ZIONS BANCORPORATION /UT/
Form 10-K
March 01, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2009

OR

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

COMMISSION FILE NUMBER 001-12307

ZIONS BANCORPORATION

(Exact name of Registrant as specified in its charter)

UTAH	**87-0227400**
(State or other jurisdiction of	**(Internal Revenue Service Employer**
incorporation or organization)	**Identification Number)**
One South Main, 15th Floor	
Salt Lake City, Utah	**84133**
(Address of principal executive offices)	**(Zip Code)**

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

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	**Name of Each Exchange on Which Registered**
Guarantee related to 8.00% Capital Securities of Zions Capital Trust B	New York Stock Exchange
Convertible 6% Subordinated Notes due September 15, 2015	New York Stock Exchange
Depositary Shares each representing a 1/40th ownership interest in a share of Series A Floating-Rate Non-Cumulative Perpetual Preferred Stock	New York Stock Exchange
Depositary Shares each representing a 1/40th ownership interest in a share of Series C 9.5% Non-Cumulative Perpetual Preferred Stock	New York Stock Exchange
Common Stock, without par value	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

Aggregate Market Value of Common Stock Held by Non-affiliates at June 30, 2009	$ 1,376,411,491
Number of Common Shares Outstanding at February 16, 2010	150,401,679 shares

Documents Incorporated by Reference:

Portions of the Company s Proxy Statement Incorporated into Part III

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PART I

FORWARD-LOOKING INFORMATION

Statements in this Annual Report on Form 10-K that are based on other than historical data are forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements provide current expectations or forecasts of future events and include, among others:

- statements with respect to the beliefs, plans, objectives, goals, guidelines, expectations, anticipations, and future financial condition, results of operations and performance of Zions Bancorporation (the parent) and its subsidiaries (collectively the Company, Zions, we, our, us);
- statements preceded by, followed by or that include the words may, could, should, would, believe, anticipate, estimate, ex 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 Annual Report on Form 10-K, including, but not limited to, those presented in the Management s Discussion and Analysis. Factors that might cause such differences include, but are not limited to:

- the Company s ability to successfully execute its business plans, manage its risks, and achieve its objectives;
- changes in political and economic conditions, including without limitation the political and economic effects of the current economic crisis, delay of recovery from the current economic crisis, and other major wars, military actions, terrorist attacks;
- changes in financial market conditions, either internationally, nationally or locally in areas in which the Company conducts its operations, including without limitation reduced rates of business formation and growth, commercial and residential real estate development and real estate prices;
- fluctuations in markets for equity, fixed-income, commercial paper and other securities, including availability, market liquidity levels, and pricing;
- changes in interest rates, the quality and composition of the loan and securities portfolios, demand for loan products, deposit flows and competition;
- acquisitions and integration of acquired businesses;
- increases in the levels of losses, customer bankruptcies, bank failures, claims, and assessments;
- changes in fiscal, monetary, regulatory, trade and tax policies and laws, and regulatory assessments and fees, including policies of the U.S. Department of Treasury, the Board of Governors of the Federal Reserve Board System (the FRB or the Federal Reserve Board), and the Federal Deposit Insurance Corporation (FDIC);

the Company s participation or lack of participation in governmental programs implemented under the Emergency Economic Stabilization Act (EESA) and the American Recovery and Reinvestment Act (ARRA), including without limitation the Troubled Asset Relief Program (TARP) and the Capital Purchase Program (CPP) and the impact of such programs and related regulations on the Company and on international, national, and local economic and financial markets and conditions;

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

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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 the Company s market areas;
- inflation and deflation;
- technological changes and the Company s implementation of new technologies;
- the Company s ability to develop and maintain secure and reliable information technology systems;
- legislation or regulatory changes which adversely affect the Company s operations or business;
- the Company s ability to comply with applicable laws and regulations;
- changes in accounting policies or procedures as may be required by the Financial Accounting Standards Board or regulatory agencies; and
- increased costs of deposit insurance and changes with respect to FDIC insurance coverage levels.

Except to the extent required by law, the Company specifically disclaims any obligation to update any factors or to publicly announce the result of revisions to any of the forward-looking statements included herein to reflect future events or developments.

AVAILABILITY OF INFORMATION

We also make available free of charge on our website, *www.zionsbancorporation.com*, annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as well as proxy statements, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the U.S. Securities and Exchange Commission.

GLOSSARY OF ACRONYMS

ABS Asset-Backed Security

ACL Allowance for Credit Losses

AFS Available-for-Sale

ALCO Asset/Liability Committee

ALLL Allowance for Loan and Lease Losses

ALM Asset-Liability Management

ARM Adjustable Rate Mortgage

ARRA American Recovery and Reinvestment Act

ASC Accounting Standards Codification

ASU Accounting Standards Update

ATM Automated Teller Machine

BCBS Basel Committee on Banking Supervision

BSA Bank Secrecy Act

CB&T California Bank & Trust

CDARS Certificate of Deposit Account Registry System

CDO Collateralized Debt Obligation

CMC Capital Management Committee

COSO Committee of Sponsoring Organizations of the Treadway Commission

CPP Capital Purchase Program

CRA Community Reinvestment Act

CRE Commercial Real Estate

DTA Deferred Tax Asset

DTL Deferred Tax Liability

EESA Emergency Economic Stabilization Act

ESOARS Employee Stock Option Appreciation Rights Securities

FAMC Federal Agricultural Mortgage Corporation

FASB Financial Accounting Standards Board

FDIC Federal Deposit Insurance Corporation

FHLB Federal Home Loan Bank

FHLMC Federal Home Loan Mortgage Corporation

FINRA Financial Industry Regulatory Authority

FNMA Federal National Mortgage Association

FRB Federal Reserve Board

FTE Full-Time Equivalent

GAAP Generally Accepted Accounting Principles

GLB Gramm-Leach-Bliley Act of 1999

GNMA Government National Mortgage Association

HTM Held-to-Maturity

ISDA International Swap Dealer Association

LIBOR London Inter-Bank Offering Rate

LTV Loan-to-Value (on an as completed basis)

MD&A Management s Discussion and Analysis

MSA Metropolitan Statistical Area

NBA National Bank of Arizona

NPR Notice of Proposed Rulemaking

NRSRO Nationally Recognized Statistical Rating Organization

NSB Nevada State Bank

OCC Office of the Comptroller of the Currency

OCI Other Comprehensive Income

OREO Other Real Estate Owned

OTC Over-the-Counter

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OTTI Other-Than-Temporary-Impairment

