

ZIONS BANCORPORATION /UT/
Form 424B2
April 21, 2009
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Filed pursuant to Rule 424(b)(2)
Registration No. 333-158319

Prospectus Supplement to Prospectus dated March 31, 2009.

ZIONS BANCORPORATION

Senior Medium-Term Notes

Due Three Years or Less From the Date Issued

Series A

Zions Bancorporation may sell at various times an indeterminate amount of notes that will not exceed a maximum aggregate principal amount of \$500,000,000 outstanding at any given time. The following terms may apply to the notes; however, we will provide specific terms of the notes which we may offer in pricing supplements to this prospectus supplement and accompanying prospectus. You should read this prospectus supplement, the accompanying prospectus, the applicable pricing supplement and, if applicable, any applicable preliminary pricing supplement carefully before you invest.

The following terms may apply to the notes that Zions Bancorporation may sell at one or more times. We have not set a date for termination of our offering. Unless otherwise specified in the applicable pricing supplement, the notes will have the following terms:

Rank as our senior, unsecured indebtedness

Denominated in U.S. dollars

Not subject to redemption at our option or the holder's option unless the pricing supplement specifies a redemption option and a redemption commencement date

Minimum denominations of \$1,000, increasing in integrals of \$1,000

Not amortized or subject to a sinking fund

Book-entry (through the Depository Trust Company) or certificated form

Interest at fixed or floating rates, or no interest at all

Interest payments on the notes on the dates specified in the notes and in the applicable pricing supplement

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The floating interest rate may be based on one or more of the following indices, in some cases plus or minus a spread and/or multiplied by a spread multiplier and subject to a minimum and/or maximum rate:

commercial paper rate;

prime rate;

LIBOR;

EURIBOR;

treasury rate;

CMT rate;

CD rate;

federal funds rate notes;

11th district cost of funds rate; and/or

any other rate or combination of rates specified in the pricing supplement

Investing in the notes involves certain risks. See Risk Factors beginning on page S-2 of this prospectus supplement to read about certain factors you should consider before buying the notes.

The notes will be our senior unsecured obligations. The notes will not be savings accounts, deposits or other obligations of any bank or non-bank subsidiary of ours and will not be insured by the Federal Deposit Insurance Corporation or any other governmental agency. Unless you are informed otherwise in the applicable prospectus supplement, these securities will not be guaranteed by the Federal Deposit Insurance Corporation pursuant to the Temporary Liquidity Guarantee Program.

Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

The final terms of each note, including the purchase price, agent discounts and commissions, if any, and net proceeds for any particular offering, will be included in the applicable pricing supplement. The notes will be issued at 100% of their principal amount unless otherwise specified in the applicable pricing supplement.

Zions Bancorporation may sell the notes directly or through one or more agents or dealers, including its wholly-owned subsidiary, Zions Direct, Inc., and including through Zions Direct's auction platform. The agents are not required to sell any particular amount of the notes. We do not expect any of the notes to be listed on a securities exchange or made available for quotation on any quotation system, and a market for the notes may not develop.

Zions Bancorporation may use this prospectus supplement and accompanying prospectus in the initial sale of any note. In addition, Zions Direct, Inc. or any other affiliate of Zions Bancorporation may use this prospectus supplement and accompanying prospectus in a market-making transaction in any note after its initial sale. These transactions may be executed at negotiated prices that are related to market prices at the time of purchase or sale or at other prices. ***Unless Zions Bancorporation or its agent informs the purchaser otherwise in the confirmation of sale, this prospectus supplement and accompanying prospectus is being used in a market-making transaction.***

ZIONS DIRECT, INC.

Prospectus Supplement dated April 21, 2009

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No dealer, salesperson or other person is authorized to give any information or to represent anything not contained in this prospectus supplement and the accompanying prospectus. You must not rely on any unauthorized information or representations. We are not making an offer in any jurisdictions, or under any circumstances, where the offer is not permitted. The information in this prospectus supplement and the accompanying prospectus is accurate only as of the date on its cover page and any information we have incorporated by reference is accurate only as of the date of the document incorporated by reference.

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ABOUT THIS PROSPECTUS SUPPLEMENT AND PRICING SUPPLEMENTS

This document is in two parts. The first is this prospectus supplement, which sets forth certain specific terms of the notes that we may offer. The second part, the accompanying prospectus, gives more general information, some of which may not apply to the notes that we may offer. This prospectus supplement also adds to, updates and changes information contained in the accompanying prospectus. If the description of the offering varies between this prospectus supplement and the accompanying prospectus, you should rely on the information in this prospectus supplement. The accompanying prospectus is part of a registration statement that we filed with the Securities and Exchange Commission, or SEC, using a shelf registration statement. Under the shelf registration process, from time to time, we may offer and sell debt securities, warrants or other rights, stock purchase contracts, units, common stock, preferred stock or depository shares, or any combination thereof, in one or more offerings. In this prospectus supplement and the accompanying prospectus, the terms company, Zions, we, us and our refer to Zions Bancorporation and not its consolidated subsidiaries unless the context requires otherwise.

Each time we offer notes, we will attach a pricing supplement to this prospectus supplement. The pricing supplement will contain the specific description of the notes we are offering and the terms of the offering. The pricing supplement will supersede this prospectus supplement or the accompanying prospectus to the extent it contains information that is different from the information contained in this prospectus supplement or the accompanying prospectus.

It is important that you read and consider all of the information contained in this prospectus supplement and the accompanying prospectus in making your investment decision. You should also read and consider the information in the documents to which we have referred you in [Incorporation by Reference](#) on page iii of this prospectus supplement and [Where You Can Find More Information](#) on page 2 of the accompanying prospectus.

The distribution of this prospectus supplement and the accompanying prospectus and the offering of the notes in certain jurisdictions may be restricted by law. Persons into whose possession this prospectus supplement and the accompanying prospectus come should inform themselves about and observe any such restrictions. This prospectus supplement and the accompanying prospectus do not constitute, and may not be used in connection with, an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation. See [Supplemental Plan of Distribution](#). References herein to \$ and dollars are to the currency of the United States.

Zions® and Zions Bank® are registered service marks of Zions Bancorporation. All other service marks, trademarks and trade names referred to in this prospectus supplement and the accompanying prospectus are the property of their respective owners.

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INCORPORATION BY REFERENCE

The SEC allows us to incorporate by reference information into this prospectus supplement and the accompanying prospectus. This means that we can disclose important information to you by referring you to another document that Zions has filed separately with the SEC that contains that information. The information incorporated by reference is considered to be part of this prospectus supplement and the accompanying prospectus. Information that Zions files with the SEC after the date of this prospectus supplement will automatically modify and supersede the information included or incorporated by reference in this prospectus supplement and the accompanying prospectus to the extent that the subsequently filed information modifies or supersedes the existing information. We incorporate by reference:

our Annual Report on Form 10-K for the fiscal year ended December 31, 2008;

our Current Reports on Form 8-K filed on January 23, 2009 and March 31, 2009; and

any future filings we make with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, until we sell all of the notes offered by the prospectus supplement.

Notwithstanding the foregoing, we are not incorporating any document or information deemed to have been furnished and not filed in accordance with SEC rules.

You may request a copy of any of these filings at no cost by writing to or telephoning us at the following address and telephone number:

Investor Relations

Zions Bancorporation

One South Main Street, 15th Floor

Salt Lake City, Utah 84111

(801) 524-4787

In addition, these filings are available on our web site at <http://www.zionsbancorporation.com>. For additional information concerning an offering, the web site www.auctions.zionsdirect.com, or the auction process, you may contact Zions Direct:

by telephone at (800) 524-8875; or

by e-mail at auctions@zionsdirect.com.

Please note that these web sites do not form a part of this prospectus supplement or the accompanying prospectus.

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SUMMARY

The following summary should be read together with the information contained in other parts of this prospectus supplement, in the accompanying prospectus and in any applicable pricing supplement. This summary alone may not contain all the information that is important to you. You should carefully read this entire prospectus supplement, the accompanying prospectus and any applicable pricing supplement or preliminary pricing supplement to understand fully the terms of the notes, as well as the other considerations that are important to you in making a decision about whether to invest in the notes.

Zions Bancorporation

Zions Bancorporation is a financial holding company organized under the laws of the State of Utah in 1955, and registered under the Bank Holding Company Act of 1956, as amended. Zions Bancorporation and its subsidiaries own and operate eight commercial banks with a total of 513 domestic branches at December 31, 2008. We provide a full range of banking and related services through our banking and other subsidiaries, primarily in Utah, California, Texas, Arizona, Nevada, Colorado, Idaho, Washington and Oregon. Full-time equivalent employees totaled 11,011 at December 31, 2008.

We focus on maintaining community banking services by continuously strengthening our core business lines of 1) small, medium-sized businesses and corporate banking; 2) commercial and residential development, construction and term lending; 3) retail banking; 4) treasury cash management and related products and services; 5) residential mortgage; 6) trust and wealth management; and 7) investment activities. We operate eight different banks in ten Western and Southwestern states with each bank operating under a different name and each having its own board of directors, chief executive officer, and management team. The banks provide a wide variety of commercial and retail banking and mortgage lending products and services. They also provide a wide range of personal banking services to individuals, including home mortgages, bankcard, other installment loans, home equity lines of credit, checking accounts, savings accounts, time certificates of various types and maturities, trust services, safe deposit facilities, direct deposit and 24-hour ATM access. In addition, certain banking subsidiaries provide services to key market segments through their Women's Financial, Private Client Services and Executive Banking Groups. We also offer wealth management services through a subsidiary, Contango Capital Advisors, Inc. and online brokerage services through Zions Direct.

In addition to these core businesses, we have built specialized lines of business in capital markets, public finance, and certain financial technologies, and we are also a leader in Small Business Administration lending. Through our eight banking subsidiaries, we provide Small Business Administration 7(a) loans to small businesses throughout the United States and we are also one of the largest providers of SBA 504 financing in the nation. We own an equity interest in the Federal Agricultural Mortgage Corporation, or Farmer Mac, and we are one of the nation's top originators of secondary market agricultural real estate mortgage loans through Farmer Mac. We are a leader in municipal finance advisory and underwriting services. We also control four venture capital funds that provide early-stage capital primarily for start-up companies located in the Western United States. Finally, our NetDeposit, LLC subsidiary is a leader in the provision of check imaging and clearing software.

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RISK FACTORS

An investment in our notes involves certain risks. You should carefully consider the risks described below and in the accompanying prospectus, as well as the risk factors and other information included or incorporated by reference in this prospectus supplement, the accompanying prospectus and any applicable pricing supplement or preliminary pricing supplement, before making an investment decision. Our business, financial condition or results of operations could be materially adversely affected by any of these risks. The trading price of our notes could decline due to any of these risks, and you may lose all or part of your investment. This prospectus supplement also contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the risks faced by us described below and elsewhere in this prospectus supplement and the accompanying prospectus.

Our indebtedness could adversely affect our financial results and prevent us from fulfilling our obligations under the notes.

In addition to our currently outstanding indebtedness and any additional indebtedness we may incur pursuant to any offerings related to this prospectus supplement, we may be able to borrow substantial additional unsecured indebtedness in the future. If new indebtedness is added to our current debt levels, the related risks that we now face could increase.

Our indebtedness, including the indebtedness we may incur in the future, could have important consequences for the holders of the notes, including:

limiting our ability to satisfy our obligations with respect to the notes;

increasing our vulnerability to general adverse economic and industry conditions;

limiting our ability to obtain additional financing to fund future working capital, capital expenditures and other general corporate requirements;

requiring a substantial portion of our cash flow from operations for the payment of principal of, and interest on, our indebtedness and reducing our ability to use our cash flow to fund working capital, capital expenditures and general corporate requirements;

limiting our flexibility in planning for, or reacting to, changes in our business and the industry; and

putting us at a disadvantage compared to competitors with less indebtedness.

Our business operations may not generate the cash needed to service our indebtedness.

Our ability to make payments on our indebtedness, including these notes, and to fund planned capital expenditures will depend on our ability to generate cash in the future. We cannot assure you that our business will generate sufficient cash flow from operations or that future borrowings will be available to us in an amount sufficient to enable us to pay our indebtedness, including these notes, or to fund our other liquidity needs.

Although these notes are referred to as senior notes, they will be effectively subordinated to our secured indebtedness and all liabilities of our subsidiaries.

The notes are unsecured and therefore will be effectively subordinated to any secured indebtedness we may incur to the extent of the value of the assets securing such indebtedness. In the event of a bankruptcy or similar proceeding involving us, any of our assets which serve as collateral for any secured indebtedness will be available to satisfy the obligations under such secured indebtedness before any payments are made on the notes or our other unsecured indebtedness.

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In addition, the notes will be structurally subordinated to all indebtedness and other liabilities, including trade payables, of each of our subsidiaries, except to the extent we may be a creditor of that subsidiary with recognized senior claims. This is because we are a holding company and a legal entity separate and distinct from our subsidiaries, and our rights to participate in any distribution of assets of any subsidiary upon its liquidation,

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reorganization or otherwise, and the ability of any holder of notes to benefit indirectly from such distribution, is subject to superior claims. Claims on our subsidiary banks by creditors other than us include long-term debt, including subordinated and junior subordinated debt issued by our subsidiary, Amegy Corporation, and substantial obligations with respect to deposit liabilities and federal funds purchased, securities sold under repurchase agreements, other short-term borrowings and various other financial obligations.

An active trading market may not develop for the notes.

Prior to a given offering, there is no existing trading market for the notes being issued in that offering. Although Zions Direct has informed us that it currently intends to make a market in any notes we may issue pursuant to this prospectus supplement after we complete an offering, it has no obligation to do so and may discontinue making a market at any time without notice.

We do not intend to apply for listing of the notes on any securities exchange or for quotation on any quotation system.

The liquidity of any market for the notes will depend on a number of factors, including:

the number of holders of the notes;

our performance;

the market for similar securities;

the interest of securities dealers in making a market in the notes; and

prevailing interest rates.

We cannot assure you that an active market for the notes will develop or will continue, if developed.

Downgrades or other changes in our credit ratings that may occur could affect our financial results and reduce the market value of the notes.

The credit ratings assigned to our unsecured indebtedness, including the notes, and our corporate credit may affect our ability to obtain new financing and the costs of our financing. It is possible that rating agencies may downgrade our credit ratings or change their outlook about us, which could increase our cost of capital and make our efforts to raise capital more difficult and, in turn, adversely affect our financial results. Such a downgrade in rating may also reduce the price that a subsequent purchaser may be willing to pay for the notes.

Redemption may adversely affect your return on the Notes.

If your notes are redeemable at our option, we may choose to redeem your notes at times when prevailing interest rates are relatively low. In addition, if your notes are subject to mandatory redemption, we may also be required to redeem your notes at times when prevailing interest rates are relatively low. As a result, you generally will not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as your notes being redeemed.

The notes may have original issue discount, or OID, for U.S. federal income tax purposes and, accordingly, holders may be required to include OID in their income in advance of the receipt of cash attributable to such income.

Notes offered under this prospectus supplement, including those for which the price is determined pursuant to the auction process described below under Supplemental Plan of Distribution The Auction Process, may have OID for U.S. federal income tax purposes. Holders of these notes generally must include OID in income for U.S. federal income tax purposes under a constant yield accrual method regardless of their regular method of tax accounting. As a result, holders of such notes may be required to include OID in their income in advance of the receipt of cash

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attributable to such income. See Supplemental Discussion of U.S. Federal Income Tax Consequences in this prospectus supplement for a brief description of the U.S. federal income tax consequences of owning an OID note.

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Risks Related to the Auction Process

We may distribute our notes and determine the interest rate and/or offering price for our notes sold pursuant to this prospectus supplement and the applicable pricing supplement through an auction conducted by Zions Direct, our auction agent. A participant in such an auction would be subject to certain risks, which include the following.

Even if you submit a bid that is equal to the market-clearing price you may not be allocated any of the notes for which you bid.

We may determine the offering price (or, equivalently, yield) for our notes sold pursuant to this prospectus supplement and the applicable pricing supplement through an auction conducted by Zions Direct, our auction agent. The auction process will reveal a market-clearing price for such notes. The market-clearing price will be the highest offering price at which all of the notes offered in an auction would be sold to bidders. For an explanation of the meaning of market-clearing price see Supplemental Plan of Distribution The Auction Process beginning on page S-25 of this prospectus supplement. If your bid price equals the market-clearing price, you will be allocated notes only to the extent that notes have not been allocated to bidders with higher bid prices. If there are two or more bids that equal the market-clearing price, then the notes that have not been allocated to bidders with higher bid prices will be allocated to the bid with the earliest time stamp, then to the bid with the next earliest time stamp and so on until all of the notes being offered are allocated to bidders. Accordingly, even if you submit a bid that is equal to the market-clearing price, you may not be allocated any of the notes for which you bid based on your time stamp.

Once you submit a bid, you may generally not revoke it.

Once you have submitted and confirmed a bid, you may not subsequently lower your bid price, increase your bid yield or lower the principal amount of notes bid for in that bid. Therefore, even if circumstances arise after you have placed and confirmed a bid that make you want to decrease your original bid price, increase your bid yield, or decrease the principal amount of notes originally bid for, you will nonetheless be bound by that bid. In addition, if you submit and confirm a purchase using the Buy Today feature, if available, you will be obligated to purchase the quantity of notes that you indicated at the time of submitting your order at the Buy Today price unless we subsequently reject your order as described below. Such orders are binding on potential investors and they may not subsequently rescind such order. See Supplemental Plan of Distribution The Auction Process for a description of the Buy Today feature.

We reserve the right to reject any bid.

We reserve the right, in our sole discretion, to reject any bid that we deem to be manipulative, mistaken, made due to a misunderstanding of our notes on the part of the bidder or for any other reason we may determine. We reserve this right in order to preserve the integrity of the auction process. Other conditions for valid bids, including eligibility and account funding requirements of participating dealers and individuals, may vary. As a result of these varying requirements, we may reject a bidder's bid, even while we accept another bidder's identical bid. See the section entitled Supplemental Plan of Distribution The Auction Process Allocation on page S-30 of this prospectus supplement. We further reserve the right to reject all bids if we are unable to sell all of the notes offered in that auction, or for any other reason. You will not be entitled to an allocation of notes, even if your bid is in-the-money at the time an auction closes, until our auction agent has reviewed the results of the auction and informed you that your bid or bids have been accepted. If we reject all bids made in an auction, we reserve the right to cancel all purchases made under the Buy Today feature.

You may receive a full allocation of the notes that you bid for if your bid is successful; therefore, you should not bid for more notes than you are prepared to purchase.

Successful bidders may be allocated all or nearly all of the notes that they bid for in an auction. See Supplemental Plan of Distribution The Auction Process Allocation. Therefore, we caution investors against submitting a bid that does not accurately represent the principal amount of notes that they are willing and prepared to purchase.

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You should not expect to sell your notes after the conclusion of an offering.

As we mentioned above, we may use the auction process to reveal a market-clearing price for the notes offered pursuant to this prospectus supplement. However, this market-clearing price may bear little or no relationship to market demand for our notes following such an offering, or the price at which the notes may be sold. If there is little or no market demand for the notes following the closing of an auction, the price of the notes may decline. If your objective is to make a short-term profit by selling your notes after the conclusion of an auction, you should not submit a bid in an auction.

The aggregate principal amount of notes actually sold in a particular auction may be substantially higher or lower than any estimate provided in a preliminary pricing supplement or other document furnished by us or Zions Direct.

Our indenture does not limit the amount of notes or other debt securities we may issue, and we may issue an indeterminate amount of notes pursuant to this prospectus supplement, so long as the principal amount outstanding at any given time does not exceed \$500,000,000. We will indicate in a preliminary pricing supplement or other document furnished by us or Zions Direct the principal amount of notes we expect to offer in a given auction and, if the auction will include the Buy Today feature and/or whether the auction is subject to institutional up-sizing. We will also indicate whether notes will be sold through any other distribution method, including pursuant to our distribution agreement with Zions Direct. Purchases made under the Buy Today feature, pursuant to the institutional up-sizing option or through any other distribution method will be in addition to the auction amount specified in the applicable preliminary pricing supplement or other document furnished by us or Zions Direct. We will endeavor to provide a good faith estimate of the amount of notes that we expect to issue outside of the auction. However, we cannot assure you that we will not issue more or less notes than those good faith estimates. See Supplemental Plan of Distribution for more information. Our incurrence of additional debt may have important consequences for you as a holder of the notes, including making it more difficult for us to satisfy our obligations with respect to the notes, a loss in the trading value of your notes, if any, and a risk that the credit rating of the notes may be lowered or withdrawn. In addition, your ability to trade in the notes may be impacted if we sell fewer notes than we initially anticipated.

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USE OF PROCEEDS

Unless otherwise indicated in the applicable pricing supplement, we intend to use the net proceeds from the sale of any notes for general corporate purposes.

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SUPPLEMENTAL DESCRIPTION OF NOTES WE MAY OFFER

*Please note that in this section entitled **Supplemental Description of Notes We May Offer**, references to **holders** mean those who own notes registered in their own names, on the books that we or the trustee maintain for this purpose, and not those who own beneficial interests in notes registered in street name or in notes issued in book-entry form through The Depository Trust Company or another depository. Owners of beneficial interests in the notes should read the section entitled **Legal Ownership and Book-Entry Issuance** in the accompanying prospectus.*

Information About Our Medium-Term Note Program

We will issue the notes under the indenture dated September 10, 2002 between Zions Bancorporation and The Bank of New York Mellon Trust Company, N.A., as successor to J.P. Morgan Trust Company, National Association, as trustee, which may be supplemented from time to time as provided for in the indenture. The indenture and the notes are governed by New York law. We summarize various terms that apply generally to our debt securities, including the notes, in the accompanying prospectus under the caption **Description of Debt Securities We May Offer**. The following description of the notes supplements that description of the debt securities. Consequently, you should read this prospectus supplement together with the accompanying prospectus, the applicable pricing supplement and any other offering material in order to understand the terms of the notes. However, if this prospectus supplement is inconsistent with the accompanying prospectus, this prospectus supplement controls with regard to the notes.

This section is a summary of the material terms that are common to the notes. Each particular note will have financial and other terms specific to it, and the specific terms of each note will be described in a pricing supplement attached to the front of this prospectus supplement. Those terms may vary from the terms described here.

As you read this section, please remember that the specific terms of your note as described in your pricing supplement will supplement and, if applicable, may modify or replace the general terms described in this section and in the accompanying prospectus. If your pricing supplement is inconsistent with this prospectus supplement or the accompanying prospectus, your pricing supplement will control with regards to your note. Thus, the statements we make in this section or in the accompanying prospectus may not apply to your note.

When we refer to your pricing supplement or the applicable pricing supplement, we mean the pricing supplement describing the specific terms of the note you purchase. Unless we say otherwise below, the terms we use in this prospectus supplement that we also use in the accompanying prospectus have the meanings we give them in that document. Similarly, the terms we use in any pricing supplement that we also use in this document or the accompanying prospectus will have the meanings we give them in this document or the accompanying prospectus, as the case may be, unless we say otherwise in the pricing supplement.

Amounts That We May Issue

The notes will be our senior unsecured obligations and will rank equally with all of our other senior and unsecured indebtedness from time to time outstanding.

Unless our Board of Directors subsequently modifies our authorization to issue notes pursuant to this Medium-Term Note Program, the notes issued pursuant to this prospectus supplement may be issued in one or more series, in an amount or amounts not to exceed a maximum aggregate principal amount of \$500,000,000 outstanding at any given time. As of March 31, 2009, an aggregate principle amount of \$111,059,000 of the notes was outstanding. The indenture and the notes do not limit the aggregate amount of debt securities that we may issue, nor does the indenture limit the number of series or the aggregate amount of any particular series that we may issue. Also, if we issue notes having the same terms in a particular offering, or intend to continuously issue notes in that offering over time, we may issue notes in that offering and at a later date reopen that offering and offer additional notes having those same terms.

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This Section Is Only a Summary

The indenture and its associated documents, including your note and any supplemental indentures we may enter into, contain the full legal text of the matters described in this section and your prospectus supplement. Our indenture and the notes are governed by New York law. A copy of our indenture has been filed with the Securities and Exchange Commission as part of our registration statement. See [Where You Can Find More Information](#) in the accompanying prospectus for information on how to obtain a copy.

Investors should carefully read the description of the terms and provisions of our debt securities and our indentures under [Description of Debt Securities We May Offer](#) in the accompanying prospectus. That section, together with this prospectus supplement and your pricing supplement, summarize the material terms of our indenture and your note. They do not, however, describe every aspect of our indenture and your note. If the information in this prospectus supplement or in the applicable pricing supplement differs from the terms and provisions of the notes or the indenture, you should in all cases rely on the terms and provisions of the notes and the indenture.

General Features of the Notes

The following description of the notes will apply to each note offered hereby unless otherwise specified in the applicable pricing supplement or note.

Currency of Notes

Unless otherwise specified in the applicable pricing supplement, the notes will be payable in U.S. dollars.

Types of Notes

We may issue the *following two types of notes*:

Fixed Rate Notes. A note of this type will bear interest at a fixed rate described in the applicable pricing supplement. This type includes zero coupon notes, which bear no interest and are instead issued at a price lower than the principal amount.

Floating Rate Notes. A note of this type will bear interest at rates that are determined by reference to an interest rate formula. In some cases, the rates may also be adjusted by adding or subtracting a spread or multiplying by a spread multiplier and may be subject to a minimum rate or a maximum rate. The various interest rate formulas and these other features are described below in [Interest Rates Floating Rate Notes](#). If your note is a floating rate note, the formula and any adjustments that apply to the interest rate will be specified in your pricing supplement.

Original Issue Discount Notes

A fixed rate note or a floating rate note may be an original issue discount, or OID, note. A note of this type is issued at a price lower than its principal amount and provides that, upon redemption or acceleration of its maturity, an amount less than its principal amount will be payable. An OID note may be a zero coupon note. A note issued at a discount to its principal may, for U.S. federal income tax purposes, be considered an OID note, regardless of the amount payable upon redemption or acceleration of maturity. See [Supplemental Discussion of U.S. Federal Income Tax Consequences](#) in this prospectus supplement for a brief description of the U.S. federal income tax consequences of owning an OID note.

Redemption and Repayment

Unless otherwise specified in the applicable pricing supplement, we will not provide any sinking fund for your note.

Unless your pricing supplement specifies (an initial date on which your note may be redeemed by us) a redemption commencement date the notes will not be redeemable by us prior to their stated maturity. If your pricing supplement specifies a redemption commencement date with respect to such note, your pricing supplement will also

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specify one or more redemption prices, which will be expressed as a percentage of the principal amount of your note, and the redemption period or periods during which such redemption prices will apply. If your note is redeemable at our option, as specified in your pricing supplement, it will be redeemable at any time on or after the specified redemption commencement date for a limited period, as specified in your pricing supplement, at the specified redemption price applicable to the redemption period for your note together with interest accrued up to the redemption date.

If different prices are specified for different redemption periods, the price we pay will be the price that applies to the redemption period during which your note is redeemed.

If we exercise an option to redeem any note, we will give to the trustee and the holder written notice of the principal amount of the note to be redeemed, not less than 30 days nor more than 60 days before the applicable redemption date.

If applicable, the pricing supplement will indicate that you have the option to have us repay your note on a date or dates specified prior to its maturity date. You may elect repayment of your entire note or any portion of the principal amount which would be an authorized denomination for the note, except that any remaining unpaid portion must be at least the minimum denomination for your note. Unless otherwise specified in the applicable pricing supplement, the repayment price will be equal to 100% of the principal amount of your note, together with accrued interest to the date of repayment. If your note is issued with original issue discount, the applicable pricing supplement will specify the amount payable upon a repayment.

Unless otherwise specified in your pricing supplement, exercise of the repayment option by you will be irrevocable. You may exercise the repayment option for less than the entire principal amount of your notes but, in that event, the principal amount of the notes remaining outstanding after repayment must be an authorized denomination.

Restriction on Sale or Issuance of Capital Stock of Major Constituent Banks

We are not subject to financial or similar restrictions by the terms of the indenture, except as described under *Description of Debt Securities We May Offer Restriction on Sale or Issuance of Capital Stock of Major Constituent Banks* in the accompanying prospectus.

Whether the Defeasance and Covenant Defeasance Provisions Apply

Unless otherwise indicated in your pricing supplement, the full defeasance and covenant defeasance provisions of the indenture described under *Description of Debt Securities We May Offer Defeasance and Covenant Defeasance* in the accompanying prospectus will apply to the notes.

Form, Denomination and Legal Ownership of Notes

Your note will be issued in registered form in an authorized denomination. Unless otherwise indicated in the pricing supplement, the authorized denomination will be \$1,000 and integral multiples of \$1,000.

Your note will be issued in book-entry form and represented by a global note or a master global note which will be deposited with the trustee as custodian for The Depository Trust Company, or DTC, and registered in the name of Cede & Co. as nominee of DTC. You should read the section *Legal Ownership and Book-Entry Issuance* in the accompanying prospectus for information about this type of arrangement and your rights under this type of arrangement.

Information in the Pricing Supplement

Your pricing supplement will describe one or more of the following terms of your note:

any limit on the total principal amount of the note;

the stated maturity;

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the price at which we originally issue your note, expressed as a percentage of the principal amount, and the original issue date;

if you purchase your note in a market-making transaction, you will receive information about the price you pay and your trade and settlement dates in a separate confirmation of sale. A market-making transaction is one in which Zions Direct or another of our affiliates resells a note that it has previously acquired from another holder. A market-making transaction in a particular note occurs after the original sale of the note;

whether your note is a fixed rate note or a floating rate note and also whether it is an original issue discount note;

if your note is a fixed rate note, the yearly rate at which your note will bear interest, if any, and the interest payment dates;

if your note is a floating rate note, the interest rate basis, which may be one of the nine base rates described in [Interest Rates Floating Rate Notes](#) below; any applicable index currency or maturity, spread or spread multiplier or initial, maximum or minimum rate; the interest reset, determination, calculation and payment dates; and the calculation agent, if any, all of which we describe under [Interest Rates Floating Rate Notes](#) below;

if your note is an original issue discount note, the yield to maturity;

if applicable, the circumstances under which your note may be redeemed at our option or repaid at the holder's option before the stated maturity, including any redemption commencement date, repayment date(s), redemption price(s) and redemption period(s);

the authorized denomination, if other than \$1,000 and integral multiples of \$1,000;

whether we will issue or make available your note in non-book-entry form;

whether and under what circumstances we will pay additional amounts on any note held by a person who is not a United States person for tax purposes and whether we can redeem the note if we have to pay additional amounts;

whether the note will be issued in fully registered form or bearer form, in definitive or global form or in any combination of these forms;

the names and duties of any co-trustees, depositories, authenticating agents, paying agents, calculation agents, transfer agents or registrars for the note;

the depository for your note, if other than DTC, and any circumstances under which the holder may request notes in non-global form, if we choose not to issue your note in book-entry form only;

if we choose to issue your note in bearer form, any special provisions relating to bearer notes that are not addressed in the accompanying prospectus; and

any other terms of your note that are consistent with the provisions of the applicable indenture, which could be different from those described in this prospectus supplement and the accompanying prospectus.

The Trustee

The trustee for the holders of notes issued under the indenture will be The Bank of New York Mellon Trust Company, N.A., as successor to J.P. Morgan Trust Company, National Association. If an event of default occurs, and is not cured, the trustee will be required to use the degree of care of a prudent person in the conduct of his or her own affairs in the exercise of its powers. Subject to these provisions, the trustee will be under no obligation to exercise any of its rights or powers under the indenture at the request of any holders of notes, unless they have offered the trustee reasonable security or indemnity.

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The Bank of New York Mellon Trust Company, N.A. is the trustee under our subordinated debt indenture pursuant to which we issue debt. Pursuant to the Trust Indenture Act of 1939, if a default occurs with respect to the notes of any series, the trustee will be required to eliminate any conflicting interest as defined in the Trust Indenture Act or resign as trustee with respect to the notes of that series within 90 days of such default, unless such default is cured, duly waived or otherwise eliminated.

Other Matters

Please see **Description of Debt Securities We May Offer** in the accompanying prospectus for information regarding events of default applicable to the notes, as well information concerning certain covenants that pertain to the notes and the provisions of the indenture governing the terms of our notes.

Interest Rates

This subsection describes the different kinds of interest rates that may apply to your note, if it bears interest.

Fixed Rate Notes

Unless the applicable pricing supplement states otherwise, interest on a fixed rate note will be payable semiannually on the interest payment dates specified in the applicable pricing supplement, and at maturity. For each fixed rate note that bears interest, interest will accrue, and we will compute and pay accrued interest, as described in the accompanying prospectus under **Description of Debt Securities We May Offer Types of Debt Securities Fixed Rate Debt Securities** and **Payment Mechanics for Debt Securities in Registered Form**.

Floating Rate Notes

*In this subsection, we use several specialized terms relating to the manner in which floating interest rates are calculated. These terms appear in **bold, italicized** type the first time they appear, and we define these terms in **Special Rate Calculation Terms** at the end of this subsection.*

For each floating rate note, interest will accrue, and we will compute and pay accrued interest, as described in the accompanying prospectus under **Description of Debt Securities We May Offer Types of Debt Securities Floating Rate Debt Securities** and **Description of Debt Securities We May Offer Payment Mechanics for Debt Securities in Registered Form**. In addition, the following will apply to floating rate notes.

Base Rates. We currently expect to issue floating rate notes that bear interest at rates based on one or more of the following base rates:

commercial paper rate;

prime rate;

LIBOR;

EURIBOR;

treasury rate;

CMT rate;

CD rate;

federal funds rate; and/or

11th district cost of funds rate.

We describe each of these base rates in further detail below in this subsection. If you purchase a floating rate note, your pricing supplement will specify the type of base rate that applies to your note.

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Interest payable on a floating rate note for any particular interest period will be calculated as described in the accompanying prospectus using an interest factor, expressed as a decimal, applicable to each day during the period. The interest factor for each day will be calculated by dividing the interest rate, expressed as a decimal, applicable to that day by the following:

360, in the case of commercial paper rate notes, prime rate notes, LIBOR notes, EURIBOR notes, CD rate notes, federal funds rate notes and 11th district cost of funds rate notes; or

the actual number of days in the year, in the case of treasury rate notes and CMT rate notes.

See Description of Debt Securities We May Offer Types of Debt Securities Floating Rate Debt Securities Calculation of Interest in the accompanying prospectus for more information about calculation mechanics.

Initial Base Rate. For any floating rate note, the base rate in effect from the original issue date to the first interest reset date will be the initial base rate. We will specify the initial base rate, or the manner in which the initial base rate will be determined, in the applicable pricing supplement.

Spread or Spread Multiplier. In some cases, the base rate for a floating rate note may be adjusted:

by adding or subtracting a specified number of basis points, called the spread, with one basis point being 0.01%; or

by multiplying the base rate by a specified percentage, called the spread multiplier.

If you purchase a floating rate note, your pricing supplement will specify whether a spread or spread multiplier will apply to your note and, if so, the amount of the spread or spread multiplier.

Maximum and Minimum Rates. The actual interest rate, after being adjusted by the spread or spread multiplier, may also be subject to either or both of the following limits:

a maximum rate, meaning a specified upper limit that the actual interest rate in effect at any time may not exceed; and/or

a minimum rate, meaning a specified lower limit that the actual interest rate in effect at any time may not fall below.

If you purchase a floating rate note, your pricing supplement will specify whether a maximum rate and/or minimum rate will apply to your note and, if so, what those rates are.

Whether or not a maximum rate applies, the interest rate on a floating rate note will in no event be higher than the maximum rate permitted by New York law, as it may be modified by U.S. law of general application.

Under current New York law, the maximum rate of interest, with some exceptions, for any loan in an amount less than \$250,000 is 16% and for any loan in the amount of \$250,000 or more but less than \$2,500,000 is 25% per year on a simple interest basis. These limits do not apply to loans of \$2,500,000 or more.

The rest of this subsection describes how the interest rate and the interest payment dates will be determined, and how interest will be calculated, on a floating rate note.

Interest Reset Dates. The rate of interest on a floating rate note will be reset, by the calculation agent described below, daily, weekly, monthly, quarterly, semi-annually, annually or otherwise as specified in the applicable pricing supplement. The date on which the interest rate resets and the reset rate becomes effective is called the interest reset date. Except as otherwise specified in the applicable pricing supplement, the interest

reset date will be as follows:

for floating rate notes that reset daily, each *business day*;

for floating rate notes that reset weekly and are not treasury rate notes, the Wednesday of each week;

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for treasury rate notes that reset weekly, the Tuesday of each week, except as otherwise described in the next to last paragraph under Interest Determination Dates below;

for floating rate notes that reset monthly, the third Wednesday of each month;

for floating rate notes that reset quarterly, the third Wednesday of March, June, September and December of each year;

for floating rate notes that reset semi-annually, the third Wednesday of each of two months of each year as specified in the applicable pricing supplement; and

for floating rate notes that reset annually, the third Wednesday of one month of each year as specified in the applicable pricing supplement.

For a floating rate note, the interest rate in effect on any particular day will be the interest rate determined with respect to the latest interest reset date that occurs on or before that day. There are several exceptions, however, to the reset provisions described above.

The base rate in effect from the original issue date to the first interest reset date will be the initial base rate specified on the cover of your pricing supplement. For floating rate notes that reset daily or weekly, the base rate in effect for each day following the second business day before an interest payment date to, but excluding, the interest payment date, and for each day following the second business day before the maturity to, but excluding, the maturity, will be the base rate in effect on that second business day.

If any interest reset date for a floating rate note would otherwise be a day that is not a business day, the interest reset date will be postponed to the next day that is a business day. For a LIBOR note, however, if that business day is in the next succeeding calendar month, the interest reset date will be the immediately preceding business day.

Interest Determination Dates. The interest rate that takes effect on an interest reset date will be determined by the calculation agent by reference to a particular date called an interest determination date. Except as otherwise specified in the applicable pricing supplement:

For all floating rate notes other than LIBOR notes, EURIBOR notes, treasury rate notes and 11th district cost of funds rate notes, the interest determination date relating to a particular interest reset date will be the second business day before the interest reset date.

For LIBOR notes, the interest determination date relating to a particular interest reset date will be the second ***London business day*** preceding the interest reset date, unless the ***index currency*** is pounds sterling, in which case the interest determination date will be the interest reset date. We refer to an interest determination date for a LIBOR note as a LIBOR interest determination date.

For EURIBOR notes, the interest determination date relating to a particular interest reset date will be the second ***euro business day*** preceding the interest reset date. We refer to an interest determination date for a EURIBOR note as a EURIBOR interest determination date.

For treasury rate notes, the interest determination date relating to a particular interest reset date, which we refer to as a treasury interest determination date, will be the day of the week in which the interest reset date falls on which treasury bills i.e., direct obligations of the U.S. government would normally be auctioned. Treasury bills are usually sold at auction on the Monday of each week, unless that day is a legal holiday, in which case the auction is usually held on the following Tuesday, except that the auction may be held on the preceding Friday. If as the result of a legal holiday an auction is held on the preceding Friday, that Friday will be the treasury interest determination date relating to the interest reset date occurring in the next succeeding week. If the auction is held on a day that would otherwise be an interest reset date, then the interest reset date will instead be the first business day following the

auction date.

For 11th district cost of funds rate notes, the interest determination date relating to a particular interest reset date will be the last working day, in the first calendar month before that interest reset date, on which the Federal Home Loan Bank of San Francisco publishes the monthly average cost of funds paid by member

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institutions of the Eleventh Federal Home Loan Bank District for the second calendar month before that interest reset date. We refer to an interest determination date for an 11th district cost of funds rate note as an 11th district interest determination date.

Interest Calculation Dates. As described above, the interest rate that takes effect on a particular interest reset date will be determined by reference to the corresponding interest determination date. Except for LIBOR notes and EURIBOR notes, however, the determination of the rate will actually be made on a day no later than the corresponding interest calculation date. The interest calculation date will be the earlier of the following:

the tenth calendar day after the interest determination date or, if that tenth calendar day is not a business day, the next succeeding business day; and

the business day immediately preceding the interest payment date or the maturity, whichever is the day on which the next payment of interest will be due.

The calculation agent need not wait until the relevant interest calculation date to determine the interest rate if the rate information it needs to make the determination is available from the relevant sources sooner.

Interest Payment Dates. The interest payment dates for a floating rate note will depend on when the interest rate is reset and, unless we specify otherwise in the applicable pricing supplement, will be as follows:

for floating rate notes that reset daily, weekly or monthly, the third Wednesday of each month or the third Wednesday of March, June, September and December of each year, as specified in the applicable pricing supplement;

for floating rate notes that reset quarterly, the third Wednesday of March, June, September and December of each year;

for floating rate notes that reset semi-annually, the third Wednesday of the two months of each year specified in the applicable pricing supplement; or

for floating rate notes that reset annually, the third Wednesday of the month specified in the applicable pricing supplement.

Regardless of these rules, if a note is originally issued after the regular record date and before the date that would otherwise be the first interest payment date, the first interest payment date will be the date that would otherwise be the second interest payment date. We have defined the term regular record date under Description of Debt Securities We May Offer Payment Mechanics for Debt Securities in the accompanying prospectus.

In addition, the following special provision will apply to a floating rate note with regard to any interest payment date other than one that falls on the maturity. If the interest payment date would otherwise fall on a day that is not a business day, then the interest payment date will be the next day that is a business day. However, if the floating rate note is a LIBOR note or a EURIBOR note and the next business day falls in the next calendar month, then the interest payment date will be advanced to the next preceding day that is a business day. In all cases, an interest payment date that falls on the maturity date will not be changed.

Calculation Agent; Paying Agent; Issuing Agent. We have initially appointed Zions First National Bank as our calculation agent, paying agent and issuing agent for the notes.

Commercial Paper Rate Notes

If you purchase a commercial paper rate note, your note will bear interest at a base rate equal to the commercial paper rate and adjusted by the spread or spread multiplier, if any, specified in your pricing supplement. Unless otherwise specified in your pricing supplement, the interest rate for each subsequent interest determination date will be determined by the calculation agent in accordance with the provisions described below.

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Unless otherwise specified in your pricing supplement, the commercial paper rate will be the *money market yield* of the rate, for the relevant interest determination date, for commercial paper having the *index maturity* specified in your pricing supplement, as published in **H.15(519)** under the heading Commercial Paper Nonfinancial. If the commercial paper rate cannot be determined as described above, the following procedures will apply.

If the rate described above does not appear in H.15(519) at 3:00 P.M., New York City time, on the relevant interest calculation date, unless the calculation is made earlier and the rate is available from that source at that time, then the commercial paper rate will be the rate, for the relevant interest determination date, for commercial paper having the index maturity specified in your pricing supplement, as published in **H.15 daily update** or any other recognized electronic source used for displaying that rate, under the heading Commercial Paper Nonfinancial.

If the rate described above does not appear in H.15(519), H.15 daily update or another recognized electronic source at 3:00 P.M., New York City time, on the relevant interest calculation date, unless the calculation is made earlier and the rate is available from one of those sources at that time, the commercial paper rate will be the money market yield of the arithmetic mean of the following offered rates for U.S. dollar commercial paper that has the relevant index maturity and is placed for an industrial issuer whose bond rating is AA, or the equivalent, from a nationally recognized rating agency: the rates offered as of 11:00 A.M., New York City time, on the relevant interest determination date, by three leading U.S. dollar commercial paper dealers in New York City selected by the calculation agent.

If fewer than three dealers selected by the calculation agent are quoting as described above, the commercial paper rate for the new interest period will be the commercial paper rate in effect for the prior interest period. If the initial base rate has been in effect for the prior interest period, it will remain in effect for the new interest period.

Prime Rate Notes

If you purchase a prime rate note, your note will bear interest at a base rate equal to the prime rate and adjusted by the spread or spread multiplier, if any, specified in your pricing supplement.

Unless otherwise specified in your pricing supplement, the prime rate will be the rate, for the relevant interest determination date, published in H.15(519) under the heading Bank Prime Loan. If the prime rate cannot be determined as described above, the following procedures will apply.

If the rate described above does not appear in H.15(519) at 3:00 P.M., New York City time, on the relevant interest calculation date, unless the calculation is made earlier and the rate is available from that source at that time, then the prime rate will be the rate, for the relevant interest determination date, as published in H.15 daily update or another recognized electronic source used for the purpose of displaying that rate, under the heading Bank Prime Loan.

If the rate described above does not appear in H.15(519), H.15 daily update or another recognized electronic source at 3:00 P.M., New York City time, on the relevant interest calculation date, unless the calculation is made earlier and the rate is available from one of those sources at that time, then the prime rate will be the arithmetic mean of the following rates as they appear on the **Reuters Page US PRIME 1**: the rate of interest publicly announced by each bank appearing on that page as that bank's prime rate or base lending rate, as of 11:00 A.M., New York City time, on the relevant interest determination date.

If fewer than four of these rates appear on the Reuters Page US PRIME 1, the prime rate will be the arithmetic mean of the prime rates or base lending rates, as of the close of business on the relevant interest determination date, of three major banks in New York City selected by the calculation agent. For this purpose, the calculation agent will use rates quoted on the basis of the actual number of days in the year divided by a 360-day year.

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If fewer than three banks selected by the calculation agent are quoting as described above, the prime rate for the new interest period will be the prime rate in effect for the prior interest period. If the initial base rate has been in effect for the prior interest period, it will remain in effect for the new interest period.

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LIBOR Notes

If you purchase a LIBOR note, your note will bear interest at a base rate equal to LIBOR, which will be the London interbank offered rate for deposits in U.S. dollars or any other index currency, as specified in your pricing supplement. In addition, the applicable LIBOR base rate will be adjusted by the spread or spread multiplier, if any, specified in your pricing supplement. Unless otherwise specified in your pricing supplement, LIBOR will be determined by the calculation agent in the following manner:

LIBOR will be either:

the offered rate appearing on the **Reuters Page LIBOR01**, as of 11:00 A.M., London time, on the relevant LIBOR interest determination date, for deposits of the relevant index currency having the relevant index maturity beginning on the relevant interest reset date. Your pricing supplement will indicate the index currency, the index maturity and the reference page that apply to your LIBOR note.

If Reuters Page LIBOR01 does not include this rate or is unavailable on the determination date, the calculation agent will request the principal London office of each of four major banks in the London interbank market, as selected by the calculation agent, to provide that bank's offered quotation (expressed as a percentage per annum) as of approximately 11:00 a.m., London time, on the determination date to prime banks in the London interbank market for deposits in a **representative amount** (as defined below) in United States dollars for deposits in the index currency for the period of the index maturity specified in the applicable pricing supplement beginning on the first day of the applicable interest period. If at least two offered quotations are so provided, LIBOR for the interest period will be the arithmetic mean of those quotations. If fewer than two quotations are so provided, the calculation agent will request each of three major banks in New York City, as selected by the calculation agent, to provide that bank's rate (expressed as a percentage per annum), as of approximately 11:00 a.m., New York City time, on the determination date for loans in a representative amount in United States dollars to leading European banks for the index maturity specified in the applicable pricing supplement beginning on the first day of the applicable interest period. If at least two rates are so provided, LIBOR for the interest period will be the arithmetic mean of those rates. If fewer than two rates are so provided, then LIBOR for the interest period will be LIBOR in effect with respect to the immediately preceding interest period.

EURIBOR Notes

If you purchase a EURIBOR note, your EURIBOR note will bear interest at the interest rate (calculated with reference to EURIBOR and the spread or spread multiplier, if any) specified in your pricing supplement. The calculation agent will determine EURIBOR on each EURIBOR determination date.

Unless otherwise specified in your pricing supplement, on a EURIBOR determination date, the calculation agent will determine EURIBOR for each subsequent interest period as follows:

The calculation agent will determine the offered rates for deposits in Euros for the period of the index maturity specified in the applicable pricing supplement, commencing on the interest reset date, which appears on **Reuters Page EURIBOR01** as of 11:00 A.M., Brussels time, on that date.

If EURIBOR cannot be determined on a EURIBOR determination date as described above, then the calculation agent will determine EURIBOR on the basis of the rates, at approximately 11:00 A.M., Brussels time, on the relevant EURIBOR interest determination date, at which deposits of the following kind are offered to prime banks in the euro-zone interbank market by the principal **euro-zone** office of each of four major banks in that market selected by the calculation agent: euro deposits having the relevant index maturity, beginning on the relevant interest reset date, and in a representative amount. The calculation agent will request the principal euro-zone office of each of these banks to provide a quotation of its rate. If at least two quotations are provided, EURIBOR for the relevant EURIBOR interest determination date will be the arithmetic mean of the quotations.

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If fewer than two quotations are provided as described above, EURIBOR for the relevant EURIBOR interest determination date will be the arithmetic mean of the rates for loans of the following kind to

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leading euro-zone banks quoted, at approximately 11:00 A.M., Brussels time on that EURIBOR interest determination date, by three major banks in the euro-zone selected by the calculation agent: loans of euros having the relevant index maturity, beginning on the relevant interest reset date, and in a representative amount.

If fewer than three banks selected by the calculation agent are quoting as described above, EURIBOR for the new interest period will be EURIBOR in effect for the prior interest period. If the initial base rate has been in effect for the prior interest period, it will remain in effect for the new interest period.

Treasury Rate Notes

If you purchase a treasury rate note, your note will bear interest at a base rate equal to the treasury rate and adjusted by the spread or spread multiplier, if any, specified in your pricing supplement.

Unless otherwise specified in your pricing supplement, the treasury rate will be the rate for the auction, on the relevant treasury interest determination date, of treasury bills having the index maturity specified in your pricing supplement, as that rate appears on ***Reuters Page USAUCTION 10*** or ***Reuters Page USAUCTION 11*** under the heading Investment Rate. If the treasury rate cannot be determined in this manner, the following procedures will apply.

If the rate described above does not appear on either page at 3:00 P.M., New York City time, on the relevant interest calculation date, unless the calculation is made earlier and the rate is available from that source at that time, the treasury rate will be the ***bond equivalent yield*** of the rate, for the relevant interest determination date, for the type of treasury bill described above, as published in H.15 daily update, or another recognized electronic source used for displaying that rate, under the heading U.S. Government Securities/Treasury Bills/Auction High.

If the rate described in the prior paragraph does not appear in H.15 daily update or another recognized electronic source at 3:00 P.M., New York City time, on the relevant interest calculation date, unless the calculation is made earlier and the rate is available from one of those sources at that time, the treasury rate will be the bond equivalent yield of the auction rate, for the relevant treasury interest determination date and for treasury bills of the kind described above, as announced by the U.S. Department of the Treasury.

If the auction rate described in the prior paragraph is not so announced by 3:00 P.M., New York City time, on the relevant interest calculation date, or if no such auction is held for the relevant week, then the treasury rate will be the bond equivalent yield of the rate, for the relevant treasury interest determination date and for treasury bills having a remaining maturity closest to the specified index maturity, as published in H.15(519) under the heading U.S. Government Securities/Treasury Bills/Secondary Market.

If the rate described in the prior paragraph does not appear in H.15(519) at 3:00 P.M., New York City time, on the relevant interest calculation date, unless the calculation is made earlier and the rate is available from one of those sources at that time, then the treasury rate will be the rate, for the relevant treasury interest determination date and for treasury bills having a remaining maturity closest to the specified index maturity, as published in H.15 daily update, or another recognized electronic source used for displaying that rate, under the heading U.S. Government Securities/Treasury Bills/Secondary Market.

If the rate described in the prior paragraph does not appear in H.15 daily update or another recognized electronic source at 3:00 P.M., New York City time, on the relevant interest calculation date, unless the calculation is made earlier and the rate is available from one of those sources at that time, the treasury rate will be the bond equivalent yield of the arithmetic mean of the following secondary market bid rates for the issue of treasury bills with a remaining maturity closest to the specified index maturity: the rates bid as of approximately 3:30 P.M., New York City time, on the relevant treasury interest determination date, by three primary U.S. government securities dealers in New York City selected by the calculation agent.

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If fewer than three dealers selected by the calculation agent are quoting as described in the prior paragraph, the treasury rate in effect for the new interest period will be the treasury rate in effect for the prior interest period. If the initial base rate has been in effect for the prior interest period, it will remain in effect for the new interest period.

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CMT Rate Notes

If you purchase a CMT rate note, your note will bear interest at a base rate equal to the CMT rate and adjusted by the spread or spread multiplier, if any, specified in your pricing supplement.

Unless otherwise specified in your pricing supplement, the CMT rate will be the following rate displayed on the ***designated CMT Reuters page*** under the heading . . . Treasury Constant Maturities . . . Federal Reserve Board Release H.15 . . . Mondays Approximately 3:45 P.M., under the column for the ***designated CMT index maturity***:

if the designated CMT Reuters page is Reuters screen FRBCMT page, the rate for the relevant interest determination date; or

if the designated CMT Reuters page is Reuters screen FEDCMT page, the weekly or monthly average, as specified in your pricing supplement, for the week that ends immediately before the week in which the relevant interest determination date falls, or for the month that ends immediately before the month in which the relevant interest determination date falls, as applicable.

If the CMT rate cannot be determined in this manner, the following procedures will apply.

If the applicable rate described above is not displayed on the relevant designated CMT Reuters page at 3:00 P.M., New York City time, on the relevant interest calculation date, unless the calculation is made earlier and the rate is available from that source at that time, then the CMT rate will be the applicable treasury constant maturity rate described above i.e., for the designated CMT index maturity and for either the relevant interest determination date or the weekly or monthly average, as applicable as published in H.15(519).

If the applicable rate described above does not appear in H.15(519) at 3:00 P.M., New York City time, on the relevant interest calculation date, unless the calculation is made earlier and the rate is available from one of those sources at that time, then the CMT rate will be the treasury constant maturity rate, or other U.S. treasury rate, for the designated CMT index maturity and with reference to the relevant interest determination date, that:

is published by the Board of Governors of the Federal Reserve System, or the U.S. Department of the Treasury; and

is determined by the calculation agent to be comparable to the applicable rate formerly displayed on the designated CMT Reuters page and published in H.15(519).

If the rate described in the prior paragraph does not appear at 3:00 P.M., New York City time, on the relevant interest calculation date, unless the calculation is made earlier and the rate is available from one of those sources at that time, then the CMT rate will be the yield to maturity of the arithmetic mean of the following secondary market offered rates for the most recently issued treasury notes having an original maturity of approximately the designated CMT index maturity and a remaining term to maturity of not less than the designated CMT index maturity minus one year, and in a representative amount: the offered rates, as of approximately 3:30 P.M., New York City time, on the relevant interest determination date, of three primary U.S. government securities dealers in New York City selected by the calculation agent. In selecting these offered rates, the calculation agent will request quotations from five of these primary dealers and will disregard the highest quotation or, if there is equality, one of the highest and the lowest quotation or, if there is equality, one of the lowest. Treasury notes are direct, non-callable, fixed rate obligations of the U.S. government.

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If the calculation agent is unable to obtain three quotations of the kind described in the prior paragraph, the CMT rate will be the yield to maturity of the arithmetic mean of the following secondary market offered rates for treasury notes with an original maturity longer than the designated CMT index maturity, with a

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remaining term to maturity closest to the designated CMT index maturity and in a representative amount: the offered rates, as of approximately 3:30 P.M., New York City time, on the relevant interest determination date, of three primary U.S. government securities dealers in New York City selected by the calculation agent. In selecting these offered rates, the calculation agent will request quotations from five of these primary dealers and will disregard the highest quotation or, if there is equality, one of the highest and the lowest quotation or, if there is equality, one of the lowest. If two treasury notes with an original maturity longer than the designated CMT index maturity have remaining terms to maturity that are equally close to the designated CMT index maturity, the calculation agent will obtain quotations for the treasury note with the shorter remaining term to maturity.

If fewer than five but more than two of these primary dealers are quoting as described in the prior paragraph, then the CMT rate for the relevant interest determination date will be based on the arithmetic mean of the offered rates so obtained, and neither the highest nor the lowest of those quotations will be disregarded.

If two or fewer primary dealers selected by the calculation agent are quoting as described above, the CMT rate in effect for the new interest period will be the CMT rate in effect for the prior interest period. If the initial base rate has been in effect for the prior interest period, it will remain in effect for the new interest period.

CD Rate Notes

If you purchase a CD rate note, your note will bear interest at a base rate equal to the CD rate and adjusted by the spread or spread multiplier, if any, specified in your pricing supplement.

Unless otherwise specified in your pricing supplement, the CD rate will be the rate, on the relevant interest determination date, for negotiable U.S. dollar certificates of deposit having the index maturity specified in your pricing supplement, as published in H.15(519) under the heading CDs (Secondary Market). If the CD rate cannot be determined in this manner, the following procedures will apply.

If the rate described above does not appear in H.15(519) at 3:00 P.M., New York City time, on the relevant interest calculation date, unless the calculation is made earlier and the rate is available from that source at that time, then the CD rate will be the rate, for the relevant interest determination date, described above as published in H.15 daily update, or another recognized electronic source used for displaying that rate, under the heading CDs (Secondary Market).

If the rate described above does not appear in H.15(519), H.15 daily update or another recognized electronic source at 3:00 P.M., New York City time, on the relevant interest calculation date, unless the calculation is made earlier and the rate is available from one of those sources at that time, the CD rate will be the arithmetic mean of the following secondary market offered rates for negotiable U.S. dollar certificates of deposit of major U.S. money center banks with a remaining maturity closest to the specified index maturity, and in a representative amount: the rates offered as of 10:00 A.M., New York City time, on the relevant interest determination date, by three leading nonbank dealers in negotiable U.S. dollar certificates of deposit in New York City, as selected by the calculation agent.

If fewer than three dealers selected by the calculation agent are quoting as described above, the CD rate in effect for the new interest period will be the CD rate in effect for the prior interest period. If the initial base rate has been in effect for the prior interest period, it will remain in effect for the new interest period.

Federal Funds Rate Notes

If you purchase a federal funds rate note, your note will bear interest at a base rate equal to the federal funds rate and adjusted by the spread or spread multiplier, if any, specified in your pricing supplement.

Unless otherwise specified in your pricing supplement, the federal funds rate will be the rate for U.S. dollar federal funds on the relevant interest determination date, as published in H.15 (519) under the heading EFFECT, as that rate is displayed on Reuters Page FEDFUNDS1. If the federal funds rate cannot be determined in this manner, the following procedures will apply.

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If the rate described above is not displayed on Reuters Page FEDFUNDS1 at 3:00 P.M., New York City time, on the relevant interest calculation date, unless the calculation is made earlier and the rate is available from that source at that time, then the federal funds rate, for the relevant interest determination date, will be the rate described above as published in H.15 daily update, or another recognized electronic source used for displaying that rate, under the heading Federal Funds (Effective).

If the rate described above is not displayed on Reuters Page FEDFUNDS1 and does not appear in H.15(519), H.15 daily update or another recognized electronic source at 3:00 P.M., New York City time, on the relevant interest calculation date, unless the calculation is made earlier and the rate is available from one of those sources at that time, the federal funds rate will be the arithmetic mean of the rates for the last transaction in overnight, U.S. dollar federal funds arranged, before 9:00 A.M., New York City time, on the relevant interest determination date, by three leading brokers of U.S. dollar federal funds transactions in New York City selected by the calculation agent.

If fewer than three brokers selected by the calculation agent are quoting as described above, the federal funds rate in effect for the new interest period will be the federal funds rate in effect for the prior interest period. If the initial base rate has been in effect for the prior interest period, it will remain in effect for the new interest period.

11th District Cost of Funds Rate Notes

If you purchase an 11th district cost of funds rate note, your note will bear interest at a base rate equal to the 11th district cost of funds rate and adjusted by the spread or spread multiplier, if any, specified in your pricing supplement.

Unless otherwise specified in your pricing supplement, the 11th district cost of funds rate will be the rate equal to the monthly weighted average cost of funds for the calendar month immediately before the relevant 11th district interest determination date, as displayed on Reuters Page COFI/ARMS under the heading 1st Dist COFI as of 11:00 A.M., San Francisco time, on that date. If the 1st district cost of funds rate cannot be determined in this manner, the following procedures will apply.

If the rate described above does not appear on Reuters Page COFI/ARMS on the relevant 11th district interest determination date, then the 11th district cost of funds rate for that date will be the monthly weighted average cost of funds paid by institutions that are members of the Eleventh Federal Home Loan Bank District for the calendar month immediately before the relevant 11th district interest determination date, as most recently announced by the Federal Home Loan Bank of San Francisco as that cost of funds.

If the Federal Home Loan Bank of San Francisco fails to announce the cost of funds described in the prior paragraph on or before the relevant 11th district interest determination date, the 11th district cost of funds rate in effect for the new interest period will be the 11th district cost of funds rate in effect for the prior interest period. If the initial base rate has been in effect for the prior interest period, it will remain in effect for the new interest period.

Special Rate Calculation Terms

In this subsection entitled Interest Rates, we use several terms that have special meanings relevant to calculating floating interest rates. We define these terms as follows:

The term ***bond equivalent yield*** means a yield expressed as a percentage and calculated in accordance with the following formula:

$$\text{bond equivalent yield} = \frac{D \times N}{360 - (D \times M)} \times 100$$

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where

D means the annual rate for treasury bills quoted on a bank discount basis and expressed as a decimal;

N means 365 or 366, as the case may be; and

M means the actual number of days in the applicable interest reset period.

The term **business day** means, for any note, a day that meets all the following applicable requirements:

for all notes, is a Monday, Tuesday, Wednesday, Thursday or Friday that is not a day on which banking institutions in Salt Lake City, Utah and New York City generally are authorized or obligated by law or executive order to close;

if the note is a LIBOR note, is also a London business day;

if the note is a EURIBOR note or has a specified currency of euros, or is a LIBOR note for which the index currency is euros, is also a Euro business day; and

if the note is held through Euroclear, is also not a day on which banking institutions in Brussels, Belgium are generally authorized or obligated by law, regulation or executive order to close; and

if the note is held through Clearstream, Luxembourg, is also not a day on which banking institutions in Luxembourg are generally authorized or obligated by law, regulation or executive order to close.

The term **designated CMT index maturity** means the index maturity for a CMT rate note and will be the original period to maturity of a U.S. treasury security either 1, 2, 3, 5, 7, 10, 20 or 30 years specified in the applicable pricing supplement. If no such original maturity period is so specified, the designated CMT index maturity will be 2 years.

The term **designated CMT Reuters page** means the Reuters page mentioned in the relevant pricing supplement that displays treasury constant maturities as reported in H.15(519). If no Reuters page is so specified, then the applicable page will be Reuters screen FEDCMT page. If Reuters screen FEDCMT page applies but the relevant pricing supplement does not specify whether the weekly or monthly average applies, the weekly average will apply.

The term **euro business day** means any day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System, or any successor system, is open for business.

The term **euro-zone** means, at any time, the region comprised of the member states of the European Economic and Monetary Union that, as of that time, have adopted a single currency in accordance with the Treaty on European Union of February 1992.

The term **H.15(519)** means the weekly statistical release entitled Statistical Release H.15 (519), or any successor publication, published by the Board of Governors of the Federal Reserve System.

The term **H.15 daily update** means the daily update of H.15(519) available through the worldwide-web site of the Board of Governors of the Federal Reserve System, at <http://www.federalreserve.gov/releases/h15/update>, or any successor site or publication.

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The term *index currency* means, with respect to a LIBOR note, the currency specified as such in the applicable pricing supplement. The index currency may be U.S. dollars or any other currency, and will be U.S. dollars unless another currency is specified in the applicable pricing supplement.

The term *index maturity* means, with respect to a floating rate note, the period to maturity of the instrument or obligation on which the interest rate formula is based, as specified in the applicable pricing supplement.

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The term ***London business day*** means any day on which dealings in the relevant index currency are transacted in the London interbank market.

The term ***money market yield*** means a yield expressed as a percentage and calculated in accordance with the following formula:

$$\text{money market yield} = \frac{D \times 360}{360 - (D \times M)} \times 100$$

where

D means the annual rate for commercial paper quoted on a bank discount basis and expressed as a decimal; and

M means the actual number of days in the relevant interest reset period.

The term ***representative amount*** means an amount that, in the calculation agent's judgment, is representative of a single transaction in the relevant market at the relevant time.

The term ***Reuters Page COFI/ARMS*** means the display so designated on Reuters (or such other page as may replace that page on that service, or such other service as may be nominated as the information vendor, for the purpose of displaying the monthly weighted average cost of funds paid by member institutions of the Eleventh Federal Home Loan Bank District).

The term ***Reuters Page EURIBOR01*** means the display so designated on Reuters (or such other page as may replace that page on that service, or such other service as may be nominated as the information vendor, for the purpose of displaying the interest rates for Euro deposits offered in the euro-zone).

The term ***Reuters Page FEDFUNDS1*** means the display so designated on Reuters (or such other page as may replace that page on that service, or such other service as may be nominated as the information vendor, for the purpose of displaying U.S. dollar federal funds rates).

The term ***Reuters Page LIBOR01*** means the display so designated on Reuters (or such other page as may replace that page on that service, or such other service as may be nominated as the information vendor, for the purpose of displaying rates or prices comparable to the London Interbank Offered Rate for U.S. dollar deposits).

The term ***Reuters Page USAUCTION 10*** means the displays so designated on Reuters (or such other page as may replace that page on that service, or such other service as may be nominated as the information vendor, for the purpose of displaying the 3-month Treasury Bill Rate).

The term ***Reuters Page USAUCTION 11*** means the displays so designated on Reuters (or such other page as may replace that page on that service, or such other service as may be nominated as the information vendor, for the purpose of displaying the 6-month Treasury Bill Rate).

The term ***Reuters Page US PRIME 1*** means the display on the US PRIME 1 page on the Reuters Monitor Money Rates Service, or any successor service, or any replacement page or pages on that service, for the purpose of displaying prime rates or base lending rates of major U.S. banks.

The term ***Reuters page*** means the display on the Reuters service, or any successor or replacement service, on the page or pages or any successor or replacement page or pages on that service.

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SUPPLEMENTAL DISCUSSION OF U.S. FEDERAL INCOME TAX CONSEQUENCES

The following section supplements, and to the extent inconsistent therewith, supersedes the discussion of U.S. federal income taxation in the accompanying prospectus with respect to United States holders (as defined in the accompanying prospectus). It applies only to those United States holders who are not excluded from the discussion of U.S. federal income taxation in the accompanying prospectus.

The following section is the opinion of Sullivan & Cromwell LLP, counsel to Zions Bancorporation. The United States federal income tax treatment of your notes will depend on whether or not the term of your notes exceeds one year. In addition, the following discussion assumes your notes are denominated in U.S. dollars. The applicable pricing supplement will discuss the tax consequences if your notes are not denominated in U.S. dollars.

Where the Term of Your Notes Exceeds One Year

Original Issue Discount Notes

If you own original issue discount notes, you generally must include original issue discount, or OID, in income before you receive cash attributable to that income. The amount of OID that you must include in income is calculated using a constant-yield method, and generally you will include increasingly greater amounts of OID in income over the life of your accrual notes. For a detailed discussion of the OID rules, please see *United States Taxation Taxation of Debt Securities Original Issue Discount* in the accompanying prospectus.

Fixed Rate and Floating Rate Notes

If you own fixed rate or floating rate notes, assuming interest on your notes is payable at least annually, you will generally be taxed on any interest on your notes as ordinary income at the time you receive the interest or when it accrues, depending on your method of accounting for tax purposes.

Determination of a Note's Issue Price

As discussed in detail under the heading *United States Taxation Taxation of Debt Securities Original Issue Discount* in the accompanying prospectus, your fixed rate or floating rate notes may be subject to current interest accrual under the OID rules if the principal amount of your notes exceeds the issue price of your notes by more than a de minimis amount. The issue price for your notes will be equal to the first price at which a substantial amount of the notes were sold (excluding sales to brokers, underwriters and similar recipients). Accordingly, if your notes are distributed through the auction process, we may not know whether your fixed rate or floating rate notes will be subject to the OID rules until the closing of the auction for your notes. Moreover, it is possible that the amount you pay for your notes may differ from the issue price of the notes (e.g., if you acquire your notes at the auction price and the issue price is determined by reference to the *Buy Today* price, if applicable).

As stated above, it is possible that the notes will be issued at different prices and therefore the issue price for your notes may be unclear. We will determine the issue price for your notes based on the actual amounts of notes sold and the applicable final pricing supplement will state (i) what we believe the issue price should be and (ii) whether your notes should be treated as issued with more than a de minimis amount of OID. Because the law for determining the issue price of your notes may be unclear, it is possible that the Internal Revenue Service could assert that your notes should have an issue price that is different from the issue price set forth in the applicable final pricing supplement. You should consult your tax advisor about this possibility and its potential tax consequences to you.

Market Discount or Premium

If, as described above, you purchase your notes at a price that is different from the issue price of the notes (as set forth in the final pricing supplement), the rules related to market discount, amortizable bond premium or acquisition premium may also apply to your notes. These rules are discussed in the accompanying prospectus under the headings *United States Taxation Taxation of Debt Securities Market Discount*, *United States Taxation Taxation of Debt Securities Debt Securities Purchased at a Premium* and *United States Taxation Taxation of Debt Securities Acquisition Premium*, respectively.

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Sale or Maturity of your Notes

You will generally recognize gain or loss on the sale or maturity of your notes equal to the difference between the amount you realize on the sale or maturity and your tax basis in your notes. Your tax basis in your notes will generally be the amount you paid for your notes adjusted by:

adding any OID or market discount previously included in income with respect to your notes; and then

subtracting any amortizable bond premium applied to reduce interest on your notes.

Such gain or loss would be capital gain or loss except to the extent (i) attributable to accrued but unpaid interest and (ii) described under United States Taxation Taxation of Debt Securities Market Discount in the accompanying prospectus. Capital gain of a noncorporate U.S. holder that is recognized in taxable years beginning before January 1, 2011 is generally taxed at a maximum rate of 15% where the holder has a holding period of greater than one year.

Where the Term of the Notes will not Exceed One Year

The following subsection will apply to you if you own accrual, fixed rate or step up notes with a term that will not exceed one year. In general, if you are an individual or other cash basis U.S. holder of a short-term debt security, you are not required to accrue discount, as specially defined below for the purposes of this paragraph, for United States federal income tax purposes unless you elect to do so (although you may be required to include any stated interest in income as you receive it). If you are an accrual basis taxpayer, a taxpayer in a special class, including, but not limited to, a regulated investment company, common trust fund, or a certain type of pass-through entity, or a cash basis taxpayer who so elects, you will be required to accrue discount on short-term debt securities on either a straight-line basis or under the constant-yield method, based on daily compounding. If you are not required and do not elect to include discount in income currently, any gain you realize on the sale or retirement of your short-term debt security will be ordinary income to the extent of the accrued discount, which will be determined on a straight-line basis unless you make an election to accrue the discount under the constant-yield method, through the date of sale or retirement. However, if you are not required and do not elect to accrue discount on your short-term debt securities, you will be required to defer deductions for interest on borrowings allocable to your short-term debt securities in an amount not exceeding the deferred income until the deferred income is realized.

When you determine the amount of discount subject to these rules, you must include all interest payments on your short-term debt security, including stated interest, in your short-term debt security's stated redemption price at maturity.

Sale or Maturity of your Notes

You will recognize gain or loss on the sale or maturity of your notes in an amount equal to the difference, if any, between the fair market value of the amount you receive at such time and your adjusted basis in your notes. If you are a cash basis taxpayer, your adjusted basis in your notes will generally be the purchase price of your notes. If you are an accrual basis holder, or a cash basis holder that elects to accrue interest on your notes currently, your adjusted basis in your notes will generally be the purchase price of your notes increased by the amount of interest you accrued on the notes and decreased by the interest paid on the notes. Any gain realized on the sale or maturity of the notes would be ordinary income to the extent of the unpaid interest that had accrued on the notes and the balance would be short-term capital gain or loss. Short term capital gains are taxed at ordinary rates.

Backup Withholding and Information Reporting

Please see the discussion under United States Taxation Taxation of Debt Securities Backup Withholding and Information Reporting in the accompanying prospectus for a description of the applicability of the backup withholding and information reporting rules to payments made on your notes.

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SUPPLEMENTAL PLAN OF DISTRIBUTION

Unless otherwise specified in your pricing supplement, we may offer and sell the securities from time to time as follows:

through agents, including through auctions conducted by Zions Direct;

to or through dealers or underwriters;

directly to investors and other purchasers; or

through a combination of any of these methods of sale.

The purchase price, agent discounts and commissions, if any, and net proceeds for any particular offering will be included in the applicable pricing supplement. The auction process is described below under **The Auction Process**.

The Auction Process

We may elect to distribute notes through an auction, which will be conducted by Zions Direct, Inc., our auction agent. We may elect to use such an auction to determine the allocation and public offering price (or, equivalently, yield) of our notes. The auctions will be modeled after that used by the United States Treasury Department, with some notable differences, some of which are described below. The auctions will be held on the website www.auctions.zionsdirect.com, which also contains the rules that govern the auctions. The following describes generally how our auction agent will conduct the auctions. We reserve the right to change the rules that govern the auctions and potential investors should review the Zions website for the exact auction rules. A preliminary pricing supplement or other document furnished by us or Zions Direct will provide the specific terms of any auction we propose to conduct. We expressly reserve the right to amend any of the terms of the auction described in this prospectus supplement, including, but not limited to, by extending the availability of the Buy-Today feature or the length of a given auction in our sole discretion.

Prior to the commencement of any given auction, we or Zions Direct, will make available to potential investors, by posting on the Zions Direct internet auction website, a preliminary pricing supplement or other document with respect to that auction. The preliminary pricing supplement or other document will specify, among other things:

the aggregate principal amount of the series of notes that we are auctioning, which we refer to as the auction amount;

whether that auction is subject to institutional up-sizing (as described in more detail below under **Institutional Up-Sizing Option**), in which case the total amount of notes of that series that we may issue could be significantly greater than the auction amount;

whether that auction is subject to the **Buy Today** feature (as described in more detail below under **Auction Bidding Process; Irrevocability of Bids**), in which case the total amount of notes of that series that we may issue could be significantly greater than the auction amount;

any minimum bid price (and equivalent maximum bid yield);

the auction commencement time and the auction period; and

information regarding any other distribution method through which we may be offering the notes.

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Date, Time and Location of Auction

Auctions will be open for the period of time specified in the applicable preliminary pricing supplement or other document furnished by us or Zions Direct. Such period of time may be extended as described under Auction Bidding Process; Irrevocability of Bids. The auctions will be hosted on the internet website www.auctions.zionsdirect.com.

Qualification of Bidders; Suitability

Our objective is to conduct an auction in which you submit informed bids.

