

ZIONS BANCORPORATION /UT/

Form 10-Q

August 08, 2008

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period June 30,
ended 2008

OR

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

For the
transition
period
from to

COMMISSION FILE NUMBER: 001-12307

ZIONS BANCORPORATION
(Exact name of registrant as specified in its charter)

UTAH
(State or other
jurisdiction
of Incorporation or
organization)

87-0227400
(IRS Employer
Identification No.)

ONE SOUTH
MAIN, 15th
FLOOR
SALT LAKE
CITY, UTAH 84133
(Address of
principal
executive
offices)

(Zip
Code)

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

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

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Yes ☒

No ☐

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

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐

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

Yes ☐

No ☒

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

Common Stock, without par value, outstanding at July 31, 2008

107,574,383 shares

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ZIONS BANCORPORATION AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (Unaudited)

ZIONS BANCORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(In thousands, except share amounts)	June 30, 2008 (Unaudited)	December 31, 2007	June 30, 2007 (Unaudited)
ASSETS			
Cash and due from banks	\$ 1,751,724	\$ 1,855,155	\$ 1,640,946
Money market investments:			
Interest-bearing deposits and commercial paper	504,314	726,446	39,881
Federal funds sold	274,456	102,225	120,959
Security resell agreements	484,487	671,537	482,893
Investment securities:			
Held-to-maturity, at adjusted cost (approximate fair value \$1,730,104, \$702,148, and \$685,521)	1,914,833	704,441	702,189
Available-for-sale, at fair value	2,817,682	5,134,610	4,564,183
Trading account, at fair value (includes \$463, \$741, and \$1,745 transferred as collateral under repurchase agreements)	51,670	21,849	22,808
	4,784,185	5,860,900	5,289,180
Loans:			
Loans held for sale	158,509	207,943	226,041
Loans and leases	41,874,224	39,044,163	36,715,752
	42,032,733	39,252,106	36,941,793
Less:			
Unearned income and fees, net of related costs	159,756	164,327	153,588
Allowance for loan losses	548,958	459,376	380,295
Loans and leases, net of allowance	41,324,019	38,628,403	36,407,910
Other noninterest-bearing investments	1,153,933	1,034,412	972,830
Premises and equipment, net	656,013	655,712	648,731
Goodwill	2,009,511	2,009,513	2,013,314
Core deposit and other intangibles	132,481	149,493	180,867
Other real estate owned	125,186	15,201	10,646
Other assets	1,430,574	1,238,417	883,288
	\$ 54,630,883	\$ 52,947,414	\$ 48,691,445

**LIABILITIES AND
SHAREHOLDERS' EQUITY**
Deposits:

Noninterest-bearing demand	\$	9,735,265	\$	9,618,300	\$	9,857,638
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Interest-bearing:

Savings and NOW		4,590,767		4,507,837		4,368,184
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Money market		11,175,844		10,304,225		10,344,110
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Internet money market		2,211,557		2,163,014		1,544,031
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Time under \$100,000		2,466,082		2,562,363		2,535,881
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Time \$100,000 and over		4,102,369		4,391,588		4,881,994
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Foreign		3,326,111		3,375,426		2,653,734
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		37,607,995		36,922,753		36,185,572
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Securities sold, not yet

purchased		46,376		224,269		28,456
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Federal funds purchased		2,379,055		2,463,460		2,221,887
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Security repurchase agreements		1,010,325		1,298,112		1,061,598
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Other liabilities		555,812		644,375		602,173
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Commercial paper		137,200		297,850		228,607
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Federal Home Loan Bank
advances and other borrowings:

One year or less		4,799,143		3,181,990		664,509
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Over one year		129,474		127,612		128,832
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Long-term debt		2,666,445		2,463,254		2,313,015
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Total liabilities		49,331,825		47,623,675		43,434,649
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Minority interest		25,528		30,939		32,094
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Shareholders' equity:
Capital stock:
Preferred stock, without par value, authorized 3,000,000
shares:
Series A (liquidation preference
\$1,000 per share); issued

and outstanding 240,000 shares		240,000		240,000		240,000
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Common stock, without par
value; authorized 350,000,000
shares; issued
and outstanding 107,518,975,
107,116,505, and 108,034,079

shares		2,224,455		2,212,237		2,279,722
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Retained earnings		2,981,062		2,910,692		2,828,613
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Accumulated other

comprehensive income (loss)		(158,325)		(58,835)		(112,840)
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Deferred compensation		(13,662)		(11,294)		(10,793)
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Total shareholders' equity		5,273,530		5,292,800		5,224,702
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	\$	54,630,883	\$	52,947,414	\$	48,691,445
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See accompanying notes to
consolidated financial

statements.

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ZIONS BANCORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

(In thousands, except per share amounts)	Three Months Ended		Six Months Ended	
	June 30, 2008	2007	June 30, 2008	2007
Interest income:				
Interest and fees on loans	\$ 643,111	\$ 697,022	\$ 1,331,550	\$ 1,371,599
Interest on loans held for sale	2,699	4,322	5,716	8,197
Lease financing	5,767	5,234	11,585	10,440
Interest on money market investments	12,313	7,756	31,341	14,098
Interest on securities:				
Held-to-maturity – taxable	15,730	2,064	18,185	4,267
Held-to-maturity – nontaxable	6,224	6,227	12,653	12,318
Available-for-sale – taxable	35,059	63,825	97,415	132,332
Available-for-sale – nontaxable	1,870	2,398	3,762	4,856
Trading account	159	766	840	1,958
Total interest income	722,932	789,614	1,513,047	1,560,065
Interest expense:				
Interest on savings and money market deposits	80,144	117,295	184,131	230,398
Interest on time and foreign deposits	83,460	120,445	189,682	233,330
Interest on short-term borrowings	43,255	43,369	106,389	92,061
Interest on long-term borrowings	31,330	39,158	61,644	77,846
Total interest expense	238,189	320,267	541,846	633,635
Net interest income	484,743	469,347	971,201	926,430
Provision for loan losses	114,192	17,763	206,474	26,874
Net interest income after provision for loan losses	370,551	451,584	764,727	899,556
Noninterest income:				
Service charges and fees on deposit accounts	51,067	45,116	100,652	88,501
Other service charges, commissions and fees	42,362	42,311	84,343	81,688
Trust and wealth management income	10,284	9,125	19,977	17,341
	12,196	11,900	22,593	21,631

Capital markets and foreign exchange				
Dividends and other investment income	10,409	11,271	23,319	22,364
Loan sales and servicing income	8,516	8,998	16,326	18,256
Income from securities conduit	1,043	5,968	3,624	12,483
Fair value and nonhedge derivative income (loss)	(19,789)	924	(16,002)	2,169
Equity securities gains (losses), net	(8,121)	100	1,947	5,298
Fixed income securities gains, net	78	13	1,853	3,714
Impairment losses on investment securities and valuation losses on securities purchased from Lockhart				
Funding	(38,761)	-	(84,750)	-
Other	3,088	5,615	9,490	13,310
Total noninterest income	72,372	141,341	183,372	286,755
Noninterest expense:				
Salaries and employee benefits	201,291	198,668	410,645	404,255
Occupancy, net	27,364	26,334	54,163	52,923
Furniture and equipment	25,610	24,272	49,348	47,539
Legal and professional services	11,566	11,242	19,446	20,779
Postage and supplies	8,536	9,025	18,325	17,072
Advertising	7,520	7,517	13,871	13,974
Merger related expense	281	1,491	588	3,897
Amortization of core deposit and other intangibles	8,191	11,812	17,011	22,941
Provision for unfunded lending commitments	1,690	1,222	5,308	1,528
Other	62,368	56,029	115,815	114,683
Total noninterest expense	354,417	347,612	704,520	699,591
Income before income taxes and minority interest	88,506	245,313	243,579	486,720
Income taxes	22,037	86,065	71,933	174,919
Minority interest	(5,729)	34	(7,301)	(671)
Net income	72,198	159,214	178,947	312,472
Preferred stock dividend	2,454	3,607	4,907	7,210
Net earnings applicable to common shareholders	\$ 69,744	\$ 155,607	\$ 174,040	\$ 305,262

Weighted average common shares outstanding during the period:

Basic shares	106,595	107,803	106,554	108,107
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Diluted shares	106,712	109,124	106,720	109,639
Net earnings per common share:				
Basic	\$ 0.65	\$ 1.44	\$ 1.63	\$ 2.82
Diluted	0.65	1.43	1.63	2.78

See accompanying notes to consolidated financial statements.

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ZIONS BANCORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
AND COMPREHENSIVE INCOME
(Unaudited)

(In thousands, except per share amounts)	Preferred stock	Common stock	Retained earnings	Accumulated other comprehensive income (loss)	Deferred compensation	Total shareholders' equity
Balance, December 31, 2007	\$ 240,000	\$ 2,212,237	\$ 2,910,692	\$ (58,835)	\$ (11,294)	\$ 5,292,800
Cumulative effect of change in accounting principle, adoption of SFAS 159			(11,471)	11,471		-
Comprehensive income:						
Net income for the period			178,947			178,947
Other comprehensive loss, net of tax:						
Net realized and unrealized holding losses on investments and retained interests				(170,402)		
Foreign currency translation				1		
Reclassification for net realized losses on investments recorded in operations				51,117		
Net unrealized gains on derivative instruments				7,589		
Pension and postretirement				734		
Other comprehensive loss				(110,961)		(110,961)
Total comprehensive income						67,986
Stock issued under dividend reinvestment plan		632				632

Net stock issued under employee plans and related tax benefits		11,586				11,586
Dividends declared on preferred stock			(4,907)			(4,907)
Dividends on common stock, \$.86 per share			(92,199)			(92,199)
Change in deferred compensation				(2,368)		(2,368)
Balance, June 30, 2008	\$ 240,000	\$ 2,224,455	\$ 2,981,062	\$ (158,325)	\$ (13,662)	\$ 5,273,530
Balance, December 31, 2006	\$ 240,000	\$ 2,230,303	\$ 2,602,189	\$ (75,849)	\$ (9,620)	\$ 4,987,023
Cumulative effect of change in accounting principle, adoption of FIN 48			10,408			10,408
Comprehensive income:						
Net income for the period			312,472			312,472
Other comprehensive loss, net of tax:						
Net realized and unrealized holding losses on investments and retained interests				(15,672)		
Foreign currency translation				5		
Reclassification for net realized gains on investments recorded in operations				(3,854)		
Net unrealized losses on derivative instruments				(17,470)		
Other comprehensive loss				(36,991)		(36,991)
Total comprehensive income						275,481
Common stock issued in acquisition		206,075				206,075
Stock redeemed and retired		(231,845)				(231,845)
Net stock issued under employee						

plans and related tax benefits		75,189				75,189
Dividends declared on preferred stock			(7,210)			(7,210)
Dividends on common stock, \$.82 per share			(89,246)			(89,246)
Change in deferred compensation				(1,173)		(1,173)
Balance, June 30, 2007	\$ 240,000	\$ 2,279,722	\$ 2,828,613	\$ (112,840)	\$ (10,793)	\$ 5,224,702

Total comprehensive income (loss) for the three months ended June 30, 2008 and 2007 was \$(9,698) and \$115,631, respectively.