PCAOB Public Company Accounting Oversight Board

PDs Probabilities of Default

PIK Payment in Kind

QSPE Qualifying Special-Purpose Entity

REIT Real Estate Investment Trust

SBA Small Business Administration

SBIC Small Business Investment Company

SEC Securities and Exchange Commission

SFAS Statement of Financial Accounting Standards

TAF Term Auction Facility

TARP Troubled Asset Relief Program

TCBO The Commerce Bank of Oregon

TCBW The Commerce Bank of Washington

TLGP Temporary Liquidity Guarantee Program

VIE Variable Interest Entity

ZCTB Zions Capital Trust B

ZFNB Zions First National Bank

ZMSC Zions Management Services Company

ITEM 1. BUSINESS
DESCRIPTION OF BUSINESS

Zions Bancorporation (the Parent) 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 (the BHC Act). The Parent and its subsidiaries (collectively the Company) own and operate eight commercial banks with a total of 491 domestic branches at year-end 2009. The Company provides a full range of banking and related services through its banking and other subsidiaries, primarily in Utah, California, Texas, Arizona, Nevada, Colorado, Idaho, Washington, and Oregon. Full-time equivalent employees totaled 10,529 at year-end 2009. For further information about the Company s industry segments, see Business Segment Results on page 64 in Management s Discussion and Analysis (MD&A) and Note 22 of the Notes to Consolidated Financial Statements. For information about the Company s foreign operations, see Foreign Operations on page 63 in MD&A. The Executive Summary on page 20 in MD&A provides further information about the Company.

PRODUCTS AND SERVICES

The Company focuses on providing community banking services by continuously strengthening its core business lines of 1) small, medium-sized business 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. It operates 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 Automated Teller Machine (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. (Contango), and online brokerage services through Zions Direct.

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

COMPETITION

The Company operates in a highly competitive environment. The Company s most direct competition for loans and deposits comes from other commercial banks, thrifts, and credit unions, including institutions that do not have a physical presence in our market footprint but solicit via the Internet and other means. In addition, the Company competes with finance companies, mutual funds, brokerage firms, securities dealers, investment banking companies, financial technology firms, and a variety of other types of companies. Many of these companies have fewer regulatory constraints and some have lower cost structures or tax burdens.

The primary factors in competing for business include pricing, convenience of office locations and other delivery methods, range of products offered, and the level of service delivered. The Company must compete effectively along all of these parameters to remain successful.

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SUPERVISION AND REGULATION

The Parent is a bank holding company that has elected to become a financial holding company as provided by the Gramm-Leach-Bliley Act of 1999 (the GLB Act). The BHC Act, and other federal statutes as modified by the GLB Act, provide the regulatory framework for bank holding companies and financial holding companies which have as their umbrella regulator the Federal Reserve Board. The functional regulation of the separately regulated subsidiaries of a holding company is conducted by each subsidiary s primary functional regulator. To qualify for and maintain status as a financial holding company, the Parent must satisfy certain ongoing criteria. The Company currently engages in only limited activities for which financial holding company status is required.

The Parent s subsidiary banks are subject to the provisions of the National Bank Act or other statutes governing national banks and the banking laws of their various states, as well as the rules and regulations of the Office of the Comptroller of the Currency (OCC), the FRB, and the FDIC. They are also under the supervision of, and are continually subject to periodic examination by, the OCC or their respective state banking departments, the FRB, and the FDIC. Many of our nonbank subsidiaries are also subject to regulation by the FRB and other applicable federal and state agencies. Our brokerage and investment advisory subsidiaries are regulated by the Securities and Exchange Commission (SEC), Financial Industry Regulatory Authority (FINRA) and/or state securities regulators. Our nonbank subsidiaries may be subject to the laws and regulations of the federal government and/or the various states in which they conduct business.

The Company is subject to various requirements and restrictions contained in both the laws of the United States and the states in which its banks and other subsidiaries operate. These regulations include but are not limited to the following:

Laws and regulations regarding the availability, requirements and restrictions of a number of recently enacted governmental programs in which the Company participates, including without limitation the TARP and its associated CPP, as well as certain requirements and limitations imposed by the EESA and ARRA and programs and regulations thereunder, including without limitation limitations on dividends on common stock in the CPP, and on executive compensation contained in the EESA and ARRA. One of these programs, the CPP, contains provisions that allow the U.S. Government to unilaterally modify any term or provision of contracts executed under the program.

Requirements for approval of acquisitions and activities. Prior approval is required, in accordance with the BHC Act of the FRB, for a financial holding company to acquire or hold more than 5% voting interest in any bank. The BHC Act allows, subject to certain limitations, interstate bank acquisitions and interstate branching by acquisition anywhere in the country. The BHC Act also requires approval for certain nonbanking acquisitions and restricts the Company s nonbanking activities to those that are permitted for financial holding companies or that have been determined by the FRB to be financial in nature, incidental to financial activities, or complementary to a financial activity.

Capital requirements. The FRB has established capital guidelines for financial holding companies. The OCC, the FDIC, and the FRB have also issued regulations establishing capital requirements for banks. U.S. regulatory bodies are expected to issue new capital guidelines for banking organizations. Numerous white papers, speeches, and similar documents have been published by both U.S. and international regulatory bodies, which consistently point toward unspecified, but increased, levels of bank and holding company capital and liquidity. Accordingly, additional capital requirements could be required by new regulations in the future and could become required of the Company. In addition, there is a risk that the Company may be pressured by regulators to raise capital to enable it to repay the preferred stock issued to the U.S. Treasury under TARP at a time or in amounts that management would not consider optimal. Failure to meet capital requirements could subject the Parent and its subsidiary banks to a variety of restrictions and enforcement remedies. See Note 19 of the Notes to Consolidated Financial Statements for information regarding capital requirements.

The U.S. federal bank regulatory agencies risk-based capital guidelines are based upon the 1988 capital accord (Basel I) of the Basel Committee on Banking Supervision (the BCBS). The BCBS is

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a committee of central banks and bank supervisors/regulators from the major industrialized countries that develops broad policy guidelines that each country s supervisors can use to determine the supervisory policies they apply. The BCBS has been working for a number of years on revisions to Basel I. In December 2007, U.S. banking regulators published the final rule for Basel II implementation, requiring banks with over $250 billion in consolidated total assets or on-balance sheet foreign exposure of $10 billion (core banks) to adopt the Advanced Approach of Basel II while allowing other banks to elect to opt in.

Modifications to the Basel II regime (Basel III) continue to be proposed. Additionally, regulators may subjectively require banking organizations to maintain capital, reserves, or liquidity at levels higher than those codified by regulation or those prior to the recent economic crisis. Adoption of new Basel III requirements and/or regulatory actions may have a significant impact on bank capital and liquidity levels going forward.

Requirements that the Parent serve as a source of strength for its banking subsidiaries. The FRB has a policy that a bank holding company is expected to act as a source of financial and managerial strength to each of its bank subsidiaries and, under appropriate circumstances, to commit resources to support each subsidiary bank. In addition, the OCC may order an assessment of the Parent if the capital of one of its national bank subsidiaries were to fall below capital levels required by the regulators.