Prospective bidders that want to bid for our notes will, by registering with the website www.auctions.zionsdirect.com, automatically qualify to bid for up to an individual bid limit of \$50,000 or such other amount as we may specify in the applicable preliminary pricing supplement or other document furnished by us or Zions Direct. Prospective bidders who want to bid for more than that amount may contact us by telephone at (800) 524-8875 or by e-mail at auctions@zionsdirect.com to request a greater individual bid limit. Any decision to increase a bidder's individual bid limit, upon such request, will be in our discretion. To ensure that we will have sufficient time to process requests for an increase in a bidder's automatically assigned individual bid limit prior to the end of an auction, we recommend that requests be made prior to the start of the auction in which you wish to participate. If you request an increase in your individual bid limit after the start of an auction, we will attempt to process your request. However, we cannot assure you that we will be able to process the request prior to the end of the auction in which you wish to participate. A bidder may be required to submit specified financial information in order to establish an individual bid limit of more than \$50,000 and to establish the bidder's suitability for a larger investment in our notes. We or our auction agent may contact a bidder to request any other pertinent information that we or our auction agent require to establish the individual bid limit and the suitability of such bidder.

As described below under Auction Bidding Process; Irrevocability of Bids, each bidder is allowed to place up to five separate, concurrent bids. However, a bidder will not be able to place aggregate in-the-money bids (as described under Auction Bidding Process; Irrevocability of Bids) that exceed the bidder's individual bid limit.

We caution you that our notes may not be a suitable investment for you even if you qualify to participate in an auction. Moreover, even if you qualify to participate in an auction and place a bid, you may not receive an allocation of notes in our offering for a number of reasons described below.

Registration and Qualification

In order to participate in the note auction, a prospective bidder must (1) register to have a Bidding Account and (2) satisfy and agree to the terms and conditions specific to the auction in which you wish to participate in order to become a qualified bidder. In connection with the registration process, prospective bidders will be required to answer certain questions that indicate that such bidder has accessed or received the offering materials and understands the risk of investing in the notes and that the notes are suitable for such bidder. In addition, by registering to bid in the auctions, a prospective bidder represents and warrants to us that such bidder's bid is submitted for and on behalf of such prospective bidder by himself, herself or itself, as applicable, or by an officer or agent who is duly authorized to bind the prospective bidder to a legal, valid and enforceable contract with respect to the bid for, and purchase of, our notes.

STEP 1: Become a registered bidder

(a) ***Register to have a Bidding Account.*** Individuals and institutions who wish to participate in the auctions must have a Bidding Account. A Bidding Account gives access to Zions Direct auctions. Individuals and institutions can open a Bidding Account and obtain a Bidder ID and password by going to the website (<https://auctions.zionsdirect.com/user/register>), filling in minimal contact information and submitting the Bidder Registration Form electronically. During the registration process, each prospective bidder will select a user identification, or user ID, and password to access the bid page on www.auctions.zionsdirect.com and to submit bids in the auctions. Institutions can also apply to open a Bidding Account by calling (888) 357-3375.

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(b) **Registration is only required once.** After successfully submitting a bidder registration form, a prospective bidder becomes a registered bidder. Once registered, bidders can use the same Bidding Account to participate in any auction. Our auction agent will confirm by e-mail a prospective bidder's successful registration. A prospective bidder is not obligated to submit a bid in any auction simply because that bidder has registered to bid in the auctions.

STEP 2: Become a qualified bidder

(a) **Qualifying for an auction.** After logging into the bidder's Bidding Account and selecting an auction from the Calendar Page, the bidder must qualify to participate in an auction. To qualify to bid in an auction, a bidder must (1) review and acknowledge all documents pertinent to the auction in which the bidder wishes to participate, (2) verify that their suitability profile includes objectives and an investment time horizon that are consistent with an investment in the securities being auctioned and (3) authorize and direct the broker/dealer through which they will hold the securities won in an auction, which broker/dealer may or may not be our auction agent, to update their suitability profile, if necessary, to include the appropriate objectives and investment time horizon. Such review, verification, certification and authorization are acknowledged by clicking on the corresponding checkboxes and by clicking on "I Agree" on the webpage that appears when accessing an auction. Such certification and authorization is a requirement for bidders to qualify to participate in an auction. Once updated, a bidder's suitability profile will remain so updated after an auction in the bidder's broker/dealer account through which the bidder will hold any securities won in an auction, and will not be further updated unless such bidder contacts the broker/dealer through which it will hold any securities won in an auction to further update their suitability profile. By satisfying and accepting the terms and conditions of the securities auction and authorizing updates in the suitability profile if necessary, a bidder becomes qualified to participate in that specific auction.

(b) **Qualifying for each auction.** Qualification to participate in a given auction does not transfer over to another auction. Therefore, bidders are required to review and acknowledge the terms of each auction every time they enter to participate in a new auction.

(c) **Winning Bidders.** If a bidder is awarded securities in an auction, the bidder must then provide additional information, and must either provide a brokerage account that can receive delivery of the securities, or have or open a brokerage account with our auction agent.

Each prospective bidder will be solely responsible for making necessary arrangements to access www.auctions.zionsdirect.com for purposes of submitting its bid in a timely manner and in compliance with the requirements described in this prospectus supplement.

Neither we nor our auction agent have any duty or obligation to undertake such registration to bid for any prospective bidder or to provide or assure such access to any prospective bidder, and neither we nor our auction agent will be responsible for a bidder's failure to register to bid or for proper operation of www.auctions.zionsdirect.com, or have any liability for any delays or interruptions of, or any damages caused by, www.auctions.zionsdirect.com.

Auction Bidding Process; Irrevocability of Bids

Auctions will be open for the period of time specified in the applicable preliminary pricing supplement or other document furnished by us or Zions Direct. Such period of time may be extended as described below. Bids must be submitted electronically at www.auctions.zionsdirect.com. Each prospective bidder will be solely responsible for registering to bid at www.auctions.zionsdirect.com as described above.

You will not be able to bid in an auction unless you have registered on www.auctions.zionsdirect.com. Each bidder will be able to access an auction during the period of time specified in the applicable preliminary pricing supplement or other document furnished by us or Zions Direct using the user ID and password obtained at the time of registration.

The minimum size of a bid is one whole note, which has a principal amount of \$1,000. You will only be allowed to bid for notes in denominations of \$1,000 and integral multiples of \$1,000 in excess thereof. We reserve the right in our sole discretion to reject any bid that we deem to be manipulative, mistaken or made due to a misunderstanding of our notes on the part of the bidder. We reserve this right in order to preserve the integrity of the auction process.

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Bidding for notes will be on the basis of the price that you are willing to pay. The auction site will permit you to bid on the price you are willing to pay per \$1,000 note or, equivalently, the yield you are willing to receive.

You should be aware that your bid will be binding on you once you submit and confirm it. Unless you change a bid to increase the resulting net value of your bid as described below, you will not thereafter be able to retract or cancel that bid. Once you have posted and confirmed a bid, you may not then lower the bid price or lower the number of notes bid for while that bid is in-the-money. You also may not increase the number of notes bid for on a bid row that is in-the-money ; this is to protect the time stamp of your in-the-money bid. If your bid is or becomes out-of-the-money, you will be able to:

increase the number of notes you are bidding for (subject to your individual bid limit); and/or

increase the bid price per note that you are willing to pay (or, equivalently, decrease the yield you are willing to receive).

Each bidder may place up to five separate, concurrent bids. Each bid may be made for different numbers of notes and for different bid prices. A bidder who has one active bid will be able to bid up to his individual bid limit in that one bid. However, if a bidder has more than one active bid, the aggregate amount of in-the-money bids (as described below) cannot exceed that bidder's individual bid limit.

The individual bid limit for any given bidder is allocated first to the highest price per unit bid by such bidder multiplied by the number of notes bid at that price (or if the bidder has placed a bid on the basis of yield, the price necessary to achieve that yield, given the terms of the notes). Any remaining individual bid limit for that bidder is then allocated to the next highest price per unit bid by such bidder multiplied by the number of notes bid at that price, and so on until the individual bid limit assigned to that bidder has been reached. The bids of a bidder who has placed multiple bids may be deemed to be in-the-money only to the extent that (1) the bid price is at or above the market-clearing price and (2) the aggregate dollar amount of the multiple bids that are in-the-money is less than or equal to that bidder's individual bid limit. In short, the maximum number of notes that a bidder may be allocated will be those notes designated as in-the-money by the auction website.

Each separate bid may be modified as described above in order to increase the number of notes bid for or to increase the bid price (or decrease the yield). There is no limit to the number of times that a bidder may improve an individual bid. In no event will a bidder be allowed to submit or modify a bid in a manner that would result in a reduction in that bidder's aggregate number of notes that are currently designated as in-the-money. A modification of one bid does not modify any other bid. Because each bid is independent of any other bid, each bid may result in an allocation of notes; consequently, the sum of a bidder's bid sizes should be no more than the total number of notes the bidder is willing to purchase.

Once an auction begins, all bidders that have registered may submit bids only through www.auctions.zionsdirect.com.

You should consider all the information in the applicable pricing supplement or preliminary pricing supplement, this prospectus supplement and the accompanying base prospectus in determining whether to submit a bid, the number of notes you are interested in purchasing and your bid price (or yield).

In connection with submitting a bid, you must log on to www.auctions.zionsdirect.com and do the following:

state the number of notes that you are interested in purchasing;

state the purchase price per \$1,000 principal amount (or, equivalently, the yield) at which you are willing to purchase the notes; and

review your bid to ensure accuracy and then confirm that bid.

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Once an investor places a bid on www.auctions.zionsdirect.com, and confirms that bid on www.auctions.zionsdirect.com, that bid will constitute an irrevocable offer to purchase our notes (except as set forth above) on the terms provided for in the bid.

For purposes of the electronic bidding process at www.auctions.zionsdirect.com, the time as maintained on www.auctions.zionsdirect.com will constitute the official time of a bid. Bidders will be able to monitor the status of their bids as described more fully below. Bids submitted on www.auctions.zionsdirect.com must be received before the end of the period of time specified in the applicable preliminary pricing supplement or other document furnished by us or Zions Direct, unless the auction is extended as described in the next paragraph.

During the final two (2) minutes of an auction, if there is a change in the market-clearing price or a change in the allocation of the notes, the auction will automatically be extended two (2) minutes from the time of such change. In no event will such two-minute extensions extend any auction more than fifteen (15) minutes beyond the originally specified auction period.

If so specified in the preliminary pricing supplement or other document furnished by us or Zions Direct, from the start of an auction until midnight Eastern Time the night before an auction ends, bidders may purchase notes at a set price by using the Buy Today feature. On the bid page, a bidder may indicate a quantity of notes in the Buy Today row that the bidder is willing to purchase at the set price. The bidder may not exceed their individual bid limit using the Buy Today feature. Although clicking Buy Today is binding and may not be rescinded, the trade will become final at the close of the auction. Once a bidder clicks Buy Today, the bidder's individual bid limit will be adjusted to reflect a portion of the individual bid limit being allotted to the Buy Today purchase. The bidder may then continue bidding in the auction. Any additional bids will not affect any purchase made through the Buy Today feature. While we will endeavor in the applicable pricing supplement or other document furnished by us or Zions Direct to provide a good faith estimate of the amount of notes that we expect to issue pursuant to the Buy Today feature with respect to that auction, we cannot assure you that we will not issue more or less notes than that good faith estimate. Even if your applicable preliminary pricing supplement indicates that the Buy Today feature will be available during an auction, we reserve the right to discontinue the Buy Today feature, in our sole discretion, at any time during that auction. Our discontinuance of the Buy Today feature will be evidenced by the absence of the Buy Today feature and accompanying Buy Today offering price on the auction site. Furthermore, if we reject all bids made in an auction, we reserve the right to cancel all purchases made under the Buy Today feature.

While the auction platform has been subjected to stress testing to confirm its functionality and ability to handle numerous bidders, it is impossible for us to predict the response of the investing public to any issuance of notes pursuant to this prospectus supplement. Bidders should be aware that if enough bidders try to access the platform and submit bids simultaneously, there may be a delay in receiving and/or processing their bids. Bidders should be aware that auction website capacity limits may prevent last-minute bids from being received by the auction website and should plan their bidding strategy accordingly. We make no guarantee that any submitted bid will be received, processed and accepted during the auction process.

The auction process is modeled after that used by the United States Treasury, with some notable differences. The auctions will be open auctions, with bidders being updated on the status of their bids relative to other bidders, as described in this paragraph. At no point during any auction, however, will bidders have access to other bidders' actual bids, and at no point will bidders have access to other bidders' identities. After submission and confirmation of bid quantity and price, the www.auctions.zionsdirect.com web page will indicate whether that bid is at that time in a winning position, or in-the-money. If a bid is in-the-money at a particular point in time during an auction, that means that, if the auction ended at that particular time, the in-the-money number of notes of that bidder's bid would be accepted. In order for a bid to be accepted, a bid must be in-the-money at the close of the auction. In order to monitor the progress of an auction, bidders may need to manually refresh the bid page to see whether their status has changed. This process will continue until the end of the auction, at which point our auction agent will review the submitted bids and determine the auction winners and allocations. See Risk Factors Risks Related to the Auction Process beginning on page S-4 of this prospectus supplement.

Table of Contents**Market-Clearing Price**

For auctions involving price (or, equivalently, yield) based bidding, the market-clearing price for our notes will be the highest price at which all of the notes offered in an auction, or the auction amount, are sold. If a bidder chooses to submit a bid on the basis of yield, instead of price, that bid will be considered to be for the price necessary to achieve the bid yield given the other terms of the notes being offered. The auction agent will determine this price by moving down the list of accepted bids in descending order of bid price until the total quantity of notes bid for is greater than or equal to the auction amount.

Example 1. For example, assume that 1,000 notes are being offered and that the following bidders have bid as follows:

Bidder	Number of Notes Represented by Bid	Bid Price
A	500	100.0
B	500	99.9
C	500	99.8

In this example, 100.0 is not the market-clearing price because only 500 of the notes offered could be sold at that price. Furthermore, 99.8 is not the market-clearing price because, although all of the notes being offered are sold for prices over 99.8, this is not the highest price at which all of the notes offered could be sold. Instead, all of the notes offered in this example will be sold at the higher price of 99.9. Therefore, 99.9 is the market-clearing price in this example. The entire auction amount (other than any notes purchased under the Buy Today feature) will be sold at the market-clearing price (similar to the United States Treasury auction). Even the notes that were bid for at 100.0 will be sold for 99.9. In this auction, the winning bidders will pay \$999.00 for each note, which has a principal amount of \$1,000.

We caution you that the market-clearing price may have little or no relationship to the price that would be established using other indicators of value. The scenario above is an example only and should not be considered indicative of an appropriate or likely market-clearing price of our notes.

Minimum Bid Price

We may establish minimum bid prices (and equivalent maximum bid yields) for each auction. Any such minimum bid price (and maximum bid yield) will be provided in the applicable preliminary pricing supplement or other document furnished by us or Zions Direct. We reserve the right, whether or not all of the notes offered in an auction have been sold, to reject any bid price below the minimum bid price (and above the maximum bid yield). Even if we set a minimum bid price in an auction, the notes offered in that auction may still be treated as an OID note. See Supplemental Discussion of U.S. Federal Income Tax Consequences in this prospectus supplement for a brief description of the U.S. federal income tax consequences of owning an OID note.

Allocation

During the auction, notes are allocated to bids with the highest price (or, equivalently, lowest yield). Bids with the same price (or yield) are allocated by time stamp to the earliest bid. Once the auction is fully subscribed, allocation of notes being auctioned is determined first by price and second by time stamp. Bidders bidding above the market-clearing price will be allocated the entire quantity of notes for which they bid; however, in no event will a bidder be allowed to purchase a greater number of notes than the lesser of (1) the number of notes that that bidder's individual bid limit would purchase and (2) the total number of that bidder's bid designated as in-the-money by the auction website. In the event that multiple bidders bid at the market-clearing price and the total quantity of notes for which they have bid exceeds the aggregate amount of notes not allocated to higher bidders, the auction agent will allocate the remaining notes to the bids with the earliest time stamp. The notes will first be allocated to the bid with the earliest time stamp, then to the bid with the next earliest time stamp, and so on until all of the notes being offered are allocated to bidders. To preserve the bidder's earliest time stamp, a bidder will be required to use an additional bid row to increase the number of notes bid for without improving the price.

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For example, assume again that 1,000 notes are being offered and that the following bidders have again bid as follows:

Bidder	Notes		Bid Price	Time Stamp
	Represented by Bid	Notes Allocated		
A	400	400	100.0	11:00 AM
B	400	400	99.9	10:00 AM
C	400	200	99.9	10:30 AM
D	400	0	99.9	10:31 AM

In this example, 99.9 is the market-clearing price because it is the highest price at which all of the notes offered could be sold. Therefore, Bidder A is allocated all 400 notes bid for. This leaves 600 notes to be allocated to the bidders that bid at the market-clearing price. Bidder B and Bidder C bid for an aggregate of 1,200 notes at the same price. However, Bidder B has a time stamp that is earlier than Bidder C's time stamp and Bidder C's time stamp is earlier than Bidder D's time stamp. Therefore, the remaining 600 notes are allocated first to Bidder B and the remaining notes are allocated to Bidder C. Bidder D receives no notes. This scenario is an example only and should not be considered indicative of an appropriate or likely market-clearing price for our notes.

In the event that a single bidder bids at the market-clearing price or market-clearing yield but the available quantity is less than that for which the bidder bid, the bidder will receive the available quantity.

We reserve the right to alter the method of allocation of our notes as we deem necessary to ensure a fair and orderly distribution. We also reserve the right, in our sole discretion, to reject any bid that we deem to be manipulative, mistaken or made due to a misunderstanding of our notes on the part of the bidder. We reserve this right in order to preserve the integrity of the auction process. We further reserve the right to reject all bids, if we are unable to sell all of the notes offered in that auction, or for any other reason. You will not be entitled to an allocation of notes, even if your bid is in-the-money at the time an auction closes, until our auction agent has reviewed the results of the auction and informed you that your bid or bids have been accepted. If we reject all bids made in an auction, we reserve the right to cancel all purchases made under the Buy Today feature.

Institutional Up-Sizing Option

For any given auction, we will specify in the applicable preliminary pricing supplement or other document furnished by us or Zions Direct whether that auction is subject to institutional up-sizing. If institutional up-sizing is applicable, this will mean that we have reserved the right to sell, outside of the auction, additional notes of the same series to any institutional or individual bidder who satisfies all of the following requirements. The bidder must: (i) contact a representative at our auction agent's trading desk before the end of the auction and must indicate the desire to make such an additional purchase; (ii) inform the representative of the additional amount it would like to purchase; (iii) satisfy the credit requirements for such additional purchase; (iv) bid for an aggregate principal amount of notes equal to the lesser of such bidder's bid limit or the Auction Amount; and (v) win at least 20% of the Auction Amount of the Notes, or such other percentage as may be indicated in the applicable preliminary pricing supplement. Any additional notes so purchased will be purchased outside the auction and will not affect the auction or the final market-clearing price (or yield) set by the auction, but will be sold at the market-clearing price set by the auction. If you are interested in qualifying for such an additional purchase, please call your sales representative at 888-357-3375 for dealers, 800-524-4819 for institutions, or 800-524-8875 for individuals.

While we will endeavor in the applicable pricing supplement or other document furnished by us or Zions Direct to provide a good faith estimate of the amount of notes that we expect to issue pursuant to the institutional up-sizing option with respect to that auction, we cannot assure you that we will not issue more or less notes than that good faith estimate.

Results of Auction and Bid Acceptance

As soon as practicable after an auction has ended, our auction agent shall: (a) notify via telephone or e-mail each winning bidder who was awarded notes in the auction, which notice shall specify at a minimum (i) that the auction has closed; (ii) that such bidder's bid has, or bids have, been accepted; (iii) the principal amount of the notes that have been allocated to such winning bidder; and (iv) the market clearing price to be paid for such notes; and (b) cause the results of the auction to be posted on the website.

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Settlement

We expect that settlement of all notes with respect to a given auction (including those purchased under the Buy Today feature) will take place three business days following the conclusion of an auction and the allocation of our notes (the settlement cycle being referred to as T+3). Institutional customers will settle delivery versus payment through their Zions Direct account. Winning bidders who are individuals and who do not have an account with Zions Direct will be required to open such an account, or arrange for their primary broker to enter into a selling group agreement with Zions Direct, in order to facilitate delivery and payment for their notes. Zions Direct will make a suitability determination with respect to those winning bidders seeking to open a Zions Direct account. You should note that if you purchase the notes using the Buy Today feature, your settlement cycle may be longer than T+3. Trading in the notes from the date of a Buy Today purchase until settlement may be affected by this longer settlement cycle.

Distribution Agreement

We may elect to distribute all or part of the notes under a distribution agreement with Zions Direct, as distribution agent or principal, relating to the notes. Such a distribution may be done concurrently with an auction conducted by Zions Direct, as auction agent, as described above.

Pursuant to the distribution agreement, the distribution agent has agreed to use its reasonable best efforts to solicit and receive offers to purchase the notes from us upon the terms and conditions set forth in the applicable pricing supplement. The distribution agent may also purchase the notes as principal for its own account. In the event the distribution agent purchases notes from us as principal, the distribution agent intends to resell the offered notes at the Buy Today price (as described above under The Auction Process) applicable to the offered notes to be resold, if an auction of the offered notes is being held concurrently, or at the original issue price, in each case as specified in the applicable pricing supplement. The distribution agent may also resell the notes to securities dealers at a discount from the price at which it purchased such notes of up to the underwriting discount set forth in the applicable pricing supplement. If we distribute notes pursuant to the distribution agreement concurrently with an auction for the notes, securities dealers will be restricted from reselling the notes while the auction is ongoing at any price other than the Buy Today price.

We have the right to accept offers to purchase notes and may reject any proposed purchase of the notes. The distribution agent may also reject any offer to purchase the notes. We will pay the distribution agent a commission on any notes distributed through the distribution agent, as specified in the applicable pricing supplement.

We may appoint distribution agents under the distribution agreement other than or in addition to Zions Direct. Any of these distribution agents will enter into the distribution agreement referred to above, and the applicable pricing supplement will name any of these distribution agents involved in the offering and issue of the notes and any commission that we will pay to them. Distribution agents through whom we distribute notes may enter into arrangements with other institutions with respect to the distribution of the notes, and those institutions may share in the commissions, discounts or other compensation received by our distribution agents, may be compensated separately and may also receive commissions from purchasers for whom they may act as distribution agents. The other distribution agents may be our affiliates or customers and may engage in transactions with and perform services for us in the ordinary course of business.

The distribution agent, whether acting as agent or principal, may be deemed to be an underwriter within the meaning of the Securities Act of 1933, as amended, or the Securities Act. We have agreed to indemnify the agent against liabilities under the Securities Act, or contribute to payment which the agent may be required to make in that respect. We have also agreed to reimburse the distribution agent for certain expenses.

Broker-dealers and other persons are cautioned that some of their activities may result in their being deemed participants in the distribution of the notes in a manner that would render them statutory underwriters and subject them to the prospectus delivery requirements of the Securities Act and may be subject to certain statutory liabilities of, including but not limited to, Sections 11, 12 and 17 of the Securities Act and Rule 10b-5 under the Securities

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Exchange Act of 1934, or the Exchange Act. The profits and compensation realized by any such broker-dealer upon resale of the notes may be deemed to be underwriting discounts and commissions. A determination of whether a particular market participant is an underwriter must take into account all the facts and circumstances pertaining to the activities of the participant in the particular case.

Direct Placement

We may offer the notes for sale through Zions Direct as placement agent. The placement agent would use its reasonable efforts to solicit purchases of the notes. We have the right to accept offers to purchase notes and may reject any proposed purchase of the notes. The placement agent may also reject any offer to purchase notes. We will pay the placement agent a placement fee on any notes sold through the placement agent. The placement fee will be specified in the applicable pricing supplement. The placement agent, whether acting as placement agent or principal, may be deemed to be an underwriter within the meaning of the Securities Act of 1933, or the Securities Act.

In a direct placement of the notes, we may sell notes to broker-dealers. These broker-dealers may be deemed to be underwriters within the meaning of the Securities Act in connection with the resale of notes. The profits and compensation realized by any such broker-dealer upon resale of the notes may be deemed to be underwriting discounts and commissions. A determination of whether a particular market participant is an underwriter must take into account all the facts and circumstances pertaining to the activities of the participant in the particular case. To the extent the placement agent or any broker-dealer may be deemed to be an underwriter, the placement agent or any such broker-dealer, as the case may be, will be subject to the prospectus delivery requirements of the Securities Act and may be subject to certain statutory liabilities of, including but not limited to, Sections 11, 12 and 17 of the Securities Act and Rule 10b-5 under the Exchange Act.

Purchases for Customer Accounts

In any distribution of notes, other affiliates of Zions, including Zions First National Bank's Liquid Asset Management Department, Zions First National Bank's Trust Department and/or Contango Capital Advisors, Inc. may make purchases of the notes being offered for the accounts of certain customers who have provided to such affiliate or department of such affiliate specific written instructions authorizing them to do so.

Other Arrangements

For more information about the other methods of distribution we may utilize and possible market-making activities, see Plan of Distribution in the accompanying prospectus.

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VALIDITY OF THE NOTES

The validity of the notes offered by this prospectus and certain other matters will be passed upon for us by Sullivan & Cromwell LLP, Los Angeles, California and Callister Nebeker & McCullough, a Professional Corporation, Salt Lake City, Utah. Sullivan & Cromwell LLP will rely upon the opinion of Callister Nebeker & McCullough as to matters of Utah law and Callister Nebeker & McCullough will rely upon the opinion of Sullivan & Cromwell LLP as to matters of New York law. The opinions of Sullivan & Cromwell LLP and Callister Nebeker & McCullough will be conditioned upon, and subject to certain assumptions regarding, future action to be taken by Zions, its board of directors, the Trustee and any authenticating agents in connection with the issuance and sale of any particular series of notes, the specific terms of the notes and other matters which may affect the validity of the notes but which cannot be ascertained on the date of such opinions. Sullivan & Cromwell LLP regularly performs legal services for Zions.

EXPERTS

Ernst & Young LLP, independent registered public accounting firm, has audited our consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2008 and the effectiveness of our internal control over financial reporting as of December 31, 2008, as set forth in their reports, which are incorporated in this prospectus supplement by reference. Our consolidated financial statements and our management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2008 are incorporated by reference in reliance on Ernst & Young LLP's reports, given on their authority as experts in accounting and auditing.

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Zions Bancorporation

Debt Securities

Warrants or Other Rights

Stock Purchase Contracts

Units

Common Stock

Preferred Stock

Depositary Shares

Zions Capital Trust C

Zions Capital Trust D

Capital Securities

As fully and unconditionally

guaranteed as described herein by Zions Bancorporation

Zions Bancorporation and the Issuer Trusts from time to time may offer to sell the securities listed above. The debt securities, warrants, rights, purchase contracts and preferred stock may be convertible into or exercisable or exchangeable for common or preferred stock or other securities of the Company or debt or equity securities of one or more other entities. The common stock of the Company is quoted on the Nasdaq Global Select Market under the symbol ZION.

Zions Bancorporation and the Issuer Trusts may offer and sell these securities to or through one or more underwriters, dealers and/or agents on a continuous or delayed basis.

This prospectus describes some of the general terms that may apply to these securities and the general manner in which they may be offered. The specific terms of any securities to be offered, and the specific manner in which they may be offered, will be described in one or more supplements to this prospectus. Such supplements may also add to, update or change information contained in this prospectus.

Investing in these securities involves risks. See Risk Factors section beginning on page 5 of this prospectus.

These securities will not be savings accounts, deposits or other obligations of any bank or non-bank subsidiary of ours and are not insured by the Federal Deposit Insurance Corporation, the Board of Governors of the Federal Reserve System or any other governmental agency. Unless you are informed otherwise in the applicable prospectus supplement, these securities will not be guaranteed by the Federal Deposit Insurance Corporation pursuant to the Temporary Liquidity Guarantee Program.

Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

This prospectus is dated March 31, 2009.

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Prospectus

ABOUT THIS PROSPECTUS

This document is called a prospectus, and it provides you with a general description of the securities we may offer. Each time we sell securities, we will provide a prospectus supplement containing specific information about the terms of the securities being offered. That prospectus supplement may include a discussion of any risk factors or other special considerations that apply to those securities. The prospectus supplement may also add, update or change the information in this prospectus. If there is any inconsistency between the information in this prospectus and any prospectus supplement, you should rely on the information in that prospectus supplement. You should read both this prospectus and any prospectus supplement together with additional information described under the heading **Where You Can Find More Information**.

Zions Bancorporation, a Utah corporation, also referred to in this document as Zions, and Zions Capital Trust C and Zions Capital Trust D, each a statutory trust created under the laws of the State of Delaware (each trust is also referred to as an Issuer Trust and together as the Issuer Trusts), have filed a registration statement with the Securities and Exchange Commission, or the SEC, using a shelf registration or continuous offering process. Under this shelf process, Zions and the Issuer Trusts may offer and sell any combination of the securities described in this prospectus in one or more offerings.

Our SEC registration statement containing this prospectus, including exhibits, provides additional information about us and the securities offered under this prospectus. The registration statement can be read at the SEC's web site or at the SEC's offices. The SEC's web site and street addresses are provided under the heading **Where You Can Find More Information**.

When acquiring securities, you should rely only on the information provided in this prospectus and in the related prospectus supplement, including any information incorporated by reference. No one is authorized to provide you with different information. We are not offering the securities in any state where the offer is prohibited. You should not assume that the information in this prospectus, any prospectus supplement or any document incorporated by reference is truthful or complete for any date other than the date indicated on the cover page of these documents.

After the securities are issued, one or more of our subsidiaries, including Zions Direct, Inc. or Amegy Investments, Inc., may buy and sell any of the securities as part of their business as a broker-dealer. Those subsidiaries may use this prospectus and the related prospectus supplement in those transactions. Any sale by a subsidiary will be made at the prevailing market price at the time of sale.

Unless otherwise mentioned or unless the context requires otherwise, all references in this prospectus to **Zions**, **we**, **us**, **our** or similar references mean Zions Bancorporation and its subsidiaries.

Unless otherwise stated, currency amounts in this prospectus and any prospectus supplement are stated in United States dollars.

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WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy any document we file at the SEC's public reference room in Washington, D.C. at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. In addition, our SEC filings are available to the public at the SEC's web site at <http://www.sec.gov>. However, information on this website does not constitute a part of this prospectus. You can also inspect reports, proxy statements and other information about us at the offices of the Nasdaq Global Select Market, 1735 K Street, N.W., Washington, D.C. 20006.

The SEC allows us to incorporate by reference into this prospectus the information in documents we file with it. This means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is considered to be a part of this prospectus and should be read with the same care. When we update the information contained in documents that have been incorporated by reference by making future filings with the SEC, the information incorporated by reference in this prospectus is considered to be automatically updated and superseded. In other words, in the case of a conflict or inconsistency between information contained in this prospectus and information incorporated by reference into this prospectus, you should rely on the information contained in the document that was filed later.

We incorporate by reference the documents listed below and any documents we file with the SEC in the future under Section 13(a), 13(c), 14, or 15(d) of the Securities Exchange Act of 1934, as amended (the Exchange Act) until our offering is completed:

Annual Report on Form 10-K for the year ended December 31, 2008.

Current Reports on Form 8-K filed on January 23, 2009 and March 31, 2009 (except, in each case, information furnished on Form 8-K and any related exhibits).

The description of our common stock and rights set forth in our registration statement on Form 10 and Form 8-A filed pursuant to Section 12 of the Exchange Act, including any amendment or report filed with the SEC for the purpose of updating such descriptions.

You may request a copy of these filings, other than an exhibit to a filing unless that exhibit is specifically incorporated by reference into that filing, at no cost, by writing to or telephoning us at the following address:

Investor Relations

Zions Bancorporation

One South Main Street, 15th Floor

Salt Lake City, Utah 84133

(801) 524-4787

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DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

Statements in this prospectus, including information incorporated by reference, that are based on other than historical data are forward-looking statements 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 our beliefs, plans, objectives, goals, guidelines, expectations, anticipations, and future financial condition, results of operations and performance of Zions Bancorporation and its subsidiaries; and

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 this prospectus, including the information incorporated by reference. You should carefully consider those risks and uncertainties in reading this prospectus. Factors that might cause such differences include, but are not limited to:

our ability to successfully execute our business plans, manage our risks, and achieve our objectives;

changes in political and economic conditions, including the political and economic effects of the current economic crisis and other major developments, including wars, military actions and terrorist attacks;

changes in financial market conditions, either internationally, nationally or locally in areas in which we conduct our operations, including without limitation, changes in 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 our loan and securities portfolios, demand for loan products, deposit flows and competition;

acquisitions and integration of acquired businesses;

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

changes in fiscal, monetary, regulatory, trade and tax policies and laws, including policies of the U.S. Department of Treasury and the Federal Reserve Board;

our participation or lack of participation in governmental programs implemented under the Emergency Economic Stabilization Act (EESA) and the American Recovery and Reinvestment Act (ARRA), including without limitation the Troubled Asset Relief

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Program, the Capital Purchase Program, the Temporary Liquidity Guarantee Program and the Capital Assistance Program and the impact of such programs and related regulations on us and on international, national, and local economic and financial markets and conditions;

the impact of the EESA and the ARRA and related rules and regulations on the business operations and competitiveness of Zions and other participating American financial institutions, including the impact of the executive compensation limits of these acts, which may impact the ability of Zions and other American financial institutions to retain and recruit executives and other personnel necessary for their businesses and competitiveness;

the impact of certain provisions of the EESA and ARRA and related rules and regulations on the attractiveness of governmental programs to mitigate the effects of the current economic crisis, including the risks that certain financial institutions may elect not to participate in such programs, thereby decreasing the effectiveness of such programs;

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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 our market areas;

inflation and deflation;

technological changes and our implementation of new technologies;

our ability to develop and maintain secure and reliable information technology systems;

legislation or regulatory changes which adversely affect our operations or business;

our ability to comply with applicable laws and regulations;

changes in accounting policies or procedures as may be required by the Financial Accounting Standards Board or regulatory agencies; and

increased costs of deposit insurance and changes with respect to Federal Deposit Insurance Corporation insurance coverage levels. We specifically disclaim any obligation to update any factors or to publicly announce the result of revisions to any of the forward-looking statements, including the information incorporated by reference, to reflect future events or developments.

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RISK FACTORS

We have included discussions of cautionary factors describing risks relating to our business and an investment in our securities in our Annual Report on Form 10-K for the year ended December 31, 2008, which is incorporated by reference into this prospectus. See **Where You Can Find More Information** for an explanation of how to get a copy of this report. Additional risks related to our securities may also be described in a prospectus supplement. Before purchasing our securities, you should carefully consider the risk factors we describe in any prospectus supplement or in any report incorporated by reference into this prospectus or such prospectus supplement, including our Annual Report on Form 10-K for the year ended December 31, 2008. Although we discuss key risks in those risk factor descriptions, additional risks not currently known to us or that we currently deem immaterial also may impair our business. Our subsequent filings with the SEC may contain amended and updated discussions of significant risks. We cannot predict future risks or estimate the extent to which they may affect our financial performance.

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USE OF PROCEEDS

Unless otherwise specified in the applicable prospectus supplement for any offering of securities, the net proceeds we receive from the sale of these securities will be used for general corporate purposes, which may include:

funding investments in, or extensions of credit to, our subsidiaries;

funding investments in non-affiliates;

reducing or refinancing debt;

redeeming outstanding securities;

financing possible acquisitions; and

working capital.

Pending such use, we may temporarily invest net proceeds. We will disclose any proposal to use the net proceeds from any offering of securities in connection with an acquisition in the prospectus supplement relating to such offering.

Each Issuer Trust will use the proceeds from any offering of capital securities to purchase the corresponding junior subordinated debentures issued by us. We expect to use the net proceeds from the sale of the subordinated debt securities to the Issuer Trusts as described above.

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DESCRIPTION OF DEBT SECURITIES WE MAY OFFER

*Please note that in this section entitled **Description of Debt Securities We May Offer**, references to **Zions**, **we**, **our** and **us** refer only to Zions Bancorporation and not to its consolidated subsidiaries. Also, in this section, references to **holders** mean those who own debt securities registered in their own names, on the books that we or the trustee maintain for this purpose, and not those who own beneficial interests in debt securities registered in street name or in debt securities issued in book-entry form through one or more depositaries. Owners of beneficial interests in the debt securities should also read the section entitled **Legal Ownership and Book-Entry Issuance**.*

*The following description summarizes the material provisions of the senior indenture, the subordinated indenture and the debt securities to be issued under these indentures. This description is not complete and is subject to, and is qualified in its entirety by reference to, the indenture under which the debt securities are issued and the Trust Indenture Act of 1939, as amended (the **Trust Indenture Act**). The specific terms of any series of debt securities will be described in the applicable prospectus supplement, and may differ from the general description of the terms presented below. The senior indenture and the subordinated indenture have been filed as exhibits to the registration statement of which this prospectus forms a part. Whenever particular defined terms of the senior indenture or the subordinated indenture, each as supplemented or amended from time to time, are referred to in this prospectus or a prospectus supplement, those defined terms are incorporated in this prospectus or such prospectus supplement by reference.*

Debt Securities May Be Senior or Subordinated

We may issue senior or subordinated debt securities. Unless we specify otherwise in the applicable prospectus supplement, neither the senior debt securities nor the subordinated debt securities will be secured by any property or assets of ours or of our subsidiaries. If you own an unsecured debt security, you are one of our unsecured creditors.

The senior debt securities and, in the case of senior debt securities in bearer form, any related interest coupons, will constitute part of our senior indebtedness, will be issued under the senior debt indenture described below and will rank on a parity with all of our other unsubordinated debt (except to the extent such other indebtedness is secured by collateral that does not also secure the senior debt securities offered by this prospectus).

The subordinated debt securities and, in the case of subordinated debt securities in bearer form, any related interest coupons, will constitute part of our subordinated debt, will be issued under the subordinated debt indenture described below and will be subordinate in right of payment to all of our senior indebtedness, as defined below under **Subordination Provisions**. Upon the occurrence of certain events of insolvency, the subordinated debt securities will be contractually subordinated to the prior payment in full of our general obligations, as defined under **Subordination Provisions**.

Neither indenture limits our ability to incur additional secured or unsecured senior or subordinated indebtedness.

When we use the terms **debt security** or **debt securities** in this description, we mean either the senior debt securities or the subordinated debt securities.

We Are A Holding Company

We are a holding company and a legal entity separate and distinct from our subsidiaries, and our right to participate in any distribution of assets of any subsidiary upon its liquidation, reorganization or otherwise, and the ability of holders of debt securities to benefit indirectly from such distribution, is subject to superior claims. Accordingly, our senior debt securities and subordinated debt securities will be structurally subordinated to all indebtedness and other liabilities, including trade payables and lease obligations, of each of our subsidiaries, except to the extent we may be a creditor of that subsidiary with recognized senior claims. Claims on our subsidiary banks by creditors other than us include long-term debt, including subordinated and junior subordinated debt issued by our

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subsidiary, Amegy Corporation, and substantial obligations with respect to deposit liabilities and federal funds purchased, securities sold under repurchase agreements, other short-term borrowings and various other financial obligations. If we are entitled to participate in any assets of any of our subsidiaries upon the liquidation or reorganization of the subsidiary, the rights of holders of the senior debt securities and subordinated debt securities with respect to those assets will be subject to the contractual subordination of the subordinated debt securities.

The Senior Debt Indenture and the Subordinated Debt Indenture

The senior debt securities are governed by the senior debt indenture, and the subordinated debt securities are governed by the subordinated debt indenture. Each indenture is a contract between us and The Bank of New York Mellon Trust Company, N.A., as successor to J.P. Morgan Trust Company, National Association, as trustee, which indenture may be supplemented from time to time as provided therein. The indentures are substantially identical, except for our covenants described under [Restriction on Sale or Issuance of Capital Stock of Major Constituent Banks](#), which are included only in the senior debt indenture, the provisions relating to subordination, which are included only in the subordinated debt indenture, and the provisions relating to defaults and events of default.

The trustee under each indenture has two main roles:

first, the trustee can enforce your rights against us if we default. There are some limitations on the extent to which the trustee acts on your behalf, which we describe later under [Events of Default and Defaults](#);

second, the trustee performs administrative duties for us, such as sending you interest payments and notices. See [Our Relationship with the Trustee](#) below for more information about the trustee.

When we refer to the indenture or the trustee with respect to any debt securities, we mean the indenture under which those debt securities are issued and the trustee under that indenture.

We May Issue Many Debt Securities or Series of Debt Securities

We may issue as many debt securities or distinct series of debt securities under either indenture as we wish. This section summarizes terms of the debt securities that apply generally to all debt securities or series of debt securities. The provisions of each indenture allow us not only to issue debt securities with terms different from those of debt securities previously issued under that indenture, but also to reopen previously issued debt securities and issue additional debt securities of the same series as such debt securities, with the same CUSIP number, stated maturity, interest payment dates, if any, and other terms, except for the date of issuance and issue price. We will describe the financial and other specific terms of your debt securities in the applicable prospectus supplement. Those terms may vary from the terms described here.

As you read this section, please remember that the specific terms of your debt security as described in your prospectus supplement will supplement and, if applicable, may modify or replace the general terms described in this section. The statements we make in this section may not apply to your debt security.

When we refer to a series of debt securities, we mean a series issued under the applicable indenture. When we refer to your prospectus supplement, we mean the prospectus supplement describing the specific terms of the debt security you purchase.

Amounts That We May Issue

Neither indenture limits the aggregate amount of debt securities that we may issue, whether secured or unsecured, or the number of series or the aggregate amount of any particular series of debt securities. We may issue debt securities, as well as increase the total authorized amount, at any time without your consent and without notifying you.

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In addition, we have issued and have outstanding, and may in the future issue, junior subordinated debentures to certain financing trust affiliates, which will issue capital securities guaranteed by us on the same subordinated basis as the junior subordinated debentures. The junior subordinated debentures and related guarantees generally rank junior to the subordinated debt securities. The terms debt securities, senior debt securities and subordinated debt securities do not include the junior subordinated debentures or related guarantees.

We are not subject to financial or similar restrictions by the terms of the debt securities, except as described under **Restriction on Sale or Issuance of Capital Stock of Major Constituent Banks** below. The indentures do not contain any covenants designed to afford holders of debt securities protection in the event of a highly leveraged transaction involving us.

Principal Amount, Stated Maturity and Maturity

Unless otherwise specified in the applicable prospectus supplement, the principal amount of a debt security means the principal amount payable at its stated maturity, unless such amount is not determinable, in which case the principal amount of a debt security is its face amount.

The term **stated maturity** with respect to any debt security means the day on which the principal amount of your debt security is scheduled to become due. The principal of your debt security may become due sooner, by reason of redemption or acceleration after an event of default or otherwise in accordance with the terms of your debt security. The day on which the principal of your debt security actually becomes due, whether at the stated maturity or otherwise, is called the maturity of the principal.

We also use the terms **stated maturity** and **maturity** to refer to the days when other payments become due. For example, we may refer to a regular interest payment date when an installment of interest is scheduled to become due as the **stated maturity** of that installment. When we refer to the **stated maturity** or the **maturity** of a debt security without specifying a particular payment, we mean the stated maturity or maturity, as the case may be, of the principal.

Governing Law

The indentures are, and the debt securities will be, governed by New York law.

Currency of Debt Securities

Unless otherwise specified in the applicable prospectus supplement, amounts that become due and payable on your debt security will be payable in U.S. dollars. You will have to pay for your debt securities by delivering the requisite amount for the principal, in U.S. dollars or other specified currency, to the underwriter or dealer that we name in the prospectus supplement related to your debt securities, unless other arrangements have been made between you and us or you and that dealer.

Types of Debt Securities

We may issue any of the three types of senior debt securities or subordinated debt securities described below. A debt security may have elements of each of the three types of debt securities described below. For example, a debt security may bear interest at a fixed rate for some periods and at a floating rate in others. Similarly, a debt security may provide for a payment of principal at maturity linked to an index and also bear interest at a fixed or floating rate.

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Fixed Rate Debt Securities

A debt security of this type will bear interest at a fixed rate described in the applicable prospectus supplement. This type includes zero coupon debt securities, which bear no interest and are instead issued at a price lower than the principal amount. See Original Issue Discount Debt Securities below for more information about zero coupon and other original issue discount debt securities.

Each fixed rate debt security, except any zero coupon debt security, will bear interest from its original issue date or from the most recent date to which interest on the debt security has been paid or made available for payment. Interest will accrue on the principal of a fixed rate debt security at the fixed rate per annum stated in the applicable prospectus supplement, until the principal is paid or made available for payment. Each payment of interest due on an interest payment date or at maturity will include interest accrued from and including the last date to which interest has been paid, or made available for payment, or from the issue date if none has been paid, or made available for payment, to but excluding the interest payment date or the date of maturity. We will compute interest on fixed rate debt securities on the basis of a 360-day year of twelve 30-day months (30/360 (ISDA) day count convention). We will pay interest on each interest payment date and at maturity as described below under Payment Mechanics for Debt Securities in Registered Form.

If your debt security is a zero coupon debt security, the applicable prospectus supplement may specify the original issue discount and the information necessary to determine the accreted value. The accreted value will be (1) as of any date prior to the stated maturity, an amount equal to the sum of (A) the original issue price of your debt security and (B) the portion of the excess of the principal amount of your debt security over the original issue price that shall have been accreted from the original issue price on a daily basis and compounded annually on a date specified in the applicable prospectus supplement, up to and including the stated maturity, at a rate that will be specified in the applicable prospectus supplement from the original issue date, computed on the basis of a 360-day year of twelve 30-day months (30/360 (ISDA) day count convention); and (2) as of any date on or after the stated maturity, the principal amount of your debt security.

Floating Rate Debt Securities

A debt security of this type will bear interest at rates that are determined by reference to an interest rate formula. In some cases, the rates may also be adjusted by adding or subtracting a spread or multiplying by a spread multiplier and may be subject to a minimum rate or a maximum rate. If your debt security is a floating rate debt security, the formula and any adjustments that apply to the interest rate will be specified in your prospectus supplement.

Each floating rate debt security will bear interest from its original issue date or from the most recent date to which interest on your debt security has been paid or made available for payment. Interest will accrue on the principal of a floating rate debt security at a rate per annum determined according to the interest rate formula stated in the applicable prospectus supplement, until the principal is paid or made available for payment. We will pay interest on each interest payment date and at maturity as described below under Payment Mechanics for Debt Securities in Registered Form.

Calculation Agent. Calculations relating to floating rate debt securities will be made by the calculation agent, an institution that we appoint as our agent for this purpose. That institution may include any affiliate of ours, such as Zions First National Bank. The prospectus supplement for a particular floating rate debt security will name the institution that we have appointed to act as the calculation agent for that debt security as of its original issue date. We may appoint a different institution to serve as calculation agent from time to time after the original issue date of the debt security without your consent and without notifying you of the change. Absent manifest error, all determinations of the calculation agent will be final and binding on you and us, without any liability on the part of the calculation agent.

Calculation of Interest. For each floating rate debt security, the calculation agent will determine, on the corresponding interest calculation or interest determination date, as described in the applicable prospectus supplement, the interest rate that takes effect on

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each interest reset date. In addition, the calculation agent will calculate the amount of interest that has accrued during each interest period i.e., the period from and including an interest payment date (or with respect to the initial interest period, the original issue date) to but excluding the next succeeding interest payment date. For each interest period, the calculation agent will calculate the amount of accrued interest by multiplying the face amount of the floating rate debt security by an accrued interest factor for the interest period. Unless we specify otherwise in the applicable prospectus supplement, this factor will be equal to the number of days in the applicable interest period divided by 360 (Actual/360 (ISDA) day count convention).

Upon the request of the holder of any floating rate debt security, the calculation agent will provide for that debt security the interest rate then in effect, and, if determined, the interest rate that will become effective on the next interest reset date.

All percentages resulting from any calculation relating to any debt security will be rounded upward or downward, as appropriate, to the next higher or lower one hundred-thousandth of a percentage point, e.g., 9.876541% (or .09876541) being rounded down to 9.87654% (or .0987654) and 9.876545% (or .09876545) being rounded up to 9.87655% (or .0987655). All amounts used in or resulting from any calculation relating to a floating rate debt security will be rounded upward or downward, as appropriate, to the nearest cent, with one-half cent or one-half of a corresponding hundredth of a unit or more being rounded upward.

In determining the base rate that applies to a floating rate debt security during a particular interest period, the calculation agent may obtain rate quotes from various reference banks or dealers active in the relevant market, as described in the applicable prospectus supplement. Those reference banks and dealers may include the calculation agent itself and its affiliates, as well as any underwriter, dealer or agent participating in the distribution of the relevant floating rate debt securities and its affiliates, and they may include our affiliates.

Indexed Debt Securities

A debt security of this type provides that the principal amount payable at its maturity, and/or the amount of interest payable on an interest payment date, will be determined by reference to

securities of one or more issuers;

one or more currencies;

one or more commodities;

any other financial, economic or other measure or instrument, including the occurrence or non-occurrence of any event or circumstance;

one or more indices; and/or

one or more baskets of the items described above.

An indexed debt security may provide either for cash settlement or for physical settlement by delivery of the underlying security or another property of the type listed above. An indexed debt security may also provide that the form of settlement may be determined at our option or at the holder's option. Some indexed debt securities may be exchangeable, at our option or the holder's option, for securities of an issuer other than us.

If you purchase an indexed debt security, your prospectus supplement will include information about the relevant index or indices, about how amounts that are to become payable will be determined by reference to the price or value of that index and about the terms on which the security may be settled physically or in cash. Your prospectus supplement will also identify the calculation agent that will calculate the amounts payable with respect to the indexed debt security and will have sole discretion in doing so. The calculation agent may be one of our affiliates. See

Considerations Relating to Indexed Securities for more information about risks of investing in debt securities of this type.

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Original Issue Discount Debt Securities

A fixed rate debt security, a floating rate debt security or an indexed debt security may be an original issue discount debt security. A debt security of this type is issued at a price lower than its principal amount and may provide that, upon redemption or acceleration of its maturity, an amount less than its principal amount may be payable. An original issue discount debt security may be a zero coupon debt security. A debt security issued at a discount to its principal may, for U.S. federal income tax purposes, be considered an original issue discount debt security, regardless of the amount payable upon redemption or acceleration of maturity. See United States Taxation Taxation of Debt Securities United States Holders Original Issue Discount below for a brief description of the U.S. federal income tax consequences of owning an original issue discount debt security.

Form of Debt Securities

We will issue each debt security in global i.e., book-entry form only, unless we specify otherwise in the applicable prospectus supplement. Debt securities in book-entry form will be represented by a global security registered in the name of a depository, which will be the holder of all the debt securities represented by the global security. Those who own beneficial interests in a global debt security will do so through participants in the depository's securities clearing system, and the rights of these indirect owners will be governed solely by the applicable procedures of the depository and its participants. We describe book-entry securities under Legal Ownership and Book-Entry Issuance.

In addition, we will issue each debt security in registered form, without coupons, unless the conditions for issuance of bearer securities described under Securities Issued in Bearer Form are met and we choose to issue the debt security in bearer form. We describe bearer securities under Securities Issued in Bearer Form. As we note in that section, some of the features that we describe in this section entitled Description of Debt Securities We May Offer may not apply to bearer securities.

Information in Your Prospectus Supplement

Your prospectus supplement will describe the specific terms of your debt security, which will include some or all of the following, as applicable:

whether it is a senior debt security or a subordinated debt security;

the aggregate principal amount of your debt security or the debt securities of the same series, as applicable;

the stated maturity;

the specified currency or currencies for principal and interest and, if the specified currency is not U.S. dollars, certain other terms relating to your debt security;

the issue price at which we originally issue your debt security, expressed as a percentage of the principal amount, and the original issue date;

whether your debt security is a fixed rate debt security, a floating rate debt security or an indexed debt security or any combination thereof and also whether it is an original issue discount debt security;

if your debt security is a fixed rate debt security, the rate per annum at which your debt security will bear interest, if any, and the interest payment dates;

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if your debt security is a floating rate debt security, the interest rate basis; any applicable index currency or index maturity, spread or spread multiplier or initial base rate, maximum or minimum rate; the interest reset, determination, calculation and payment dates; the day count convention used to calculate interest payments; and the calculation agent;

if your debt security is an original issue discount debt security, the yield to maturity;

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if your debt security is an indexed debt security, the principal amount, if any, we will pay you at maturity, the amount of interest, if any, we will pay you on an interest payment date or the formula we will use to calculate these amounts, if any, and the terms on which your debt security will be exchangeable for or payable in cash, securities or other property;

if your debt security may be converted into or exercised or exchanged for common stock or preferred stock or other securities of Zions Bancorporation or debt or equity securities of one or more third parties, the terms on which conversion, exercise or exchange may occur, including whether conversion, exercise or exchange is mandatory, at the option of the holder or at our option, the period during which conversion, exercise or exchange may occur, the initial conversion, exercise or exchange price or rate and the circumstances or manner in which the amount of common stock or preferred stock or other securities issuable upon conversion, exercise or exchange may be adjusted;

the circumstances under which your debt security may be redeemed at our option or repaid at the holder's option before the stated maturity including any redemption commencement date, repayment date(s), redemption price(s) and redemption period(s);

the authorized denominations, if other than \$1,000 and integral multiples of \$1,000 in excess thereof;

the depository for your debt security, if other than DTC, and any circumstances under which the holder may request securities in non-global form, if we choose not to issue your debt security in book-entry form only;

if your debt security will be issued in bearer form, any special provisions relating to bearer securities that are not addressed in this prospectus;

the circumstances under which we will pay additional amounts on any debt securities held by a person who is not a United States person for tax purposes and under which we can redeem the debt securities if we have to pay additional amounts;

the names and duties of any co-trustees, depositaries, authenticating agents, paying agents, transfer agents or registrars for your debt securities;

the terms and conditions, if any, pursuant to which the debt securities of a series are secured; and

any other terms of your debt security which could be different from those described in this prospectus.

Your prospectus supplement will summarize specific financial and other terms of your debt security, while this prospectus describes terms that apply generally to all the debt securities. Consequently, the terms described in your prospectus supplement will supplement those described in this prospectus and, if the terms described there are inconsistent with those described here, the terms described there will be controlling. The terms used in your prospectus supplement have the meanings described in this prospectus, unless otherwise specified.

Redemption and Repayment

Unless otherwise indicated in your prospectus supplement, your debt security will not be entitled to the benefit of any sinking fund—that is, we will not deposit money on a regular basis into any separate custodial account to repay your debt securities. In addition, we will not be entitled to redeem your debt security before its stated maturity unless your prospectus supplement specifies a redemption commencement date. You will not be entitled to require us to buy your debt security from you, before its stated maturity, unless your prospectus supplement specifies one or more repayment dates.

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If your prospectus supplement specifies a redemption commencement date or a repayment date, it will also specify one or more redemption prices or repayment prices, which may be expressed as a percentage of the principal amount of your debt security. It may also specify one or more redemption periods during which the redemption prices relating to a redemption of debt securities during those periods will apply.

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If your prospectus supplement specifies a redemption commencement date, your debt security will be redeemable at our option at any time on or after that date or at a specified time or times. If we redeem your debt security, we will do so at the specified redemption price, together with interest accrued to but excluding the redemption date. If different prices are specified for different redemption periods, the price we pay will be the price that applies to the redemption period during which your debt security is redeemed.

If your prospectus supplement specifies a repayment date, your debt security will be repayable at your option on the specified repayment date at the specified repayment price, together with interest accrued to but excluding the repayment date.

If we exercise an option to redeem any debt security, we will give to the trustee and the holder written notice of the principal amount of the debt security to be redeemed, not less than 30 days nor more than 60 days before the applicable redemption date. We will give the notice in the manner described below in Notices.

If a debt security represented by a global debt security is subject to repayment at the holder's option, the depository or its nominee, as the holder, will be the only person that can exercise the right to repayment. Any indirect owners who own beneficial interests in the global debt security and wish to exercise a repayment right must give proper and timely instructions to their banks or brokers through which they hold their interests, requesting that they notify the depository to exercise the repayment right on their behalf. Different firms have different deadlines for accepting instructions from their customers, and you should take care to act promptly enough to ensure that your request is given effect by the depository before the applicable deadline for exercise.

Street name and other indirect owners should contact their banks or brokers for information about how to exercise a repayment right in a timely manner.

We or our affiliates may purchase debt securities from investors who are willing to sell from time to time, either in the open market at prevailing prices or in private transactions at negotiated prices. Debt securities that we or they purchase may, at our discretion, be held, resold or canceled.

Mergers and Similar Transactions

We are generally permitted to merge or consolidate with another corporation or other entity. We are also permitted to sell our assets substantially as an entirety to another corporation or other entity or to have another entity sell its assets substantially as an entirety to us. With regard to any series of debt securities, however, we may not take any of these actions unless all of the following conditions are met:

if we are not the successor entity, the person formed by the consolidation or into or with which we merge or the person to which our properties and assets are conveyed, transferred or leased must be an entity organized and existing under the laws of the United States, any state or the District of Columbia and must expressly assume the due and punctual payment of the principal of, any premium, and interest on the debt securities of that series and the performance of our other covenants under the relevant indenture;

immediately after giving effect to that transaction, no default or event of default under the debt securities of that series, and no event which, after notice or lapse of time or both, would become a default or an event of default under the debt securities of that series, has occurred and is continuing; and

an officer's certificate and legal opinion relating to these conditions must be delivered to the trustee.

If the conditions described above are satisfied with respect to the debt securities of any series, we will not need to obtain the approval of the holders of those debt securities in order to merge or consolidate or to sell our assets. Also, these conditions will apply only if we wish to merge or consolidate with another entity or sell our assets substantially as an entirety to another entity or to acquire the assets of another entity substantially as an entirety. We will not need to satisfy these conditions if we enter into other types of transactions, including any transaction in which we acquire the stock or assets of another entity, any merger of another entity with one of our subsidiaries, any transaction that involves a change of control of us but in which we do not merge or consolidate and any transaction in which we sell less than substantially all our assets.

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Also, if we merge, consolidate or sell our assets substantially as an entirety and the successor is a non-U.S. entity, neither we nor any successor would have any obligation to compensate you for any resulting adverse tax consequences relating to your debt securities.

Subordination Provisions

The subordinated debt securities are subordinated in right of payment to the prior payment in full of all of our senior indebtedness and, under specified circumstances, to our general obligations. This means that, in certain circumstances where we may not be making payments on all of our debt obligations as they become due, the holders of all of our senior indebtedness and general obligations will be entitled to receive payment in full of all amounts due or to become due to them before the holders of the subordinated debt securities will be entitled to receive any amounts under the subordinated debt securities. These circumstances include when we make a payment or distribute assets to creditors upon our liquidation, dissolution, winding up or reorganization.

These subordination provisions mean that if we are insolvent, a direct holder of our senior indebtedness may ultimately receive out of our assets more than a holder of the same amount of subordinated debt securities, and a senior creditor of ours that is owed a specific amount may ultimately receive more than a holder of the same amount of subordinated debt securities. The subordinated debt indenture does not limit our ability to incur senior or subordinated indebtedness or general obligations, including indebtedness ranking on an equal basis with the subordinated debt securities.

The subordinated debt indenture provides that, unless all principal of and any premium or interest on senior indebtedness has been paid in full, no payment or other distribution may be made in respect of any subordinated debt securities in the following circumstances:

in the event of any insolvency or bankruptcy proceedings, or any receivership, liquidation, reorganization, assignment for the benefit of creditors or other similar proceedings or events involving us or our assets;

(a) in the event and during the continuation of any default in the payment of principal, premium or interest on any senior indebtedness beyond any applicable grace period or (b) in the event that any judicial proceeding is pending with respect to any such default; or

in the event that any subordinated debt securities have been declared due and payable before their stated maturity.

If the trustee under the subordinated debt indenture or any holders of the subordinated debt securities receive any payment or distribution that is prohibited under the subordination provisions, and if this fact is made known to the trustee or holders at or prior to the time of such payment or distribution, then the trustee or the holders will have to repay that money to us.

Further, in the event of any insolvency or bankruptcy proceedings, or any receivership, liquidation, reorganization, assignment for the benefit of creditors or other similar proceedings or events involving us or our assets, any creditors in respect of general obligations, which we define below, will be entitled to receive payment in full of all amounts due or to become due on or in respect of such general obligations after payment in full to the holders of senior indebtedness, before any amount is made available for payment or distribution to the holders of any subordinated debt security. However, upon the occurrence of a termination event, which we define below, such subordination to the creditors in respect of general obligations will become null and void and have no further effect.

Even if the subordination provisions prevent us from making any payment when due on the subordinated debt securities of any series, we will be in default on our obligations under that series if we do not make the payment when due. This means that the trustee under the subordinated debt indenture and the holders of that series can take action against us, but they will not receive any money until the claims of the holders of senior indebtedness have been fully satisfied.

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The subordinated debt indenture allows the holders of senior indebtedness to obtain a court order requiring us and any holder of subordinated debt securities to comply with the subordination provisions.

The subordinated debt indenture defines senior indebtedness as:

the principal of, and premium, if any, and interest in respect of our indebtedness for purchased or borrowed money, whether or not evidenced by securities, notes, debentures, bonds or other similar instruments issued by us;

all our capital lease obligations;

all our obligations issued or assumed as the deferred purchase price of property, all our conditional sale obligations and all our obligations under any conditional sale or title retention agreement, but excluding trade accounts payable in the ordinary course of business;

all our obligations in respect of any letters of credit, bankers acceptance, security purchase facilities and similar credit transactions;

all our obligations in respect of interest rate swap, cap or other agreements, interest rate future or options contracts, currency swap agreements, currency future or option contracts and other similar agreements;

all obligations of other persons of the type referred to in the bullets above the payment of which we are responsible or liable for as obligor, guarantor or otherwise;

all obligations of the type referred to in the bullets above of other persons secured by any lien on any of our properties or assets whether or not we assume such obligation; and

any deferrals, renewals or extensions of any such senior indebtedness.

However, senior indebtedness does not include:

the subordinated debt securities;

any indebtedness that by its terms is subordinated to, or ranks on an equal basis with, the subordinated debt securities, including our 5.50% Subordinated Notes due November 16, 2015, our 5.65% Subordinated Notes due May 15, 2014, our 6.0% Subordinated Notes due September 15, 2015, our Floating Rate Subordinated Notes due September 22, 2014, and our debentures or guarantees of debentures underlying each of Zions Capital Trust B's 8% Capital Securities due September 1, 2032, Stockmen's Statutory Trust II's Floating Rate Capital Securities due March 26, 2033, and Stockmen's Statutory Trust III's Floating Rate Capital Securities due March 17, 2034; and

any indebtedness between or among us and our affiliates, including all other debt securities and guarantees in respect of debt securities issued to any trust, or a trustee of such trust, partnership or other entity affiliated with us which is a financing vehicle of ours in connection with the issuance by such financing vehicle of capital securities or other securities guaranteed by us pursuant to an

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instrument that ranks on an equal basis with or junior in respect of payment to the subordinated debt securities.

The subordinated debt indenture defines **general obligations** as all our obligations to make payments on account of claims of general creditors, other than:

obligations on account of senior indebtedness; and

obligations on account of the subordinated debt securities and indebtedness for money borrowed ranking on an equal basis with or junior to the subordinated debt securities.

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However, if the Federal Reserve Board (or other federal banking supervisor that is at the time of determination our primary federal banking supervisor) promulgates any rule or issues any interpretation defining or describing the term general creditor or general creditors or senior indebtedness for purposes of its criteria for the inclusion of subordinated debt of a bank holding company in capital, or otherwise defining or describing the obligations to which subordinated debt of a bank holding company must be subordinated to be included in capital, to include any obligations not included in the definition of senior indebtedness as described above, then the term general obligations will mean such obligations as defined or described in the first such rule or interpretation, other than obligations as described immediately above in bullet points.

Termination event means the promulgation of any rule or regulation or the issuance of any interpretation of the Federal Reserve Board (or other federal banking supervisor that is at the time of determination our primary federal banking supervisor) that:

defines or describes the terms general creditor or general creditors or senior indebtedness. for purposes of its criteria for the inclusion of subordinated debt of a bank holding company in capital, or otherwise defines or describes the obligations to which subordinated debt of a bank holding company must be subordinated for the debt to be included in capital, to include no obligations other than those covered by the definition of senior indebtedness without regard to any of our other obligations;

permits us to include the subordinated debt securities in our capital if they were subordinated in right of payment to the senior indebtedness without regard to any of our other obligations;

otherwise eliminates the requirement that subordinated debt of a bank holding company and its subsidiaries must be subordinated in right of payment to the claims of its general creditors in order to be included in capital; or

causes the subordinated debt securities to be excluded from capital notwithstanding the provisions of the subordinated debt indenture.

Termination event also means any event that results in our not being subject to capital requirements under the rules, regulations or interpretations of the Federal Reserve Board (or other federal banking supervisor).

Restriction on Sale or Issuance of Capital Stock of Major Constituent Banks

With respect to the senior debt securities, we have agreed that we will not, and will not permit any subsidiary to, sell, assign, pledge, transfer, or otherwise dispose of, any shares of capital stock, or any securities convertible into shares of capital stock, of any major constituent bank, which we define below, or any subsidiary owning, directly or indirectly, any shares of capital stock of any major constituent bank. In addition, with respect to the senior debt securities, we have agreed that we will not permit any major constituent bank or any subsidiary owning, directly or indirectly, any shares of capital stock of a major constituent bank to issue any shares of its capital stock or any securities convertible into shares of its capital stock. Notwithstanding the foregoing, we are permitted to make sales, assignments, transfers or other dispositions which:

are for the purpose of qualifying a person to serve as a director; or

are for fair market value, as determined by our board, and, after giving effect to those dispositions and to any potential dilution, we will own not less than 80% of the shares of capital stock of the major constituent bank in question or any subsidiary owning any shares of capital stock of the major constituent bank in question; or

are made

in compliance with court or regulatory authority order; or

in compliance with a condition imposed by any court or regulatory authority permitting our acquisition of any other bank or entity; or

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in compliance with an undertaking made to any regulatory authority in connection with such an acquisition described in the immediately preceding bullet; or

to us or any wholly-owned subsidiary;

provided, in the case of the bullet-points relating to acquisitions, the assets of the bank or entity being acquired and its consolidated subsidiaries equal or exceed 75% of the assets of the major constituent bank in question or the subsidiary owning, directly or indirectly, any shares of capital stock of a major constituent bank and its respective consolidated subsidiaries on the date of acquisition.

Despite the above requirements, any major constituent bank may be merged into or consolidated with, or may lease, sell or transfer all or substantially all of its assets to, another entity if, after giving effect to that merger, consolidation, sale or transfer, we or any of our wholly-owned subsidiaries owns at least 80% of the capital stock of the other entity, or if such merger, consolidation, sale or transfer is made:

in compliance with court or regulatory authority order; or

in compliance with a condition imposed by any court or regulatory authority permitting our acquisition of any other bank or entity; or

in compliance with an undertaking made to any regulatory authority in connection with such an acquisition described in the immediately preceding bullet;

provided, in the case of the bullet-points relating to acquisitions, the assets of the bank or entity being acquired and its consolidated subsidiaries equal or exceed 75% of the assets of the major constituent bank in question or the subsidiary owning, directly or indirectly, any shares of capital stock of a major constituent bank and its respective consolidated subsidiaries on the date of acquisition.

A major constituent bank is defined in the senior debt indenture to mean any subsidiary which is a bank and has total assets equal to 30% or more of our consolidated assets determined on the date of our most recent audited financial statements. As of the date of this prospectus, and based on our audited financial statements for the year ended December 31, 2008, our subsidiary, Zions First National Bank, would be considered a major constituent bank.

The above covenants are not covenants for the benefit of any series of subordinated debt securities.

Defeasance and Covenant Defeasance

Unless we say otherwise in the applicable prospectus supplement, the provisions for full defeasance and covenant defeasance described below apply to each senior and subordinated debt security as indicated in the applicable prospectus supplement.

Full Defeasance

If there is a change in U.S. federal tax law, as described below, we can legally release ourselves from all payment and other obligations on any debt securities. This is called full defeasance. For us to do so, each of the following must occur:

we must deposit in trust for the benefit of all holders of those debt securities money or a combination of money and U.S. government or U.S. government agency notes or bonds that, in the opinion of a nationally recognized firm of independent public accountants expressed in a written certification thereof delivered to the trustee, will generate enough cash to make interest, principal and any other payments on those debt securities on their various due dates;

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there must be a change in current U.S. federal tax law or an Internal Revenue Service ruling that lets us make the above deposit without causing the holders to recognize gain or loss for federal income tax purposes as a result of such deposit and full defeasance to be effected with respect to such securities or be taxed on those debt securities any differently than if such deposit and full defeasance were not to occur;

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we must deliver to the trustee a legal opinion of our counsel confirming the tax law change described above;

we must confirm that neither the debt securities nor any securities of the same series, if listed on any securities exchange, will be delisted as a result of depositing such amount in trust;

no default or event of default, as defined below and as applicable under the relevant indenture for such series of securities, shall have occurred and be continuing at the time of such deposit or, with regard to an event of default relating to certain events of bankruptcy, insolvency, reorganization or the appointment of a receiver by us or any major constituent bank, on the date of the deposit referred to above or during the 90 days after that date;

such defeasance will not cause the trustee to have a conflicting interest within the meaning of the Trust Indenture Act, assuming all securities are in default within the meaning of the Trust Indenture Act;

such defeasance will not result in a breach or violation of, or constitute a default under, any other agreement or instrument by which we are bound;

such defeasance will not result in the trust arising from such deposit constituting an investment company within the meaning of the Investment Company Act of 1940, as amended (the Investment Company Act), unless such trust shall be registered or exempt from registration thereunder;

in the case of the subordinated debt securities, no event or condition may exist that, under the provisions described under Subordination Provisions above, would prevent us from making payments of interest, principal and any other payments on those subordinated debt securities on the date of the deposit referred to above or during the 90 days after that date; and

we must deliver to the trustee an officers' certificate and a legal opinion of our counsel confirming that all conditions precedent with respect to such defeasance described above have been complied with.

If we ever fully defease your debt security, you will need to rely solely on the trust deposit for payments on your debt security. You could not look to us for payment in the event of any shortfall.

Covenant Defeasance

Under current U.S. federal tax law, we can make the same type of deposit described above and be released from the covenants described under Restriction on Sale or Issuance of Capital Stock of Major Constituent Banks above and certain other covenants relating to your debt security as provided for in the relevant indenture or described in your prospectus supplement. This is called covenant defeasance. In that event, you would lose the protection of those covenants. In the case of subordinated debt securities, you would be released from the subordination provisions on your subordinated debt security described under Subordination Provisions above. In order to achieve covenant defeasance for any debt securities, we must satisfy substantially the same conditions specified above for full defeasance, except with regard to the second bullet point above, which for covenant defeasance requires only a legal opinion of our counsel delivered to the trustee confirming that the holders of such securities will not recognize gain or loss for federal income tax purposes as a result of such deposit and covenant defeasance to be effected with respect to such securities or be taxed on those debt securities any differently than if such deposit and covenant defeasance were not to occur.

If we accomplish covenant defeasance with regard to your debt security, the following provisions, among others, of the applicable indenture and your debt security would no longer apply:

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if your debt security is a senior debt security, our promise not to take certain actions with respect to our major constituent banks as described above under Restriction on Sale or Issuance of Capital Stock of Major Constituent Banks;

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any covenants that your prospectus supplement may state are applicable to your debt security;

the events of default resulting from a breach of covenants, described below under Events of Default and Defaults; and

with respect to subordinated debt securities, the subordination provisions described under Subordination Provisions above. If we accomplish covenant defeasance on your debt security, you can still look to us for repayment of your debt security in the event of any shortfall in the trust deposit. You should note, however, that if one of the remaining events of default occurred, such as our bankruptcy, and your debt security became immediately due and payable, there may be a shortfall. Depending on the event causing the default, you may not be able to obtain payment of the shortfall.

Events of Default and Defaults

You will have special rights if a default or an event of default with respect to your debt security occurs and is not cured, as described in this subsection. You should note that under each indenture, we may change, eliminate, or add to provisions related to defaults or events of default with respect to any particular series or any particular debt security or debt securities within a series, under certain circumstances. Any such changes will be described in the prospectus supplement applicable to your debt security.

Events of Default under the Senior Debt Indenture

When we refer to an event of default with respect to any series of senior debt securities, we mean any of the following:

failure to pay principal of or any premium on any senior debt security of that series when due;

failure to pay any interest on any senior debt security of that series when due and that default continues for 30 days;

failure to deposit any sinking fund payment, when and as due by the terms of any senior debt security of that series;

failure to perform any other covenant in the senior debt indenture and that failure continues for 60 days after written notice to us by the trustee or the holders of at least 25% in aggregate principal amount of the relevant outstanding senior debt securities;

our filing for bankruptcy or the occurrence of certain other events of bankruptcy, insolvency or reorganization relating to us or any major constituent bank;

failure to pay any portion of the principal when due of any indebtedness of ours or any major constituent bank in excess of \$25,000,000, or acceleration of the maturity of any such indebtedness exceeding that amount if acceleration results from a default under the instrument giving rise to that indebtedness and is not annulled within 60 days after due notice (*provided* that any such failure or acceleration shall not be deemed to be an event of default if and for so long as we or the applicable major constituent bank contests the validity of the failure or acceleration in good faith by appropriate proceedings); and

any other event of default provided with respect to senior debt securities of that series which will be described in the applicable prospectus supplement for that series.

Events of Default and Defaults under the Subordinated Debt Indenture

When we refer to an event of default with respect to any series of subordinated debt securities, we mean:

our filing for bankruptcy or the occurrence of certain other events of bankruptcy, insolvency or reorganization relating to us or any major constituent bank.

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When we refer to a default with respect to any series of subordinated debt securities, we mean:

failure to pay principal of or any premium on any subordinated debt security of that series when due;

failure to pay any interest on any subordinated debt security of that series when due and that default continues for 30 days;

failure to deposit any sinking fund payment, when and as due by the terms of any subordinated debt security of that series;

failure to perform any other covenant in the subordinated debt indenture and that failure continues for 60 days after written notice to us by the trustee or the holders of at least 25% in aggregate principal amount of the relevant outstanding subordinated debt securities;

any event of default; and

any other default provided with respect to subordinated debt securities of that series which will be described in the applicable prospectus supplement for that series.