See accompanying notes to consolidated financial statements.

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ZIONS BANCORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(In thousands)	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2008	2007	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income for the period	\$ 72,198	\$ 159,214	\$ 178,947	\$ 312,472
Adjustments to reconcile net income to net cash provided by (used in) operating activities:				
Impairment losses on investment securities and valuation losses on securities purchased from Lockhart Funding	38,761	-	84,750	-
Provision for loan losses	114,192	17,763	206,474	26,874
Depreciation of premises and equipment	16,662	19,548	34,912	39,652
Amortization	18,903	12,494	29,267	22,995
Deferred income tax benefit	(38,657)	(1,294)	(70,894)	(22,024)
Share-based compensation	7,784	6,577	14,380	12,982
Excess tax benefits from share-based compensation	(142)	(2,837)	(399)	(10,593)
Gain (loss) allocated to minority interest	(5,729)	34	(7,301)	(671)
Equity securities losses (gains), net	8,121	(100)	(1,947)	(5,298)
Fixed income securities gains, net	(78)	(13)	(1,853)	(3,714)
Net decrease (increase) in trading securities	(10,863)	9,630	(21,720)	40,628
Principal payments on and proceeds from sales of loans held for sale	375,286	328,588	663,356	567,917
Additions to loans held for sale	(328,524)	(317,163)	(629,771)	(605,000)
Net gains on sales of loans, leases and other assets	(4,773)	(2,040)	(10,543)	(5,954)
Income from increase in cash surrender value of bank-owned life insurance	(6,273)	(6,366)	(12,601)	(13,157)
Change in accrued income taxes	(137,756)	(86,060)	(77,625)	13,061
Change in accrued interest receivable	5,466	(4,389)	22,219	972
Change in other assets	(187,696)	26,384	(81,273)	(3,905)
Change in other liabilities	56,808	31,420	(27,325)	(45,780)
Change in accrued interest payable	(14,428)	(5,052)	(11,324)	(2,171)
Other, net	3,021	(7,253)	8,851	(12,937)
Net cash provided by (used in) operating activities	(17,717)	179,085	288,580	306,349

**CASH FLOWS FROM INVESTING
ACTIVITIES:**

Net decrease in money market investments	791,730	341,005	236,951	2,323
Proceeds from maturities of investment securities held-to-maturity	30,081	30,243	53,892	54,034
Purchases of investment securities held-to-maturity	(19,265)	(41,899)	(40,183)	(79,752)
Proceeds from sales of investment securities available-for-sale	48,149	232,713	504,456	358,585
Proceeds from maturities of investment securities available-for-sale	1,668,775	771,463	2,638,685	1,355,188
Purchases of investment securities available-for-sale	(1,561,059)	(684,502)	(2,326,897)	(1,281,328)
Proceeds from sales of loans and leases	30,178	19,786	49,139	30,717
Securitized loans purchased	(874,100)	-	(1,157,304)	-
Net increase in loans and leases	(1,324,528)	(906,609)	(1,930,964)	(1,429,318)
Net decrease (increase) in other noninterest-bearing investments	(40,114)	20,390	(113,868)	87,214
Proceeds from sales of premises and equipment and other assets	1,170	1,838	8,428	3,754
Purchases of premises and equipment	(18,029)	(26,188)	(43,807)	(48,887)
Proceeds from sales of other real estate owned	13,063	2,630	18,991	5,091
Net cash received from (paid for) acquisitions	-	(1,668)	-	40,244
Net cash received from sale of subsidiary	-	-	-	6,995
Net cash used in investing activities	(1,253,949)	(240,798)	(2,102,481)	(895,140)

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ZIONS BANCORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
(Unaudited)

(In thousands)	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2008	2007	2008	2007
CASH FLOWS FROM FINANCING ACTIVITIES:				
Net increase (decrease) in deposits	\$ 91,626	\$ (139,490)	\$ 685,164	\$ 109,069
Net change in short-term funds borrowed	1,171,068	445,999	906,418	482,668
Proceeds from FHLB advances and other borrowings over one year	3,500	-	3,500	-
Payments on FHLB advances and other borrowings over one year	(1,032)	(614)	(1,638)	(8,226)
Proceeds from issuance of long-term debt	166,188	-	232,876	-
Debt issuance costs	(480)	-	(611)	(32)
Payments on long-term debt	(18,025)	(19,713)	(18,025)	(27,250)
Proceeds from issuance of common stock	854	17,827	2,073	52,406
Payments to redeem common stock	(2,343)	(128,603)	(2,580)	(231,845)
Excess tax benefits from share-based compensation	142	2,837	399	10,593
Dividends paid on preferred stock	(2,454)	(3,607)	(4,907)	(7,210)
Dividends paid on common stock	(46,193)	(46,496)	(92,199)	(89,246)
Net cash provided by financing activities	1,362,851	128,140	1,710,470	290,927
Net increase (decrease) in cash and due from banks	91,185	66,427	(103,431)	(297,864)
Cash and due from banks at beginning of period	1,660,539	1,574,519	1,855,155	1,938,810
Cash and due from banks at end of period	\$ 1,751,724	\$ 1,640,946	\$ 1,751,724	\$ 1,640,946

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Cash paid for:				
Interest	\$ 252,635	\$ 322,947	\$ 554,656	\$ 628,986
Income taxes	196,823	171,999	217,252	171,983
Noncash items:				

Investment securities available-for-sale transferred to held-to-maturity	1,226,832	-	1,226,832	-
Loans transferred to other real estate owned	104,242	6,455	134,474	9,804
Acquisitions:				
Common stock issued	-	-	-	206,075
Assets acquired	-	-	-	1,348,233
Liabilities assumed	-	-	-	1,142,158

See accompanying notes to consolidated financial
statements.

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ZIONS BANCORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

June 30, 2008

1. BASIS OF PRESENTATION

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

Operating results for the three- and six-month periods ended June 30, 2008 are not necessarily indicative of the results that may be expected in future periods. The consolidated balance sheet at December 31, 2007 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, 2007.

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, including NetDeposit, Inc. and P5, Inc.

2. CERTAIN RECENT ACCOUNTING PRONOUNCEMENTS

In March 2008, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards (“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 Statement is effective for annual and interim financial statements beginning after November 15, 2008. Earlier application is encouraged but not required. Management is evaluating the impact this Statement may have on the Company’s financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations, and SFAS No. 160, Accounting and Reporting of Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51. These new standards will significantly change the financial accounting and reporting of business combination transactions and noncontrolling (or minority) interests in consolidated

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ZIONS BANCORPORATION AND SUBSIDIARIES

financial statements. Both Statements are effective for the first annual reporting period after December 31, 2008. Generally, adoption is prospective and early adoption is not permitted. Management is evaluating the impact these Statements may have on the Company's financial statements.

Effective January 1, 2008, we adopted the provisions of FASB Staff Position ("FSP") FIN 39-1, Offsetting of Amounts Related to Certain Contracts. 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 June 30, 2008, cash collateral was used to reduce recorded amounts of derivative assets by approximately \$48 million and derivative liabilities by approximately \$160 million.

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

3. INVESTMENT SECURITIES

During the second quarter of 2008, we reassessed the classification of certain asset-backed and trust preferred collateralized debt obligations ("CDOs"). On April 28, 2008, we reclassified approximately \$1.2 billion at fair value of these available-for-sale securities to held-to-maturity. The related unrealized pretax loss of approximately \$273 million included in accumulated other comprehensive income ("OCI") remained in OCI and is being amortized as a yield adjustment through earnings over the remaining terms of the securities. No gain or loss was recognized at the time of reclassification. We consider the held-to-maturity classification to be more appropriate because we have the ability and the intent to hold these securities to maturity.

As a result of an ongoing valuation review of our investment securities portfolio, we recognized a pretax charge of approximately \$38.8 million during the second quarter of 2008 for certain investment securities deemed to have other-than-temporary impairment ("OTTI"). These investments consisted of certain asset-backed CDOs, including structured asset-backed ("ABS") CDOs, bank and insurance income notes, and trust preferred securities related to real estate investment trusts ("REITs"). The amount comprises the "Impairment losses on investment securities and valuation losses on securities purchased from Lockhart Funding" in the statement of income for the second quarter of 2008. Approximately \$28.7 million of the amount resulted from write-downs of two ABS CDOs and one bank and insurance income note that were first deemed to have OTTI this quarter. The remaining \$10.1 million resulted from write-downs of six REIT trust preferred CDOs and one bank and insurance income note for which OTTI had previously been recognized. OTTI was approximately \$79.6 million for the first six months of 2008.

4. OFF-BALANCE SHEET ARRANGEMENT

Zions Bank provides a liquidity facility for a fee to Lockhart Funding, LLC ("Lockhart"), an off-balance sheet qualifying special-purpose entity ("QSPE") 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

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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.

On June 23, 2008, Zions Bank purchased \$787 million of securities and related accrued interest at book value from Lockhart. The purchase of these securities was required by the Liquidity Agreement when MBIA Inc., and the securities it insured, was downgraded below AA-. The purchases comprised the entire remaining small business loan securitizations created by Zions Bank and held by Lockhart. No gain or loss was recognized on these purchases. Upon dissolution of the securitization trusts (including \$87 million of related securities owned by the Parent), Zions Bank recorded \$897 million of loans on its balance sheet including \$23 million of premium. See further discussion of the premium in Note 8.