Limitations on dividends payable by subsidiaries. A substantial portion of the Parent s cash, which is used to pay dividends on our common and preferred stock and to pay principal and interest on our debt obligations, is derived from dividends paid by the Parent s subsidiary banks. These dividends are subject to various legal and regulatory restrictions. See Note 19 of the Notes to Consolidated Financial Statements.

Limitations on dividends payable to shareholders. The Parent s ability to pay dividends on both its common and preferred stock may be subject to regulatory restrictions. See discussion under Liquidity Management Actions starting on page 123.

Cross-guarantee requirements. All of the Parent s subsidiary banks are insured by the FDIC. Each commonly controlled FDIC-insured bank can be held liable for any losses incurred, or reasonably expected to be incurred, by the FDIC due to another commonly controlled FDIC-insured bank being placed into receivership, and for any assistance provided by the FDIC to another commonly controlled FDIC-insured bank that is subject to certain conditions indicating that receivership is likely to occur in the absence of regulatory assistance.

Safety and soundness requirements. Federal and state laws require that our banks be operated in a safe and sound manner. We are subject to additional safety and soundness standards prescribed in the Federal Deposit Insurance Corporate Improvement Act of 1991, including standards related to internal controls, information systems, internal audit, loan documentation, credit underwriting, interest rate exposure, asset growth and compensation, as well as other operational and management standards deemed appropriate by the federal banking agencies.

Limitations on the amount of loans to a borrower and its affiliates.

Limitations on transactions with affiliates.

Restrictions on the nature and amount of any investments and ability to underwrite certain securities.

Requirements for opening of branches and the acquisition of other financial entities.

Fair lending and truth in lending requirements to provide equal access to credit and to protect consumers in credit transactions.

Provisions of the GLB Act and other federal and state laws dealing with privacy for nonpublic personal information of individual customers.

Community Reinvestment Act (CRA) requirements. The CRA requires banks to help serve the credit needs in their communities, including credit to low and moderate income individuals. Should the Company or its subsidiaries fail to adequately serve their communities, penalties may be imposed including denials of applications to add branches, relocate, add subsidiaries and affiliates, and merge with or purchase other financial institutions.

Anti-money laundering regulations. The Bank Secrecy Act (BSA) and other federal laws require financial institutions to assist U.S. Government agencies to detect and prevent money laundering. Specifically, the BSA requires financial institutions to keep records of cash purchases of negotiable instruments, file reports of cash transactions exceeding $10,000 (daily aggregate amount), and to report suspicious activity that might signify money laundering, tax evasion, or other criminal activities. Title III of the Uniting and Strengthening of America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (USA Patriot Act) substantially broadens the scope of U.S. anti-money laundering laws and regulations by imposing significant new compliance and due diligence obligations, defining new crimes and related penalties, and expanding the extra-territorial jurisdiction of the United States. The U.S. Treasury Department has issued a number of implementing regulations, which apply various requirements of the USA Patriot Act to financial institutions. The Company s bank and broker-dealer subsidiaries and private investment companies advised or sponsored by the Company s subsidiaries must comply with these regulations. These regulations also impose new obligations on financial institutions to maintain appropriate policies, procedures and controls to detect, prevent and report money laundering and terrorist financing.

The Parent is subject to the disclosure and regulatory requirements of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended, both as administered by the SEC. As a company listed on the NASDAQ Stock Market LLC (Nasdaq) Global Select Market, the Parent is subject to Nasdaq listing standards for quoted companies.

The Company is subject to the Sarbanes-Oxley Act of 2002, which addresses, among other issues, corporate governance, auditing and accounting, executive compensation, and enhanced and timely disclosure of corporate information. Nasdaq has also adopted corporate governance rules, which are intended to allow shareholders and investors to more easily and efficiently monitor the performance of companies and their directors.

The Board of Directors of the Parent has implemented a comprehensive system of corporate governance practices. This system includes Corporate Governance Guidelines, a Code of Business Conduct and Ethics for Employees, a Directors Code of Conduct, and charters for the Audit, Credit Review, Compensation, and Nominating and Corporate Governance Committees. More information on the Company s corporate governance practices is available on the Company s website at *www.zionsbancorporation.com*. (The Company s website is not part of this Annual Report on Form 10-K.)

The Company has adopted policies, procedures and controls to address compliance with the requirements of the banking, securities and other laws and regulations described above or otherwise applicable to the Company. The Company intends to make appropriate revisions to reflect any changes required.

Regulators, Congress, state legislatures and international consultative bodies continue to enact rules, laws, and policies to regulate the financial services industry and public companies and to protect consumers and investors. The nature of these laws and regulations and the effect of such policies on future business and earnings of the Company cannot be predicted.

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GOVERNMENT MONETARY POLICIES

The earnings and business of the Company are affected not only by general economic conditions, but also by policies adopted by various governmental authorities. The Company is particularly affected by the monetary policies of the FRB, which affect both short-term and long-term interest rates and the national supply of bank credit. The tools available to the FRB which may be used to implement monetary policy include:

- open-market operations in U.S. Government and other securities;
- adjustment of the discount rates or cost of bank borrowings from the FRB;
- imposing or changing reserve requirements against bank deposits;
- term auction facilities collateralized by bank loans; and
- other programs to purchase assets and inject liquidity directly in various segments of the economy.

These methods are used in varying combinations to influence the overall growth or contraction of bank loans, investments and deposits, and the interest rates charged on loans or paid for deposits.

In view of the changing conditions in the economy and the effect of the FRB s monetary policies, it is difficult to predict future changes in loan demand, deposit levels and interest rates, or their effect on the business and earnings of the Company. FRB monetary policies have had a significant effect on the operating results of commercial banks in the past and are expected to continue to do so in the future.

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ITEM 1A. RISK FACTORS
The following list describes several risk factors which are significant to the Company including but not limited to:

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

The United States and many other countries recently faced a severe economic crisis, including a major recession which has not yet been resolved. These adverse economic conditions have negatively affected, and are likely to continue for some time to adversely affect, the Company s assets, including its loans and securities portfolios, capital levels, results of operations, and financial condition. In response to the economic crisis, the United States and other governments established a variety of programs and policies designed to mitigate the effects of the crisis. These programs and policies appear to have stabilized the severe financial crisis that occurred in the second half of 2008, but the extent to which these programs and policies will assist in an economic recovery or may lead to adverse consequences, whether anticipated or unanticipated, is still unclear. If these programs and policies are ineffective in bringing about an economic recovery or result in substantial adverse developments, the economic conditions may again become more severe, or adverse economic conditions may continue for a substantial period of time. Any increase in the severity or duration of adverse economic conditions or delay in the recovery from them would adversely affect the Company.

