first quarter of 2009 up from $50.8 million in same period of 2008. The increased provision and net charge-offs for the first quarter of 2009 resulted primarily from weakness in residential land acquisition, development and construction loans in Arizona, Nevada, Texas, California and Utah and weakening in commercial loan portfolios. See Nonperforming Assets and Allowance and Reserve for Credit Losses for further details. The provision for unfunded lending commitments was $1.8 million for the first quarter of 2009 compared to $3.6 million for the first quarter of 2008. From period to period, the amounts of unfunded lending commitments may be subject to sizeable fluctuation due to changes in the timing and volume of loan originations and fundings, and by changes in the creditworthiness of borrowers with unfunded commitments. The related provision will generally reflect these fluctuations. When combined, the provisions for credit losses for the first quarter of 2009 were $299.5 million compared to $95.9 million for the first quarter of 2008.

The Company s expectation is that credit conditions will continue to weaken in most of our markets. We believe general economic conditions may continue to weaken, impacting both commercial and consumer borrowers. We expect to continue to build reserves over the next several quarters.

**Noninterest Income**

For the first quarter of 2009, noninterest income decreased 230.9% to a loss of $145.3 million compared to $111.0 million of income for the first quarter of 2008. The decrease is primarily due to $176.5 million of increased valuation losses on securities purchased from Lockhart Funding, $18.7 million of valuation losses on auction rate securities purchased from customers, a $41.9 million increase in net impairment losses on investment securities, and a $7.3 million reduction in equity securities gains in the first quarter of 2009 compared to the first quarter of 2008.

Service charges and fees on deposit accounts increased $3.2 million or 6.5% for the first quarter of 2009 compared to the first quarter of 2008. The increase reflects reduced business deposit account earnings credits due to lower interest rates.

Other service charges, commissions, and fees decreased $3.8 million or 8.9% for the first quarter of 2009 compared to the first quarter of 2008. The decrease reflected a reduction of lending related fees, mutual fund sweep product fees, and other fees.

Dividends and other investment income decreased 34.9% to $8.4 million for the first quarter of 2009 from $12.9 million for the first quarter of 2008. The decrease is primarily due to a $2.7 million increase in equity in the losses of Farmer Mac and a $1.4 million decrease in Federal Home Loan Bank dividends.

Loan sales and servicing income for the first quarter of 2009 decreased $2.0 million or 25.1% compared to the first quarter of 2008. The decreased income is primarily due to decreased servicing fees on small business loans resulting from the dissolution of the loan securitizations in Lockhart during 2008.

ZIONS BANCORPORATION AND SUBSIDIARIES

Income from securities conduit decreased $1.3 million or 52.2% for the first quarter of 2009 compared to the first quarter of 2008. This servicing income represents fees we receive from Lockhart and decreased because of the higher cost of asset-backed commercial paper due to disruptions in the commercial paper markets and because of the diminishing size of Lockhart s securities portfolio. The book value of Lockhart s securities portfolio declined to $186 million at March 31, 2009 from $738 million at December 31, 2008 and $1.8 billion at March 31, 2008, mainly due to purchases of Lockhart s securities by Zions Bank. We expect that Zions Bank will acquire the remaining assets of Lockhart during the second quarter of 2009 and thus eliminate the income from the securities conduit. All else being equal, net interest income is increased as Lockhart-related assets are brought onto the Company s balance sheet, roughly offsetting the decrease to noninterest income.

Net equity securities gains were $2.8 million for the first quarter of 2009 compared to $10.1 million of gains for the first quarter of 2008. Net gains in the first quarter of 2009 included a $2.7 million gain on the sale of a stock investment. Net gains in the first quarter of 2008 included a $12.4 million aggregate pretax cash gain from the partial redemption of the Company s equity interests in Visa Inc. and a $2.3 million loss on venture capital investments.

The Company recognized net impairment losses on investment securities of $82.7 million during the first quarter of 2009 compared to $40.8 million during the first quarter of 2008. The total impairment loss for the first quarter of 2009 was $165.6 million and the illiquidity portion of the OTTI that was charged against OCI was $82.9 million. These OTTI losses were for certain CDOs, including bank and insurance CDOs, ABS CDOs, bank and insurance income notes, and REIT trust preferred CDOs. See Investment Securities Portfolio for additional information.