Remedies upon an Event of Default or Default

If an event of default occurs and is continuing, either the trustee or the holders of at least 25% in aggregate principal amount of the relevant outstanding debt securities may accelerate the maturity of such debt securities. Additionally, the senior debt indenture provides that in the event of the filing for bankruptcy by us or any major constituent bank or the occurrence of certain other events of bankruptcy, insolvency or reorganization relating to us or any major constituent bank, the maturity of the outstanding senior debt securities will accelerate automatically. After acceleration, but before a judgment or decree based on acceleration, the holders of a majority in aggregate principal amount of the relevant outstanding debt securities may, under circumstances set forth in the relevant indenture, rescind the acceleration if we have deposited monies on account of certain overdue amounts with the trustee.

With respect to subordinated debt securities, if a default occurs that is not also an event of default with respect to the subordinated debt securities, neither the trustee nor the holders of subordinated debt securities may act to accelerate the maturity of the subordinated debt securities. However, if a default occurs, the trustee may proceed to enforce any covenant and other rights of the holders of the subordinated debt securities, and if the default relates to our failure to make any payment of interest when due and payable and such default continues for a period of 30 days or such default is made in the payment of the principal or any premium at its maturity, then the trustee may demand payment of the amounts then due and payable and may proceed to prosecute any failure on our part to make such payments.

Subject to the provisions of the relevant indenture relating to the duties of the trustee in case an event of default shall occur and be continuing, the trustee will be under no obligation to exercise any of its rights or powers under the relevant indenture at the request or direction of any of the holders of the debt securities issued thereunder, unless the holders of such debt securities shall have offered to the trustee reasonable indemnity. Subject to such provisions for the indemnification of the trustee, the holders of a majority in aggregate principal amount of the relevant outstanding debt securities will have the right to direct the time, method and place of conducting any proceeding for any remedy available to the trustee or exercising any trust or power conferred on the trustee.

Before you may take any action to institute any proceeding relating to the indenture, or to appoint a receiver or a trustee, or for any other remedy, each of the following must occur:

you must have given the trustee written notice of a continuing event of default or defaults;

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the holders of at least 25% of the aggregate principal amount of all relevant outstanding debt securities of your series must make a written request of the trustee to take action because of the event of default or default, as the case may be, and must have offered reasonable indemnification to the trustee against the cost, liabilities and expenses of taking such action;

the trustee must not have taken action for 60 days after receipt of such notice and offer of indemnification; and

no contrary notice shall have been given to the trustee during such 60-day period by the holders of a majority in aggregate principal amount of the securities of your series.

These limitations do not apply to a suit for the enforcement of payment of the principal of or any premium or interest on a security on or after the due dates for such payments.

We will furnish to the trustee annually a statement as to our performance of our obligations under the indentures and as to any default in performance.

Book-entry and other indirect owners should consult their banks or brokers for information on how to give notice or direction to or make a request of the trustee and how to declare or cancel an acceleration of the maturity. Book-entry and other indirect owners are described under Legal Ownership and Book-Entry Issuance below.

Modification of the Indentures and Waiver of Covenants

Certain limited modifications of the indentures may be made without obtaining the consent of the holders of the relevant debt securities. Other modifications and amendments of the indentures may be made only with the consent of the holders of 66 2/3% in principal amount of the outstanding debt securities affected by those modifications and amendments. However, a modification or amendment affecting securities issued under the senior debt indenture or the subordinated debt indenture requires the consent of the holder of each outstanding debt security under the relevant indenture affected if it would:

change the stated maturity of the principal or interest of any security;

reduce the principal amounts of, any premium or interest on, any security or change the currency in which any such amounts are payable;

change the place of payment on a security;

impair the right to institute suit for the enforcement of any payment on any security on or after its stated maturity or redemption date;

reduce the percentage of holders whose consent is needed to modify or amend the indenture;

reduce the percentage of holders whose consent is needed to waive compliance with certain provisions of the indenture or to waive certain defaults;

modify the provisions with respect to subordination of the subordinated debt securities in a manner adverse to the holders of those securities; or

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modify the provisions dealing with modification and waiver of the indenture.

In addition, no modification or amendment to the subordinated debt indenture that affects the superior position of the holders of senior indebtedness shall be effective against any holder of senior indebtedness unless the holder shall have consented to the modification or amendment.

The holders of 66 ²/₃ % in principal amount of the outstanding debt securities of any series may, on behalf of the holders of all securities of that series, waive compliance by us with certain restrictive provisions of the indenture. The holders of a majority in principal amount of the outstanding debt securities of any series may, on behalf of the holders of all securities of that series, waive any past default, except a default in the payment of principal or interest, and defaults in respect of a covenant or provision which cannot be modified or amended without the consent of each holder of each outstanding debt security affected.

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We will generally be entitled to set any day as a record date for the purpose of determining the holders of relevant outstanding debt securities that are entitled to take any action under the relevant indenture. In limited circumstances, the trustee will be entitled to set a record date for action by holders of the relevant debt securities. If a record date is set for any action to be taken by holders of debt securities, such action may be taken only by persons who are holders of relevant outstanding debt securities on the record date and must be taken within 180 days following the record date or such other period as we may specify (or as the trustee may specify, if it set the record date). This period may be shortened or lengthened (but not beyond 180 days) from time to time.

Book-entry and other indirect owners should consult their banks or brokers for information on how approval may be granted or denied if we seek to change an indenture or any debt securities or request a waiver.

Special Rules for Action by Holders

When holders take any action under either indenture, such as giving a notice of default, declaring an acceleration, approving any change or waiver or giving the trustee an instruction, we will apply the following rules.

Only Outstanding Debt Securities Are Eligible

Only holders of outstanding debt securities or the outstanding debt securities of the applicable series, as applicable, will be eligible to participate in any action by holders of such debt securities or the debt securities of that series. Also, we will count only outstanding debt securities in determining whether the various percentage requirements for taking action have been met. For these purposes, a debt security will not be outstanding if:

it has been surrendered for cancellation;

we have deposited or set aside, in trust for its holder, money for its payment or redemption;

we have fully defeased it as described above under **Defeasance and Covenant Defeasance** **Full Defeasance**; or

we or one of our affiliates is the beneficial owner.

Eligible Principal Amount of Some Debt Securities

In some situations, we may follow special rules in calculating the principal amount of a debt security that is to be treated as outstanding for the purposes described above. This may happen, for example, if the principal amount increases over time or is not to be fixed until maturity.

For any debt security of the kind described below, we will decide how much principal amount to attribute to the debt security as follows:

for an original issue discount debt security, we will use the principal amount that would be due and payable on the action date if the maturity of the debt security were accelerated to that date because of a default;

for a debt security whose principal amount is not known, we will use any amount that we indicate in the prospectus supplement for that debt security. The principal amount of a debt security may not be known, for example, because it is based on an index that changes from time to time and the principal amount is not to be determined until a later date; or

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for debt securities with a principal amount denominated in one or more non-U.S. dollar currencies or currency units, we will use the U.S. dollar equivalent, which we will determine.

Form, Exchange and Transfer of Debt Securities in Registered Form

If any debt securities cease to be issued in registered global form, they will be issued as follows unless we indicate otherwise in your prospectus supplement:

only in fully registered form;

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without interest coupons; and

in denominations of \$1,000 and integral multiples of \$1,000 in excess thereof.

Holders may exchange their debt securities for debt securities of smaller denominations or combined into fewer debt securities of larger denominations, as long as the total principal amount is not changed. You may not exchange your debt securities for securities of a different series or having different terms, unless your prospectus supplement says you may.

Holders may exchange or transfer their debt securities at the office of the trustee. They may also replace lost, stolen, destroyed or mutilated debt securities at that office. We have appointed the trustee to act as our agent for registering debt securities in the names of holders and transferring and replacing debt securities. We may appoint another entity to perform these functions or perform them ourselves.

Holders will not be required to pay a service charge to transfer or exchange their debt securities, but they may be required to pay for any tax or other governmental charge associated with the exchange or transfer. The transfer or exchange, and any replacement, will be made only if our transfer agent is satisfied with the holder's proof of legal ownership. The transfer agent may require an indemnity before replacing any debt securities.

If we have designated additional transfer agents for your debt security, they will be named in your prospectus supplement. We may appoint additional transfer agents or cancel the appointment of any particular transfer agent. We may also approve a change in the office through which any transfer agent acts.

If the debt securities of any series are redeemable and we redeem less than all those debt securities, we may block the transfer or exchange of those debt securities during the period beginning 15 calendar days before the day we mail the notice of redemption and ending on the day of that mailing, in order to freeze the list of holders to prepare the mailing. We may also refuse to register transfers of or exchange any debt security selected for redemption, except that we will continue to permit transfers and exchanges of the unredeemed portion of any debt security being partially redeemed.

If a debt security is issued as a global debt security, only the depository, e.g. DTC, Euroclear or Clearstream, will be entitled to transfer and exchange the debt security as described in this subsection, since the depository will be the sole holder of the debt security.

The rules for exchange described above apply to exchange of debt securities for other debt securities of the same series and kind. If a debt security is convertible, exercisable or exchangeable into or for a different kind of security, such as one that we have not issued, or for other property, the rules governing that type of conversion, exercise or exchange will be described in the applicable prospectus supplement.

Payment Mechanics for Debt Securities in Registered Form

Who Receives Payment?

If interest is due on a debt security on an interest payment date, we will pay the interest to the person in whose name the debt security is registered at the close of business on the regular record date relating to the interest payment date as described under **Payment and Record Dates for Interest** below. If interest is due at maturity but on a day that is not an interest payment date, we will pay the interest to the person entitled to receive the principal of the debt security. If principal or another amount besides interest is due on a debt security at maturity, we will pay the amount to the holder of the debt security against surrender of the debt security at a proper place of payment or, in the case of a global debt security, in accordance with the applicable policies of the depository, DTC, Euroclear or Clearstream, as applicable.

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Payment and Record Dates for Interest

Unless we specify otherwise in the applicable prospectus supplement, interest on any fixed rate debt security will be payable semiannually each February 15 and August 15 and at maturity, and the regular record date relating to an interest payment date for any fixed rate debt security will be the February 1 or August 1 next preceding that interest payment date. Unless we specify otherwise in the applicable prospectus supplement, the regular record date relating to an interest payment date for any floating rate debt security will be the 15th calendar day before that interest payment date. These record dates will apply regardless of whether a particular record date is a business day, as defined below. For the purpose of determining the holder at the close of business on a regular record date when business is not being conducted, the close of business will mean 5:00 P.M., New York City time, on that day.

Unless we specify otherwise in this prospectus or in the applicable prospectus supplement, the term *days* refers to calendar days.

Business Day. Unless we specify otherwise in the applicable prospectus supplement, the term *business day* means, for any debt security, a day that meets all the following applicable requirements:

for all debt securities, is a Monday, Tuesday, Wednesday, Thursday or Friday that is not a day on which banking institutions in Salt Lake City, Utah or New York City generally are authorized or required by law or executive order to close;

if the debt security is a floating rate debt security whose interest rate is based on the London interbank offered rate, or LIBOR, is also a day on which dealings in the relevant index currency specified in the applicable prospectus supplement are transacted in the London interbank market;

if the debt security either is a floating rate debt security whose interest rate is based on the euro interbank offered rate, or EURIBOR, or a floating rate debt security whose interest rate is based on LIBOR and for which the index currency is euros, is also a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System, or any successor system, is open for business;

if the debt security is held through Euroclear, is also not a day on which banking institutions in Brussels, Belgium are generally authorized or obligated by law, regulation or executive order to close; and

if the debt security is held through Clearstream, is also not a day on which banking institutions in Luxembourg are generally authorized or obligated by law, regulation or executive order to close.

Business Day Conventions

As specified in the applicable prospectus supplement, one of the following business day conventions may apply to any debt security with regard to any relevant date other than one that falls on the maturity date:

Following business day convention means, for any interest payment date, other than the stated maturity date, if such date would otherwise fall on a day that is not a business day, then such date will be postponed to the next day that is a business day.

Modified following business day convention means, for any interest payment date, other than the stated maturity date, if such date would otherwise fall on a day that is not a business day, then such date will be postponed to the next day that is a business day, except that, if the next business day falls in the next calendar month, then such date will be advanced to the immediately preceding day that is a business day.

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Following unadjusted business day convention means, for any interest payment date, other than the stated maturity date, that falls on a day that is not a business day, any payment due on such interest payment date will be postponed to the next day that is a business day; *provided* that interest due with respect to such interest payment date shall not accrue from and including the original interest payment date to and including the date of payment of such interest as so postponed.

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Modified following unadjusted business day convention means, for any interest payment date, other than the stated maturity date, that falls on a day that is not a business day, any payment due on such interest payment date will be postponed to the next day that is a business day; *provided* that interest due with respect to such interest payment date shall not accrue from and including the original interest payment date to and including the date of payment of such interest as so postponed, and *provided further* that, if such day would fall in the succeeding calendar month, the date of payment with respect to the original interest payment date will be advanced to the business day immediately preceding such interest payment date.

In all cases, if the stated maturity date or any earlier redemption date or repayment date with respect to a debt security falls on a day that is not a business day, any payment of principal, premium, if any, and interest otherwise due on such day will be made on the next succeeding business day, and no interest on such payment shall accrue for the period from and after such stated maturity, redemption date or repayment date, as the case may be.

Unless we specify otherwise in the applicable pricing supplement, payment of interest on your debt security will be governed by the following unadjusted business day convention.

Postponement of payments pursuant to the applicable business day convention will not result in a default under any debt security or the applicable indenture.

How We Will Make Payments Due

We will follow the practice described in this subsection when paying amounts due on the debt securities. All amounts due will be paid in U.S. dollars, unless we indicate otherwise in the applicable prospectus supplement.

Payments on Global Debt Securities. We will make payments on a global debt security in accordance with the applicable policies of the depositary as in effect from time to time. Under those policies, we will pay directly to the depositary, or its nominee, and not to any indirect owners who own beneficial interests in the global debt security. An indirect owner's right to receive those payments will be governed by the rules and practices of the depositary and its participants, as described in the section entitled "Legal Ownership and Book-Entry Issuance What Is a Global Security?"

Payments on Non-Global Debt Securities. We will make payments on a debt security in non-global, registered form as follows. We will pay interest that is due on an interest payment date by check mailed on the interest payment date to the holder at his or her address shown on the trustee's records as of the close of business on the regular record date. We will make all other payments by check at the paying agent described below, against surrender of the debt security. All payments by check will be made in next-day funds i.e., funds that become available on the day after the check is cashed.

Alternatively, if a non-global debt security has a principal amount of at least \$1,000,000 (or the equivalent in another currency) and the holder asks us to do so, we will pay any amount that becomes due on the debt security by wire transfer of immediately available funds to an account at a bank in New York City, on the due date. To request wire payment, the holder must give the paying agent appropriate wire transfer instructions at least five business days before the requested wire payment is due. In the case of any interest payment due on an interest payment date, the instructions must be given by the person or entity who is the holder on the relevant regular record date. In the case of any other payment, payment will be made only after the debt security is surrendered to the paying agent. Any wire instructions, once properly given, will remain in effect unless and until new instructions are given in the manner described above.

Book-entry and other indirect owners should consult their banks or brokers for information on how they will receive payments on their debt securities.

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Paying Agent

We may appoint one or more financial institutions to act as our paying agents, at whose designated offices debt securities in non-global entry form may be surrendered for payment at their maturity. We call each of those offices a paying agent. We may add, replace or terminate paying agents from time to time. We may also choose to act as our own paying agent. Initially, we have appointed Zions First National Bank, at its principal office in Salt Lake City, Utah, as the paying agent for the debt securities. We must notify you of changes in the paying agents.

Unclaimed Payments

Regardless of who acts as paying agent, all money paid by us to a paying agent that remains unclaimed at the end of two years after the amount is due to a holder will be repaid to us. After that two-year period, the holder may look only to us for payment and not to the trustee, any other paying agent or anyone else.

Notices

Notices to be given to holders of a global debt security will be given only to the depositary, in accordance with its applicable policies as in effect from time to time. Notices to be given to holders of debt securities not in global form will be sent by mail to the respective addresses of the holders as they appear in the trustee's records, and will be deemed given when mailed. Neither the failure to give any notice to a particular holder, nor any defect in a notice given to a particular holder, will affect the sufficiency of any notice given to another holder.

Book-entry and other indirect owners should consult their banks or brokers for information on how they will receive notices.

Our Relationship with the Trustee

The Bank of New York Mellon Trust Company, N.A., is initially serving as the trustee for both the senior debt securities and the subordinated debt securities. Consequently, if an actual or potential event of default occurs with respect to any debt securities, the trustee may be considered to have a conflicting interest for purposes of the Trust Indenture Act. In that case, the trustee may be required to resign under one of the indentures, and we would be required to appoint a successor trustee. For this purpose, a potential event of default means an event that would be an event of default if the requirements for giving us default notice or for the default having to exist for a specific period of time were disregarded.

Under the indentures, we are required to file with the trustee any information, documents and other reports, or summaries thereof, as may be required under the Trust Indenture Act, at the times and in the manner provided under the Trust Indenture Act. However, in case of documents filed with the SEC pursuant to Section 13 or 15(d) of the Exchange Act, any such filing with the trustee need not be made until the 15th day after such filing is actually made with the SEC.

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DESCRIPTION OF WARRANTS OR OTHER RIGHTS WE MAY OFFER

Please note that in this section entitled Description of Warrants or Other Rights We May Offer, references to Zions, we, our and us refer only to Zions Bancorporation and not to its consolidated subsidiaries. Also, in this section, references to holders mean those who own warrants or other rights registered in their own names, on the books that we or any applicable trustee or warrant or rights agent maintain for this purpose, and not those who own beneficial interests in warrants or rights registered in street name or in warrants or rights issued in book-entry form through one or more depositaries. Owners of beneficial interests in warrants or rights should also read the section entitled Legal Ownership and Book-Entry Issuance.

This section outlines some of the provisions of each warrant or rights agreement pursuant to which warrants or rights may be issued, the warrants or rights and any warrant or rights certificates. This information may not be complete in all respects and is qualified entirely by reference to any warrant agreement or rights agreement with respect to the warrants or rights of any particular series. The specific terms of any series of warrants or rights will be described in the applicable prospectus supplement. If so described in the prospectus supplement, the terms of that series of warrants or rights may differ from the general description of terms presented below. Owners of warrants or rights should also read the section entitled Legal Ownership and Book-Entry Issuance.

We may issue warrants or other rights. We have no restriction on the number of warrants or rights or the number of distinct series of warrants or rights we may issue. We will issue each series of warrants under either a warrant or rights indenture or agreement. This section summarizes terms to be included in such indenture or agreement and terms of the warrants or rights that apply generally to the warrants or rights. We will describe the specific terms of your warrant or right in the applicable prospectus supplement. Those terms may vary from the terms described here.

Warrants

We may issue warrants, options or similar instruments for the purchase of our debt securities, preferred stock, common stock, depositary shares or units. We refer to these collectively as warrants. Warrants may be issued independently or together with debt securities, preferred stock, common stock, depositary shares or units, and may be attached to or separate from those securities.

Rights

We may also issue rights, on terms to be determined at the time of sale, for the purchase or sale of, or whose cash value or stream of cash payments is determined by reference to, the occurrence or non-occurrence of or the performance, level or value of, one or more of the following:

securities of one or more issuers, including our common or preferred stock or other securities described in this prospectus or debt or equity securities of third parties;

one or more currencies;

one or more commodities;

any other financial, economic or other measure or instrument, including the occurrence or non-occurrence of any event or circumstance;

one or more indices; and/or

one or more baskets of the items described above.

We refer to each property described above as a right property.

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We may satisfy our obligations, if any, and the holder of a right may satisfy its obligations, if any, with respect to any rights by delivering, among other things:

the right property;

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the cash value of the right property; or

the cash value of the rights determined by reference to the performance, level or value of the right.

The applicable prospectus supplement will describe what we may deliver to satisfy our obligations, if any, and what the holder of a right may deliver to satisfy its obligations, if any, with respect to any rights.

Agreements

Each series of warrants or rights may be evidenced by certificates and may be issued under a separate indenture, agreement or other instrument to be entered into between us and a bank that we select as agent with respect to such series. The agent, if any, will have its principal office in the U.S. and have a combined capital and surplus of at least \$50,000,000. The prospectus supplement relating to a series of warrants or rights will identify the name and address of the warrant or rights agent, if any. Warrants or rights in book-entry form will be represented by a global security registered in the name of a depository, which will be the holder of all the securities represented by the global security. Those who own beneficial interests in a global security will do so through participants in the depository's system, and the rights of these indirect owners will be governed solely by the applicable procedures of the depository and its participants. We describe book-entry securities under Legal Ownership and Book-Entry Issuance.

General Terms of Warrants or Rights

The prospectus supplement will describe the terms of the series of warrants or rights in respect of which this prospectus is being delivered, including:

the offering price;

the currency for which the warrants or rights may be purchased;

the designation and terms of any securities with which the warrants or rights are issued and in that event the number of warrants or rights issued with each security or each principal amount of security;

the date, if any, on which the warrants or rights and any related securities will be separately transferable;

whether the warrants or rights are to be sold separately or with other securities, as part of units or otherwise;

any securities exchange or quotation system on which the warrants or rights or any securities deliverable upon exercise of such securities may be listed;

whether the warrants or rights will be issued in fully registered form or bearer form, in global or non-global form or in any combination of these forms;

the dates on which the right to exercise the warrants will commence and expire;

material U.S. Federal income tax consequences of holding or exercising these securities; and

any other terms of the warrants or rights.

Warrant or rights certificates may be exchanged for new certificates of different denominations and may be presented for transfer of registration and, if exercisable for other securities or other property, may be exercised at the agent's corporate trust office or any other office indicated in the prospectus supplement. If the warrants or rights are not separately transferable from any securities with which they were issued, this exchange may take place only if the certificates representing the related securities are also exchanged. Prior to exercise of any warrant or right exercisable for other securities or other property, securityholders will not have any rights as holders of the underlying securities, including the right to receive any principal, premium, interest, dividends, or payments upon our liquidation, dissolution or winding up or to exercise any voting rights.

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Exercise of Warrants or Rights

If any warrant or right is exercisable for other securities or other property, the following provisions will apply. Each such warrant or right may be exercised at any time up to any expiration date and time mentioned in the prospectus supplement relating to those warrants or rights as may otherwise be stated in the prospectus supplement. After the close of business on any applicable expiration date, unexercised warrants or rights will become void.

Warrants or rights may be exercised by delivery of the certificate representing the securities to be exercised, or in the case of global securities, as described below under Legal Ownership and Book-Entry Issuance, by delivery of an exercise notice for those warrants or rights, together with certain information, and payment to any agent in immediately available funds, as provided in the prospectus supplement, of the required purchase amount, if any. Upon receipt of payment and the certificate or exercise notice properly executed at the office indicated in the prospectus supplement, we will, in the time period the relevant agreement provides, issue and deliver the securities or other property purchasable upon such exercise. If fewer than all of the warrants or rights represented by such certificates are exercised, a new certificate will be issued for the remaining amount of warrants or rights.

If mentioned in the prospectus supplement, securities may be surrendered as all or part of the exercise price for warrants or rights.

Antidilution Provisions

In the case of warrants or rights to purchase common stock, the exercise price payable and the number of shares of common stock purchasable upon warrant exercise may be adjusted in certain events, including:

the issuance of a stock dividend to common stockholders or a combination, subdivision or reclassification of common stock;

the issuance of rights, warrants or options to all common and preferred stockholders entitling them to purchase common stock for an aggregate consideration per share less than the current market price per share of common stock;

any distribution to our common stockholders of evidences of our indebtedness of assets, excluding cash dividends or distributions referred to above; and

any other events mentioned in the prospectus supplement.

The prospectus supplement will describe which, if any, of these provisions shall apply to a particular series of warrants or rights. Unless otherwise specified in the applicable prospectus supplement, no adjustment in the number of shares purchasable upon warrant or right exercise will be required until cumulative adjustments require an adjustment of at least 1% of such number and no fractional shares will be issued upon warrant or right exercise, but we will pay the cash value of any fractional shares otherwise issuable.

Modification

We and any agent for any series of warrants or rights may amend any warrant or rights agreement and the terms of the related warrants or rights by executing a supplemental agreement, without any such warrant holders or rightholders consent, for the purpose of:

curing any ambiguity or any defective or inconsistent provision contained in the agreement, or making any other corrections to the agreement that are not inconsistent with the provisions of the warrant or rights certificates;

evidencing the succession of another corporation to us and its assumption of our covenants contained in the agreement and the securities;

appointing a successor depository, if the securities are issued in the form of global securities;

evidencing a successor agent's acceptance of appointment with respect to any securities;

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adding to our covenants for the benefit of securityholders or surrendering any right or power we have under the agreement;

issuing warrants or rights in definitive form, if such securities are initially issued in the form of global securities; or

amending the agreement and the warrants or rights as we deem necessary or desirable and that will not adversely affect the interests of the applicable warrant holders or rightholders in any material respect.

We and any agent for any series of warrants or rights may also amend any agreement and the related warrants or rights by a supplemental agreement with the consent of the holders of a majority of the warrants or rights of any series affected by such amendment, for the purpose of adding, modifying or eliminating any of the agreement's provisions or of modifying the rights of the holders of warrants or rights. However, no such amendment that:

reduces the number or amount of securities receivable upon any exercise of any such security;

shortens the time period during which any such security may be exercised;

otherwise adversely affects the exercise rights of warrant holders or rightholders in any material respect; or

reduces the number of securities the consent of holders of which is required for amending the agreement or the related warrants or rights;

may be made without the consent of each holder affected by that amendment.

Consolidation, Merger and Sale of Assets

Any agreement with respect to warrants or rights will provide that we are generally permitted to merge or consolidate with another corporation or other entity. Any such agreement will also provide that we are permitted to sell our assets substantially as an entirety to another corporation or other entity or to have another entity sell its assets substantially as an entirety to us. With regard to any series of securities, however, we may not take any of these actions unless all of the following conditions are met:

if we are not the successor entity, the person formed by the consolidation or into or with which we merge or the person to which our properties and assets are conveyed, transferred or leased must be an entity organized and existing under the laws of the United States, any state or the District of Columbia and must expressly assume the performance of our covenants under any relevant indenture, agreement or other instrument; and

we or that successor corporation must not immediately be in default under that agreement.

Enforcement by Holders of Warrants or Rights

Any agent for any series of warrants or rights will act solely as our agent under the relevant agreement and will not assume any obligation or relationship of agency or trust for any securityholder. A single bank or trust company may act as agent for more than one issue of securities. Any such agent will have no duty or responsibility in case we default in performing our obligations under the relevant agreement or warrant or right, including any duty or responsibility to initiate any legal proceedings or to make any demand upon us. Any securityholder may, without the agent's consent or consent of any other securityholder, enforce by appropriate legal action its right to exercise any warrant or right exercisable for any property.

Replacement of Certificates

We will replace any destroyed, lost, stolen or mutilated warrant or rights certificate upon delivery to us and any applicable agent of satisfactory evidence of the ownership of that certificate and of its destruction, loss, theft or mutilation, and (in the case of mutilation) surrender of that certificate to us or any applicable agent, unless we have, or the agent has, received notice that the certificate has been acquired by a bona fide purchaser. That securityholder will also be required to provide indemnity satisfactory to us and the relevant agent before a replacement certificate will be issued.

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Title

Zions, any agents for any series of warrants or rights and any of their agents may treat the registered holder of any certificate as the absolute owner of the securities evidenced by that certificate for any purpose and as the person entitled to exercise the rights attaching to the warrants or rights so requested, despite any notice to the contrary. See Legal Ownership and Book-Entry Issuance.

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DESCRIPTION OF STOCK PURCHASE CONTRACTS WE MAY OFFER

Please note that in this section entitled Description of Stock Purchase Contracts We May Offer, references to Zions, we, our and us refer only to Zions Bancorporation and not to its consolidated subsidiaries. Also, in this section, references to holders mean those who own stock purchase contracts registered in their own names, on the books that we or our agent maintain for this purpose, and not those who own beneficial interests in stock purchase contracts registered in street name or in purchase contracts issued in book-entry form through one or more depositories. Owners of beneficial interests in the purchase contracts should read the section below entitled Legal Ownership and Book-Entry Issuance.

This section outlines some of the provisions of the stock purchase contracts, the purchase contract agreement and the pledge agreement. This information is not complete in all respects and is qualified entirely by reference to the purchase contract agreement and pledge agreement with respect to the stock purchase contracts of any particular series. The specific terms of any series of stock purchase contracts will be described in the applicable prospectus supplement. If so described in the applicable prospectus supplement, the specific terms of any series of stock purchase contracts may differ from the general description of terms presented below.

We may issue stock purchase contracts including contracts obligating holders to purchase from us and us to sell to the holders a specified or varying number of shares of common stock, preferred stock, depositary shares or other security or property, at a future date or dates. Alternatively, the stock purchase contracts may obligate us to purchase from holders, and obligate holders to sell to us, a specified or varying number of shares of common stock, preferred stock, depositary shares or other security or property. The consideration per share of common stock or preferred stock or per depositary share or other security or property may be fixed at the time the stock purchase contracts are issued or may be determined by a specific reference to a formula set forth in the stock purchase contracts. The stock purchase contracts may provide for settlement by delivery by or on behalf of Zions of shares of the underlying security or property or it may provide for settlement by reference or linkage to the value, performance or trading price of the underlying security or property. The stock purchase contracts may be issued separately or as part of stock purchase units consisting of a stock purchase contract and debt securities, preferred stock or debt obligations of third parties, including U.S. treasury securities, other stock purchase contracts or common stock, or other securities or property, securing the holders obligations to purchase or sell, as the case may be, the common stock or the preferred stock under the stock purchase contracts. The stock purchase contracts may require us to make periodic payments to the holders of the stock purchase units or vice versa, and such payments may be unsecured or prefunded on some basis and may be paid on a current or on a deferred basis. The stock purchase contracts may require holders to secure their obligations thereunder in a specified manner and may provide for the prepayment of all or part of the consideration payable by holders in connection with the purchase of the underlying security or other property pursuant to the stock purchase contracts.

The securities related to the stock purchase contracts may be pledged to a collateral agent for Zions benefit pursuant to a pledge agreement to secure the obligations of holders of stock purchase contracts to purchase the underlying security or property under the related stock purchase contracts. The rights of holders of stock purchase contracts to the related pledged securities will be subject to Zions security interest therein created by the pledge agreement. No holder of stock purchase contracts will be permitted to withdraw the pledged securities related to such stock purchase contracts from the pledge arrangement except upon the termination or early settlement of the related stock purchase contracts or in the event other securities, cash or property are made subject to the pledge agreement in lieu of the pledged securities, if permitted by the pledge agreement, or as otherwise provided in the pledge agreement. Subject to such security interest and the terms of the purchase contract agreement and the pledge agreement, each holder of a stock purchase contract will retain full beneficial ownership of the related pledged securities.

Except as described in the applicable prospectus supplement, the collateral agent will, upon receipt of distributions on the pledged securities, distribute such payments to Zions or the purchase contract agent, as provided in the pledge agreement. The purchase agent will in turn distribute payments it receives as provided in the purchase contract agreement.

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DESCRIPTION OF UNITS WE MAY OFFER

Please note that in this section entitled Description of Units We May Offer, references to Zions, we, our and us refer only to Zions Bancorporation and not to its consolidated subsidiaries. Also, in this section, references to holders mean those who own units registered in their own names, on the books that we or our agent maintain for this purpose, and not those who own beneficial interests in units registered in street name or in units issued in book-entry form through one or more depositaries. Owners of beneficial interests in the units should read the section below entitled Legal Ownership and Book-Entry Issuance.

This section outlines some of the provisions of the units and the unit agreements. This information may not be complete in all respects and is qualified entirely by reference to the unit agreement with respect to the units of any particular series. The specific terms of any series of units will be described in the applicable prospectus supplement. If so described the applicable prospectus supplement, the specific terms of any series of units may differ from the general description of terms presented below.

We may issue units comprised of one or more debt securities, shares of common stock, shares of preferred stock, stock purchase contracts, warrants, rights and other securities in any combination. Each unit will be issued so that the holder of the unit is also the holder of each security included in the unit. Thus, the holder of a unit will have the rights and obligations of a holder of each included security. The unit agreement under which a unit is issued may provide that the securities included in the unit may not be held or transferred separately, at any time or at any time before a specified date.

The applicable prospectus supplement may describe:

the designation and terms of the units and of the securities comprising the units, including whether and under what circumstances those securities may be held or transferred separately;

any provisions of the governing unit agreement that differ from those described below; and

any provisions for the issuance, payment, settlement, transfer or exchange of the units or of the securities comprising the units. The provisions described in this section, as well as those described under Description of Debt Securities We May Offer, Description of Preferred Stock We May Offer, Description of Our Capital Stock, Description of Warrants or Other Rights We May Offer and Description of Stock Purchase Contracts We May Offer, will apply to the securities included in each unit, to the extent relevant.

Issuance in Series

We may issue units in such amounts and in as many distinct series as we wish. We may also reopen a previously issued series of units and issue additional units of that series. This section summarizes terms of the units that apply generally to all series. Most of the financial and other specific terms of your series will be described in the applicable prospectus supplement. Those terms may vary from the terms described here.

Unit Agreements

We will issue the units under one or more unit agreements to be entered into between us and a bank or other financial institution, as unit agent. We may add, replace or terminate unit agents from time to time. We will identify the unit agreement under which each series of units will be issued and the unit agent under that agreement in the applicable prospectus supplement.

The following provisions will generally apply to all unit agreements unless otherwise stated in the applicable prospectus supplement.

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Enforcement of Rights

The unit agent under a unit agreement will act solely as our agent in connection with the units issued under that agreement. The unit agent will not assume any obligation or relationship of agency or trust for or with any holders of those units or of the securities comprising those units. The unit agent will not be obligated to take any action on behalf of those holders to enforce or protect their rights under the units or the included securities.

Except as indicated in the next paragraph, a holder of a unit may, without the consent of the unit agent or any other holder, enforce its rights as holder under any security included in the unit, in accordance with the terms of that security and the indenture, warrant agreement, rights agreement or other instrument under which that security is issued. Those terms are described elsewhere in this prospectus under the sections relating to debt securities, preferred stock, common stock, warrants and capital securities, as relevant.

Notwithstanding the foregoing, a unit agreement may limit or otherwise affect the ability of a holder of units issued under that agreement to enforce its rights, including any right to bring a legal action, with respect to those units or any securities, other than debt securities, that are included in those units. Limitations of this kind will be described in the applicable prospectus supplement.

Modification Without Consent of Holders

We and the applicable unit agent may amend any unit or unit agreement without the consent of any holder:

to cure any ambiguity;

to correct or supplement any defective or inconsistent provision; or

to make any other change that we believe is necessary or desirable and will not adversely affect the interests of the affected holders in any material respect.

We do not need any approval to make changes that affect only units to be issued after the changes take effect. We may also make changes that do not adversely affect a particular unit in any material respect, even if they adversely affect other units in a material respect. In those cases, we do not need to obtain the approval of the holder of the unaffected unit; we need only obtain any required approvals from the holders of the affected units.

Modification With Consent of Holders

We may not amend any particular unit or a unit agreement with respect to any particular unit unless we obtain the consent of the holder of that unit, if the amendment would:

impair any right of the holder to exercise or enforce any right under a security included in the unit if the terms of that security require the consent of the holder to any changes that would impair the exercise or enforcement of that right; or

reduce the percentage of outstanding units or any series or class the consent of whose holders is required to amend that series or class, or the applicable unit agreement with respect to that series or class, as described below.

Any other change to a particular unit agreement and the units issued under that agreement would require the following approval:

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If the change affects only the units of a particular series issued under that agreement, the change must be approved by the holders of a majority of the outstanding units of that series; or

If the change affects the units of more than one series issued under that agreement, it must be approved by the holders of a majority of all outstanding units of all series affected by the change, with the units of all the affected series voting together as one class for this purpose.

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These provisions regarding changes with majority approval also apply to changes affecting any securities issued under a unit agreement, as the governing document.

In each case, the required approval must be given by written consent.

Unit Agreements Will Not Be Qualified Under Trust Indenture Act

No unit agreement will be qualified as an indenture, and no unit agent will be required to qualify as a trustee, under the Trust Indenture Act. Therefore, holders of units issued under unit agreements will not have the protections of the Trust Indenture Act with respect to their units.

Mergers and Similar Transactions Permitted; No Restrictive Covenants or Events of Default

The unit agreements will not restrict our ability to merge or consolidate with, or sell our assets to, another corporation or other entity or to engage in any other transactions. If at any time we merge or consolidate with, or sell our assets substantially as an entirety to, another corporation or other entity, the successor entity will succeed to and assume our obligations under the unit agreements. We will then be relieved of any further obligation under these agreements.

The unit agreements will not include any restrictions on our ability to put liens on our assets, including our interests in our subsidiaries, nor will they restrict our ability to sell our assets. The unit agreements also will not provide for any events of default or remedies upon the occurrence of any events of default.

Governing Law

The unit agreements and the units will be governed by New York law.

Form, Exchange and Transfer

We will issue each unit in global i.e., book-entry form only. Units in book-entry form will be represented by a global security registered in the name of a depository, which will be the holder of all the units represented by the global security. Those who own beneficial interests in a unit will do so through participants in the depository's system, and the rights of these indirect owners will be governed solely by the applicable procedures of the depository and its participants. We describe book-entry securities below under Legal Ownership and Book-Entry Issuance.

In addition, we will issue each unit in registered form, unless we say otherwise in the applicable prospectus supplement. Bearer securities would be subject to special provisions, as we describe below under Securities Issued in Bearer Form.

Each unit and all securities comprising the unit will be issued in the same form.

If we issue any units in registered, non-global form, the following will apply to them:

The units will be issued in the denominations stated in the applicable prospectus supplement. Holders may exchange their units for units of smaller denominations or combined into fewer units of larger denominations, as long as the total amount is not changed.

Holders may exchange or transfer their units at the office of the unit agent. Holders may also replace lost, stolen, destroyed or mutilated units at that office. We may appoint another entity to perform these functions or perform them ourselves.

Holders will not be required to pay a service charge to transfer or exchange their units, but they may be required to pay for any tax or other governmental charge associated with the transfer or exchange. The transfer or exchange, and any replacement, will be made only if our transfer agent is satisfied with the holder's proof of legal ownership. The transfer agent may also require an indemnity before replacing any units.

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If we have the right to redeem, accelerate or settle any units before their maturity, and we exercise our right as to less than all those units or other securities, we may block the exchange or transfer of those units during the period beginning 15 days before the day we mail the notice of exercise and ending on the day of that mailing, in order to freeze the list of holders to prepare the mailing. We may also refuse to register transfers of or exchange any unit selected for early settlement, except that we will continue to permit transfers and exchanges of the unsettled portion of any unit being partially settled. We may also block the transfer or exchange of any unit in this manner if the unit includes securities that are or may be selected for early settlement.

Only the depository will be entitled to transfer or exchange a unit in global form, since it will be the sole holder of the unit.

Payments and Notices

In making payments and giving notices with respect to our units, we will follow the procedures we plan to use with respect to our debt securities, where applicable. We describe those procedures above under [Description of Debt Securities We May Offer](#) [Payment Mechanics for Debt Securities in Registered Form](#) and [Description of Debt Securities We May Offer](#) [Notices](#).

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DESCRIPTION OF OUR CAPITAL STOCK

Please note that in this section entitled Description of Our Capital Stock, references to Zions, we, our and us refer only to Zions Bancorporation and not to its consolidated subsidiaries. Also, in this section, references to holders mean those who own shares of our capital stock, registered in their own names, on the books that the registrar or we maintain for this purpose, and not those who own beneficial interests in shares registered in street name or in shares issued in book-entry form through one or more depositaries. Owners of beneficial interests in shares of our capital stock should also read the section entitled Legal Ownership and Book-Entry Issuance.

The following summary description of our capital stock is based on the provisions of our restated articles of incorporation, as amended, or articles of incorporation, and restated bylaws, or bylaws, and the applicable provisions of the Utah Revised Business Corporation Act, or the UBCA. This description is not complete and is subject to, and is qualified in its entirety by reference to our articles of incorporation, bylaws and the applicable provisions of the UBCA. For information on how to obtain copies of our articles of incorporation and bylaws, see Where You Can Find More Information.

Authorized Capital

Our articles of incorporation authorize us to issue 353,000,000 shares of capital stock, without par value, of which:

350,000,000 shares are designated as common stock, approximately 115,336,203 shares of which were outstanding as of March 26, 2009; and

3,000,000 shares are designated as preferred stock,

240,000 shares of which are designated as Series A Floating-Rate Non-Cumulative Perpetual Preferred Stock (Series A Preferred Stock), all of which were issued and outstanding as of the date of this prospectus;

150,000 shares of which are designated as 9.50% Series C Non-Cumulative Perpetual Preferred Stock (Series C Preferred Stock), 46,949.275 of which were issued and outstanding as of the date of this prospectus; and

1,400,000 shares of Fixed Rate Cumulative Perpetual Preferred Stock, Series D (Series D Preferred Stock), all of which were issued and outstanding as of the date of this prospectus, in each case with a liquidation preference of \$1,000 per share of preferred stock.

Common Stock

We may offer from time to time shares of our common stock. We may also offer common stock issuable upon the conversion of debt securities or preferred stock, the exercise of warrants and pursuant to stock purchase contracts.

Voting Rights

Unless otherwise provided in our articles of incorporation in the UBCA, or other applicable law, the holders of common stock of Zions are entitled to voting rights for the election of directors and for other purposes, subject to voting rights which may in the future be granted to subsequently created series of preferred stock. Shares of Zions common stock do not have cumulative voting rights.

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Dividend and Liquidation Rights

The holders of outstanding shares of our common stock are entitled to receive dividends when and if declared by the Zions board out of any funds legally available therefor, and are entitled upon liquidation, after claims of creditors and preferences of any series of preferred stock hereafter authorized, to receive pro rata the net assets of Zions. Holders of Zions common stock have no preemptive or conversion rights.

Certain Provisions of Utah Law and of Our Articles of Incorporation and Bylaws

Zions is incorporated under the laws of the State of Utah and, accordingly, the rights of our shareholders are governed by our articles of incorporation, our bylaws and the laws of the State of Utah, including the UBCA.

Certain Anti-Takeover Matters

Our articles of incorporation and bylaws include a number of provisions that may have the effect of encouraging persons considering unsolicited tender offers or other unilateral takeover proposals to negotiate with our board of directors rather than pursue non-negotiated takeover attempts. These provisions include:

Classification of the Board of Directors. Our articles of incorporation currently divide our board of directors into three classes as nearly equal in size as possible. Any effort to obtain control of our board by causing the election of a majority of the board may require more time than would be required without a staggered election structure. At our 2009 Annual Meeting, our shareholders will be asked to adopt an amendment to our articles of incorporation eliminating the classified structure of the board and removing the two-thirds voting requirement for changes in board classification. No assurances can be given as to the outcome of the proposed vote. If adopted by two-thirds of the outstanding voting stock entitled to vote thereon, declassification of the board would be phased-in beginning in 2010.

Provisions Regarding Election/Removal of Directors. Our articles of incorporation provide that, while shareholders generally may act by written consent, consents from 100% of our shareholders are required to elect directors by written consent. Our articles of incorporation and bylaws do not authorize cumulative voting for directors.

Our bylaws also provide that a vacancy on the board of directors may be filled by the shareholders or the board of directors. However, if the directors remaining in office constitute less than a quorum of the board, they may fill the vacancy by the affirmative vote of a majority of all directors remaining in office. Our articles of incorporation further provide that, while the shareholders may remove any director for or without cause, it may only be done with the affirmative vote of the holders of two-thirds of the outstanding shares then entitled to vote at an election of directors.

Advance Notice Requirements for Director Nominations and Presentation of Business at Meetings. Our bylaws specify a procedure for shareholders to follow in order to bring business before an annual meeting of the shareholders. Generally, notice of any proposal to be presented by any shareholder or the name of any person to be nominated by any shareholder for election as a director of Zions at any annual meeting of shareholders must be delivered to Zions at least 120 days, but not more than 150 days, prior to the date Zions proxy statement was released to shareholders in connection with the annual meeting for the preceding year. The notice must also provide certain information set forth in Zions bylaws.

Restrictions on Certain Business Transactions. Our articles of incorporation provide that certain business transactions with a person who owns, directly or indirectly, over 10% of our outstanding stock must be approved by a majority vote of the continuing directors or a shareholder vote of at least 80% of outstanding voting shares. Such business transactions include mergers, consolidations, sales of all or more than 20% of the corporation's assets, issuance of securities of the corporation, reclassifications that increase voting power of the interested shareholder, or liquidations, spin-offs or dissolution of the corporation. Zions is also subject to the Utah Control Shares Acquisitions Act, which limits the ability of persons acquiring more than 20% of Zions' voting stock to vote those shares absent approval of voting rights by the holders of a majority of all shares entitled to be cast, excluding all interested shares.

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Blank Check Preferred Stock. Our articles of incorporation provide for 3,000,000 shares of preferred stock. As of the date of this prospectus, we had issued and outstanding 240,000 shares of our Series A Preferred Stock, 46,949,275 shares of our Series C Preferred Stock and 1,400,000 shares of our Series D Preferred Stock, in each case with a \$1,000 liquidation preference per share. The existence of authorized but unissued shares of preferred may enable the board to render more difficult or to discourage an attempt to obtain control of us by means of a merger, tender offer, proxy contest or otherwise. For example, if in the due exercise of its fiduciary obligations, the board determines that a takeover proposal is not in the best interests of Zions, the board could cause shares of preferred stock to be issued without shareholder approval in one or more private offerings or other transactions that might dilute the voting or other rights of the proposed acquiror or insurgent shareholder or shareholder group. In this regard, the articles of incorporation grant our board of directors broad power to establish the rights and preferences of authorized and unissued shares of preferred stock. The issuance of shares of preferred stock could decrease the amount of earnings and assets available for distribution to holders of common stock. The issuance may also adversely affect the rights and powers, including voting rights, of such holders and may have the effect of delaying, deterring or preventing a change in control of Zions.

Supermajority Vote for Certain Amendments to Articles of Incorporation

Our articles of incorporation provide that they may be amended or repealed as permitted by Utah law. The UBCA permits an amendment of the articles of incorporation by approval of a majority of the board of directors and a majority of the outstanding common stock entitled to vote. However, our articles of incorporation further provide that any amendment to Articles IX (regarding the classified board), X (regarding quorum requirement and management of Zions by the board) and XVI (regarding amendment of our articles of incorporation) requires approval by two-thirds of the outstanding shares, and amendment of Article XVII (regarding business transactions with related persons) requires approval by 80% of the outstanding shares. As discussed above under **Certain Anti-Takeover Matters Classification of the Board of Directors**, our shareholders will be asked at our 2009 Annual Meeting to adopt an amendment to our articles of incorporation removing the supermajority voting requirement with respect to Article IX. No assurances can be given as to the outcome of the proposed vote.

Indemnification and Liability Elimination Provisions

Under our articles of incorporation, directors are not personally liable to us or our shareholders for monetary damages for breaches of fiduciary duty as a director, except (1) for breach of the director's duty of loyalty to Zions or its shareholders, (2) for acts or omissions not in good faith or which involve intentional misconduct or knowing violations of law, or (3) any transaction from which the director derived an improper personal benefit.

The UBCA and our bylaws provide that we may indemnify a director, officer, employee or agent if he or she acted in good faith and in a manner he or she reasonably believed to be in, or not opposed to, the best interests of Zions and, with respect to any criminal action or proceeding, had no reasonable cause to believe his or her conduct was unlawful.

Listing; Exchange, Transfer Agent and Registrar

Our common stock is listed on the Nasdaq Global Select Market. The transfer agent and registrar for our common stock is Zions First National Bank.

Preferred Stock

Series A Preferred Stock

The Series A Preferred Stock was issued in December 2006 in the form of 9,600,000 depositary shares with each depositary share representing a 1/40th ownership interest in a share of the preferred stock. Dividends are non-cumulative and are computed at an annual rate equal to the greater of three-month LIBOR plus 0.52%, or 4.0%. Dividend payments are made on the 15th day of March, June, September, and December.

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Ranking

Shares of the Series A Preferred Stock rank senior to our common stock, equally with our Series C Preferred Stock and Series D Preferred Stock and at least equally with each other series of our preferred stock we may issue (except for any senior series that may be issued with the requisite consent of the holders of the Series A Preferred Stock, the Series C Preferred Stock and the Series D Preferred Stock and any other class or series whose vote is required) with respect to the payment of dividends and distributions of assets upon liquidation, dissolution or winding up.

Liquidation Rights

Upon any voluntary or involuntary liquidation, dissolution or winding up of Zions, holders of the Series A Preferred Stock are entitled to receive out of assets of Zions available for distribution to shareholders, after satisfaction of liabilities to creditors and subject to the rights of holders of any securities ranking senior to the Series A Preferred Stock, before any distribution of assets is made to holders of common stock or of any of our other shares of junior stock, a liquidating distribution in the amount of the liquidation preference of \$1,000 per share (equivalent to \$25 per depositary share) plus declared and unpaid dividends, without accumulation of any undeclared dividends. Holders of the Series A Preferred Stock will not be entitled to any other amounts from us after they have received their full liquidating distribution.

In any such distribution, if the assets of Zions are not sufficient to pay the liquidation preferences plus declared and unpaid dividends in full to all holders of the Series A Preferred Stock, the Series C Preferred Stock, the Series D Preferred Stock and all holders of any other shares of parity stock, the amounts paid to the holders of Series A Preferred Stock, the Series C Preferred Stock, the Series D Preferred Stock and to the holders of all parity stock will be paid pro rata in accordance with the respective aggregate liquidating distribution owed to those holders. If the liquidation preference plus declared and unpaid dividends has been paid in full to all holders of Series A Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and any other shares of parity stock, the holders of our junior stock will be entitled to receive all of our remaining assets according to their respective rights and preferences.

Redemption

The Series A Preferred Stock is not subject to any mandatory redemption, sinking fund or other similar provisions. The Series A Preferred Stock is not redeemable prior to December 15, 2011. On and after that date, the Series A Preferred Stock is redeemable at our option, in whole or in part, at a redemption price equal to \$1,000 per share (equivalent to \$25 per depositary share), plus any declared and unpaid dividends, without accumulation of any undeclared dividends. Holders of Series A Preferred Stock have no right to require the redemption or repurchase of the Series A Preferred Stock.

Under the Federal Reserve's risk-based capital guidelines applicable to bank holding companies, any redemption of the Series A Preferred Stock is subject to prior approval of the Federal Reserve Board.

Voting Rights

Except as required by law and as provided below, the holders of the Series A Preferred Stock have no voting rights.

Right to Elect Two Directors Upon Non-Payment of Dividends. If and whenever dividends on any shares of the Series A Preferred Stock or any class or series of voting parity stock (as defined below) have not been declared and paid in an aggregate amount at least equal, as to any such class or series, to the amount of dividends payable on such class and series at its stated dividend rate for a period of six dividend periods, whether or not for consecutive dividend periods (a "Nonpayment"), the number of directors then constituting our board will be increased by two. Holders of all classes and series of any voting parity stock as to which a

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Nonpayment exists are entitled to vote as a single class for the election of the two additional members of our board of directors (the Preferred Directors), but only if the election of any such directors would not cause us to violate the listing standards of the Nasdaq Stock Market (or any other exchange on which our securities may be listed) or the rules and regulations of any other regulatory or self-regulatory body. In addition, our board of directors will at no time include more than two Preferred Directors. As used herein, voting parity stock means each class or series of preferred stock that ranks on parity with the Series A Preferred Stock as to payment of dividends and has voting rights similar to those described in this paragraph, which in this case includes both our Series C Preferred Stock and our Series D Preferred Stock.

In the event of a Nonpayment, at the written request of any holder of record of at least 20% of the outstanding shares of any voting parity stock with respect to which a Nonpayment exists addressed to our Secretary at our principal office, our Secretary will call a special meeting of the holders of all voting parity stock with respect to which a Nonpayment exists for the election of the two directors (unless such request is received less than 90 days before the date fixed for the next annual or special meeting of the shareholders, in which event such election will be held at such next annual or special meeting of shareholders). So long as these voting rights have not ceased, holders of any and all voting parity stock with respect to which a Nonpayment exists voting as a single class will continue to elect such directors at each subsequent annual meeting.

If and when full dividends have been paid for at least four dividend periods following a Nonpayment on any class or series of voting parity stock as to which a Nonpayment exists or existed, the foregoing voting rights will cease with respect to that class or series (subject to revesting in the event of each subsequent Nonpayment). If and when full dividends have been paid for at least four dividend periods on all classes and series of voting parity stock as to which a Nonpayment exists or existed, the term of office of each Preferred Director so elected will immediately terminate and the number of directors on the board of directors will automatically decrease by two.

Other Voting Rights. So long as any shares of Series A Preferred Stock remain outstanding:

the affirmative vote or consent of the holders of at least two-thirds of all outstanding shares of Series A Preferred Stock and any class or series of preferred stock that ranks on a parity with such series of preferred stock as to payment of dividends and the distribution of assets upon liquidation, dissolution or winding-up of Zions (which in this case would include our Series C Preferred Stock and Series D Preferred Stock), voting together as a class, is required to issue, authorize or increase the authorized amount of, or to issue or authorize any obligation or security convertible into or evidencing the right to purchase, any class or series of stock ranking senior to such series of preferred stock with respect to the payment of dividends or the distribution of assets upon liquidation, dissolution or winding-up of Zions; and

the affirmative vote or consent of the holders of at least two-thirds of all shares of such series of preferred stock at the time outstanding, voting separately as a class, is required to amend any provisions of Zion's articles of incorporation, whether by merger, consolidation or otherwise, so as to materially and adversely affect the powers, preferences, privileges or rights of such series of preferred stock, taken as a whole.

Series C Preferred Stock

The Series C Preferred Stock offering was completed on July 2, 2008. The offering was issued in the form of 1,877,971 depository shares representing a ¹/₄₀th ownership interest in a share of the preferred stock. Dividends are non-cumulative and are computed at a rate per annum equal to 9.50%. Dividend payments are made on the 15th day of March, June, September, and December.

Ranking

Shares of the Series C Preferred Stock rank senior to our common stock, equally with our Series A Preferred Stock and Series D Preferred Stock and at least equally with each other series of our preferred stock we may issue (except for any senior series that may

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be issued with the requisite consent of the holders of the Series A Preferred Stock, the Series C Preferred Stock and the Series D Preferred Stock and any other class or series whose vote is required) with respect to the payment of dividends and distributions of assets upon liquidation, dissolution or winding up.

Liquidation Rights

Upon any voluntary or involuntary liquidation, dissolution or winding up of Zions, holders of the Series C Preferred Stock are entitled to receive out of assets of Zions available for distribution to shareholders, after satisfaction of liabilities to creditors and subject to the rights of holders of any securities ranking senior to the Series C Preferred Stock, before any distribution of assets is made to holders of common stock or of any of our other shares of junior stock, a liquidating distribution in the amount of the liquidation preference of \$1,000 per share (equivalent to \$25 per depositary share) plus declared and unpaid dividends, without accumulation of any undeclared dividends. Holders of the Series C Preferred Stock will not be entitled to any other amounts from us after they have received their full liquidating distribution.

In any such distribution, if the assets of Zions are not sufficient to pay the liquidation preferences plus declared and unpaid dividends in full to all holders of the Series A Preferred Stock, the Series C Preferred Stock, the Series D Preferred Stock and all holders of any other shares of parity stock, the amounts paid to the holders of Series A Preferred Stock, the Series C Preferred Stock, the Series D Preferred Stock and to the holders of all parity stock will be paid pro rata in accordance with the respective aggregate liquidating distribution owed to those holders. If the liquidation preference plus declared and unpaid dividends has been paid in full to all holders of Series A Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and any other shares of parity stock, the holders of our junior stock will be entitled to receive all of our remaining assets according to their respective rights and preferences.

Redemption

The Series C Preferred Stock is not subject to any mandatory redemption, sinking fund or other similar provisions. The Series C Preferred Stock is not redeemable prior to September 15, 2013. On and after that date, the Series C Preferred Stock will be redeemable at our option, in whole or in part, at a redemption price equal to \$1,000 per share (equivalent to \$25 per depositary share) and an amount equal to the dividend for the then-current quarterly dividend period (whether or not declared but without accumulation of any undeclared dividends for prior periods) accrued to but excluding the date of redemption. Holders of Series C Preferred Stock have no right to require the redemption or repurchase of the Series C Preferred Stock.

Under the Federal Reserve's risk-based capital guidelines applicable to bank holding companies, any redemption of the Series C Preferred Stock is subject to prior approval of the Federal Reserve.

Voting Rights

The voting rights of holders of the Series C Preferred Stock are substantially the same as holders of the Series A Preferred Stock. See Series A Preferred Stock Voting Rights.

Series D Preferred Stock

The Series D Preferred Stock was issued on November 14, 2008 to the U.S. Department of the Treasury (the U.S. Treasury) with an aggregate liquidation preference of \$1.4 billion. The Emergency Economic Stabilization Act of 2008 authorized the U.S. Treasury to appropriate funds to eligible financial institutions participating in the Troubled Asset Relief Program Capital Purchase Program. The capital investment includes the issuance of preferred shares of the Company and a warrant to purchase common shares pursuant to a Letter Agreement and a Securities Purchase Agreement (collectively, the TARP Agreement). Cumulative dividends accrue at a rate of 5% per annum for the first five years, and at a rate of 9% per annum thereafter. Dividend payments are made on the 15th day of February, May, August and November. The TARP Agreement subjects us to certain restrictions and conditions including those related to common dividends, share repurchases, executive compensation, and corporate governance.

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Ranking

Shares of the Series D Preferred Stock rank senior to our common stock, equally with our Series A Preferred Stock and Series C Preferred Stock and at least equally with each other series of our preferred stock we may issue (except for any senior series that may be issued with the requisite consent of the holders of the Series C Preferred Stock and any other class or series whose vote is required) with respect to the payment of dividends and distributions of assets upon liquidation, dissolution or winding up.

Liquidation Rights

In the event of any liquidation, dissolution or winding up of the affairs of Zions, whether voluntary or involuntary, holders of the Series D Preferred Stock are entitled to receive for each share of Series D Preferred Stock, out of the assets of Zions or proceeds thereof (whether capital or surplus) available for distribution to shareholders of Zions, subject to the rights of any creditors of Zions, before any distribution of such assets or proceeds is made to or set aside for the holders of common stock and any other stock of the Zions ranking junior to the Series D Preferred Stock as to such distribution, payment in full in an amount equal to the sum of (i) \$1,000 per share and (ii) the amount of any accrued and unpaid dividends, whether or not declared, to the date of payment (such amounts collectively, the liquidation preference).

If in any such distribution, the assets of Zions or proceeds thereof are not sufficient to pay in full the amounts payable with respect to all outstanding shares of the Series D Preferred Stock and the corresponding amounts payable with respect of any other stock of Zions ranking equally with Series D Preferred Stock as to such distribution, holders of Series D Preferred Stock and the holders of such other stock will share ratably in any such distribution in proportion to the full respective distributions to which they are entitled.

If the liquidation preference has been paid in full to all holders of Series D Preferred Stock and the corresponding amounts payable with respect of any other stock of Zions ranking equally with the Series Preferred Stock as to such distribution has been paid in full, the holders of our other stock are entitled to receive all of our remaining assets (or proceeds thereof) according to their respective rights and preferences.

Redemption

The Series D Preferred Stock is not subject to any mandatory redemption, sinking fund or other similar provisions. Shares of Series D Preferred Stock are redeemable at our option at 100% of their liquidation preference or \$1,000 per share plus accrued and unpaid dividends, whether or not declared; *provided, however*, that such shares may be redeemed prior to November 15, 2011 only if (i) we have raised aggregate gross proceeds in one or more Qualified Equity Offerings (as defined below) in excess of \$350 million and (ii) the aggregate redemption price does not exceed the aggregate net proceeds from such Qualified Equity Offerings.

Qualified Equity Offering means the sale and issuance for cash by us to persons other than Zions or its subsidiaries after November 14, 2008, of shares of perpetual preferred stock, common stock or any combination of such stock, that, in each case, qualify as and may be included in Tier I capital of Zions at the time of issuance under the applicable risk-based capital guidelines of the Board of Governors of the Federal Reserve System (other than any such sales and issuances made pursuant to agreements or arrangements entered into, or pursuant to financing plans which were publicly announced, on or prior to October 13, 2008).

Holders of Series D Preferred Stock have no right to require the redemption or repurchase of the Series C Preferred Stock.

Under the Federal Reserve's risk-based capital guidelines applicable to bank holding companies, any redemption of the Series D Preferred Stock is subject to prior approval of the Federal Reserve.

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Voting Rights

Except as required by law and as provided below, the holders of the Series D Preferred Stock have no voting rights.

Right to Elect Two Directors Upon Non-Payment of Dividends. The voting rights of the Series D Preferred Stock in the event of our nonpayment of dividends on the Series D Preferred Stock for an aggregate of six quarterly dividend periods or more, whether or not consecutive, are substantially the same as holders of the Series A Preferred Stock. See [Series A Preferred Stock Voting Rights Right to Elect Two Directors Upon Non-Payment of Dividends](#).

Other Voting Rights. So long as any shares of Series D Preferred Stock are outstanding, in addition to any other vote or consent of stockholders required by law or by our articles of incorporation, the vote or consent of the holders of at least 66 2/3% of the shares of Series D Preferred Stock at the time outstanding, voting as a separate class, given in person or by proxy, either in writing without a meeting or by vote at any meeting called for the purpose, is necessary for effecting or validating:

any amendment or alteration of the articles of amendment for the Series D Preferred Stock or our articles of incorporation to authorize or create or increase the authorized amount of, or any issuance of, any shares of, or any securities convertible into or exchangeable or exercisable for shares of, any class or series of our capital stock ranking senior to the Series D Preferred Stock with respect to either or both the payment of dividends and/or the distribution of assets on any liquidation, dissolution or winding;

any amendment, alteration or repeal of any provision of the articles of amendment for the Series D Preferred Stock or our articles of incorporation (including, unless no vote on such merger or consolidation is required as provided below, any amendment, alteration or repeal by means of a merger, consolidation or otherwise) so as to adversely affect the rights, preferences, privileges or voting powers of the Series D Preferred Stock; or

any consummation of a binding share exchange or reclassification involving the Series D Preferred Stock, or of our merger or consolidation with another corporation or other entity, unless in each case:

the shares of Series D Preferred Stock remain outstanding or, in the case of any such merger or consolidation with respect to which we are not the surviving or resulting entity, are converted into or exchanged for preference securities of the surviving or resulting entity or its ultimate parent, and

such shares remaining outstanding or such preference securities, as the case may be, have such rights, preferences, privileges and voting powers, and limitations and restrictions thereof, taken as a whole, as are not materially less favorable to the holders thereof than the rights, preferences, privileges and voting powers, and limitations and restrictions thereof, of Series D Preferred Stock immediately prior to such consummation, taken as a whole.

TARP Warrant

On November 14, 2008, we issued and sold to the U.S. Treasury, in connection with the issuance and sale of the Series D Preferred Stock, a ten-year warrant (the [TARP Warrant](#)) to purchase up to 5,789,909 shares of our common stock at an exercise price of \$36.27 per share. As of the date of this prospectus, we have no warrants other than the TARP Warrant outstanding. See [Preferred Stock Series D Preferred Stock](#).

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Rights as a Shareholder

The warrant holder has no rights or privileges of the holders of our common stock, including any voting rights, until (and then only to the extent) the TARP Warrant has been exercised.

Adjustments to the TARP Warrant

Adjustments in Connection with Stock Splits, Subdivisions, Reclassifications and Combinations

The number of shares for which the TARP Warrant may be exercised and the exercise price applicable to the TARP Warrant will be proportionately adjusted in the event we pay dividends or make distributions on our common stock in shares of common stock, or subdivide, combine or reclassify outstanding shares of our common stock.

Anti-dilution Adjustment

Until the earlier of November 14, 2011 and the date the U.S. Treasury no longer holds the TARP Warrant (and other than in certain permitted transactions described below), if we issue any shares of common stock (or securities convertible or exercisable into common stock) for less than 90% of the market price of the common stock on the last trading day prior to pricing such shares, then the number of shares of common stock into which the TARP Warrant is exercisable and the exercise price will be adjusted. Permitted transactions include issuances:

as consideration for or to fund the acquisition of businesses and/or related assets;

in connection with employee benefit plans and compensation related arrangements in the ordinary course and consistent with past practice approved by our board of directors;

in connection with public or broadly marketed offerings and sales of common stock or convertible securities for cash conducted by us or our affiliates pursuant to registration under the Securities Act of 1933, as amended (the "Securities Act") or Rule 144A thereunder on a basis consistent with capital-raising transactions by comparable financial institutions; and

in connection with the exercise of preemptive rights on terms existing as of November 14, 2008.

Other Distributions

If we declare any dividends or distributions other than our historical, ordinary cash dividends, the exercise price of the TARP Warrant will be adjusted to reflect such distribution.

Certain Repurchases

If we effect a pro rata repurchase of common stock, both the number of shares issuable upon exercise of the TARP Warrant and the exercise price will be adjusted.

Business Combinations

In the event of a merger, consolidation or similar transaction involving Zions and requiring shareholder approval, the warrant holder's right to receive shares of our common stock upon exercise of the TARP Warrant will be converted into the right to exercise the TARP Warrant for the consideration that would have been payable to the warrant holder with respect to the shares of common stock for which the TARP Warrant may be exercised, as if the TARP Warrant had been exercised prior to such merger, consolidation or similar transaction.

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DESCRIPTION OF PREFERRED STOCK WE MAY OFFER

*Please note that in this section entitled **Description of Preferred Stock We May Offer**, references to **Zions**, **we**, **our** and **us** refer only to Zions Bancorporation and not to its consolidated subsidiaries. Also, in this section, references to **holders** mean those who own shares of preferred stock registered in their own names, on the books that the registrar or we maintain for this purpose, and not those who own beneficial interests in shares registered in street name or in shares issued in book-entry form through one or more depositaries. Owners of beneficial interests in shares of preferred stock should also read the section entitled **Legal Ownership and Book-Entry Issuance**.*

The following description summarizes the material provisions of the preferred stock we may offer. This description is not complete and is subject to, and is qualified in its entirety by reference to our restated articles of incorporation, as amended, which we will refer to as our articles of incorporation. The specific terms of any series of preferred stock will be described in the applicable prospectus supplement, and may differ from the general description of the terms presented below. Any series of preferred stock we issue will be governed by our articles of incorporation and by the articles of amendment related to that series. We will file the articles of amendment with the SEC and incorporate it by reference as an exhibit to our registration statement at or before the time we issue any preferred stock of that series of authorized preferred stock.

Authorized Preferred Stock

Our articles of incorporation authorize us to issue 3,000,000 shares of preferred stock, without par value. We may issue preferred stock from time to time in one or more series, without stockholder approval, when authorized by our board of directors or a duly authorized committee thereof. We may also reopen a previously issued series of preferred stock and issue additional preferred stock of that series. Upon issuance of a particular series of preferred stock, our board of directors, or a duly authorized committee thereof, is authorized to specify:

the serial designation of the series and the number of shares to be included in such series;

dividend rights for the series (which may be cumulative or non-cumulative) and any restrictions or conditions on the payment of dividends;

the redemption price, if any, and the terms and conditions of redemption;

any sinking fund provisions for the purchase or redemption of the series;

if the series is convertible or exchangeable, the terms and conditions of conversion or exchange;

voting rights;

the amounts payable to holders upon our liquidation, dissolution or winding up; and

any other rights, preferences and limitations relating to the series.

The board's ability to authorize, without stockholder approval, the issuance of preferred stock with conversion and other rights may adversely affect the rights of holders of our common stock or other series of preferred stock that may be outstanding.

Please see **Description of Our Capital Stock Authorized Capital** and **Description of Our Capital Stock Preferred Stock** for a description of our authorized and issued preferred stock.

Specific Terms of a Series of Preferred Stock We May Offer

The preferred stock we may offer will be issued in one or more series. Shares of preferred stock, when issued against full payment of its purchase price, will be fully paid and non-assessable. Their liquidation preference, however, will not be indicative of the price at which they will actually trade after their issue. If necessary, the prospectus supplement will provide a description of U.S. Federal income tax consequences relating to the purchase and ownership of the series of preferred stock offered by that prospectus supplement.

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The preferred stock will have the dividend, liquidation, redemption and voting rights discussed below, unless otherwise described in a prospectus supplement relating to a particular series. A prospectus supplement will discuss the following features of the series of preferred stock to which it relates:

the designations and stated value per share;

the number of shares offered;

the amount of liquidation preference per share;

the initial public offering price at which the preferred stock will be issued;

the dividend rate, the method of its calculation, the dates on which dividends would be paid and the dates, if any, from which dividends would cumulate;

any redemption or sinking fund provisions;

any conversion or exchange rights; and

any additional voting, dividend, liquidation, redemption, sinking fund and other rights, preferences, privileges, limitations and restrictions.

Rank

Unless otherwise stated in the applicable prospectus supplement, the preferred stock will have priority over our common stock with respect to dividends and distribution of assets, but will rank junior to all our outstanding indebtedness for borrowed money. Any series of preferred stock could rank senior, equal or junior to our other capital stock, as may be specified in the applicable prospectus supplement, as long as our articles of incorporation so permit.

Dividends

Holders of each series of preferred stock shall be entitled to receive cash dividends to the extent specified in the applicable prospectus supplement when, as and if declared by our board of directors, from funds legally available for the payment of dividends. The rates and dates of payment of dividends of each series of preferred stock will be stated in the applicable prospectus supplement. Dividends will be payable to the holders of record of preferred stock as they appear on our books on the record dates fixed by our board of directors. Dividends on any series of preferred stock may be cumulative or non-cumulative, as discussed in the applicable prospectus supplement.

Conversion or Exchange Rights

Shares of a series of preferred stock may be exchangeable or convertible into shares of our common stock, another series of preferred stock or other securities or property. The conversion or exchange may be mandatory or optional. The applicable prospectus supplement will specify whether the preferred stock being offered has any conversion or exchange features, and will describe all the related terms and conditions.

Redemption

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The terms, if any, on which shares of preferred stock of a series may be redeemed will be discussed in the applicable prospectus supplement. Before exercising its option to redeem any shares of preferred stock, we will obtain the approval of the Federal Reserve Board if then required by applicable law.

Liquidation

Upon any voluntary or involuntary liquidation, dissolution or winding up of the affairs of Zions, holders of each series of preferred stock will be entitled to receive distributions upon liquidation in the amount described in the applicable prospectus supplement plus an amount equal to any accrued and unpaid dividends for the then-current dividend period (including any accumulation in respect of unpaid dividends for prior dividend periods, if dividends on that series of preferred stock are cumulative).

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These distributions will be made before any distribution is made on any securities ranking junior to the preferred stock with respect to liquidation, including our common stock. If the liquidation amounts payable relating to the preferred stock of any series and any other securities ranking on a parity regarding liquidation rights are not paid in full, the holders of the preferred stock of that series will share ratably in proportion to the full liquidation preferences of each security. Holders of our preferred stock will not be entitled to any other amounts from us after they have received their full liquidation preference.

Voting Rights

The holders of shares of preferred stock will have no voting rights, except:

as otherwise stated in the applicable prospectus supplement;

as otherwise stated in the articles of amendment establishing the series; or

as required by applicable law.

Under existing interpretations of the Federal Reserve Board, if the holders of preferred stock become entitled to vote for the election of directors because dividends on the preferred stock are in arrears, the preferred stock may then be deemed a class of voting securities and a holder of 25% or more of the preferred stock, or a holder of 5% or more of the preferred stock that is otherwise a bank holding company, may then be regulated as a bank holding company with respect to Zions Bancorporation in accordance with the Bank Holding Company Act. In addition, at the time holders of preferred stock become entitled to such voting rights:

any bank holding company or foreign bank with a U.S. presence would generally be required to obtain the approval of the Federal Reserve Board under the Bank Holding Company Act to acquire or retain 5% or more of the preferred stock; and

any person other than a bank holding company may be required to obtain the approval of the Federal Reserve Board under the U.S. Change in Bank Control Act of 1978 to acquire or retain 10% or more of the preferred stock.

No Other Rights

The shares of a series of preferred stock will not have any preferences, voting powers or relative, participating, optional or other special rights except:

as discussed above or in the applicable prospectus supplement;

as provided in our articles of incorporation and in the articles of amendment; and

as otherwise required by law.

Transfer Agent

The transfer agent for each series of preferred stock will be named and described in the prospectus supplement for that series.

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DESCRIPTION OF DEPOSITARY SHARES WE MAY OFFER

*Please note that in this section entitled **Description of Depositary Shares We May Offer**, references to **Zions**, **we**, **our** and **us** refer only to **Zions Bancorporation** and not to its consolidated subsidiaries. Also, in this section, references to **holders** mean those who own depositary shares registered in their own names, on the books that the registrar or we maintain for this purpose, and not those who own beneficial interests in shares registered in street name or in shares issued in book-entry form through one or more depositaries. Owners of beneficial interests in depositary shares should also read the section entitled **Legal Ownership and Book-Entry Issuance**.*

*This section outlines some of the provisions of the deposit agreement to govern any depositary shares, the depositary shares themselves and the depositary receipts. This information may not be complete in all respects and is qualified entirely by reference to the relevant deposit agreement and depositary receipts with respect to the depositary shares related to any particular series of preferred stock. The specific terms of any series of depositary shares will be described in the applicable prospectus supplement. If so described in the prospectus supplement, the terms of that series of depositary shares may differ from the general description of terms presented below. Owners of beneficial interests in depositary shares should also read the section entitled **Legal Ownership and Book-Entry Issuance**.*

Fractional Shares or Multiple Shares of Preferred Stock

We may elect to offer fractional shares or some multiple of shares of our preferred stock instead of whole shares of preferred stock. If so, we will allow a depositary to issue to the public depositary shares, each of which will represent a fractional interest of a share or an interest in multiple shares of preferred stock as described in the applicable prospectus supplement.

Deposit Agreement

The shares of the preferred stock underlying any depositary shares will be deposited under a separate deposit agreement between us and a bank or trust company acting as depositary with respect to those shares of preferred stock. The depositary will have its principal office in the United States and have a combined capital and surplus of at least \$50,000,000. The prospectus supplement relating to a series of depositary shares will specify the name and address of the depositary. Under the deposit agreement, each owner of a depositary share will be entitled, in proportion of its fractional interest in a share or interest in multiple shares of the preferred stock underlying that depositary share, to all the rights and preferences of that preferred stock, including dividend, voting, redemption, conversion, exchange and liquidation rights.