The commitment of Zions Bank to Lockhart cannot exceed the book value of Lockhart's securities portfolio, which was approximately \$862 million at June 30, 2008. Lockhart is limited in size by program agreements, agreements with rating agencies, and the size of the liquidity facility. The book value of Lockhart's remaining securities portfolio exceeded the fair value of the securities by approximately \$65 million at June 30, 2008. During the first quarter of 2008, Zions Bank recorded valuation losses of approximately \$5.2 million when it purchased certain securities from Lockhart.

As permitted by the governing documents, the Company has also purchased asset-backed commercial paper from Lockhart and held approximately \$493 million on its balance sheet at June 30, 2008. The average amount of Lockhart commercial paper included in money market investments for the three months ended June 30, 2008 was approximately \$1.1 billion. These purchases were made to provide liquidity to Lockhart due to ongoing contraction and disruptions in the asset-backed commercial paper markets. If at any given time the Company were to own more than 90% of Lockhart's outstanding commercial paper (beneficial interest), Lockhart would cease to be a QSPE and the Company would be required to consolidate Lockhart in its financial statements.

5. DEBT

During the second quarter of 2008, the Company issued a total of \$166 million of one- and two-year senior medium-term notes at coupon rates ranging from 4.50% to 5.45%. Interest is payable semiannually. These unsecured notes were sold via Zions' online auction process and direct sales. They were issued under the Company's existing shelf registration with the Securities and Exchange Commission ("SEC"). Approximately \$18 million of the proceeds was used to retire previous indebtedness of senior notes. The total amount of senior medium-term notes issued during the first six months of 2008 was \$233 million.

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6. SHAREHOLDERS' EQUITY

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

	Net unrealized gains (losses) on investments, retained interests and other	Net unrealized gains (losses) on derivative instruments	Pension and post- retirement	Total
Six Months Ended June 30, 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 \$105,553	(170,402)			(170,402)
Foreign currency translation	1			1
Reclassification for net realized losses recorded in operations, net of income tax benefit of \$31,664	51,117			51,117
Net unrealized gains, net of reclassification to operations of \$23,362 and income tax expense of \$4,942		7,589		7,589
Pension and postretirement, net of income tax expense of \$477			734	734
Other comprehensive income (loss)	(119,284)	7,589	734	(110,961)
Balance, June 30, 2008	\$ (216,579)	\$ 72,802	\$ (14,548)	\$ (158,325)

Six Months Ended June 30,
2007:

Balance, December 31, 2006	\$ (18,371)	\$ (41,716)	\$ (15,762)	\$ (75,849)
Other comprehensive income (loss), net of tax:				

Net realized and unrealized holding losses, net of income tax benefit of \$9,707	(15,672)			(15,672)
Foreign currency translation	5			5
Reclassification for net realized gains recorded in operations, net of income tax expense of \$2,388	(3,854)			(3,854)
Net unrealized losses, net of reclassification to operations of \$(22,011) and income tax benefit of \$10,836		(17,470)		(17,470)
Other comprehensive loss	(19,521)	(17,470)	-	(36,991)
Balance, June 30, 2007	\$ (37,892)	\$ (59,186)	\$ (15,762)	\$ (112,840)

Total shares of common stock issued during the three months ended June 30, 2008 and 2007 were 442,475 and 556,325, and during the six months ended June 30, 2008 and 2007 were 463,057 and 4,110,032, respectively. Of these respective share amounts, 8,416 and 338,702, and 44,998 and 1,281,775 net shares were issued for the exercise of stock options, and 413,427 and 217,623, and 417,427 and 228,140 were issued as restricted stock.

On July 2, 2008, the Company completed a \$46.7 million offering of 9.50% Series C Fixed-Rate Non-Cumulative Perpetual Preferred Stock. The Company issued 46,949 shares in the form of 1,877,971 depositary shares with each depositary share representing a 1/40th ownership interest in a share of the preferred stock. Terms and conditions, except for the dividend amount, are generally similar to the existing issuance of Series A floating rate preferred stock described in the Company's Annual Report on Form 10-K for the year ended December 31, 2007. The offering was sold via Zions' online auction process and direct sales primarily by the Company's broker/dealer subsidiary.

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7. INCOME TAXES

Income tax expense for the second quarter of 2008 included a benefit of \$5.9 million from a settlement with governmental authorities that allowed the Company to reduce its liability and related interest for uncertain tax positions under the provisions of FIN 48.

8. FAIR VALUE

Effective January 1, 2008, the Company adopted SFAS No. 157, Fair Value Measurements, and SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. Both Standards address the application of fair value accounting and reporting.

Fair Value Measurements

SFAS 157 defines fair value, establishes a consistent framework for measuring fair value, and enhances disclosures about fair value measurements. In February 2008, the FASB amended SFAS 157 with the issuance of FSP FAS 157-1, which excludes with certain exceptions SFAS No. 13, Accounting for Leases, from the scope of SFAS 157, and FSP FAS 157-2, which delayed the adoption of SFAS 157 for one year for the measurement of nonfinancial assets and nonfinancial liabilities. There was no material effect from the adoption of SFAS 157 on the Company's consolidated financial statements.

SFAS 157 defines fair value 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, certain private equity investments, and retained interests from securitizations.

The Company uses 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 available-for-sale and trading investment securities; certain private equity investments; certain retained interests from securitizations; 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, certain private equity investments, and other real estate owned. Fair value is also used when evaluating impairment on certain assets, including held-to-maturity and available-for-sale securities, goodwill, and core deposit and other intangibles, and for annual disclosures required by SFAS No. 107, Disclosures about Fair Value of Financial Instruments.

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The Company uses models when quotations are not available for certain securities or in markets where trading activity has slowed or ceased. When quotations are not available, and are not provided by third party pricing services, management judgment is necessary to determine fair value. In situations involving management judgment, fair value is determined using discounted cash flow analysis or other valuation models, which incorporate available market information, including appropriate benchmarking to similar instruments, analysis of default and recovery rates, estimation of prepayment characteristics and implied volatilities.

The Company has valued certain REIT and ABS CDOs using models provided by third party vendors. The models utilized relevant data assumptions to value these CDO securities and were evaluated by the Company to determine if the models appropriately calculated values. These assumptions included but were not limited to probability of default, collateral recovery rates, discount rates, over-collateralization levels, market indices such as ABX, 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. The Company's decision to use Level 3 model pricing for certain CDOs was made due to continued trading contraction of these securities and the lack of observable market inputs to value such securities.

Available-for-sale 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. Available-for-sale securities include certain CDOs that consist of trust preferred securities related to banks and insurance companies and to REITs. Where possible, the fair value of these CDOs is priced under Level 2 using a whole market price quote method that incorporates matrix pricing and uses the prices of securities of similar type and rating to value comparable securities held by the Company. This method is described more fully in the Company's Annual Report on Form 10-K for the year ended December 31, 2007. If sufficient information is not available for matrix pricing, fair value is determined under Level 3 using nonbinding single dealer quotes or model pricing as discussed in the preceding paragraph.

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 nonrecurring 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 amounts 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.

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Retained interests from securitizations are fair valued under Level 3 based on the modeling techniques previously described. The assumptions used in the models are evaluated quarterly.

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. Certain foreign exchange derivatives have been fair valued under Level 1 because they are traded in active markets. Amounts disclosed in the following table are net of the cash collateral offsets pursuant to the guidance of FSP FIN 39-1, as discussed in Note 2.

Securities sold, not yet purchased are fair valued under Level 1 when quoted prices are available for the securities involved. Those under Level 2 are fair valued similar to trading account investment securities.

Assets and liabilities measured at fair value on a recurring basis, including those elected under SFAS 159, are summarized as follows at June 30, 2008 (in thousands):

	Level 1	Level 2	Level 3	Total
ASSETS				
Investment securities:				
Available-for-sale	\$ 114,809	\$ 2,520,605	\$ 182,268	\$ 2,817,682
Trading account		45,946	5,724 (1)	51,670
Other noninterest-bearing investments:				
Private equity		24,217		24,217
Other assets:				
Derivatives	7,099	432,894		439,993
	\$ 121,908	\$ 3,023,662	\$ 187,992	\$ 3,333,562
LIABILITIES				
Securities sold, not yet purchased				
	\$ 18,461	\$ 27,915		\$ 46,376
Other liabilities:				
Derivatives	7,425	140,871		148,296
Other			\$ 292	292
	\$ 25,886	\$ 168,786	\$ 292	\$ 194,964

(1) Elected under SFAS 159 for fair value option, as discussed subsequently.

The following reconciles the beginning and ending balances of assets and liabilities for the three- and six-month periods ended June 30, 2008 that are measured at fair value on a recurring basis using Level 3 inputs (in thousands):

Level 3 Instruments			
Three Months Ended June 30, 2008			
Investment securities	Retained		
Available-	interests from		Other
for-sale	securitizations		liabilities
	(1)		
Trading			
account (1)			

Balance at March 31, 2008	\$ 587,193	\$ 5,767	\$ 38,788	\$ (23)
Total net gains (losses)				
included in:				
Statement of income (2):				
Fair value and nonhedge				
derivative income (loss)		(43)	(3,822)	
Impairment losses on				
available-for sale securities	(26,448)			
Other noninterest expense				731
Other comprehensive				
income (loss)	7,000			
Proceeds from ESOARS				
auction				(1,000)
Fair value of				
available-for-sale securities				
transferred to				
held-to-maturity	(200,873)			
Purchases, sales, issuances,				
and settlements, net	(3,425)		(8,231)	
Net transfers in (out)	(181,179)	-	(26,735)	-
Balance at June 30, 2008	\$ 182,268	\$ 5,724	\$ -	\$ (292)

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	Level 3 Instruments Six Months Ended June 30, 2008			
	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)		(2,376)	(2,098)	
Impairment losses on available-for sale securities and valuation losses on securities purchased from Lockhart Funding	(68,026)			
Other noninterest expense				752
Other comprehensive income (loss)	(66,131)			
Proceeds from ESOARS auction				(1,000)
Fair value of available-for-sale securities transferred to held-to-maturity	(200,873)			
Purchases, sales, issuances, and settlements, net	(1,670)		(13,593)	
Net transfers in (out)	181,630	-	(26,735)	-
Balance at June 30, 2008	\$ 182,268	\$ 5,724	\$ -	\$ (292)

(1) Elected under SFAS 159 for fair value option, as discussed subsequently.