Valuation losses on securities purchased were $200.4 million, which was comprised of $181.7 million from purchases of securities from Lockhart Funding LLC and $18.7 million from the purchase of auction rate securities from customers during the first quarter of 2009 as compared to $5.2 million of valuation losses on securities purchased from Lockhart during the first quarter of 2008. The $181.7 million of valuation losses on securities purchased resulted from purchases by Zions Bank from Lockhart of $537 million of AAA and AA-rated securities that were downgraded during the first quarter of 2009. The $18.7 million valuation loss on the purchase of auction rate securities at par value from customers was the result of the Company s decision to purchase all $255 million of outstanding auction rate securities sold to customers.

**Noninterest Expense**

Noninterest expense for the first quarter of 2009 was $376.2 million, an increase of 7.5% from $350.1 million for the first quarter of 2008. The Company s efficiency ratio for the first quarter of 2009 was 112.2% compared to 58.0% for the first quarter of 2008, mainly reflecting the decrease in noninterest income, as previously discussed. Excluding impairment and valuation losses on securities the efficiency ratio was 60.8% for the first quarter of 2009 and 53.9% for same period in 2008.

Salaries and employee benefits decreased $5.2 million or 2.5% compared to the first quarter of 2008. The decrease reflects decreased accruals for long-term incentive and profit sharing plans based upon Company performance, partially offset by moderate increases in compensation.

Other real estate expense increased $16.5 million or 898.0% compared to the first quarter of 2008. The increase is primarily due to increased OREO balances and write downs resulting from declining property values, mainly in Arizona and Nevada.

FDIC premiums increased $10.0 million as compared to the first quarter of 2008. The increase is due to increased FDIC premium rate charges on the bank s deposits in first quarter of 2009 and the impact of available FDIC assessment premium credits during 2008. The FDIC has announced its intent to levy a

special assessment on deposits to bolster the deposit insurance fund. Its initial proposal was for a 20 basis point assessment. More recent indications are that this assessment may be at a rate of 10 basis points or slightly less, and may be imposed in the second quarter of 2009. The Company estimates that its expense associated with a 10 basis point assessment would be approximately $41 million. No accrual for this expense was made in the first quarter.

Other noninterest expense for the first quarter of 2009 increased $3.9 million or 7.7% compared to the first quarter of 2008. This increase is primarily due to the reversal of a $5.6 million Visa litigation expense accrual in the first quarter of 2008.

At March 31, 2009, the Company had 10,942 full-time equivalent employees, 479 domestic branches, and 571 ATMs, compared to 10,946 full-time equivalent employees, 506 domestic branches, and 629 ATMs at March 31, 2008.

**Impairment Losses on Goodwill**

During the first quarter of 2009 the Company completed a goodwill impairment analysis as required by SFAS 142. The goodwill impairment analysis resulted in impairment losses on goodwill of approximately $634.0 million at the Amegy reporting unit.

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

**Income Taxes**

The Company s income tax benefit for the first quarter of 2009 was $151.7 million compared to a income tax expense of $49.9 million for the same period in 2008. The effective income tax rates, including the effects of noncontrolling interests, for the first three months of 2009 and 2008 were 15.5% and 31.9%. The lower first quarter of 2009 tax rate compared to 2008 is mainly due to nondeductible goodwill impairment charges. As discussed in previous filings, the Company has received federal income tax credits under the U.S. Government s Community Development Financial Institutions Fund that are recognized over a seven-year period from the year of investment. The effect of these tax credits was to reduce income tax expense by $1.5 million for both the first three months of 2009 and 2008, respectively.

**BALANCE SHEET ANALYSIS**

**Interest-Earning Assets**

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

Average interest-earning assets increased 5.8% to $49.6 billion for the three months ended March 31, 2009 compared to $46.9 billion for the same period in 2008. Average interest-earning assets as a percentage of total average assets for the first three months of 2009 was 89.5% compared to 88.5% for the comparable period of 2008.