Depositary shares will be evidenced by one or more depositary receipts issued under the deposit agreement.

Dividends and Other Distributions

The depositary will distribute all cash dividends or other cash distributions in respect of the preferred stock underlying the depositary shares to each record depositary shareholder based on the number of the depositary shares owned by that holder on the relevant record date. The depositary will distribute only that amount which can be distributed without attributing to any depositary shareholders a fraction of one cent, and any balance not so distributed will be added to and treated as part of the next sum received by the depositary for distribution to record depositary shareholders.

If there is a distribution other than in cash, the depositary will distribute property to the entitled record depositary shareholders, unless the depositary determines that it is not feasible to make that distribution. In that case the depositary may, with our approval, adopt the method it deems equitable and practicable for making that distribution, including any sale of property and the distribution of the net proceeds from this sale to the concerned holders.

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Each deposit agreement will also contain provisions relating to the manner in which any subscription or similar rights we offer to holders of the relevant series of preferred stock will be made available to depositary shareholders.

Withdrawal of Stock

Upon surrender of depositary receipts at the depositary's office, the holder of the relevant depositary shares will be entitled to the number of whole shares of the related series of preferred stock and any money or other property those depositary shares represent. Depositary shareholders will be entitled to receive whole shares of the related series of preferred stock on the basis described in the applicable prospectus supplement, but holders of those whole preferred stock shares will not afterwards be entitled to receive depositary shares in exchange for their shares. If the depositary receipts the holder delivers evidence a depositary share number exceeding the whole share number of the related series of preferred stock to be withdrawn, the depositary will deliver to that holder a new depositary receipt evidencing the excess number of depositary shares.

Redemption and Liquidation

The terms on which the depositary shares relating to the preferred stock of any series may be redeemed, and any amounts distributable upon our liquidation, dissolution or winding up, will be described in the applicable prospectus supplement.

Conversion of Preferred Stock

If the prospectus supplement relating to the depositary shares says that the deposited preferred stock underlying the depositary shares is convertible into or exercisable or exchangeable for common stock, preferred stock of another series or other securities of ours or debt or equity securities of one or more third parties, the following will apply unless we indicate otherwise in your prospectus supplement. The depositary shares, as such, will not be convertible into or exercisable or exchangeable for any securities of ours or any third party. Rather, any holder of the depositary shares may surrender the related depositary receipts to the preferred stock depositary with written instructions to instruct us to cause conversion, exercise or exchange of the preferred stock represented by the depositary shares into or for whole shares of common stock, shares of another series of preferred stock or other securities of ours or debt or equity securities of the relevant third party, as applicable. Upon receipt of those instructions and any amounts payable by the holder in connection with the conversion, exercise or exchange, we will cause the conversion, exercise or exchange using the same procedures as those provided for conversion, exercise or exchange of the deposited preferred stock. If only some of the depositary shares are to be converted, exercised or exchanged, a new depositary receipt or receipts will be issued for any depositary shares not to be converted, exercised or exchanged.

Voting

Upon receiving notice of any meeting at which preferred stockholders of any series are entitled to vote, the depositary will mail the information contained in that notice to the record depositary shareholders relating to those series of preferred stock. Each depositary shareholder on the record date, which will be the same date as the record date for the related preferred stock, will be entitled to instruct the depositary on how to vote the shares of preferred stock underlying that holder's depositary shares. To the extent possible, the depositary will vote the shares of preferred stock underlying those depositary shares according to those instructions, and we will take reasonably necessary actions to enable the depositary to do so. If the depositary does not receive specific instructions from the depositary shareholders relating to that preferred stock, it will abstain from voting those shares of preferred stock, unless otherwise discussed in the applicable prospectus supplement.

Amendment and Termination of Deposit Agreement

We and the depositary may amend the depositary receipt form evidencing the depositary shares and the related deposit agreement. However, any amendment that significantly affects the rights of the depositary shareholders will not be effective unless a majority of the outstanding depositary shareholders approve that amendment. We or the depositary may terminate a deposit agreement only if:

we redeemed or reacquired all outstanding depositary shares relating to the deposit agreement;

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all preferred stock of the relevant series has been withdrawn; or

there has been a final distribution in respect of the preferred stock of any series in connection with our liquidation, dissolution or winding up and such distribution has been made to the related depositary shareholders.

Charges of Depositary

We will pay all charges of each depositary in connection with the initial deposit and any redemption of the preferred stock. Depositary shareholders will be required to pay any other transfer and other taxes and governmental charges and any other charges expressly provided in the deposit agreement to be for their accounts.

Miscellaneous

Each depositary will forward to the relevant depositary shareholders all our reports and communications that we are required to furnish to preferred stockholders of any series.

Neither the depositary nor Zions will be liable if it is prevented or delayed by law or any circumstance beyond its control in performing its obligations under any deposit agreement. The obligations of Zions and each depositary under any deposit agreement will be limited to performance in good faith of their duties under that agreement, and they will not be obligated to prosecute or defend any legal proceeding in respect of any depositary shares or preferred stock unless they are provided with satisfactory indemnity. They may rely upon written advice of counsel or accountants, or information provided by persons presenting preferred stock for deposit, depositary shareholders or other persons believed to be competent and on documents believed to be genuine.

Title

Zions, each depositary and any of their agents may treat the registered owner of any depositary share as the absolute owner of that share, whether or not any payment in respect of that depositary share is overdue and despite any notice to the contrary, for any purpose. See Legal Ownership and Book-Entry Issuance.

Resignation and Removal of Depositary

A depositary may resign at any time by issuing us a notice of resignation, and we may remove any depositary at any time by issuing it a notice of removal. Resignation or removal will take effect upon the appointment of a successor depositary and its acceptance of appointment. That successor depositary must:

be appointed within 60 days after delivery of the notice of resignation or removal;

be a bank or trust company having its principal office in the United States; and

have a combined capital and surplus of at least \$50,000,000.

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THE ISSUER TRUSTS

The following description summarizes the formation, purposes and material terms of each Issuer Trust. This description is followed by descriptions of:

the capital securities to be issued by each Issuer Trust;

the junior subordinated debentures to be issued by us to each Issuer Trust, and the junior indenture under which they will be issued;

our guarantees for the benefit of the holders of the capital securities; and

the relationship among the capital securities, the corresponding junior subordinated debentures, a related expense agreement and the guarantees.

Each Issuer Trust is a statutory trust formed under Delaware law pursuant to:

a trust agreement executed by us, as depositor of the Issuer Trust, and the Delaware trustee of such Issuer Trust; and

a certificate of trust filed with the Delaware Secretary of State.

Before trust securities are issued, the trust agreement for the relevant Issuer Trust will be amended and restated in its entirety substantially in the form filed with the registration statement of which this prospectus forms a part. The trust agreements will be qualified as indentures under the Trust Indenture Act.

Each Issuer Trust may offer to the public, from time to time, preferred securities representing preferred beneficial interests in the applicable Issuer Trust, which we call capital securities. In addition to capital securities offered to the public, each Issuer Trust will sell common securities representing common beneficial interests in such Issuer Trust to us, which we call trust common securities. All of the trust common securities of each Issuer Trust will be owned by us. The trust common securities and the capital securities are also referred to together as the trust securities.

Each Issuer Trust exists for the exclusive purposes of:

issuing and selling its trust securities;

using the proceeds from the sale of these trust securities to acquire corresponding junior subordinated debentures from us; and

engaging in only those other activities necessary or incidental to these purposes (for example, registering the transfer of the trust securities).

When any Issuer Trust sells trust securities, it will use the money it receives to buy a series of our junior subordinated debentures, which we call the corresponding junior subordinated debentures. The payment terms of the corresponding junior subordinated debentures will be virtually the same as the terms of that Issuer Trust's capital securities, which we call the related capital securities.

Each Issuer Trust will own only such series of corresponding junior subordinated debentures as it purchases with the funds received by it in connection with sale of the applicable trust securities. The only source of funds for each Issuer Trust will be the payments it receives from us on

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the corresponding junior subordinated debentures. Each Issuer Trust will use these funds to make any cash payments due to holders of its related capital securities.

Each Issuer Trust will also be a party to an expense agreement with us. Under the terms of the expense agreement, the Issuer Trust will have the right to be reimbursed by us for certain expenses.

The trust common securities of an Issuer Trust will rank equally, and payments on them will be made pro rata, with the capital securities of that Issuer Trust, except that upon the occurrence and continuance of an event of default under a trust agreement resulting from an event of default under the junior indenture, our rights, as holder of the trust common securities, to payment in

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respect of distributions and payments upon liquidation or redemption will be subordinated to the rights of the holders of the capital securities of that Issuer Trust. See Description of Capital Securities and Related Instruments Subordination of Trust Common Securities. We will acquire trust common securities in an aggregate liquidation amount equal to 3% of the total capital of each Issuer Trust or such other amount as may be specified in the applicable prospectus supplement. The prospectus supplement relating to any capital securities will contain the details of the cash distributions to be made periodically.

Under certain circumstances, we may redeem the corresponding junior subordinated debentures that we sold to an Issuer Trust. If this happens, the Issuer Trust will redeem a like amount of the capital securities which it sold to the public and the trust common securities which it sold to us.

Under certain circumstances, we may dissolve an Issuer Trust and, after satisfaction of the liabilities to creditors of the Issuer Trust as provided by applicable law, cause the corresponding junior subordinated debentures to be distributed to the holders of the related capital securities. If this happens, owners of the related capital securities will no longer have any interest in such Issuer Trust and will only own the corresponding junior subordinated debentures we issued to the Issuer Trust.

We may need the approval of the Federal Reserve Board to redeem the corresponding junior subordinated debentures or to dissolve one or more of the Issuer Trusts. A more detailed description is provided under the heading Description of Capital Securities and Related Instruments Liquidation Distribution Upon Dissolution.

Unless otherwise specified in the applicable prospectus supplement:

each Issuer Trust will have a term of approximately 55 years from the date it issues its trust securities, but may dissolve earlier as provided in the applicable trust agreement;

each Issuer Trust's business and affairs will be conducted by its trustees;

except as provided below, we, as holder of the trust common securities, will appoint the trustees;

the trustees for each Issuer Trust will be The Bank of New York Mellon Trust Company, N.A., as property trustee and BNY Mellon Trust of Delaware, as Delaware trustee, and two or more individual administrative trustees who are employees or officers of or affiliated with us. These trustees are also referred to as the Issuer Trust trustees. The Bank of New York Mellon Trust Company, N.A., as property trustee, will act as sole indenture trustee under each trust agreement for purposes of compliance with the Trust Indenture Act. The Bank of New York Mellon Trust Company, N.A. will also act as trustee under the guarantees and the junior indenture. See Description of Guarantees and Description of Junior Subordinated Debentures;

if an event of default under the trust agreement for an Issuer Trust has occurred and is continuing, we, as the holder of the trust common securities of that Issuer Trust, or the holders of a majority in liquidation amount of the related capital securities, will be entitled to appoint, remove or replace the property trustee and/or the Delaware trustee for such Issuer Trust;

under all circumstances, only we, as the holder of the trust common securities, have the right to vote to appoint, remove or replace the administrative trustees for the applicable Issuer Trust;

the duties and obligations of each Issuer Trust trustee are governed by the applicable trust agreement; and

we will pay all fees and expenses related to each Issuer Trust and the offering of the capital securities and will pay, directly or indirectly, all ongoing costs, expenses and liabilities of each Issuer Trust.

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The principal executive office of each Issuer Trust is c/o Zions Bancorporation, One South Main Street, 15th Floor, Salt Lake City, Utah 84133 and its telephone number is (801) 524-4787.

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DESCRIPTION OF CAPITAL SECURITIES AND RELATED INSTRUMENTS

*Please note that in this section entitled **Description of Capital Securities and Related Instruments** and the following sections of this prospectus entitled **Description of Junior Subordinated Debentures**, **Description of Guarantees** and **Relationship Among the Capital Securities and the Related Instruments**, references to Zions Bancorporation, Zions, we, our and us refer only to Zions Bancorporation and not to its consolidated subsidiaries. Also, in this section and the following sections of this prospectus indicated above, references to holders mean those who own capital securities registered in their own names, on the books that the Issuer Trust or the securities registrar maintain for this purpose, and not those who own beneficial interests in capital securities registered in street name or in capital securities issued in book-entry form through one or more depositories. Owners of beneficial interests in the capital securities should also read the section entitled **Legal Ownership and Book-Entry Issuance**.*

The following description summarizes the material provisions of the capital securities and trust agreements. This description is not complete and is subject to, and is qualified in its entirety by reference to, each trust agreement and the Trust Indenture Act. The specific terms of the capital securities will be described in the applicable prospectus supplement, and may differ from the general description of the terms presented below. The trust agreements have been filed as exhibits to the registration statement of which this prospectus forms a part. Whenever particular defined terms of a trust agreement are referred to in this prospectus or in a prospectus supplement, those defined terms are incorporated in this prospectus or such prospectus supplement by reference.

General

Pursuant to the terms of the trust agreement for each Issuer Trust, each Issuer Trust will sell capital securities to the public and trust common securities to us. The capital securities represent preferred undivided beneficial interests in the assets of the Issuer Trust that sold them. A more complete discussion appears under the heading **Subordination of Trust Common Securities**. Holders of the capital securities will also be entitled to other benefits as described in the corresponding trust agreement.

Each of the Issuer Trusts is a legally separate entity and the assets of one are not available to satisfy the obligations of the other.

The capital securities of an Issuer Trust will rank on parity, and payments on them will be made pro rata, with the trust common securities of that Issuer Trust except as described under **Subordination of Trust Common Securities**. Legal title to the corresponding junior subordinated debentures will be held and administered by the property trustee in trust for the benefit of the holders of the related capital securities and trust common securities.

Each guarantee agreement executed by us for the benefit of the holders of an Issuer Trust's capital securities will be a guarantee on a subordinated basis with respect to the related capital securities but will not guarantee payment of distributions or amounts payable on redemption or liquidation of such capital securities when the related Issuer Trust does not have funds on hand available to make such payments. See the section of this prospectus entitled **Description of Guarantees** for additional information.

Each Issuer Trust May Issue Series of Capital Securities With Different Terms

Each Issuer Trust may issue one distinct series of capital securities. This section summarizes terms of the securities that apply generally to all series of capital securities. The provisions of the trust agreements allow the Issuer Trusts to issue series of capital securities with terms different from the other Issuer Trusts. We describe most of the financial and other specific terms of your series in the prospectus supplement accompanying this prospectus. Those terms may vary from the terms described here.

As you read this section, please remember that the specific terms of your capital security as described in your prospectus supplement will supplement and, if applicable, may modify or replace the general terms described in this section. If there are any differences between your prospectus supplement and this prospectus, your prospectus supplement will control. Thus, the statements we make in this section may not apply to your capital security.

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When we refer to a series of capital securities, we mean a series issued under the applicable trust agreement. When we refer to your prospectus supplement, we mean the prospectus supplement describing the specific terms of the capital security you purchase. The terms used in your prospectus supplement will have the meanings described in this prospectus, unless otherwise specified.

Amounts That We May Issue

The trust agreements do not limit the aggregate amount of capital securities that may be issued or the aggregate amount of any particular series. We and the Issuer Trusts may issue capital securities and other securities at any time without your consent and without notifying you. We may also reopen a previously issued series of capital securities and issue additional capital securities of that series.

The trust agreements and the capital securities do not limit our ability to incur indebtedness or to issue other securities. Also, we are not subject to financial or similar restrictions by the terms of the capital securities.

In the future, we may form additional trusts or other entities similar to the Issuer Trusts, and those other entities could issue securities similar to the trust securities described in this section. In that event, we may issue subordinated debt securities under the subordinated debt indenture to those other issuer entities and guarantees under a guarantee agreement with respect to the securities they issue. We may also enter into expense agreements with those other issuers. The subordinated debt securities and guarantees we issue (and expense agreements we enter into) in those cases would be similar to those described in this prospectus, with such modifications as may be described in the applicable prospectus supplement.

Distributions

Distributions on the capital securities will be cumulative, will accumulate from the date of original issuance (unless otherwise specified in the applicable prospectus supplement), and will be payable on the dates specified in the applicable prospectus supplement. In the event that any date on which distributions on the capital securities are payable is not a business day, payment of that distribution will be made on the next business day and without any interest or other payment in connection with this delay except that, if the next business day falls in the next calendar year, payment of the distribution will be made on the immediately preceding business day. In either case, the payment will have the same force and effect as if made on the original distribution date. Each date on which distributions are payable in accordance with the previous sentence is referred to as a distribution date. A business day means, for any capital security, any day that is a Monday, Tuesday, Wednesday, Thursday or Friday that is not a day on which banking institutions in Salt Lake City, Utah, San Francisco, California or New York City generally are authorized or required by law or executive order to close or a day on which the corporate trust office of the property trustee or the trustee under the junior subordinated indenture, referred to in this prospectus as the debenture trustee, is closed for business.

Each Issuer Trust's capital securities represent preferred beneficial interests in the applicable Issuer Trust, and the distributions on each capital security will be payable at a rate specified in the applicable prospectus supplement. The amount of distributions payable for any period will be computed on the basis of a 360-day year of twelve 30-day months (30/360 (ISDA) day count convention) unless otherwise specified in the applicable prospectus supplement. Distributions to which holders of capital securities are entitled will accumulate additional distributions at the rate per annum if and as specified in the applicable prospectus supplement. The term distributions as used in this summary includes these additional distributions unless otherwise stated.

If interest payments on the corresponding junior subordinated debentures are deferred by us, distributions on the related capital securities will be correspondingly deferred, but will continue to accumulate additional distributions at the rate per annum set forth in the prospectus supplement for the capital securities. See the section of this prospectus entitled Description of Junior Subordinated Debentures Option to Defer Interest Payments.

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The revenue of each Issuer Trust available for distribution to holders of its capital securities will be limited to payments under the corresponding junior subordinated debentures which the Issuer Trust will acquire with the proceeds from the issuance and sale of its trust securities. See the section of this prospectus entitled *Description of Junior Subordinated Debentures Corresponding Junior Subordinated Debentures* for additional information. If we do not make interest payments on the corresponding junior subordinated debentures, the property trustee will not have funds available to pay distributions on the related capital securities. The payment of distributions (if and to the extent the Issuer Trust has funds legally available for the payment of distributions and cash sufficient to make payments) is guaranteed by us on a limited basis as described under the heading *Description of Guarantees*.

Distributions on the capital securities will be payable to the holders of capital securities as they appear on the register of the Issuer Trust at the close of business on the relevant record dates, which, as long as the capital securities remain in book-entry form, will be one business day prior to the relevant distribution date. Subject to any applicable laws and regulations and the provisions of the applicable trust agreement, each such payment will be made as described under the heading *Legal Ownership and Book-Entry Issuance*. In the event any capital securities are not in book-entry form, the relevant record date for such capital securities will be the date 15 days prior to the relevant distribution date (whether or not a business day), unless otherwise specified in the applicable prospectus supplement.

Redemption or Exchange

Mandatory Redemption

Upon the repayment or redemption, in whole or in part, of any corresponding junior subordinated debentures, whether at their stated maturity or upon earlier redemption as provided in the junior indenture, the proceeds from the repayment or redemption will be applied by the property trustee to redeem a like amount, which term we define below, of the capital securities, upon not less than 30 nor more than 60 days notice. Unless provided otherwise in the applicable prospectus supplement, the redemption will occur at a redemption price equal to the aggregate liquidation amount of such trust securities plus accumulated but unpaid distributions to the date of redemption and the related amount of the premium, if any, paid by us upon the concurrent redemption of the corresponding junior subordinated debentures. See the section of this prospectus entitled *Description of Junior Subordinated Debentures Redemption* for additional information. If less than all of any series of corresponding junior subordinated debentures are to be repaid or redeemed on a redemption date, then the proceeds from the repayment or redemption will be allocated to the redemption pro rata of the related capital securities and the trust common securities based upon the relative liquidation amounts of these classes. The amount of premium, if any, paid by us upon the redemption of all or any part of any series of any corresponding junior subordinated debentures to be repaid or redeemed on a redemption date will be allocated to the redemption pro rata of the related capital securities and the trust common securities. The redemption price will be payable on each redemption date only to the extent that the Issuer Trust has funds then on hand and available in the payment account for the payment of the redemption price.

We will have the right to redeem any series of corresponding junior subordinated debentures:

on or after such date as may be specified in the applicable prospectus supplement, in whole at any time or in part from time to time;

at any time, in whole but not in part, upon the occurrence of a tax event or capital treatment event, which terms we define below or under *Description of Junior Subordinated Debentures Redemption*; or

as may be otherwise specified in the applicable prospectus supplement, in each case subject to receipt of prior approval by the Federal Reserve Board if then required under applicable Federal Reserve capital guidelines or policies.

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Distribution of Corresponding Junior Subordinated Debentures

Subject to our having received prior approval of the Federal Reserve Board to do so if such approval is then required under applicable capital guidelines or policies of the Federal Reserve Board, we have the right at any time to dissolve any Issuer Trust and, after satisfaction of the liabilities of creditors of the Issuer Trust as provided by applicable law, cause to be distributed in respect of each series of capital securities and trust common securities issued by the Issuer Trust, to the holders of such trust securities, a like amount (as defined below) of the corresponding junior subordinated debentures in liquidation of the Issuer Trust.

Tax Event or Capital Treatment Event Redemption

If a tax event or capital treatment event in respect of a series of capital securities and trust common securities has occurred and is continuing, we have the right to redeem the corresponding junior subordinated debentures in whole but not in part and thereby cause a mandatory redemption of the capital securities and trust common securities in whole but not in part at the redemption price within 90 days following the occurrence of the tax event or capital treatment event. If a tax event has occurred and is continuing in respect of a series of capital securities and trust common securities and we do not elect to redeem the corresponding junior subordinated debentures and thereby cause a mandatory redemption of the capital securities or to dissolve the related Issuer Trust and cause the corresponding junior subordinated debentures to be distributed to holders of the capital securities and trust common securities in liquidation of the Issuer Trust as described above, such capital securities will remain outstanding and additional sums (as defined below) may be payable on the corresponding junior subordinated debentures.

The term *additional sums* means the additional amounts as may be necessary in order that the amount of distributions then due and payable by an Issuer Trust on the outstanding capital securities and trust common securities of the Issuer Trust will not be reduced as a result of any additional taxes, duties and other governmental charges to which the Issuer Trust has become subject as a result of a tax event.

General

The term *like amount* means:

with respect to a redemption of any series of trust securities, trust securities of that series having a liquidation amount, which term we define below, equal to the principal amount of corresponding junior subordinated debentures to be contemporaneously redeemed in accordance with the junior indenture, the proceeds of which will be used to pay the redemption price of the trust securities; and

with respect to a distribution of corresponding junior subordinated debentures to holders of any series of trust securities in connection with a dissolution or liquidation of the related Issuer Trust, corresponding junior subordinated debentures having a principal amount equal to the liquidation amount of the trust securities in respect of which the distribution is made.

The term *liquidation amount* means the stated amount per trust security of \$25, or another stated amount set forth in the applicable prospectus supplement.

After the liquidation date fixed for any distribution of corresponding junior subordinated debentures for any series of related capital securities:

the series of related capital securities will no longer be deemed to be outstanding;

the depository or its nominee, as the record holder of the related capital securities, will receive a registered global certificate or certificates representing the corresponding junior subordinated debentures to be delivered upon the distribution; and

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any certificates representing the related capital securities not held by DTC or its nominee will be deemed to represent the corresponding junior subordinated debentures having a principal amount equal to the stated liquidation amount of the related capital securities, and bearing accrued and unpaid interest in an amount equal to the accrued and unpaid distributions on the related capital securities until the certificates are presented to the administrative trustees or their agent for transfer or reissuance.

Any distribution of corresponding junior subordinated debentures to holders of related capital securities will be made to the applicable record holders as they appear on the register for the related capital securities on the relevant record date, which will be one business day prior to the liquidation date. In the event that any related capital securities are not in book-entry form, the relevant record date will be a date at least 15 calendar days prior to the liquidation date, as specified in the applicable prospectus supplement.

There can be no assurance as to the market prices for the related capital securities or the corresponding junior subordinated debentures that may be distributed in exchange for related capital securities if a dissolution and liquidation of an Issuer Trust were to occur. Accordingly, the related capital securities that an investor may purchase, or the corresponding junior subordinated debentures that the investor may receive on dissolution and liquidation of an Issuer Trust, may trade at a discount to the price that the investor paid to purchase the related capital securities being offered in connection with this prospectus.

Redemption Procedures

Capital securities redeemed on each redemption date will be redeemed at the redemption price with the applicable proceeds from the contemporaneous redemption of the corresponding junior subordinated debentures. Redemptions of the capital securities will be made and the redemption price will be payable on each redemption date only to the extent that the related Issuer Trust has funds on hand available for the payment of the redemption price. See also Subordination of Trust Common Securities.

If the property trustee gives a notice of redemption in respect of any capital securities, then, while such capital securities are in book-entry form, by 12:00 noon, New York City time, on the redemption date, to the extent funds are available, the property trustee will deposit irrevocably with DTC funds sufficient to pay the applicable redemption price and will give DTC irrevocable instructions and authority to pay the redemption price to the holders of the capital securities. See Legal Ownership and Book-Entry Issuance below. If the capital securities are no longer in book-entry form, the property trustee, to the extent funds are available, will irrevocably deposit with the paying agent for the capital securities funds sufficient to pay the applicable redemption price and will give the paying agent irrevocable instructions and authority to pay the redemption price to the holders upon surrender of their certificates evidencing the capital securities. Notwithstanding the above, distributions payable on or prior to the redemption date for any capital securities called for redemption will be payable to the holders of the capital securities on the relevant record dates for the related distribution dates. If notice of redemption has been given and funds deposited as required, then upon the date of the deposit, all rights of the holders of the capital securities so called for redemption will cease, except the right of the holders of the capital securities to receive the redemption price and any distribution payable in respect of the capital securities on or prior to the redemption date, but without interest on the redemption price, and the capital securities will cease to be outstanding. In the event that any date fixed for redemption of capital securities is not a business day, then payment of the redemption price will be made on the next business day (and without any interest or other payment in connection with this delay) except that, if the next business day falls in the next calendar year, the payment of the redemption price will be made on the immediately preceding business day, in either case with the same force and effect as if made on the original date. In the event that payment of the redemption price in respect of capital securities called for redemption is improperly withheld or refused and not paid either by an Issuer Trust or by us pursuant to the related guarantee as described under Description of Guarantees, distributions on the capital securities will continue to accrue at the then applicable rate from the redemption date originally established by the Issuer Trust for the capital securities to the date the redemption price is actually paid, in which case the actual payment date will be the date fixed for redemption for purposes of calculating the redemption price.

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Subject to applicable law, including, without limitation, U.S. federal securities law, we or our affiliates may at any time and from time to time purchase outstanding capital securities by tender, in the open market or by private agreement.

Payment of the redemption price on the capital securities and any distribution of corresponding junior subordinated debentures to holders of capital securities will be made to the applicable record holders as they appear on the register for the capital securities on the relevant record date, which, as long as the capital securities remain in book-entry form, will be one business day prior to the relevant redemption date or liquidation date, as applicable; *provided, however*, that in the event that the capital securities are not in book-entry form, the relevant record date for the capital securities will be a date at least 15 calendar days prior to the redemption date or liquidation date, as applicable, as specified in the applicable prospectus supplement.

If less than all of the capital securities and trust common securities issued by an Issuer Trust are to be redeemed on a redemption date, then the aggregate liquidation amount of the capital securities and trust common securities to be redeemed will be allocated pro rata to the capital securities and the trust common securities based upon the relative liquidation amounts of these classes. The particular capital securities to be redeemed will be selected on a pro rata basis not more than 60 days prior to the applicable redemption date by the property trustee from the outstanding capital securities not previously called for redemption, by a customary method that the property trustee deems fair and appropriate and which may provide for the selection for redemption of portions (equal to \$25 or an integral multiple of \$25 in excess thereof, unless a different amount is specified in the applicable prospectus supplement) of the liquidation amount of capital securities of a denomination larger than \$25 (or another denomination as specified in the applicable prospectus supplement). The property trustee will promptly notify the securities registrar in writing of the capital securities selected for redemption and, in the case of any capital securities selected for partial redemption, the liquidation amount to be redeemed. For all purposes of each trust agreement, unless the context otherwise requires, all provisions relating to the redemption of capital securities will relate, in the case of any capital securities redeemed or to be redeemed only in part, to the portion of the aggregate liquidation amount of capital securities which has been or is to be redeemed.

If we exercise an option to redeem any capital securities, notice of such redemption will be mailed at least 30 days but not more than 60 days before the redemption date to each holder of trust securities to be redeemed at its registered address by the property trustee. Unless we default in payment of the redemption price on the corresponding junior subordinated debentures, on and after the redemption date interest will cease to accrue on the junior subordinated debentures or portions thereof (and distributions will cease to accrue on the related capital securities or portions thereof) called for redemption.

Subordination of Trust Common Securities

Payment of distributions on, and the redemption price of, each Issuer Trust's capital securities and trust common securities, as applicable, will be made pro rata based on the liquidation amount of the capital securities and trust common securities. However, if on any distribution date, redemption date or liquidation date a debenture event of default (as defined below under *Description of Junior Subordinated Debentures Events of Default*) has occurred and is continuing as a result of any failure by us to pay any amounts in respect of the junior subordinated debentures when due, no payment of any distribution on, or redemption price of, or liquidation distribution in respect of, any of the Issuer Trust's trust common securities, and no other payment on account of the redemption, liquidation or other acquisition of the trust common securities, will be made unless payment in full in cash of all accumulated and unpaid distributions on all of the Issuer Trust's outstanding capital securities for all distribution periods terminating on or prior to that date, or in the case of payment of the redemption price the full amount of the redemption price on all of the Issuer Trust's outstanding capital securities then called for redemption, or in the case of payment of the liquidation distribution the full amount of the liquidation distribution on all of the Issuer Trust's outstanding capital securities, has been made or provided for, and all funds available to the property trustee must first be applied to the payment in full in cash of all distributions on, or the redemption price of, the Issuer Trust's outstanding capital securities then due and payable.

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In the case of any event of default under the applicable trust agreement resulting from a debenture event of default (as defined under Description of Junior Subordinated Debentures Events of Default), we as holder of the Issuer Trust's trust common securities will have no right to act with respect to the event of default until the effect of all events of default with respect to such Issuer Trust's capital securities have been cured, waived or otherwise eliminated. Until any events of default under the applicable trust agreement with respect to the applicable capital securities have been cured, waived or otherwise eliminated, the property trustee will act solely on behalf of the holders of the capital securities and not on behalf of us as holder of the Issuer Trust's trust common securities, and only the holders of the capital securities will have the right to direct the property trustee to act on their behalf.

Liquidation Distribution Upon Dissolution

Pursuant to each trust agreement, each Issuer Trust will dissolve on the first to occur of:

the expiration of its term;

certain events of bankruptcy, dissolution or liquidation of the holder of the trust common securities;

the distribution of a like amount of the corresponding junior subordinated debentures to the holders of its trust securities, if we, as holder of the common securities, have given written direction to the property trustee to dissolve the Issuer Trust. This written direction by us is optional and solely within our discretion;

redemption of all of such Issuer Trust's capital securities in connection with the redemption of all of the junior subordinated securities; and

the entry of an order for the dissolution of such Issuer Trust by a court of competent jurisdiction.

If dissolution occurs as described in the second, third or fifth bullet points above, the relevant Issuer Trust will be liquidated by the related Issuer Trust trustees as expeditiously as the Issuer Trust trustees determine to be possible by distributing, after satisfaction of liabilities to creditors of the Issuer Trust as provided by applicable law, to the holders of the trust securities a like amount of the corresponding junior subordinated debentures in exchange for their trust securities, unless the distribution is determined by the administrative trustees not to be practical, in which event the holders will be entitled to receive out of the assets of the Issuer Trust available for distribution to holders, after satisfaction of liabilities to creditors of such Issuer Trust as provided by applicable law, an amount equal to, in the case of holders of capital securities, the aggregate of the liquidation amount plus accrued and unpaid distributions to the date of payment, an amount which we refer to as the liquidation distribution. If the liquidation distribution can be paid only in part because the Issuer Trust has insufficient assets available to pay in full the aggregate liquidation distribution, then the amounts payable directly by the Issuer Trust on its capital securities will be paid on a pro rata basis. The holder of the Issuer Trust's trust common securities will be entitled to receive distributions upon any liquidation pro rata with the holders of its capital securities, except that if a debenture event of default has occurred and is continuing as a result of any failure by us to pay any amounts in respect of the junior subordinated debentures when due, the capital securities will have a priority over the trust common securities.

Events of Default; Notice

The following events will be events of default with respect to each series of capital securities issued under a trust agreement:

any debenture event of default with respect to the corresponding junior subordinated debentures (see Description of Junior Subordinated Debentures Events of Default);

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default for 30 days by the Issuer Trust in the payment of any distribution on any capital security of such series or any trust common security of such Issuer Trust;

default by the Issuer Trust in the payment of any redemption price of any capital security of such series or any trust common security of such Issuer Trust;

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failure by the Issuer Trust trustees for 60 days in performing in any material respect any other covenant or warranty in the trust agreement after the holders of at least 25% in aggregate liquidation amount of the outstanding capital securities of the applicable Issuer Trust give written notice to us and the Issuer Trust trustees; or

bankruptcy, insolvency or reorganization of the property trustee and the failure by us to appoint a successor property trustee within 90 days.

Within five business days after the occurrence of any event of default with respect to a series of capital securities actually known to the property trustee, the property trustee will transmit notice of the event of default to the holders of such capital securities, the administrative trustees and us, as depositor, unless the event of default has been cured or waived.

We, as depositor, and the administrative trustees are required to file annually with the property trustee a certificate as to whether or not we are in compliance with all the conditions and covenants applicable to us under each trust agreement.

If a debenture event of default has occurred and is continuing with respect to a series of corresponding junior subordinated debentures, the series of related capital securities will have a preference over the related trust common securities of the relevant Issuer Trust as described above. See

Liquidation Distribution Upon Dissolution. The existence of an event of default does not entitle the holders of capital securities to accelerate the maturity of the capital securities.

Whenever we refer to a debenture event of default in connection with any series of capital securities, we mean a debenture event of default with respect to the corresponding junior subordinated debentures.

Removal of Issuer Trust Trustees

Unless a debenture event of default has occurred and is continuing, any Issuer Trust trustee may be removed at any time by the holder of the Issuer Trust's trust common securities. If a debenture event of default has occurred and is continuing with respect to a series of capital securities, the property trustee and the Delaware trustee may be removed under the applicable trust agreement by the holders of a majority in liquidation amount of the outstanding capital securities of such series. In no event will the holders of the capital securities have the right to vote to appoint, remove or replace the administrative trustees. Such voting rights are vested exclusively in us as the holder of the trust common securities. No resignation or removal of an Issuer Trust trustee and no appointment of a successor trustee will be effective until the acceptance of appointment by the successor trustee in accordance with the provisions of the applicable trust agreement.

Co-Trustees and Separate Property Trustee

Unless an event of default with respect to a series of capital securities issued under a trust agreement has occurred and is continuing, at any time or from time to time, for the purpose of meeting the legal requirements of the Trust Indenture Act or of any jurisdiction in which any part of the trust property may at the time be located, we, as the holder of the trust common securities, and the administrative trustees will have power to appoint one or more persons either to act as a co-trustee, jointly with the property trustee, of all or any part of the trust property, or to act as separate trustee of any trust property, in either case with the powers specified in the instrument of appointment, and to vest in the person or persons in this capacity any property, title, right or power deemed necessary or desirable, subject to the provisions of the applicable trust agreement. If a debenture event of default has occurred and is continuing, the property trustee alone will have the power to make this appointment.

Merger or Consolidation of Issuer Trust Trustees

Any person into which the property trustee, the Delaware trustee or any administrative trustee that is not a natural person may be merged or converted or with which it may be consolidated, or any person resulting from any merger, conversion or consolidation to which the trustee will be a party, or any person succeeding to all or substantially all the corporate trust business of the trustee, will automatically become the successor of the trustee under each trust agreement, provided the person is otherwise qualified and eligible.

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Mergers, Consolidations, Amalgamations or Replacements of the Issuer Trusts

An Issuer Trust may not merge with or into, consolidate, amalgamate, or be replaced by, or convey, transfer or lease its properties and assets substantially as an entirety to any corporation or other person, except as described below and under Liquidation Distribution Upon Dissolution. An Issuer Trust may, at our request, with the consent of the administrative trustees and without the consent of the holders of the related capital securities, merge with or into, consolidate, amalgamate, or be replaced by or convey, transfer or lease its properties and assets substantially as an entirety to a trust organized under the laws of any state, *provided* that:

the successor entity either:

expressly assumes all of the obligations of the Issuer Trust with respect to its capital securities; or

substitutes for the capital securities of the Issuer Trust other securities having substantially the same terms as the capital securities, referred to as the successor securities, so long as the successor securities rank the same as the capital securities in priority with respect to distributions and payments upon liquidation, redemption and otherwise;

we expressly appoint a trustee of the successor entity possessing the same powers and duties as the property trustee as the holder of the corresponding junior subordinated debentures;

the successor securities are listed, or any successor securities will be listed upon notification of issuance, on any national securities exchange or other organization on which the capital securities are then listed, if any;

the merger, consolidation, amalgamation, replacement, conveyance, transfer or lease does not cause the capital securities of the Issuer Trust to be downgraded by any nationally recognized statistical rating organization which assigns ratings to the capital securities;

the merger, consolidation, amalgamation, replacement, conveyance, transfer or lease does not adversely affect the rights, preferences and privileges of the holders of the capital securities of the Issuer Trust, including any successor securities, in any material respect;

the successor entity has a purpose substantially identical to that of the Issuer Trust;

prior to the merger, consolidation, amalgamation, replacement, conveyance, transfer or lease, we have received an opinion from counsel to the Issuer Trust to the effect that:

the merger, consolidation, amalgamation, replacement, conveyance, transfer or lease does not adversely affect the rights, preferences and privileges of the holders of the capital securities of the Issuer Trust, including any successor securities, in any material respect; and

following the merger, consolidation, amalgamation, replacement, conveyance, transfer or lease, neither the Issuer Trust nor the successor entity will be required to register as an investment company under the Investment Company Act; and

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we or any permitted successor or assignee owns all of the trust common securities of the successor entity and guarantees the obligations of the successor entity under the successor securities at least to the extent provided by the related guarantee.

Notwithstanding the foregoing, an Issuer Trust will not, except with the consent of holders of 100% in liquidation amount of the related capital securities, consolidate, amalgamate, merge with or into, or be replaced by or convey, transfer or lease its properties and assets substantially as an entirety to any other entity or permit any other entity to consolidate, amalgamate, merge with or into, or replace it if such consolidation, amalgamation, merger, replacement, conveyance, transfer or lease would cause the Issuer Trust or the successor entity to be classified as an association taxable as a corporation or as other than a grantor trust for U.S. federal income tax purposes.

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There are no provisions that afford holders of any capital securities protection in the event of a sudden and dramatic decline in our credit quality resulting from any highly leveraged transaction, takeover, merger, recapitalization or similar restructuring or change in control of Zions, nor are there any provisions that require the repurchase of any capital securities upon a change in control of Zions.

The junior indenture does not restrict Zions' ability to participate in a merger or other business combination or any other transaction, except to the limited extent described below under Description of Junior Subordinated Debentures Consolidation, Merger, Sale of Assets and Other Transactions.

Voting Rights; Amendment of Each Trust Agreement

Except as provided below and under Description of Guarantees Amendments and Assignment and as otherwise required by law and the applicable trust agreement, the holders of the capital securities will have no voting rights or the right to in any manner otherwise control the administration, operation or management of the relevant Issuer Trust.

Each trust agreement may be amended from time to time by us, the property trustee and the administrative trustees, without the consent of the holders of the capital securities:

to cure any ambiguity, correct or supplement any provisions in the trust agreement that may be inconsistent with any other provision, or to make any other provisions with respect to matters or questions arising under the trust agreement, which will not be inconsistent with the other provisions of the trust agreement; or

to modify, eliminate or add to any provisions of the trust agreement as necessary to ensure that the relevant Issuer Trust:

will not be taxable as a corporation or classified for U.S. federal income tax purposes other than as a grantor trust at all times that any trust securities are outstanding; or

will not be required to register as an investment company under the Investment Company Act,

provided that:

no such amendment will adversely affect in any material respect the rights of the holders of the capital securities issued under the trust agreement; and

any such amendment will become effective when notice of the amendment is given to the holders of trust securities issued under the trust agreement.

Each trust agreement may be amended by the related Issuer Trust trustees and us with:

the consent of holders representing at least a majority (based upon liquidation amounts) of the outstanding trust securities; and

receipt by the Issuer Trust trustees of an opinion of counsel to the effect that the amendment or the exercise of any power granted to the Issuer Trust trustees in accordance with the amendment will not cause the Issuer Trust to be taxable as a corporation or affect the Issuer Trust's status as a grantor trust for U.S. federal income tax purposes or the Issuer Trust's exemption from status as an investment company under the Investment Company Act,

provided that, without the consent of the holder of each affected trust security issued under the trust agreement, the trust agreement may not be amended to:

change the amount or timing of any distribution on the trust securities or otherwise adversely affect the amount of any distribution required to be made in respect of the trust securities as of a specified date; or

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restrict the right of a holder of trust securities to institute suit for the enforcement of any such payment on or after such date. So long as any corresponding junior subordinated debentures are held by the property trustee, the related Issuer Trust trustees will not:

direct the time, method and place of conducting any proceeding for any remedy available to the debenture trustee, or executing any trust or power conferred on the property trustee with respect to the corresponding junior subordinated debentures;

waive any past default with respect to the corresponding junior subordinated debentures that is waivable under the junior indenture;

exercise any right to rescind or annul a declaration that the principal of all the junior subordinated debentures will be due and payable; or

consent to any amendment, modification or termination of the junior indenture or the corresponding junior subordinated debentures, where this consent is required, without, in each case, obtaining the prior approval of the holders of a majority in aggregate liquidation amount of all outstanding capital securities of the Issuer Trust;

provided, however, that where a consent under the junior indenture would require the consent of each holder of corresponding junior subordinated debentures affected, no such consent will be given by the property trustee without the prior consent of each holder of the related capital securities affected. The Issuer Trust trustees will not revoke any action previously authorized or approved by a vote of the holders of the relevant capital securities except by subsequent vote of the holders of those capital securities. The property trustee will notify each holder of capital securities of any notice of default with respect to the corresponding junior subordinated debentures. In addition to obtaining the foregoing approvals of the holders of the capital securities, prior to taking any of the foregoing actions, the Issuer Trust trustees will obtain an opinion of counsel to the effect that:

the Issuer Trust will not be classified as an association taxable as a corporation for U.S. federal income tax purposes on account of the action; and

the action would not cause the Issuer Trust to be classified as other than a grantor trust for U.S. federal income tax purposes.

Any required approval of holders of capital securities may be given at a meeting of holders of capital securities convened for that purpose or pursuant to written consent. The administrative trustees or, at the written request of the administrative trustees, the property trustee will cause a notice of any meeting at which holders of capital securities are entitled to vote to be given to each holder of record of capital securities in the manner set forth in each trust agreement.

No vote or consent of the holders of capital securities will be required for an Issuer Trust to redeem and cancel its capital securities in accordance with the applicable trust agreement.

Notwithstanding that holders of capital securities are entitled to vote or consent under any of the circumstances described above, any of the capital securities that are owned by us, the Issuer Trust trustees or any affiliate of us or any Issuer Trust trustees, will, for purposes of that vote or consent, be treated as if they were not outstanding.

Global Capital Securities

Unless otherwise set forth in the applicable prospectus supplement, any capital securities will be represented by fully registered global certificates issued as global capital securities that will be deposited with, or on behalf of, a depositary with respect to that

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series instead of paper certificates issued to each individual holder. The depositary arrangements that will apply, including the manner in which principal of and premium, if any, and interest on capital securities and other payments will be payable are discussed in more detail under the heading Legal Ownership and Book-Entry Issuance What is a Global Security?

Payment and Paying Agency

Payments in respect of capital securities will be made in accordance with the applicable policies of DTC as described under Legal Ownership and Book-Entry Issuance What is a Global Security? If any capital securities are not represented by global certificates, payments will be made by check mailed to the address of the holder entitled to them as it appears on the register. Unless otherwise specified in the applicable prospectus supplement, the paying agent will initially be Zions First National Bank. The paying agent will be permitted to resign as paying agent upon 30 days written notice to the property trustee and us. In the event that Zions First National Bank is no longer the paying agent, the administrative trustees will appoint a successor (which will be a bank or trust company acceptable to the administrative trustees and us) to act as paying agent.

Registrar and Transfer Agent

Unless otherwise specified in the applicable prospectus supplement, the property trustee will act as registrar and transfer agent for the capital securities.

Registration of transfers of capital securities will be effected without charge by or on behalf of each Issuer Trust, but upon payment of any tax or other governmental charges that may be imposed in connection with any transfer or exchange. The Issuer Trusts will not be required to register or cause to be registered the transfer of their capital securities after the capital securities have been called for redemption.

Information Concerning the Property Trustee

The property trustee, other than during the occurrence and continuance of an event of default, undertakes to perform only those duties specifically set forth in each trust agreement and, after an event of default, must exercise the same degree of care and skill as a prudent person would exercise or use in the conduct of his or her own affairs. Subject to this provision, the property trustee is under no obligation to exercise any of the powers vested in it by the applicable trust agreement at the request of any holder of capital securities unless it is offered reasonable indemnity against the costs, expenses and liabilities that might be incurred as a result. If no event of default has occurred and is continuing and the property trustee is required to decide between alternative causes of action, construe ambiguous provisions in the applicable trust agreement or is unsure of the application of any provision of the applicable trust agreement, and the matter is not one on which holders of capital securities are entitled under the trust agreement to vote, then the property trustee will take such action as is directed by us and if not so directed, will take such action as it deems advisable and in the best interests of the holders of the trust securities and will have no liability except for its own negligence or willful misconduct.

Miscellaneous

The property trustee, the Delaware trustee and the administrative trustees are authorized and directed to conduct the affairs of and to operate the Issuer Trusts in such a way that no Issuer Trust will be (1) deemed to be an investment company required to be registered under the Investment Company Act or (2) classified as an association taxable as a corporation or as other than a grantor trust for U.S. federal income tax purposes and so that the corresponding junior subordinated debentures will be treated as indebtedness of Zions for U.S. federal income tax purposes. In addition, we, the property trustee and the administrative trustees are authorized to take any action not inconsistent with applicable law, the certificate of trust of each Issuer Trust or each trust agreement, that we, the property trustee or the administrative trustees determine in that person's discretion to be necessary or desirable for such purposes as long as such action does not adversely affect in any material respect the interests of the holders of the related capital securities.

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Holders of the capital securities have no preemptive or similar rights.

No Issuer Trust may borrow money or issue debt or mortgage or pledge any of its assets.

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DESCRIPTION OF JUNIOR SUBORDINATED DEBENTURES

Please note that in this section entitled Description of Junior Subordinated Debentures, references to Zions, we, our and us refer only to Zions Bancorporation and not to its consolidated subsidiaries. Also, in this section, references to holders mean those who own junior subordinated debentures registered in their own names, on the books that we or the debenture trustee maintain for this purpose, and not those who own beneficial interests in the junior subordinated debentures registered in street name or in junior subordinated debentures issued in book-entry form through one or more depositaries. Owners of beneficial interests in the junior subordinated debentures should also read the section entitled Legal Ownership and Book-Entry Issuance.

The following description summarizes the material provisions of the junior indenture and the junior subordinated debentures to be issued under the indenture. This description is not complete and is qualified in its entirety by reference to the junior indenture and the Trust Indenture Act. The specific terms of any series of junior subordinated debentures will be described in the applicable prospectus supplement, and may differ from the general description of the terms presented below. The junior indenture is qualified under the Trust Indenture Act and has been filed as an exhibit to the registration statement of which this prospectus forms a part. Whenever particular defined terms of the junior indenture (as supplemented or amended from time to time) are referred to in this prospectus or a prospectus supplement, those defined terms are incorporated in this prospectus or such prospectus supplement by reference.

General

The junior subordinated debentures are to be issued in one or more series under a Junior Subordinated Indenture, as may be supplemented from time to time, between us and The Bank of New York Mellon Trust Company, N.A., as successor to J.P. Morgan Trust Company, National Association, as trustee. The indenture is referred to as the junior indenture and the related trustee is referred to as the debenture trustee. Each series of junior subordinated debentures will rank equally with all other series of junior subordinated debentures and will be unsecured and subordinate and junior in right of payment to the extent and in the manner set forth in the junior indenture to all of our senior indebtedness, as defined in the junior indenture. See Subordination of Junior Subordinated Debentures.

The junior subordinated debentures will constitute part of our junior subordinated debt, will be issued under the junior indenture and will be contractually subordinate and junior in right of payment to all of our senior indebtedness, as that term is defined in the junior indenture and summarized below. In addition, the junior subordinated debentures will be structurally subordinated to all indebtedness and other liabilities, including trade payables and lease obligations, of each of our subsidiaries, except to the extent we may be a creditor of that subsidiary with recognized senior claims. This is because we are a holding company and a legal entity separate and distinct from our subsidiaries, and our right to participate in any distribution of assets of any subsidiary upon its liquidation, reorganization or otherwise, and the ability of holders of debt securities to benefit indirectly from such distribution, is subject to superior claims. Claims on our subsidiary banks by creditors other than us include long-term debt, including subordinated and junior subordinated debt issued by our subsidiary, Amegy Corporation, and substantial obligations with respect to deposit liabilities and federal funds purchased, securities sold under repurchase agreements, other short-term borrowings and various other financial obligations. If we are entitled to participate in any assets of any of our subsidiaries upon the liquidation or reorganization of the subsidiary, the rights of holders of the junior subordinated debentures and senior indebtedness with respect to those assets will be subject to the contractual subordination of the junior subordinated debentures.

The junior indenture places no limitation on the amount of additional senior indebtedness, whether secured or unsecured, or junior subordinated debentures that may be incurred by us. We expect from time to time to incur additional indebtedness constituting senior indebtedness or junior subordinated debentures. See Subordination of Junior Subordinated Debentures and the prospectus supplement relating to any offering of capital securities or junior subordinated debentures.

The junior indenture does not contain any covenants designed to afford holders of debt securities protection in the event of a highly leveraged transaction involving us.

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The junior subordinated debentures will be issuable in one or more series pursuant to an indenture supplemental to the junior indenture or a resolution of our board of directors or a committee thereof. We may also reopen a previously issued series of junior subordinated debentures and issue additional junior subordinated debentures of that series.

The applicable prospectus supplement will describe the specific terms of the junior subordinated debentures, which will include some or all of the following, as applicable:

the title of the junior subordinated debentures;

any limit upon the aggregate principal amount of the junior subordinated debentures;

the date or dates on which the principal of the junior subordinated debentures must be paid;

the interest rate or rates, if any, applicable to the junior subordinated debentures;

the dates on which any such interest will be payable;

our right, if any, to defer or extend an interest payment date;

the record dates for any interest payable on any interest payment date or the method by which any of the foregoing will be determined;

the place or places where the principal of and premium, if any, and interest on the junior subordinated debentures will be payable and where, subject to the terms of the junior indenture as described below under Denominations, Registration and Transfer, the junior subordinated debentures may be presented for registration of transfer or exchange and the place or places where notices and demands to or upon us in respect of the junior subordinated debentures and the junior indenture may be made;

any period or periods within which or date or dates on which, the price or prices at which and the terms and conditions upon which junior subordinated debentures may be redeemed, in whole or in part, at the holder's option or at our option;

the obligation or the right, if any, of Zions or a holder to redeem, purchase or repay the junior subordinated debentures and the period or periods within which, the price or prices at which and the other terms and conditions upon which the junior subordinated debentures will be redeemed, repaid or purchased, in whole or in part, pursuant to that obligation;

if other than denominations of integral multiples of \$25, the denominations in which any junior subordinated debentures will be issued;

any additions, modifications or deletions in the events of default under the junior indenture or covenants of Zions specified in the junior indenture with respect to the junior subordinated debentures;

if other than the principal amount, the portion of the junior subordinated debentures principal amount that will be payable upon declaration of acceleration of the maturity thereof;

any additions or changes to the junior indenture with respect to a series of junior subordinated debentures that are necessary to permit or facilitate the issuance of such series in bearer form, registrable or not registrable as to principal, and with or without interest coupons;

any index or indices used to determine the amount of payments of principal of and premium, if any, on the junior subordinated debentures and the manner in which such amounts will be determined;

the terms and conditions relating to the issuance of a temporary global security representing all of the junior subordinated debentures of such series and the exchange of such temporary global security for definitive junior subordinated debentures of such series;

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whether the junior subordinated debentures of the series will be issued in whole or in part in the form of one or more global securities and, in such case, the depositary for such global securities;

the names and duties of any co-trustees, depositaries, authenticating agents, paying agents, transfer agents or registrars for the junior subordinated debentures;

the terms and conditions of any obligation or right of us or a holder to convert or exchange the junior subordinated debentures into capital securities;

any additions or changes to the form of trust agreement, guarantee agreement and expense agreement entered into in connection with respect the junior subordinated debentures;

the relative degree, if any, to which such junior subordinated debentures of the series will be senior to or be subordinated to other series of such junior subordinated debentures or other indebtedness of Zions in right of payment, whether such other series of junior subordinated debentures or other indebtedness are outstanding or not; and

any other terms of the junior subordinated debentures which could be different from those described in this prospectus.

Unless otherwise described in the applicable prospectus supplement, principal, premium, if any, and interest, if any, on the junior subordinated debentures will be payable, and the junior subordinated debentures will be transferable, at the office of the debenture trustee, except that interest may be paid at our option by check mailed to the address of the holder entitled to it as it appears on the security register.

Junior subordinated debentures may be sold at a substantial discount below their stated principal amount bearing no interest or interest at a rate which at the time of issuance is below market rates. Federal income tax consequences and other special considerations applicable to any such junior subordinated debentures will be summarized in the applicable prospectus supplement.

The junior indenture allows us to merge or consolidate with another company, or to sell all or substantially all of our assets to another company. If these events occur, the other company will be required to assume our responsibilities relating to the junior subordinated debentures, and we will be released from all liabilities and obligations. See Consolidation, Merger, Sale of Assets and Other Transactions below for a more detailed discussion. The junior indenture provides that we and the debenture trustee may change certain of our obligations or certain of your rights concerning the junior subordinated debentures of that series. However, to change the amount or timing of principal, interest or other payments under the junior subordinated debentures, every holder in the series must consent. See Modification of the Junior Indenture below for a more detailed discussion.

The applicable prospectus supplement will summarize specific financial and other terms of the particular series of junior subordinated debentures, while this prospectus describes terms that apply generally to all junior subordinated debentures. Consequently, the terms described in the applicable prospectus supplement will supplement those described in this prospectus and, if the terms described there are inconsistent with those described here, the terms described there will be controlling. The terms used in the applicable prospectus supplement have the meanings described in this prospectus, unless otherwise specified.

Denominations, Registration and Transfer

Unless otherwise described in the applicable prospectus supplement, the junior subordinated debentures will be issued only in registered form, without coupons, in denominations of \$25 and any integral multiple of \$25. Subject to restrictions relating to junior subordinated debentures represented by global securities, junior subordinated debentures of any series will be exchangeable for other junior subordinated debentures of the same issue and series, of any authorized denominations, of a like aggregate principal amount, of the same original issue date and stated maturity and bearing the same interest rate.

Subject to restrictions relating to junior subordinated debentures represented by global securities, junior subordinated debentures may be presented for exchange as provided above, and may be presented for registration of transfer (with the form of transfer

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endorsed thereon, or a satisfactory written instrument of transfer, duly executed) at the office of the appropriate securities registrar or at the office of any transfer agent designated by us for such purpose with respect to any series of junior subordinated debentures and referred to in the applicable prospectus supplement, without service charge and upon payment of any taxes and other governmental charges as described in the junior indenture. We will appoint the debenture trustee as securities registrar under the junior indenture. If the applicable prospectus supplement refers to any transfer agents (in addition to the securities registrar) initially designated by us for any series of junior subordinated debentures, we may at any time rescind the designation of any of these transfer agents or approve a change in the location through which any of these transfer agents acts, *provided* that we maintain a transfer agent in each place of payment for that series. We may at any time designate additional transfer agents for any series of junior subordinated debentures.

In the event of any redemption, neither we nor the debenture trustee will be required to:

issue, register the transfer of or exchange junior subordinated debentures of any series during the period beginning at the opening of business 15 days before the day of selection for redemption of junior subordinated debentures of that series and ending at the close of business on the day of mailing of the relevant notice of redemption; and

transfer or exchange any junior subordinated debentures so selected for redemption, except, in the case of any junior subordinated debentures being redeemed in part, any portion thereof not being redeemed.

Option to Defer Interest Payments

If provided in the applicable prospectus supplement, so long as no debenture event of default has occurred and is continuing, we will have the right at any time and from time to time during the term of any series of junior subordinated debentures to defer payment of interest for up to the number of consecutive interest payment periods that is specified in the applicable prospectus supplement, referred to as an extension period, subject to the terms, conditions and covenants, if any, specified in the prospectus supplement, *provided* that the extension period may not extend beyond the stated maturity of the applicable series of junior subordinated debentures. Prior to the termination of any applicable extension period, we may further defer the payment of interest (subject to the terms, conditions and covenants, if any, specified in the prospectus supplement), but not beyond the specified number of interest payment periods or the stated maturity of the junior subordinated debentures.

As a consequence of any such deferral, distributions on the capital securities would be deferred and would not result in any default (but would continue to accumulate additional distributions at the rate per annum described in the prospectus supplement for the capital securities) by the Issuer Trust of the capital securities during the extension period. During any applicable extension period, we may not:

declare or pay any dividends or distributions on, or redeem, purchase, acquire or make a liquidation payment with respect to, any of our capital stock; or

make any payment of principal of or interest or premium, if any, on or repay, repurchase or redeem any of our debt securities that rank on a parity in all respects with or junior in interest to the corresponding junior subordinated debentures; in each case, other than:

repurchases, redemptions or other acquisitions of shares of our capital stock in connection with any employment contract, benefit plan or other similar arrangement with or for the benefit of one or more employees, officers, directors or consultants, in connection with a dividend reinvestment or shareholder stock purchase plan or in connection with the issuance of our capital stock (or securities convertible into or exercisable for our capital stock) as consideration in an acquisition transaction entered into prior to the applicable period during which we have elected to defer interest payments;

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as a result of any exchange or conversion of any class or series of our capital stock (or any capital stock of a subsidiary of Zions) for any class or series of our capital stock or of any class or series of our indebtedness for any class or series of our capital stock;

the purchase of fractional interests in shares of our capital stock in accordance with the conversion or exchange provisions of such capital stock or the security being converted or exchanged;

any declaration of a dividend in connection with any shareholders' rights plan, or the issuance of rights, stock or other property under any shareholders' rights plan, or the redemption or repurchase of rights in accordance with any shareholders' rights plan; or

any dividend in the form of stock, warrants, options or other rights where the dividend stock or the stock issuable upon exercise of the warrants, options or other rights is the same stock as that on which the dividend is being paid or ranks on a parity with or junior to such stock.

These restrictions will also apply if:

we have actual knowledge of an event that with the giving of notice or the lapse of time, or both, would constitute an event of default under the junior indenture with respect to the junior subordinated debentures and we have not taken reasonable steps to cure the event, or

the junior subordinated debentures are held by an Issuer Trust and we are in default with respect to its payment of any obligations under the guarantee related to the related capital securities.

Unless otherwise indicated in the applicable prospectus supplement, in the event of an interest deferral with respect to any corresponding series of junior subordinated debentures, we must provide the debenture trustee notice of our election to defer interest at least one business day prior to the earlier of:

the next date distributions on the affected capital securities would have been payable except for the election to defer interest; and

the date the property trustee or the administrative trustees of the applicable Issuer Trust or both are required to give notice to any applicable self-regulatory organization or to holders of capital securities of the record date or the date such distributions are payable, but in any event not later than one business day prior to such record date.

Unless otherwise indicated in the applicable prospectus supplement, the property trustee with respect to the corresponding series of capital securities will give notice of our election to defer interest to the holders of the affected capital securities.

Redemption

Unless otherwise indicated in the applicable prospectus supplement, junior subordinated debentures will not be subject to any sinking fund.

Unless otherwise indicated in the applicable prospectus supplement, we may, at our option and subject to receipt of prior approval by the Federal Reserve Board if such approval is then required under applicable capital guidelines or policies, redeem the junior subordinated debentures of any series in whole at any time or in part from time to time. If the junior subordinated debentures of any series are so redeemable only on or after a specified date or upon the satisfaction of additional conditions, the applicable prospectus supplement will specify this date or describe these conditions. Unless otherwise indicated in the form of security for such series, junior subordinated debentures in denominations larger than \$25 may be redeemed in part but only in integral multiples of \$25. Except as otherwise specified in the applicable prospectus supplement, the redemption price for any junior subordinated debenture will equal any accrued and unpaid interest, including additional interest, to the redemption date, plus 100% of the principal amount.

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Except as otherwise specified in the applicable prospectus supplement, if a tax event in respect of a series of junior subordinated debentures or a capital treatment event has occurred and is continuing, we may, at our option and subject to receipt of prior approval

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by the Federal Reserve Board if such approval is then required under applicable capital guidelines or policies, redeem that series of junior subordinated debentures in whole (but not in part) at any time within 90 days following the occurrence of the tax event or capital treatment event, at a redemption price equal to 100% of the principal amount of the junior subordinated debentures then outstanding plus accrued and unpaid interest to the date fixed for redemption, except as otherwise specified in the applicable prospectus supplement.

A capital treatment event means the reasonable determination by us that as a result of

any amendment to or change, including any announced prospective change, in the laws, or any rules or regulations under the laws, of the United States or of any political subdivision of or in the United States, if the amendment or change is effective on or after the date the capital securities are issued; or

any official or administrative pronouncement or action or any judicial decision interpreting or applying such laws, rules or regulations, if the pronouncement, action or decision is announced on or after the date the capital securities are issued, there is more than an insubstantial risk that we will not be entitled to treat the liquidation amount of the capital securities as Tier 1 Capital for purposes of the applicable Federal Reserve Board capital adequacy guidelines as then in effect.

A tax event means the receipt by us and the Issuer Trust of an opinion of independent counsel, experienced in tax matters, to the following effect that, as a result of any tax change, there is more than an insubstantial risk that any of the following will occur:

the Issuer Trust is, or will be within 90 days after the date of the opinion of counsel, subject to U.S. federal income tax on income received or accrued on the corresponding junior subordinated debentures;

interest payable by us on the corresponding junior subordinated debentures is not, or within 90 days after the opinion of counsel will not be, deductible by us, in whole or in part, for U.S. federal income tax purposes; or

the Issuer Trust is, or will be within 90 days after the date of the opinion of counsel, subject to more than a de minimis amount of other taxes, duties or other governmental charges.

As used above, the term tax change means any of the following:

any amendment to or change, including any announced prospective change, in the laws or any regulations under the laws of the United States or of any political subdivision or taxing authority of or in the United States, if the amendment or change is enacted, promulgated or announced on or after the date the capital securities are issued; or

any official administrative pronouncement, including any private letter ruling, technical advice memorandum, field service advice, regulatory procedure, notice or announcement, including any notice or announcement of intent to adopt any procedures or regulations, or any judicial decision interpreting or applying such laws or regulations, whether or not the pronouncement or decision is issued to or in connection with a proceeding involving us or the trust or is subject to review or appeal, if the pronouncement or decision is enacted, promulgated or announced on or after the date of the issuance of the capital securities.

Notice of any redemption will be mailed at least 45 days but not more than 75 days before the redemption date to each holder of junior subordinated debentures to be redeemed at its registered address. Unless we default in payment of the redemption price, on and after the redemption date interest will cease to accrue on the junior subordinated debentures or portions thereof called for redemption.

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Modification of the Junior Indenture

We may modify or amend the junior indenture with the consent of the debenture trustee, in some cases without obtaining the consent of security holders. Certain modifications and amendments also require the consent of the holders of at least a majority in principal amount of the outstanding junior subordinated debentures of each series issued under the junior indenture that would be affected by the modification or amendment. Further, without the consent of the holder of each outstanding junior subordinated debenture issued under the junior indenture that would be affected, we may not:

change the stated maturity of the principal, or any installment of principal or interest, on any outstanding junior subordinated debenture;

reduce any principal amount, premium or interest, on any outstanding junior subordinated debenture, including in the case of an original issue discount security the amount payable upon acceleration of the maturity of that security or change the manner of calculating interest;

change the place of payment where, or the currency in which, any principal, premium or interest, on any junior subordinated debenture is payable;

impair the right to institute suit for the enforcement of any payment on or after the stated maturity or, in the case of redemption, on or after the redemption date;

reduce the above-stated percentage of outstanding junior subordinated debentures necessary to modify or amend the applicable indenture; or

modify the above requirements or reduce the percentage of aggregate principal amount of outstanding junior subordinated debentures of any series required to be held by holders seeking to waive compliance with certain provisions of the relevant indenture or seeking to waive certain defaults,

and *provided* that, in the case of corresponding junior subordinated debentures, so long as any of the related capital securities remain outstanding,

no modification may be made that adversely affects the holders of such capital securities in any material respect, and no termination of the junior indenture may occur, and no waiver of any event of default or compliance with any covenant under the junior indenture may be effective, without the prior consent of the holders of at least a majority of the aggregate liquidation amount of all outstanding related capital securities affected unless and until the principal of the corresponding junior subordinated debentures and all accrued and unpaid interest have been paid in full and certain other conditions have been satisfied, and

where a consent under the junior indenture would require the consent of each holder of corresponding junior subordinated debentures, no such consent will be given by the property trustee without the prior consent of each holder of related capital securities.

We may, with the debenture trustee's consent, execute, without the consent of any holder of junior subordinated debentures, any supplemental indenture for the purpose of creating any new series of junior subordinated debentures.

Events of Default

The following events will be debenture events of default with respect to each series of junior subordinated debentures:

default for 30 days in interest payment of any security of that series, including any additional interest (subject to the deferral of any interest payment in the case of an extension period);

default in any principal or premium payment on any security of that series at maturity;

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failure by us for 90 days in performing any other covenant or warranty in the junior indenture after:

we are given written notice by the debenture trustee; or

the holders of at least 25% in aggregate principal amount of the outstanding securities of that series give written notice to us and the debenture trustee;

our bankruptcy, insolvency or reorganization; or

any other event of default provided for with respect to junior subordinated debentures of that series.

The holders of a majority in aggregate outstanding principal amount of junior subordinated debentures of each series affected have the right to direct the time, method and place of conducting any proceeding for any remedy available to the debenture trustee. The debenture trustee or the holders of at least 25% in aggregate outstanding principal amount of junior subordinated debentures of each series affected may declare the principal (or, if the junior subordinated debentures of such series are discount securities, the portion of the principal amount specified in the applicable prospectus supplement) due and payable immediately upon a debenture event of default. In the case of corresponding junior subordinated debentures, should the debenture trustee or the property trustee fail to make this declaration, the holders of at least 25% in aggregate liquidation amount of the related capital securities will have the right to make this declaration. The property trustee may annul the declaration and waive the default, provided all defaults have been cured and all payment obligations have been made current. In the case of corresponding junior subordinated debentures, should the property trustee fail to annul the declaration and waive the default, the holders of a majority in aggregate liquidation amount of the related capital securities will have the right to do so. In the event of our bankruptcy, insolvency or reorganization, junior subordinated debentures holders' claims would fall under the broad equity power of a federal bankruptcy court, and to that court's determination of the nature of those holders' rights.

The holders of a majority in aggregate outstanding principal amount of each series of junior subordinated debentures affected may, on behalf of the holders of all the junior subordinated debentures of that series, waive any default, except a default in the payment of principal or interest including any additional interest, unless the default has been cured and a sum sufficient to pay all matured installments of interest including any additional interest and principal due otherwise than by acceleration has been deposited with the debenture trustee, or a default in respect of a covenant or provision which under the junior indenture cannot be modified or amended without the consent of the holder of each outstanding junior subordinated debenture of that series. In the case of corresponding junior subordinated debentures, should the holders of such corresponding junior subordinated debentures fail to waive the default, the holders of a majority in aggregate liquidation amount of the related capital securities will have the right to do so. We are required to file annually with the debenture trustee a certificate as to whether or not we are in compliance with all the conditions and covenants applicable to us under the junior indenture.

In case a debenture event of default has occurred and is continuing as to a series of corresponding junior subordinated debentures, the property trustee will have the right to declare the principal of and the interest on the corresponding junior subordinated debentures, and any other amounts payable under the junior indenture, to be immediately due and payable and to enforce its other rights as a creditor with respect to the corresponding junior subordinated debentures.

Enforcement of Certain Rights by Holders of Capital Securities

If a debenture event of default with respect to a series of corresponding junior subordinated debentures has occurred and is continuing and the event is attributable to our failure to pay interest or principal on the corresponding junior subordinated debentures on the date the interest or principal is due and payable, a holder of the related capital securities may institute a legal proceeding directly against us for enforcement of payment to that holder of the principal of or interest (including any additional interest) on corresponding junior subordinated debentures having a principal amount equal to the aggregate liquidation amount of the related capital securities of that holder. We refer to this proceeding in this document as a direct action. We may not amend the junior indenture to remove this right to bring a direct action without the prior written consent of the holders of all of the related capital securities outstanding. If the right to bring a direct action is removed, the applicable Issuer Trust may become subject to reporting obligations under the Exchange Act. We will have the right under the junior indenture to set-off any payment made to the holder of the related capital securities by us in connection with a direct action.

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The holders of related capital securities will not be able to exercise directly any remedies other than those set forth in the preceding paragraph available to the holders of the junior subordinated debentures unless there has occurred an event of default under the trust agreement. See Description of Capital Securities and Related Instruments Events of Default; Notice.

Consolidation, Merger, Sale of Assets and Other Transactions

The junior indenture provides that we may not consolidate with or merge into another corporation or transfer our properties and assets substantially as an entirety to another person unless:

if we are not the successor entity, the entity formed by the consolidation or into which we merge, or to which we transfer our properties and assets (1) is a corporation, partnership or trust organized and existing under the laws of the United States, any state of the United States or the District of Columbia and (2) expressly assumes by supplemental indenture the payment of any principal, premium or interest on the junior subordinated debentures, and the performance of our other covenants under the junior indenture;

immediately after giving effect to this transaction, no debenture event of default, and no event which, after notice or lapse of time or both, would become a debenture event of default, will have occurred and be continuing under the relevant indenture; and

an officer's certificate and legal opinion relating to these conditions must be delivered to the debenture trustee.

The general provisions of the junior indenture do not afford holders of the junior subordinated debentures protection in the event of a highly leveraged or other transaction involving us that may adversely affect holders of the junior subordinated debentures.

Satisfaction and Discharge

The junior indenture provides that when, among other things, all junior subordinated debentures not previously delivered to the debenture trustee for cancellation:

have become due and payable;

will become due and payable at their stated maturity within one year; or

are to be called for redemption within one year under arrangements satisfactory to the debenture trustee for the giving of notice of redemption by the debenture trustee;

and we deposit or cause to be deposited with the debenture trustee funds, in trust, for the purpose and in an amount sufficient to pay and discharge the entire indebtedness on the junior subordinated debentures not previously delivered to the debenture trustee for cancellation, for the principal, premium, if any, and interest, including any additional interest, to the date of the deposit or to the stated maturity, as the case may be, then the junior indenture will cease to be of further effect (except as to our obligations to pay all other sums due under the junior indenture and to provide the officer's certificates and opinions of counsel described therein), and we will be deemed to have satisfied and discharged the junior indenture.

Conversion or Exchange

If and to the extent indicated in the applicable prospectus supplement, a series of junior subordinated debentures may be convertible or exchangeable into junior subordinated debentures of another series or into capital securities of another series. The specific terms on which series may be converted or exchanged will be described in the applicable prospectus supplement. These terms may include provisions for conversion or exchange, whether mandatory, at the holder's option, or at our option, in which case the number of shares of capital securities or other securities the junior subordinated debenture holder would receive would be calculated at the time and manner described in the applicable

prospectus supplement.

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Subordination of Junior Subordinated Debentures

The junior subordinated debentures will be subordinate in right of payment, to the extent set forth in the junior indenture, to all our senior indebtedness, which we define below. If we default in the payment of any principal, premium, if any, or interest, if any, or any other amount payable on any senior indebtedness when it becomes due and payable, whether at maturity or at a date fixed for redemption or by declaration of acceleration or otherwise, then, unless and until the default has been cured or waived or has ceased to exist or all senior indebtedness has been paid, no direct or indirect payment (in cash, property, securities, by set-off or otherwise) may be made or agreed to be made on the junior subordinated debentures, or in respect of any redemption, repayment, retirement, purchase or other acquisition of any of the junior subordinated debentures.

As used in this prospectus, the term **senior indebtedness** means (1) our senior debt and (2) the allocable amounts of our senior subordinated debt. Each of these terms is defined as follows. The term **senior debt** means any obligation of ours to our creditors, whether now outstanding or subsequently incurred, other than any obligation as to which, in the instrument creating or evidencing the obligation or pursuant to which the obligation is outstanding, it is provided that such obligation is not senior in right of payment to the junior subordinated debentures. Senior debt does not include:

any of our indebtedness that, when incurred and without respect to any election under section 1111(b) of the Bankruptcy Reform Act of 1978, was without recourse to us;

any of our indebtedness to any of our subsidiaries;

any of our indebtedness to any of our employees;

any other junior subordinated debentures issued pursuant to the junior indenture;

any of our trade accounts payable;

any accrued liabilities arising in the ordinary course of our business; and

our senior subordinated debt (to the extent such debt is not considered an allocable amount).

The term **senior subordinated debt** means any obligation of ours to our creditors, whether now outstanding or subsequently incurred, where the instrument creating or evidencing the obligation or pursuant to which it is outstanding, provides that it is subordinate and junior in right of payment to senior debt pursuant to subordination provisions substantially similar to those contained in the indenture governing our outstanding senior subordinated debt. Senior subordinated debt includes our outstanding securities titled as senior subordinated debt securities and any senior subordinated debt securities issued in the future with substantially similar subordination terms, but does not include our obligations related to Zions Capital Trust B's 8.0% Capital Securities due September 1, 2032, Stockmen's Statutory Trust II's Floating Rate Capital Securities due March 26, 2033, and Stockmen's Statutory Trust III's Floating Rate Capital Securities due March 17, 2034 or junior subordinated debentures of any series or any junior subordinated debentures issued in the future with subordination terms substantially similar to those of the junior subordinated debentures. Finally, the term **allocable amounts**, when used with respect to any senior subordinated debt, means the amount necessary to pay all principal, any premium and any interest on that senior subordinated debt in full less, if applicable, any portion of those amounts which would have been paid to, and retained by, the holders of senior subordinated debt, whether from us or any holder of or trustee for debt subordinated to that senior subordinated debt, but for the fact that such senior subordinated debt is subordinate or junior in right of payment to trade accounts payable or accrued liabilities arising in the ordinary course of business.