Our participation in the CPP and other government programs imposes restrictions and obligations on us that limit our ability to increase dividends, repurchase shares of our stock, and access the equity capital markets.

The Company has chosen to participate in a number of new programs sponsored by the U.S. Government during the current financial and economic crisis. These programs, including without limitation the TARP and its associated CPP, as well as the ARRA and EESA and regulations thereunder, contain important limitations on the Company s conduct of its business, including limitations on dividends, repurchases of common stock, acquisitions, and executive compensation. These limitations may adversely impact the Company s ability to attract nongovernmental capital and to recruit and retain executive management and other personnel and its ability to compete with other American and foreign financial institutions. One of these programs, the CPP, contains provisions that allow the U.S. Government to unilaterally modify any term or provision of contracts executed under the program.

Legislative and regulatory actions taken now or in the future may have a significant adverse effect on our operations.

In response to the recent economic crisis, various legislative proposals that would materially restructure the regulatory framework governing the financial services industry have been introduced or are being considered for introduction in Congress. These proposals include, but are not limited to:

- the establishment of new regulatory bodies with authority over consumer protection and systemic risk;
- the elimination or modification of responsibilities and independence of certain existing regulatory agencies;
- the grant of authority to state agencies to enforce state and federal laws against national banks;
- the imposition of substantial new fees or taxes on banking organizations or classes of banking organizations;
- limitations on the size of banking organizations or the imposition of heightened costs or burdens associated with asset size; and
- the introduction of new resolution authority and processes for entities in the financial services industry.

Also in response to the recent economic crisis, bank regulatory agencies and international regulatory consultative bodies have proposed or appear to be considering new regulations and requirements, some of which may be imposed without formal promulgation. These include, but are not limited to:

new capital and liquidity standards imposing higher levels and different mixes of capital and having new liquidity requirements than those contained in current regulations;

- new capital planning actions, including stress testing or similar actions and timing expectations for capital-raising;
- new and accelerated FDIC insurance premiums;
- limitations on the amount and manner of compensation paid to executive officers and employees generally; and
- restrictions on the types of products and services offered by banking organizations.

Some of these proposals could adversely affect the Company by, among other things: impacting after tax returns earned by financial services firms in general; limiting the Company s ability to grow; increasing taxes or fees on some of the Company s funding or activities; limiting the range of products and services that the Company could offer; exposing the Company to costly litigation and regulatory actions and increasing the cost of regulatory compliance; requiring the Company to raise capital at inopportune times; and making it difficult for the Company to compete with other banking and nonbanking companies to recruit and retain executives and other employees. Others of these proposals may actually favorably impact the Company by affecting some of its competitors more adversely than the Company. The ultimate impact of these proposals cannot be predicted, as it is unclear which, if any, may eventually be enacted into law or regulation.

Economic and other circumstances, including pressure to repay TARP preferred stock, may require us to raise capital at times or in amounts that are unfavorable to the Company.

The Company s subsidiary banks must maintain certain risk-based and leverage capital ratios as required by their banking regulators and which can change depending upon general economic conditions and their particular condition, risk profile and growth plans. Compliance with capital requirements may limit the Company s ability to expand and has required, and may require, capital investment from the Parent. In 2008, we issued shares of preferred stock for $1.4 billion and a warrant to purchase shares of the Company s common stock to the U.S. Treasury under TARP. There may be increasing market, regulatory or political pressure on the Company to raise capital to enable it to repay the preferred stock issued to the U.S. Treasury under TARP at a time or in amounts that may be unfavorable to the Company s shareholders. These uncertainties and risks created by the legislative and regulatory uncertainties discussed above may themselves increase the Company s cost of capital and other financing costs.

Negative perceptions associated with our continued participation in the U.S. Treasury s TARP may adversely affect our ability to retain customers, attract investors, and compete for new business opportunities.

Several financial institutions which also participated in the CPP have repurchased their TARP preferred stock. There can be no assurance as to the timing or manner in which the Company may repurchase its TARP preferred stock from the U.S. Treasury. Our customers, employees and counterparties in our current and future business relationships could draw negative implications regarding the strength of the Company as a financial institution based on our continued participation in the TARP following the exit of one or more of our competitors or other financial institutions. Any such negative perceptions could impair our ability to effectively compete with other financial institutions for business or to retain high performing employees. If this were to occur, our business, financial condition, and results of operations may be adversely affected, perhaps materially.

Credit quality has adversely affected us and may continue to adversely affect us.

Credit risk is one of our most significant risks. The Company s level of credit quality continued to weaken during 2009 in most loan types and markets in which the Company operates. We expect continued credit quality weakness over the next few quarters.

Failure to effectively manage our interest rate risk could adversely affect us.

Net interest income is the largest component of the Company s revenue. The management of interest rate risk for the Company and all bank subsidiaries is centralized and overseen by an Asset Liability Management Committee appointed by the Company s Board of Directors. The Company has been successful in its interest rate risk management as evidenced by achieving a relatively stable net interest margin over the last several years when interest rates have been volatile and the rate environment challenging. Factors beyond the Company s control can significantly influence the interest rate environment and increase the Company s risk. These factors include competitive pricing pressures for our loans and deposits, adverse shifts in the mix of deposits and other funding sources, and volatile market interest rates subject to general economic conditions and the policies of governmental and regulatory agencies, in particular the FRB.

Our ability to maintain adequate sources of funding and liquidity has been and may continue to be adversely affected by market conditions.

Funding availability, as opposed to funding cost, remained a more important risk factor during 2009, as a global liquidity crisis continued to affect financial institutions generally, including the Company. However, the Company was able to take a number of actions during the year to augment its capital and liquidity (See Capital Management on page 126 in MD&A and Notes 11, 13 and 14 of the Notes to Consolidated Financial Statements for further information on funding availability). It is expected that liquidity stresses will continue to be a risk factor in 2010 for the Company, the Parent and its affiliate banks.

The quality and liquidity of our asset-backed securities investment portfolio has adversely affected us and may continue to adversely affect us.

The Company s asset-backed securities investment portfolio includes collateralized debt obligations (CDOs) collateralized by trust preferred securities issued by banks, insurance companies, and real estate investment trusts (REITs) that may have some exposure to construction loan, commercial real estate, and the subprime markets and/or to other categories of distressed assets. In addition, asset-backed securities also include structured asset-backed collateralized debt obligations (ABS CDOs) (also known as diversified structured finance CDOs) which have minimal exposure to subprime and home equity mortgage securitizations. Factors beyond the Company s control can significantly influence the fair value and impairment status of these securities. These factors include but are not limited to defaults and deferrals by debt issuers, rating agency downgrades of securities, lack of market pricing of securities or the return of market pricing that varies from the Company s current model valuations, rating agency downgrades of monoline insurers that insure certain asset-backed securities, continued instability in the credit markets, and changes in prepayment rates and future interest rates. See Investment Securities Portfolio on page 91 for further details.