Average money market investments, consisting of interest-bearing deposits and commercial paper, federal funds sold and security resell agreements, increased 43.8% to $2,962 million for the first three months of 2009 compared to $2,060 million for the first three months of 2008. Average money market investments for the first quarter of 2009 included $458 million of asset-backed commercial paper that subsidiary companies purchased from Lockhart as compared to $1,202 million during the first quarter of 2008. The increase in the average money market investment balance in the first quarter of 2009 was an effort by the Company to build a stronger liquidity position. See discussion at Liquidity Risk Management for further details.

ZIONS BANCORPORATION AND SUBSIDIARIES

**Investment Securities Portfolio**

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

The first two tables present the Company s investment securities, including asset-backed securities, classified by the highest of the ratings and the lowest ratings from any of Moody s Investors Service, Fitch Ratings or Standard & Poors as of April 16, 2009. The majority of these securities had noninvestment grade designations by one or more rating agencies at March 31, 2009.

ZIONS BANCORPORATION AND SUBSIDIARIES

INVESTMENT SECURITIES PORTFOLIO

ASSET-BACKED SECURITIES CLASSIFIED AT HIGHEST CREDIT RATING*

As of March 31, 2009 [1]

| (In millions) | Par value | Amortized cost | Net unrealized gains (losses) recognized in OCI [2] | Carrying value | Net unrealized gains (losses) not recognized in OCI [2] | Estimated fair value |
|---|---|---|---|---|---|---|
| **HELD-TO-MATURITY:** | | | | | | |
| Municipal securities | $ 683 | $ 680 | $ | $ 680 | $ (2) | $ 678 |
| Asset-backed securities: | | | | | | |
| Trust preferred securities banks and insurance | | | | | | |
| A rated | 12 | 12 | (1) | 11 | (3) | 8 |
| BBB rated | 23 | 23 | (2) | 21 | (5) | 16 |
| Noninvestment grade | 1,229 | 1,190 | (338) | 852 | (248) | 604 |
| | 1,264 | 1,225 | (341) | 884 | (256) | 628 |
| Trust preferred securities real estate investment trusts | | | | | | |
| Noninvestment grade | 45 | 36 | (9) | 27 | (9) | 18 |
| | 45 | 36 | (9) | 27 | (9) | 18 |
| Other | | | | | | |
| AAA rated | 23 | 22 | | 22 | (9) | 13 |
| AA rated | 4 | 3 | (1) | 2 | 1 | 3 |
| A rated | 21 | 19 | | 19 | (11) | 8 |
| BBB rated | 25 | 23 | (12) | 11 | (2) | 9 |
| Noninvestment grade | 13 | 9 | (5) | 4 | | 4 |
| | 86 | 76 | (18) | 58 | (21) | 37 |
| | 2,078 | 2,017 | (368) | 1,649 | (288) | 1,361 |
| **AVAILABLE-FOR-SALE:** | | | | | | |
| U.S. Treasury securities | 28 | 27 | 1 | 28 | | 28 |
| U.S. Government agencies and corporations: | | | | | | |
| Agency securities | 305 | 305 | 3 | 308 | | 308 |
| Agency guaranteed mortgage-backed securities | 464 | 465 | 9 | 474 | | 474 |
| Small Business Administration loan-backed securities | 637 | 682 | (26) | 656 | | 656 |
| Municipal securities | 245 | 241 | 2 | 243 | | 243 |
| Asset-backed securities: | | | | | | |
| Trust preferred securities banks and insurance | | | | | | |
| AAA rated | 87 | 86 | (12) | 74 | | 74 |
| AA rated | 642 | 481 | (51) | 430 | | 430 |
| A rated | 367 | 357 | (146) | 211 | | 211 |
| BBB rated | 164 | 139 | (35) | 104 | | 104 |
| Not rated | 26 | 25 | (10) | 15 | | 15 |
| Noninvestment grade | 180 | 148 | (82) | 66 | | 66 |
| | 1,466 | 1,236 | (336) | 900 | | 900 |
| Trust preferred securities real estate investment trusts | | | | | | |
| Noninvestment grade | 145 | 59 | (38) | 21 | | 21 |