Senior indebtedness includes certain of our obligations with respect to our outstanding senior securities titled as subordinated debt securities and any subordinated debt securities issued in the future with substantially similar subordination terms, but does not include the junior subordinated

debentures of any series or any junior subordinated debentures issued in the future with subordination terms substantially similar to those of the junior subordinated debentures.

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In the event of:

any insolvency, bankruptcy, receivership, liquidation, reorganization, readjustment, composition or other similar proceeding relating to us, our creditors or our property;

any proceeding for the liquidation, dissolution or other winding up of us, voluntary or involuntary, whether or not involving insolvency or bankruptcy proceedings;

any assignment by us for the benefit of creditors; or

any other marshaling of our assets,

then all senior indebtedness, including any interest accruing after the commencement of any of the proceedings described above, must first be paid in full before any payment or distribution, whether in cash, securities or other property, may be made on account of the junior subordinated debentures. Any payment or distribution on account of the junior subordinated debentures, whether in cash, securities or other property, that would otherwise but for the subordination provisions be payable or deliverable in respect of the junior subordinated debentures will be paid or delivered directly to the holders of senior indebtedness in accordance with the priorities then existing among those holders until all senior indebtedness, including any interest accruing after the commencement of any such proceedings, has been paid in full.

In the event of any of the proceedings described above, after payment in full of all senior indebtedness, the holders of junior subordinated debentures, together with the holders of any of our obligations ranking on a parity with the junior subordinated debentures, which for this purpose includes the allocable amounts of subordinated debt, will be entitled to be paid from our remaining assets the amounts at the time due and owing on the junior subordinated debentures and the other obligations before any payment or other distribution, whether in cash, property or otherwise, will be made on account of any of our capital stock or obligations ranking junior to the junior subordinated debentures. If any payment or distribution on account of the junior subordinated debentures of any character or any security, whether in cash, securities or other property, is received by any holder of any junior subordinated debentures in contravention of any of the terms described above and before all the senior indebtedness has been paid in full, that payment or distribution or security will be received in trust for the benefit of, and must be paid over or delivered and transferred to, the holders of the senior indebtedness at the time outstanding in accordance with the priorities then existing among those holders for application to the payment of all senior indebtedness remaining unpaid to the extent necessary to pay all senior indebtedness in full. Because of this subordination, in the event of our insolvency, holders of senior indebtedness may receive more, ratably, and holders of the junior subordinated debentures may receive less, ratably, than our other creditors. Such subordination will not prevent the occurrence of any event of default under the junior indenture.

Trust Expenses

Pursuant to the expense agreement for each series of corresponding junior subordinated debentures, we, as holder of the trust common securities, will irrevocably and unconditionally agree with each Issuer Trust that holds junior subordinated debentures that we will pay to the Issuer Trust, and reimburse the Issuer Trust for, the full amounts of any costs, expenses or liabilities of the Issuer Trust, other than obligations of the Issuer Trust to pay to the holders of any capital securities or other similar interests in the Issuer Trust the amounts due such holders pursuant to the terms of the capital securities or such other similar interests, as the case may be. This payment obligation will include any costs, expenses or liabilities of the Issuer Trust that are required by applicable law to be satisfied in connection with a dissolution of the Issuer Trust.

Governing Law

The junior indenture is, and the junior subordinated debentures will be, governed by and construed in accordance with the laws of the State of New York.

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Information Concerning the Debenture Trustee

The debenture trustee will have, and be subject to, all the duties and responsibilities specified with respect to an indenture trustee under the Trust Indenture Act. Subject to these provisions, the debenture trustee is under no obligation to exercise any of the powers vested in it by the junior indenture at the request of any holder of junior subordinated debentures, unless offered reasonable indemnity by that holder against the costs, expenses and liabilities which might be incurred thereby. The debenture trustee is not required to expend or risk its own funds or otherwise incur personal financial liability in the performance of its duties.

Corresponding Junior Subordinated Debentures

The corresponding junior subordinated debentures may be issued in one or more series of junior subordinated debentures under the junior indenture with terms corresponding to the terms of a series of related capital securities. In that event, concurrently with the issuance of each Issuer Trust's capital securities, the Issuer Trust will invest the proceeds thereof and the consideration paid by us for the trust common securities of the Issuer Trust in such series of corresponding junior subordinated debentures issued by us to the Issuer Trust. Each series of corresponding junior subordinated debentures will be in the principal amount equal to the aggregate stated liquidation amount of the related capital securities and trust common securities of the Issuer Trust and will rank on a parity with all other series of junior subordinated debentures. Holders of the related capital securities for a series of corresponding junior subordinated debentures will have the rights in connection with modifications to the junior indenture or upon occurrence of debenture events of default, as described under **Modification of the Junior Indenture** and **Events of Default**, unless provided otherwise in the prospectus supplement for such related capital securities.

Unless otherwise specified in the applicable prospectus supplement, if a tax event or a capital treatment event in respect of an Issuer Trust has occurred and is continuing, we may, at our option and subject to prior approval of the Federal Reserve Board if then required under applicable capital guidelines or policies, redeem the corresponding junior subordinated debentures at any time within 90 days of the occurrence of such tax event or capital treatment event, in whole but not in part, subject to the provisions of the junior indenture and whether or not the corresponding junior subordinated debentures are then otherwise redeemable at our option. Unless provided otherwise in the applicable prospectus supplement, the redemption price for any corresponding junior subordinated debentures will be equal to 100% of the principal amount of the corresponding junior subordinated debentures then outstanding plus accrued and unpaid interest to the date fixed for redemption. For so long as the applicable Issuer Trust is the holder of all the outstanding corresponding junior subordinated debentures, the proceeds of any redemption will be used by the Issuer Trust to redeem the corresponding trust securities in accordance with their terms. We also have the right at any time to dissolve the applicable Issuer Trust and to distribute the corresponding junior subordinated debentures to the holders of the related series of trust securities in liquidation of the Issuer Trust. See **Description of Capital Securities and Related Instruments** **Redemption or Exchange** **Distribution of Corresponding Junior Subordinated Debentures** for a more detailed discussion. We may not redeem a series of corresponding junior subordinated debentures in part unless all accrued and unpaid interest has been paid in full on all outstanding corresponding junior subordinated debentures of that series for all interest periods terminating on or prior to the redemption date.

We have agreed in the junior indenture, as to each series of corresponding junior subordinated debentures, that if and so long as:

the Issuer Trust of the related series of trust securities is the holder of all the corresponding junior subordinated debentures;

a tax event in respect of such Issuer Trust has occurred and is continuing; and

we elect, and do not revoke that election, to pay additional sums in respect of the trust securities, we will pay to the Issuer Trust these additional sums (as defined under **Description of Capital Securities and Related Instruments** **Redemption or Exchange**). We also have agreed, as to each series of corresponding junior subordinated debentures:

to maintain directly or indirectly 100% ownership of the trust common securities of the Issuer Trust to which the corresponding junior subordinated debentures have been issued, *provided* that certain successors which are permitted under the junior indenture may succeed to our ownership of the trust common securities;

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not to voluntarily dissolve, wind-up or liquidate any Issuer Trust, except:

in connection with a distribution of corresponding junior subordinated debentures to the holders of the capital securities in exchange for their capital securities upon liquidation of the Issuer Trust; or

in connection with certain mergers, consolidations or amalgamations permitted by the related trust agreement, in either such case, if specified in the applicable prospectus supplement, upon prior approval of the Federal Reserve Board, if then required under applicable Federal Reserve Board capital guidelines or policies; and

to use reasonable efforts, consistent with the terms and provisions of the related trust agreement, to cause the Issuer Trust to be classified as a grantor trust and not as an association taxable as a corporation for U.S. federal income tax purposes.

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DESCRIPTION OF GUARANTEES

Please note that in this section entitled Description of Guarantees, references to Zions, we, our and us refer only to Zions Bancorporation and not to its consolidated subsidiaries. Also, in this section, references to holders mean those who own capital securities registered in their own names, on the books that we or the guarantee trustee maintain for this purpose, and not those who own beneficial interests in the capital securities registered in street name or in capital securities issued in book-entry form through one or more depositories. Owners of beneficial interests in the capital securities should also read the section entitled Legal Ownership and Book-Entry Issuance.

The following description summarizes the material provisions of the guarantees and the agreements as to expenses and liabilities. This description is not complete and is subject to, and is qualified in its entirety by reference to, all of the provisions of each guarantee and each expense agreement, including the definitions therein, and the Trust Indenture Act. The forms of the guarantee and the expense agreement have been filed as an exhibit to the registration statement of which this prospectus forms a part. Reference in this summary to capital securities means the capital securities issued by the related Issuer Trust to which a guarantee or expense agreement relates. Whenever particular defined terms of the guarantees or expense agreements are referred to in this prospectus or in a prospectus supplement, those defined terms are incorporated in this prospectus or the prospectus supplement by reference.

General

A guarantee will be executed and delivered by us at the same time each Issuer Trust issues its capital securities. Each guarantee is for the benefit of the holders from time to time of the capital securities. The Bank of New York Mellon Trust Company, N.A. will act as indenture trustee (referred to below as the guarantee trustee) under each guarantee for the purposes of compliance with the Trust Indenture Act and each guarantee will be qualified as an indenture under the Trust Indenture Act. The guarantee trustee will hold each guarantee for the benefit of the holders of the related Issuer Trust's capital securities.

We will irrevocably and unconditionally agree to pay in full on a subordinated basis, to the extent described below, the guarantee payments (as defined below) to the holders of the capital securities, as and when due, regardless of any defense, right of set-off or counterclaim that the Issuer Trust may have or assert other than the defense of payment. The following payments or distributions with respect to the capital securities, to the extent not paid by or on behalf of the related Issuer Trust (referred to as the guarantee payments), will be subject to the related guarantee:

any accumulated and unpaid distributions required to be paid on the capital securities, to the extent that the Issuer Trust has funds on hand available for the distributions;

the redemption price with respect to any capital securities called for redemption, to the extent that the Issuer Trust has funds on hand available for the redemptions; or

upon a voluntary or involuntary dissolution, winding up or liquidation of the Issuer Trust (unless the corresponding junior subordinated debentures are distributed to holders of such capital securities in exchange for their capital securities), the lesser of:

the liquidation distribution; and

the amount of assets of the Issuer Trust remaining available for distribution to holders of capital securities after satisfaction of liabilities to creditors of the Issuer Trust as required by applicable law.

Our obligation to make a guarantee payment may be satisfied by direct payment of the required amounts by us to the holders of the applicable capital securities or by causing the Issuer Trust to pay these amounts to the holders.

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Each guarantee will be an irrevocable and unconditional guarantee on a subordinated basis of the related Issuer Trust's obligations under the capital securities, but will apply only to the extent that the related Issuer Trust has funds sufficient to make such payments, and is not a guarantee of collection. See Status of the Guarantees.

If we do not make interest payments on the corresponding junior subordinated debentures held by the Issuer Trust, the Issuer Trust will not be able to pay distributions on the capital securities and will not have funds legally available for the distributions. Each guarantee constitutes an unsecured obligation of ours and will rank subordinate and junior in right of payment to all of our senior indebtedness. See Status of the Guarantees.

The junior subordinated debentures and, in the case of junior subordinated debentures in bearer form, any related interest coupons, will constitute part of our junior subordinated debt, will be issued under the junior indenture and will be subordinate and junior in right of payment to all of our senior indebtedness, as defined in the junior indenture. In addition, the junior subordinated debentures will be structurally subordinated to all indebtedness and other liabilities, including trade payables and lease obligations, of each of our subsidiaries, except to the extent we may be a creditor of that subsidiary with recognized senior claims. This is because we are a holding company and a legal entity separate and distinct from our subsidiaries, and our right to participate in any distribution of assets of any subsidiary upon its liquidation, reorganization or otherwise, and the ability of holders of debt securities to benefit indirectly from such distribution, is subject to superior claims. Claims on our subsidiary banks by creditors other than us include long-term debt, including subordinated and junior subordinated debt issued by our subsidiary, Amegy Corporation, and substantial obligations with respect to deposit liabilities and federal funds purchased, securities sold under repurchase agreements, other short-term borrowings and various other financial obligations. If we are entitled to participate in any assets of any of our subsidiaries upon the liquidation or reorganization of the subsidiary, the rights of holders of the junior subordinated debentures and senior indebtedness with respect to those assets will be subject to the contractual subordination of the junior subordinated debentures.

Except as otherwise provided in the applicable prospectus supplement, the guarantees do not limit the incurrence or issuance of other secured or unsecured debt of ours, including senior indebtedness, whether under the junior indenture, any other existing indenture or any other indenture that we may enter into in the future or otherwise. See the applicable prospectus supplement relating to any offering of capital securities.

We have, through the applicable guarantee, the applicable trust agreement, the applicable series of corresponding junior subordinated debentures, the junior indenture and the applicable expense agreement, taken together, fully, irrevocably and unconditionally guaranteed all of the Issuer Trust's obligations under the related capital securities. No single document standing alone or operating in conjunction with fewer than all of the other documents constitutes a guarantee. It is only the combined operation of these documents that has the effect of providing a full, irrevocable and unconditional guarantee of an Issuer Trust's obligations under its related capital securities. See Relationship Among the Capital Securities and the Related Instruments.

Status of the Guarantees

Each guarantee will constitute an unsecured obligation of ours and will rank subordinate and junior in right of payment to all of our senior indebtedness in the same manner as corresponding junior subordinated debentures.

Each guarantee will rank equally with all other similar guarantees issued by us on behalf of the holders of capital securities issued by any issuer trust. Each guarantee will constitute a guarantee of payment and not of collection (i.e., the guaranteed party may institute a legal proceeding directly against us to enforce its rights under the guarantee without first instituting a legal proceeding against any other person or entity). Each guarantee will be held for the benefit of the holders of the related capital securities. Each guarantee will not be discharged except by payment of the guarantee payments in full to the extent not paid by the Issuer Trust or upon distribution to the holders of the capital securities of the corresponding junior subordinated debentures. None of the guarantees places a limitation on the amount of additional senior indebtedness that may be incurred by us. We expect from time to time to incur additional indebtedness constituting senior indebtedness.

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Amendments and Assignment

Except with respect to any changes which do not materially adversely affect the material rights of holders of the related capital securities (in which case no vote of the holders will be required), no guarantee may be amended without the prior approval of the holders of at least a majority of the aggregate liquidation amount of the related outstanding capital securities. The manner of obtaining any such approval will be as described under Description of Capital Securities and Related Instruments Voting Rights; Amendment of Each Trust Agreement. All guarantees and agreements contained in each guarantee will bind our successors, assigns, receivers, trustees and representatives and will inure to the benefit of the holders of the related capital securities then outstanding. We may not assign our obligations under the guarantees except in connection with a consolidation, merger or sale involving us that is permitted under the terms of the junior indenture and then only if any such successor or assignee agrees in writing to perform our obligations under the guarantees.

Events of Default

An event of default under each guarantee will occur upon our failure to perform any of our payment obligations under the guarantee or to perform any non-payment obligations if this non-payment default remains unremedied for 30 days. The holders of at least a majority in aggregate liquidation amount of the related capital securities have the right to direct the time, method and place of conducting any proceeding for any remedy available to the guarantee trustee in respect of the guarantee or to direct the exercise of any trust or power conferred upon the guarantee trustee under the guarantee.

The holders of at least a majority in aggregate liquidation amount of the related capital securities have the right, by vote, to waive any past events of default and its consequences under each guarantee. If such a waiver occurs, any event of default will cease to exist and be deemed to have been cured under the terms of the guarantee.

Any holder of the capital securities may, to the extent permissible under applicable law, institute a legal proceeding directly against us to enforce its rights under the guarantee without first instituting a legal proceeding against the Issuer Trust, the guarantee trustee or any other person or entity.

We, as guarantor, are required to file annually with the guarantee trustee a certificate as to whether or not we are in compliance with all the conditions and covenants applicable to us under the guarantee.

Information Concerning the Guarantee Trustee

The guarantee trustee, other than during the occurrence and continuance of a default by us in performance of any guarantee, undertakes to perform only those duties specifically set forth in each guarantee and, after default with respect to any guarantee, must exercise the same degree of care and skill as a prudent person would exercise or use in the conduct of his or her own affairs. Subject to this provision, the guarantee trustee is under no obligation to exercise any of the powers vested in it by any guarantee at the request of any holder of any capital securities unless it is offered reasonable indemnity against the costs, expenses and liabilities that might be incurred as a result. However, such a requirement does not relieve the guarantee trustee of its obligations to exercise its rights and powers under the guarantee upon the occurrence of an event of default.

Termination of the Guarantees

Each guarantee will terminate and be of no further force and effect upon:

full payment of the redemption price of the related capital securities;

full payment of the amounts payable upon liquidation of the related Issuer Trust; or

the distribution of corresponding junior subordinated debentures to the holders of the related capital securities in exchange for their capital securities.

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Each guarantee will continue to be effective or will be reinstated, as the case may be, if at any time any holder of the related capital securities must restore payment of any sums paid under the capital securities or the guarantee.

Governing Law

Each guarantee will be governed by and construed in accordance with the laws of the State of New York.

The Expense Agreement

Pursuant to the expense agreement that will be entered into by us under each trust agreement, we will irrevocably and unconditionally guarantee to each person or entity to whom the Issuer Trust becomes indebted or liable, the full payment of any costs, expenses or liabilities of the Issuer Trust, other than obligations of the Issuer Trust to pay to the holders of any capital securities or other similar interests in the Issuer Trust of the amounts owed to holders pursuant to the terms of the capital securities or other similar interests, as the case may be. The expense agreement will be enforceable by third parties.

Our obligations under each expense agreement will be subordinated in right of payment to the same extent as the related junior subordinated debentures.

Total liabilities

4,403,234 4,275,075

COMMITMENTS AND CONTINGENCIES (Note 16)

STOCKHOLDER S EQUITY:

Preferred stock

Common stock

166,852 166,852

Additional paid-in capital

363,289 362,953

Retained earnings

60,420 26,495

Accumulated other comprehensive income net of tax

12,922 4,800

Total stockholder s equity

603,483 561,100

TOTAL

\$5,006,717 \$4,836,175

See notes to combined financial statements.

Table of Contents**BBVAPR Holding Corporation and BBVA Securities of Puerto Rico, Inc.****(Wholly Owned Subsidiaries of Banco Bilbao Vizcaya Argentaria, S.A.)****COMBINED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)**

FOR THE YEARS ENDED DECEMBER 31, 2011 2010, AND 2009

(In thousands of dollars)

	2011	2010	2009
INTEREST INCOME:			
Loans	\$ 231,408	\$ 237,468	\$ 262,608
Investment securities	13,457	16,006	24,755
Federal funds sold, securities purchased under agreements to resell, and other short-term investments	476	522	986
Interest-bearing deposits in banks	283	307	288
Total interest income	245,624	254,303	288,637
INTEREST EXPENSE:			
Deposits	35,857	38,928	49,964
Federal funds purchased and securities sold under agreements to repurchase	23,307	28,700	34,215
Advances from FHLB and Federal Reserve Bank	2,661	3,510	8,084
Other borrowed funds	14,622	18,892	16,127
Subordinated capital notes	3,042	3,347	4,399
Total interest expense	79,489	93,377	112,789
NET INTEREST INCOME	166,135	160,926	175,848
PROVISION FOR LOAN LOSSES	(31,050)	(80,515)	(253,906)
NET INTEREST INCOME (LOSS) AFTER PROVISION FOR LOAN LOSSES	135,085	80,411	(78,058)
NONINTEREST INCOME:			
Service charges on deposit accounts	7,185	7,297	6,975
Other service charges and fees	29,360	31,119	29,021
Gain on sale of securities available for sale	7,157	8,995	5,416
Trading and other derivative activities	2,698	4,288	4,968
Gain on sale of residential mortgage loans held for sale	1,425	598	369
Other income	1,676	4,242	4,568
Total noninterest income	49,501	56,539	51,317
NONINTEREST EXPENSES:			
Compensation and employee benefits	48,209	44,201	49,554
Occupancy net	12,394	11,840	12,628
Insurance and supervisory fees	7,689	9,107	9,290
Professional fees	18,387	17,225	15,262
Maintenance of equipment and related depreciation and amortization	7,784	8,048	8,679
Taxes other than on income	7,162	7,428	7,489
Loan servicing expenses	1,812	1,969	2,371
Data processing fees	3,444	3,753	4,000

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Communications	1,325	1,291	1,468
Advertising	4,242	2,902	2,908
Credit card processing fees and other related expenses	6,608	6,804	5,961
Other real estate owned properties	6,130	3,150	2,347
Early extinguishment of debt	1,000	3,175	
Other	7,712	7,490	4,582
Total noninterest expenses	133,898	128,383	126,539
INCOME (LOSS) BEFORE INCOME TAX PROVISION (BENEFIT)	50,688	8,567	(153,280)
INCOME TAX PROVISION (BENEFIT)	16,763	634	(57,334)
NET INCOME (LOSS)	33,925	7,933	(95,946)
OTHER COMPREHENSIVE INCOME:			
Unrealized gain on securities available for sale arising during the year	15,910	22,054	22,566
Realized gain on sales of securities available for sale included in net income	(7,157)	(8,995)	(5,416)
Income tax effect	(631)	(798)	(283)
Other comprehensive income net of tax	8,122	12,261	16,867
COMPREHENSIVE INCOME (LOSS)	\$ 42,047	\$ 20,194	\$ (79,079)

See notes to combined financial statements.

Table of Contents**BBVAPR Holding Corporation and BBVA Securities of Puerto Rico, Inc.****(Wholly Owned Subsidiaries of Banco Bilbao Vizcaya Argentaria, S.A.)****COMBINED STATEMENTS OF CHANGES IN STOCKHOLDER S EQUITY**

FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009

(In thousands of dollars)

	PREFERRED STOCK	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) NET OF TAX	TOTAL STOCKHOLDER S EQUITY
BALANCE December 31, 2008	\$	\$ 139,548	\$ 291,098	\$ 114,508	\$ (24,328)	\$ 520,826
Net loss				(95,946)		(95,946)
Capital contribution from Parent		27,304	72,696			100,000
Payment to Parent for long-term incentive plan			(1,017)			(1,017)
Other comprehensive income net of tax					16,867	16,867
BALANCE December 31, 2009		166,852	362,777	18,562	(7,461)	540,730
Net income				7,933		7,933
Share-based compensation			176			176
Other comprehensive income net of tax					12,261	12,261
BALANCE December 31, 2010		166,852	362,953	26,495	4,800	561,100
Net income				33,925		33,925
Share-based compensation			336			336
Other comprehensive income net of tax					8,122	8,122
BALANCE December 31, 2011	\$	\$ 166,852	\$ 363,289	\$ 60,420	\$ 12,922	\$ 603,483

See notes to combined financial statements.

Table of Contents**BBVAPR Holding Corporation and BBVA Securities of Puerto Rico, Inc.****(Wholly Owned Subsidiaries of Banco Bilbao Vizcaya Argentaria, S.A.)****COMBINED STATEMENTS OF CASH FLOWS**

FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009

(In thousands of dollars)

	2011	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	\$ 33,925	\$ 7,933	\$ (95,946)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	9,343	9,779	10,890
Net amortization of premium on securities	1,835	5,228	1,231
Accretion of discount on loans	(1,559)	(1,565)	(2,049)
Amortization of net deferred loan costs	6,290	6,067	6,310
Provisions for loan losses and for repossessed assets	35,047	82,007	255,310
Share-based compensation	336	176	
Loss (gain) on sale of:			
Securities available for sale	(7,157)	(8,995)	(5,416)
Residential mortgage loans held for sale	(1,425)	(598)	(369)
Premises and equipment	4	5	3
Other real estate owned	1,408	(1,637)	(180)
Repossessed assets	(930)	202	(3,459)
Trading activities and other derivative activities	(269)	586	(2,314)
Net change in residential mortgage loans held for sale	(53,436)	(41,989)	(56,147)
Proceeds from sales of mortgage servicing rights on residential loans held for sale	1,200	738	487
Deferred income tax provision (benefit)	20,999	1,711	(58,689)
Net change in trading securities	163	748	1,403
Decrease (increase) in accrued interest receivable	(1,905)	2,693	3,768
Decrease (increase) in other assets	7,933	7,321	(25,982)
Decrease in accrued interest payable	(4,271)	(4,622)	(7,649)
Decrease in other liabilities	(5,359)	(17,740)	(7,617)
Total adjustments	8,247	40,115	109,531
Net cash provided by operating activities	42,172	48,048	13,585
CASH FLOWS FROM INVESTING ACTIVITIES:			
Net change in interest-bearing deposits in banks	95,480	6,393	(83,390)
Deposit of principal balance in restricted account	(6,740)		(12,400)
Redemption of principal balance in restricted account		5,730	
Purchases of securities available for sale	(571,670)	(1,029,894)	(395,998)
Proceeds from sales of securities available for sale	158,904	248,965	256,930
Proceeds from principal payments and maturities of securities available for sale	402,224	1,251,396	470,966

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Purchases of securities held to maturity			(78,158)
Proceeds from principal payments and maturities of securities held to maturity	6,793	20,184	119,004
Purchases of FHLB stock	(5,130)	(11,071)	(166,102)
Redemption of FHLB stock	2,056	9,523	188,878
Proceeds from sale of residential mortgage loans originally classified as held for investment	3,553	3,765	2,179
Proceeds from sale of residential mortgage servicing rights on mortgage loans held for investment	532	339	865
Net (increase) decrease in loans	(272,693)	112,004	143,776
Purchases of premises and equipment	(1,780)	(1,511)	(1,562)
Proceeds from sale of premises and equipment	74	1	12
Proceeds from sale of other real estate owned	16,946	18,805	1,279
Proceeds from sale of repossessed assets	22,528	24,430	26,886
Net cash provided by (used in) investing activities	(148,923)	659,059	473,165

(Continued)

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Table of Contents**BBVAPR Holding Corporation and BBVA Securities of Puerto Rico, Inc.****(Wholly Owned Subsidiaries of Banco Bilbao Vizcaya Argentaria, S.A.)****COMBINED STATEMENTS OF CASH FLOWS**

FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009

(In thousands of dollars)

	2011	2010	2009
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net increase (decrease) in deposits	\$ 232,351	\$ (26,281)	\$ (369,084)
Net decrease in federal funds purchased	(50,000)	(227,700)	(71,531)
Originations of securities sold under agreements to repurchase			318,668
Repayment of securities sold under agreements to repurchase			(503,668)
Advances from FHLB	114,000	346,000	6,133,603
Repayment of advances from FHLB	(30,000)	(296,000)	(6,488,603)
Advances from FRB	5,000	265,000	2,635,000
Repayment of advances from FRB	(5,000)	(730,000)	(2,570,000)
Net increase (decrease) in commercial paper and short-term borrowed funds	60,804	1,670	(264,104)
Proceeds from issuance of other borrowed funds		756	668,449
Repayment of other borrowed funds	(199,437)		
Capital contribution from Parent			100,000
Payment to Parent for long-term incentive plan			(1,017)
Net cash provided by (used in) financing activities	127,718	(666,555)	(412,287)
NET INCREASE IN CASH AND DUE FROM BANKS	20,967	40,552	74,463
CASH AND DUE FROM BANKS Beginning of year	270,478	229,926	155,463
CASH AND DUE FROM BANKS End of year	\$ 291,445	\$ 270,478	\$ 229,926
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash paid during the year for interest	\$ 83,915	\$ 98,144	\$ 120,527
Cash paid during the year for income taxes	\$ 793	\$ 444	\$ 748
NONCASH INVESTING AND FINANCING ACTIVITIES:			
Real estate acquired in settlement of loans	\$ 56,341	\$ 33,147	\$ 12,216
Repossessed assets acquired in settlement of loans	\$ 21,543	\$ 24,441	\$ 22,337
Transfer of residential mortgage loans held for investment to residential mortgage loans held for sale	\$	\$ 3,455	\$ 2,193
Transfer of residential mortgage loans held for sale to residential mortgage loans held for investment	\$ 9,946	\$ 6,722	\$

Residential mortgage loans held for sale securitized and transferred to available for sale investment securities	\$ 38,802	\$ 82,110	\$ 86,448
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(Concluded)

See notes to combined financial statements.

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BBVAPR HOLDING CORPORATION AND BBVA SECURITIES OF PUERTO RICO, INC.

(Wholly Owned Subsidiaries of Banco Bilbao Vizcaya Argentaria, S.A.)

NOTES TO COMBINED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2011 AND 2010 AND FOR EACH OF THE THREE YEARS IN THE PERIOD

ENDED DECEMBER 31, 2011

(In thousands of dollars, except share data)

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The combined financial statements include the combined assets and liabilities and operations of BBVAPR Holding Corporation (Holding or Corporation), and its wholly owned subsidiaries, Banco Bilbao Vizcaya Argentaria Puerto Rico (the Bank) and BBVA Seguros Inc. (BBVA Seguros), and of BBVA Securities of Puerto Rico, Inc. (BBVA Securities). These entities are collectively referred to as the Companies . The Corporation and BBVA Securities are wholly owned subsidiaries of Banco Bilbao Vizcaya Argentaria, S.A. (BBVA S.A. or the Parent), a Spanish Bank.

Holding was incorporated on April 12, 2000, under the laws of the Commonwealth of Puerto Rico to serve as a holding company Holding is subject to the Bank Holding Company Act and to the regulations of the Board of Governors of the Federal Reserve System. As a financial holding company, the Corporation is permitted to engage in financial-related activities, including insurance and securities activities, provided that the Corporation and the Bank meet certain regulatory standards.

The Bank is a commercial bank established and licensed under the laws of the Commonwealth of Puerto Rico. The Bank operates an International Banking Entity (IBE), Banco Bilbao Vizcaya Argentaria Puerto Rico Overseas (Overseas) as a unit of the Bank. The deposits of the Bank are insured up to the maximum levels permitted by the Federal Deposit Insurance Corporation (FDIC). The FDIC and the Office of the Commissioner of Financial Institutions of the Commonwealth of Puerto Rico (OCFI) have regulatory and examination authority over the Bank. See Notes 2 and 24 for further details.

BBVA Seguros was incorporated as an insurance agent on November 21, 2000, and began operations on April 1, 2001. BBVA Seguros sells life, health, disability, title, and property and casualty insurance products in Puerto Rico through the branches of the Bank.

BBVA Securities is engaged in a single line of business as a securities broker-dealer, which comprises several classes of services, including principal transactions, agency transactions, investment banking, and financial advisory services. It is a member of the Financial Industry Regulatory Authority, Inc. and the Securities Investor Protection Corporation. It does not carry customer accounts and is accordingly exempt from the customer protection rule (Securities and Exchange Commission (SEC) Rule 15c3-3) pursuant to provision k(2)(ii) of such rule.

The accounting and reporting policies of the Companies conform to accounting principles generally accepted in the United States of America (U.S. GAAP). The following is a description of the Companies most significant accounting policies:

Principles of Combination The combined financial statements include the accounts of Holding, its wholly owned subsidiaries and of BBVA Securities. All significant intra-entity transactions and balances between the Companies have been eliminated in combination.

Use of Estimates in the Preparation of Financial Statements The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported periods. Material estimates that are particularly susceptible to significant change relate to the determination of the allowances for losses on loans and repossessed assets, evaluation of intangible and long-lived assets for impairment, valuation of securities and derivative instruments, evaluation of securities for impairment and other-than-temporary declines in value, the valuation of real estate acquired in connection with foreclosure or in satisfaction of loans, the amount of deferred tax asset valuation allowance, accounting for uncertain tax positions, and accounting for contingencies. Management believes that these estimates are adequate. Actual results could differ from those estimates.

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Cash and Due from Banks Includes cash on hand, cash items in the process of collection, amounts due from correspondent banks and the Federal Reserve Bank, and cash equivalents. Cash equivalents consist of highly liquid investments with original maturities of three months or less, and money market investments carried at fair value. Money market investments are carried by BBVA Securities and are held with Pershing LLC, its clearing broker company.

Restricted Assets The Bank maintains a time deposit of \$300 in a domestic bank in Puerto Rico as required by the International Banking Center Law. The Bank also maintains deposits pledged to other financial institutions, in the amount of \$13,410 and \$6,670 at December 31, 2011 and 2010, respectively, as collateral for outstanding derivative transactions and for residential loans sold with recourse. Restricted cash includes deposits pledged to Parent in the amount to \$6,670 at each of December 31, 2011 and 2010. These amounts are considered restricted.

BBVA Securities has a clearing agreement (the Agreement) with Pershing LLC. Pershing LLC is a member of various stock exchanges and is subject to the rules and regulations of such organizations as well as those of the SEC. Under the terms of the Agreement, Pershing LLC clears and executes the brokerage transactions of BBVA Securities customers on a fully disclosed basis. The Agreement states that BBVA Securities will assume customer obligations if a customer defaults. BBVA Securities also maintains a minimum deposit of \$100 with Pershing LLC as required by the Agreement.

Securities Purchased under Agreements to Resell As part of its financial activities, the Bank purchases securities under agreements to resell the same or similar securities. These securities purchased under agreements to resell are classified as secured loans and are reflected as assets in the accompanying combined statements of financial condition. The Bank monitors the value of the underlying securities as compared to the related receivable, including accrued interest, and requests additional collateral when the fair value of the underlying collateral falls to less than the collateral requirement. As of December 31, 2011 and 2010, there were no securities purchased under agreements to resell outstanding.

Investment Securities The Companies classify its investment securities as held to maturity, available for sale, or trading, on the date of purchase. Securities for which the Companies have the positive intent and ability to hold to maturity are classified as held to maturity and are carried at amortized cost.

The Companies classify as trading those securities that are acquired and held principally for the purpose of selling them in the near future. These securities are carried at fair value with realized and unrealized changes in fair value included as part of noninterest income in the period in which the changes occur. Interest revenue arising from trading securities is included in the combined statements of operations and comprehensive income (loss) as part of interest income. At December 31, 2011 and 2010, all outstanding trading securities are carried by BBVA Securities.

Investment securities not classified as either held to maturity or trading securities are classified as available for sale and reported at fair value with unrealized gains and losses reported, net of related deferred income taxes, in accumulated other comprehensive income. These unrealized gains and losses do not affect earnings until realized or when the securities are deemed to be other-than-temporarily impaired.

Premiums are amortized and discounts are accreted to interest income over the life of the related securities using the effective interest method. Investment securities transactions in regular-way trades are recorded on a trade-date basis. Net realized gains or losses on sales of investment securities are reported within noninterest income or expense in the combined statements of operations and comprehensive income (loss). The cost of securities sold is determined on the specific identification method.

The Companies periodically evaluate their available for sale and held to maturity securities for other-than-temporary impairment (OTTI). An impairment charge is recognized within noninterest income in the combined statements of operations and comprehensive income (loss).

For debt securities, OTTI losses are recognized in the combined statements of operations and comprehensive income (loss) if the Companies have the intent to sell the debt security or it is more likely than not that the Companies will be required to sell the debt security before recovery of its amortized cost basis. However, even if the Companies do

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not expect to sell or will not be required to sell a debt security, expected cash flows to be received are evaluated to determine if a credit loss has occurred. An unrealized loss is generally deemed to be other than temporary and a credit loss is deemed to exist if the present value of the expected future cash flows is less than the amortized cost basis of the debt security. The credit loss component of an OTTI is recorded as a component of net impairment losses on investment securities in the combined statements of operations and comprehensive income (loss), while the remaining portion of the impairment loss is recognized in other comprehensive income, net of taxes. The previous amortized cost basis, less the OTTI recognized in operations is the new amortized cost basis of the investment. The new amortized cost basis is not adjusted for subsequent recoveries in fair value. However, for debt securities for which OTTI was recognized in operations, the difference between the new amortized cost basis and the cash flows expected to be collected is accreted as interest income.

There were no OTTI charges recorded in income during the years ended December 31, 2011, 2010 and 2009.

Mortgage Banking Activities and Residential Mortgage Loans Held for Sale From time to time, the Bank sells loans through either securitization or individual loan sales to the Government National Mortgage Association (GNMA) and Federal National Mortgage Association (FNMA), which are serviced by another financial institution. Residential mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or fair value determined on an aggregate basis. Net unrealized losses are recognized through a valuation allowance by charges to income. Realized gains or losses on these loans are determined using the specific identification method. Loan origination fees and direct loan origination costs related to loans held for sale are deferred as an adjustment to the carrying basis of such loans until these are sold. Commitments to sell residential mortgage loans held for sale in the secondary market were not significant at December 31, 2011 and 2010.

Servicing rights on all mortgage loans originated or purchased by the Bank are sold to other financial institutions. The sale of these rights creates a discount on the loans, which is deferred and amortized over the expected life of the loan using a method that approximates the effective interest method, unless the loans are classified as held for sale where the discount is not amortized and is taken into income when the loans are sold as part of the gain or loss on sale of residential mortgage loans.

Loans Receivable The Bank originates commercial and industrial loans, construction and commercial real estate loans, residential mortgages, auto loans, and other consumer loans mainly to customers within Puerto Rico. The ability of the Bank's borrowers to honor their contracts is dependent on the general economic conditions in this area.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding unpaid principal balances reduced by any charge-offs, the allowance for loan losses, unearned interest, and any net deferred fees on originated loans. Interest income is accrued on the unpaid principal balance to achieve a constant periodic rate of return on the outstanding loan. Loan origination fees, net of related direct costs, are deferred and recognized as a yield adjustment to interest income using the effective interest method. Discounts and premiums on purchased loans, as well as unearned interest on consumer loans, are amortized to income over the term of the loan using the effective interest method.

The accrual of interest on commercial and industrial, and construction and commercial real estate loans is discontinued when: (1) the loan is 90 days or more delinquent as to principal or interest, (2) management determines that full payment of principal and interest on a loan is not expected, or (3) a loan is maintained on a cost recovery basis due to deterioration of the borrower's financial condition. Accrual of interest on auto loans, residential mortgages, and other consumer loans is generally discontinued at the time the loan is 120 days delinquent as to principal or interest. Loans for which the recognition of interest income has been discontinued are designated as nonaccrual. When a loan is placed in nonaccrual status, all previously accrued, but uncollected, interest is reversed and charged against current income. Interest on nonaccrual loans is thereafter recognized as income only to the extent actually collected. Nonaccrual loans are returned to accrual status when such loans are current as to principal, and interest payments and future payments are expected to be made on schedule. There are certain real estate, commercial, and construction loans for which the borrower is current as to the payment of interest, but delinquent over 90 days as to the payment of principal, that may not be designated as nonaccrual if the collateral has sufficient net realizable value to discharge the debt in full.

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Auto and other consumer loans are charged-off between 120 to 150 days past due depending on the type of consumer loan.

For residential mortgage loans (that is, those loans secured by residential real estate properties) and following the requirements of the Uniform Retail Credit Classification and Account Management Policy of the Board of Governors of the Federal Reserve System, a current assessment of value is made not later than 180 days past the contractual due date. Any outstanding loan balance in excess of the estimated value of the property, less estimated cost to sell, is charged-off. For this purpose and for residential real estate properties, the Bank performs an appraisal for loans with an unpaid principal balance equal or higher than \$250 while an evaluation is performed by an independent broker for loans with a balance less than \$250 to determine collateral value.

Allowance for Loan Losses The Bank maintains an allowance to absorb probable loan losses inherent in the portfolio. The allowance for loan losses is maintained at a level the Bank considers to be adequate to absorb probable loan losses, based on evaluations of the collectibility and historical loss experience of loans. Estimates of losses inherent in the loan portfolio involve the exercise of judgment and the use of assumptions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to income. Loan losses are charged against the allowance when management believes the collectibility of a loan balance is unlikely. Subsequent recoveries, if any, are credited to the allowance. Changes in the allowance related to impaired loans are charged or credited to the provision for loan losses. The assessment of the allowance for loan losses is determined in accordance with accounting guidance, specifically guidance of loss contingencies and loan impairment.

Management's periodic evaluation of the adequacy of the allowance for loan losses is based on the Bank's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated fair value of any underlying collateral, and other factors that, in management's judgment, deserve consideration under existing economic conditions in estimating probable loan losses. Because of uncertainties inherent in the estimation process, management's estimate of credit losses in the loan portfolio and the related allowance for loan losses might change.

The Bank follows a systematic methodology to establish and evaluate the adequacy of the allowance for loan losses. This methodology consists of several key elements. Commercial and industrial, and construction and commercial real estate loans with an outstanding balance of over \$250 that exhibit probable or observed credit weaknesses are subject to individual review and grading. Allowances are established for individual loans based on management's estimate of the borrower's ability to repay the loan given the availability of collateral, other sources of cash flow, and legal options available to the Bank.

Included in the review of individual loans are those that are impaired. A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Loans, in which the Bank grants a concession that it would not otherwise consider to a borrower with financial difficulties are considered troubled debt restructurings (TDRs) and also classified as impaired. Although, the accounting codification guidance for specific impairment of a loan excludes large groups of smaller balance homogeneous loans that are collectively evaluated for impairment (e.g., mortgage loans), it specifically requires that loan modifications considered TDRs be analyzed under its provisions. Therefore, the Bank performs impairment analyses to all TDR residential mortgage loans with outstanding balances of over \$250.

Impaired loans are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or fair value of the underlying collateral if the loan is collateral dependent. The Bank performs appraisal on collateral properties for loans that are considered impaired following a corporate reappraisal policy. The policy requires an updated appraisal annually. As a general procedure, the Bank obtains appraisals as part of the underwriting and approval process and also for credits adversely classified. Impaired loans for which the discounted cash flows or collateral value exceeds their carrying value do not require any specific allowance. The Bank evaluates the collectibility of both principal and interest when assessing the need for loss accrual.

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For loans that are not individually evaluated for impairment and, thus, considered homogeneous, the Bank uses a methodology that follows a loan credit rating process that involves dividing loans into risk categories following an age-based rating system by portfolio category. For each delinquency segment, the Bank applies an allowance percentage factor based on historical credit losses. Historical loss rates may be adjusted for significant factors that, in management's judgment, reflect the effect of any current conditions on loss recognition. Factors that management considers in the analysis include economic trends, trends in the nature and volume of loans (delinquencies, charge-offs, nonaccrual, and problem loans), changes in the internal lending policies and credit standards, collection practices, and examination results from bank regulatory agencies and the Bank's internal credit examiners.

The allowance for loan losses is reviewed at least quarterly and adjusted as necessary based on changing borrower and/or collateral conditions and actual collection and charge-off experience.

Troubled Debt Restructurings TDRs are measured at the present value of estimated future cash flows using the loan's effective rate at inception. TDRs represent loans where concessions have been granted to borrowers experiencing financial difficulties that the creditor would not otherwise consider. Concessions may include a reduction in the interest rate on the loan, payment extensions, forgiveness of principal, forbearance, or other actions intended to maximize collection. These concessions stem from an agreement between the creditor and the debtor or are imposed by law or a court. Classification of loan modifications as TDRs involves a degree of judgment. Indicators that the debtor is experiencing financial difficulties include, for example (i) the debtor is currently in default or delinquent on any of its debt; (ii) the debtor has declared or is in the process of declaring bankruptcy; (iii) there is significant doubt as to whether the debtor will continue to be a going concern; (iv) currently, the debtor has securities that have been delisted, are in the process of being delisted, or are under threat of being delisted from an exchange; and (v) based on estimates and projections that only encompass the current business capabilities, the debtor forecasts that its entity-specific cash flows will be insufficient to service the debt (both interest and principal) in accordance with the contractual terms of the existing agreement through maturity; and absent the current modification, the debtor cannot obtain funds from sources other than the existing creditors at an effective interest rate equal to the current market interest rate for similar debt for a nontroubled debtor. Loans classified as TDRs are reported in nonaccrual status if the loan was in nonaccruing status at the time of the modification. The TDR loan should continue in nonaccrual status until the borrower has demonstrated a willingness and ability to make the restructured loan payments (at least six months of sustained performance after it was classified as TDR). When a loan is placed in nonaccrual status, all previously accrued, but uncollected, interest is reversed and charged against current earnings. Interest on nonaccrual loans is thereafter recognized as income only to the extent actually collected.

Premises and Equipment Premises and equipment, including leasehold improvements, are carried at cost, less accumulated depreciation and amortization. Depreciation is calculated using the straight-line method over the estimated useful lives of the related assets, which range from one to 40 years. Amortization of leasehold improvements is computed using the straight-line method over the terms of the leases or estimated useful lives of the improvements, whichever is shorter. Maintenance, repairs, and minor improvements are charged to noninterest expense as incurred. Costs of renewals and betterments are capitalized. When assets are sold or disposed of, their cost and related accumulated depreciation are removed from the accounts and any gain or loss is reflected in earnings.

Impairment of Long-Lived Assets The Companies periodically review long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In performing the review for recoverability, an estimate of the future cash flows expected to result from the use of the asset and its eventual disposition is made. If the sum of the future cash flows (undiscounted and without interest charges) is less than the carrying amount of the assets, an impairment loss is recognized. The amount of the impairment is the excess of the carrying amount over the fair value of the asset. As of December 31, 2011 and 2010, there was no indication of impairment as a result of such review.

Computer Software Costs Computer software costs are deferred and amortized using the straight-line method over a period ranging from three to five years. Unamortized computer software costs (included within other assets in the accompanying combined statements of financial condition) amounted to approximately \$8,023 and \$8,789 at December 31, 2011 and 2010, respectively.

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Repossessed Properties Repossessed properties amounting to \$70,402 and \$36,467 at December 31, 2011 and 2010, respectively, are included within other assets in the accompanying combined statements of financial condition and represent real estate and automobiles acquired through foreclosure or deeded to the Bank in lieu of foreclosure on loans on which the borrowers have defaulted as to payment of principal and interest. Repossessed properties at the time of foreclosure are recorded at the lower of the Bank's cost of acquisition (outstanding loan principal balance, plus any accrued interest and related foreclosure costs) or their fair value, less estimated selling costs. Any write-downs at the date of the acquisition are charged to the allowance for loan losses. After foreclosure, repossessed properties are carried at the lower of cost or fair value, minus estimated costs to sell. Expenses incurred in maintaining assets and subsequent write-downs to reflect declines in the net realizable value of the property are charged to current operations as noninterest expense.

Goodwill The Bank evaluates goodwill for impairment as of October 31 or more frequently if circumstances indicate a possible impairment. The impairment test is composed of two steps. The initial step is designed to identify potential goodwill impairment by comparing an estimate of the fair value of the applicable reporting unit to its carrying value, including goodwill. If the carrying value of the applicable reporting unit exceeds its fair value, a second step is performed, which compares the implied fair value of the applicable reporting unit's goodwill with the carrying amount of that goodwill, to measure the amount of goodwill impairment, if any.

As of December 31, 2011 and 2010, the Bank has goodwill amounting to \$116,353. No impairment loss resulted in connection with the annual impairment test.

Securities Sold under Agreements to Repurchase As part of its financial activities, the Bank enters into sales of securities under agreements to repurchase the same or substantially similar securities. The Bank retains effective control over the securities sold in these agreements. Accordingly, amounts received under these agreements represent secured borrowings and are reflected as a liability in the accompanying combined statements of financial condition. The securities underlying the agreements remain in the asset accounts of the Bank. These transactions are recorded at the amounts at which transactions will be settled. The counterparties to the contracts generally have the right to repledge the securities received as collateral.

Amortization of Debt Issue Costs Costs related to the issuance of debt are deferred and amortized under the straight-line method and are included as part of other assets in the accompanying combined statements of financial condition. At December 31, 2011 and 2010, unamortized debt issue costs amounted to \$273 and \$398, respectively.

Income Taxes The Companies recognize deferred tax liabilities and assets for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. The computation is based on enacted laws and rates applicable to periods in which temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recognized for any deferred tax asset for which, based on management's evaluation, it is more likely than not (a likelihood of more than 50%) that some portion or all of the deferred tax asset will not be realized.

The Companies follow a comprehensive model for the financial statement recognition, measurement, presentation, and disclosure of income tax uncertainties with respect to positions taken or expected to be taken on income tax returns. Income tax benefits of uncertain tax positions are recognized and measured upon a two-step model (1) a tax position must be more likely than not to be sustained based on its technical merits in order to be recognized and (2) the benefit is measured as the largest dollar amount of that position that is more likely than not to be sustained upon settlement. A liability is recognized for any benefit claimed, or expected to be claimed, in a tax return in excess of the benefit recorded in the combined financial statements, along with any interest and penalty (if applicable) on such excess. This liability is also referred to as unrecognized tax benefit.

Reserve Fund The Banking Act of the Commonwealth of Puerto Rico requires that a minimum of 10% of the Bank's net earnings for the year be transferred to a reserve fund until such amount equals 100% of paid-in capital. Amounts transferred to the reserve fund account are not available for payment of dividends to shareholders.

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Comprehensive Income (Loss) Comprehensive income (loss) is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances, except for those resulting from investments by owners and distributions to owners. U.S. GAAP require that recognized revenues, expenses, gains, and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the stockholder's equity section of the combined statements of financial condition, such items, along with net income, are components of comprehensive income (loss). Accumulated other comprehensive income, net of tax, as of December 31, 2011 and 2010, consisted of the unrealized gain on investment securities available for sale.

Fair Value of Financial Instruments The Companies adopted authoritative guidance issued by the FASB for fair value measurements, which 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. This guidance also establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Three levels of inputs may be used to measure fair value:

Level 1 Values are unadjusted quoted prices for identical assets and liabilities in active markets accessible at the measurement date.

Level 2 Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument.

Level 3 Unobservable inputs for the asset or liability. These inputs are used to the extent that observable inputs are not available and reflect the Bank's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

Derivative Financial Instruments As part of the Bank's asset/liability management, the Bank uses interest rate contracts, which include interest rate exchange agreements (swaps), caps, and other option agreements, to modify interest rate characteristics of various assets/liabilities included in the combined statements of financial condition.

The Bank records all derivatives as either assets or liabilities in the combined statements of financial condition and measures those instruments at fair value through adjustments to either accumulated other comprehensive income or current earnings or both, as appropriate. On the date the Bank enters into a derivative contract, the Bank designates the derivative instrument as either a fair value hedge, cash flow hedge, or as a derivative instrument not designated as a hedge. For a fair value hedge, changes in the fair value of the derivative instrument and changes in the fair value of the hedged asset or liability or of an unrecognized firm commitment attributable to the hedged risk are recorded currently in earnings. For a cash flow hedge, changes in the fair value of the derivative instrument, to the extent that it is effective, are recorded in accumulated other comprehensive income and subsequently reclassified to net earnings in the same period that the hedged transaction affects net earnings. For derivative instruments not designated as a hedge, changes in fair values are recorded currently in earnings.

The Bank formally documents the relationship between hedging instruments and hedged items, as well as the risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivative instruments that are designated as fair value or cash flow hedges to specific assets and liabilities on the combined statements of financial condition, or to specific unrecognized firm commitments or to forecasted transactions along with a formal assessment at both inception of the hedge and on an ongoing basis as to the effectiveness of the derivative instrument in offsetting changes in fair values or cash flows of the hedged item. If it is determined that the derivative instrument is not highly effective as a hedge, hedge accounting is discontinued and the adjustment to fair value of the derivative instrument is recorded currently in earnings.

Certain contracts contain embedded derivatives. When the embedded derivative possesses economic characteristics that are not clearly and closely related to the economic characteristics of the host contract, it is bifurcated and carried at fair value.

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In the case of interest rate exchange agreements that qualify for hedge accounting treatment, net interest income or expense resulting from the differential between exchanging floating and fixed-rate interest payments is recorded on a current basis as an adjustment to interest income or expense on the corresponding hedged assets or liabilities.

Off-Balance-Sheet Instruments The Bank enters into off-balance-sheet credit-related financial instruments consisting of commitments to extend credit, commitments under credit card arrangements, commercial and standby letters of credit, financial guarantees, and commitments to purchase mortgage loans. Such financial instruments are recorded in the combined financial statements when they are funded or related fees are incurred or received. The Bank periodically evaluates the credit risks inherent in these commitments and letters of credit and establishes loss allowances for such risks, if deemed necessary.

Transfers of Financial Assets After a transfer of financial assets that qualifies for sale accounting, the Bank derecognizes financial assets when control has been surrendered, and derecognizes liabilities when extinguished. Transfers of financial assets in which the Bank surrenders control over the assets are accounted for as a sale to the extent that consideration other than beneficial interests in the transferred assets is received in exchange. The criteria that must be met to determine that the control over transferred assets has been surrendered, includes (1) the assets must be isolated from creditors of the transferor, (2) the transferee must obtain the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the transferor cannot maintain effective control over the transferred assets through an agreement to repurchase them before their maturity. When the Bank transfers financial assets and the transfer fails any one of the above criteria, the Bank is prevented from derecognizing the transferred financial assets and the transaction is accounted for as a secured borrowing.

Commissions on Insurance and Securities Broker-Dealer Business BBVA Seguros' commission income is recognized on the effective date of the policies, except for certain long-term policy business for which the commission is fully collected in advance (net of a reserve for estimated policy cancellations) and amortized over the term of the policy. Commission income of BBVA Seguros amounted to \$2,818, \$2,405 and \$2,833, for the years ended December 31, 2011, 2010 and 2009, respectively, and is included as part of the other service charges and fees in the accompanying combined statements of operations and comprehensive income (loss).

BBVA Securities' commissions and related clearing expenses are recorded on a trade-date basis as customers' securities transactions occur. Commission income of BBVA Securities amounted to \$1,528, \$1,451 and \$2,274, for the years ended December 31, 2011, 2010 and 2009, respectively, and is included as part of the other service charges and fees in the accompanying combined statements of operations and comprehensive income (loss).

Concentrations of Credit Risk Most of the Bank's loan business activities are with customers located within Puerto Rico, except for \$1,000 and \$3,809 at December 31, 2011 and 2010, respectively, of loans to certain U.S. and foreign corporations. The majority of the Bank's loan portfolio consists of commercial and industrial loans, residential mortgage loans, and auto loans. Commercial and industrial loans are granted to clients in a diversity of industries. The Bank does not have a significant concentration in any one industry or customer.

BBVA Securities is engaged in various trading and brokerage activities in which counterparties primarily include broker-dealers, banks, and other financial institutions. In the event counterparties do not fulfill their obligations BBVA Securities may be exposed to risk. The risk of default depends on the creditworthiness of the counterparty or issuer of the instrument. It is BBVA Securities' policy to review, as necessary, the credit standing of each counterparty to reduce its exposure to potential losses.

New Accounting Pronouncements In April 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-02, *A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring*, which clarifies when a loan modification or restructuring is considered a TDR. It is intended to assist creditors in determining whether a modification of the terms of a receivable meets the criteria to be considered a TDR, both for purposes of recording an impairment loss and for disclosure of TDR. The new guidance will require creditors to evaluate modifications and restructurings of receivables using a more principles-based approach. This update clarifies the existing guidance on whether (1) the creditor has granted a concession and (2) whether the debtor is experiencing financial difficulties. Specifically, the guidance (1) provides additional

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guidance on determining whether a creditor has granted a concession, including guidance on collection of all amounts due, receipt of additional collateral or guarantees from the debtor, and restructuring the debt at a below-market rate; (2) includes examples for creditors to determine whether an insignificant delay in payment is considered a concession; (3) prohibits creditors from using the borrower's effective rate to evaluate whether a concession has been granted to the borrower; (4) adds factors for creditors to use to determine whether the debtor is experiencing financial difficulties; and (5) ends the deferral of the additional disclosures required about TDR activities. The adoption of these provisions did not have a significant impact on loans classified as TDRs. Refer to Note 5 to the combined financial statements for new required disclosures for the year ended December 31, 2011, retrospectively applied.

In April 2011, the FASB issued ASU 2011-03, *Reconsideration of Effective Control for Repurchase Agreements*. This update affects all entities that enter into agreements to transfer financial assets that both entitle and obligate the transferor to repurchase or redeem the financial assets before their maturity. The guidance modifies the criteria for determining when these transactions would be accounted for as financings (secured borrowings/lending agreements) as opposed to sales (purchases) with commitments to repurchase (resell). This guidance does not affect other transfers of financial assets. This guidance removes from the assessment of effective control (1) the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee, and (2) the requirement to demonstrate that the transferor possesses adequate collateral to fund substantially all the cost of purchasing replacement financial assets. The new guidance is effective for the first interim or annual period beginning on or after December 15, 2011. The guidance should be applied prospectively to transactions or modifications of existing transactions that occur on or after the effective date. Early application is not permitted. The Companies do not anticipate that this guidance will have any effect on their combined statements of financial condition or results of operations.

In May 2011, the FASB issued ASU 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS*, to provide a consistent definition of fair value between U.S. GAAP and International Financial Reporting Standards (IFRS). This update modifies some fair value measurement principles and disclosure requirements including the application of the highest and best use and valuation premise concepts, measuring the fair value of an instrument classified in a reporting entity's shareholders' equity, measuring the fair value of financial instruments that are managed within a portfolio, application of premiums and discounts in a fair value measurement, disclosing quantitative information about unobservable inputs used in Level 3 fair value measurements, and other additional disclosures about fair value measurements. The new guidance is effective for periods beginning on or after December 15, 2011. The guidance should be applied prospectively and early application is not permitted. The Companies do not anticipate that adoption of this guidance will have a significant effect on their combined statements of financial condition, results of operations, or fair value measurements.

In June 2011, the FASB issued ASU 2011-05, *Presentation of Comprehensive Income*, which allows an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. This update eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholder's equity. Under either method, the entity is required to present on the face of the financial statements reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statements where the components of net income and the components of other comprehensive income are presented. These amendments do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. It does not change the option for an entity to present components of other comprehensive income either net of related tax effects or before related tax effects, with one amount shown for the aggregate income tax expense or benefit related to the total of other comprehensive income items. The amendments of this guidance are effective for periods beginning on or after December 15, 2011 and should be applied retrospectively. Early adoption is permitted. The provisions of this guidance impact presentation only and will not have an impact on the Companies' combined statements of financial condition or results of operations.

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In September 2011, the FASB issued ASU 2011-08, *Testing Goodwill for Impairment*, which intends to simplify how entities test goodwill for impairment. It permits an entity the option to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in the guidance related to Intangibles-Goodwill and Other. The more-likely-than-not threshold is defined as having a likelihood of more than 50%. The previous guidance required an entity to test goodwill for impairment, on at least an annual basis, by comparing the fair value of a reporting unit with its carrying amount, including goodwill (step one). If the fair value of a reporting unit is less than its carrying amount, then the second step of the test must be performed to measure the amount of the impairment loss, if any. Under these amendments, an entity is not required to calculate the fair value of a reporting unit unless the entity determines that it is more likely than not that its fair value is less than its carrying amount. This amendment also removes the guidance that permitted the entities to carry forward the calculation of the fair value of the reporting unit from one year to the next if certain conditions are met. In addition, the new qualitative indicators replace those currently used to determine whether an interim goodwill impairment test is required. These indicators are also applicable for assessing whether to perform step two for reporting units with zero or negative carrying amounts. This guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted, including for annual and interim goodwill impairment tests performed as of a date before September 15, 2011, if an entity's financial statements for the most recent annual or interim period have not yet been issued. The provisions of this guidance simplify how entities test for goodwill impairment. The Companies do not anticipate that this guidance will have a significant effect on their combined statements of financial condition or results of operations.

In December 2011, the FASB issued ASU 2011-11, *Disclosures about Offsetting Assets and Liabilities*. The update requires new disclosures about balance sheet offsetting and related arrangements. For derivatives and financial assets and liabilities, the amendments require disclosure of gross asset and liability amounts, amounts offset on the balance sheet, and amounts subject to the offsetting requirements but not offset on the balance sheet. The guidance is effective for annual reporting periods beginning on or after January 1, 2013 and is to be applied retrospectively. Because this amendment impacts disclosures only, it will have no effect on the Companies' combined financial condition, results of operations or cash flows.

In December 2011, the FASB issued ASU 2011-12, *Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05*, which defers indefinitely the new requirement in ASU 2011-05, *Presentation of Comprehensive Income*, to present components of reclassification adjustments out of accumulated other comprehensive income on the face of the income statement by income statement line item.

2. STOCKHOLDER S EQUITY AND REGULATORY MATTERS

Preferred stock, common stock and additional paid-in capital for Holding and BBVA Securities at December 31, 2011 and 2010, were as follows:

	2011		
	PREFERRED STOCK	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL
2011			
BBVAPR Holding Corporation, Inc. Preferred stock, \$1 par value authorized 5,000,000; none issued	\$	\$	\$
BBVAPR Holding Corporation, Inc. Common stock, \$8 par value authorized 25,000,000 shares; issued and outstanding 20,755,889		166,047	356,829
BBVA Securities of Puerto Rico, Inc. Common stock, \$1 par value authorized 1,000,000 shares; issued and outstanding 805,000 shares		805	6,460
Total	\$	\$ 166,852	\$ 363,289

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	2010		
	PREFERRED STOCK	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL
2010			
BBVAPR Holding Corporation, Inc. Preferred stock, \$1 par value authorized 5,000,000; none issued	\$	\$	\$
BBVAPR Holding Corporation, Inc. Common stock, \$8 par value authorized 25,000,000 shares; issued and outstanding 20,755,889 shares		166,047	356,493
BBVA Securities of Puerto Rico, Inc. Common stock, \$1 par value authorized 1,000,000 shares; issued and outstanding 805,000 shares		805	6,460
Total	\$	\$ 166,852	\$ 362,953

The Bank is regulated by the FDIC and by the OCFI.

Holding is subject to examination, regulation, and periodic reporting under the Bank Holding Company Act of 1956, as amended, which is administered by the board of governors of the Federal Reserve System.

Holding, on a consolidated basis, is subject to various regulatory capital requirements administered by federal agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the combined financial statements. Under capital adequacy guidelines, Holding must meet specific capital guidelines that involve quantitative measures of its assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. Holding's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require Holding to maintain minimum amounts and ratios (set forth in the following table) of Total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2011 and 2010, that Holding meets all capital adequacy requirements to which it is subject.

Holding's actual capital amounts and ratios as of December 31, 2011 and 2010, were as follows:

2011	ACTUAL		MINIMUM CAPITAL REQUIREMENTS		MINIMUM TO BE WELL CAPITALIZED UNDER PROMPT CORRECTIVE ACTION PROVISIONS	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total risk-based capital to risk-weighted assets	\$ 537,098	14.87%	\$ 289,047	8%	\$ 361,309	10%
Tier I capital to risk-weighted assets	417,262	11.55	144,523	4	216,785	6
Tier I capital to average assets	417,262	8.78	190,190	4	237,737	5

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	ACTUAL		MINIMUM CAPITAL REQUIREMENTS		MINIMUM TO BE WELL CAPITALIZED UNDER PROMPT CORRECTIVE ACTION PROVISIONS	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	2010					
Total risk-based capital to risk-weighted assets	\$ 505,908	14.43%	\$ 280,562	8%	\$ 350,703	10%
Tier I capital to risk-weighted assets	363,595	10.37	140,281	4	210,422	6
Tier I capital to average assets	363,595	7.52	193,411	4	241,764	5

Holding's ability to pay dividends to its stockholder and other activities can be restricted if its capital falls below levels established by the applicable guidelines. In addition, any bank holding company whose capital falls below levels specified in the guidelines can be required to implement a plan to increase capital.

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. The Bank has a reserve fund as required by the Banking Act of the Commonwealth of Puerto Rico. Amounts transferred to the reserve fund account are not available for payment of dividends to Holding.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the following table) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier 1 capital (as defined) to average assets (as defined). Management believes that the Bank met all capital adequacy requirements to which it is subject as of December 31, 2011 and 2010.

As of December 31, 2011 and 2010, the most recent notification from the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain minimum total risk based, Tier 1 risk based, and Tier 1 leverage ratios as set forth in the following table. There are no conditions or events since the notification that management believes have changed the Bank's category. The Bank's actual capital amounts and ratios at December 31, 2011 and 2010, are as follows:

	ACTUAL		MINIMUM CAPITAL REQUIREMENT		MINIMUM TO BE WELL CAPITALIZED UNDER PROMPT CORRECTIVE ACTION PROVISIONS	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	2011					
Total risk-based capital to risk-weighted assets	\$ 528,910	14.64%	\$ 288,964	8%	\$ 361,205	10%
Tier 1 capital to risk-weighted assets	409,087	11.33	144,482	4	216,723	6
Tier 1 capital to average assets	409,087	8.60	190,166	4	237,707	5

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	2010					
	ACTUAL		MINIMUM CAPITAL REQUIREMENT		MINIMUM TO BE WELL CAPITALIZED UNDER PROMPT CORRECTIVE ACTION PROVISIONS	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total risk-based capital to risk-weighted assets	\$ 499,197	14.24%	\$ 280,491	8%	\$ 350,613	10%
Tier 1 capital to risk-weighted assets	356,895	10.18	140,245	4	210,368	6
Tier 1 capital to average assets	356,895	7.38	193,397	4	241,746	5

The Bank's ability to pay dividends to the Corporation and other activities can be restricted if its capital falls below levels established by the FDIC guidelines. In addition, any bank whose capital falls below levels specified in the guidelines can be required to implement a plan to increase capital.

BBVA Securities is subject to the SEC Uniform Net Capital Rule (the "Rule") under the Securities Exchange Act of 1934, which requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital (the "Net Capital Ratio"), both as defined, shall not exceed 15:1 (and the rule of the applicable exchange also provides that equity capital may not be withdrawn or cash dividends paid if the resulting Net Capital Ratio would exceed 10:1). BBVA Securities capital amounts and ratios at December 31, 2011 and 2010, are as follows:

	2011	2010
Net Capital	\$ 6,760	\$ 5,514
Excess Required Net Capital	6,660	5,414
Net Capital Ratio	0.15:1	0.18:1

3. INTEREST-BEARING DEPOSITS IN BANKS

The aggregate amounts and interest rates on interest-bearing deposits in banks, as of and for the years ended December 31, 2011 and 2010, are as follows:

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	2011	2010
Balance end of year	\$ 402	\$ 95,882
Maximum amount outstanding at any month-end	95,890	95,882
Average balance outstanding during the year	42,958	51,768
Weighted-average interest rate during the year	0.61%	0.61%
Weighted-average interest rate at end of year	0.22	0.67

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The amortized cost, gross unrealized gains and losses, and estimated fair value of securities at December 31, 2011 and 2010, are as follows:

	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTIMATED FAIR VALUE
2011				
Securities available for sale:				
U.S. government and agencies obligations	\$ 1,457	\$ 44	\$	\$ 1,501
Government-sponsored agencies mortgage-backed securities	609,130	14,881	(541)	623,470
Puerto Rico (P.R.) government and agencies obligations	98,690			98,690
Corporate notes	10,000	34	0	10,034
Total securities available for sale	\$ 719,277	\$ 14,959	\$ (541)	\$ 733,695
Securities held to maturity government-sponsored agencies mortgage-backed securities	\$ 5,042	\$ 8	\$	\$ 5,050

	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTIMATED FAIR VALUE
2010				
Securities available for sale:				
U.S. government and agencies obligations	\$ 1,759	\$ 82	\$	\$ 1,841
Government-sponsored agencies mortgage-backed securities	662,853	7,371	(1,789)	668,435
Total securities available for sale	\$ 664,612	\$ 7,453	\$ (1,789)	670,276
Securities held to maturity government-sponsored agencies mortgage-backed securities	\$ 11,835	\$ 23	\$	\$ 11,858

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The gross unrealized losses and estimated fair value of securities, aggregated by security category and length of time the individual securities have been in an unrealized loss position, at December 31, 2011 and 2010, are as follows:

	LESS THAN 12 MONTHS		12 MONTHS OR MORE		TOTAL	
	ESTIMATED FAIR VALUE	GROSS UNREALIZED LOSSES	ESTIMATED FAIR VALUE	GROSS UNREALIZED LOSSES	ESTIMATED FAIR VALUE	GROSS UNREALIZED LOSSES
2011						
Available for sale Government-sponsored agencies mortgage-backed securities	\$ 9,949	\$ (97)	\$ 109,219	\$ (444)	\$ 119,168	\$ (541)

	LESS THAN 12 MONTHS		12 MONTHS OR MORE		TOTAL	
	ESTIMATED FAIR VALUE	GROSS UNREALIZED LOSSES	ESTIMATED FAIR VALUE	GROSS UNREALIZED LOSSES	ESTIMATED FAIR VALUE	GROSS UNREALIZED LOSSES
2010						
Available for sale Government-sponsored agencies mortgage-backed securities	\$ 235,470	\$ (1,207)	\$ 93,312	\$ (582)	\$ 328,782	\$ (1,789)

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The Companies periodically evaluate their securities for OTTI. As of December 31, 2011 and 2010, management concluded that there was no OTTI in the Companies' securities portfolio since the securities in an unrealized loss position at such dates are guaranteed by the government or by government-sponsored entities, the Bank does not have the intent to sell these debt securities, the Bank expects to recover its amortized cost with cash flows generated by the securities, and it is more likely than not that it will not be required to sell the debt securities before recovery of their amortized cost basis.

The amortized cost and estimated fair values of securities at December 31, 2011, by contractual maturity, excluding mortgage-backed securities, are shown in the following table. The contractual maturities of most mortgage-backed securities are due after ten years. Actual maturities may differ from contractual maturities when there exists a right to call or prepay obligations with or without call or prepayment penalties.

	AVAILABLE FOR SALE		HELD TO MATURITY	
	AMORTIZED COST	ESTIMATED FAIR VALUE	AMORTIZED COST	ESTIMATED FAIR VALUE
Maturity:				
Due after one year through five years	\$ 10,000	\$ 10,034	\$	\$
Due after five years through ten years	599	613		
Due after ten years	99,548	99,578		
Mortgage-backed securities	609,130	623,470	5,042	5,050
Total	\$ 719,277	\$ 733,695	\$ 5,042	\$ 5,050

Proceeds from sales of securities available for sale during the years ended December 31, 2011, 2010 and 2009, were \$158,904, \$248,965 and \$256,930, respectively. For the years ended December 31, 2011, 2010 and 2009, the realized gross gains on sales of securities available for sale amounted to \$7,157, \$8,995 and \$5,416, respectively. There were no losses from such sales.

Trading securities as of December 31, 2011, consist of Puerto Rico municipal bonds amounting to \$1,541, a short-term corporate note amounting to \$402 and other investments amounting to \$103. At December 31, 2010, trading securities consist of indexed certificates of deposits amounting to \$1,141.

5. LOANS, ALLOWANCE FOR LOAN LOSSES AND ALLOWANCE FOR REPOSSESSED REAL ESTATE

Residential Mortgage Loans Held for Sale During 2011 and 2010, the Bank sold and securitized residential loans amounting to \$89,000 and \$106,000, respectively. Loans are sold individually or through securitizations. Loans sold are based on pre-established commitments or at fair value. Securitizations are made in conjunction with Government National Mortgage Association (GNMA) and Federal National Mortgage Association (FNMA) whereby the loans are exchanged for securities. At December 31, 2011 and 2010, residential mortgage loans held for sale amounted to \$30,517 and \$20,711, respectively. During 2011, 2010 and 2009, the Bank recognized gains of \$1,425, \$598 and \$369, respectively, in connection with its mortgage banking activities.

The aggregate amortized cost and estimated fair value of these loans at December 31, 2011 and 2010, are as follows:

	AMORTIZED COST	GROSS UNREALIZED HOLDING GAINS	GROSS UNREALIZED HOLDING LOSSES	ESTIMATED FAIR VALUE
December 31, 2011	\$ 30,517	\$ 1,265	\$	\$ 31,782
December 31, 2010	\$ 20,966	\$	\$ 255	\$ 20,711

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Loans Receivable The composition of the Bank's loan portfolio at December 31, 2011 and 2010, was as follows:

	2011	2010
Commercial and industrial, including overdraft balances on demand deposits of \$974 and \$5,926, respectively	\$ 1,286,620	\$ 1,069,054
Construction and commercial real estate	303,162	390,031
Residential mortgages	921,768	942,034
Auto loans	1,196,993	1,155,630
Consumer, including overdraft balances on demand deposits of \$55 and \$66, respectively	242,653	239,892
Subtotal	3,951,196	3,796,641
Unearned interest	(289,362)	(262,896)
Discount on residential mortgage loans	(3,948)	(4,759)
Net deferred loan costs	9,472	9,381
Subtotal	3,667,358	3,538,367
Allowance for loan losses	(132,001)	(163,354)
Total	\$ 3,535,357	\$ 3,375,013

Loans Origination/Risk Management The Bank's credit policies establish guidance for the origination of credit within a framework of prudence and reasonableness, considering the reality of the economic environment and compliance with laws and regulations. The credit policies are set to define the type of business that is attractive to the Bank. This strategy sets out the credits that can be granted and seeks to ensure that a client represents an admissible credit for the Bank. Management and the board of directors review and approve the credit policies periodically.

A monitoring system is in place to ensure the loan quality of all loan portfolios. The Bank's asset classification system is one of the main tools to assess the asset quality of the loan portfolios, and to identify and monitor portfolio risks. The classification system rates the strength of the borrower and the loan transaction. The system is designed to be a tool for senior management to manage the Bank's credit risk and provide an early warning system for negative migration of credits. The system also provides for recognition of improvement in credits.

Also, monitoring reports are prepared and discussed with management and the board of directors. This reporting package includes credit trends, such as delinquency, non-performing loans and loan charge-offs, and other credit quality indicators.

Commercial and Industrial Loans (C&I) C&I loans include commercial credit lines, overdrafts, unsecured commercial loans, and commercial loans secured by real estate and by other types of collateral. These loans are granted mainly to corporate clients, to automobile dealers to finance their inventory, to the government and to small and medium size enterprises. In the underwriting process of C&I loans, the overall economic and financing situation and the repayment capacity of the borrower are taken into consideration. Lending limits, term, required documentation, interest rate approval, collateral, and guarantees are also considered. C&I loans are composed of different markets.

As part of the monitoring system, an alert system has been adopted for C&I loans to ensure an early identification of problem loans. This system is a tool for credit classification and mitigation of credit losses. Monitoring reports are prepared to follow up on delinquent, nonperforming loans, and classified loans.