We have been unprofitable and may continue to be unprofitable, and such lack of profitability could have particular adverse effects on us, such as restricting our ability to pay dividends or requiring a valuation allowance against our deferred tax asset.

The Parent and certain of its subsidiary banks have been unprofitable in each of the most recent five quarters. The ability of banks and bank holding companies to pay dividends is restricted by regulatory requirements, including profitability and the need to maintain required levels of capital. Continuing lack of profitability exposes the Company to the risk that regulators could restrict the ability of our subsidiary banks to pay dividends to the Parent and/or of the Parent to declare and pay dividends on its common stock, preferred stock or trust preferred securities. It also increases the risk that the Company may have to establish a valuation allowance against its net deferred tax asset (DTA). The Parent and some of its subsidiary banks already have some disallowed DTA for regulatory capital purposes.

We and/or the holders of our securities could be adversely affected by unfavorable rating actions from rating agencies.

Our ability to access the capital markets is important to our overall funding profile. This access is affected by the ratings assigned by rating agencies to us, certain of our affiliates and particular classes of securities that we and our affiliates issue. The interest rates we pay on our securities are also influenced by, among other things, the credit ratings that we, our affiliates, and/or our securities receive from recognized rating agencies. The rating agencies have in the past downgraded our ratings. Further downgrades could increase our costs or otherwise have a negative effect on the market price of our securities, our ability to access capital markets, or our results of operations or financial condition.

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We could be adversely affected by accounting, financial reporting, and regulatory and compliance risk.

The Company is exposed to accounting, financial reporting, and regulatory/compliance risk. The Company provides to its customers, and uses for its own capital, funding and risk management needs, a number of complex financial products and services. Estimates, judgments and interpretations of complex and changing accounting and regulatory policies are required in order to provide and account for these products and services. Identification, interpretation and implementation of complex and changing accounting standards as well as compliance with regulatory requirements, therefore pose an ongoing risk.

We could be adversely affected by litigation and legal claims.

The Company is subject to risks associated with legal claims and litigation. The Company s exposure to claims and litigation has increased and may further increase as a result of stresses on customers, counterparties and others arising from the current economic crisis or otherwise.

We could be adversely affected by failure in our internal controls.

A failure in our internal controls could have a significant negative impact not only on our earnings, but also on the perception that customers, regulators and investors may have of the Company. We continue to devote a significant amount of effort, time and resources to improving our controls and ensuring compliance with complex accounting standards and regulations.

We could be adversely affected as a result of acquisitions.

From time to time the Company makes acquisitions including the acquisition of assets and liabilities of failed banks from the FDIC acting as a receiver. The FDIC-supported transactions are subject to loan loss sharing agreements. Failure to comply with the terms of the agreements could result in the loss of indemnification from the FDIC. The success of any acquisition depends, in part, on our ability to realize the projected cost savings from the acquisition and on the continued growth and profitability of the acquisition target. We have been successful with most prior acquisitions, but it is possible that the merger integration process with an acquisition target could result in the loss of key employees, disruptions in controls, procedures and policies, or other factors that could affect our ability to realize the projected savings and successfully retain and grow the target s customer base.

The Company s Board of Directors has established an Enterprise Risk Management policy and has appointed an Enterprise Risk Management Committee to oversee and implement the policy. In addition to credit and interest rate risk, the Committee also monitors the following risk areas: market risk, liquidity risk, operational risk, compliance risk, information technology risk, strategic risk, compensation-related risk, and reputation risk.

ITEM 1B. UNRESOLVED STAFF COMMENTS

There are no unresolved written comments that were received from the SEC s staff 180 days or more before the end of the Company s fiscal year relating to our periodic or current reports filed under the Securities Exchange Act of 1934.

ITEM 2. PROPERTIES

At December 31, 2009, the Company operated 491 domestic branches, of which 283 are owned and 208 are leased. The Company also leases its headquarters offices in Salt Lake City, Utah. Other operations facilities are either owned or leased. The annual rentals under long-term leases for leased premises are determined under various formulas and factors, including operating costs, maintenance, and taxes. For additional information regarding leases and rental payments, see Note 18 of the Notes to Consolidated Financial Statements.

ITEM 3. LEGAL PROCEEDINGS

The information contained in Note 18 of the Notes to Consolidated Financial Statements is incorporated by reference herein.

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PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

MARKET INFORMATION

The Company s common stock is traded on the Nasdaq Global Select Market under the symbol ZION. The last reported sale price of the common stock on Nasdaq on February 16, 2010 was $18.26 per share.

The following table sets forth, for the periods indicated, the high and low sale prices of the Company s common stock, as quoted on Nasdaq:

	2009		**2008**	
	High	**Low**	**High**	**Low**
1st Quarter	**$ 25.52**	**5.90**	57.05	39.31
2nd Quarter	**20.97**	**8.88**	51.15	29.46
3rd Quarter	**20.36**	**10.25**	107.21[1]	17.53
4th Quarter	**19.03**	**12.50**	47.94	21.07

[1] *This trading price was an anomaly resulting from electronic orders at the opening of the market on September 19, 2008 in response to the SEC s announcement (prior to the market opening that day) of its temporary emergency action suspending short selling in financial companies. The closing price on September 19, 2008 was $52.83.*

During 2009 the Company issued $472.7 million of new common stock consisting of 31,741,425 shares at an average price of $14.89 per share. Net of issuance costs and fees, the issuances added $464.1 million to common stock.

As of February 16, 2010, there were 6,303 holders of record of the Company s common stock.

EQUITY CAPITAL AND DIVIDENDS

We have 3,000,000 authorized shares of preferred stock without par value and with a liquidation preference of $1,000 per share. As of December 31, 2009, 67,952, 110,388, and 1,400,000 of preferred shares series A, C, and D, respectively, have been issued and are outstanding. In addition, holders of $1.1 billion of the Company s subordinated debt have the right to convert that debt into either Series A or C preferred stock, and that therefore the Company has reserved for possible future issuance approximately 1.1 million shares of authorized preferred stock. In general, preferred shareholders may receive asset distributions before common shareholders; however, preferred shareholders have only limited voting rights generally with respect to certain provisions of the preferred stock, the issuance of senior preferred stock, and the election of directors. Preferred stock dividends reduce earnings available to common shareholders and are paid quarterly in arrears. The redemption amount is computed at the per share liquidation preference plus any declared but unpaid dividends. The series A and C shares are registered with the SEC.