(2) Amounts are all unrealized.

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

	Fair value at June 30, 2008				Gains (losses) from fair value changes	
	Level 1	Level 2	Level 3	Total	Three months ended June 30, 2008	Six months ended June 30, 2008
ASSETS						
Loans held for sale	\$ 19,861			\$ 19,861	\$ 191	\$ 6
Impaired loans		135,626		135,626	(27,997)	(41,533)

Other noninterest-bearing investments:						
Private equity		\$ 86,090	86,090	(7,778)	(7,048)	
Other real estate owned		6,378	6,378	(1,503)	(2,292)	
	\$ -	\$ 161,865	\$ 86,090	\$ 247,955	\$ (37,087)	\$ (50,867)

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 from broker/dealers.

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

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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 were selected to more appropriately reflect their fair value and to account for increases and decreases in their fair value through earnings. Net decreases in fair value of approximately \$2.1 million from January 1, 2008 through June 23, 2008 were recognized in fair value and nonhedge derivative income (loss) in the statement of income. However as discussed in Note 4, on June 23, 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 \$23 million premium amount recorded with the loan balances at Zions Bank.

9. GUARANTEES AND COMMITMENTS

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

	June 30, 2008	December 31, 2007
Standby letters of credit:		
Financial	\$ 1,350,755	\$ 1,317,304
Performance	320,869	351,150
	\$ 1,671,624	\$ 1,668,454

The Company's Annual Report on Form 10-K for the year ended December 31, 2007 contains further information on these letters of credit including their terms and collateral requirements. At June 30, 2008, the carrying value recorded by the Company as a liability for these guarantees was \$5.9 million.

As of June 30, 2008, the Parent has guaranteed approximately \$300.4 million of debt primarily issued by affiliated trusts issuing trust preferred securities.

During the first quarter of 2008, the Company's subsidiary banks recorded an aggregate pretax cash gain of approximately \$12.4 million from the partial redemption of their equity interests in Visa Inc. The redemption approximated 39% of the subsidiary banks' equity interests and was included in "Equity securities gains (losses), net" in the statement of income for the six months ended June 30, 2008. Also during the first quarter of 2008, the Company reversed approximately \$5.6 million of the \$8.1 million accrual established during the fourth quarter of 2007 for indemnification liabilities related to certain Visa litigation. The effect of this reversal is included in other noninterest expense in the statement of income for the six months ended June 30, 2008. In accordance with generally accepted accounting principles and recent guidance from the SEC, the Company's subsidiary banks have not recognized any value for their remaining investment in Visa.

See Note 4 for a discussion of Zions Bank's commitment to Lockhart.

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10. RETIREMENT PLANS

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

	Supplemental retirement benefits				Postretirement benefits				Supplemental retirement benefits				Postretirement benefits			
	Pension benefits		Three Months Ended June 30,		Pension benefits		Six Months Ended June 30,		Pension benefits		Six Months Ended June 30,		Pension benefits		Six Months Ended June 30,	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Service cost	\$ 95	\$ 122	\$ -	\$ -	\$ 64	\$ 27	\$ 202	\$ 243	\$ -	\$ -	\$ 92	\$ 53				
Interest cost	2,095	2,121	187	177	207	82	4,440	4,243	357	355	288	158				
Expected return on plan assets	(2,671)	(2,899)					(5,661)	(5,798)								
Amortization of prior service cost (credit)			43	31	(162)				74	62	(162)					
Amortization of transition liability				4						8						
Settlement gain					(2,973)						(2,973)					
Amortization of net actuarial (gain) loss	231	255	(5)	(3)	(235)	(69)	489	510	(12)	(6)	(290)	(134)				
Net periodic benefit cost (credit)	\$ (250)	\$ (401)	\$ 225	\$ 209	\$ (3,099)	\$ 40	\$ (530)	\$ (802)	\$ 419	\$ 419	\$ (3,045)	\$ 77				

As disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2007, 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. The settlement gain resulted from the Company's curtailment of coverage effective June 1, 2008 for certain participants in the postretirement benefit plan and was accounted for in accordance with applicable accounting standards.

11. OPERATING SEGMENT INFORMATION

We manage our operations and prepare management reports and other information with a primary focus on geographical area. As of June 30, 2008, we operate eight community/regional banks in distinct geographical areas. Performance assessment and resource allocation are based upon this geographical structure. Zions Bank operates 114 branches in Utah and 25 branches in Idaho. CB&T operates 90 branches in California. Amegy operates 86 branches in

Texas. NBA operates 77 branches in Arizona. NSB operates 71 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. In addition, as of June 30, 2008, Zions Bank, CB&T, Amegy, NBA, Vectra, and TCBW each operate a foreign branch in the Grand Cayman Islands. NSB has an application pending to open a foreign branch. 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.

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The following table presents selected operating segment information for the three months ended June 30, 2008 and 2007:

(In millions)	Zions Bank		CB&T		Amegy		NBA		NSB	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
CONDENSED INCOME STATEMENT										
Net interest income	\$ 166.5	\$ 135.7	\$ 101.2	\$ 109.8	\$ 89.4	\$ 81.0	\$ 57.8	\$ 64.5	\$ 40.2	\$ 47.0
Provision for loan losses	43.5	3.0	19.4	4.0	8.3	5.7	23.3	3.6	13.3	1.2
Net interest income after provision for loan losses	123.0	132.7	81.8	105.8	81.1	75.3	34.5	60.9	26.9	45.8
Impairment losses on investment securities	(12.3)	-	-	-	-	-	-	-	-	-
Other noninterest income	40.1	63.5	18.6	19.1	36.4	31.1	7.6	8.3	9.2	8.5
Noninterest expense	114.3	112.8	59.0	58.7	74.7	74.5	33.7	36.0	29.9	27.0
Income (loss) before income taxes and minority interest	36.5	83.4	41.4	66.2	42.8	31.9	8.4	33.2	6.2	27.3
Income tax expense (benefit)	10.6	28.3	16.3	26.5	14.1	9.8	3.4	13.0	2.1	9.6
Minority interest	-	-	-	-	-	-	-	-	-	-
Net income (loss)	25.9	55.1	25.1	39.7	28.7	22.1	5.0	20.2	4.1	17.7
Preferred stock dividend	-	-	-	-	-	-	-	-	-	-
Net earnings applicable to common shareholders	\$ 25.9	\$ 55.1	\$ 25.1	\$ 39.7	\$ 28.7	\$ 22.1	\$ 5.0	\$ 20.2	\$ 4.1	\$ 17.7

AVERAGE BALANCE SHEET DATA

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Total assets	\$ 18,892	\$ 15,444	\$ 10,176	\$ 10,102	\$ 11,933	\$ 9,934	\$ 5,270	\$ 5,474	\$ 3,821	\$ 3,859
Total loans and leases	13,856	11,389	7,869	7,871	8,388	6,698	4,493	4,667	3,205	3,207
Total deposits	11,489	11,262	8,024	8,142	8,245	7,029	3,900	4,355	3,242	3,327
Shareholder's equity:										
Preferred equity	-	-	-	-	-	-	-	-	-	-
Common equity	1,055	997	1,055	1,111	1,982	1,834	591	613	298	263
Total shareholder's equity	1,055	997	1,055	1,111	1,982	1,834	591	613	298	263

(In millions)	Vectra		TCBW		Other		Consolidated Company	
	2008	2007	2008	2007	2008	2007	2008	2007

CONDENSED INCOME STATEMENT

Net interest income	\$ 26.6	\$ 23.5	\$ 8.1	\$ 8.6	\$ (5.1)	\$ (0.8)	\$ 484.7	\$ 469.3
Provision for loan losses	6.0	0.2	-	-	0.4	0.1	114.2	17.8
Net interest income after provision for loan losses	20.6	23.3	8.1	8.6	(5.5)	(0.9)	370.5	451.5
Impairment losses on investment securities	-	-	-	-	(26.5)	-	(38.8)	-
Other noninterest income	6.9	6.9	0.7	0.4	(8.4)	3.6	111.1	141.4
Noninterest expense	22.3	20.9	3.5	3.5	17.0	14.2	354.4	347.6
Income (loss) before income taxes and minority interest	5.2	9.3	5.3	5.5	(57.4)	(11.5)	88.4	245.3
Income tax expense (benefit)	1.8	3.4	1.8	1.8	(28.1)	(6.3)	22.0	86.1
Minority interest	-	-	-	-	(5.7)	-	(5.7)	-
Net income (loss)	3.4	5.9	3.5	3.7	(23.6)	(5.2)	72.1	159.2
Preferred stock dividend	-	-	-	-	2.4	3.6	2.4	3.6

Net earnings
applicable to
common

shareholders \$ 3.4 \$ 5.9 \$ 3.5 \$ 3.7 \$ (26.0) \$ (8.8) \$ 69.7 \$ 155.6

AVERAGE BALANCE

SHEET DATA

Total assets \$ 2,745 \$ 2,410 \$ 917 \$ 821 \$ (461) \$ (122) \$ 53,293 \$ 47,922

Total loans

and leases 2,039 1,769 555 462 107 80 40,512 36,143

Total deposits 1,743 1,711 569 509 (438) (371) 36,774 35,964

Shareholder's

equity:

Preferred

equity - - - - 240 240 240 240

Common

equity 333 314 68 58 (312) (197) 5,070 4,993

Total

shareholder's

equity 333 314 68 58 (72) 43 5,310 5,233

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ZIONS BANCORPORATION AND SUBSIDIARIES

The following table presents selected operating segment information for the six months ended June 30, 2008 and 2007:

(In millions)	Zions Bank		CB&T		Amegy		NBA		NSB	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
CONDENSED INCOME STATEMENT										
Net interest income	\$ 328.7	\$ 262.7	\$ 201.0	\$ 220.2	\$ 177.3	\$ 158.4	\$ 115.6	\$ 127.8	\$ 80.9	\$ 94.8
Provision for loan losses	74.1	8.5	43.9	5.0	18.7	7.1	42.8	3.5	17.8	3.0
Net interest income after provision for loan losses	254.6	254.2	157.1	215.2	158.6	151.3	72.8	124.3	63.1	91.8
Impairment losses on investment securities and valuation losses on securities purchased from Lockhart Funding	(17.5)	-	-	-	-	-	-	-	-	-
Other noninterest income	112.9	130.4	41.0	42.5	73.0	61.1	16.0	16.3	22.0	16.4
Noninterest expense	226.1	221.1	120.1	118.0	152.0	148.5	67.4	74.6	58.2	55.5
Income (loss) before income taxes and minority interest	123.9	163.5	78.0	139.7	79.6	63.9	21.4	66.0	26.9	52.7
Income tax expense (benefit)	40.7	55.2	30.6	57.9	26.0	20.8	8.4	25.8	9.3	18.4
Minority interest	-	0.3	-	-	0.3	0.1	-	-	-	-
Net income (loss)	83.2	108.0	47.4	81.8	53.3	43.0	13.0	40.2	17.6	34.3
Preferred stock dividend	-	-	-	-	-	-	-	-	-	-

Net earnings
applicable to
common

shareholders \$ 83.2 \$ 108.0 \$ 47.4 \$ 81.8 \$ 53.3 \$ 43.0 \$ 13.0 \$ 40.2 \$ 17.6 \$ 34.3

AVERAGE BALANCE

SHEET DATA

Total assets \$ 18,756 \$ 15,292 \$ 10,172 \$ 10,180 \$ 11,836 \$ 9,986 \$ 5,296 \$ 5,419 \$ 3,865 \$ 3,872

Total loans
and leases 13,542 11,145 7,838 7,933 8,223 6,591 4,509 4,622 3,212 3,205

Total deposits 11,393 11,047 8,007 8,158 8,189 6,947 3,882 4,314 3,266 3,350

Shareholder's
equity:

Preferred
equity - - - - - - - - - -

Common
equity 1,060 992 1,063 1,110 1,969 1,824 592 580 287 265

Total
shareholder's
equity 1,060 992 1,063 1,110 1,969 1,824 592 580 287 265

(In millions)	Vectra		TCBW		Other		Consolidated Company	
	2008	2007	2008	2007	2008	2007	2008	2007

CONDENSED INCOME

STATEMENT

Net interest
income \$ 52.8 \$ 46.5 \$ 16.5 \$ 16.8 \$ (1.6) \$ (0.8) \$ 971.2 \$ 926.4

Provision for
loan losses 8.2 (0.3) 0.4 - 0.6 0.1 206.5 26.9

Net interest
income after
provision for
loan losses 44.6 46.8 16.1 16.8 (2.2) (0.9) 764.7 899.5

Impairment
losses on
investment
securities and
valuation
losses

on securities
purchased
from

Lockhart

Funding - - - - (67.3) - (84.8) -

Other
noninterest
income 13.8 12.9 1.3 0.9 (11.9) 6.3 268.1 286.8

Noninterest
expense 44.4 42.6 7.2 7.2 29.1 32.1 704.5 699.6

Income (loss) before income taxes and minority interest	14.0	17.1	10.2	10.5	(110.5)	(26.7)	243.5	486.7
Income tax expense (benefit)	5.0	6.2	3.4	3.4	(51.5)	(12.8)	71.9	174.9
Minority interest	-	-	-	-	(7.6)	(1.1)	(7.3)	(0.7)
Net income (loss)	9.0	10.9	6.8	7.1	(51.4)	(12.8)	178.9	312.5
Preferred stock dividend	-	-	-	-	4.9	7.2	4.9	7.2
Net earnings applicable to common shareholders	\$ 9.0	\$ 10.9	\$ 6.8	\$ 7.1	\$ (56.3)	\$ (20.0)	\$ 174.0	\$ 305.3

AVERAGE BALANCE

SHEET DATA

Total assets	\$ 2,743	\$ 2,398	\$ 919	\$ 799	\$ (483)	\$ (192)	\$ 53,104	\$ 47,754
Total loans and leases	2,028	1,749	536	447	94	85	39,982	35,777
Total deposits	1,732	1,698	588	488	(373)	(427)	36,684	35,575
Shareholder's equity:								
Preferred equity	-	-	-	-	240	240	240	240
Common equity	334	313	68	57	(275)	(167)	5,098	4,974
Total shareholder's equity	334	313	68	57	(35)	73	5,338	5,214

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ZIONS BANCORPORATION AND SUBSIDIARIES

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

FINANCIAL HIGHLIGHTS

(Unaudited)

(In thousands, except per share and ratio data)	Three Months Ended			Six Months Ended		
	2008	June 30, 2007	% Change	2008	June 30, 2007	% Change
EARNINGS						
Taxable-equivalent net interest income	\$ 490,587	\$ 476,060	3.05%	\$ 983,124	\$ 939,781	4.61%
Taxable-equivalent revenue	562,959	617,401	(8.82)%	1,166,496	1,226,536	(4.90)%
Net interest income	484,743	469,347	3.28%	971,201	926,430	4.83%
Noninterest income	72,372	141,341	(48.80)%	183,372	286,755	(36.05)%
Provision for loan losses	114,192	17,763	542.86%	206,474	26,874	668.30%
Noninterest expense	354,417	347,612	1.96%	704,520	699,591	0.70%
Income before income taxes and minority interest	88,506	245,313	(63.92)%	243,579	486,720	(49.96)%
Income taxes	22,037	86,065	(74.39)%	71,933	174,919	(58.88)%
Minority interest	(5,729)	34	nm	(7,301)	(671)	988.08%
Net income	72,198	159,214	(54.65)%	178,947	312,472	(42.73)%
Net earnings applicable to common shareholders	69,744	155,607	(55.18)%	174,040	305,262	(42.99)%
PER COMMON SHARE						
Net earnings (diluted)	0.65	1.43	(54.55)%	1.63	2.78	(41.37)%
Dividends	0.43	0.43	-	0.86	0.82	4.88%
Book value per common share				46.82	46.14	1.47%
SELECTED RATIOS						
Return on average assets	0.54%	1.33%		0.68%	1.32%	
Return on average common equity	5.53%	12.50%		6.86%	12.38%	
Efficiency ratio	62.96%	56.30%		60.40%	57.04%	
Net interest margin	4.18%	4.53%		4.20%	4.52%	

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ZIONS BANCORPORATION AND SUBSIDIARIES

FINANCIAL HIGHLIGHTS (Continued)

(Unaudited)

(In thousands, except share and ratio data)	Three Months Ended			Six Months Ended		
	2008	June 30, 2007	% Change	2008	June 30, 2007	% Change
AVERAGE BALANCES						
Total assets	\$ 53,293,375	\$ 47,921,787	11.21%	\$ 53,103,599	\$ 47,754,384	11.20%
Total interest-earning assets	47,202,577	42,151,667	11.98%	47,028,006	41,924,964	12.17%
Securities	4,866,421	5,426,896	(10.33)%	5,103,854	5,611,351	(9.04)%
Net loans and leases	40,512,249	36,142,957	12.09%	39,982,279	35,776,561	11.76%
Goodwill	2,009,517	2,012,270	(0.14)%	2,009,497	1,998,096	0.57%
Core deposit and other intangibles	137,675	188,843	(27.10)%	142,019	191,469	(25.83)%
Total deposits	36,774,214	35,964,203	2.25%	36,684,444	35,575,016	3.12%
Core deposits (1)	32,429,773	30,873,001	5.04%	32,281,560	30,617,110	5.44%
Minority interest	27,244	35,009	(22.18)%	28,960	37,859	(23.51)%
Shareholders' equity:						
Preferred equity	240,000	240,000	-	240,000	240,000	-
Common equity	5,070,047	4,993,383	1.54%	5,098,334	4,973,999	2.50%
Weighted average common and common-equivalent shares outstanding						
	106,711,948	109,123,735	(2.21)%	106,719,923	109,638,577	(2.66)%
AT PERIOD END						
Total assets	\$ 54,630,883			\$ 48,691,445		
Total interest-earning assets				12.20%		
	47,920,419			42,721,118		
Securities	4,784,185			5,289,180		
Net loans and leases				12.17%		
	41,872,977			36,788,205		
Sold loans being serviced (2)	513,623			2,201,897		
Allowance for loan losses	548.958			380.295		
				44.35%		

Reserve for unfunded lending commitments	26,838	21,222	26.46%
Goodwill	2,009,511	2,013,314	(0.19)%
Core deposit and other intangibles	132,481	180,867	(26.75)%
Total deposits	37,607,995	36,185,572	3.93%
Core deposits (1)	33,505,626	31,303,578	7.03%
Minority interest	25,528	32,094	(20.46)%
Shareholders' equity:			
Preferred equity	240,000	240,000	-
Common equity	5,033,530	4,984,702	0.98%
Common shares outstanding	107,518,975	108,034,079	(0.48)%
Average equity to average assets	9.96%	10.92%	10.05%
Common dividend payout	66.23%	29.88%	52.98%
Tangible equity ratio		5.97%	6.52%
Nonperforming assets	\$ 697,432	\$ 95,398	631.08%
Accruing loans past due 90 days or more	108,934	47,782	127.98%
Nonperforming assets to net loans and leases and other real estate owned at period end	1.66%	0.26%	

(1) Amount consists of total deposits excluding time deposits \$100,000 and over.

(2) Amount represents the outstanding balance of loans sold and being serviced by the Company, excluding conforming first mortgage residential real estate loans.

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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," "intend," "plan," "projects," or similar expressions.

These forward-looking statements are not guarantees of future performance, nor should they be relied upon as representing management's views as of any subsequent date. Forward-looking statements involve significant risks and uncertainties and actual results may differ materially from those presented, either expressed or implied, 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 economic effects of terrorist attacks against the United States and related events;
- changes in financial market conditions, either 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. Treasury and the Federal Reserve Board;
- 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; and
- changes in accounting policies or procedures as may be required by the Financial Accounting Standards Board or regulatory agencies.

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Additional factors that could cause actual results to differ materially from those expressed in the forward-looking statements are discussed in the 2007 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, 2007, except as noted below.