Construction and Commercial Real Estate Loans (CRE) The main products of CRE loans are interim construction, land, and permanent loans (rental properties). The repayment of an interim financing construction loan generally depends on success of the project. Therefore, its viability is the main consideration during the evaluation process. Additional considerations are also evaluated, such as technical and financial capacity of the developer and the contractor. The parameters for land loans are based primarily on the loan to value and debt service coverage ratio. The main parameters for permanent loans are the occupancy and the debt-service coverage ratio.

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Monitoring system and reports explained in the C&I loans section are also part of the CRE loans monitoring process. In addition, new appraisal reports are requested periodically for CRE loans.

Residential Mortgage Loans The Bank grants loans secured with first and second mortgages on residential properties. Mortgage loan policy establishes specific guidance for the origination of conforming and nonconforming loans. The Bank is required to obtain and maintain regulatory approvals to finance loans insured or guaranteed by Federal Housing Administration (FHA), United States Department of Agriculture Rural Development (Rural), or U.S. Department of Veteran Affairs (VA). The Bank also obtains proper approval from FNMA and GNMA for subsequent sale of eligible loans in the secondary market.

The Bank considers offering refinancing of certain residential mortgage loans to mitigate risks. This type of product is part of the loss mitigation program. This program is composed of several products with specific requirements and underwriting standards designed to mitigate or avoid a potential loss. Monitoring reports cover trends and results of this program. Also, mortgage monitoring reports include loan to value composition, originations by FICO score, foreclosures in process, and others.

Auto Loans The Bank provides financing for the purchase of new or used motor vehicles for private or public use. These loans are granted mainly through dealers authorized and approved by the auto credit department committee of the Bank. The auto credit department has the specialized structure and resources to provide the service required for this product according to market demands.

The auto loan credit policy establishes specific guidance and parameters for the underwriting and origination process. Underwriting procedures, lending limits, interest rate approval, insurance coverage, and automobile brand restrictions are some parameters and internal controls implemented to ensure the quality and profitability of the auto loan portfolio. The credit scoring system is a fundamental part of the decision process. Sub-prime lending, as defined by the FDIC, is monitored and internal limits and additional procedures in the analysis and underwriting process are established for this type of credit. Generally, sub-prime lending consists of loans to borrowers which exhibit one or more of these credit risk characteristics: (1) two or more 30-day delinquencies in the last twelve months, or one or more 60-day delinquencies in the last 24 months; (2) judgment, foreclosure, repossession, or charge-off in the prior 24 months; (3) bankruptcy in the last five years; relatively high default probability as evidenced by risk score (FICO) of 660 or below; or debt service to income ratio of 50% or more.

Consumer Loans The Bank offers retail products, such as personal loans, credit cards, and lines of credit, among others. The credit scoring system is used for personal loans and credit card loan originations. The Bank determines from time to time maximum amounts of credit limits, monthly payments, charges and fees, and interest rates. Also, lending limits and underwriting procedures are part of the structure and controls.

Securitizations The Bank is an approved GNMA and FNMA issuer of mortgage-backed securities. During 2011 and 2010, the Bank securitized 1 to 4 family residential mortgage loans with an unpaid principal balance of approximately \$40,000 and \$83,000, respectively, where the Bank retained the beneficial interests.

Past Due and Non-Accrual Loans Loans are considered past due if the required principal and interest payments have not been received when contractually due. For further details about the Bank's accounting policies related to non-accrual and past due loans treatment, see Note 1 to the combined financial statements.

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At December 31, 2011 and 2010, the balance of non-accrual loans and accruing loans past due over 90 days (net of unearned interest) segregated by class of loans were as follows:

	NONACCRUAL LOANS	2011 ACCRUING LOANS PAST DUE 90 DAYS OR OVER	NONACCRUAL LOANS	2010 ACCRUING LOANS PAST DUE 90 DAYS OR OVER
Commercial and industrial	\$ 78,945	\$ 296	\$ 68,086	\$ 1,487
Construction and commercial real estate	78,000		157,579	156
Residential mortgages	78,868		82,884	
Auto loans	9,150		11,171	
Consumer	2,246	621	3,497	977
Total	\$ 247,209	\$ 917	\$ 323,217	\$ 2,620

Interest income that would have been recorded if nonaccrual loans had performed in accordance with their original terms would have amounted to approximately \$8,487, \$8,918 and \$8,063 for the years ended December 31, 2011, 2010 and 2009, respectively. Interest income collected on nonaccrual loans amounted to approximately \$174, \$392 and \$424 for the years ended December 31, 2011, 2010 and 2009, respectively. Additionally, commercial and industrial loans and CRE loans past due over 90 days accruing interest amounted to \$296 and \$1,643 at December 31, 2011 and 2010, respectively.

At December 31, 2011 and 2010, an age analysis of past due loans (net of unearned interest) is as follows:

	30-89 DAYS PAST DUE	OVER 90 DAYS PAST DUE	TOTAL PAST DUE	CURRENT	TOTAL LOANS
2011					
Commercial and industrial	\$ 7,908	\$ 79,241	\$ 87,149	\$ 1,199,471	\$ 1,286,620
Construction and commercial real estate	5,367	78,000	83,367	219,795	303,162
Residential mortgages	28,448	78,868	107,316	814,452	921,768
Auto loans	103,700	9,150	112,850	833,346	946,196
Consumer	6,580	2,867	9,447	194,641	204,088
Unamortized discount and costs				5,524	5,524
Total	\$ 152,003	\$ 248,126	\$ 400,129	\$ 3,267,229	\$ 3,667,358
2010					
Commercial and industrial	\$ 8,572	\$ 69,573	\$ 78,145	\$ 990,909	\$ 1,069,054

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Construction and commercial real estate		157,735	157,735	232,296	390,031
Residential mortgages	30,590	82,884	113,474	828,560	942,034
Auto loans	102,428	11,171	113,599	816,809	930,408
Consumer	6,705	4,474	11,179	191,039	202,218
Unamortized discount and costs				4,622	4,622
Total	\$ 148,295	\$ 325,837	\$ 474,132	\$ 3,064,235	\$ 3,538,367

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Impaired Loans At December 31, 2011 and 2010, loans classified as impaired were as follows:

	2011	2010
Recorded investment in impaired loans	\$ 242,418	\$ 315,744
Less recorded investment in impaired loans for which no valuation allowance is required	(82,684)	(152,207)
Recorded investment in impaired loans for which valuation allowance is required	\$ 159,734	\$ 163,537
Allowance for loan losses for impaired loans	\$ 20,676	\$ 24,865
Average recorded investment in impaired loans	273,973	364,078
Interest on impaired loans collected and recognized as income	5,529	6,245

C&I, construction, and CRE loans are deemed impaired when, based on the current information and events, management considers that it is probable that the borrower would be unable to pay all amounts due according to the contractual terms of the loan agreement. In addition, all TDRs are also considered impaired.

If a loan is impaired, a specific valuation allowance is established, if necessary, so that the loan is reported net, at the present value of estimated future cash flows using the loan's original effective interest rate, or at the fair value of the collateral, less selling costs, if repayment is expected solely from the collateral.

At December 31, 2011 and 2010, impaired loans by class of loans are set forth in the following table:

	UNPAID CONTRACTUAL PRINCIPAL BALANCE	RECORDED INVESTMENT WITH NO ALLOWANCE	RECORDED INVESTMENT WITH ALLOWANCE	TOTAL RECORDED INVESTMENT	RELATED ALLOWANCE	AVERAGE RECORDED INVESTMENT	INTEREST INCOME RECOGNIZED
2011							
Commercial and industrial	\$ 99,131	\$ 46,827	\$ 41,600	\$ 88,427	\$ 4,177	\$ 84,926	\$ 1,898
Construction and commercial real estate	217,205	26,509	72,187	98,696	12,881	139,161	2,023
Residential mortgage	56,829	9,348	45,947	55,295	3,618	49,886	1,608
Total	\$ 373,165	\$ 82,684	\$ 159,734	\$ 242,418	\$ 20,676	\$ 273,973	\$ 5,529
2010							
Commercial and industrial	\$ 88,313	\$ 50,788	\$ 29,746	\$ 80,534	\$ 4,128	\$ 95,312	\$ 3,378

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Construction and commercial real estate	396,412	97,291	101,707	198,998	16,586	239,175	2,867
Residential mortgage	36,908	4,128	32,084	36,212	4,151	29,591	
Total	\$ 521,633	\$ 152,207	\$ 163,537	\$ 315,744	\$ 24,865	\$ 364,078	\$ 6,245

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Credit Quality Indicators As part of the ongoing monitoring of the credit quality of the Bank's loan portfolio, management tracks certain credit quality indicators, including trends related to (i) the level of classified commercial loans (ii) net charge-offs, (iii) non-performing loans, and (iv) the general economic conditions.

The Bank utilizes a risk grading system to assign a risk grade to each of its commercial and industrial and its CRE loans. These loans are graded on a scale of 1 to 8 risk grades as follows:

- n *Grade 1* This grade includes loans with very high-credit quality borrowers. These borrowers have excellent credit with superior quality, liquidity, debt capacity and coverage, excellent management with depth in most, if not all management positions. These borrowers are market leaders with access to capital markets and/or are highly regarded in the industry with strong market share. Also included in this category may be loans secured by cash, U.S. government securities, U.S. government agencies securities, highly rated municipal bonds, insured savings accounts, and insured certificates of deposit with the Bank.
- n *Grade 2* This grade includes loans with solid credit quality and risk. These borrowers have good business credit with satisfactory asset quality and liquidity; good and acceptable debt capacity, coverage, and management. These loans carry a normal level of risk, with minimal exposure. The borrower has the ability to perform according to the terms of the credit facility.
- n *Grade 3* This grade includes loans with acceptable credit quality and risk. These borrowers have acceptable business credit but with less than average risk, acceptable asset quality, little excess liquidity, and modest debt capacity. These loans carry a reasonable credit risk in which the borrower demonstrates the ability to repay the debt from normal business operations.
- n *Grade 4* This grade includes loans on management's watch list and is intended to be utilized on a temporary basis for pass grade borrowers where some, but minor, management and/or credit weaknesses have been identified.
- n *Grade 5* This grade includes special mention loans, in accordance with regulatory guidelines. This grade is intended to be temporary and include loans that have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or of the Bank's credit position at some future date.
- n *Grade 6* This grade includes Substandard loans in accordance with regulatory guidelines. Normal repayment of credit for these loans is in jeopardy. While no loss of principal or interest is expected, there are clear and well-defined weaknesses that jeopardize liquidation of debt.
- n *Grade 7* This grade includes Doubtful loans in accordance with regulatory guidelines. These loans have all the weaknesses inherent in those classified as Substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of current existing facts, conditions, and values, highly questionable and improbable.
- n *Grade 8* This grade includes Loss loans in accordance with regulatory guidelines. These are uncollectible loans or with such little value that it does not warrant classification as a bankable asset. Such loan may, however, have recovery or salvage value but not to the point where a write-off should be deferred, even though partial recovery may occur in the future.

The assignment of the obligor risk rating is based on relevant information about the ability of borrowers to service their debts, such as current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other

factors.

The Bank periodically reviews loans classified as watch list or worse, to evaluate if they are properly classified. For those loans with an adverse classification, management evaluates whether those loans are considered impaired. The frequency of these reviews will depend on the amount of the aggregate outstanding debt and the risk rating classification of the obligor. In addition, during the renewal process of applicable credit facilities, the Bank evaluates the corresponding loan grades.

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Loans classified as pass credits are excluded from the scope of the review process described above until: (a) they become past due; (b) management becomes aware of deterioration in the creditworthiness of the borrower; or (c) the customer contacts the Bank for a modification. In these circumstances, the credit facilities are specifically evaluated to assign the appropriate risk rating classification.

The credit quality indicators by loans portfolio at December 31, 2011 and 2010, are as follows:

	2011				2010			
	COMMERCIAL AND INDUSTRIAL LOANS		CONSTRUCTION AND COMMERCIAL REAL ESTATE LOANS		COMMERCIAL AND INDUSTRIAL LOANS		CONSTRUCTION AND COMMERCIAL REAL ESTATE LOANS	
	WEIGHTED-AVERAGE RISK GRADE	OUTSTANDING PRINCIPAL	WEIGHTED-AVERAGE RISK GRADE	OUTSTANDING PRINCIPAL	WEIGHTED-AVERAGE RISK GRADE	OUTSTANDING PRINCIPAL	WEIGHTED-AVERAGE RISK GRADE	OUTSTANDING PRINCIPAL
Commercial credit exposure:								
Credit risk profile by internally assigned grade:								
Grades 1-4	2.21	\$ 1,141,680	2.61	\$ 148,849	2.17	\$ 907,612	2.51	\$ 157,277
Grade 5 Special Mention		10,275		24,893		26,999		19,192
Grade 6 Substandard		132,305		129,420		124,160		213,562
Grade 7 Doubtful		925				3,069		
Grade 8 Loss						62		
Total	2.62	1,285,185	4.25	303,162	2.71	1,061,902	5.00	390,031
Credit risk profile based on payment activity:								
Performing		1,435				7,152		
Nonaccrual								
Total		1,435				7,152		
Total commercial credit exposure		1,286,620		303,162		1,069,054		390,031
Consumer credit exposure (net of unearned interest) credit risk profile based on payment activity:								
Performing		\$ 842,900	\$ 937,045	\$ 201,842		\$ 859,150	\$ 919,237	\$ 198,721
Nonaccrual		78,868	9,150	2,246		82,884	11,171	3,497
Total consumer credit exposure		\$ 921,768	\$ 946,195	\$ 204,088		\$ 942,034	\$ 930,408	\$ 202,218

Modifications At December 31, 2011 and 2010, TDRs amounted to \$217,675 and \$164,000, respectively, including commercial, construction, commercial real estate, consumer, and residential mortgage loans that had been renegotiated by reducing interest rates, extending maturity date, or granting other concessions, such as capitalization of unpaid interest or moratorium of loan repayment. As of December 31, 2011 and 2010

there were no outstanding commitments to lend additional funds to borrowers owing receivables whose terms have been modified in TDRs.

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A modification of a loan constitutes a TDR when a borrower is experiencing financial difficulty and the modification constitutes a concession. A concession could include a reduction in the interest rate on the loan, payment extensions, forgiveness of principal, forbearance, or other actions intended to maximize collection.

Loans classified as TDRs are reported in nonaccrual status if the loan was in nonaccruing status at the time of the modification. The TDR loan should continue in nonaccrual status until the borrower has demonstrated a willingness and ability to make the restructured loan payments (at least six months of sustained performance after it was classified as TDR). When a loan is placed in nonaccrual status, all previously accrued, but uncollected, interest is reversed and charged against current earnings. Interest on nonaccrual loans is thereafter recognized as income only to the extent actually collected. Loans classified as TDRs are excluded from TDR status once performance under the restructured terms exists for a reasonable period (at least 12 months of sustained performance after classification) and the loan yields a market rate.

Loan modifications that are considered TDRs completed during the year ended December 31, 2011, were as follows:

	NUMBER OF CONTRACTS	PRE-MODIFICATION OUTSTANDING RECORDED INVESTMENT	POST-MODIFICATION OUTSTANDING RECORDED INVESTMENT
Troubled debt restructurings:			
Commercial and industrial	26	\$ 16,754	\$ 13,944
Construction and commercial real estate	1	10,166	8,066
Residential mortgages	308	70,872	64,235
Consumer	334	3,649	3,386

The Bank considers a loan to have defaulted if the borrower has failed to make payments of either principal, interest, or both for a period of 60 days or more.

Loan modifications considered TDRs that defaulted during the year ended December 31, 2011, and that had been modified in a TDR during the preceding twelve months period were as follows:

	NUMBER OF CONTRACTS	RECORDED INVESTMENT
Troubled debt restructurings that subsequently defaulted:		
Commercial and industrial	10	\$ 4,644
Residential mortgages	53	9,388
Consumer	120	935

Allowance for Loan Losses Activity in the allowance for loan losses for the years ended December 31, 2011, 2010, and 2009, was as follows:

	2011	2010	2009
Balance beginning of year	\$ 163,354	\$ 179,583	\$ 76,645
Provision for loan losses	31,050	80,515	253,906
Loans charged off	(90,205)	(124,109)	(179,070)
Recoveries	27,802	27,365	28,102
Balance end of year	\$ 132,001	\$ 163,354	\$ 179,583

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For the years ended December 31, 2011 and 2010, the activity in the allowance for loan losses by portfolio segment is as follows:

	COMMERCIAL AND INDUSTRIAL LOANS	CONSTRUCTION AND COMMERCIAL REAL ESTATE	RESIDENTIAL MORTGAGES	AUTO LOANS	CONSUMER LOANS	UNALLOCATED	TOTAL
2011							
Beginning balance	\$ 36,636	\$ 41,211	\$ 39,127	\$ 27,090	\$ 17,323	\$ 1,967	\$ 163,354
Provision (credit) for loan losses	(1,191)	19,478	(5,713)	6,708	9,817	1,951	31,050
Charge-offs	(7,568)	(28,030)	(6,202)	(35,424)	(12,981)		(90,205)
Recoveries	1,345	1,722	99	23,178	1,458		27,802
Net charge-offs	(6,223)	(26,308)	(6,103)	(12,246)	(11,523)		(62,403)
Ending balance	\$ 29,222	\$ 34,381	\$ 27,311	\$ 21,552	\$ 15,617	\$ 3,918	\$ 132,001
Period-end amount allocated to:							
Loans individually evaluated for impairment	\$ 4,177	\$ 12,881	\$ 3,618	\$	\$	\$	\$ 20,676
Loans collectively evaluated for impairment	25,045	21,500	23,693	21,552	15,617	3,918	111,325
Ending balance	\$ 29,222	\$ 34,381	\$ 27,311	\$ 21,552	\$ 15,617	\$ 3,918	\$ 132,001
2010							
Beginning balance	\$ 35,288	\$ 68,734	\$ 28,996	\$ 28,695	\$ 17,192	\$ 678	\$ 179,583
Provision for loan losses	12,223	21,831	16,491	14,227	14,454	1,289	80,515
Charge-offs	(11,852)	(51,252)	(6,507)	(38,125)	(16,373)		(124,109)
Recoveries	977	1,898	147	22,293	2,050		27,365
Net charge-offs	(10,875)	(49,354)	(6,360)	(15,832)	(14,323)		(96,744)
Ending balance	\$ 36,636	\$ 41,211	\$ 39,127	\$ 27,090	\$ 17,323	\$ 1,967	\$ 163,354
Period-end amount allocated to:							
Loans individually evaluated for impairment	\$ 4,128	\$ 16,586	\$ 4,151	\$	\$	\$	\$ 24,865
Loans collectively evaluated for impairment	32,508	24,625	34,976	27,090	17,323	1,967	138,489
Ending balance	\$ 36,636	\$ 41,211	\$ 39,127	\$ 27,090	\$ 17,323	\$ 1,967	\$ 163,354

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The recorded investment in loans, net of unearned interest as of December 31, 2011 and 2010, related to each balance in the allowance for loan losses by portfolio segment and disaggregated on the basis of the Bank's impairment methodology was as follows:

DECEMBER 31, 2011	COMMERCIAL AND INDUSTRIAL	CONSTRUCTION AND COMMERCIAL REAL ESTATE	RESIDENTIAL MORTGAGES	AUTO LOANS	CONSUMER	UNAMORTIZED DISCOUNT AND COSTS	TOTAL
Loans individually evaluated for impairment	\$ 88,427	\$ 98,696	\$ 55,295	\$	\$	\$	\$ 242,418
Loans collectively evaluated for impairment	1,198,193	204,466	866,473	946,196	204,088	5,524	3,424,940
Ending balance	\$ 1,286,620	\$ 303,162	\$ 921,768	\$ 946,196	\$ 204,088	\$ 5,524	\$ 3,667,358

DECEMBER 31, 2010	COMMERCIAL AND INDUSTRIAL	CONSTRUCTION AND COMMERCIAL REAL ESTATE	RESIDENTIAL MORTGAGES	AUTO LOANS	CONSUMER	UNAMORTIZED DISCOUNT AND COSTS	TOTAL
Loans individually evaluated for impairment	\$ 80,534	\$ 198,998	\$ 36,212	\$	\$	\$	\$ 315,744
Loans collectively evaluated for impairment	988,520	191,033	905,822	930,408	202,218	4,622	3,222,623
Ending balance	\$ 1,069,054	\$ 390,031	\$ 942,034	\$ 930,408	\$ 202,218	\$ 4,622	\$ 3,538,367

Allowance for Repossessed Real Estate Activity in the allowance for repossessed real estate for the years ended December 31, 2011, 2010, and 2009, was as follows:

	2011	2010	2009
Balance beginning of year	\$ 2,512	\$ 1,553	\$ 1,559
Valuation allowance	3,998	1,493	1,404
Charge offs	(616)	(534)	(55)
Balance end of year	\$ 5,894	\$ 2,512	\$ 2,908

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Table of Contents**6. PLEDGED ASSETS**

At December 31, 2011 and 2010, the Bank has pledged securities and commercial, auto, and residential mortgage loans to secure repurchase agreements outstanding, public fund deposits, individual retirement accounts, treasury tax deposits, and advances from the Federal Home Loan Bank (FHLB) and Federal Reserve Bank (FRB). The counterparties to the repurchase agreements generally have the right to repledge or sell such collateral. The carrying value of the pledged assets by classification is as follows:

	2011	2010
Securities available for sale	\$ 680,344	\$ 645,825
Securities held to maturity	4,774	11,480
Interest-bearing deposits in banks	300	30,000
Loans	2,244,917	2,139,707
Total	\$ 2,930,335	\$ 2,827,012

7. PREMISES AND EQUIPMENT

Premises and equipment at December 31, 2011 and 2010, consist of the following:

	USEFUL LIVES (IN YEARS)	2011	2010
Land		\$ 622	\$ 622
Bank premises and improvements	10 40	62,862	62,643
Furniture, fixtures, and other equipment	1 10	21,024	20,304
Leasehold improvements	10 or lease term whichever is shorter	20,195	20,126
Subtotal		104,703	103,695
Less accumulated depreciation and amortization		(65,237)	(60,404)
Subtotal		39,466	43,291
Construction in progress		384	37
Total		\$ 39,850	\$ 43,328

8. DEPOSITS AND INTEREST EXPENSE

Deposits and their weighted-average interest rate at December 31, 2011 and 2010, are summarized as follows:

	2011		2010	
	AMOUNT	INTEREST RATE	AMOUNT	INTEREST RATE
Savings and Negotiable Order of Withdrawal (NOW)	\$ 989,427	1.29%	\$ 962,306	1.33%
Time deposits	1,288,569	1.62	1,229,888	2.10
	2,277,996		2,192,194	
Noninterest bearing	661,926		515,377	
Total	\$ 2,939,922		\$ 2,707,571	

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NOW accounts are interest-bearing checking accounts. Time deposits in denominations of \$100 or more amounted to \$923,176 and \$623,518 at December 31, 2011 and 2010, respectively. Interest expense on these deposits amounted to \$12,964, \$13,533 and \$16,940 for the years ended December 31, 2011, 2010 and 2009, respectively. Time deposits include brokered deposits of \$267,622 and \$503,873 at December 31, 2011 and 2010, respectively. The Bank has no step-up fixed-rate brokered deposits at December 31, 2011 and 2010.

Foreign demand and interest-bearing deposits (denominated in U.S. dollars) amounted to \$24,424 and \$21,473 at December 31, 2011 and 2010, respectively.

At December 31, 2011, the scheduled maturities of time deposits are as follows:

YEARS ENDING

DECEMBER 31

2012	\$ 929,976
2013	268,568
2014	74,976
2015	6,331
2016	7,566
Thereafter	1,152
Total	\$ 1,288,569

A summary of interest expense on deposits for the years ended December 31, 2011, 2010 and 2009, is as follows:

	2011	2010	2009
Savings and NOW	\$ 12,751	\$ 11,937	\$ 11,020
Time deposits	23,106	26,991	38,944
Total	\$ 35,857	\$ 38,928	\$ 49,964

9. FEDERAL FUNDS PURCHASED AND SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

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A summary of federal funds purchased and securities sold under agreements to repurchase as of and for the years ended December 31, 2011 and 2010, is as follows:

	FEDERAL FUNDS PURCHASED	2011 SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE	FEDERAL FUNDS PURCHASED	2010 SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE
Balance at end of year	\$	\$ 511,600	\$	\$ 561,600
Maximum amount outstanding at any month-end	\$ 62,568	\$ 561,600	\$ 124,312	\$ 786,600
Average balance outstanding during the year	\$ 2,865	\$ 548,449	\$ 37,569	\$ 665,436
Weighted-average interest rate during the year	0.24%	4.19%	0.30%	4.24%
Weighted-average interest rate at end of year	%	4.18%	%	4.20%

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During the years ended December 31, 2011 and 2010, repurchase agreements consisted of fixed and step-up coupon transactions. There were no floating to fixed transactions outstanding at year-end.

During the outstanding period of such agreements, the securities were delivered to the counterparties. The dealers may have sold, loaned, or otherwise disposed of such securities to other parties in the normal course of their operations and have agreed to resell to the Bank the same or similar securities at the maturities of the agreements. The Bank may be required to provide additional collateral based on the fair value of the underlying securities.

There were no federal funds purchased outstanding at December 31, 2011 and 2010.

Securities sold under agreements to repurchase at December 31, 2011, mature as follows: in 2012 \$175,000, in 2013 \$325,000, and in 2015 \$11,600. Securities sold under agreements to repurchase include \$500,000 of callable repurchase agreements. The first call option date is in October 2012.

At December 31, 2011 and 2010, counterparties on repurchase agreements were as follows:

	2011		2010
	BORROWING	FAIR VALUE	BORROWING
	BALANCE	OF UNDERLYING	BALANCE
		COLLATERAL	OF UNDERLYING
			COLLATERAL
U.S. financial entities	\$ 511,600	\$ 586,436	\$ 561,600
			\$ 656,943

10. ADVANCES FROM FHLB

Advances from the FHLB at December 31, 2011, which consist of fixed-rate borrowings, mature as follows:

MATURITY	INTEREST	OUTSTANDING
	RATE	BALANCE
January 10, 2012	0.31%	\$ 56,000
January 20, 2012	0.31	53,000
June 11, 2013	1.95	100,000
Total		\$ 209,000

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Advances are received from the FHLB under an advance, collateral pledge, and security agreement, whereby the Bank is required to maintain a minimum amount of qualifying collateral with a fair value of at least 115% of the outstanding advances and investment in FHLB stock. At December 31, 2011 and 2010, the Bank has mortgage loans amounting to \$746,780 and \$739,163, respectively, to secure these advances and maintains an investment in FHLB stock with a carrying value at December 31, 2011 and 2010, of \$13,848 and \$10,774, respectively. At December 31, 2011 and 2010, the Bank had additional borrowing capacity with the FHLB of \$284,436 and \$363,092, respectively.

11. ADVANCES FROM FRB

At December 31, 2011 and 2010, there were no advances from FRB outstanding. However, the Bank decided to maintain collateral at FRB should a decision be made to enter into the regular funding program offered by FRB known as the discount window program.

At December 31, 2011 and 2010, the Bank has consumer loans collateral amounting to \$825,928 and \$840,547, respectively. At December 31, 2011 and 2010, the Bank also had pledged commercial loans amounting to \$281,672 and \$235,045, respectively. In the aggregate, at December 31, 2011, these had a lendable value of \$663,848 (fluctuates from 57% to 96% based on the loan collateral category balance).

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Table of Contents**12. OTHER BORROWED FUNDS**

Other borrowed funds at December 31, 2011 and 2010, consist of the following:

	2011		2010	
	WEIGHTED-AVERAGE INTEREST RATE	BALANCE	WEIGHTED-AVERAGE INTEREST RATE	BALANCE
Senior notes net of unamortized discount of \$231 and \$794, respectively	1.57%	\$ 469,769	1.59%	\$ 669,206
Other borrowed funds	0.49	71,490	0.86	10,686
Total		\$ 541,259		\$ 679,892

At December 31, 2011, senior notes and other borrowed funds mature as follows: within 30 days \$69,756; in 2012 \$469,769; and after 10 years \$1,734. The weighted-average interest rate for the years ended December 31, 2011 and 2010, was 1.47 % and 1.60%, respectively. Senior notes are fixed and variable rates unsecured debt guaranteed by the FDIC that were issued under the Temporary Liquidity Guarantee Program (TLG Program). The variable interest rate on the unsecured senior notes issued is set at three-month London InterBank Offered Rate (LIBOR) flat. Other borrowed funds consist of unsecured fixed-rate borrowings.

13. SUBORDINATED CAPITAL NOTES

Subordinated capital notes at each, December 31, 2011 and 2010, consist of the following:

Subordinated capital notes at a variable rate of three-month LIBOR, plus 1.44% (2.01% and 1.74% at December 31, 2011 and 2010, respectively), due September 23, 2014	\$ 50,000
Subordinated notes at a fixed rate of 5.76% through September 29, 2011, and three-month LIBOR, plus 1.56% thereafter (2.13% at December 31, 2011), due September 29, 2016	37,000
Subordinated notes at three-month LIBOR, plus 0.56% through September 29, 2011, thereafter, three-month LIBOR, plus 1.56% (2.13% and 0.86% at December 31, 2011 and 2010, respectively), due September 29, 2016	30,000
Total	\$ 117,000

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In September 2004, the Bank issued \$50,000 subordinated capital notes due on September 23, 2014. Interest on these subordinated notes is payable quarterly since September 23, 2009. The Bank has the option to redeem these subordinated notes in whole or in part from time to time before maturity at 100% of the principal amount, plus any accrued, but unpaid interest, to the date of redemption, beginning September 23, 2009, at each payment date thereafter.

In September 2006, the Bank issued \$67,000 subordinated capital notes due on September 29, 2016. Interest payments on these notes are payable as follows:

n For \$37,000, payments are due semiannually during the fixed-rate period (up to September 29, 2011) and quarterly thereafter.

n For \$30,000, payments are due quarterly.

The Bank has the option to redeem these subordinated notes in whole or in part from time to time before maturity at 100% of the principal amount, plus any accrued, but unpaid, interest to the date of redemption, beginning on September 29, 2011, at each payment date thereafter.

These notes qualify as total capital for regulatory capital purposes at December 31, 2011 and 2010.

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Under the requirements of Puerto Rico Banking Law, the Bank must establish redemption funds for the subordinated capital notes by transferring from undesignated retained earnings preestablished amounts as follows:

Redemption fund December 31, 2011	\$ 71,425
2012	11,700
2013	11,700
2014	11,700
2015	10,475
Total	\$ 117,000

14. BUILDING OPERATIONS

Building operations consist principally of the leasing of office and parking space to third parties under various operating lease contracts for periods normally consisting of five years. The summary of the results of the building operations for the years ended December 31, 2011, 2010 and 2009, included within net occupancy expenses in the accompanying combined statements of operations and comprehensive income (loss) is as follows:

	2011	2010	2009
Rental income	\$ 2,444	\$ 2,296	\$ 2,812
Operating expenses:			
Salaries and other employee benefits	360	363	401
Occupancy mainly depreciation expense	1,956	1,832	1,698
Other	781	979	837
Total operating expenses	3,097	3,174	2,936
Loss from building operations	\$ (653)	\$ (586)	\$ (124)

The minimum future rental income for agreements with remaining terms in excess of one year at December 31, 2011, is as follows:

YEARS ENDING

DECEMBER 31

2012	\$ 2,358
2013	1,991
2014	859
2015	
2016	
Thereafter	
Total	\$ 5,208

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Table of Contents**15. INCOME TAXES**

The components of income tax provision (benefit) for the years ended December 31, 2011, 2010 and 2009, are as follows:

	2011	2010	2009
Current income tax provision (benefit)	\$ (4,236)	\$ (1,077)	\$ 1,355
Deferred income tax provision (benefit)	20,999	1,711	(58,689)
Total	\$ 16,763	\$ 634	\$ (57,334)

The Companies are subject to Puerto Rico regular income tax or alternative minimum tax (AMT) on income earned from all sources. The AMT is payable if it exceeds regular income tax liability. The excess of AMT over regular tax paid in any one year may be used to offset regular income tax in future taxable years, subject to certain limitations. The AMT rate for 2011 is 20% (22% for 2010 and 2009).

Pursuant to the provisions of Act No. 13 of January 8, 2004, for taxable years commencing after June 30, 2003, the net earnings generated by an IBE that operates as a unit of a bank under the Puerto Rico Banking Law are considered taxable and subject to income taxes at the current tax rates in the amount by which the IBE taxable income exceeds 20% of the taxable income of the Bank, including its IBE taxable income. The Bank's IBE carries in its books certain securities which are, irrespective of the IBE status, tax exempt by law.

On March 9, 2009, the Puerto Rico government approved Act No. 7 (the Act) to stimulate Puerto Rico's economy and to reduce the Puerto Rico government's fiscal deficit. The Act imposes a series of temporary and permanent measures, including the imposition of a 5% surtax over the total income tax determined, which is applicable to corporations, among others, whose combined income exceeds \$100,000, effectively resulting in an increase in the maximum statutory tax rate from 39% to 40.95%. Furthermore, pursuant to the provisions of the Act, all IBE operating in Puerto Rico are subject to a special tax of 5% on their net income not otherwise subject to the provisions of the Puerto Rico Internal Revenue Code of 1994. This temporary measure was effective for tax years that commenced after December 31, 2008, and before January 1, 2012. On January 31, 2011, a new Puerto Rico revenue code was enacted into law which reduced the maximum tax rate to 30% and eliminated the 5% surtax and the 5% special tax on the net income of IBEs effective for taxable years commencing after December 31, 2010.

Up to December 31, 2010, BBVA Seguros applied a 25% tax rate based on the dispositions of the Puerto Rico Internal Revenue Code Section 1015 (b) (3) as amended on August 10, 2008. Any corporation with a gross income of less than \$5,000,000 during the taxable year may opt for a tax rate of 25% if the BBVA Seguros maintains an average employment headcount of seven full time employees during the tax year. During the years ended December 31, 2010 and 2009, BBVA Seguros was in compliance with the headcount requirement. Effective January 1, 2011, this option is not available under the new Puerto Rico revenue code.

The Companies are also subject to federal income tax on their income from sources within the United States of America, even though the Companies are not doing business within the United States of America. The U.S. Internal Revenue Code (U.S. Code) provides for tax exemption of portfolio interest received by a foreign corporation from sources within the United States of America; therefore, the Companies are not subject to federal income tax on certain U.S. investments that qualify as portfolio interest.

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The reconciliation between the Puerto Rico income tax expense at the statutory rate and the effective tax rate as reported for the years ended December 31, 2011, 2010 and 2009, is as follows:

	2011	2010	2009
Income taxes at statutory rate (30% in 2011 and 40.95% in 2010 and 2009)	\$ 15,206	\$ 3,508	\$ (62,768)
Difference in rate resulting from:			
Exempt interest income net of disallowed expenses	(776)	(2,211)	(2,413)
Nondeductible expenses:			
Provision for loan losses over (under) net charge-offs	(9,406)	(6,646)	42,153
Other	1,123	1,198	286
Deferred tax effect on temporary differences and net operating loss carryforward	8,885	5,078	(32,061)
Other items net	1,731	(293)	(2,531)
Income tax expense 33% in 2011, 7% in 2010 and 37% in 2009	\$ 16,763	\$ 634	\$ (57,334)

At December 31, 2011 and 2010, accrued income tax payable amounted to \$882 and \$741, respectively, is included as part of other liabilities in the accompanying combined statements of financial condition.

Deferred income taxes reflect the tax effect of temporary differences between the carrying amount of assets and liabilities for financial reporting and the amounts used for income tax purposes. The components of the Companies' net deferred tax assets at December 31, 2011 and 2010, are as follows:

	2011	2010
Deferred tax assets:		
Puerto Rico Housing Bank and Financing Agency prepayment interest	\$ 3	\$ 23
Net operating losses	17,103	25,027
Allowance for loan losses	39,112	64,386
Reserve for repossessed assets and other	4,071	798
Total	60,289	90,234
Deferred tax liabilities:		
Excess of goodwill carrying value over tax basis	7,449	17,125
Unrealized gain on securities available for sale	1,495	
Other	39	173
Total	8,983	17,298

Net deferred tax assets	\$ 51,306	\$ 72,936
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The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Based on the information available, the Companies expect to fully realize the deferred tax asset and a valuation allowance is not deemed necessary at December 31, 2011 and 2010.

According to the Puerto Rico Internal Revenue Code (the PR Code), net operating losses can be carried forward for the next seven years. However, on November 15, 2010, Act No. 171 was enacted, which amended certain provisions of the PR Code. As a result, for net operating losses generated in the taxable years commencing after December 31, 2004, and before December 31, 2012, the loss carryforward period was increased to ten years. Accordingly, the net operating loss related to tax years 2009 and 2010 can be carried forward to years 2019 and 2020, respectively.

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The reconciliation of unrecognized tax benefits, including accrued interest as of December 31, 2011 and 2010, is as follows:

	2011	2010
Balance beginning of year	\$ 11,300	\$ 13,100
Gross increases for tax positions of current year		
Gross increases for tax positions of prior years	1,977	893
Reductions due to settlements	(3,858)	(113)
Reductions due to lapse of applicable statute of limitations	(3,287)	(2,580)
Balance end of year	\$ 6,132	\$ 11,300

The Companies do not anticipate a significant change to the total amount of unrecognized tax benefits within the next 12 months.

The amount of unrecognized tax benefits may vary for several reasons, such as increases for current-year positions, expiration of open income tax returns due to statutes of limitation, changes in management's judgment about the level of uncertainty, new outcome related to litigation, and legislative law enactment, among others.

During the year ended December 31, 2011, the Bank concluded a negotiation with the Internal Revenue Service of the United States of America. As a result \$3,858 of unrecognized tax benefits were recognized.

As of December 31, 2011 and 2010, accrued interest on unrecognized tax benefits amounts to approximately \$1,113 and \$1,800, respectively. At December 31, 2011 there was no accrual for payment penalties. As of December 31, 2010, approximately \$1,100 was accrued for this concept. The Companies' policy is to record interest and related penalties, if any, as income tax expense.

As of December 31, 2011 and 2010, the total amount of unrecognized tax benefits includes approximately \$6,000 and \$7,000 related to tax positions that would affect the annual effective rate.

The Companies file income tax returns in Puerto Rico. The Bank also files an income tax return in the United States of America. According to Puerto Rico and United States of America tax authority statute of limitation dispositions, years 2007 through 2011 remain open for examination.

16. COMMITMENTS AND CONTINGENCIES

Lease Commitments The Bank has entered into various operating lease agreements for branch facilities and administrative offices expiring at various dates through 2026. Rent expense for the years ended December 31, 2011 and 2010, amounted to \$4,500 and \$4,300, respectively. As of December 31, 2011, future minimum annual rental net of sublease rentals under the terms of noncancelable leases, without considering renewal options, are as follows:

YEARS ENDING	MINIMUM LEASE PAYMENTS
DECEMBER 31	
2012	\$ 5,274
2013	3,736
2014	2,889
2015	2,766
2016	2,390
Thereafter	11,077
Total	\$ 28,132

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Litigation The Companies are defendants in various legal proceedings arising in connection with their business. After consulting with legal counsel, it is the judgment of management that the financial position and results of operations of the Companies will not be materially affected by the final outcome of these legal proceedings.

Other Contingencies BBVA Securities and/or its service providers execute, settle, and finance customer, correspondent, and trading securities transactions in the normal course of business. These activities may expose BBVA Securities to off-balance-sheet risk arising from the potential that the customer or counterparty may fail to satisfy its obligations and the collateral will be insufficient. In this situation, BBVA Securities may be required to purchase or sell financial instruments at unfavorable market prices to satisfy obligations to customers and counterparties.

BBVA Securities indemnifies and guarantees certain service providers, such as clearing and custody agents, trustees, and administrators, against specified potential losses in connection with their acting as an agent of, or providing services to, BBVA Securities or its affiliates in the normal course of business. BBVA Securities also indemnifies clients against potential losses incurred in the event specified third-party service providers, including subcustodians and third-party brokers, improperly execute transactions. BBVA Securities believes that it is unlikely it will have to make material payments under these arrangements and accordingly, no contingent liability has been recorded in the accompanying combined financial statements for these indemnifications and guarantees.

BBVA Securities provides representations and warranties to counterparties in connection with a variety of securities transactions and occasionally indemnifies them against potential losses caused by the breach of those representations and warranties. These indemnifications generally are standard contractual terms and are entered into in the normal course of business. BBVA Securities believes that it is unlikely it will have to make material payments under these arrangements and accordingly, no contingent liability has been recorded in the accompanying combined financial statements for these indemnifications.

17. RELATED-PARTY TRANSACTIONS

The Bank and BBVA Securities grant loans to its directors, executive officers, employees, and to certain individuals or organizations related to such persons. The activity of these loans during 2011 and 2010 was as follows:

	OFFICERS AND DIRECTORS	EMPLOYEES	TOTAL
Balance December 31, 2009	\$ 1,425	\$ 39,009	\$ 40,434
Additions	127	20,242	20,369
Repayments and forgiveness	(238)	(23,253)	(23,491)
Balance December 31, 2010	1,314	35,998	37,312
Additions	218	424	642
Repayments and forgiveness	(96)	(3,769)	(3,865)
Balance December 31, 2011	\$ 1,436	\$ 32,653	\$ 34,089

Loans to officers, directors, and employees of the Bank have been granted in the normal course of business on substantially the same terms and conditions, including interest rates and collateral, as those prevailing at the same time for comparable transactions with unrelated parties, and did not involve more than the normal credit risk.

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BBVA Securities grants loans to certain employees as part of their contractual employment. These loans and interest thereon are payable in a range from four-to eight-year terms at each employee's anniversary date. The loans accrue interest at variable rates based on the London Inter Bank Offered Rate or prime rates, as specified in the employee loan agreements. If, at each employee's anniversary date, the employee is still employed by BBVA Securities, BBVA Securities is obligated to forgive an amount equal to the amount payable, including principal and interest, at such date under the loan. Loan forgiveness is recognized as part of employee compensation and benefits and recognized by BBVA Securities on a ratably and systematic basis during the term of each loan. In the event that the employee leaves BBVA Securities prior to his/her last anniversary date on which the employee has the right to earn the

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outstanding principal amount of the loan as specified on the agreement, the employee shall be obligated to pay on the date of termination the outstanding principal amount of the loan, plus all of the interest accrued on the loan. As of December 31, 2011 and 2010, the outstanding balance of these loans amounted to \$562 and \$1,655, respectively.

In the normal course of business, the Bank may place or receive deposits and engage in other businesses with the Parent and any of the Parent's branches, agencies, and subsidiaries.

Significant balances with the Parent and other affiliates of the Parent as of December 31, 2011 and 2010, are as follows:

	2011	2010
Due from the Parent and affiliates	\$ 954	\$ 965
Restricted cash deposit pledged to the Parent	6,670	6,670
Other liabilities	636	
Derivatives, whose fair value represents an asset		8
Derivatives, whose fair value represents a liability	5,041	4,935
Derivatives notional amount	39,774	59,358

Significant transactions with the Parent and other affiliates of the Parent for the years ended December 31, 2011, 2010 and 2009, are as follows:

	2011	2010	2009
Interest expense on federal funds purchased	\$ 7	\$ 108	\$ 309
Charges to affiliates for other fees	8		
Charges from an affiliated entity for data processing operations	2,579	2,904	3,147
Charges from an affiliated entity for design and development	386	60	125
Charges from an affiliated entity for research and development	4	384	
Charges from an affiliated entity for other centralized services	427		
Charges from an affiliated entity for sponsored activities	171		
Interest expense on derivative transactions	340	782	1,193

The Parent also has several derivative contracts (aggregate notional amount of \$5,495 and \$5,554 at December 31, 2011 and 2010, respectively) with certain borrowers of the Bank. The derivative contracts, held by the Parent, and the underlying loans, held by the Bank, share the same collateral.

In addition, the Bank has derivative contracts for which the Parent is the counterparty with an aggregate notional amount of \$39,774 and \$59,358 at December 31, 2011 and 2010, respectively. These derivative contracts are segregated as follows:

	2011	2010
Swap agreements	\$ 31,013	\$ 50,448
Interest rate caps and collars	8,761	8,910
Total notional amount	\$ 39,774	\$ 59,358

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In the normal course of business, the Bank becomes a party to credit-related financial instruments with off-balance-sheet risk to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby and commercial letters of credit, and financial guarantees. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the combined statements of financial condition. The contract or notional amount of those instruments reflects the extent of the Bank's involvement in particular types of financial instruments.

Commitments to Extend Credit and Commercial Letters of Credit The Bank's exposure to credit losses in the event of nonperformance by the other party to the financial instrument for commitments to extend credit including commitments under credit card arrangements, and commercial letters of credit is represented by the contractual notional amount of those instruments, which do not necessarily represent the amounts potentially subject to risk. In addition, the measurement of the risks associated with these instruments is meaningful only when all related and offsetting transactions are identified. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

Summarized credit-related financial instruments at December 31, 2011 and 2010, were as follows:

NOTIONAL AMOUNT	2011	2010
Commitments to extend credit	\$ 372,919	\$ 294,587
Commercial letters of credit	1,077	13,595

Commitments to extend credit represent agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if it is deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the counterparty.

At December 31, 2011 and 2010, commitments to extend credit consisted mainly of undisbursed available amounts on commercial lines of credit, construction loans, and revolving credit card arrangements. Since many of the unused commitments are expected to expire unused or be only partially used, the total amount of these unused commitments does not necessarily represent future cash requirements.

Commercial letters of credit are issued or confirmed to guarantee payment of customers' payables or receivables in short-term international trade transactions. Generally, drafts will be drawn when the underlying transaction is consummated as intended. However, the short-term nature of this instrument serves to mitigate the risk associated with these contracts.

The summary of instruments that are considered financial guarantees in accordance with the authoritative guidance related to guarantor's accounting and disclosures requirement for guarantees, including indirect guarantees of indebtedness of others at December 31, 2011 and 2010, is as follows:

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NOTIONAL AMOUNT	2011	2010
Standby letters of credit and financial guarantees	\$ 84,632	\$ 93,823
Unpaid principal balances on loans sold with recourse	231,508	242,465
Unpaid principal balances on loans securitized with recourse	6,187	32,776

Standby letters of credit and financial guarantees are written conditional commitments issued by the Bank to guarantee the payment and/or performance of a customer to a third party (beneficiary). If the customer fails to comply with the agreement, the beneficiary may draw on the standby letter of credit or financial guarantee as a remedy. The amount of credit risk involved in issuing letters of credit in the event of nonperformance is the face amount of the letter of credit or financial guarantee. These guarantees are primarily issued to support public and

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private borrowing arrangements, including commercial paper, bond financing, and similar transactions. The amount of collateral obtained, if it is deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the customer. During the year ended December 31, 2011, the Bank was required to perform on a financial guarantee; however, the customer reimbursed the amount disbursed by the Bank, and, accordingly, no loss was recognized. During 2010 no performance was required on any financial guarantees. Management of the Bank does not expect any significant losses under these obligations.

19. DERIVATIVE INSTRUMENTS

The Bank maintains an overall interest rate risk management strategy that incorporates the use of derivative instruments to minimize significant unplanned fluctuations in earnings and cash flows caused by interest rate volatility. The Bank's interest rate risk management strategy may involve modifying the repricing characteristics of certain assets and liabilities so that changes in interest rates do not adversely affect the net interest margin and cash flows. Derivative instruments that the Bank may use as part of its interest rate risk management strategy include interest rate swaps, swaptions, interest rate caps, and indexed options. These transactions involve both credit and market risk. The notional amounts are amounts on which calculations, payments, and the value of the derivatives are based. Notional amounts do not represent direct credit exposures. The actual risk of loss is the cost of replacing, at market, these contracts in the event of default by the counterparties. To minimize credit risk, the Bank enters into legally enforceable master netting agreements, which reduce risk by permitting the closeout and netting of transactions with the same counterparty upon occurrence of certain events such that direct credit exposure is limited to the net difference between the calculated amounts to be received and paid in the event of nonperformance by the counterparties to these agreements. The Bank also manages the credit risk of derivative instruments through credit approvals, limits, monitoring procedures, obtaining collateral, and does not expect any counterparties to fail their obligations. At December 31, 2011 and 2010, the Bank had pledged \$12,720 and \$6,670, respectively, in cash to secure derivative transactions in liability position with the Parent and a third party.

Derivative instruments are generally negotiated over-the-counter (OTC) contracts. Negotiated OTC derivatives are generally entered into between two counterparties that negotiate specific agreement terms, including the underlying instrument, notional amount, exercise price, and maturity.

The Bank enters into interest rate swap contracts in managing its interest rate exposure. Interest rate swap contracts generally involve the exchange of fixed- and floating-rate interest payment obligations without the exchange of the underlying principal amounts. Entering into interest rate swap contracts involves not only the risk of dealing with counterparties and their ability to meet the terms of the contracts, but also the interest rate risk associated with unmatched positions. Interest rate swaps are the most common type of derivative contracts that the Bank utilizes.

The Bank has also entered into interest rate cap transactions for protection against rising rates and with various clients with floating-rate debt who wished to protect their financial results against increases in interest rates. The Bank simultaneously entered into mirror-image interest rate cap transactions with an affiliated bank. None of these cap transactions qualify for hedge accounting; therefore, they are marked to market through earnings.

Index options are contracts that the Bank enters into in order to receive the average appreciation of the value of an equity index over a specified period in exchange for the payment of a premium when the contract is initiated. The credit risk inherent in the index options is the risk that the exchange party may default. Some of these contracts are structured as swap agreements where the floating rate paid by the Bank corresponds to the premium due, plus a fixed cost, and the fixed rate to be received by the Bank is the index return.

The Bank currently utilizes interest rate swaps to convert certain fixed-rate loans to a variable rate. These swaps have original maturities between three and 15 years. These derivatives are marked to market through earnings. Decisions to convert loans to variable rates are made primarily in consideration of the asset/liability mix of the Bank, the desired asset/liability sensitivity, and by interest rate levels.

The Bank offered its customers certificates of deposit, which contain an embedded derivative tied to the performance of a stock index that is bifurcated from the host deposit and recognized in the combined statements of financial condition in accordance with the applicable authoritative accounting guidance. Upon maturity, the depositor will receive a specified percent of the average increase of the month-end value of the stock index. If such

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index decreases, the depositor generally receives the principal without any interest. In some certificates of deposit, a minimum interest rate is guaranteed. The Bank uses interest rate swaps or option agreements to manage its exposure to the fluctuations of the stock indexes. Under the option agreements, the Bank will receive the average increase in the month-end value of the index in exchange for the payment of a premium when the contract is initiated. Under the terms of the swap agreements, the Bank also will receive the average increase in the month-end value of the index, but in exchange for a quarterly fixed-interest cost. Since the embedded derivative instrument in the certificates of deposit and the option and interest rate swap agreements do not qualify for hedge accounting, these derivative instruments are marked to market through earnings.

Fair Value Hedging Instruments The Bank currently utilizes interest rate swaps to convert its fixed-rate certificates of deposit and certain fixed-rate loans to variable rates. By entering into the swaps, the principal amount of the hedged item would remain unchanged, but the interest payment streams would change, except for the swaps hedging loans for which the swap notional amount amortizes based on the loan principal amortization table. These swaps mature between one and 12 years from inception. Decisions to convert fixed-rate certificates of deposits and loans to variable rates are made primarily by consideration of the asset/liability mix of the Bank, the desired asset/liability sensitivity, and by interest rate levels.

Fair value hedges are designated at inception if it is believed that the relationship of the changes in the fair value of the hedged item and the hedging instrument for the risk being hedged will offset each other in a highly effective manner. At the inception of each hedge, management documents the hedging relationship, including its objective and probable effectiveness. To assess ongoing effectiveness of the hedges, the Bank marks to market both the hedging instrument and the hedged item on a monthly basis to determine the effectiveness of the hedge for the risk being hedged. Any hedge ineffectiveness is recorded in current period's earnings.

The hedging instruments and the hedged items on fair value hedges have maturities through the year 2015. The weighted-average rate paid on interest rate swaps designated on a fair value hedging relationship as of December 31, 2011 and 2010, was 4.26% and 4.14% and weighted-average rate received was 0.30% and 0.26%, respectively.

Derivative Instruments Not Designated as Hedge These derivatives financial instruments do not qualify or have not been designated for hedge accounting treatment, and therefore, changes in fair value are reported in current-period earnings.

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Information pertaining to the notional amounts and fair values of derivative instruments reflected in the combined statements of financial condition at December 31, 2011 and 2010, is as follows:

	NOTIONAL		DERIVATIVE ASSETS		DERIVATIVE LIABILITIES			
	2011	2010	STATEMENTS OF FINANCIAL CONDITION LOCATION	FAIR VALUE		STATEMENTS OF FINANCIAL CONDITION LOCATION	FAIR VALUE	
				2011	2010		2011	2010
Derivatives designated as fair value hedge interest rate swaps	\$ 3,804	\$ 12,835	Loans receivable	\$ 458	\$ 1,223	Other liabilities	\$ 443	\$ 1,077
Derivatives instruments not designated as a hedge:								
Interest rate swaps	154,512	159,406	Other assets	10,450	9,741	Other liabilities	10,350	9,584
Interest rate swaps stock indexed		17,456	Other assets		32	Other liabilities		32
Embedded options		9,000	Other assets		1,348	Other liabilities		1,348
Purchased options		9,000	Other assets		1	Other liabilities		1
Interest rate caps and collars	28,155	29,381						
Total derivatives not designated as a hedge	182,667	224,243		10,450	11,122		10,350	10,965
Total derivatives	\$ 186,471	\$ 237,078		\$ 10,908	\$ 12,345		\$ 10,793	\$ 12,042

The effect of the derivative instruments in the combined statements of operations and comprehensive income (loss) for the years ended December 31, 2011 and 2010, is as follows:

	STATEMENTS OF OPERATIONS LOCATION	AMOUNT		
		2011	2010	2009
Derivatives designated as fair value hedge:				
Interest rate swaps	Interest income on investments	\$	\$	\$ (963)
Interest rate swaps	Interest income on loans	(340)	(782)	(1,193)
Interest rate swaps	Interest expense on deposits			166
Interest rate swaps	Trading and other derivative activities	(739)	(86)	599
Total		(1,079)	(868)	(1,391)

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Derivatives instruments not designated as hedge:				
Interest rate swaps	Trading and other derivative activities	\$ (60)	(809)	1
Interest rate swaps stock indexed	Trading and other derivative activities			20
Forward swaps	Trading and other derivative activities			(161)
Total		(60)	(809)	(140)
Total derivatives loss		\$ (1,139)	\$ (1,677)	\$ (1,531)

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Other Derivative Instruments Information A summary of the types of swaps used, excluding those used to manage exposure to the stock market, and their terms at December 31, 2011 and 2010, is as follows:

	2011	2010
Pay floating/receive fixed:		
Notional amount	\$ 77,256	\$ 79,703
Weighted-average pay rate at year-end	0.32%	0.34%
Weighted-average receive rate at year-end	4.80	4.82
Pay fixed/receive floating:		
Notional amount	\$ 81,060	\$ 92,538
Weighted-average pay rate at year-end	4.72%	4.68%
Weighted-average receive rate at year-end	0.32	0.33

The changes in notional amounts of swaps outstanding during the years ended December 31, 2011 and 2010, are as follows:

	2011	2010
Beginning balance	\$ 189,697	\$ 232,450
Called and matured swaps	(31,381)	(42,753)
Total	\$ 158,316	\$ 189,697

At December 31, 2011, the maturities by notional amounts of all derivative instruments, by type, are as follows:

YEARS ENDING	INTEREST RATE SWAPS	INTEREST RATE CAPS AND COLLARS	TOTAL
DECEMBER 31 2012	\$ 9,579	\$ 28,155	\$ 37,734

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2013	10,825		10,825
2014	100,094		100,094
2015	3,804		3,804
2016	9,014		9,014
Thereafter	25,000		25,000
Total	\$ 158,316	\$ 28,155	\$ 186,471

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The Companies' combined financial statements include various financial instruments that are carried at fair value. Other financial instruments are periodically measured at fair value, such as when impaired or when carried at the lower of cost or fair value.

The information at December 31, 2011 and 2010, about the Companies' financial assets and liabilities measured at fair value on a recurring basis is as follows:

FAIR VALUE MEASUREMENTS AT DECEMBER 31, 2011						
	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS LEVEL 1			SIGNIFICANT OTHER OBSERVABLE INPUTS LEVEL 2	SIGNIFICANT UNOBSERVABLE INPUTS LEVEL 3	TOTAL
Assets:						
Securities available for sale:						
U.S. government and agencies obligations	\$		\$	1,501	\$	\$ 1,501
Government-sponsored agencies mortgage backed-securities				623,470		623,470
P.R. government and agencies obligations				98,690		98,690
Corporate notes				10,034		10,034
Total securities available for sale				733,695		733,695
Trading securities:						
Municipal obligations				1,541		1,541
Short-term corporate note					402	402
Close-end funds					103	103
Total trading securities				1,541	505	2,046
Derivatives				10,908		10,908
Total assets	\$		\$	746,144	\$	\$ 746,649
Liabilities derivatives	\$		\$	10,793	\$	\$ 10,793

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FAIR VALUE MEASUREMENTS AT DECEMBER 31, 2010					
	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS			TOTAL	
	LEVEL 1	SIGNIFICANT OTHER OBSERVABLE INPUTS LEVEL 2	SIGNIFICANT UNOBSERVABLE INPUTS LEVEL 3		
Assets:					
Securities available for sale:					
U.S. government and agencies obligations	\$	\$ 1,841	\$	\$ 1,841	
Government-sponsored agencies mortgage backed-securities		668,435		668,435	
Total securities available for sale		670,276		670,276	
Trading securities:					
Indexed certificates of deposit			1,141	1,141	
Derivatives		12,345		12,345	
Total assets	\$	\$ 682,621	\$ 1,141	\$ 683,762	
Liabilities derivatives	\$	\$ 12,042	\$	\$ 12,042	

The change in carrying values associated with Level 3 financial instruments for the years ended December 31, 2011 and 2010, is as follows:

	INDEXED CERTIFICATES OF DEPOSITS	SHORT-TERM CORPORATE NOTES	CLOSED-END FUNDS
Balance December 31, 2009	\$ 435	\$	\$
Transfers in and/or out of Level 3 Purchases	2,289		
Sales	(1,606)		
Gains/(losses):			
Realized	20		
Unrealized	3		
Balance December 31, 2010	1,141		
Transfers in and/or out of Level 3 Purchases	4,617	9,479	35,758

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Sales	(5,733)	(9,155)	(36,585)
Gains/(losses):			
Realized	(25)	78	929
Unrealized			1
Balance December 31, 2011	\$	\$ 402	\$ 103

Gains and losses for Level 3 financial instruments, including changes in fair value, are a component of trading activities revenue in the accompanying combined statements of operations and comprehensive income (loss).

During the years ended December 31, 2011, 2010 and 2009, there were no transfers in or out of Levels 1, 2 or 3.

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At December 31, 2011 and 2010, financial assets measured at fair value on a nonrecurring basis are summarized below:

	FAIR VALUE MEASUREMENTS AT DECEMBER 31, 2011		
	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS LEVEL 1	SIGNIFICANT OTHER OBSERVABLE INPUTS LEVEL 2	SIGNIFICANT UNOBSERVABLE INPUTS LEVEL 3
Assets:			
Residential mortgage loans held for sale ⁽¹⁾	\$	\$ 31,782	\$
Impaired loans ⁽²⁾			221,742
OREO ⁽³⁾			66,094

	FAIR VALUE MEASUREMENTS AT DECEMBER 31, 2010		
	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS LEVEL 1	SIGNIFICANT OTHER OBSERVABLE INPUTS LEVEL 2	SIGNIFICANT UNOBSERVABLE INPUTS LEVEL 3
Assets:			
Loans held for sale ⁽¹⁾	\$	\$ 20,711	\$
Impaired loans ⁽²⁾			290,879
OREO ⁽³⁾			32,104

(1) Residential mortgage loans held for sale are carried at the lower of cost or fair value. Fair value is based on quoted secondary market prices or contract price at which the loans will be sold. Adjustments to fair value are those usually made by market participants. These loans are classified in Level 2 of the fair value

hierarchy given the level of activity in the market and the frequency of available quotes.

- (2) Includes mainly impaired commercial and construction loans. The impairment was generally measured based on the fair value of the collateral in accordance with the authoritative guidance related to the accounting for loan impairment. The fair values are derived from appraisals that take into consideration prices in observed transactions involving similar assets in similar locations, but adjusted for specific characteristics and assumptions of the collateral, which are not market observable.
- (3) Nonrecurring adjustments to certain commercial and residential real estate properties classified as other real estate owned (OREO) are measured at lower of cost or fair value, less costs to sell. Fair values are based on recent real estate appraisals. These appraisals may use a single valuation approach or a combination of approaches, including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value.

Following is a description of the Companies' valuation methodologies used for financial instruments measured at fair value. The disclosure requirements exclude certain financial instruments and all nonfinancial instruments. Accordingly, the aggregate fair value amounts of the financial instruments presented above do not represent management's estimate of the underlying value of the Companies.

Government-Sponsored Agencies Mortgage-Backed Securities Fair value is obtained from an independent nationally recognized pricing service, which includes both market observable and internally modeled values and/or value inputs. Pricing estimates are derived from matrix pricing. Average life, observable and/or historic prepayment speed, and cash flow yield spreads to the actively traded U.S. Treasury securities are some of the factors that are taken into consideration to develop the pricing. Our reliance on the receipt of this information is tempered by the knowledge of how the pricing service develops its data. To help determine fair value pricing reasonableness, various processes and controls have been adopted, which include a periodic review and substantiation of gains or losses realized for all traded transactions. These securities are classified as Level 2.

U.S. Government and Agencies Obligations Fair value of these securities is based on an active exchange market and on quoted market prices for similar securities. These securities are classified as Level 2.

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P.R. Government and Agencies Obligations Fair value of these securities is based on an active exchange market and on quoted market prices for similar securities. These securities are classified as Level 2.

Corporate Notes Fair value is obtained from broker-dealers, which use quoted prices for similar instruments. Corporate notes are classified as Level 2.

Municipal Obligations The fair value for these securities is obtained from brokers/dealers that use a pricing methodology based on observable market inputs and quoted market prices for similar securities. Market inputs utilized in the pricing evaluation process include benchmark yields, reported trades, broker-dealers quotes, issuer spreads, two-sided markets, bid/offer price or spread, benchmark securities, LIBOR and, industry and economic events. The extent of the use of each market input depends on the security and the market conditions. Depending on the security, the priority of the use of inputs may change or some market inputs may not be relevant. These securities are classified as Level 2.

Short-Term Corporate Note The fair value for this short-term corporate note is substantially the same as the carrying amount as these are reasonable estimates of fair value due to its short-term nature, which is less than 30 days. These financial instruments generally expose the company to limited credit risk and carry interest rates that approximate market.

Closed-End Funds The fair value of these investments has been estimated using the net asset value per share of the investments. These investments can never be redeemed with the fund. Distributions from each fund will be received as the underlying investments of the funds are liquidated. Closed-end funds are generally categorized in Level 3 of the fair value hierarchy.

Indexed Certificates of Deposit The fair value for indexed certificates of deposit is based on dealer indicative quotes. Indexed certificates of deposit are generally categorized in level 3 of the fair value hierarchy.

Derivatives Instruments Interest rate contracts, which include interest rate swaps, caps, and other option agreements are used to modify interest characteristics of various financial instruments and are traded in OTC active markets. Fair value is obtained from an independent nationally recognized pricing service, which includes both market observable and internally modeled values and/or value inputs. Fair values for certain of these instruments are determined using market observable inputs including interest rate curves and widely published market observable indexes. In certain transactions, the Bank is protected by collateral arrangements. Fair value for derivative instruments represents the estimated amount the Bank would receive or pay to terminate the contracts or agreements at the reporting date, taking into account current interest rates and, when appropriate, the current creditworthiness of the contract counterparties. Derivative instruments are classified as Level 2.

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The carrying amount and estimated fair value of the Companies' financial instruments at December 31, 2011 and 2010, not otherwise disclosed above, are as follows:

	2011		2010	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Financial assets:				
Cash and due from banks	\$ 291,445	\$ 291,445	\$ 270,478	\$ 270,478
Interest-bearing deposits in banks	402	402	95,882	95,882
Restricted cash including deposit pledged to Parent	13,510	13,510	6,770	6,770
Securities held to maturity	5,042	5,050	11,835	11,858
Loans receivable net	3,535,357	2,896,243	3,375,013	2,657,324
Accrued interest receivable	19,644	19,644	17,739	17,739
FHLB stock	13,848	13,848	10,774	10,774
Financial liabilities:				
Deposits	\$ 2,939,922	\$ 2,852,005	\$ 2,707,571	\$ 2,629,538
Federal funds purchased and securities sold under agreements to repurchase	511,600	535,442	561,600	600,243
Advances from FHLB	209,000	210,177	125,000	127,825
Other borrowed funds	541,259	543,879	679,892	687,474
Subordinated capital notes	117,000	114,808	117,000	127,309
Accrued interest payable	5,987	5,987	10,258	10,258

The fair value estimates of financial instruments for which no market exists are based on judgments regarding the amount and timing of estimated future cash flows, assumed discount rates reflecting varying degrees of risk, current economic conditions, risk characteristics of various financial instruments, and other factors. Accordingly, the fair values may not represent the actual values of the financial instruments that will be realized in the future. In addition, certain nonfinancial instruments were excluded from the fair value disclosure requirements. Therefore, the fair values presented in the previous table should not be construed as the underlying value of the Companies.

The methods and assumptions used to estimate the fair values of significant financial instruments at December 31, 2011 and 2010, were as follows:

Cash and Due from Banks, Interest-Bearing Deposits in Banks, Restricted Cash including Deposit Pledged to Parent, Accrued Interest Receivable, and Accrued Interest Payable The carrying amounts of these financial instruments approximate their fair value because of the short-term maturities of such instruments.

Investment Securities and FHLB Stock Fair values of held-to-maturity securities are based on prices obtained from an independent nationally recognized pricing service, or bid quotations received from securities dealers. Investment in FHLB stock is valued at its redemption value since this stock has no readily determinable fair value and can only be sold back to the FHLB.

Loans Fair values were estimated using cash flows analyses, interest rates currently being offered for loans with similar terms and credit quality, and adjustments that the Companies' management believes a market participant would consider in determining fair value. Loans were segregated by type, such as commercial, construction, residential mortgage, consumer, automobile and credit cards. Each loan category is further segmented into performing and nonperforming categories.

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The fair value for commercial and construction loans was calculated by discounting expected cash flows through the estimated maturity date and considering relevant information for each loan. In addition, assumptions about default rate and recovery were used.

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The fair value of residential mortgage loans was determined segregating the portfolio between eligible for sale or securitization, and non-saleable. For loans in the first group to-be-announced (TBA) prices obtained from an independent internationally recognized pricing service were used. The non-saleable portion was priced based on quotations received from an independent third-party broker.

The fair value of consumer, automobile and credit cards was estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality.

Fair values for impaired loans were estimated using discounted cash flow analysis or underlying collateral values, where applicable. Discount rates were based on the treasury and LIBOR/swap yield curves at the date of the analysis, and included appropriate adjustments for expected credit losses and liquidity.

Deposits The fair value of deposits with no stated maturity approximates the amount payable on demand at the reporting date. The fair value of time deposits is based on discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for deposits of similar terms, including remaining maturities.

Securities Sold under Agreements to Repurchase, Advances from FHLB, and Other Borrowed Funds For short-term borrowings, the carrying amount is considered a reasonable estimate of fair value. The fair value of long-term borrowings is calculated based on discounted value of contractual future cash payments. The discount rate is estimated using rates currently offered for similar types of borrowing arrangements.

Subordinated Capital Notes The fair value is calculated based on discounted value of contractual future cash payments. The discount rate is estimated using rates currently offered to the Bank for borrowings of similar terms.

Commitments to Extend Credit and Financial Guarantees The fair value of commitments to extend credit, financial guarantees, and letters of credit was not readily available. The fair value of commitments to extend credit would be estimated based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standings. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates.

Commission fees, which the Bank charges on commitments to extend credit, financial guarantees, and standby letters of credit do not usually exceed 200 basis points of the contractual amount. The contractual maturities of these commitments are normally within one to 12 months. At December 31, 2011 and 2010, management of the Bank is of the opinion that there have been no significant changes in the creditworthiness of the counterparties to these off-balance-sheet instruments and does not consider practicable to determine the fair value of these instruments since their carrying amounts are not material to the combined financial statements taken as a whole.

21. EMPLOYEE BENEFIT PLAN

The Companies have a defined contribution plan under Section 1165(e) of the Puerto Rico Treasury Department Internal Revenue Code (the Code), which is offered to all regular full-time employees of the Companies, who have one year of service. Under the provisions of the plan, participants may contribute to the plan from 1% to 10% of their compensation, as defined, and up to the maximum amount permitted by the Code. The Companies match 50% of the amount contributed by the employees up to a maximum of 4% of the employees' annual base compensation, as defined. In addition, the Companies may make discretionary annual contributions to the plan based on its operating income, as defined in the plan, and these funds are deposited with the plan trust. The Companies' contributions for the years ended December 31, 2011, 2010 and 2009, amounted to approximately \$530, \$512 and \$525, respectively.

22. STOCK-BASED COMPENSATION

The Bank has two-year share-based plans, one ended 2010 and the other ends in 2011 (the Vesting Period). During 2011, an additional one year share-based plan was launched which ended on December 31, 2011. These are incentive plans for certain eligible officers and key employees which contain service, performance, and market conditions. The plans provide for settlement in stock of the Parent to the participants and are classified as equity plans. Accordingly, the Bank recognizes monthly compensation expense over the Vesting Period and credits additional paid-in capital. Compensation expense for the years ended December 31, 2011, 2010 and 2009 was not significant.

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23. TEMPORARY LIQUIDITY GUARANTEE (TLG) PROGRAM

On November 21, 2008, the FDIC's board of directors approved the final rule on the TLG Program. This program guarantees newly issued senior unsecured debt of banks, thrifts, and certain holding companies (the Debt Guarantee Program) and provides full coverage of non-interest-bearing deposit transaction accounts (the Transaction Account Guarantee Program or TAGP). Eligible entities had the election to opt out the TLG Program up to December 5, 2008. Once in the TLG Program, an entity is in for the duration of the program. Those that chose to opt out will not be able to participate at a later date.

The Debt Guarantee Program guaranteed the unsecured debt issued by participating entities between October 14, 2008 and June 30, 2009. For such debts maturing beyond June 30, 2009, the guarantee remained in effect until June 30, 2012. Maximum amount guaranteed by the FDIC was up to 125% of the par or face value of senior unsecured debt outstanding, excluding debt extended to affiliates, as of September 30, 2008. For eligible entities with no senior unsecured debt outstanding or that only purchased federal funds, as of September 30, 2008, the guarantee cap is 2% of their total liabilities as of such date. The fees under this program depended upon maturity of the debt. The fee was lower for shorter-term debt and higher for longer-term debt. The annual assessment fee fluctuated between 50-100 basis points.

Senior unsecured debt generally includes federal funds purchased, promissory notes, commercial paper, and unsubordinated unsecured notes, among others. Short-term debt (30 days or less) was eliminated from this program. However, for purposes of stating the guaranteed limit as of September 30, 2008, short-term debt outstanding as of such date was included.

Under the Transaction Account Guarantee Program (TAGP), non-interest-bearing transaction accounts had full coverage for an annual assessment rate of 22 basis points in 2010; however, for 2011 the FDIC did not charge a separate assessment for the unlimited insurance of the noninterest bearing transactions accounts. Originally, the coverage was in effect for participating institutions until the end of 2009 and was extended to December 2010. On November 9, 2010, the board of directors of the FDIC approved a final rule to implement section 343 of the Dodd-Frank Wall Street Reform Act and Consumer Protection Act, which provides temporary unlimited coverage for non-interest-bearing transaction accounts until December 31, 2012. After that date, these accounts will be subject to the basic insurance amount of \$250. For purposes of TAGP, non-interest-bearing transaction accounts include checking accounts that allow for an unlimited number of deposits and withdrawals at any time. NOW accounts with interest rates of 0.5% or less were also included in this program. However, for purposes of the new temporary unlimited coverage, under the Dodd-Frank Act definition, NOW accounts are not covered.

The Bank elected to participate in the TLG Program and its guarantee limit was stated at approximately \$687,000. As of December 31, 2011 and 2010, senior unsecured debt guaranteed by the FDIC amounted to \$470,000 and \$670,000, respectively. The premium cost is amortized over the term of the related insured debt. At December 31, 2011 and 2010, the unamortized insurance cost was approximately \$2,200 and \$7,500, respectively. Non-interest-bearing transaction accounts with full coverage in excess of \$250 as of December 31, 2011 and 2010, amounted to approximately \$458,541 and \$289,545, respectively.

24. FDIC INSURANCE

Congress created the FDIC in 1933 to restore public confidence in the nation's banking system. The FDIC insures deposits and promotes the safety and soundness of its insured financial institutions by identifying, monitoring, and addressing risks to which they are exposed. The FDIC does not receive federal tax funds, instead its operations are funded by the insured financial institutions. The basic insurance amount is \$250 per depositor, per insured bank. Self-directed retirement accounts are insured up to \$250 per owner, per insured bank. Self-directed accounts include individual retirement accounts.

The Federal Deposit Insurance Reform Act was signed into law in February 2006. It allows the FDIC greater flexibility in managing the insurance fund and to operate the designated reserve ratio (DRR) within the range of 1.15% to 1.50% of total insured deposits, rather than the previous fixed DRR of 1.25%. Deposit insurance premium payable by the insured financial institutions is now more risk sensitive so that the assessment would be

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distributed more fairly across insured institutions and provides the FDIC the ability to spread the assessment burden out more evenly over time. Accordingly, the 2006 assessment rules created four risk categories, which are based on two criteria: capital levels and supervisory ratings.

Effective April 1, 2009, the FDIC revised their risk-based assessment system. Insurance assessment rates as well as the base assessment rates were increased mainly to provide sufficient revenue to cover losses resulting from a large volume of institution failures and to raise the insurance fund's reserve ratio over time.

On May 22, 2009, the FDIC adopted a final rule imposing a five-basis-point emergency special assessment on each insured depository institution's assets, minus Tier 1 capital as of June 30, 2009. The Bank paid approximately \$2,700 for this concept in 2009. On November 12, 2009, the FDIC adopted a final rule imposing a 13-quarter prepayment of FDIC premiums due on December 30, 2009. The Bank was required to prepay about \$21,000, which was recorded as part of prepaid expenses. As of December 31, 2011 and 2010, prepaid premium balance was \$6,000 and \$12,000, respectively.