The Series D Fixed-Rate Cumulative Perpetual Preferred Stock was issued on November 14, 2008 to the U.S. Department of the Treasury for $1.4 billion in a private placement exempt from registration. The EESA authorized the U.S. Treasury to provide funds to eligible financial institutions participating in the TARP 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 Agreement). The preferred shares are ranked *pari passu* with the Series A and C preferred shares. The dividend rate of 5% increases to 9% after the first five years. Dividend payments are made on the 15th day of February, May, August, and November. The warrant allows the U.S. Treasury to purchase up to 5,789,909 shares of the Company s common stock exercisable over a 10-year period at a price per share of $36.27. The preferred shares and the warrant qualify for Tier 1 regulatory capital. The Agreement subjects the Company to certain restrictions and conditions including those related to common dividends, share repurchases, executive compensation, and corporate governance.

We recorded the total $1.4 billion of the preferred shares and the warrant at their relative fair values of $1,292.2 million and $107.8 million, respectively. The difference from the par amount of the preferred shares is accreted to preferred stock over five years using the interest method with a corresponding adjustment to preferred dividends.

The frequency and amount of common stock dividends paid during the last two years are as follows:

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
2009	**$ 0.04**	**0.04**	**0.01**	**0.01**
2008	0.43	0.43	0.43	0.32

In January 2010, the Company s Board of Directors approved a dividend of $0.01 per common share payable on February 24, 2010 to shareholders of record on February 10, 2010. The Company expects to continue its policy of paying regular cash dividends on a quarterly basis, although there is no assurance as to future dividends because they depend on future earnings, capital requirements, and financial condition.

The Company cannot increase the common stock dividend above $0.32 per share without the consent of the U.S. Treasury until the third anniversary of the date of the investment, or November 14, 2011, unless prior to such third anniversary the senior preferred stock series D is redeemed in whole or the U.S. Treasury has transferred all of the senior preferred stock series D to third parties.

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

The information contained in Item 12 of this Form 10-K is incorporated by reference herein.

SHARE REPURCHASES

The following table summarizes the Company s share repurchases for the fourth quarter of 2009:

Period	Total number of shares repurchased[1]	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Approximate dollar value of shares that may yet be purchased under the plan
October	341	$ 16.85		$ 56,250,315
November	404	13.11		56,250,315
December	8,944	13.12		56,250,315
Fourth quarter	9,689	13.25		

[1] *All share repurchases during the fourth quarter of 2009 were made to pay for payroll taxes upon the vesting of restricted stock.*

The Company has not repurchased any shares under the Common Stock Repurchase Plan since August 16, 2007. It is prohibited from repurchasing any common shares through an authorized share repurchase program by terms of the CPP until the Company s Series D preferred stock has been fully repaid or the U.S. Treasury otherwise ceases to own any such preferred stock.

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PERFORMANCE GRAPH

The following stock performance graph compares the five-year cumulative total return of Zions Bancorporation s common stock with the Standard & Poor s 500 Index and the KBW Bank Index which include Zions Bancorporation. The KBW Bank Index is a market capitalization-weighted bank stock index developed and published by Keefe, Bruyette & Woods, Inc., a nationally recognized brokerage and investment banking firm specializing in bank stocks. The index is composed of 24 geographically diverse stocks representing national money center banks and leading regional financial institutions. The stock performance graph is based upon an initial investment of $100 on December 31, 2004 and assumes reinvestment of dividends.

	2004	2005	2006	2007	2008	2009
Zions Bancorporation	100.0	113.3	125.9	73.1	40.2	21.3
KBW Bank Index	100.0	103.2	120.7	94.5	49.8	48.9
S&P 500	100.0	104.9	121.4	128.1	80.8	102.1

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ITEM 6. SELECTED FINANCIAL DATA
Financial Highlights

(In millions, except per share amounts)	2009/2008 Change	2009	2008	2007	2006	2005[3]
For the Year						
Net interest income	**-4%**	**$ 1,897.5**	1,971.6	1,882.0	1,764.7	1,361.4
Noninterest income	**+322%**	**804.1**	190.7	412.3	551.2	436.9
Total revenue	**+25%**	**2,701.6**	2,162.3	2,294.3	2,315.9	1,798.3
Provision for loan losses	**+211%**	**2,016.9**	648.3	152.2	72.6	43.0
Noninterest expense	**+13%**	**1,671.5**	1,475.0	1,404.6	1,330.4	1,012.8
Impairment loss on goodwill	**+80%**	**636.2**	353.8			0.6
Income (loss) before income taxes	**-416%**	**(1,623.0)**	(314.8)	737.5	912.9	741.9
Income taxes (benefit)	**-825%**	**(401.3)**	(43.4)	235.8	318.0	263.4
Net income (loss)	**-350%**	**(1,221.7)**	(271.4)	501.7	594.9	478.5
Net income (loss) applicable to noncontrolling interests	**-10%**	**(5.6)**	(5.1)	8.0	11.8	(1.6)
Net income (loss) applicable to controlling interest	**-357%**	**(1,216.1)**	(266.3)	493.7	583.1	480.1
Net earnings (loss) applicable to common shareholders	**-325%**	**(1,234.4)**	(290.7)	479.4	579.3	480.1
Per Common Share						
Net earnings (loss) diluted	**-270%**	**(9.92)**	(2.68)	4.40	5.35	5.16
Net earnings (loss) basic	**-270%**	**(9.92)**	(2.68)	4.45	5.45	5.26
Dividends declared	**-94%**	**0.10**	1.61	1.68	1.47	1.44
Book value[1]	**-35%**	**27.85**	42.65	47.17	44.48	40.30
Market price end		**12.83**	24.51	46.69	82.44	75.56
Market price high[2]		**25.52**	57.05	88.56	85.25	77.67
Market price low		**5.90**	17.53	45.70	75.13	63.33
At Year-End						
Assets	**-7%**	**51,123**	55,093	52,947	46,970	42,780
Net loans and leases	**-4%**	**40,189**	41,659	38,880	34,415	29,871
Deposits	**+1%**	**41,841**	41,316	36,923	34,982	32,642
Long-term borrowings	**-22%**	**2,033**	2,622	2,591	2,495	2,746
Shareholders equity:						
Preferred equity	**-5%**	**1,503**	1,582	240	240	
Common equity	**-15%**	**4,190**	4,920	5,053	4,747	4,237
Noncontrolling interests	**-37%**	**17**	27	31	43	28
Performance Ratios						
Return on average assets		**(2.25)%**	(0.50)%	1.01%	1.32%	1.43%
Return on average common equity		**(28.35)%**	(5.69)%	9.57%	12.89%	15.86%
Efficiency ratio		**61.34%**	67.47%	60.53%	56.85%	55.67%
Net interest margin		**3.94%**	4.18%	4.43%	4.63%	4.58%
Capital Ratios[1]						
Equity to assets		**11.17%**	11.85%	10.06%	10.71%	9.97%
Tier 1 leverage		**10.38%**	9.99%	7.37%	7.86%	8.16%
Tier 1 risk-based capital		**10.53%**	10.22%	7.57%	7.98%	7.52%
Total risk-based capital		**13.28%**	14.32%	11.68%	12.29%	12.23%
Tangible common equity		**6.12%**	5.89%	5.70%	5.98%	5.28%
Tangible equity		**9.16%**	8.91%	6.23%	6.61%	5.35%
Selected Information						
Average common and common-equivalent shares *(in thousands)*		**124,443**	108,908	108,408	107,957	92,994
Common dividend payout ratio		**na**	na	37.82%	27.10%	27.14%
Full-time equivalent employees		**10,529**	11,011	10,933	10,618	10,102
Commercial banking offices		**491**	513	508	470	473