| | | | | | | |
|---|---|---|---|---|---|---|
| | 145 | 59 | (38) | 21 | | 21 |
| Auction rate securities | | | | | | |
| AAA rated | 178 | 167 | | 167 | | 167 |
| A rated | 7 | 5 | | 5 | | 5 |
| Noninvestment grade | 7 | 6 | | 6 | | 6 |
| | 192 | 178 | | 178 | | 178 |
| Other | | | | | | |
| AAA rated | 61 | 58 | (16) | 42 | | 42 |
| AA rated | 4 | 2 | | 2 | | 2 |
| A rated | 50 | 48 | (12) | 36 | | 36 |
| BBB rated | 6 | 5 | (2) | 3 | | 3 |
| Noninvestment grade | 49 | 11 | (5) | 6 | | 6 |
| | 170 | 124 | (35) | 89 | | 89 |
| | 3,652 | 3,317 | (420) | 2,897 | | 2,897 |
| Other securities: | | | | | | |
| Mutual funds and stock | 190 | 190 | | 190 | | 190 |
| | 3,842 | 3,507 | (420) | 3,087 | | 3,087 |
| Total | $ 5,920 | $ 5,524 | $ (788) | $ 4,736 | $ (288) | $ 4,448 |

** 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.*

*[1] Schedule reflects ratings as of April 16, 2009.*

*[2] Other comprehensive income. All amounts reported are pretax.*

ZIONS BANCORPORATION AND SUBSIDIARIES

INVESTMENT SECURITIES PORTFOLIO

ASSET-BACKED SECURITIES CLASSIFIED AT LOWEST CREDIT RATING*

As of March 31, 2009 [1]

| (In millions) | Par value | Amortized cost | Net unrealized gains (losses) recognized in OCI [2] | Carrying value | Net unrealized gains (losses) not recognized in OCI [2] | Estimated fair value |
|---|---|---|---|---|---|---|
| **HELD-TO-MATURITY:** | | | | | | |
| Municipal securities | $ 683 | $ 680 | $ | $ 680 | $ (2) | $ 678 |
| Asset-backed securities: | | | | | | |
| Trust preferred securities banks and insurance | | | | | | |
| Noninvestment grade | 1,264 | 1,225 | (341) | 884 | (256) | 628 |
| | 1,264 | 1,225 | (341) | 884 | (256) | 628 |
| Trust preferred securities real estate investment trusts | | | | | | |
| Noninvestment grade | 45 | 36 | (9) | 27 | (9) | 18 |
| | 45 | 36 | (9) | 27 | (9) | 18 |
| Other | | | | | | |
| AA rated | 5 | 5 | | 5 | | 5 |
| Noninvestment grade | 81 | 71 | (18) | 53 | (21) | 32 |
| | 86 | 76 | (18) | 58 | (21) | 37 |
| | 2,078 | 2,017 | (368) | 1,649 | (288) | 1,361 |
| **AVAILABLE-FOR-SALE:** | | | | | | |
| U.S. Treasury securities | 28 | 27 | 1 | 28 | | 28 |
| U.S. Government agencies and corporations: | | | | | | |
| Agency securities | 305 | 305 | 3 | 308 | | 308 |
| Agency guaranteed mortgage-backed securities | 464 | 465 | 9 | 474 | | 474 |
| Small Business Administration loan-backed securities | 637 | 682 | (26) | 656 | | 656 |
| Municipal securities | 245 | 241 | 2 | 243 | | 243 |
| Asset-backed securities: | | | | | | |
| Trust preferred securities banks and insurance | | | | | | |
| AAA rated | 6 | 6 | | 6 | | 6 |
| AA rated | 141 | 134 | (10) | 124 | | 124 |
| A rated | 149 | 121 | (5) | 116 | | 116 |
| BBB rated | 258 | 181 | (8) | 173 | | 173 |
| Not rated | 26 | 25 | (10) | 15 | | 15 |
| Noninvestment grade | 886 | 769 | (303) | 466 | | 466 |
| | 1,466 | 1,236 | (336) | 900 | | 900 |
| Trust preferred securities real estate investment trusts | | | | | | |
| Noninvestment grade | 145 | 59 | (38) | 21 | | 21 |
| | 145 | 59 | (38) | 21 | | 21 |
| Auction rate securities | | | | | | |
| AAA rated | 178 | 167 | | 167 | | 167 |

| | | | |
|---|---|---|---|
| A rated | 4 | 2 | 2 |