In April 2011, the FDIC amended its regulations to implement revisions to the Federal Deposit Insurance Act made by the Dodd-Frank Wall Street Reform and Consumer Protection Act, by modifying the definition of an institution's deposit insurance assessment base. As a result, the deposit insurance expense for the Bank was reduced.

25. SUBSEQUENT EVENTS

The Companies have evaluated events occurring subsequent to December 31, 2011 to September 13, 2012, the date the combined financial statements were available to be issued, to determine if any such events should either be recognized or disclosed in the combined financial statements.

On June 28, 2012, BBVA S.A. entered into a definitive Acquisition Agreement (the "Acquisition Agreement") with Oriental Financial Group (OFG), pursuant to which BBVA S.A. agreed to sell to OFG, and OFG agreed to purchase from BBVA S.A., all of the outstanding common stock of each of the Companies.

OFG will acquire all of the outstanding common stock of each of Holding and BBVA Securities for an aggregate purchase price of \$500,000. This transaction is targeted to be completed by year-end 2012. Completion of this transaction is subject to certain conditions, including final approval of all the required regulatory authorities, such as, but not limited to the Federal Reserve System, the FDIC, the Financial Industry Regulatory Authority and the OCFI.

During August 2012, the Bank sold residential mortgage loans past due over 180 days with an unpaid principal balance of approximately \$18,000 to a third party for approximately \$8,000.

The senior unsecured debt guaranteed by the FDIC amounting to \$470,000 at December 31, 2011, was paid-off by the Bank on June 22, 2012.

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**BBVAPR Holding
Corporation and BBVA
Securities of Puerto Rico, Inc.**

(Wholly Owned Subsidiaries of Banco Bilbao Vizcaya Argentaria, S.A.)

Combined Financial Statements as of June 30, 2012 and December 31, 2011, and for the Six-Month Periods Ended
June 30, 2012 and 2011 (Unaudited)

Table of Contents**BBVAPR Holding Corporation and BBVA Securities of Puerto Rico, Inc.****(Wholly Owned Subsidiaries Banco Bilbao Vizcaya Argentaria, S.A.)****COMBINED STATEMENTS OF FINANCIAL CONDITION (UNAUDITED)**

(In thousands of dollars, except share information)

	JUNE 30, 2012	DECEMBER 31, 2011
ASSETS		
CASH AND DUE FROM BANKS	\$ 414,607	\$ 291,445
INTEREST-BEARING DEPOSITS IN BANKS	403	402
RESTRICTED CASH	13,560	13,510
FEDERAL FUNDS SOLD	14,000	
TRADING SECURITIES	1,172	2,046
SECURITIES AVAILABLE FOR SALE At fair value pledged to creditors that can be repledged	507,444	680,344
OTHER SECURITIES AVAILABLE FOR SALE At fair value	85,819	53,351
Total securities available for sale	593,263	733,695
SECURITIES HELD TO MATURITY At amortized cost pledged to creditors that can be repledged	2,696	4,774
OTHER SECURITIES HELD TO MATURITY At amortized cost	414	268
Total securities held to maturity	3,110	5,042
RESIDENTIAL MORTGAGE LOANS HELD FOR SALE At lower of cost or fair value	16,893	30,517
LOANS RECEIVABLE Net of allowance for loan losses of \$129,277 and \$132,001 in 2012 and 2011, respectively	3,556,719	3,535,357
ACCRUED INTEREST RECEIVABLE	20,422	19,644
FEDERAL HOME LOAN BANK STOCK (FHLB) At cost	16,674	13,848
PREMISES AND EQUIPMENT Net	38,603	39,850
CUSTOMERS LIABILITY ON ACCEPTANCES	28,526	27,853
DEFERRED TAX ASSETS Net	44,288	51,306
GOODWILL	116,353	116,353
OTHER ASSETS	123,918	125,849
TOTAL	\$ 5,002,511	\$ 5,006,717
LIABILITIES AND STOCKHOLDER S EQUITY		
LIABILITIES:		
Deposits	\$ 3,434,412	\$ 2,939,922
Federal funds purchased and securities sold under agreements to repurchase	349,504	511,600
Advances from FHLB	275,000	209,000
Other borrowed funds	123,482	541,259

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Acceptances outstanding	28,526	27,853
Accrued interest payable	6,115	5,987
Other liabilities	47,731	50,613
Subordinated capital notes	117,000	117,000
Total liabilities	4,381,770	4,403,234
COMMITMENTS AND CONTINGENCIES (Note 16)		
STOCKHOLDER S EQUITY:		
Preferred stock		
Common stock	166,852	166,852
Additional paid-in capital	362,891	363,289
Retained earnings	80,077	60,420
Accumulated other comprehensive income net of tax	10,921	12,922
Total stockholder s equity	620,741	603,483
TOTAL	\$ 5,002,511	\$ 5,006,717

See notes to unaudited combined financial statements.

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Table of Contents**BBVAPR Holding Corporation and BBVA Securities of Puerto Rico, Inc.****(Wholly Owned Subsidiaries Banco Bilbao Vizcaya Argentaria, S.A.)****STATEMENTS OF INCOME AND COMPREHENSIVE INCOME (UNAUDITED)**

FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2012 AND 2011

(In thousands of dollars)

	2012	2011
INTEREST INCOME:		
Loans	\$ 118,019	\$ 115,563
Investment securities	7,077	5,766
Federal funds sold, securities purchased under agreements to resell, and other short-term investments	245	274
Interest-bearing deposits in banks	51	227
Total interest income	125,392	121,830
INTEREST EXPENSE:		
Deposits	19,080	19,339
Federal funds purchased and securities sold under agreements to repurchase	8,315	11,991
Advances from FHLB and Federal Reserve Bank	1,026	1,672
Other borrowed funds	6,295	8,002
Subordinated capital notes	1,220	1,654
Total interest expense	35,936	42,658
NET INTEREST INCOME	89,456	79,172
PROVISION FOR LOAN LOSSES	(17,000)	(20,050)
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	72,456	59,122
NONINTEREST INCOME:		
Service charges on deposit accounts	3,536	3,600
Other service charges and fees	14,332	14,651
Gain on sale of securities available for sale	3,459	4,348
Trading and other derivative activities	1,924	1,539
Gain on sale of residential mortgage loans held for sale	1,709	656
Other income	1,615	3,687
Total noninterest income	26,575	28,481
NONINTEREST EXPENSES:		
Compensation and employee benefits	24,863	23,633
Occupancy net	6,246	5,844
Insurance and supervisory fees	3,874	4,604
Professional fees	9,616	8,994

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Maintenance of equipment and related depreciation and amortization	3,619	3,903
Taxes other than on income	3,160	3,705
Loan servicing expenses	840	925
Data processing fees	2,043	1,720
Communications	638	663
Advertising	2,163	1,932
Credit card processing fees and other related expenses	3,193	3,324
Other real estate owned properties	5,556	1,973
Other	6,010	5,422
Total noninterest expenses	71,821	66,642
INCOME BEFORE INCOME TAX PROVISION	27,210	20,961
INCOME TAX PROVISION	7,553	6,409
NET INCOME	19,657	14,552
OTHER COMPREHENSIVE INCOME (LOSS):		
Unrealized gain on securities available for sale arising during the period	1,337	4,658
Realized gain on sales of securities available for sale included in net income	(3,459)	(4,348)
Income tax effect	121	179
Other comprehensive income (loss) net of tax	(2,001)	489
COMPREHENSIVE INCOME	\$ 17,656	\$ 15,041

See notes to unaudited combined financial statements.

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Table of Contents**BBVAPR Holding Corporation and BBVA Securities of Puerto Rico, Inc.****(Wholly Owned Subsidiaries Banco Bilbao Vizcaya Argentaria, S.A.)****COMBINED STATEMENTS OF CHANGES IN STOCKHOLDER S EQUITY (UNAUDITED)**

FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2012 AND 2011

(In thousands of dollars)

	PREFERRED STOCK	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) NET OF TAX	TOTAL STOCKHOLDER S EQUITY
BALANCE December 31, 2010	\$	\$ 166,852	\$ 362,953	\$ 26,495	\$ 4,800	\$ 561,100
Net income				14,552		14,552
Share-based compensation			(123)			(123)
Other comprehensive income net of tax					489	489
BALANCE June 30, 2011	\$	\$ 166,852	\$ 362,830	\$ 41,047	\$ 5,289	\$ 576,018
BALANCE December 31, 2011	\$	\$ 166,852	\$ 363,289	\$ 60,420	\$ 12,922	\$ 603,483
Net income				19,657		19,657
Share-based compensation			(398)			(398)
Other comprehensive loss net of tax					(2,001)	(2,001)
BALANCE June 30, 2012	\$	\$ 166,852	\$ 362,891	\$ 80,077	\$ 10,921	\$ 620,741

See notes to unaudited combined financial statements.

Table of Contents**BBVAPR Holding Corporation and BBVA Securities of Puerto Rico, Inc.****(Wholly Owned Subsidiaries Banco Bilbao Vizcaya Argentaria, S.A.)****COMBINED STATEMENTS OF CASH FLOWS (UNAUDITED)**

FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2012 AND 2011

(In thousands of dollars)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 19,657	\$ 14,552
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,279	4,628
Net amortization of premium on securities	1,319	605
Accretion of discount on loans	(769)	(753)
Amortization of net deferred loan costs	2,967	3,132
Provisions for loan losses and for repossessed assets	20,229	21,241
Share-based compensation	(398)	(123)
Loss (gain) on sale of:		
Securities available for sale	(3,459)	(4,348)
Residential mortgage loans held for sale	(1,709)	(656)
Premises and equipment	(10)	(3)
Other real estate owned	603	630
Repossessed assets	(234)	(482)
Trading activities and other derivative activities	597	78
Net change in residential mortgage loans held for sale	(18,857)	(21,149)
Proceeds from sales of mortgage servicing rights on residential loans held for sale	761	531
Deferred income tax provision	7,139	6,151
Net change in trading securities	74	(21)
Increase in accrued interest receivable	(778)	(1,011)
(Increase) decrease in other assets	(3,393)	4,965
Increase (decrease) in accrued interest payable	128	(2,042)
Increase (decrease) in other liabilities	(3,280)	166
Total adjustments	5,209	11,539
Net cash provided by operating activities	24,866	26,091
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net change in interest-bearing deposits in banks	(1)	63,479
Deposit of principal balance in restricted account	(50)	(690)
Net change in federal funds sold	(14,000)	
Purchases of securities available for sale	(31,273)	(527,422)
Proceeds from sales of securities available for sale	102,920	111,192
Proceeds from principal payments and maturities of securities available for sale	92,245	339,522
Proceeds from principal payments and maturities of securities held to maturity	1,932	4,528

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Purchases of FHLB stock	(21,827)	(225)
Redemption of FHLB stock	19,001	2,056
Proceeds from sale of residential mortgage servicing rights on mortgage loans held for investment	258	329
Net (increase) decrease in loans	(56,586)	929
Purchases of premises and equipment	(1,099)	(968)
Proceeds from sale of premises and equipment	11	4
Proceeds from sale of other real estate owned	14,657	5,716
Proceeds from sale of repossessed assets	11,491	11,772
Net cash provided by investing activities	117,679	10,222

(Continued)

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Table of Contents**BBVAPR Holding Corporation and BBVA Securities of Puerto Rico, Inc.****(Wholly Owned Subsidiaries Banco Bilbao Vizcaya Argentaria, S.A.)****COMBINED STATEMENTS OF CASH FLOWS (UNAUDITED)**

FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2012 AND 2011

(In thousands of dollars)

	2012	2011
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in deposits	\$ 494,490	\$ 187,907
Net increase (decrease) in federal funds purchased and securities sold under agreements to repurchase	(162,096)	62,568
Advances from FHLB	255,000	5,000
Repayment of advances from FHLB	(189,000)	(30,000)
Advances from FRB		5,000
Repayment of advances from FRB		(5,000)
Net increase in short-term other borrowed funds	51,992	14,759
Repayment of other borrowed funds	(469,769)	(199,686)
Net cash provided by (used in) financing activities	(19,383)	40,548
NET INCREASE IN CASH AND DUE FROM BANKS		
CASH AND DUE FROM BANKS Beginning of period	291,445	270,478
CASH AND DUE FROM BANKS End of period	\$ 414,607	\$ 347,339
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for interest	\$ 35,913	\$ 44,774
Cash paid during the period for income taxes	\$ 303	\$ 69
NONCASH INVESTING AND FINANCING ACTIVITIES:		
Real estate acquired in settlement of loans	\$ 15,135	\$ 18,977
Repossessed assets acquired in settlement of loans	\$ 11,031	\$ 10,060
Transfer of residential mortgage loans held for sale to residential mortgage loans held for investment	\$ 10,479	\$ 9,946
Residential mortgage loans held for sale securitized and transferred to available for sale investment securities	\$ 23,443	\$ 20,449

See notes to unaudited combined financial statements.

(Concluded)

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BBVAPR HOLDING CORPORATION AND BBVA SECURITIES OF PUERTO RICO, INC.

(Wholly Owned Subsidiaries of Banco Bilbao Vizcaya Argentaria, S.A.)

NOTES TO COMBINED FINANCIAL STATEMENTS (UNAUDITED)

AS OF JUNE 30, 2012 AND DECEMBER 31, 2011 AND FOR THE SIX-MONTH PERIODS ENDED

JUNE 30, 2012 and 2011

(In thousands of dollars, except share data)

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The combined financial statements include the combined assets and liabilities and operations of BBVAPR Holding Corporation (Holding or Corporation), and its wholly owned subsidiaries, Banco Bilbao Vizcaya Argentaria Puerto Rico (the Bank) and BBVA Seguros Inc. (BBVA Seguros), and of BBVA Securities of Puerto Rico, Inc. (BBVA Securities). These entities are collectively referred to as the Companies . The Corporation and BBVA Securities are wholly owned subsidiaries of Banco Bilbao Vizcaya Argentaria, S.A. (BBVA S.A. or the Parent), a Spanish Bank.

Holding was incorporated on April 12, 2000, under the laws of the Commonwealth of Puerto Rico to serve as a holding company. Holding is subject to the Bank Holding Company Act and to the regulations of the Board of Governors of the Federal Reserve System. As a financial holding company, the Corporation is permitted to engage in financial-related activities, including insurance and securities activities, provided that the Corporation and the Bank meet certain regulatory standards.

The Bank is a commercial bank established and licensed under the laws of the Commonwealth of Puerto Rico. The Bank operates an International Banking Entity (IBE), Banco Bilbao Vizcaya Argentaria Puerto Rico Overseas (Overseas) as a unit of the Bank. The deposits of the Bank are insured up to the maximum levels permitted by the Federal Deposit Insurance Corporation (FDIC). The FDIC and the Office of the Commissioner of Financial Institutions of the Commonwealth of Puerto Rico OCFI have regulatory and examination authority over the Bank. See Notes 2 and 25 for further details.

BBVA Seguros was incorporated as an insurance agent on November 21, 2000, and began operations on April 1, 2001. BBVA Seguros sells life, health, disability, title, and property and casualty insurance products in Puerto Rico through the branches of the Bank.

BBVA Securities is engaged in a single line of business as a securities broker-dealer, which comprises several classes of services, including principal transactions, agency transactions, investment banking, and financial advisory services. It is a member of the Financial Industry Regulatory Authority, Inc. and the Securities Investor Protection Corporation. It does not carry customer accounts and is accordingly exempt from the customer protection rule (Securities and Exchange Commission (SEC) Rule 15c3-3) pursuant to provision k(2)(ii) of such rule.

On June 28, 2012, BBVA S.A. entered into a definitive Acquisition Agreement (the Acquisition Agreement) with Oriental Financial Group (OFG), pursuant to which BBVA S.A. agreed to sell to OFG, and OFG agreed to purchase from BBVA S.A., all of the outstanding common stock of each of the Companies.

OFG will acquire all of the outstanding common stock of each of Holding and BBVA Securities for an aggregate purchase price of \$500,000. This transaction is targeted to be completed by year-end 2012. Completion of this transaction is subject to certain conditions, including final approval of all the required regulatory authorities, such as, but not limited to the Federal Reserve System, the FDIC, the Financial Industry Regulatory Authority and the OCFI.

The accounting and reporting policies of the Companies conform to accounting principles generally accepted in the United States of America (U.S. GAAP).

The unaudited combined financial statements have been prepared pursuant to the rules and regulations of the SEC. These unaudited statements are, in the opinion of management, a fair statement of the results for the periods reported and include all necessary adjustments, all of a normal recurring nature, for a fair statement of such results. Certain information and footnote disclosures normally included in financial statements prepared in accordance with

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U.S. GAAP have been condensed or omitted pursuant to SEC rules and regulations. Management believes that the disclosures made are adequate to make the information presented not misleading. The results of operations and cash flows for the six-month periods ended June 30, 2012 and 2011 are not necessarily indicative of the results to be expected for the full year. For further information, refer to the Companies combined financial statements and footnotes thereto for each of the three years in the period ended December 31, 2011.

The following is a description of the Companies' most significant accounting policies:

Principles of Combination The combined financial statements include the accounts of Holding, its wholly owned subsidiaries and of BBVA Securities. All significant intra-entity transactions and balances have been eliminated in combination.

Use of Estimates in the Preparation of Financial Statements The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported periods. Material estimates that are particularly susceptible to significant change relate to the determination of the allowances for losses on loans and repossessed assets, evaluation of intangible and long-lived assets for impairment, valuation of securities and derivative instruments, evaluation of securities for impairment and other-than-temporary declines in value, the valuation of real estate acquired in connection with foreclosure or in satisfaction of loans, the amount of deferred tax asset valuation allowance, accounting for uncertain tax positions, and accounting for contingencies. Management believes that these estimates are adequate. Actual results could differ from those estimates.

Cash, and Due from Banks Includes cash on hand, cash items in the process of collection, amounts due from correspondent banks and the Federal Reserve Bank, and cash equivalents. Cash equivalents consist of highly liquid investments with original maturities of three months or less, and money market investments carried at fair value. Money market investments are carried by BBVA Securities and are held with Pershing LLC, its clearing broker company.

Restricted Assets The Bank maintains a time deposit of \$300 in a domestic bank in Puerto Rico as required by the International Banking Center Law. The Bank also maintains deposits pledged to other financial institutions, in the amount of \$13,460 and \$13,410 at June 30, 2012 and December 31, 2011, respectively, as collateral for outstanding derivative transactions and for residential loans sold with recourse. Restricted cash includes deposits pledged to Parent in the amount to \$6,670 as of each June 30, 2012 and December 31, 2011. These amounts are considered restricted.

BBVA Securities has a clearing agreement (the Agreement) with Pershing LLC. Pershing LLC is a member of various stock exchanges and is subject to the rules and regulations of such organizations as well as those of the SEC. Under the terms of the Agreement, Pershing LLC clears and executes the brokerage transactions of BBVA Securities' customers on a fully disclosed basis. The Agreement states that BBVA Securities will assume customer obligations if a customer defaults. BBVA Securities also maintains a minimum deposit of \$100 with Pershing LLC as required by the Agreement.

Investment Securities The Companies classify its investment securities as held to maturity, available for sale, or trading, on the date of purchase. Securities for which the Companies have the positive intent and ability to hold to maturity are classified as held to maturity and are carried at amortized cost.

The Companies classify as trading those securities that are acquired and held principally for the purpose of selling them in the near future. These securities are carried at fair value with realized and unrealized changes in fair value included as part of noninterest income in the period in which the changes occur. Interest revenue arising from trading securities is included in the combined statements of income and comprehensive income as part of interest income. At June 30, 2012 and December 31, 2011, all outstanding trading securities are carried by BBVA Securities.

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Investment securities not classified as either held to maturity or trading securities are classified as available for sale and reported at fair value with unrealized gains and losses reported, net of related deferred income taxes, in accumulated other comprehensive income. These unrealized gains and losses do not affect earnings until realized or when the securities are deemed to be other-than-temporarily impaired.

Premiums are amortized and discounts are accreted to interest income over the life of the related securities using the effective interest method. Investment securities transactions in regular-way trades are recorded on a trade-date basis. Net realized gains or losses on sales of investment securities are reported within noninterest income or expense in the combined statements of income and comprehensive income. The cost of securities sold is determined on the specific identification method.

The Companies periodically evaluate their available for sale and held to maturity securities for other-than-temporary impairment (OTTI). An impairment charge is recognized within noninterest income in the combined statements of income and comprehensive income.

For debt securities, OTTI losses are recognized in the combined statement of income and comprehensive income if the Companies have the intent to sell the debt security or it is more likely than not that the Companies will be required to sell the debt security before recovery of its amortized cost basis. However, even if the Companies do not expect to sell or will not be required to sell a debt security, expected cash flows to be received are evaluated to determine if a credit loss has occurred. An unrealized loss is generally deemed to be other than temporary and a credit loss is deemed to exist if the present value of the expected future cash flows is less than the amortized cost basis of the debt security. The credit loss component of an OTTI is recorded as a component of net impairment losses on investment securities in the combined statements of income and comprehensive income, while the remaining portion of the impairment loss is recognized in other comprehensive income, net of taxes. The previous amortized cost basis, less the OTTI recognized in operations is the new amortized cost basis of the investment. The new amortized cost basis is not adjusted for subsequent recoveries in fair value. However, for debt securities for which OTTI was recognized in operations, the difference between the new amortized cost basis and the cash flows expected to be collected is accreted as interest income.

There were no OTTI charges recorded in income during the six-month periods ended June 30, 2012 2011.

Mortgage Banking Activities and Residential Mortgage Loans Held for Sale From time to time, the Bank sells loans through either securitization or individual loan sales to the Government National Mortgage Association (GNMA) and Federal National Mortgage Association (FNMA), which are serviced by another financial institution. Residential mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or fair value determined on an aggregate basis. Net unrealized losses are recognized through a valuation allowance by charges to income. Realized gains or losses on these loans are determined using the specific identification method. Loan origination fees and direct loan origination costs related to loans held for sale are deferred as an adjustment to the carrying basis of such loans until these are sold. Commitments to sell residential mortgage loans held for sale in the secondary market were not significant at June 30, 2012 and December 31, 2011.

Servicing rights on all mortgage loans originated or purchased by the Bank are sold to other financial institutions. The sale of these rights creates a discount on the loans, which is deferred and amortized over the expected life of the loan using a method that approximates the effective interest method, unless the loans are classified as held for sale where the discount is not amortized and is taken into income when the loans are sold as part of the gain or loss on sale of residential mortgage loans.

Loans Receivable The Bank originates commercial and industrial loans, construction and commercial real estate loans, residential mortgages, auto loans, and other consumer loans mainly to customers within Puerto Rico. The ability of the Bank's borrowers to honor their contracts is dependent on the general economic conditions in this area.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding unpaid principal balances reduced by any charge-offs, the allowance for loan losses, unearned interest, and any net deferred fees on originated loans. Interest income is accrued on the unpaid principal balance to achieve a constant periodic rate of return on the outstanding loan. Loan origination fees, net of related

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direct costs, are deferred and recognized as a yield adjustment to interest income using the effective interest method. Discounts and premiums on purchased loans, as well as unearned interest on consumer loans, are amortized to income over the term of the loan using the effective interest method.

The accrual of interest on commercial and industrial, and construction and commercial real estate loans is discontinued when: (1) the loan is 90 days or more delinquent as to principal or interest, (2) management determines that full payment of principal and interest on a loan is not expected, (3) or a loan is maintained on a cost recovery basis due to deterioration of the borrower's financial condition. Accrual of interest on auto loans, residential mortgages and other consumer loans is generally discontinued at the time the loan is 120 days delinquent as to principal or interest. Loans for which the recognition of interest income has been discontinued are designated as nonaccrual. When a loan is placed in nonaccrual status, all previously accrued, but uncollected, interest is reversed and charged against current income. Interest on nonaccrual loans is thereafter recognized as income only to the extent actually collected. Nonaccrual loans are returned to accrual status when such loans are current as to principal, and interest payments and future payments are expected to be made on schedule. There are certain real estate, commercial, and construction loans for which the borrower is current as to the payment of interest, but delinquent over 90 days as to the payment of principal, that may not be designated as nonaccrual if the collateral has sufficient net realizable value to discharge the debt in full.

Auto and other consumer loans are charged-off between 120 to 150 days past due depending on the type of consumer loan.

For residential mortgage loans (that is, those loans secured by residential real estate properties) and following the requirements of the Uniform Retail Credit Classification and Account Management Policy of the Board of Governors of the Federal Reserve System, a current assessment of value is made not later than 180 days past the contractual due date. Any outstanding loan balance in excess of the estimated value of the property, less estimated cost to sell, is charged off. For this purpose and for residential real estate properties, the Bank performs an appraisal for loans with an unpaid principal balance equal or higher than \$250 while an evaluation is performed by an independent broker for loans with a balance less than \$250 to determine collateral value.

Allowance for Loan Losses The Bank maintains an allowance to absorb probable loan losses inherent in the portfolio. The allowance for loan losses is maintained at a level the Bank considers to be adequate to absorb probable loan losses, based on evaluations of the collectibility and historical loss experience of loans. Estimates of losses inherent in the loan portfolio involve the exercise of judgment and the use of assumptions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to income. Loan losses are charged against the allowance when management believes the collectibility of a loan balance is unlikely. Subsequent recoveries, if any, are credited to the allowance. Changes in the allowance related to impaired loans are charged or credited to the provision for loan losses. The assessment of the allowance for loan losses is determined in accordance with accounting guidance, specifically guidance of loss contingencies and loan impairment.

Management's periodic evaluation of the adequacy of the allowance for loan losses is based on the Bank's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated fair value of any underlying collateral, and other factors that, in management's judgment, deserve consideration under existing economic conditions in estimating probable loan losses. Because of uncertainties inherent in the estimation process, management's estimate of credit losses in the loan portfolio and the related allowance for loan losses might change.

The Bank follows a systematic methodology to establish and evaluate the adequacy of the allowance for loan losses. This methodology consists of several key elements. Commercial and industrial, and construction and commercial real estate loans with an outstanding balance of over \$250 that exhibit probable or observed credit weaknesses are subject to individual review and grading. Allowances are established for individual loans based on management's estimate of the borrower's ability to repay the loan given the availability of collateral, other sources of cash flow, and legal options available to the Bank.

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Included in the review of individual loans are those that are impaired. A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Loans, in which the Bank grants a concession that it would not otherwise consider to a borrower with financial difficulties are considered troubled debt restructurings (TDRs) and also classified as impaired. Although, the accounting codification guidance for specific impairment of a loan excludes large groups of smaller balance homogeneous loans that are collectively evaluated for impairment (e.g., mortgage loans), it specifically requires that loan modifications considered TDRs be analyzed under its provisions. Therefore, the Bank performs impairment analyses to all TDR residential mortgage loans with outstanding balances of over \$250.

Impaired loans are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or fair value of the underlying collateral if the loan is collateral dependent. The Bank performs appraisal on collateral properties for loans that are considered impaired following a corporate reappraisal policy. The policy requires an updated appraisal annually. As a general procedure, the Bank obtains appraisals as part of the underwriting and approval process and also for credits adversely classified. Impaired loans for which the discounted cash flows or collateral value exceeds their carrying value do not require any specific allowance. The Bank evaluates the collectibility of both principal and interest when assessing the need for loss accrual.

For loans that are not individually evaluated for impairment and, thus, considered homogeneous, the Bank uses a methodology that follows a loan credit rating process that involves dividing loans into risk categories following an age-based rating system by portfolio category. For each delinquency segment, the Bank applies an allowance percentage factor based on historical credit losses. Historical loss rates may be adjusted for significant factors that, in management's judgment, reflect the effect of any current conditions on loss recognition. Factors that management considers in the analysis include economic trends, trends in the nature and volume of loans (delinquencies, charge-offs, nonaccrual, and problem loans), changes in the internal lending policies and credit standards, collection practices, and examination results from bank regulatory agencies and the Bank's internal credit examiners.

The allowance for loan losses is reviewed at least quarterly and adjusted as necessary based on changing borrower and/or collateral conditions and actual collection and charge-off experience.

Troubled Debt Restructurings TDRs are measured at the present value of estimated future cash flows using the loan's effective rate at inception. TDRs represent loans where concessions have been granted to borrowers experiencing financial difficulties that the creditor would not otherwise consider. Concessions may include a reduction in the interest rate on the loan, payment extensions, forgiveness of principal, forbearance, or other actions intended to maximize collection. These concessions stem from an agreement between the creditor and the debtor or are imposed by law or a court. Classification of loan modifications as TDRs involves a degree of judgment. Indicators that the debtor is experiencing financial difficulties include, for example (i) the debtor is currently in default or delinquent on any of its debt; (ii) the debtor has declared or is in the process of declaring bankruptcy; (iii) there is significant doubt as to whether the debtor will continue to be a going concern; (iv) currently, the debtor has securities that have been delisted, are in the process of being delisted, or are under threat of being delisted from an exchange; and (v) based on estimates and projections that only encompass the current business capabilities, the debtor forecasts that its entity-specific cash flows will be insufficient to service the debt (both interest and principal) in accordance with the contractual terms of the existing agreement through maturity; and absent the current modification, the debtor cannot obtain funds from sources other than the existing creditors at an effective interest rate equal to the current market interest rate for similar debt for a nontroubled debtor. Loans classified as TDRs are reported in nonaccrual status if the loan was in nonaccruing status at the time of the modification. The TDR loan should continue in nonaccrual status until the borrower has demonstrated a willingness and ability to make the restructured loan payments (at least six months of sustained performance after it was classified as TDR). When a loan is placed in nonaccrual status, all previously accrued, but uncollected, interest is reversed and charged against current earnings. Interest on nonaccrual loans is thereafter recognized as income only to the extent actually collected.

Premises and Equipment Premises and equipment, including leasehold improvements, are carried at cost, less accumulated depreciation and amortization. Depreciation is calculated using the straight-line method over the estimated useful lives of the related assets, which range from one to 40 years. Amortization of leasehold

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improvements is computed using the straight-line method over the terms of the leases or estimated useful lives of the improvements, whichever is shorter. Maintenance, repairs, and minor improvements are charged to noninterest expense as incurred. Costs of renewals and betterments are capitalized. When assets are sold or disposed of, their cost and related accumulated depreciation are removed from the accounts and any gain or loss is reflected in earnings.

Impairment of Long-Lived Assets The Companies periodically review long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In performing the review for recoverability, an estimate of the future cash flows expected to result from the use of the asset and its eventual disposition is made. If the sum of the future cash flows (undiscounted and without interest charges) is less than the carrying amount of the assets, an impairment loss is recognized. The amount of the impairment is the excess of the carrying amount over the fair value of the asset. As of June 30, 2012 and December 31, 2011, there was no indication of impairment as a result of such review.

Computer Software Costs Computer software costs are deferred and amortized using the straight-line method over a period ranging from three to five years. Unamortized computer software costs (included within other assets in the accompanying combined statements of financial condition) amounted to approximately \$8,071 and \$8,023 at June 30, 2012 and December 31, 2011, respectively.

Repossessed Properties Repossessed properties amounting to \$66,822 and \$70,402 at June 30, 2012 and December 31, 2011, respectively, are included within other assets in the accompanying statements of financial condition and represent real estate and automobiles acquired through foreclosure or deeded to the Bank in lieu of foreclosure on loans on which the borrowers have defaulted as to payment of principal and interest. Repossessed properties at the time of foreclosure are recorded at the lower of the Bank's cost of acquisition (outstanding loan principal balance, plus any accrued interest and related foreclosure costs) or their fair value, less estimated selling costs. Any write-downs at the date of the acquisition are charged to the allowance for loan losses. After foreclosure, repossessed properties are carried at the lower of cost or fair value, minus estimated costs to sell. Expenses incurred in maintaining assets and subsequent write-downs to reflect declines in the net realizable value of the property are charged to current operations as noninterest expense.

Goodwill The Bank evaluates goodwill for impairment annually as of October 31 or more frequently if circumstances change than would more likely than not reduce the fair value of a reporting unit below its carrying amount. An example of these circumstances include a more likely than not expectation that a reporting unit or a significant portion of a reporting unit will be sold or otherwise disposed of.

As disclosed above, on June 28, 2012, BBVA S.A. entered into the Acquisition Agreement with OFG. As a result of the announcement, an evaluation for impairment of goodwill was performed as of June 30, 2012.

The impairment test is composed of two steps. The initial step is designed to identify potential goodwill impairment by comparing an estimate of the fair value of the applicable reporting unit to its carrying value, including goodwill. If the carrying value of the applicable reporting unit exceeds its fair value, a second step is performed, which compares the implied fair value of the applicable reporting unit's goodwill with the carrying amount of that goodwill, to measure the amount of goodwill impairment, if any.

As of June 30, 2012 and December 31, 2011, the Bank has goodwill amounting to \$116,353. No impairment loss resulted in connection with the aforementioned impairment tests performed as of June 30, 2012 and October 31, 2011.

Securities Sold under Agreements to Repurchase As part of its financial activities, the Bank enters into sales of securities under agreements to repurchase the same or substantially similar securities. The Bank retains effective control over the securities sold in these agreements. Accordingly, amounts received under these agreements represent secured borrowings and are reflected as a liability in the accompanying combined statements of financial condition. The securities underlying the agreements remain in the asset accounts of the Bank. These transactions are recorded at the amounts at which transactions will be settled. The counterparties to the contracts generally have the right to repledge the securities received as collateral.

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Income Taxes The Companies recognize deferred tax liabilities and assets for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. The computation is based on enacted laws and rates applicable to periods in which temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recognized for any deferred tax asset for which, based on management's evaluation, it is more likely than not (a likelihood of more than 50%) that some portion or all of the deferred tax asset will not be realized.

The Companies follow a comprehensive model for the financial statement recognition, measurement, presentation, and disclosure of income tax uncertainties with respect to positions taken or expected to be taken on income tax returns. Income tax benefits of uncertain tax positions are recognized and measured upon a two-step model (1) a tax position must be more likely than not to be sustained based on its technical merits in order to be recognized and (2) the benefit is measured as the largest dollar amount of that position that is more likely than not to be sustained upon settlement. A liability is recognized for any benefit claimed, or expected to be claimed, in a tax return in excess of the benefit recorded in the combined financial statements, along with any interest and penalty (if applicable) on such excess. This liability is also referred to as unrecognized tax benefit.

Reserve Fund The Banking Act of the Commonwealth of Puerto Rico requires that a minimum of 10% of the Bank's net earnings for the year be transferred to a reserve fund until such amount equals 100% of paid-in capital. Amounts transferred to the reserve fund account are not available for payment of dividends to shareholders.

Comprehensive Income Comprehensive income is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances, except for those resulting from investments by owners and distributions to owners. U.S. GAAP require that recognized revenues, expenses, gains, and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the stockholder's equity section of the combined statements of financial condition, such items, along with net income, are components of comprehensive income. Accumulated other comprehensive income, net of tax, as of June 30, 2012 and December 31, 2011, consisted of the unrealized gain on investment securities available for sale.

Fair Value of Financial Instruments The Companies adopted authoritative guidance issued by the FASB for fair value measurements, which 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. This guidance also establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Three levels of inputs may be used to measure fair value:

Level 1 Values are unadjusted quoted prices for identical assets and liabilities in active markets accessible at the measurement date.

Level 2 Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument.

Level 3 Unobservable inputs for the asset or liability. These inputs are used to the extent that observable inputs are not available and reflect the Bank's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

Derivative Financial Instruments As part of the Bank's asset/liability management, the Bank uses interest rate contracts, which include interest rate exchange agreements (swaps), caps, and other option agreements, to modify interest rate characteristics of various assets/liabilities included in the combined statements of financial condition.

The Bank records all derivatives as either assets or liabilities in the combined statements of financial condition and measures those instruments at fair value through adjustments to either accumulated other comprehensive income or current earnings or both, as appropriate. On the date the Bank enters into a derivative contract, the Bank designates the derivative instrument as either a fair value hedge, cash flow hedge, or as a derivative instrument not designated as a hedge. For a fair value hedge, changes in the fair value of the derivative instrument and changes in the fair

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value of the hedged asset or liability or of an unrecognized firm commitment attributable to the hedged risk are recorded currently in earnings. For a cash flow hedge, changes in the fair value of the derivative instrument, to the extent that it is effective, are recorded in accumulated other comprehensive income and subsequently reclassified to net earnings in the same period that the hedged transaction affects net earnings. For derivative instruments not designated as a hedge, changes in fair values are recorded currently in earnings.

The Bank formally documents the relationship between hedging instruments and hedged items, as well as the risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivative instruments that are designated as fair value or cash flow hedges to specific assets and liabilities on the combined statements of financial condition, or to specific unrecognized firm commitments or to forecasted transactions along with a formal assessment at both inception of the hedge and on an ongoing basis as to the effectiveness of the derivative instrument in offsetting changes in fair values or cash flows of the hedged item. If it is determined that the derivative instrument is not highly effective as a hedge, hedge accounting is discontinued and the adjustment to fair value of the derivative instrument is recorded currently in earnings.

Certain contracts contain embedded derivatives. When the embedded derivative possesses economic characteristics that are not clearly and closely related to the economic characteristics of the host contract, it is bifurcated and carried at fair value.

In the case of interest rate exchange agreements that qualify for hedge accounting treatment, net interest income or expense resulting from the differential between exchanging floating and fixed-rate interest payments is recorded on a current basis as an adjustment to interest income or expense on the corresponding hedged assets or liabilities.

Off-Balance-Sheet Instruments The Bank enters into off-balance-sheet credit-related financial instruments consisting of commitments to extend credit, commitments under credit card arrangements, commercial and standby letters of credit, financial guarantees, and commitments to purchase mortgage loans. Such financial instruments are recorded in the combined financial statements when they are funded or related fees are incurred or received. The Bank periodically evaluates the credit risks inherent in these commitments and letters of credit and establishes loss allowances for such risks, if deemed necessary.

Transfers of Financial Assets After a transfer of financial assets that qualifies for sale accounting, the Bank derecognizes financial assets when control has been surrendered, and derecognizes liabilities when extinguished. Transfers of financial assets in which the Bank surrenders control over the assets are accounted for as a sale to the extent that consideration other than beneficial interests in the transferred assets is received in exchange. The criteria that must be met to determine that the control over transferred assets has been surrendered, includes (1) the assets must be isolated from creditors of the transferor, (2) the transferee must obtain the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the transferor cannot maintain effective control over the transferred assets through an agreement to repurchase them before their maturity. When the Bank transfers financial assets and the transfer fails any one of the above criteria, the Bank is prevented from derecognizing the transferred financial assets and the transaction is accounted for as a secured borrowing.

Concentrations of Credit Risk Most of the Bank's loan business activities are with customers located within Puerto Rico, except for zero and \$1,000 at June 30, 2012 and December 31, 2011, respectively, of loans to certain U.S. and foreign corporations. The majority of the Bank's loan portfolio consists of commercial and industrial loans, residential mortgage loans, and auto loans. Commercial and industrial loans are granted to clients in a diversity of industries. The Bank does not have a significant concentration in any one industry or customer.

BBVA Securities is engaged in various trading and brokerage activities in which counterparties primarily include broker-dealers, banks, and other financial institutions. In the event counterparties do not fulfill their obligations BBVA Securities may be exposed to risk. The risk of default depends on the creditworthiness of the counterparty or issuer of the instrument. It is BBVA Securities' policy to review, as necessary, the credit standing of each counterparty to reduce its exposure to potential losses.

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New Accounting Pronouncements In April 2011, the FASB issued ASU 2011-03, *Reconsideration of Effective Control for Repurchase Agreements*. This update affects all entities that enter into agreements to transfer financial assets that both entitle and obligate the transferor to repurchase or redeem the financial assets before their maturity. The guidance modifies the criteria for determining when these transactions would be accounted for as financings (secured borrowings/lending agreements) as opposed to sales (purchases) with commitments to repurchase (resell). This guidance does not affect other transfers of financial assets. This guidance removes from the assessment of effective control (1) the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee, and (2) the requirement to demonstrate that the transferor possesses adequate collateral to fund substantially all the cost of purchasing replacement financial assets. The new guidance was effective for the first interim or annual period beginning on or after December 15, 2011. The guidance is applied prospectively to transactions or modifications of existing transactions that occur on or after the effective date. Early application was not permitted. Adoption of this guidance did not have any effect on the Companies' combined statements of financial condition or results of operations.

In May 2011, the FASB issued ASU 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS*, to provide a consistent definition of fair value between U.S. GAAP and International Financial Reporting Standards (IFRS). This update modifies some fair value measurement principles and disclosure requirements including the application of the highest and best use and valuation premise concepts, measuring the fair value of an instrument classified in a reporting entity's shareholders' equity, measuring the fair value of financial instruments that are managed within a portfolio, application of premiums and discounts in a fair value measurement, disclosing quantitative information about unobservable inputs used in Level 3 fair value measurements, and other additional disclosures about fair value measurements. The new guidance was effective for periods beginning on or after December 15, 2011. This guidance was applied prospectively and early application was not permitted. Adoption of this guidance did not have a significant effect on Companies' combined statements of financial condition, results of operations, or fair value measurements. Refer to Notes 20 and 21 to the combined financial statements for new required disclosures related to fair value measurements.

In June 2011, the FASB issued ASU 2011-05, *Presentation of Comprehensive Income*, which allows an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. This update eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholder's equity. Under either method, the entity is required to present on the face of the financial statements reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statements where the components of net income and the components of other comprehensive income are presented. These amendments do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. It did not change the option for an entity to present components of other comprehensive income either net of related tax effects or before related tax effects, with one amount shown for the aggregate income tax expense or benefit related to the total of other comprehensive income items. The amendments of this guidance were effective for periods beginning on or after December 15, 2011 and are applied retrospectively. Early adoption was permitted. The provisions of this guidance impact presentation only and did not have any impact on the Companies' combined statements of financial condition or results of operations.

In September 2011, the FASB issued ASU 2011-08, *Testing Goodwill for Impairment*, which intends to simplify how entities test goodwill for impairment. It permits an entity the option to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in the guidance related to Intangibles-Goodwill and Other. The more-likely-than-not threshold is defined as having a likelihood of more than 50%. The previous guidance required an entity to test goodwill for impairment, on at least an annual basis, by comparing the fair value of a reporting unit with its carrying amount, including goodwill (step one). If the fair value of a reporting unit is less than its carrying amount, then the second step of the test must be performed to measure the amount of the impairment loss, if any. Under these amendments, an entity is not required

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to calculate the fair value of a reporting unit unless the entity determines that it is more likely than not that its fair value is less than its carrying amount. This amendment also removes the guidance that permitted the entities to carry forward the calculation of the fair value of the reporting unit from one year to the next if certain conditions are met. In addition, the new qualitative indicators replace those currently used to determine whether an interim goodwill impairment test is required. These indicators are also applicable for assessing whether to perform step two for reporting units with zero or negative carrying amounts. This guidance was effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption was permitted, including for annual and interim goodwill impairment tests performed as of a date before September 15, 2011, if an entity's financial statements for the most recent annual or interim period had not been issued. The provisions of this guidance simplify how entities test for goodwill impairment. Adoption of this guidance did not have a significant effect on the Companies combined statements of financial condition or results of operations.

In December 2011, the FASB issued ASU 2011-11, *Disclosures about Offsetting Assets and Liabilities*. The update requires new disclosures about balance sheet offsetting and related arrangements. For derivatives and financial assets and liabilities, the amendments require disclosure of gross asset and liability amounts, amounts offset on the balance sheet, and amounts subject to the offsetting requirements but not offset on the balance sheet. The guidance is effective for annual reporting periods beginning on or after January 1, 2013 and is to be applied retrospectively. Because this amendment impacts disclosures only, it will have no effect on the Companies' combined financial condition, results of operations or cash flows.

In December 2011, the FASB issued ASU 2011-12, *Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05*, which defers indefinitely the new requirement in ASU 2011-05, *Presentation of Comprehensive Income*, to present components of reclassification adjustments out of accumulated other comprehensive income on the face of the income statement by income statement line item.

2. STOCKHOLDER'S EQUITY AND REGULATORY MATTERS

Preferred stock, common stock and additional paid-in capital for Holding and BBVA Securities at June 30, 2012 and December 31, 2011, were as follows:

	JUNE 30, 2012		
	PREFERRED STOCK	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL
BBVAPR Holding Corporation, Inc. Preferred stock, \$1 par value authorized 5,000,000; none issued	\$	\$	\$
BBVAPR Holding Corporation, Inc. Common stock, \$8 par value authorized 25,000,000 shares; issued and outstanding 20,755,889 shares		166,047	356,431
BBVA Securities of Puerto Rico, Inc. Common stock, \$1 par value authorized 1,000,000 shares; issued and outstanding 805,000 shares		805	6,460
Total	\$	\$ 166,852	\$ 362,891

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	DECEMBER 31, 2011		
	PREFERRED STOCK	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL
BBVAPR Holding Corporation, Inc. Preferred stock, \$1 par value authorized 5,000,000; none issued	\$	\$	\$
BBVAPR Holding Corporation, Inc. Common stock, \$8 par value authorized 25,000,000 shares; issued and outstanding 20,755,889 shares		166,047	356,829
BBVA Securities of Puerto Rico, Inc. Common stock, \$1 par value authorized 1,000,000 shares; issued and outstanding 805,000 shares		805	6,460
Total	\$	\$ 166,852	\$ 363,289

The Bank is regulated by the FDIC and by the OCFI.

Holding is subject to examination, regulation, and periodic reporting under the Bank Holding Company Act of 1956, as amended, which is administered by the board of governors of the Federal Reserve System.

Holding, on a consolidated basis, and the Bank are subject to various regulatory capital requirements administered by federal agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the combined financial statements. Under capital adequacy guidelines, Holding and the Bank must meet specific capital guidelines that involve quantitative measures of its assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. Holding's and the Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require Holding and the Bank to maintain minimum amounts and ratios (set forth in the following table) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier 1 capital (as defined) to average assets (as defined). Management believes that, as of June 30, 2012 and December 31, 2011, Holding and the Bank meet all capital adequacy requirements to which they are subject.

Holding's actual capital amounts and ratios at June 30, 2012 and December 31, 2011, were as follows:

	JUNE 30, 2012	
ACTUAL	MINIMUM CAPITAL REQUIREMENT	MINIMUM TO BE WELL CAPITALIZED UNDER PROMPT CORRECTIVE ACTION PROVISIONS

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	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total risk-based capital to risk-weighted assets	\$ 561,343	15.58%	\$ 288,246	8%	\$ 360,337	10%
Tier 1 capital to risk-weighted assets	441,661	12.26	144,123	4	216,203	6
Tier 1 capital to average assets	441,661	8.77	201,347	4	251,697	5

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	DECEMBER 31, 2011					
	ACTUAL		MINIMUM CAPITAL REQUIREMENT		MINIMUM TO BE WELL CAPITALIZED UNDER PROMPT CORRECTIVE ACTION PROVISIONS	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total risk-based capital to risk-weighted assets	\$ 537,098	14.87%	\$ 289,047	8%	\$ 361,309	10%
Tier 1 capital to risk-weighted assets	417,262	11.55	144,523	4	216,785	6
Tier 1 capital to average assets	417,262	8.78	190,190	4	237,737	5

As of June 30, 2012 and December 31, 2011, the most recent notification from the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain minimum total risk based, Tier 1 risk based, and Tier 1 leverage ratios as set forth in the following table. There are no conditions or events since the notification that management believes have changed the Bank's category.

The Bank's actual capital amounts and ratios at June 30, 2012 and December 31, 2011, are as follows:

	JUNE 30, 2012					
	ACTUAL		MINIMUM CAPITAL REQUIREMENT		MINIMUM TO BE WELL CAPITALIZED UNDER PROMPT CORRECTIVE ACTION PROVISIONS	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total risk-based capital to risk-weighted assets	\$ 552,485	15.33%	\$ 288,246	8%	\$ 360,307	10%
Tier 1 capital to risk-weighted assets	432,807	12.01	144,123	4	216,184	6
Tier 1 capital to average assets	432,807	8.60	201,347	4	251,584	5

DECEMBER 31, 2011

	ACTUAL		MINIMUM CAPITAL REQUIREMENT		MINIMUM TO BE WELL CAPITALIZED UNDER PROMPT CORRECTIVE ACTION PROVISIONS	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	Total risk-based capital to risk-weighted assets	\$ 528,910	14.64%	\$ 288,964	8%	\$ 361,205
Tier 1 capital to risk-weighted assets	409,087	11.33	144,482	4	216,723	6
Tier 1 capital to average assets	409,087	8.60	190,166	4	237,707	5

Holding's ability to pay dividends to its stockholder and other activities can be restricted if its capital falls below levels established by the applicable guidelines. In addition, any bank holding company whose capital falls below levels specified in the guidelines can be required to implement a plan to increase capital.

The Bank's ability to pay dividends to the Corporation and other activities can be restricted if its capital falls below levels established by the FDIC guidelines. In addition, any bank whose capital falls below levels specified in the guidelines can be required to implement a plan to increase capital.

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BBVA Securities is subject to the SEC Uniform Net Capital Rule (the Rule) under the Securities Exchange Act of 1934, which requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital (the Net Capital Ratio), both as defined, shall not exceed 15:1 (and the rule of the applicable exchange also provides that equity capital may not be withdrawn or cash dividends paid if the resulting Net Capital Ratio would exceed 10:1). BBVA Securities capital amounts and ratios at June 30, 2012 and December 31, 2011, are as follows:

	JUNE 30, 2012	DECEMBER 31, 2011
Net Capital	\$ 6,413	\$ 6,760
Excess Required Net Capital	6,313	6,660
Net Capital Ratio	0.11:1	0.15:1

3. MONEY MARKET ASSETS

The following is a summary of the aggregate amounts and interest rates of money market assets, which consist of interest-bearing deposits in banks and federal funds sold, as of June 30, 2012 and December 31, 2011:

	JUNE 30, 2012	DECEMBER 31, 2011
Balance end of month	\$ 14,403	\$ 32,403
Maximum amount outstanding at any month-end	19,506	95,890
Average balance outstanding during the period/year	14,919	64,289
Weighted-average interest rate during the period/year	0.33%	0.69%
Weighted-average interest rate at end of period/year	0.37	0.94

4. SECURITIES

The amortized cost, gross unrealized gains and losses, and estimated fair value of securities at June 30, 2012 and December 31, 2011, are as follows:

JUNE 30, 2012	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTIMATED FAIR VALUE
Securities available for sale:				
U.S. government and agencies obligations	\$ 1,342	\$ 34	\$	\$ 1,376
Government-sponsored agencies mortgage-backed securities	470,936	12,285	(60)	483,161
Puerto Rico (P.R.) government and agencies obligations	98,690			98,690
Corporate notes	10,000	36		10,036
Total securities available for sale	\$ 580,968	\$ 12,355	\$ (60)	\$ 593,263
Securities held to maturity government-sponsored agencies mortgage-backed securities				
	\$ 3,110	\$ 4	\$	\$ 3,114

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	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTIMATED FAIR VALUE
DECEMBER 31, 2011				
Securities available for sale:				
U.S. government and agencies obligations	\$ 1,457	\$ 44	\$	\$ 1,501
Government-sponsored agencies mortgage-backed securities	609,130	14,881	(541)	623,470
Puerto Rico (P.R.) government and agencies obligations	98,690			98,690
Corporate notes	10,000	34		10,034
Total securities available for sale	\$ 719,277	\$ 14,959	\$ (541)	\$ 733,695
Securities held to maturity government-sponsored agencies mortgage-backed securities				
	\$ 5,042	\$ 8	\$	\$ 5,050

The gross unrealized losses and estimated fair value of securities, aggregated by security category and length of time the individual securities have been in an unrealized loss position at June 30, 2012 and December 31, 2011, are as follows:

	LESS THAN 12 MONTHS ESTIMATED FAIR VALUE	GROSS UNREALIZED LOSSES	12 MONTHS OR MORE ESTIMATED FAIR VALUE	GROSS UNREALIZED LOSSES	TOTAL ESTIMATED FAIR VALUE	TOTAL GROSS UNREALIZED LOSSES
JUNE 30, 2012						
Available for sale Government-sponsored agencies mortgage-backed securities	\$ 28,696	\$ (6)	\$ 49,995	\$ (54)	\$ 78,691	\$ (60)

LESS THAN 12
MONTHS

12 MONTHS OR MORE

TOTAL

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DECEMBER 31, 2011	ESTIMATED FAIR VALUE	GROSS UNREALIZED LOSSES	ESTIMATED FAIR VALUE	GROSS UNREALIZED LOSSES	ESTIMATED FAIR VALUE	GROSS UNREALIZED LOSSES
Available for sale Government-sponsored agencies mortgage-backed securities	\$ 9,949	\$ (97)	\$ 109,219	\$ (444)	\$ 119,168	\$ (541)

The Companies periodically evaluate their securities for OTTI. As of June 30, 2012 and December 31, 2011, management concluded that there was no OTTI in the Companies securities portfolio since the securities in an unrealized loss position at such dates are guaranteed by the government or by government-sponsored entities, the Bank does not have the intent to sell these debt securities, the Bank expects to recover its amortized cost with cash flows generated by the securities, and it is more likely than not that it will not be required to sell the debt securities before recovery of their amortized cost basis.

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The amortized cost and estimated fair values of securities at June 30, 2012, by contractual maturity, excluding mortgage-backed securities, are shown in the following table. The contractual maturities of most mortgage-backed securities are due after ten years. Actual maturities may differ from contractual maturities when there exists a right to call or prepay obligations with or without call or prepayment penalties.

	AVAILABLE FOR SALE		HELD TO MATURITY	
	AMORTIZED COST	ESTIMATED FAIR VALUE	AMORTIZED COST	ESTIMATED FAIR VALUE
Maturity:				
Due after one year through five years	\$ 10,000	\$ 10,036	\$	\$
Due after five years through ten years	641	649		
Due after ten years	99,391	99,417		
Mortgage-backed securities	470,936	483,161	3,110	3,114
Total	\$ 580,968	\$ 593,263	\$ 3,110	\$ 3,114

Proceeds from sales of securities available for sale during the six-month periods ended June 30, 2012 and 2011, were \$102,920 and \$111,192, respectively. For the six-month periods ended June 30, 2012 and 2011, the realized gross gains on sales of securities available for sale amounted to \$3,459 and \$4,348, respectively. There were no losses from such sales.

Trading securities as of June 30, 2012 consist of Puerto Rico municipal bonds amounting to \$1,071 and mutual funds amounting to \$101. At December 31, 2011, trading securities consist of Puerto Rico municipal bonds amounting to \$1,541, a short-term corporate note amounting to \$402 and other investments amounting to \$103.

5. LOANS, ALLOWANCE FOR LOAN LOSSES AND ALLOWANCE FOR REPOSSESSED REAL ESTATE

Residential Mortgage Loans Held for Sale During the six-month periods ended on June 30, 2012 and 2011, the Bank sold and securitized residential loans amounting to \$64,000 and \$42,900, respectively. Loans are sold individually or through securitizations. Loans sold are based on pre-established commitments or at fair value. Securitizations are made in conjunction with Government National Mortgage Association (GNMA) and Federal National Mortgage Association (FNMA) whereby the loans are exchanged for securities. At June 30, 2012 and December 31, 2011, residential mortgage loans held for sale amounted to \$16,893 and \$30,517, respectively. During the six-month periods ended June 30, 2012 and 2011, the Bank recognized gains of \$1,709 and \$656, respectively, in connection with its mortgage banking activities.

The aggregate amortized cost and estimated fair value of these loans at June 30, 2012 and December 31, 2011, are as follows:

AMORTIZED COST	GROSS UNREALIZED HOLDING	GROSS UNREALIZED HOLDING	ESTIMATED FAIR VALUE
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		GAINS	LOSSES	
June 30, 2012	\$ 16,893	\$ 842	\$	\$ 17,735
December 31, 2011	\$ 30,517	\$ 1,265	\$	\$ 31,782

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Loans Receivable The composition of the Bank's loan portfolio at June 30, 2012 and December 31, 2011, was as follows:

	JUNE 30, 2012	DECEMBER 31, 2011
Commercial and industrial, including overdraft balances on demand deposits of \$595 and \$974, respectively	\$ 1,293,670	\$ 1,286,620
Construction and commercial real estate	285,398	303,162
Residential mortgages	916,857	921,768
Auto loans	1,246,612	1,196,993
Consumer, including overdraft balances on demand deposits of \$103 and \$55, respectively	245,623	242,653
Subtotal	3,988,160	3,951,196
Unearned interest	(308,127)	(289,362)
Discount on residential mortgage loans	(3,497)	(3,948)
Net deferred loan costs	9,460	9,472
Subtotal	3,685,996	3,667,358
Allowance for loan losses	(129,277)	(132,001)
Total	\$ 3,556,719	\$ 3,535,357

Loans Origination/Risk Management The Bank's credit policies establish guidance for the origination of credit within a framework of prudence and reasonableness, considering the reality of the economic environment and compliance with laws and regulations. The credit policies are set to define the type of business that is attractive to the Bank. This strategy sets out the credits that can be granted and seeks to ensure that a client represents an admissible credit for the Bank. Management and the board of directors review and approve the credit policies periodically.

A monitoring system is in place to ensure the loan quality of all loan portfolios. The Bank's asset classification system is one of the main tools to assess the asset quality of the loan portfolios, and to identify and monitor portfolio risks. The classification system rates the strength of the borrower and the loan transaction. The system is designed to be a tool for senior management to manage the Bank's credit risk and provide an early warning system for negative migration of credits. The system also provides for recognition of improvement in credits.

Also, monitoring reports are prepared and discussed with management and the board of directors. This reporting package includes credit trends, such as delinquency, non-performing loans and loan charge-offs, and other credit quality indicators.

Commercial and Industrial Loans (C&I) C&I loans include commercial credit lines, overdrafts, unsecured commercial loans, and commercial loans secured by real estate and by other types of collateral. These loans are granted mainly to corporate clients, to automobile dealers to finance their inventory, to the government and to small and medium size enterprises. In the underwriting process of C&I loans, the overall economic and financing situation and the repayment capacity of the borrower are taken into consideration. Lending limits, term, required documentation, interest rate approval, collateral, and guarantees are also considered. C&I loans are composed of different markets.

As part of the monitoring system, an alert system has been adopted for C&I loans to ensure an early identification of problem loans. This system is a tool for credit classification and mitigation of credit losses. Monitoring reports are prepared to follow up on delinquent, nonperforming loans, and classified loans.

Construction and Commercial Real Estate Loans (CRE) The main products of CRE loans are interim construction, land, and permanent loans (rental properties). The repayment of an interim financing construction loan generally depends on success of the project. Therefore, its viability is the main consideration during the evaluation process.

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Additional considerations are also evaluated, such as technical and financial capacity of the developer and the contractor. The parameters for land loans are based primarily on the loan to value and debt service coverage ratio. The main parameters for permanent loans are the occupancy and the debt-service coverage ratio.

Monitoring system and reports explained in the C&I loans section are also part of the CRE loans monitoring process. In addition, new appraisal reports are requested periodically for CRE loans.

Residential Mortgage Loans The Bank grants loans secured with first and second mortgages on residential properties. Mortgage loan policy establishes specific guidance for the origination of conforming and nonconforming loans. The Bank is required to obtain and maintain regulatory approvals to finance loans insured or guaranteed by Federal Housing Administration (FHA), United States Department of Agriculture Rural Development (Rural), or U.S. Department of Veteran Affairs (VA). The Bank also obtains proper approval from FNMA and GNMA for subsequent sale of eligible loans in the secondary market.

The Bank considers offering refinancing of certain residential mortgage loans to mitigate risks. This type of product is part of the loss mitigation program. This program is composed of several products with specific requirements and underwriting standards designed to mitigate or avoid a potential loss. Monitoring reports cover trends and results of this program. Also, mortgage monitoring reports include loan to value composition, originations by FICO score, foreclosures in process, and others.

Auto Loans The Bank provides financing for the purchase of new or used motor vehicles for private or public use. These loans are granted mainly through dealers authorized and approved by the auto credit department committee of the Bank. The auto credit department has the specialized structure and resources to provide the service required for this product according to market demands.

The auto loan credit policy establishes specific guidance and parameters for the underwriting and origination process. Underwriting procedures, lending limits, interest rate approval, insurance coverage, and automobile brand restrictions are some parameters and internal controls implemented to ensure the quality and profitability of the auto loan portfolio. The credit scoring system is a fundamental part of the decision process. Sub-prime lending, as defined by the FDIC, is monitored and internal limits and additional procedures in the analysis and underwriting process are established for this type of credit. Generally, sub-prime lending consists of loans to borrowers which exhibit one or more of these credit risk characteristics: (1) two or more 30-day delinquencies in the last twelve months, or one or more 60-day delinquencies in the last 24 months; (2) judgment, foreclosure, repossession, or charge-off in the prior 24 months; (3) bankruptcy in the last five years; relatively high default probability as evidenced by risk score (FICO) of 660 or below; or debt service to income ratio of 50% or more.

Consumer Loans The Bank offers retail products, such as personal loans, credit cards, and lines of credit, among others. The credit scoring system is used for personal loans and credit card loan originations. The Bank determines from time to time maximum amounts of credit limits, monthly payments, charges and fees, and interest rates. Also, lending limits and underwriting procedures are part of the structure and controls.

Securitizations The Bank is an approved GNMA and FNMA issuer of mortgage-backed securities. During the six- month periods ended June 30, 2012 and 2011, the Bank securitized 1 to 4 family residential mortgage loans with an unpaid principal balance of approximately \$24,000 and \$21,000, respectively, where the Bank retained the beneficial interests.

Past Due and Non-Accrual Loans Loans are considered past due if the required principal and interest payments have not been received when contractually due. For further details about the Bank's accounting policies related to non-accrual and past due loans treatment, see Note 1 to the combined financial statements.

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At June 30, 2012 and December 31, 2011, the balance of non-accrual loans and accruing loans past due over 90 days (net of unearned interest) segregated by class of loans were as follows:

	JUNE 30, 2012 ACCRUING LOANS		DECEMBER 31, 2011 ACCRUING LOANS	
	NONACCRUAL LOANS	PAST DUE 90 DAYS OR OVER	NONACCRUAL LOANS	PAST DUE 90 DAYS OR OVER
Commercial and industrial	\$ 79,595	\$ 726	\$ 78,945	\$ 296
Construction and commercial real estate	79,554		78,000	
Residential mortgages	79,999		78,868	
Auto loans	8,224		9,150	
Consumer	2,316	534	2,246	621
Total	\$ 249,688	\$ 1,260	\$ 247,209	\$ 917

Interest income that would have been recorded if nonaccrual loans had performed in accordance with their original terms would have amounted to approximately \$6,032 and \$6,865 for the six-month periods ended June 30, 2012 and 2011, respectively. Interest income collected on nonaccrual loans amounted to approximately \$99 and \$49 for the six-month periods ended June 30, 2012 and 2011, respectively. Additionally, commercial and industrial loans and, CRE loans past due over 90 days accruing interest amounted to \$726 and \$296 at June 30, 2012 and December 31, 2011, respectively.

At June 30, 2012 and December 31, 2011, an age analysis of past due loans (net of unearned interest) is as follows:

	30-89 DAYS PAST DUE	OVER 90 DAYS PAST DUE	TOTAL PAST DUE	CURRENT	TOTAL LOANS
June 30, 2012					
Commercial and industrial	\$ 10,988	\$ 80,321	\$ 91,309	\$ 1,202,361	\$ 1,293,670
Construction and commercial real estate	720	79,554	80,274	205,124	285,398
Residential mortgages	68,752	79,999	148,751	768,106	916,857
Auto loans	105,493	8,224	113,717	864,141	977,858
Consumer	5,657	2,850	8,507	197,743	206,250
Unamortized discount and costs				5,963	5,963
Total	\$ 191,610	\$ 250,948	\$ 442,558	\$ 3,243,438	\$ 3,685,996

December 31, 2011

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Commercial and industrial	\$ 7,908	\$ 79,241	\$ 87,149	\$ 1,199,471	\$ 1,286,620
Construction and commercial real estate	5,367	78,000	83,367	219,795	303,162
Residential mortgages	28,448	78,868	107,316	814,452	921,768
Auto loans	103,700	9,150	112,850	833,346	946,196
Consumer	6,580	2,867	9,447	194,641	204,088
Unamortized discount and costs				5,524	5,524
Total	\$ 152,003	\$ 248,126	\$ 400,129	\$ 3,267,229	\$ 3,667,358

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Impaired Loans At June 30, 2012 and December 31, 2011, loans classified as impaired were as follows:

	JUNE 30, 2012	DECEMBER 31, 2011
Recorded investment in impaired loans	\$ 244,751	\$ 242,418
Less recorded investment in impaired loans for which no valuation allowance is required	(92,371)	(82,684)
Recorded investment in impaired loans for which valuation allowance is required	\$ 152,380	\$ 159,734
Allowance for loan losses for impaired loans	\$ 18,850	\$ 20,676
Average recorded investment in impaired loans	242,083	273,973
Interest on impaired loans collected and recognized as income	2,240	5,529

C&I, construction, and CRE loans are deemed impaired when, based on the current information and events, management considers that it is probable that the borrower would be unable to pay all amounts due according to the contractual terms of the loan agreement. In addition, all TDRs are also considered impaired.

If a loan is impaired, a specific valuation allowance is established, if necessary, so that the loan is reported net, at the present value of estimated future cash flows using the loan's original effective interest rate or at the fair value of the collateral, less selling costs, if repayment is expected solely from the collateral.

At June 30, 2012 and December 31, 2011, impaired loans by class of loans are set forth in the following table:

	UNPAID CONTRACTUAL PRINCIPAL BALANCE	RECORDED INVESTMENT WITH NO ALLOWANCE	RECORDED INVESTMENT WITH ALLOWANCE	TOTAL RECORDED INVESTMENT	RELATED ALLOWANCE	AVERAGE RECORDED INVESTMENT	INTEREST INCOME RECOGNIZED
June 30, 2012							
Commercial and industrial	\$ 100,426	\$ 60,115	\$ 26,653	\$ 86,768	\$ 2,095	\$ 87,061	\$ 602
Construction and commercial real estate	195,366	23,476	76,016	99,492	12,833	97,817	598
Residential mortgage	60,169	8,780	49,711	58,491	3,922	57,205	1,040
Total	\$ 355,961	\$ 92,371	\$ 152,380	\$ 244,751	\$ 18,850	\$ 242,083	\$ 2,240
December 31, 2011							
Commercial and industrial	\$ 99,131	\$ 46,827	\$ 41,600	\$ 88,427	\$ 4,177	\$ 84,926	\$ 1,898
Construction and commercial real estate	217,205	26,509	72,187	98,696	12,881	139,161	2,023

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Residential mortgage	56,829	9,348	45,947	55,295	3,618	49,886	1,608
Total	\$ 373,165	\$ 82,684	\$ 159,734	\$ 242,418	\$ 20,676	\$ 273,973	\$ 5,529

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Credit Quality Indicators As part of the ongoing monitoring of the credit quality of the Bank's loan portfolio, management tracks certain credit quality indicators, including trends related to (i) the level of classified commercial loans (ii) net charge-offs, (iii) non-performing loans, and (iv) the general economic conditions.

The Bank utilizes a risk grading system to assign a risk grade to each of its commercial and industrial and its CRE loans. These loans are graded on a scale of 1 to 8 risk grades as follows:

- n *Grade 1* This grade includes loans with very high-credit quality borrowers. These borrowers have excellent credit with superior quality, liquidity, debt capacity and coverage, excellent management with depth in most, if not all management positions. These borrowers are market leaders with access to capital markets and/or are highly regarded in the industry with strong market share. Also included in this category may be loans secured by cash, U.S. government securities, U.S. government agencies securities, highly rated municipal bonds, insured savings accounts, and insured certificates of deposit with the Bank.

- n *Grade 2* This grade includes loans with solid credit quality and risk. These borrowers have good business credit with satisfactory asset quality and liquidity; good and acceptable debt capacity, coverage, and management. These loans carry a normal level of risk, with minimal exposure. The borrower has the ability to perform according to the terms of the credit facility.

- n *Grade 3* This grade includes loans with acceptable credit quality and risk. These borrowers have acceptable business credit but with less than average risk, acceptable asset quality, little excess liquidity, and modest debt capacity. These loans carry a reasonable credit risk in which the borrower demonstrates the ability to repay the debt from normal business operations.

- n *Grade 4* This grade includes loans on management's watch list and is intended to be utilized on a temporary basis for pass grade borrowers where some, but minor, management and/or credit weaknesses have been identified.

- n *Grade 5* This grade includes special mention loans, in accordance with regulatory guidelines. This grade is intended to be temporary and include loans that have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or of the Bank's credit position at some future date.

- n *Grade 6* This grade includes Substandard loans in accordance with regulatory guidelines. Normal repayment of credit for these loans is in jeopardy. While no loss of principal or interest is expected, there are clear and well-defined weaknesses that jeopardize liquidation of debt.

- n *Grade 7* This grade includes Doubtful loans in accordance with regulatory guidelines. These loans have all the weaknesses inherent in those classified as Substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of current existing facts, conditions, and values, highly questionable and improbable.

- n *Grade 8* This grade includes Loss loans in accordance with regulatory guidelines. These are uncollectible loans or with such little value that it does not warrant classification as a bankable asset. Such loan may, however, have recovery or salvage value but not to the point where a write-off should be deferred, even though partial recovery may occur in the future.

The assignment of the obligor risk rating is based on relevant information about the ability of borrowers to service their debts, such as current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other

factors.

The Bank periodically reviews loans classified as watch list or worse, to evaluate if they are properly classified. For those loans with an adverse classification, management evaluates whether those loans are considered impaired. The frequency of these reviews will depend on the amount of the aggregate outstanding debt and the risk rating classification of the obligor. In addition, during the renewal process of applicable credit facilities, the Bank evaluates the corresponding loan grades.

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Loans classified as pass credits are excluded from the scope of the review process described above until: (a) they become past due; (b) management becomes aware of deterioration in the creditworthiness of the borrower; or (c) the customer contacts the Bank for a modification. In these circumstances, the credit facilities are specifically evaluated to assign the appropriate risk rating classification.

The credit quality indicators by loans portfolio at June 30, 2012 and December 31, 2011, are as follows:

	JUNE 30, 2012				DECEMBER 31, 2011			
	COMMERCIAL AND INDUSTRIAL LOANS		CONSTRUCTION AND COMMERCIAL REAL ESTATE LOANS		COMMERCIAL AND INDUSTRIAL LOANS		CONSTRUCTION AND COMMERCIAL REAL ESTATE LOANS	
	WEIGHTED-AVERAGE OUTSTANDING		WEIGHTED-AVERAGE OUTSTANDING		WEIGHTED-AVERAGE OUTSTANDING		WEIGHTED-AVERAGE OUTSTANDING	
	RISK GRADE	PRINCIPAL	RISK GRADE	PRINCIPAL	RISK GRADE	PRINCIPAL	RISK GRADE	PRINCIPAL
Commercial credit exposure:								
Credit risk profile by internally assigned grade:								
Grades 1-4	2.35	\$ 1,161,868	2.70	\$ 160,000	2.21	\$ 1,141,680	2.61	\$ 148,849
Grade 5 Special Mention		10,007		11,926		10,275		24,893
Grade 6 Substandard		120,083		113,473		132,306		129,420
Grade 7 Doubtful		694				925		
Grade 8 Loss								
Total	2.71	1,292,651	4.11	285,398	2.62	1,285,186	4.25	303,162
Credit risk profile based on payment activity:								
Performing		1,019				1,435		
Nonaccrual								
Total		1,019				1,435		
Total commercial credit exposure		1,293,670		285,398		1,286,621		303,162

	RESIDENTIAL MORTGAGES	AUTO LOANS	CONSUMER	RESIDENTIAL MORTGAGES	AUTO LOANS	CONSUMER
Consumer credit exposure (net of unearned interest) credit risk profile based on payment						

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activity:							
Performing	\$	836,858	\$ 969,634	\$ 203,934	\$ 842,900	\$ 937,045	\$ 201,842
Nonaccrual		79,999	8,224	2,316	78,868	9,150	2,246
Total consumer credit exposure	\$	916,857	\$ 977,858	\$ 206,250	\$ 921,768	\$ 946,195	\$ 204,088

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Modifications At June 30, 2012 and December 31, 2011, TDRs amounted to \$231,136 and \$217,675, respectively, including commercial, construction, commercial real estate, consumer, and residential mortgage loans that had been renegotiated by reducing interest rates, extending maturity date, or granting other concessions, such as capitalization of unpaid interest or moratorium of loan repayment. As of June 30, 2012 and December 31, 2011 there were no outstanding commitments to lend additional funds to borrowers owing receivables whose terms have been modified in TDRs.

A modification of a loan constitutes a TDR when a borrower is experiencing financial difficulty and the modification constitutes a concession. A concession could include a reduction in the interest rate on the loan, payment extensions, forgiveness of principal, forbearance, or other actions intended to maximize collection.

Loans classified as TDRs are reported in nonaccrual status if the loan was in nonaccruing status at the time of the modification. The TDR loan should continue in nonaccrual status until the borrower has demonstrated a willingness and ability to make the restructured loan payments (at least six months of sustained performance after it was classified as TDR). When a loan is placed in nonaccrual status, all previously accrued, but uncollected, interest is reversed and charged against current earnings. Interest on nonaccrual loans is thereafter recognized as income only to the extent actually collected. Loans classified as TDRs are excluded from TDR status once performance under the restructured terms exists for a reasonable period (at least 12 months of sustained performance after classification) and the loan yields a market rate.

Loan modifications that are considered TDRs completed during the six- month periods ended June 30, 2012 and 2011, were as follows:

	NUMBER OF CONTRACTS	PRE-MODIFICATION OUTSTANDING RECORDED INVESTMENT	POST-MODIFICATION OUTSTANDING RECORDED INVESTMENT
June 30, 2012			
Troubled debt restructurings:			
Commercial and industrial	15	\$ 4,545	\$ 4,502
Construction and commercial real estate			
Residential mortgages	109	19,015	18,950
Consumer	134	1,276	1,304
June 30, 2011			
Troubled debt restructurings:			
Commercial and industrial	19	\$ 14,391	\$ 14,333
Construction and commercial real estate	1	10,166	8,296
Residential mortgages	162	39,781	33,219
Consumer	265	2,903	2,846

The Bank considers a loan to have defaulted if the borrower has failed to make payments of either principal, interest, or both for a period of 60 days or more.