ATMs	**602**	625	627	578	600

[1] *At year-end.*
[2] *The actual high price for 2008 was $107.21. However, this trading price was an anomaly resulting from electronic orders at the opening of the market on September 19, 2008 in response to the SEC s announcement (prior to the market opening that day) of its temporary emergency action suspending short selling in financial companies. The closing price on September 19, 2008 was $52.83.*
[3] *Amounts for 2005 include Amegy Corporation at December 31, 2005 and for the month of December 2005. Amegy was acquired on December 3, 2005.*

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS MANAGEMENT S DISCUSSION AND ANALYSIS

EXECUTIVE SUMMARY

Company Overview

Zions Bancorporation (the Parent) and subsidiaries (collectively the Company, Zions, we, our, us) together comprise a $51 billion financi holding company headquartered in Salt Lake City, Utah. As of September 30, 2009, the Company was the 17th largest domestic bank holding company in terms of deposits. At December 31, 2009, the Company operated banking businesses through 491 domestic branches and 602 ATMs in ten Western and Southwestern states: Arizona, California, Colorado, Idaho, Nevada, New Mexico, Oregon, Texas, Utah, and Washington. Our banking businesses include: Zions First National Bank (Zions Bank), in Utah and Idaho; California Bank & Trust (CB&T); Amegy Corporation (Amegy) and its subsidiary, Amegy Bank, in Texas; National Bank of Arizona (NBA); Nevada State Bank (NSB); Vectra Bank Colorado (Vectra), in Colorado and New Mexico; The Commerce Bank of Washington (TCBW); and The Commerce Bank of Oregon (TCBO).

The Company also operates several specialty financial services and financial technology businesses that conduct business on a regional or national scale. The Company is a national leader in Small Business Administration (SBA) lending, public finance advisory services, and software sales and cash management services related to Check 21 Act electronic imaging and clearing of checks. In addition, Zions is included in the Standard and Poor s 500 (S&P 500) and NASDAQ Financial 100 indices.

In operating its banking businesses, the Company seeks to combine the front office or customer facing advantages that it believes can result from decentralized organization and branding, with those that can come from centralized risk management, capital management and operations. In its specialty financial services and technology businesses, the Company seeks to develop a competitive advantage in a particular product, customer, or technology niche.

Distribution of Loans and Deposits

As shown in Charts 1 and 2 the Company s loans and core deposits are widely diversified among the banking franchises the Company operates.

Note: Core deposits are defined as total deposits excluding

brokered deposits and time deposits $100,000 and over.

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The Company s loan portfolio also is diversified as to type of loan. However, as shown in Chart 3, it does have a significant concentration of exposure to commercial real estate, including residential land, acquisition and development lending in Arizona, Nevada, and to a lesser degree, California and the Intermountain West, that have been under severe stress due to the ongoing declines in housing-related prices and in residential building.

Business Strategies

We believe that the Company distinguishes itself by having a long-term strategy for growth in its banking businesses that is unique for a bank holding company of its size. This growth strategy is driven by four key factors: (1) focus on high growth markets; (2) keep decisions that affect customers local; (3) centralize technology and operations to achieve economies of scale; and (4) centralize and standardize policies and management controlling key risks. These strategies are more fully set forth as follows:

Focus on High Growth Markets

Each of the states in which the Company conducts its banking businesses has experienced relatively high levels of historical economic growth and each ranks among the top one-third of states as ranked by population and household income growth projected by the U.S. Census Bureau. Despite weaker employment and economic growth in some of these markets in 2009, which may persist through much of 2010, the Company believes that over the medium to longer term all of these markets will continue to be among the fastest growing in the country.

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Schedule 1

DEMOGRAPHIC PROFILE

BY STATE

(Dollar amounts in thousands)	Number of branches 12/31/2009	Deposits at 12/31/2009[1]	Percent of Zions deposit base	Estimated 2009 total population[2]	Estimated population % change 2000-2009[2]	Projected population % change 2009-2014[2]	Estimated median household income 2009[2]	Estimated household income % change 2000-2009[2]	Projected household income % change 2009-2014[2]
Utah	103	$ 12,514,145	29.91%	2,748,395	23.07%	11.17%	$ 60.3	31.88%	4.29%
California	106	9,329,215	22.30	37,933,734	11.99	5.14	61.6	29.38	4.02
Texas	82	8,880,228	21.22	24,896,267	19.40	9.25	52.4	31.19	4.03
Arizona	76	3,784,170	9.04	6,664,707	29.90	12.84	55.3	36.21	5.46
Nevada	58	3,523,708	8.42	2,746,331	37.44	14.61	58.1	30.29	4.63
Colorado	37	1,964,909	4.70	5,026,916	16.87	7.75	62.6	32.44	5.14
Idaho	26	1,125,416	2.69	1,562,163	20.73	9.61	50.4	33.54	5.22
Washington	1	631,803	1.51	6,691,182	13.52	6.39	60.9	32.95	4.78
New Mexico	1	40,088	0.10	2,058,296	13.15	6.30	44.7	30.76	4.84
Oregon	1	46,907	0.11	3,841,859	12.29	5.81	53.5	30.62	4.01
Zions weighted average					16.83	7.58	57.7	31.00	4.30
Aggregate national				309,731,508	10.06	4.63	54.7	29.78	4.06

[1] *Excludes intercompany deposits.*
[2] *Data Source: SNL Financial Database*

The Company seeks to grow both organically and through acquisitions in these banking markets. Within each of the states where the Company operates, we focus on the market segments that we believe present the best opportunities for us. We believe that these states over time have experienced higher rates of growth, business formation, and expansion than other states. We also believe that over the long term these states will continue to experience higher rates of commercial real estate development as businesses provide housing, shopping, business facilities and other amenities for their growing populations. However, in the near term growth in many of our geographies and market segments has slowed markedly due to weakening economic conditions and loan demand. We have recently experienced net portfolio shrinkage in distressed real estate markets in the Southwest.