Fair Value Accounting

Effective January 1, 2008, the Company adopted SFAS No. 157, Fair Value Measurements and SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. SFAS 157 defines fair value, establishes a consistent framework for measuring fair value, and enhances disclosures about fair value measurements. Adoption of SFAS 157 has been delayed one year for the measurement of all nonfinancial assets and nonfinancial liabilities. The adoption of SFAS 157 did not have a material effect on the Company's consolidated financial statements, but significantly expanded the disclosure requirements for fair value measurements.

SFAS 157 defines fair value 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 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 collateralized debt obligations ("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. Additionally, observable inputs such as nonbinding single dealer quotes that are not corroborated by observable market data are included in this category. This category generally includes certain private equity investments, retained interests in securitizations, and certain CDO securities.

The Company uses models when quotations are not available for certain securities or in markets where trading activity has slowed or ceased. When quotations are not available, and are not provided by third party pricing

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services, management judgment is necessary to determine fair value. In situations involving management judgment, fair value is determined using discounted cash flow analysis or other valuation models, which incorporate available market information, including appropriate benchmarking to similar instruments, analysis of default and recovery rates, estimation of prepayment characteristics and implied volatilities.

The Company engaged third party pricing services to model securities that currently 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, collateral recovery rates, discount rates, over-collateralization levels, and probability of default. Model results are also evaluated for reasonableness through comparison to other available data which included third party and internal models and valuations.

At June 30, 2008, approximately 6.1% of total assets, or \$3.3 billion, consisted of financial instruments recorded at fair value on a recurring basis. Approximately 94.4% or \$3.1 billion of these financial instruments used valuation methodologies involving market-based or market-derived information, collectively Level 1 and 2 measurements, to measure fair value. Approximately 5.6% or \$188 million of these financial assets are measured using model-based techniques or nonbinding single dealer quotes, both of which constitute Level 3 measurements. At June 30, 2008, approximately 0.4% of total liabilities, or \$195 million, consisted of financial instruments recorded at fair value on a recurring basis. At June 30, 2008, approximately 0.4% of total assets, or \$244 million of financial assets were valued on a nonrecurring basis. Of the \$244 million of assets valued on a nonrecurring basis, approximately \$158 million were valued at Level 2 and \$86 million were valued at Level 3.

During both the first and second quarters of 2008, observable market trading data for certain CDO securities ceased to be available to the Company to use a Level 2 pricing method that had been used in prior quarters. The lack of observable market trading data required the Company to use a Level 3 pricing methodology as described above.

Total available-for-sale securities valued at Level 3 were \$182 million at June 30, 2008. In aggregate, the value of the Level 3 available-for-sale securities would be significantly impacted if model inputs such as timing of cash flows, probability of default, collateral performance and discount rates were to change. A range of value estimates is not provided because all Level 3 available-for-sale securities were valued by third party vendors, which provided point estimates.

See “Investments Securities Portfolio” for additional information on asset-backed securities.

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. On January 1, 2008, the Company applied the fair value option to one available-for-sale real estate investment trust (“REIT”) trust preferred CDO security and three retained interests on selected small business loan securitizations. The REIT CDO and retained interests were valued using Level 3 models. The cumulative effect of adopting SFAS 159 reduced the beginning balance of retained earnings at January 1, 2008 by approximately \$11.5 million, comprised of a decrease of \$11.7 million for the REIT CDO and an increase of \$0.2 million for the three retained interests. During the second quarter of 2008, the net change in fair value of these instruments decreased pretax earnings by approximately \$3.9 million, consisting of \$0.1 million for the REIT CDO and \$3.8 million for the retained interests. During the first six months of 2008, the net change in fair value decreased pretax earnings by approximately \$4.5 million, consisting of a \$2.4 million for the REIT CDO security and \$2.1 million for the retained interests. These adjustments to fair value are included in fair value and nonhedge derivative

income (loss) in the statement of income.

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The Company elected the fair value option for the REIT CDO security as part of a directional hedging program in an effort to hedge the credit exposure the Company has to homebuilders in its REIT CDO portfolio. Management selected this security because it had the most exposure to the homebuilder market compared to the other REIT CDO securities in the Company's portfolio, both in dollar amount and as a percentage, and was therefore considered the most suitable for hedging. The fair value option adoption for the REIT CDO allows the Company to avoid the complex hedge accounting provisions under SFAS No. 133, Accounting for Derivatives, associated with the implemented hedging program.

On June 23, 2008, Zions Bank purchased \$787 million of securities from Lockhart, which comprised the entire remaining small business loan securitizations created by Zions Bank and held by Lockhart. As a result, the three small business securitization retained interests elected under the fair value option were included in this transaction and were part of the premium amount recorded with the loan balances at Zions Bank. See "Off-Balance Sheet Arrangement" for further discussion of these securities purchased.

Valuation of Collateralized Debt Obligations Available-for-Sale Securities

During the second quarter of 2008, the Company valued certain REIT and structured Asset-Backed Securities ("ABS") CDOs using models provided by third party vendors. The models utilized relevant data assumptions to value these CDO securities and were evaluated by the Company to determine if the models appropriately calculated values. These assumptions included but were not limited to probability of default, collateral recovery rates, discount rates, over collateralization levels, market indices such as ABX 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. The Company's decision to use Level 3 model pricing for certain CDOs was made due to continued trading contraction of these securities and the lack of observable market inputs to value such securities.

Certain other CDOs were priced by nonbinding single dealer quotes considered to be consistent with Level 3 valuation standards. The Company continues to utilize a whole market price quote method for other CDOs as described in our Annual Report on Form 10-K for the year ended December 31, 2007.

See Note 8 of the Notes to Consolidated Financial Statements and "Investment Securities Portfolio" for further information.

Estimates of Fair Value

The Company measures or monitors many of its assets and liabilities on a fair value basis. Fair value is used on a recurring basis for certain assets and liabilities in which fair value is the primary basis of accounting. Examples of these include derivative instruments, available-for-sale and trading securities, certain private equity investments and certain residual interests from Company-sponsored securitizations. Additionally, fair value is used on a nonrecurring basis to evaluate assets or liabilities for impairment or for disclosure purposes in accordance with SFAS No. 107, Disclosures about Fair Value of Financial Instruments. Examples of these nonrecurring uses of fair value include loans held for sale accounted for at the lower of cost or fair value, certain private equity investments, other real estate owned ("OREO"), impaired loans, long-lived assets, goodwill, and core deposit and other intangible assets. Depending on the nature of the asset or liability, the Company uses various valuation techniques and assumptions when estimating the instrument's fair value. These valuation techniques and assumptions are in accordance with SFAS 157.

Fair value is the price that could be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. If observable market prices are not available, then fair value is estimated using modeling techniques such as discounted cash flow analyses. These modeling techniques utilize assumptions that market participants would use in pricing the asset or the liability, including

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ZIONS BANCORPORATION AND SUBSIDIARIES

assumptions about the risk inherent in a particular valuation technique, the effect of a restriction on the sale or use of an asset, and the risk of nonperformance. To increase consistency and comparability in fair value measures, SFAS 157 established a three-level hierarchy to prioritize the inputs used in valuation techniques between observable inputs that reflect quoted prices in active markets, inputs other than quoted prices with observable market data, and unobservable data such as the Company's own data or single dealer nonbinding pricing quotes.

In instances where required by U.S. GAAP, the Company uses discount rates in its determination of the fair value of residual interests from loan securitizations. At June 30, 2008 residual interests from securitizations were \$26 million. Discount rates used are those considered to be commensurate with the risks involved. A change in these discount rates could increase or decrease the values of those assets and liabilities. The Company provided disclosure of the key economic assumptions used to measure residual interests and a sensitivity analysis to these assumption changes in Note 6, "Asset Securitizations," in the Notes to Consolidated Financial Statements included in the Annual Report on Form 10-K for the year ended December 31, 2007.

Fair values for investment securities, trading assets, and most derivative financial instruments are based on independent, third party market prices, or if identical market prices are not available they are based on the market prices of similar instruments. If market prices of similar instruments are not available, instruments are valued based on the best available data, some of which may not be readily observable in the market. The fair values of loans are typically based on securities prices of similar instruments and, when appropriate, include adjustments to account for costs that would be incurred to transform a loan into a security when sold. The fair values of OREO and other repossessed assets are typically determined based on appraisals by third parties, less estimated selling costs.

Estimates of fair value are also required when performing an impairment analysis of long-lived assets, goodwill, and core deposit and other intangible assets. The Company reviews goodwill for impairment at the reporting unit level on an annual basis, or more often if events or circumstances indicate the carrying value may not be recoverable. The goodwill impairment test compares the fair value of the reporting unit with its carrying value. If the carrying amount of the reporting unit's goodwill exceeds its fair value an additional analysis must be performed to determine the amount, if any, by which goodwill is impaired. In determining the fair value of the Company's reporting units, management uses discounted cash flow models which require assumptions about growth rates of the reporting units and the cost of equity. To the extent that adequate data is available, other valuation techniques relying on market data may be incorporated into the estimate of a reporting unit's fair value. The selection and weighting of the various fair value techniques may result in a higher or lower fair value. Judgment is applied in determining the amount that is most representative of fair value. For long-lived assets and intangible assets subject to amortization, an impairment loss is recognized if the carrying amount of the asset is not recoverable and exceeds its fair value. In determining the fair value, management uses models which require assumptions about growth rates, the life of the asset, and/or the fair value of the assets. The Company tests long-lived assets for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable.

RESULTS OF OPERATIONS

The Company reported net earnings applicable to common shareholders of \$69.7 million or \$0.65 per diluted share for the second quarter of 2008 compared with \$155.6 million or \$1.43 per diluted share for the second quarter of 2007. The decrease is mainly due to a \$96.4 million increase in the provision for loan losses, an \$18.0 million decrease in the fair value and interest on nonhedge derivatives due to decreasing spreads between the London Interbank Offer Rate ("LIBOR") and prime rates, and \$38.8 million of impairment losses on investment securities recognized during the

second quarter of 2008.

The annualized return on average assets was 0.54% for the second quarter of 2008 and 1.33% for the second quarter of 2007. For the same comparative periods, the annualized return on average common equity was 5.53% compared to 12.50%. The efficiency ratio for the second quarter of 2008 was 63.0% compared to 56.3% for the second quarter of 2007.