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Loan modifications considered TDRs that defaulted during the six-month periods ended June 30, 2012 and 2011, and that had been modified in a TDR during the preceding twelve months period were as follows:

	JUNE 30, 2012		JUNE 30, 2011	
	NUMBER OF CONTRACTS	RECORDED INVESTMENT	NUMBER OF CONTRACTS	RECORDED INVESTMENT
Troubled debt restructurings that subsequently defaulted:				
Commercial and industrial		\$		\$
Residential mortgages	37	8,890	1	205
Consumer	23	68	48	598

Allowance for Loan Losses Activity in the allowance for loan losses for the six-month periods ended June 30, 2012 and 2011, was as follows:

	2012	2011
Beginning balance	\$ 132,001	\$ 163,354
Provision for loan losses	17,000	20,050
Loans charged off	(33,976)	(43,165)
Recoveries	14,252	13,148
Ending balance	\$ 129,277	\$ 153,387

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For the six-month periods ended June 30, 2012 and 2011, the activity in the allowance for loan losses by portfolio segment is as follows:

	COMMERCIAL AND INDUSTRIAL LOANS	CONSTRUCTION AND COMMERCIAL REAL ESTATE	RESIDENTIAL MORTGAGES	AUTO LOANS	CONSUMER LOANS	UNALLOCATED	TOTAL
2012							
Beginning balance	\$ 29,222	\$ 34,381	\$ 27,311	\$ 21,552	\$ 15,617	\$ 3,918	\$ 132,001
Provision (credit) for loan losses	(2,087)	3,453	243	4,066	3,509	7,816	17,000
Charge-offs	(3,948)	(5,135)	(3,713)	(15,950)	(5,230)		(33,976)
Recoveries	746	647	9	12,065	785		14,252
Net charge-offs	(3,202)	(4,488)	(3,704)	(3,885)	(4,445)		(19,724)
Ending balance	\$ 23,933	\$ 33,346	\$ 23,850	\$ 21,733	\$ 14,681	\$ 11,734	\$ 129,277
Period-end amount allocated to:							
Loans individually evaluated for impairment	\$ 2,095	\$ 12,833	\$ 3,922	\$	\$	\$	\$ 18,850
Loans collectively evaluated for impairment	21,838	20,513	17,912	21,733	14,681	11,734	108,411
Ending balance	\$ 23,933	\$ 33,346	\$ 21,834	\$ 21,733	\$ 14,681	\$ 11,734	\$ 127,261
2011							
Beginning balance	\$ 36,636	\$ 41,211	\$ 39,127	\$ 27,090	\$ 17,323	\$ 1,967	\$ 163,354
Provision (credit) for loan losses	(42)	6,028	2,844	1,053	4,984	5,183	20,050
Charge-offs	(3,747)	(12,199)	(3,403)	(17,578)	(6,238)		(43,165)
Recoveries	402	677	60	11,404	605		13,148
Net charge-offs	(3,345)	(11,522)	(3,343)	(6,174)	(5,633)		(30,017)
Ending balance	\$ 33,249	\$ 35,717	\$ 38,628	\$ 21,969	\$ 16,674	\$ 7,150	\$ 153,387
Period-end amount allocated to:							
Loans individually evaluated for impairment	\$ 4,769	\$ 15,176	\$ 4,288	\$	\$	\$	\$ 24,233
Loans collectively evaluated for impairment	28,480	20,542	34,339	21,969	16,674	7,150	129,154
Ending balance	\$ 33,249	\$ 35,718	\$ 38,627	\$ 21,969	\$ 16,674	\$ 7,150	\$ 153,387

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The recorded investment in loans, net of unearned interest as of June 30, 2012 and December 31, 2011, related to each balance in the allowance for loan losses by portfolio segment and disaggregated on the basis of the Bank's impairment methodology was as follows:

	JUNE 30, 2012						TOTAL
	COMMERCIAL AND INDUSTRIAL	CONSTRUCTION AND COMMERCIAL REAL ESTATE	RESIDENTIAL MORTGAGES	AUTO LOANS	CONSUMER	UNAMORTIZED DISCOUNT AND COSTS	
Loans individually evaluated for impairment	\$ 86,768	\$ 99,493	\$ 58,490	\$	\$	\$	\$ 244,751
Loans collectively evaluated for impairment	1,206,902	185,905	851,645	977,858	206,250	5,963	3,434,523
Ending balance	\$ 1,293,670	\$ 285,398	\$ 910,135	\$ 977,858	\$ 206,250	\$ 5,963	\$ 3,679,274

	DECEMBER 31, 2011						TOTAL
	COMMERCIAL AND INDUSTRIAL	CONSTRUCTION AND COMMERCIAL REAL ESTATE	RESIDENTIAL MORTGAGES	AUTO LOANS	CONSUMER	UNAMORTIZED DISCOUNT AND COSTS	
Loans individually evaluated for impairment	\$ 88,427	\$ 98,696	\$ 55,295	\$	\$	\$	\$ 242,418
Loans collectively evaluated for impairment	1,198,193	204,466	866,473	946,196	204,088	5,524	3,424,940
Ending balance	\$ 1,286,620	\$ 303,162	\$ 921,768	\$ 946,196	\$ 204,088	\$ 5,524	\$ 3,667,358

Allowance for Repossessed Real Estate Activity in the allowance for repossessed real estate for the six-month periods ended June 30, 2012 and 2011 was as follows:

	2012	2011
Beginning balance	\$ 5,894	\$ 2,512
Valuation allowance	3,229	1,191
Charge offs	(1,006)	(333)
Ending balance	\$ 8,117	\$ 3,370

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Table of Contents**6. PLEDGED ASSETS**

At June 30, 2012 and December 31, 2011, the Bank has pledged securities and commercial, auto, and residential mortgage loans to secure repurchase agreements outstanding, public fund deposits, individual retirement accounts, treasury tax deposits, and advances from the Federal Home Loan Bank (FHLB) and Federal Reserve Bank (FRB). The counterparties to the repurchase agreements generally have the right to repledge or sell such collateral.

The carrying value of the pledged assets by classification is as follows:

	JUNE 30, 2012	DECEMBER 31, 2011
Securities available for sale	\$ 507,444	\$ 680,344
Securities held to maturity	2,696	4,774
Interest-bearing deposits in banks	300	300
Loans	2,374,334	2,244,917
Total	\$ 2,884,774	\$ 2,930,335

7. PREMISES AND EQUIPMENT

Premises and equipment at June 30, 2012 and December 31, 2011, consist of the following:

	USEFUL LIVES (IN YEARS)	JUNE 30, 2012	DECEMBER 31, 2011
Land		\$ 622	\$ 622
Bank premises and improvements	10 40	63,477	62,862
Furniture, fixtures, and other equipment	1 10	20,912	21,024
	10 or lease		
Leasehold improvements	term whichever is shorter	19,934	20,195
Subtotal		104,945	104,703
Less accumulated depreciation and amortization		(66,596)	(65,237)
Subtotal		38,349	39,466
Construction in progress		254	384

Total	\$ 38,603	\$ 39,850
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8. DEPOSITS AND INTEREST EXPENSE

Deposits and their weighted-average interest rate at June 30, 2012 and December 31, 2011, are summarized as follows:

	JUNE 30, 2012		DECEMBER 31, 2011	
	AMOUNT	INTEREST RATE	AMOUNT	INTEREST RATE
Savings and Negotiable Order of Withdrawal (NOW)	\$ 995,980	1.33%	\$ 989,427	1.29%
Time deposits	1,728,680	1.58	1,288,569	1.62
	2,724,660		2,277,996	
Noninterest bearing	709,752		661,926	
Total	\$ 3,434,412		\$ 2,939,922	

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NOW accounts are interest-bearing checking accounts. Time deposits in denominations of \$100 or more amounted to \$946,683 and \$923,176 at June 30, 2012 and December 31, 2011, respectively. Interest expense on these deposits amounted to \$8,018 and \$6,164 for the six-month periods ended on June 30, 2012 and 2011, respectively. Time deposits include brokered deposits of \$679,844 and \$267,622 at June 30, 2012 and December 31, 2011, respectively. The Bank has no step-up fixed-rate brokered deposits at June 30, 2012 and December 31, 2011.

At June 30, 2012, the scheduled maturities of time deposits are as follows:

YEARS ENDING DECEMBER 31,	
2012	\$ 608,530
2013	649,561
2014	189,880
2015	138,403
2016	37,327
Thereafter	104,979
Total	\$ 1,728,680

A summary of interest expense on deposits for the six-month periods ended June 30, 2012 and 2011, is as follows:

	2012	2011
Savings and NOW	\$ 6,623	\$ 6,191
Time deposits	12,457	13,148
Total	\$ 19,080	\$ 19,339

Table of Contents**9. FEDERAL FUNDS PURCHASED AND SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE**

A summary of federal funds purchased and securities sold under agreements to repurchase as of June 30, 2012 and December 31, 2011, and for the six-month periods ended June 30, 2012 and 2011, is as follows:

	FEDERAL FUNDS PURCHASED	SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE
Balance or percentage at end of year/period		
June 30, 2012	\$ 12,904	\$ 336,600
December 31, 2011	\$	\$ 511,600
Weighted-average interest rate at end of period		
June 30, 2012	0.30%	3.59%
December 31, 2011	%	4.18%
Balance or percentage during the period		
Maximum amount outstanding at any month-end		
June 30, 2012	\$ 57,871	\$ 511,600
June 30, 2011	\$ 62,568	\$ 561,600
Average balance outstanding during the period		
June 30, 2012	\$ 14,711	\$ 442,684
June 30, 2011	\$ 2,865	\$ 548,449
Weighted-average interest rate during the period		
June 30, 2012	0.36%	3.70%
June 30, 2011	0.24%	4.19%

During the six-month periods ended June 30, 2012 and 2011, repurchase agreements consisted of fixed and step-up coupon transactions. There were no floating to fixed transactions outstanding at June 30, 2012.

During the outstanding period of such agreements, the securities were delivered to the counterparties. The dealers may have sold, loaned, or otherwise disposed of such securities to other parties in the normal course of their operations and have agreed to resell to the Bank the same or similar securities at the maturities of the agreements. The Bank may be required to provide additional collateral based on the fair value of the underlying securities.

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Securities sold under agreements to repurchase at June 30, 2012, mature as follows: in 2013 \$150,000, and in 2015 \$186,600. Securities sold under agreements to repurchase include \$325,000 of callable repurchase agreements. The first call option date is in July 2012.

At June 30, 2012 and December 31, 2011, counterparties on repurchase agreements were as follows:

	JUNE 30, 2012		DECEMBER 31, 2011	
	BORROWING BALANCE	FAIR VALUE OF UNDERLYING COLLATERAL	BORROWING BALANCE	FAIR VALUE OF UNDERLYING COLLATERAL
U.S. financial entities	\$ 336,600	\$ 401,390	\$ 511,600	\$ 586,346

Table of Contents**10. ADVANCES FROM FHLB**

Advances from the FHLB at June 30, 2012, which consist of fixed-rate borrowings, mature as follows:

MATURITY	INTEREST RATE	OUTSTANDING BALANCE
September 7, 2012	0.42%	\$ 100,000
December 19, 2012	0.48	75,000
June 11, 2013	1.95	100,000
Total		\$ 275,000

Advances are received from the FHLB under an advance, collateral pledge, and security agreement, whereby the Bank is required to maintain a minimum amount of qualifying collateral with a fair value of at least 115% of the outstanding advances and investment in FHLB stock. At June 30, 2012 and December 31, 2011, the Bank has mortgage loans amounting to \$739,623 and \$746,680, respectively, to secure these advances and maintains an investment in FHLB stock with a carrying value at June 30, 2012 and December 31, 2011, of \$16,674 and \$13,848, respectively. At June 30, 2012 and December 31, 2011, the Bank had additional borrowing capacity with the FHLB of \$257,524 and \$284,436, respectively.

11. ADVANCES FROM FRB

At June 30, 2012 and December 31, 2011, there were no advances from FRB outstanding. However, the Bank decided to maintain collateral at FRB should a decision be made to enter into the regular funding program offered by FRB known as the discount window program.

At June 30, 2012 and December 31, 2011, the Bank has consumer loans collateral amounting to \$842,972 and \$825,928, respectively. At June 30, 2012 and December 31, 2011, the Bank also had pledged commercial loans amounting to \$274,797 and \$281,672, respectively. In the aggregate, at June 30, 2012, these had a lendable value of \$1,117,769 (fluctuates from 57% to 96% based on the loan collateral category balance).

12. OTHER BORROWED FUNDS

Other borrowed funds at June 30, 2012 and December 31, 2011, consist of the following:

	JUNE 30, 2012	DECEMBER 31, 2011
WEIGHTED-AVERAGE INTEREST	BALANCE	WEIGHTED-AVERAGE INTEREST
	BALANCE	BALANCE

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	RATE		RATE	
	%	\$		\$
Senior notes net of unamortized discount of \$231			1.57%	\$ 469,769
Other borrowed funds	0.17	123,482	0.49	71,490
Total		\$ 123,482		\$ 541,259

At June 30, 2012, there were no senior notes outstanding. Other borrowed funds mature as follows: within 30 days \$121,748; and after 10 years \$1,734. The weighted-average interest rate for the six- month periods ended June 30, 2012 and 2011, was 0.72% and 0.77%, respectively. Senior notes were fixed and variable rates unsecured debt guaranteed by the FDIC that were issued under the Temporary Liquidity Guarantee Program (TLG Program). The variable interest rate on the unsecured senior notes issued was set at three-month London InterBank Offered Rate (LIBOR) flat. Other borrowed funds consist of unsecured fixed-rate borrowings.

Table of Contents**13. SUBORDINATED CAPITAL NOTES**

Subordinated capital notes at each, June 30, 2012 and December 31, 2011, consist of the following:

Subordinated capital notes at a variable rate of three-month LIBOR, plus 1.44% (1.91% at June 30, 2012 and 2.01% at December 31, 2011), due September 23, 2014	\$ 50,000
Subordinated notes at a variable rate of three-month LIBOR, plus 1.56% (2.02% at June 30, 2012 and 2.13% at December 31, 2011), due September 29, 2016	37,000
Subordinated notes at three-month LIBOR, plus 1.56% (2.02% June 30, 2012 and 2.13% at December 31, 2011), due September 29, 2016	30,000
Total	\$ 117,000

In September 2004, the Bank issued \$50,000 subordinated capital notes due on September 23, 2014. Interest on these subordinated notes is payable quarterly since September 23, 2009. The Bank has the option to redeem these subordinated notes in whole or in part from time to time before maturity at 100% of the principal amount, plus any accrued, but unpaid interest, to the date of redemption, beginning September 23, 2009, at each payment date thereafter.

In September 2006, the Bank issued \$67,000 subordinated capital notes due on September 29, 2016. Interest payments on these notes are payable as follows:

n For \$37,000, payments are due semiannually during the fixed-rate period (up to September 29, 2011) and quarterly thereafter.

n For \$30,000, payments are due quarterly.

The Bank has the option to redeem these subordinated notes in whole or in part from time to time before maturity at 100% of the principal amount, plus any accrued, but unpaid, interest to the date of redemption, beginning on September 29, 2011, at each payment date thereafter.

These notes qualify as total capital for regulatory capital purposes at June 30, 2012 and December 31, 2011.

Under the requirements of Puerto Rico Banking Law, the Bank must establish redemption funds for the subordinated capital notes by transferring from undesignated retained earnings preestablished amounts as follows:

Redemption fund December 31, 2011	\$ 71,425
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2012	11,700
2013	11,700
2014	11,700
2015	10,475
Total	\$ 117,000

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Table of Contents**14. BUILDING OPERATIONS**

Building operations consist principally of the leasing of office and parking space to third parties under various operating lease contracts for periods normally consisting of five years. The summary of the results of the building operations for the six-month periods ended June 30, 2012 and 2011, included within net occupancy expenses in the accompanying combined statements of income and comprehensive income is as follows:

	2012	2011
Rental income	\$ 1,227	\$ 1,658
Operating expenses:		
Salaries and other employee benefits	215	236
Occupancy mainly depreciation expense	1,031	1,078
Other	342	568
Total operating expenses	1,588	1,882
Loss from building operations	\$ (361)	\$ (224)

The minimum future rental income for agreements with remaining terms in excess of one year at June 30, 2012, is as follows:

YEARS ENDING DECEMBER 31,		
2012		\$ 1,185
2013		2,002
2014		858
Total		\$ 4,045

15. INCOME TAXES

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The components of income tax provision for the six-month periods ended June 30, 2012 and 2011, are as follows:

	2012	2011
Current income tax provision	\$ 414	\$ 258
Deferred income tax provision	7,139	6,151
Total	\$ 7,553	\$ 6,409

The Companies are subject to Puerto Rico regular income tax or alternative minimum tax (AMT) on income earned from all sources. The AMT is payable if it exceeds regular income tax liability. The excess of AMT over regular tax paid in any one year may be used to offset regular income tax in future taxable years, subject to certain limitations. The AMT rate for 2012 and 2011 is 20%.

Pursuant to the provisions of Act No. 13 of January 8, 2004, for taxable years commencing after June 30, 2003, the net earnings generated by an IBE that operates as a unit of a bank under the Puerto Rico Banking Law are considered taxable and subject to income taxes at the current tax rates in the amount by which the IBE taxable income exceeds 20% of the taxable income of the Bank, including its IBE taxable income. The Bank's IBE carries in its books certain securities which are, irrespective of the IBE status, tax exempt by law.

On March 9, 2009, the Puerto Rico government approved Act No. 7 (the Act) to stimulate Puerto Rico's economy and to reduce the Puerto Rico government's fiscal deficit. The Act imposes a series of temporary and permanent measures, including the imposition of a 5% surtax over the total income tax determined, which is applicable to

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corporations, among others, whose combined income exceeds \$100,000, effectively resulting in an increase in the maximum statutory tax rate from 39% to 40.95%. Furthermore, pursuant to the provisions of the Act, all IBE operating in Puerto Rico are subject to a special tax of 5% on their net income not otherwise subject to the provisions of the Puerto Rico Internal Revenue Code of 1994. This temporary measure was effective for tax years that commenced after December 31, 2008, and before January 1, 2012. On January 31, 2011, a new Puerto Rico revenue code was enacted into law which reduced the maximum tax rate to 30% and eliminated the 5% surtax and the 5% special tax on the net income of IBEs effective for taxable years commencing after December 31, 2010.

The Companies are also subject to federal income tax on their income from sources within the United States of America, even though the Companies are not doing business within the United States of America. The U.S. Internal Revenue Code (U.S. Code) provides for tax exemption of portfolio interest received by a foreign corporation from sources within the United States of America; therefore, the Companies are not subject to federal income tax on certain U.S. investments that qualify as portfolio interest.

At June 30, 2012 and December 31, 2011, accrued income tax payable amounted to \$619 and \$882, respectively, is included as part of other liabilities in the accompanying combined statements of financial condition.

Deferred income taxes reflect the tax effect of temporary differences between the carrying amount of assets and liabilities for financial reporting and the amounts used for income tax purposes. The components of the Companies' net deferred tax assets at June 30, 2012 and December 31, 2011, are as follows:

	JUNE 30, 2012	DECEMBER 31, 2011
Deferred tax assets:		
Puerto Rico Housing Bank and Financing Agency prepayment interest	\$ 2	\$ 3
Net operating losses	10,071	17,103
Allowance for loan losses	38,390	39,112
Reserve for repossessed assets and other	5,111	4,071
Total	53,574	60,289
Deferred tax liabilities:		
Excess of goodwill carrying value over tax basis	7,880	7,449
Unrealized gain on securities available for sale	1,374	1,495
Other	32	39
Total	9,286	8,983
Net deferred tax assets	\$ 44,288	\$ 51,306

The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Based on the information available, the Companies expect to fully realize the deferred tax asset and a valuation allowance is not deemed necessary at June 30, 2012 and December 31, 2011.

According to the Puerto Rico Internal Revenue Code (the PR Code), net operating losses can be carried forward for the next seven years. However, on November 15, 2010, Act No. 171 was enacted, which amended certain provisions of the PR Code. As a result, for net operating

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losses generated in the taxable years commencing after December 31, 2004, and before December 31, 2012, the loss carryforward period was increased to ten years. Accordingly, the net operating loss related to tax years 2009 and 2010 can be carried forward to year 2019 and 2020, respectively.

At June 30, 2012 and December 31, 2011, the unrecognized tax benefits balance, including accrued interest was \$6,368 and \$6,132, respectively.

The Companies do not anticipate a significant change to the total amount of unrecognized tax benefits within the next 12 months.

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The amount of unrecognized tax benefits may vary for several reasons, such as increases for current-year positions, expiration of open income tax returns due to statutes of limitation, changes in management's judgment about the level of uncertainty, new outcome related to litigation, and legislative law enactment, among others.

During the year ended December 31, 2011, the Bank concluded a negotiation with the Internal Revenue Service of the United States of America. As a result \$3,858 of unrecognized tax benefits were recognized.

As of June 30, 2012 and December 31, 2011, accrued interest on unrecognized tax benefits amounts to approximately \$1,316 and \$1,113, respectively. At June 30, 2012 and December 31, 2011, there was no accrual for payment penalties. The Companies' policy is to record interest and related penalties, if any, as income tax expense.

As of June 30, 2012 and December 31, 2011, the total amount of unrecognized tax benefits includes approximately \$6,000, each related to tax positions that would affect the annual effective rate.

16. COMMITMENTS AND CONTINGENCIES

Lease Commitments The Bank has entered into various operating lease agreements for branch facilities and administrative offices expiring at various dates through 2026. Rent expense for the six-month periods ended June 30, 2012 and 2011, amounted to \$2,201 and \$2,161, respectively. As of June 30, 2012, future minimum annual rental net of sublease rentals under the terms of noncancelable leases, without considering renewal options, are as follows:

YEARS ENDING DECEMBER 31,	MINIMUM LEASE PAYMENTS	SUBLEASE RENTALS	NET
2012	\$ 2,901	\$ 24	\$ 2,877
2013	4,508	48	4,460
2014	3,465	48	3,417
2015	3,155	48	3,107
2016	2,773	48	2,725
Thereafter	11,593	12	11,581
Total	\$ 28,395	\$ 228	\$ 28,167

Litigation The Companies are defendants in various legal proceedings arising in connection with their business. After consulting with legal counsel, it is the judgment of management that the financial position and results of operations of the Companies will not be materially affected by the final outcome of these legal proceedings.

Other Contingencies BBVA Securities and/or its service providers execute, settle, and finance customer, correspondent, and trading securities transactions in the normal course of business. These activities may expose BBVA Securities to off-balance-sheet risk arising from the potential that the customer or counterparty may fail to satisfy its obligations and the collateral will be insufficient. In this situation, BBVA Securities may be required to purchase or sell financial instruments at unfavorable market prices to satisfy obligations to customers and counterparties.

BBVA Securities indemnifies and guarantees certain service providers, such as clearing and custody agents, trustees, and administrators, against specified potential losses in connection with their acting as an agent of, or providing services to, BBVA Securities or its affiliates in the normal

course of business. BBVA Securities also indemnifies clients against potential losses incurred in the event specified third-party service providers, including subcustodians and third-party brokers, improperly execute transactions. BBVA Securities believes that it is unlikely it will have to make material payments under these arrangements and accordingly, no contingent liability has been recorded in the accompanying combined financial statements for these indemnifications and guarantees.

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BBVA Securities provides representations and warranties to counterparties in connection with a variety of securities transactions and occasionally indemnifies them against potential losses caused by the breach of those representations and warranties. These indemnifications generally are standard contractual terms and are entered into in the normal course of business. BBVA Securities believes that it is unlikely it will have to make material payments under these arrangements and accordingly, no contingent liability has been recorded in the accompanying combined financial statements for these indemnifications.

17. RELATED-PARTY TRANSACTIONS

The Bank and BBVA Securities grant loans to its directors, executive officers, employees, and to certain individuals or organizations related to such persons. The activity of these loans during the six months period ended on June 30, 2012 was as follows:

	OFFICERS AND DIRECTORS	EMPLOYEES	TOTAL
Balance December 31, 2011	\$ 1,436	\$ 32,653	\$ 34,089
Additions	29	115	144
Repayments	(438)	(874)	(1,312)
Balance June 30, 2012	\$ 1,027	\$ 31,894	\$ 32,921

Loans to officers, directors, and employees of the Bank have been granted in the normal course of business on substantially the same terms and conditions, including interest rates and collateral, as those prevailing at the same time for comparable transactions with unrelated parties, and did not involve more than the normal credit risk.

BBVA Securities grants loans to certain employees as part of their contractual employment. These loans and interest thereon are payable in a range from four-to-eight-year terms at each employee's anniversary date. The loans accrue interest at variable rates based on the London Inter Bank Offered Rate or prime rates, as specified in the employee loan agreements. If, at employee's anniversary date, the employee is still employed by BBVA Securities, BBVA Securities is obligated to forgive an amount equal to the amount payable, including principal and interest, at such date under the loan. Loan forgiveness is recognized as part of employee compensation and benefits and recognized by BBVA Securities on a ratably and systematic basis during the term of each loan. In the event that the employee leaves BBVA Securities prior to his/her anniversary date on which the employee has the right to earn the outstanding principal amount of the loan as specified on the agreement, the employee shall be obligated to pay on the date of termination the outstanding principal amount of the loan, plus all of the interest accrued on the loan. As of June 30, 2012 and December 31, 2011, the outstanding balance of these loans amounted to \$572 and \$562, respectively.

In the normal course of business, the Bank may place or receive deposits and engage in other businesses with the Parent and any of the Parent's branches, agencies, and subsidiaries.

Significant balances with the Parent and other affiliates of the Parent as of June 30, 2012 and December 31, 2011, are as follows:

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	JUNE 30, 2012	DECEMBER 31, 2011
Due from the Parent and affiliates	\$ 1,031	\$ 954
Restricted cash deposit pledged to the Parent	6,670	6,670
Other liabilities	714	636
Derivatives, whose fair value represents an asset	260	
Derivatives, whose fair value represents a liability	4,924	5,041
Derivatives notional amount	76,671	39,774

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Significant transactions with the Parent and other affiliates of the Parent for the six-month periods ended June 30, 2012 and 2011, are as follows:

	JUNE 30, 2012	DECEMBER 31, 2011
Interest expense on federal funds purchased	10	3
Charges to affiliates for other fees	4	5
Charges from an affiliated entity for data processing operations	1,608	1,290
Charges from an affiliated entity for design and development	60	193
Charges from an affiliated entity for other centralized services	254	250
Charges from an affiliated entity for sponsored activities	77	72

The Parent also has several derivative contracts (aggregate notional amount of \$5,468 and \$5,495 at June 30, 2012 and December 31, 2011, respectively) with certain borrowers of the Bank. The derivative contracts, held by the Parent, and the underlying loans, held by the Bank, share the same collateral.

In addition, the Bank has derivative contracts for which the Parent is the counterparty with an aggregate notional amount of \$76,671 and \$39,774 at June 30, 2012 and December 31, 2011, respectively. These derivative contracts are segregated as follows:

	JUNE 30, 2012	DECEMBER 31, 2011
Swap agreements	\$ 29,671	\$ 31,013
Interest rate caps and collars	47,000	8,761
Total notional amount	\$ 76,671	\$ 39,774

18. FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

In the normal course of business, the Bank becomes a party to credit-related financial instruments with off-balance-sheet risk to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby and commercial letters of credit, and financial guarantees. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the combined statements of financial condition. The contract or notional amount of those instruments reflects the extent of the Bank's involvement in particular types of financial instruments.

Commitments to Extend Credit and Commercial Letters of Credit The Bank's exposure to credit losses in the event of nonperformance by the other party to the financial instrument for commitments to extend credit including commitments under credit card arrangements, and commercial letters of credit is represented by the contractual notional amount of those instruments, which do not necessarily represent the amounts potentially subject to risk. In addition, the measurement of the risks associated with these instruments is meaningful only when all related and offsetting transactions are identified. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

Summarized credit-related financial instruments at June 30, 2012 and December 31, 2011, were as follows:

NOTIONAL AMOUNT	JUNE 30, 2012	DECEMBER 31, 2011
Commitments to extend credit	\$ 416,076	\$ 372,919
Commercial letters of credit	1,572	1,077

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Commitments to extend credit represent agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if it is deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the counterparty.

At June 30, 2012 and December 31, 2011, commitments to extend credit consisted mainly of undisbursed available amounts on commercial lines of credit, construction loans, and revolving credit card arrangements. Since many of the unused commitments are expected to expire unused or be only partially used, the total amount of these unused commitments does not necessarily represent future cash requirements.

Commercial letters of credit are issued or confirmed to guarantee payment of customers' payables or receivables in short-term international trade transactions. Generally, drafts will be drawn when the underlying transaction is consummated as intended. However, the short-term nature of this instrument serves to mitigate the risk associated with these contracts.

The summary of instruments that are considered financial guarantees in accordance with the authoritative guidance related to guarantor's accounting and disclosures requirement for guarantees, including indirect guarantees of indebtedness of others at June 30, 2012 and December 31, 2011, is as follows:

NOTIONAL AMOUNT	JUNE 30, 2012	DECEMBER 31, 2011
Standby letters of credit and financial guarantees	\$ 83,169	\$ 84,632
Unpaid principal balances on loans sold with recourse	209,388	231,508
Unpaid principal balances on loans securitized with recourse	4,850	6,187

Standby letters of credit and financial guarantees are written conditional commitments issued by the Bank to guarantee the payment and/or performance of a customer to a third party (beneficiary). If the customer fails to comply with the agreement, the beneficiary may draw on the standby letter of credit or financial guarantee as a remedy. The amount of credit risk involved in issuing letters of credit in the event of nonperformance is the face amount of the letter of credit or financial guarantee. These guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing, and similar transactions. The amount of collateral obtained, if it is deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the customer. During the six months period ended June 30, 2012, no performance was required on any financial guarantees. During the six-month period ended June 30, 2011, the Bank was required to perform on a financial guarantee; however, the customer reimbursed the amount disbursed by the Bank, and, accordingly, no loss was recognized. Management of the Bank does not expect any significant losses under these obligations.

19. DERIVATIVE INSTRUMENTS

The Bank maintains an overall interest rate risk management strategy that incorporates the use of derivative instruments to minimize significant unplanned fluctuations in earnings and cash flows caused by interest rate volatility. The Bank's interest rate risk management strategy may involve modifying the repricing characteristics of certain assets and liabilities so that changes in interest rates do not adversely affect the net interest margin and cash flows. Derivative instruments that the Bank may use as part of its interest rate risk management strategy include interest rate swaps, swaptions, interest rate caps, and indexed options. These transactions involve both credit and market risk. The notional amounts are amounts on which calculations, payments, and the value of the derivatives are based. Notional amounts do not represent direct credit exposures. The actual risk of loss is the cost of replacing, at market, these contracts in the event of default by the counterparties. To minimize credit risk, the Bank enters into legally enforceable master netting agreements, which reduce risk by permitting the closeout and netting of transactions with the same counterparty upon occurrence of certain events such that direct credit exposure is limited to the net difference between the calculated amounts to be received and paid in the event of nonperformance by the counterparties to these agreements. The Bank also manages the credit risk of derivative instruments through credit

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approvals, limits, monitoring procedures, obtaining collateral, and does not expect any counterparties to fail their obligations. At June 30, 2012 and December 31, 2011, the Bank had pledged \$12,770 and \$12,720, respectively, in cash to secure derivative transactions in liability position with the Parent and a third party.

Derivative instruments are generally negotiated over-the-counter (OTC) contracts. Negotiated OTC derivatives are generally entered into between two counterparties that negotiate specific agreement terms, including the underlying instrument, notional amount, exercise price, and maturity.

The Bank enters into interest rate swap contracts in managing its interest rate exposure. Interest rate swap contracts generally involve the exchange of fixed- and floating-rate interest payment obligations without the exchange of the underlying principal amounts. Entering into interest rate swap contracts involves not only the risk of dealing with counterparties and their ability to meet the terms of the contracts, but also the interest rate risk associated with unmatched positions. Interest rate swaps are the most common type of derivative contracts that the Bank utilizes.

The Bank has also entered into interest rate cap transactions for protection against rising rates and with various clients with floating-rate debt who wished to protect their financial results against increases in interest rates. The Bank simultaneously entered into mirror-image interest rate cap transactions with an affiliated bank. None of these cap transactions qualify for hedge accounting; therefore, they are marked to market through earnings.

Index options are contracts that the Bank enters into in order to receive the average appreciation of the value of an equity index over a specified period in exchange for the payment of a premium when the contract is initiated. The credit risk inherent in the index options is the risk that the exchange party may default. Some of these contracts are structured as swap agreements where the floating rate paid by the Bank corresponds to the premium due, plus a fixed cost, and the fixed rate to be received by the Bank is the index return.

The Bank currently utilizes interest rate swaps to convert certain fixed-rate loans to a variable rate. These swaps have original maturities between three and 15 years. These derivatives are marked to market through earnings. Decisions to convert loans to variable rates are made primarily in consideration of the asset/liability mix of the Bank, the desired asset/liability sensitivity, and by interest rate levels.

The Bank offered its customers certificates of deposit, which contain an embedded derivative tied to the performance of a stock index that is bifurcated from the host deposit and recognized in the combined statements of financial condition in accordance with the applicable authoritative accounting guidance. Upon maturity, the depositor will receive a specified percent of the average increase of the month-end value of the stock index. If such index decreases, the depositor generally receives the principal without any interest. In some certificates of deposit, a minimum interest rate is guaranteed. The Bank uses interest rate swaps or option agreements to manage its exposure to the fluctuations of the stock indexes. Under the option agreements, the Bank will receive the average increase in the month-end value of the index in exchange for the payment of a premium when the contract is initiated. Under the terms of the swap agreements, the Bank also will receive the average increase in the month-end value of the index, but in exchange for a quarterly fixed-interest cost. Since the embedded derivative instrument in the certificates of deposit and the option and interest rate swap agreements do not qualify for hedge accounting, these derivative instruments are marked to market through earnings.

Fair Value Hedging Instruments The Bank currently utilizes interest rate swaps to convert its fixed-rate certificates of deposit and certain fixed-rate loans to variable rates. By entering into the swaps, the principal amount of the hedged item would remain unchanged, but the interest payment streams would change, except for the swaps hedging loans for which the swap notional amount amortizes based on the loan principal amortization table. These swaps mature between one and 12 years from inception. Decisions to convert fixed-rate certificates of deposits and loans to variable rates are made primarily by consideration of the asset/liability mix of the Bank, the desired asset/liability sensitivity, and by interest rate levels.

Fair value hedges are designated at inception if it is believed that the relationship of the changes in the fair value of the hedged item and the hedging instrument for the risk being hedged will offset each other in a highly effective manner. At the inception of each hedge, management documents the hedging relationship, including its objective and probable effectiveness. To assess ongoing effectiveness of the hedges, the Bank marks to market both the hedging instrument and the hedged item on a monthly basis to determine the effectiveness of the hedge for the risk being hedged. Any hedge ineffectiveness is recorded in current period's earnings.

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The hedging instruments and the hedged items on fair value hedges have maturities through the year 2015. The weighted-average rate paid on interest rate swaps designated on a fair value hedging relationship as of June 30, 2012 and December 31, 2011, was 4.26% each, and weighted-average rate received was 0.24% and 0.30%, respectively.

Derivative Instruments Not Designated as Hedge These derivatives financial instruments do not qualify or have not been designated for hedge accounting treatment, and therefore, changes in fair value are reported in current-period earnings.

Information pertaining to the notional amounts and fair values of derivative instruments reflected in the combined statements of financial condition at June 30, 2012 and December 31, 2011, is as follows:

	NOTIONAL		CONDITION LOCATION	FAIR VALUE		CONDITION LOCATION	FAIR VALUE	
	JUNE 30, 2012	DECEMBER 31, 2011		JUNE 30, 2012	DECEMBER 31, 2011		JUNE 30, 2012	DECEMBER 31, 2011
Derivatives designated as fair value hedge interest rate swaps	\$ 3,748	\$ 3,804	Loans receivable	\$ 422	\$ 458	Other liabilities	\$	\$ 443
Derivatives instruments not designated as a hedge:								
Interest rate swaps	151,133	154,512	Other assets	9,661	10,450	Other liabilities	9,582	10,350
Interest rate caps and collars	94,000	28,155	Other assets	260		Other liabilities	260	
Total derivatives not designated as a hedge	245,133	182,667		9,921	10,450		9,842	10,350
Total derivatives	\$ 248,881	\$ 186,471		\$ 10,343	\$ 10,908		\$ 9,842	\$ 10,793

The effect of the derivative instruments in the statements of income for the six-month periods ended June 30, 2012 and 2011, is as follows:

	STATEMENTS OF INCOME LOCATION	AMOUNT	
		2012	2011
Derivatives designated as fair value hedge:			
Interest rate swaps	Interest income on loans	\$ (77)	\$ (248)
Interest rate swaps	Trading and other derivative activities	(2)	(18)
Total		(79)	(266)
Derivatives instruments not designated as hedge:			
Interest rate swaps	Trading and other derivative activities	205	(60)

Total derivatives gain (loss)	\$ 126	\$ (326)
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Other Derivative Instruments Information A summary of the types of swaps used, excluding those used to manage exposure to the stock market, and their terms at June 30, 2012 and December 31, 2011, is as follows:

	JUNE 30, 2012	DECEMBER 31, 2011
Pay floating/receive fixed:		
Notional amount	\$ 75,567	\$ 77,256
Weighted-average pay rate at year-end	0.27%	0.32%
Weighted-average receive rate at year-end	4.79	4.80
Pay fixed/receive floating:		
Notional amount	\$ 79,314	\$ 81,060
Weighted-average pay rate at year-end	4.71%	4.72%
Weighted-average receive rate at year-end	0.27	0.32

The change in notional amounts of swaps outstanding during the six-month periods ended June 30, 2012 and 2011, is as follows:

	2012	2011
Beginning balance	\$ 158,316	\$ 189,697
Called and matured swaps	(3,435)	(21,439)
Total	\$ 154,881	\$ 168,258

At June 30, 2012, the maturities by notional amounts of all derivative instruments, by type, are as follows:

YEARS ENDING	INTEREST RATE SWAPS	INTEREST RATE CAPS AND COLLARS	TOTAL
JUNE 30			

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2013	\$ 7,432	\$	\$ 7,432
2014	10,584		10,584
2015	99,287		99,287
2016	3,748		3,748
2017	8,830		8,830
Thereafter	25,000	94,000	119,000
Total	\$ 154,881	\$ 94,000	\$ 248,881

20. FAIR VALUE MEASUREMENTS

The Companies' combined financial statements include various financial instruments that are carried at fair value. Other financial instruments are periodically measured at fair value, such as when impaired or when carried at the lower of cost or fair value. The fair value of financial instruments is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

The Companies have centralized its valuation process in certain units to ensure that fair value measurements are appropriate, reliable, based on observable inputs wherever possible and that valuation techniques, models, and assumptions used are reasonable and consistently applied. These units are Risk Management and Finance, which report to the Chief Executive Officer of the Companies, who in turn reports to the Board of Directors.

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Impaired loans include collateral dependent loans. In these cases, any impairment is measured based on the fair value of the collateral. In addition, repossessed properties are valued at the lower of cost or fair value, less estimated selling costs. Fair value for collateral dependent loans and repossessed properties is determined by binding offers or by appraisals obtained from independent appraisers approved by the Appraiser Review Group (ARG) within the Risk Management area. ARG consists of certified appraisers responsible for the review and approval of appraisals used by the Companies. Appraisals are obtained at least once a year. When an appraisal is not available at an anniversary date, fair value is determined based on actual prices of similar properties. Estimated selling costs are determined based on recent transactions.

The information at June 30, 2012 and December 31, 2011, about the Companies' financial assets and liabilities measured at fair value on a recurring basis is as follows:

	FAIR VALUE MEASUREMENTS AT JUNE 30, 2012			
	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS LEVEL 1	SIGNIFICANT OTHER OBSERVABLE INPUTS LEVEL 2	SIGNIFICANT UNOBSERVABLE INPUTS LEVEL 3	TOTAL
Assets:				
Securities available for sale:				
U.S. government and agencies obligations	\$	\$ 1,376	\$	\$ 1,376
Government-sponsored agencies mortgage backed-securities		483,161		483,161
P.R. government and agencies obligations		98,690		98,690
Corporate notes		10,036		10,036
Total securities available for sale		593,263		593,263
Trading securities:				
Municipal obligations		1,071		1,071
Short-term corporate note		101		101
Total trading securities		1,172		1,172
Derivatives		9,661		9,661
Total assets	\$	\$ 604,096	\$	\$ 604,096
Liabilities derivatives	\$	\$ 9,582	\$	\$ 9,582

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FAIR VALUE MEASUREMENTS AT DECEMBER 31, 2011				
QUOTED PRICES				
	IN ACTIVE MARKETS FOR IDENTICAL ASSETS LEVEL 1	SIGNIFICANT OTHER OBSERVABLE INPUTS LEVEL 2	SIGNIFICANT UNOBSERVABLE INPUTS LEVEL 3	TOTAL
Assets:				
Securities available for sale:				
U.S. government and agencies obligations	\$	\$ 1,501	\$	\$ 1,501
Government-sponsored agencies mortgage backed-securities		623,470		623,470
P.R. government and agencies obligations		98,690		98,690
Corporate notes		10,034		10,034
Total securities available for sale		733,695		733,695
Trading securities:				
Municipal obligations		1,541		1,541
Short-term corporate note			402	402
Close-end funds			103	103
Total trading securities		1,541	505	2,046
Derivatives		10,908		10,908
Total assets	\$	\$ 746,144	\$	\$ 746,649
Liabilities derivatives	\$	\$ 10,793	\$	\$ 10,793

Following is a description of the Companies' valuation methodologies used for financial instruments measured at fair value on a recurring basis.

U.S. Government and Agencies Obligations Fair value of these securities is based on an active exchange market and on quoted market prices for similar securities. These securities are classified as Level 2.

Government-Sponsored Agencies Mortgage-Backed Securities Fair value is obtained from an independent nationally recognized pricing service, which includes both market observable and internally modeled values and/or value inputs. Pricing estimates are derived from matrix pricing. Average life, observable and/or historic prepayment speed, and cash flow yield spreads to the actively traded U.S. Treasury securities are some of the factors that are taken into consideration to develop the pricing. Our reliance on the receipt of this information is tempered by the knowledge of how the pricing service develops its data. To help determine fair value pricing reasonableness, various processes and controls have been adopted, which include a periodic review and substantiation of gains or losses realized for all traded transactions. These securities are classified as Level 2.

P.R. Government and Agencies Obligations Fair value of these securities is based on quoted market prices for similar securities. These securities are classified as Level 2.

Corporate Notes Fair value is obtained from broker-dealers, which use quoted prices for similar instruments. Corporate notes are classified as Level 2.

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Municipal Obligations The fair value for these securities is obtained from brokers/dealers that use a pricing methodology based on observable market inputs and quoted market prices for similar securities. Market inputs utilized in the pricing evaluation process include benchmark yields, reported trades, broker-dealers quotes, issuer spreads, two-sided markets, bid/offer price or spread, benchmark securities, LIBOR and, industry and economic events. The extent of the use of each market input depends on the security and the market conditions. Depending on the security, the priority of the use of inputs may change or some market inputs may not be relevant. These securities are classified as Level 2.

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Short-Term Corporate Note The fair value for this short-term corporate note is substantially the same as the carrying amount as these are reasonable estimates of fair value due to its short-term nature, which is less than 30 days. These financial instruments generally expose the Companies to limited credit risk and carry interest rates that approximate market.

Closed-End Funds The fair values of these investments has been estimated using the net asset value per share of the investments. These investments can never be redeemed with the fund. Distributions from each fund will be received as the underlying investments of the funds are liquidated. Closed-end funds are generally categorized in Level 3 of the fair value hierarchy.

Derivatives Instruments Interest rate contracts, which include interest rate swaps, caps, and other option agreements are used to modify interest characteristics of various financial instruments and are traded in OTC active markets. Fair value is obtained from an independent nationally recognized pricing service, which includes both market observable and internally modeled values and/or value inputs. Fair values for certain of these instruments are determined using market observable inputs including interest rate curves and widely published market observable indexes. In certain transactions, the Bank is protected by collateral arrangements. Fair value for derivative instruments represents the estimated amount the Bank would receive or pay to terminate the contracts or agreements at the reporting date, taking into account current interest rates and, when appropriate, the current creditworthiness of the contract counterparties. Derivative instruments are classified as Level 2.

The table below presents a reconciliation for the assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the six-month periods ended June 30, 2012 and 2011.

		JUNE 30, 2012			
		TRADING SECURITIES			
		INDEXED CERTIFICATES OF DEPOSITS	SHORT-TERM CORPORATE NOTES	CLOSED-END FUNDS	TOTAL
Balance	December 31, 2011	\$	\$ 402	\$ 103	\$ 505
Transfers in and/or out of Level 3					
Purchases			37,307	26,221	63,528
Sales/Redemptions			(37,931)	(26,945)	(64,876)
Gains/(losses):					
Realized			222	621	843
Unrealized					
Balance	June 30, 2012	\$	\$	\$	\$

		JUNE 30, 2011 TRADING SECURITIES			
		INDEXED CERTIFICATES OF DEPOSITS	SHORT-TERM CORPORATE NOTES	CLOSED-END FUNDS	TOTAL
Balance	December 31, 2010	\$ 1,141	\$	\$	\$ 1,141
Transfers in and/or out of Level 3					
Purchases		4,076	1,959	12,197	18,231
Sales/Redemptions		(5,189)	(1,983)	(11,763)	(18,936)
Gains/(losses):					
Realized		(27)	24	357	354
Unrealized				11	11
Balance	June 30, 2011	\$	\$	\$ 802	\$ 802

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Gains and losses for Level 3 financial instruments, including changes in fair value, are a component of trading activities revenue in the accompanying combined statements of income and comprehensive income.

During the six-month periods ended June 30, 2012 and 2011, there were no transfers in or out of Levels 1, 2, or 3. The Companies policy is to recognize transfers between Levels at the end of the reporting period.

At June 30, 2012 and December 31, 2011, financial assets measured at fair value on a nonrecurring basis are summarized below:

	FAIR VALUE MEASUREMENTS AT JUNE 30, 2012		
	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS LEVEL 1	SIGNIFICANT OTHER OBSERVABLE INPUTS LEVEL 2	SIGNIFICANT UNOBSERVABLE INPUTS LEVEL 3
Assets:			
Residential mortgage loans held for sale ⁽¹⁾	\$	\$ 17,735	\$
Impaired loans ⁽²⁾			244,751
OREO ⁽³⁾			62,740

	FAIR VALUE MEASUREMENTS AT DECEMBER 31, 2011		
	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS LEVEL 1	SIGNIFICANT OTHER OBSERVABLE INPUTS LEVEL 2	SIGNIFICANT UNOBSERVABLE INPUTS LEVEL 3
Assets:			
Residential mortgage loans held for sale ⁽¹⁾	\$	\$ 31,782	\$
Impaired loans ⁽²⁾			221,742
OREO ⁽³⁾			66,094

- (1) Residential mortgage loans held for sale are carried at the lower of cost or fair value. Fair value is based on quoted secondary market prices or contract price at which the loans will be sold. Adjustments to fair value are those usually made by market participants. These loans are classified in Level 2 of the fair value hierarchy given the level of activity in the market and the frequency of available quotes.
- (2) Includes mainly impaired commercial and construction loans. The impairment was generally measured based on the fair value of the collateral in accordance with the authoritative guidance related to the accounting for loan impairment. The fair values are derived from appraisals that take into consideration prices in observed transactions involving similar assets in similar locations, but adjusted for specific characteristics and assumptions of the collateral, which are not market observable.
- (3) Nonrecurring adjustments to certain commercial and residential real estate properties classified as other real estate owned (OREO) are measured at lower of cost or fair value, less costs to sell. Fair values are based on recent real estate appraisals. These appraisals may use a single valuation approach or a combination of approaches, including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value.

For the six-month period ended June 30, 2012, gains and losses on financial assets measured at fair value on a nonrecurring basis, that were included as part of earnings, were as follows:

	OTHER NET GAINS	OREO OTHER OPERATING EXPENSES	OTHER REAL ESTATE OWNED EXPENSES	IMPAIRED LOANS PROVISION FOR LOAN LOSSES
Total gains (losses) for the period	\$ 364	\$ (968)	\$ (5,556)	\$ (5,340)

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The following table includes information regarding Level 3 financial assets measured at fair value on a nonrecurring basis:

JUNE 30, 2012			
	METHOD	INPUTS	SELLING COST PERCENTAGE RANGE
Impaired loans	Income, Market, Comparable Sales, Discounted Cash Flows	External appraised values, opinions of value, management assumptions regarding market trends or other relevant factors	4.50% - 5.80%
OREO	Income, Market, Comparable Sales, Discounted Cash Flows	External appraised values, opinions of value, management assumptions regarding market trends or other relevant factors	4.50% - 5.80%

21. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amount and estimated fair value of the Companies' financial instruments at June 30, 2012 and December 31, 2011, not otherwise disclosed above, are as follows:

	IDENTICAL ASSETS LEVEL 1		JUNE 30, 2012 SIGNIFICANT OTHER OBSERVABLE INPUTS LEVEL 2		SIGNIFICANT UNOBSERVABLE INPUTS LEVEL 3	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Financial assets:						
Cash and due from banks	\$ 414,607	\$ 414,607				
Interest-bearing deposits in banks			\$ 403	\$ 403		
Restricted cash including deposit pledged to Parent	13,560	13,560				
Federal funds sold			14,000	14,000		
Securities held to maturity			3,110	3,114		
Loans receivable net					\$ 3,556,719	\$ 3,235,925
Accrued interest receivable					20,422	20,422
FHLB stock			16,674	16,674		
Financial liabilities:						
Deposits					3,434,412	3,342,489
Federal funds purchased and securities sold under agreements to repurchase					349,504	369,464
Advances from FHLB					275,000	275,769
Other borrowed funds					123,482	123,537

Subordinated capital notes	117,000	116,378
Accrued interest payable	6,115	6,115

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	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS LEVEL 1		DECEMBER 31, 2011 SIGNIFICANT OTHER OBSERVABLE INPUTS LEVEL 2		SIGNIFICANT UNOBSERVABLE INPUTS LEVEL 3	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
	Financial assets:					
Cash and due from banks	\$ 291,445	\$ 291,445				
Interest-bearing deposits in banks			\$ 402	\$ 402		
Restricted cash including deposit pledged to Parent	13,510	13,510				
Federal funds sold						
Securities held to maturity			5,042	5,050		
Loans receivable net					\$ 3,535,357	\$ 2,896,243
Accrued interest receivable					19,644	19,644
FHLB stock			13,848	13,848		
Financial liabilities:						
Deposits					2,939,922	2,852,005
Federal funds purchased and securities sold under agreements to repurchase					511,600	535,442
Advances from FHLB					209,000	210,177
Other borrowed funds					541,259	543,879
Subordinated capital notes					117,000	114,808
Accrued interest payable					5,987	5,987

The fair value estimates of financial instruments for which no market exists are based on judgments regarding the amount and timing of estimated future cash flows, assumed discount rates reflecting varying degrees of risk, current economic conditions, risk characteristics of various financial instruments, and other factors. Accordingly, the fair values may not represent the actual values of the financial instruments that will be realized in the future. In addition, certain nonfinancial instruments were excluded from the fair value disclosure requirements. Therefore, the fair values presented in the notes to the combined financial statements should not be construed as the underlying value of the Companies.

The methods and assumptions used to estimate the fair values of significant financial instruments at June 30, 2012 and December 31, 2011, not otherwise disclosed above, were as follows:

Cash and Due from Banks, Interest-Bearing Deposits in Banks, Restricted Cash including Deposit Pledged to Parent, *Federal Funds Sold, Accrued Interest Receivable, Federal Funds Purchased, and Accrued Interest Payable* The carrying amounts of these financial instruments approximate their fair value because of the short-term maturities of such instruments.

Investment Securities Held to Maturity and FHLB Stock Fair values of held-to-maturity securities are based on prices obtained from an independent nationally recognized pricing service, or bid quotations received from securities dealers. Investment in FHLB stock is valued at its redemption value since this stock has no readily determinable fair value and can only be sold back to the FHLB.

Loans Fair values were estimated using cash flows analyses, interest rates currently being offered for loans with similar terms and credit quality, and with adjustments that the Bank's management believes a market participant would consider in determining fair value. Loans were segregated by type, such as commercial, construction, residential mortgage, consumer, automobile and credit cards. Each loan category is further segmented into performing and nonperforming categories.

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The fair value for commercial and construction loans was calculated by discounting expected cash flows through the estimated maturity date and considering relevant information for each loan. In addition, assumptions about default rate and recovery were used.

The fair value of residential mortgage loans was determined segregating the portfolio between eligible for sale or securitization, and non-saleable. For loans in the first group to-be-announced (TBA) prices obtained from an independent internationally recognized pricing service were used. As of June 30, 2012, the non-saleable portion was segregated between performing and non performing loans. Fair value for the performing loans was determined using cash flow analyses. Fair value for the non performing loans was based on the price recently offered by a third party for a portfolio with similar characteristics. As of December 31, 2011, the non-saleable portfolio was priced based on quotations received from an independent third-party broker.

The fair value of consumer, automobile and credit cards was estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality.

Fair values for impaired loans were estimated using discounted cash flow analysis or underlying collateral values, where applicable. Discount rates were based on the treasury and LIBOR/swap yield curves at the date of the analysis, and included appropriate adjustments for expected credit losses and liquidity.

Deposits The fair value of deposits with no stated maturity approximates the amount payable on demand at the reporting date. The fair value of time deposits is based on discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for deposits of similar terms, including remaining maturities.

Securities Sold under Agreements to Repurchase, Advances from FHLB, and Other Borrowed Funds For short-term borrowings, the carrying amount is considered a reasonable estimate of fair value. The fair value of long-term borrowings is calculated based on discounted value of contractual future cash payments. The discount rate is estimated using rates currently offered for similar types of borrowing arrangements.

Subordinated Capital Notes The fair value is calculated based on discounted value of contractual future cash payments. The discount rate is estimated using rates currently offered for borrowings of similar terms.

Commitments to Extend Credit and Financial Guarantees The fair value of commitments to extend credit, financial guarantees, and letters of credit was not readily available. The fair value of commitments to extend credit would be estimated based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standings. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates.

Commission fees, which the Bank charges on commitments to extend credit, financial guarantees, and standby letters of credit do not usually exceed 200 basis points of the contractual amount. The contractual maturities of these commitments are normally within one to 12 months. At June 30, 2012 and December 31, 2011, management of the Bank is of the opinion that there have been no significant changes in the creditworthiness of the counterparties to these off-balance-sheet instruments and does not consider practicable to determine the fair value of these instruments since their carrying amounts are not material to the financial statements taken as a whole.

22. EMPLOYEE BENEFIT PLAN

The Companies have a defined contribution plan under Section 1165(e) of the Puerto Rico Treasury Department Internal Revenue Code (the Code), which is offered to all regular full-time employees of the Companies, who have one year of service. Under the provisions of the plan, participants may contribute to the plan from 1% to 10% of their compensation, as defined, and up to the maximum amount permitted by the Code. The Companies match 50% of the amount contributed by the employees up to a maximum of 4% of the employees' annual base compensation, as defined. In addition, the Companies may make discretionary annual contributions to the plan based on its operating income, as defined in the plan, and these funds are deposited with the plan trust. The Companies' contributions for the six-month periods ended June 30, 2012 and 2011, amounted to approximately \$210 and \$260, respectively.

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23. STOCK-BASED COMPENSATION

The Bank has no share-based plan for 2012. During 2011, the Bank has two share-based plans; one is a two-year share-based plan and the other is a one year share-based plan, both ended in 2011 (the Vesting Period). These are incentive plans for certain eligible officers and key employees, which contain service, performance, and market conditions. The plans provide for settlement in stock of the Parent to the participants and are classified as equity plans. Accordingly, the Bank recognizes monthly compensation expense over the Vesting Period and credits additional paid-in capital. Compensation expense for the six-month periods ended June 30, 2012 and 2011 was not significant.

24. TEMPORARY LIQUIDITY GUARANTEE (TLG) PROGRAM

On November 21, 2008, the FDIC s board of directors approved the final rule on the TLG Program. This program guarantees newly issued senior unsecured debt of banks, thrifts, and certain holding companies (the Debt Guarantee Program) and provides full coverage of non-interest-bearing deposit transaction accounts (the Transaction Account Guarantee Program or TAGP). Eligible entities had the election to opt out the TLG Program up to December 5, 2008. Once in the TLG Program, an entity is in for the duration of the program. Those that chose to opt out will not be able to participate at a later date.

The Debt Guarantee Program guaranteed the unsecured debt issued by participating entities between October 14, 2008 and June 30, 2009. For such debts maturing beyond June 30, 2009, the guarantee remained in effect until June 30, 2012. Maximum amount guaranteed by the FDIC was up to 125% of the par or face value of senior unsecured debt outstanding, excluding debt extended to affiliates, as of September 30, 2008. For eligible entities with no senior unsecured debt outstanding or that only purchased federal funds, as of September 30, 2008, the guarantee cap is 2% of their total liabilities as of such date. The fees under this program depended upon maturity of the debt. The fee was lower for shorter-term debt and higher for longer-term debt. The annual assessment fee fluctuated between 50 100 basis points.

Senior unsecured debt generally includes federal funds purchased, promissory notes, commercial paper, and unsubordinated unsecured notes, among others. Short-term debt (30 days or less) was eliminated from this program. However, for purposes of stating the guaranteed limit as of September 30, 2008, short-term debt outstanding as of such date was included.

Under the Transaction Account Guarantee Program (TAGP), non-interest-bearing transaction accounts had full coverage for an annual assessment rate of 22 basis points in 2010 , however, for 2011 the FDIC did not charge a separate assessment for the unlimited insurance of the noninterest bearing transactions accounts. Originally, the coverage was in effect for participating institutions until the end of 2009 and was extended to December 2010. On November 9, 2010, the board of directors of the FDIC approved a final rule to implement section 343 of the Dodd-Frank Wall Street Reform Act and Consumer Protection Act, which provides temporary unlimited coverage for non-interest-bearing transaction accounts until December 31, 2012. After that date, these accounts will be subject to the basic insurance amount of \$250. For purposes of TAGP, non-interest-bearing transaction accounts include checking accounts that allow for an unlimited number of deposits and withdrawals at any time. NOW accounts with interest rates of 0.5% or less were also included in this program. However, for purposes of the new temporary unlimited coverage, under the Dodd-Frank Act definition, NOW accounts are not covered.

The Bank elected to participate in the TLG Program and its guarantee limit was stated at approximately \$687,000. As of June 30, 2012 and December 31, 2011, senior unsecured debt guaranteed amounted to zero and \$470,000, respectively. The premium cost was amortized over the term of the related insured debt. At June 30, 2012 and December 31, 2011, the unamortized insurance cost was zero and approximately \$2,200, respectively. Non-interest-bearing transaction accounts with full coverage in excess of \$250 as of June 30, 2012 and December 31, 2011, amounted to approximately \$370,095 and \$458,541, respectively.

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25. FDIC INSURANCE

Congress created the FDIC in 1933 to restore public confidence in the nation's banking system. The FDIC insures deposits and promotes the safety and soundness of its insured financial institutions by identifying, monitoring, and addressing risks to which they are exposed. The FDIC does not receive federal tax funds, instead its operations are funded by the insured financial institutions. The basic insurance amount is \$250 per depositor, per insured bank. Self-directed retirement accounts are insured up to \$250 per owner, per insured bank. Self-directed accounts include individual retirement accounts.

The Federal Deposit Insurance Reform Act was signed into law in February 2006. It allows the FDIC greater flexibility in managing the insurance fund and to operate the designated reserve ratio (DRR) within the range of 1.15% to 1.50% of total insured deposits, rather than the previous fixed DRR of 1.25%. Deposit insurance premium payable by the insured financial institutions is now more risk sensitive so that the assessment would be distributed more fairly across insured institutions and provides the FDIC the ability to spread the assessment burden out more evenly over time. Accordingly, the 2006 assessment rules created four risk categories, which are based on two criteria: capital levels and supervisory ratings.

Effective April 1, 2009, the FDIC revised their risk-based assessment system. Insurance assessment rates as well as the base assessment rates were increased mainly to provide sufficient revenue to cover losses resulting from a large volume of institution failures and to raise the insurance fund's reserve ratio over time.

On May 22, 2009, the FDIC adopted a final rule imposing a five-basis-point emergency special assessment on each insured depository institution's assets, minus Tier 1 capital as of June 30, 2009. The Bank paid approximately \$2,700 for this concept in 2009. On November 12, 2009, the FDIC adopted a final rule imposing a 13-quarter prepayment of FDIC premiums due on December 30, 2009. The Bank was required to prepay about \$21,000, which was recorded as part of prepaid expenses. As of June 30, 2012 and December 31, 2011, prepaid premium balance was \$3,000 and \$6,000, respectively.

In April 2011, the FDIC amended its regulations to implement revisions to the Federal Deposit Insurance Act made by the Dodd-Frank Wall Street Reform and Consumer Protection Act, by modifying the definition of an institution's deposit insurance assessment base. As a result, the deposit insurance expense for the Bank was reduced.

26. SUBSEQUENT EVENTS

The Companies have evaluated events occurring subsequent to June 30, 2012 to September 13, 2012, the date the combined financial statements were available to be issued, to determine if any such events should either be recognized or disclosed in the combined financial statements.

During August 2012, the Bank sold approximately \$18,000 of residential mortgage loans past due over 180 days to a third party for approximately \$8,000.

* * * * *

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Shares

ORIENTAL FINANCIAL GROUP INC.

Common Stock

PROSPECTUS

Jefferies

, 2012

Table of Contents**PART II****INFORMATION NOT REQUIRED IN PROSPECTUS****Item 13. Other Expenses of Issuance and Distribution.**

The following table sets forth the various expenses to be incurred in connection with the sale and distribution of the securities being registered hereby, all of which will be borne by us. All amounts shown are estimates except the SEC registration fee, the FINRA filing fee and the NYSE listing fee.

SEC registration fee	\$ 4,126
FINRA filing fee	\$ 5,900
NYSE listing fee	\$ *
Accounting fees and expenses	\$ *
Legal fees and expenses	\$ *
Printing fees	\$ *
Miscellaneous expenses	\$ *
Total Expenses	\$

* To be provided by amendment.

Item 14. Indemnification of Directors and Officers.

Section 1.02(B)(6) of the Puerto Rico General Corporation Law, as amended (the PR-GCL), provides that a corporation may include in its certificate of incorporation a provision eliminating or limiting the personal liability of members of its board of directors or governing body for breach of a director's fiduciary duties. However, no such provision may eliminate or limit the liability of a director for breaching his or her duty of loyalty, failing to act in good faith, engaging in intentional misconduct or knowingly violating a law, paying an unlawful dividend or approving an unlawful stock repurchase, or obtaining an improper personal benefit.

Article Ninth of our Certificate of Incorporation provides that the personal liability of our directors and officers for monetary damages shall be eliminated to the fullest extent permitted by the PR-GCL.

Section 4.08 of the PR-GCL authorizes a Puerto Rico corporation to indemnify its officers and directors and to purchase and maintain insurance on behalf of its officers and directors against liabilities arising out and pending or threatened actions, suits or proceedings to which such officers or directors are or may be made parties by reason of being officers or directors of the corporation. Such rights of indemnification are not exclusive of any other rights to which such officers or directors may be entitled under any bylaw, agreement, vote of shareholders or otherwise.

Section 1 of Article VII of our Bylaws provides that our directors, officers, employees and agents shall be indemnified to the fullest extent authorized by the PR-GCL against expenses and certain other liabilities arising out of legal action brought or threatened against them for their conduct on our behalf, provided that each such person acted in good faith and in a manner that he or she reasonably believed was in or not opposed to our best interests. Indemnification by us is available in a criminal action only if such person had no reasonable cause to believe that his or her conduct was unlawful.

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Section 4 of Article VII of our Bylaws provides that we may maintain insurance covering certain liabilities of our officers, directors, employees and agents, whether or not we would have the power or would be required to indemnify them against such liabilities. We maintain a directors and officers liability insurance policy.

Section 7.1 of the Employment Agreement between José Rafael Fernández, our President, CEO and Vice Chairman, and us provides for indemnification to him, his spouse and their conjugal partnership to the same extent as provided in Section 1 of Article VII of our Bylaws.

Item 15. Recent Sales of Unregistered Securities

On July 3, 2012, the Company issued 84,000 shares of its Series C Preferred Stock in a private offering to accredited investors pursuant to Regulation D. The aggregate offering price was \$84 million. The Company paid \$4.36 million to Jefferies & Company, Inc. as sales commissions.

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Item 16. Exhibits and Financial Statement Schedules

- (a) Exhibits: The list of exhibits is set forth beginning on page E-1 hereof and is incorporated herein by reference.
- (b) Financial Statements Schedule: No financial statement schedules are provided because the information called for is not applicable or is shown in the financial statements or notes thereto.

Item 17. Undertakings.

The undersigned registrant hereby undertakes that:

- (1) for purposes of determining any liability under the Securities Act, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective;
- (2) for the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof; and

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the registrant pursuant to the provisions described in Item 14, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

The undersigned registrant hereby undertakes to deliver or cause to be delivered with the prospectus, to each person to whom the prospectus is sent or given, the latest annual report to security holders that is incorporated by reference in the prospectus and furnished pursuant to and meeting the requirements of Rule 14a-3 or Rule 14c-3 under the Exchange Act; and, where interim financial information required to be presented by Article 3 of Regulation S-X are not set forth in the prospectus, to deliver, or cause to be delivered to each person to whom the prospectus is sent or given, the latest quarterly report that is specifically incorporated by reference in the prospectus to provide such interim financial information.

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SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant has duly caused this Amendment No. 1 to the registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of San Juan, Commonwealth of Puerto Rico, on October 9, 2012.

ORIENTAL FINANCIAL GROUP INC.

/s/ Jose Rafael Fernandez

By: Jose Rafael Fernandez

Title: President, Chief Executive Officer

and Vice Chairman

Pursuant to the requirements of the Securities Act of 1933, as amended, this Amendment No. 1 to the Registration Statement has been signed by the following persons in the capacities, on October 9, 2012.

SIGNATURE	TITLE
*	
Julian Inclan	Chairman
*	
Jose Rafael Fernandez	President, Chief Executive Officer and Vice Chairman
*	
Juan Carlos Aguayo	Director
*	
Pablo Ivan Altieri	Director

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	SIGNATURE	TITLE
	*	
Francisco Arrivi		Director
	*	
Pedro Morazzani		Director
	*	
Josen Rossi		Director
	*	
Ganesh Kumar		Executive Vice President and Chief Financial Officer
	*	
César A. Ortiz		Senior Vice President and Controller (principal accounting officer)
By:	/s/ Jose Rafael Fernandez Jose Rafael Fernandez	
	Attorney-in-Fact	

Table of Contents**EXHIBIT INDEX**

EXHIBIT NUMBER	DESCRIPTION
1.1	Form of Underwriting Agreement ⁽¹⁾
2.1	Purchase and Assumption Agreement Whole Bank, All Deposits, dated as of April 30, 2010, among the Federal Deposit Insurance Corporation, Receiver of Eurobank, San Juan, Puerto Rico, the Federal Deposit Insurance Corporation, and Oriental Bank and Trust ⁽²⁾
2.2	Acquisition Agreement, dated June 28, 2012, between the Group and Banco Bilbao Vizcaya Argentaria, S.A., relating to the purchase and sale of 100% of the common stock of each of BBVAPR Holding Corporation and BBVA Securities of Puerto Rico, Inc ⁽³⁾
3.1	Certificate of Incorporation, as amended ⁽⁴⁾
3.2	By-Laws ⁽⁵⁾
3.3	Certificate of Withdrawal of Certificate of Designations of Mandatorily Convertible Non-Cumulative Non-Voting Perpetual Preferred Stock, Series C ⁽⁶⁾
3.4	Certificate of Designations of 8.750% Non-Cumulative Convertible Perpetual Preferred Stock, Series C ⁽⁷⁾
4.1	Certificate of Designation of the 7.125% Noncumulative Monthly Income Preferred Stock, Series A ⁽⁸⁾
4.2	Certificate of Designation of the 7.0% Noncumulative Monthly Income Preferred Stock, Series B ⁽⁹⁾
4.3	Form of Certificate for the 8.750% Non-Cumulative Convertible Perpetual Preferred Stock, Series C ⁽¹⁰⁾
5.1	Opinion from McConnell Valdés LLC ⁽¹⁾
10.1	Securities Purchase Agreement, dated April 23, 2010, between the Group and each of the purchasers of the Series C Preferred Stock ⁽¹¹⁾
10.2	Omnibus Asset Servicing Agreement, dated as of June 9, 2010, between Oriental Bank and Trust and Bayview Loan Servicing, LLC ⁽¹²⁾
10.3	Lease Agreement between Oriental Financial Group Inc. and Professional Office Park V, Inc. ⁽¹³⁾
10.4	First Amendment to Lease Agreement Dated May 18, 2004, between Oriental Financial Group Inc. and Professional Office Park V, Inc. ⁽¹⁴⁾
10.5	Change in Control Compensation Agreement between Oriental Financial Group Inc. and José R. Fernández ⁽¹⁵⁾
10.6	Change in Control Compensation Agreement between Oriental Financial Group Inc. and Norberto González ⁽¹⁶⁾
10.7	Change in Control Compensation Agreement between Oriental Financial Group Inc. and Ganesh Kumar ⁽¹⁷⁾
10.8	Change in Control Compensation Agreement between Oriental Financial Group Inc. and Mari Evelyn Rodríguez ⁽¹⁸⁾
10.9	Change in Control Compensation Agreement between Oriental Financial Group Inc. and José R. González ⁽¹⁹⁾
10.10	Technology Outsourcing Agreement between Oriental Financial Group Inc. and Metavante Corporation ⁽²⁰⁾
10.11	Amended and Restated 2007 Omnibus Performance Incentive Plan ⁽²¹⁾
10.12	Form of qualified stock option award and agreement ⁽²²⁾
10.13	Form of restricted stock award and agreement ⁽²³⁾
10.14	Form of restricted unit award and agreement ⁽²⁴⁾
10.15	Employment Agreement between Oriental Financial Group Inc. and José R. Fernández ⁽²⁵⁾

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EXHIBIT NUMBER	DESCRIPTION
10.16	Subscription Agreement, dated June 28, 2012, between the Group and each of the purchasers of the 8.750% Non-Cumulative Convertible Perpetual Preferred Stock, Series C ⁽²⁶⁾
12.1	Computation of Ratios of Earnings to Combined Fixed Charges and Preferred Stock Dividends ⁽²⁷⁾
21.1	List of subsidiaries ⁽²⁸⁾
23.1	Consent of KPMG LLP
23.2	Consent of Deloitte & Touche LLP
23.3	Consent of McConnell Valdés LLC (included in Exhibit 5.1 hereto)

(1) To be filed by amendment.

(2) Incorporated herein by reference to Exhibit 2.1 of the Group's current report on Form 8-K filed with the SEC on May 6, 2010.

(3) Incorporated herein by reference to Exhibit 2.1 of the Group's current report on Form 8-K filed with the SEC on July 3, 2012.

(4) Incorporated herein by reference to Exhibit 3.1 of the Group's quarterly report on form 10-Q filed with the SEC on August 10, 2010.

(5) Incorporated herein by reference to Exhibit 3(ii) of the Group's current report on Form 8-K filed with the SEC on June 23, 2008.

(6) Incorporated herein by reference to Exhibit 3.1 of the Group's current report on Form 8-K filed with the SEC on May 29, 2012.

(7) Incorporated herein by reference to Exhibit 3.1 of the Group's current report on Form 8-K filed with the SEC on July 3, 2012.

(8) Incorporated herein by reference to Exhibit 4.1 of the Group's registration statement on Form 8-A filed with the SEC on April 30, 1999.

(9) Incorporated herein by reference to Exhibit 4.1 of the Group's registration statement on Form 8-A filed with the SEC on September 26, 2003.

(10) Incorporated herein by reference to Exhibit 4.1 of the Group's current report on Form 8-K filed with the SEC on July 3, 2012.

(11) Incorporated herein by reference to Exhibit 10.1 of the Group's quarterly report on Form 10-Q filed with the SEC on November 4, 2010.

(12) Incorporated herein by reference to Exhibit 10.1 of the Group's current report on Form 8-K filed with the SEC on June 14, 2010.

(13) Incorporated herein by reference to Exhibit 10.5 of the Group's annual report on Form 10-K filed with the SEC on September 13, 2005.

(14) Incorporated herein by reference to Exhibit 10.6 of the Group's annual report on Form 10-K filed with the SEC on September 13, 2005.

(15) Incorporated herein by reference to Exhibit 10.12 of the Group's annual report on Form 10-K filed with the SEC on September 13, 2005.

(16) Incorporated herein by reference to Exhibit 10.13 of the Group's annual report on Form 10-K filed with the SEC on September 13, 2005.

(17) Incorporated herein by reference to Exhibit 10.14 of the Group's annual report on Form 10-K filed with the SEC on September 13, 2005.

(18) Incorporated herein by reference to Exhibit 10.1 of the Group's quarterly report on Form 10-Q filed with the SEC on October 17, 2006.

(19) Incorporated herein by reference to Exhibit 10.17 of the Group's annual report on Form 10-K filed with the SEC on March 10, 2011.

(20) Incorporated herein by reference to Exhibit 10.23 of the Group's annual report on Form 10-K filed with the SEC on March 28, 2007.

(21) Incorporated herein by reference to Exhibit 4.1 of the Group's registration statement on Form S-8 filed with the SEC on October 21, 2010 (No. 333-170064).

(22) Incorporated herein by reference to Exhibit 10.1 of the Group's registration statement on Form S-8 filed with the SEC on November 30, 2007.

(23) Incorporated herein by reference to Exhibit 10.2 of the Group's registration statement on Form S-8 filed with the SEC on November 30, 2007.

(24) Incorporated herein by reference to Exhibit 10.27 of the Group's annual report on Form 10-K filed with the SEC on March 16, 2009.

(25) Incorporated herein by reference to Exhibit 10.16 of the Group's annual report on Form 10-K filed with the SEC on March 1, 2011.

(26) Incorporated herein by reference to Exhibit 10.1 of the Group's quarterly report on Form 10-Q filed with the SEC on August 3, 2012.

(27) Incorporated herein by reference to Item 6 of the Group's annual report on Form 10-K filed with the SEC on March 9, 2012.

(28) Incorporated herein by reference to Exhibit 21.1 of the Group's annual report on Form 10-K filed with the SEC on March 9, 2012.