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Net earnings applicable to common shareholders for the first six months of 2008 were \$174.0 million or \$1.63 per diluted share, compared to \$305.3 million or \$2.78 per diluted share for the first six months of 2007. The decrease reflects a \$179.6 million increase in the provision for loan losses and \$84.8 million of impairment losses on investment securities and valuation losses on securities purchased from Lockhart.

The annualized return on average assets was 0.68% for the first six months of 2008 compared to 1.32% for the first six months of 2007. For the same comparative periods, the annualized return on average common equity was 6.86% compared to 12.38%. The efficiency ratio for the first six months of 2008 was 60.4% compared to 57.0% for the same period in 2007.

Net Interest Income, Margin and Interest Rate Spreads

Taxable-equivalent net interest income for the second quarter of 2008 increased 3.1% to \$490.6 million compared with \$476.1 million for the comparable period of 2007. This growth reflects the significant increase in earning assets driven by strong loan growth over much of 2007 and 2008. The tax rate used for calculating all taxable-equivalent adjustments was 35% for all periods presented.

The Company's net interest margin was 4.18% for the second quarter of 2008 compared to 4.23% for the first quarter of 2008 and 4.53% for second quarter of 2007. The margin decrease for the second quarter of 2008 compared to the first quarter of 2008 was primarily driven by the increase in nonperforming assets during the quarter. The margin decrease for the second quarter of 2008 compared to the second quarter of 2007 resulted from a decline in noninterest-bearing demand deposits, increased reliance on nondeposit borrowings to fund loan growth and asset-backed commercial paper purchased from Lockhart, and also from increased nonperforming assets. We expect that the net interest margin may continue to be under pressure in the next few quarters due to the persistence of these factors.

During the second quarter of 2008, the Federal Reserve lowered the federal funds rate by 25 basis points. This decrease had a rapid impact on loans tied to LIBOR and the prime rate, however this impact was partially mitigated by the Company's hedging program. Although deposit rates did decline during the second quarter, competitive pressures on deposit rates may impede our ability to similarly reprice deposits in the future, which may have a negative impact on the net interest margin during future quarters in 2008. See "Interest Rate Risk" for further information.

The spread on average interest-bearing funds for the second quarter of 2008 was 3.71%, which increased from 3.61% for the first quarter of 2008 and 3.62% for the second quarter of 2007. During the second quarter of 2008 the spread on average interest-bearing funds benefited from improved loan spreads on newly originated and renewed loans and more favorable deposit pricing.

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.

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CONSOLIDATED AVERAGE BALANCE SHEETS, YIELDS AND RATES

(Unaudited)

(In thousands)	Three Months Ended June 30, 2008			Three Months Ended June 30, 2007		
	Average balance	Amount of interest (1)	Average rate	Average balance	Amount of interest (1)	Average rate
ASSETS						
Money market investments	\$ 1,823,907	\$ 12,313	2.72%	\$ 581,814	\$ 7,756	5.35%
Securities:						
Held-to-maturity	1,532,818	25,305	6.64%	666,283	11,644	7.01%
Available-for-sale	3,295,056	37,936	4.63%	4,707,154	67,514	5.75%
Trading account	38,547	159	1.66%	53,459	766	5.75%
Total securities	4,866,421	63,400	5.24%	5,426,896	79,924	5.91%
Loans:						
Loans held for sale	186,592	2,699	5.82%	254,693	4,322	6.81%
Net loans and leases (2)	40,325,657	650,364	6.49%	35,888,264	704,325	7.87%
Total loans and leases	40,512,249	653,063	6.48%	36,142,957	708,647	7.86%
Total interest-earning assets	47,202,577	728,776	6.21%	42,151,667	796,327	7.58%
Cash and due from banks	1,320,584			1,494,407		
Allowance for loan losses	(516,908)			(375,388)		
Goodwill	2,009,517			2,012,270		
Core deposit and other intangibles	137,675			188,843		
Other assets	3,139,930			2,449,988		
Total assets	\$ 53,293,375			\$ 47,921,787		
LIABILITIES						
Interest-bearing deposits:						
Savings and NOW	\$ 4,651,117	8,776	0.76%	\$ 4,511,110	10,179	0.91%
Money market	10,752,743	54,707	2.05%	10,245,788	88,578	3.47%
Internet money market	2,200,695	16,661	3.04%	1,484,748	18,538	5.01%
Time under \$100,000	2,513,620	23,276	3.72%	2,518,631	27,382	4.36%
Time \$100,000 and over	4,344,441	40,462	3.75%	5,091,202	61,864	4.87%
Foreign	3,254,872	19,722	2.44%	2,561,459	31,199	4.89%
Total interest-bearing deposits	27,717,488	163,604	2.37%	26,412,938	237,740	3.61%
Borrowed funds:						
Securities sold, not yet purchased	33,299	414	5.00%	18,426	227	4.94%
Federal funds purchased and security repurchase agreements	2,999,084	14,569	1.95%	2,962,417	35,378	4.79%

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Commercial paper	148,946	1,222	3.30%	194,134	2,647	5.47%
FHLB advances and other borrowings:						
One year or less	4,701,020	27,050	2.31%	384,648	5,117	5.34%
Over one year	129,079	1,840	5.73%	129,147	1,853	5.75%
Long-term debt	2,632,660	29,490	4.51%	2,366,050	37,305	6.32%
Total borrowed funds	10,644,088	74,585	2.82%	6,054,822	82,527	5.47%
Total interest-bearing liabilities	38,361,576	238,189	2.50%	32,467,760	320,267	3.96%
Noninterest-bearing deposits	9,056,726			9,551,265		
Other liabilities	537,782			634,370		
Total liabilities	47,956,084			42,653,395		
Minority interest	27,244			35,009		
Shareholders' equity:						
Preferred equity	240,000			240,000		
Common equity	5,070,047			4,993,383		
Total shareholders' equity	5,310,047			5,233,383		
Total liabilities and shareholders' equity	\$ 53,293,375			\$ 47,921,787		
Spread on average interest-bearing funds			3.71%			3.62%
Taxable-equivalent net interest income and net yield on interest-earning assets		\$ 490,587	4.18%		\$ 476,060	4.53%

(1) Taxable-equivalent rates used where applicable.

(2) Net of unearned income and fees, net of related costs. Loans include nonaccrual and restructured loans.

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

(In thousands)	Six Months Ended June 30, 2008			Six Months Ended June 30, 2007		
	Average balance	Amount of interest (1)	Average rate	Average balance	Amount of interest (1)	Average rate
ASSETS						
Money market investments	\$ 1,941,873	\$ 31,341	3.25%	\$ 537,052	\$ 14,098	5.29%
Securities:						
Held-to-maturity	1,116,560	37,651	6.78%	667,690	23,218	7.01%
Available-for-sale	3,947,157	103,203	5.26%	4,870,033	139,803	5.79%
Trading account	40,137	840	4.21%	73,628	1,958	5.36%
Total securities	5,103,854	141,694	5.58%	5,611,351	164,979	5.93%
Loans:						
Loans held for sale	200,545	5,716	5.73%	251,959	8,197	6.56%
Net loans and leases (2)	39,781,734	1,346,219	6.81%	35,524,602	1,386,142	7.87%
Total loans and leases	39,982,279	1,351,935	6.80%	35,776,561	1,394,339	7.86%
Total interest-earning assets	47,028,006	1,524,970	6.52%	41,924,964	1,573,416	7.57%
Cash and due from banks	1,368,970			1,539,549		
Allowance for loan losses	(496,761)			(375,060)		
Goodwill	2,009,497			1,998,096		
Core deposit and other intangibles	142,019			191,469		
Other assets	3,051,868			2,475,366		
Total assets	\$ 53,103,599			\$ 47,754,384		
LIABILITIES						
Interest-bearing deposits:						
Savings and NOW	\$ 4,585,133	19,245	0.84%	\$ 4,510,711	20,239	0.90%
Money market	10,652,521	127,027	2.40%	10,246,270	174,829	3.44%
Internet money market	2,209,438	37,859	3.45%	1,403,946	35,330	5.07%
Time under \$100,000	2,545,893	50,441	3.98%	2,476,444	53,108	4.32%
Time \$100,000 and over	4,402,884	89,536	4.09%	4,957,906	119,282	4.85%
Foreign	3,272,481	49,705	3.05%	2,503,163	60,940	4.91%
Total interest-bearing deposits	27,668,350	373,813	2.72%	26,098,440	463,728	3.58%
Borrowed funds:						
	33,438	747	4.49%	36,086	808	4.52%

Securities sold, not yet
purchased

Federal funds purchased and security repurchase agreements	3,157,020	38,775	2.47%	2,978,728	70,855	4.80%
Commercial paper	177,233	3,554	4.03%	186,481	5,012	5.42%
FHLB advances and other borrowings:						
One year or less	4,391,614	63,313	2.90%	578,845	15,386	5.36%
Over one year	128,185	3,665	5.75%	132,846	3,824	5.80%
Long-term debt	2,568,639	57,979	4.54%	2,370,213	74,022	6.30%
Total borrowed funds	10,456,129	168,033	3.23%	6,283,199	169,907	5.45%
Total interest-bearing liabilities	38,124,479	541,846	2.86%	32,381,639	633,635	3.95%
Noninterest-bearing deposits	9,016,094			9,476,576		
Other liabilities	595,732			644,311		
Total liabilities	47,736,305			42,502,526		
Minority interest	28,960			37,859		
Shareholders' equity:						
Preferred equity	240,000			240,000		
Common equity	5,098,334			4,973,999		
Total shareholders' equity	5,338,334			5,213,999		
Total liabilities and shareholders' equity	\$ 53,103,599			\$ 47,754,384		

Spread on average interest-bearing funds		3.66%		3.62%
Taxable-equivalent net interest income and net yield on interest-earning assets	\$ 983,124	4.20%	\$ 939,781	4.52%

(1) Taxable-equivalent rates used where applicable.

(2) Net of unearned income and fees, net of related costs. Loans include nonaccrual and restructured loans.

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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 second quarter of 2008 was \$114.2 million compared to \$17.8 million for the same period of 2007. On an annualized basis, the provision was 1.13% of average loans for the second quarter of 2008 compared to 0.20% for the second quarter of 2007. The increased provision for the second quarter of 2008 resulted primarily from weakness in residential land acquisition, development and construction loans in the Southwest and some weakening in Utah residential construction lending. Net loan and lease charge-offs increased to \$67.8 million in second quarter of 2008 up from \$8.7 million in same period of 2007. The \$59.1 million increase during the second quarter of 2008 was primarily driven by declining collateral values on residential land acquisition, development and construction loans in the Southwest and to a lesser extent in Utah. See "Nonperforming Assets" and "Allowance and Reserve for Credit Losses" for further details. The provision for unfunded lending commitments was \$1.7 million for the second quarter of 2008 compared to \$1.2 million for the second quarter of 2007. From period to period, the amounts of unfunded lending commitments may be subject to sizeable fluctuation due to changes in the timing, volume of loan originations, fundings, and by changes in creditworthiness of borrowers with unfunded commitments. The related provision will generally reflect these fluctuations. When combined, the provisions for credit losses for the second quarter of 2008 were \$115.9 million compared to \$19.0 million for the second quarter of 2007.

The provision for loan losses for the first six months of 2008 was \$206.5 million, 668.3% higher than the \$26.9 million provision for the first six months of 2007. The increased loan loss provision for the first six months of 2008 compared to 2007 is primarily caused by weakness in the residential land acquisition, development and construction loans as previously described. The provision for unfunded lending commitments was \$5.3 million for the first half of 2008 compared to \$1.5 million for the first half of 2007.

Noninterest Income

For the second quarter of 2008, noninterest income decreased 48.8% to \$72.4 million compared to \$141.3 million for the second quarter of 2007. The decrease is primarily due to \$38.8 million of impairment losses on investment securities and to \$19.8 million of fair value and nonhedge derivative losses during the second quarter of 2008.

Service charges and fees on deposit accounts increased \$6.0 million or 13.2% for the second quarter of 2008 compared to the second quarter of 2007. The increase was mainly due to the impact of increased fees across the Company.

Income from securities conduit decreased \$4.9 million or 82.5% for the second quarter of 2008 compared to the second quarter of 2007. 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 \$862 million at June 30, 2008 from \$2.12 billion at December 31, 2007 and \$3.54 billion at June 30, 2007 mainly due to purchases of Lockhart's securities and also due to principal repayments. We expect that the book value of the Lockhart portfolio will continue to decrease and income from the securities conduit will not be significant. All else being equal,

net interest income is increased if and as Lockhart-related assets are brought onto the Company's balance sheet, roughly offsetting the noninterest income impact.

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Fair value and nonhedge derivative loss for the second quarter of 2008 was \$19.8 million compared to income of \$0.9 million for the second quarter of 2007. The decrease is primarily due to decreases in the fair value of nonhedge derivatives resulting from decreasing spreads between LIBOR and prime rates. Also included are fair value adjustments for certain retained interests which decreased earnings by approximately \$3.8 million during the second quarter of 2008.

Net equity securities losses were \$8.1 million for the second quarter of 2008 compared to \$0.1 million of gains for the second quarter of 2007. Net losses in the second quarter of 2008 included \$8.2 million of net losses on venture capital investments. Net of related minority interest of \$5.7 million, income taxes and other expenses, the venture capital losses decreased net income for the quarter by approximately \$1.8 million.

The Company recognized impairment losses on investment securities of \$38.8 million during the second quarter of 2008. These other-than-temporary impairment (“OTTI”) losses were for certain CDOs, including ABS CDOs, bank and insurance income notes, and REIT trust preferred CDOs. See “Investment Securities Portfolio” for additional information.

Noninterest income of \$183.4 million for the first six months of 2008 decreased 36.1% from \$286.8 million for the first six months of 2007. Explanations previously provided for the quarterly changes also apply to the year-to-date changes. Additional explanations of variances follow.

Loan sales and servicing income for the first six months of 2008 decreased \$1.9 million or 10.6% compared to the first six months of 2007. However, the 2007 amount included a \$9.3 million impairment charge on retained interests from certain previous loan securitizations. The decreased income is primarily due to the lower amount of sold loans being serviced, which was \$0.5 billion at June 30, 2008 compared to \$2.2 billion at June 30, 2007.

Net equity securities gains for the first six months of 2008 include a \$12.4 million pretax cash gain from the partial redemption of the Company’s subsidiary banks’ equity interests in Visa Inc. Excluding this gain, the decrease from the first six months of 2007 was primarily due to losses from venture capital investments in the second quarter of 2008 as previously discussed. The first six months of 2007 included \$2.8 million of gains from venture capital investments and a \$2.5 million gain from the sale of a community bank investment.

Impairment losses on investment securities and valuation losses on securities purchased from Lockhart for the first six months of 2008 were \$84.8 million. These OTTI losses were for certain CDOs, including ABS CDOs, bank and insurance income notes, and REIT trust preferred CDOs. The valuation losses on securities purchased from Lockhart were related to fair value adjustments when the securities were purchased at par from Lockhart and recorded on the Company’s balance sheet at fair value. See “Off-Balance Sheet Arrangement” for additional information.

Noninterest Expense

Noninterest expense for the second quarter of 2008 was \$354.4 million, an increase of 2.0% from \$347.6 million for the second quarter of 2007. The Company’s efficiency ratio for the second quarter of 2008 was 63.0% compared to 56.3% for the second quarter of 2007 mainly reflecting the decrease in noninterest income previously discussed.

Salaries and employee benefits increased \$2.6 million or 1.3% compared to the second quarter of 2007. The increase reflects moderate increases in compensation partially offset by decreased accruals for long-term incentive and profit sharing plans based upon Company performance.

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Other noninterest expense for the second quarter of 2008 increased \$6.3 million or 11.3% compared to the second quarter of 2007. FDIC assessment fees increased \$3.6 million compared to the second quarter of 2007.

Noninterest expense for the first six months of 2008 of \$704.5 million increased 0.7% from \$699.6 million for the first six months of 2007. The Company's efficiency ratio was 60.4% for the first six months of 2008 compared to 57.0% for the same period of 2007. Explanations previously provided for the quarterly changes also apply to the year-to-date changes. Additional explanations of variances follow.

Merger related expense decreased \$3.3 million or 84.9% compared to the first six months of 2007. The decrease is mainly due to the completion of the Stockmen's acquisition and system conversion during the first six months of 2007.

At June 30, 2008, the Company had 10,985 full-time equivalent employees, 506 domestic branches, and 625 ATMs, compared to 11,048 full-time equivalent employees, 514 domestic branches, and 600 ATMs at June 30, 2007.

Income Taxes

The Company's income tax expense decreased to \$22.0 million for the second quarter of 2008 compared to \$86.1 million for the same period in 2007. The Company's effective income tax rates, including the effects of minority interest, were 23.4% and 35.1% for the second quarters of 2008 and 2007, respectively. The effective income tax rates for the first six months of 2008 and 2007 were 28.7% and 35.9%. During the second quarter of 2008 and under the provisions of FIN 48, the Company reduced its liability and related interest for uncertain tax positions by \$5.9 million due primarily to settlement of uncertain tax positions with governmental authorities. Also, income taxes for the first quarter of 2007 included approximately \$2.9 million of taxes and penalties for the one time redemption of certain bank-owned life insurance contracts. The lower second quarter and year to date tax rate for 2008 compared to 2007 is also due to the lower taxable income in 2008, which increased the proportion of nontaxable income relative to total income. As discussed in previous filings, the Company has received federal income tax credits under the Community Development Financial Institutions Fund set up by the U.S. Government 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 \$2.9 million and \$2.8 million for first six months of 2008 and 2007, 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 12.2% to \$47.0 billion for the six months ended June 30, 2008 compared to \$41.9 billion for the same period in 2007. Average interest-earning assets as a percentage of total average assets for the first six months of 2008 was 88.6% compared to 87.8% for the comparable period of 2007.

Average money market investments, consisting of interest-bearing deposits and commercial paper, federal funds sold and security resell agreements, increased 261.6% to \$1,942 million for the first six months of 2008 compared to \$537 million for the first six months of 2007. Average money market investments for the first six months of 2008 includes \$1,147 million of asset-backed commercial paper that subsidiary companies purchased from Lockhart during the first six months of 2008. See discussion at "Liquidity Risk Management" for further details.

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Investment Securities Portfolio

The following tables present the Company's held-to-maturity and available-for-sale investment securities:

June 30, 2008					
(In millions)	Amortized cost	Net unrealized gains (losses) recognized in OCI (1)	Carrying value	Net unrealized gains (losses) not recognized in OCI (1)	Estimated fair value
HELD-TO-MATURITY:					
Municipal securities	\$ 693	\$ -	\$ 693	\$ (5)	\$ 688
Asset-backed securities:					
Trust preferred securities – banks and insurance					
A rated	1,201	(197)	1,004	(139)	865
BBB rated	175	(45)	130	(20)	110
	1,376	(242)	1,134	(159)	975
Trust preferred securities – real estate investment trusts					
AA rated	18	(5)	13	(5)	8
A rated	18	(4)	14	(4)	10
	36	(9)	27	(9)	18
Other					
AAA rated	42	-	42	(13)	29
A rated	23	(12)	11	1	12
BBB rated	8	(1)	7	-	7
	73	(13)	60	(12)	48
Other debt securities	1	-	1	-	1
	2,179	(264)	1,915	(185)	1,730
AVAILABLE-FOR-SALE:					
U.S. Treasury securities	40	1	41		41
U.S. Government agencies and corporations:					
Agency securities	425	-	425		425
Agency guaranteed mortgage-backed securities	428	3	431		431
Small Business Administration					
loan-backed securities	723	(17)	706		706
Municipal securities	201	1	202		202
Asset-backed securities:					
Trust preferred securities – banks and insurance					
AAA rated	664	(57)	607		607

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A rated	54	(11)	43	43
BBB rated	7	(2)	5	5
Not rated	29	3	32	32
	754	(67)	687	687
Trust preferred securities – real estate investment trusts				
Noninvestment grade	44	(3)	41	41
Small business loan-backed	13	-	13	13
Other				
AAA rated	43	(3)	40	40
AA rated	48	(5)	43	43
BBB rated	3	-	3	3
Noninvestment grade	18	(1)	17	17
	112	(9)	103	103
	2,740			