A common focus of all of Zions subsidiary banks is small and middle market business banking (including the personal banking needs of the executives and employees of those businesses) and commercial real estate development. In addition to our commercial business, we also provide a broad base of consumer financial products in selected markets, including home mortgages, home equity credit lines, auto loans, and credit cards. This mix of business often leads to loan balances growing faster than internally generated deposits; this was particularly true in much of 2008 as loan growth significantly outpaced low cost core deposit growth. In addition, it has important implications for the Company s management of certain risks, including interest rate and liquidity risks, which are discussed further in later sections of this document.

Keep Decisions That Affect Customers Local

The Company operates eight different community/regional banks, each under a different name, and each with its own charter, chief executive officer and management team. This structure helps to ensure that decisions related to customers are made at a local level. In addition, each bank controls, among other things, most decisions related to its branding, market strategies, customer relationships, product pricing, and credit decisions (within the limits of established corporate policy). In this way we are able to differentiate our banks from much larger, mass market banking competitors that operate regional or national franchises under a common brand and often around vertical product silos. We believe that this approach allows us to attract and retain exceptional

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management, and that it also results in providing service of the highest quality to our targeted customers. In addition, we believe that over time this strategy generates superior growth in our banking businesses.

Centralize Technology and Operations to Achieve Economies of Scale

We seek to differentiate the Company from smaller banks in two ways. First, we use the combined scale of all of the banking operations to create a broad product offering without the fragmentation of systems and operations that would typically drive up costs. Second, for certain products for which economies of scale are believed to be important, the Company manufactures the product centrally or outsources it from a third party. Examples include cash management, credit card administration, mortgage servicing, and deposit operations. In this way the Company seeks to create and maintain efficiencies while generating superior growth.

Centralize and Standardize Policies and Management Controlling Key Risks

We seek to standardize policies and practices related to the management of key risks in order to assure a consistent risk profile in an otherwise decentralized management model. Among these key risks and functions are credit, interest rate, liquidity, and market risks. Although credit decisions are made locally within each affiliate bank, these decisions are made within the framework of a corporate credit policy that is standard among all of our affiliate banks. Each bank may amend the policy in a more conservative direction; however, it may not amend the policy in a more liberal direction. In that case, it must request a specific waiver from the Company s Chief Credit Officer; in practice only a limited number of waivers have been granted. Similarly, the Credit Examination function is a corporate activity, reporting to the Credit Review Committee of the Board of Directors, and administratively reporting to the Director of Enterprise Risk Management, who reports to the Company s CEO. This assures a reasonable consistency of loan quality grading and loan loss reserving practices among all affiliate banks.

Interest rate risk management, liquidity and market risk, and portfolio investments also are managed centrally by a Board-designated Asset Liability Management Committee pursuant to corporate policies regarding interest rate risk, liquidity, investments and derivatives.

Internal Audit also is a centralized, corporate function reporting to the Audit Committee of the Board of Directors, and administratively reporting to the Director of Enterprise Risk Management, who reports to the Company s CEO.

Finally, the Board established an Enterprise Risk Management Committee in late 2005, which is supported by the Director of Enterprise Risk Management. This Committee seeks to monitor and mitigate as appropriate these and other key operating and strategic risks throughout the Company.

While these long-term strategies have not changed, the severe economic recession that unfolded in 2009 following the financial crises of 2007-2008 meant that of necessity much of management s focus in 2009 was on guiding the Company successfully through these severely adverse conditions, as described further below.

MANAGEMENT S OVERVIEW OF 2009 PERFORMANCE

The financial crisis and economic recession that became severe in the fall of 2008, with the collapse of Lehman Brothers and the de facto government takeovers of Fannie Mae, Freddie Mac, and American International Group, Inc. continued and deepened in 2009. Capital and financing markets for banks were effectively limited in the last third of 2008, and access remained limited through the first quarter of 2009.

As this crisis unfolded and became more severe, the Federal Reserve Board (FRB) and later the U.S. Treasury took a series of increasingly strong and less conventional actions to try to mitigate the crisis. Starting in mid-2007, the FRB aggressively lowered short term interest rates; after a brief pause in mid-2008, this aggressive reduction resumed and left the target Fed Funds rate at an all-time low of 0-0.25% at year-end 2008 through 2009. In 2008 the FRB introduced a number of programs to directly provide greater liquidity to a financial system under severe stress. In 2009 the FRB added additional programs to stabilize and provide liquidity to financial markets. It was particularly active in directly purchasing over $1 trillion of mortgage-backed securities. At the same time, however, other temporary supports put into place began to be withdrawn in the latter half of 2009. In the first half of 2009, the government required nineteen of the largest financial institutions to undergo a government-directed stress test to determine whether they had sufficient capital to withstand severe losses. After this test, several of these institutions repaid the Capital Purchase Program preferred stock investment made in 2008 by the U.S. Treasury, after raising significant amounts of capital. This had the effect of reopening to some extent the capital markets to financial institutions. The Company took advantage of these slowly improving market conditions to raise various forms of capital and term financing at various times throughout the remainder of 2009.

The increased level of FDIC deposit insurance to $250,000, first established in October 2008, remains in effect. In addition, the FDIC s program to provide full deposit insurance coverage for noninterest-bearing transaction deposit accounts was extended through June 30, 2010, unless insured banks elect to opt out of the program. The Company did not opt out of this program.

The crisis and ensuing severe economic recession adversely impacted the Company s performance and management focused a great deal of attention on managing the impact of the crisis. Key impacts included, among other things, restricted access to capital and funding markets, higher cost of capital and funding, investor and regulatory pressure to maintain strong capital levels, deteriorating credit quality which resulted in rising levels of loan losses and provision for loan losses, deteriorating values and other than temporary impairment charges related to the Company s investment securities portfolio, and impairment of goodwill related to the acquisition of Amegy Bank in 2005.

Collectively, these factors had a significant adverse impact on the Company s performance. The Company reported a net loss applicable to common shareholders for 2009 of $1,234.4 million or $9.92 per diluted common share as compared to a net loss of $290.7 million or $2.68 per diluted common share for 2008. This compares with net earnings applicable to common shareholders of $479.4 million or $4.40 per diluted share for 2007. Return on average common equity was (28.35)% and return on average assets was (2.25)% in 2009, compared with (5.69)% and (0.50)% in 2008 and 9.57% and 1.01% in 2007.

The key drivers of the Company s performance during 2009 were as follows:

Schedule 2

KEY DRIVERS OF PERFORMANCE

2009 COMPARED TO 2008

Driver	2009	2008	Change better/(worse)
	(In billions)		
Average net loans and leases	$ **41.5**	40.8	2%
Average total noninterest-bearing deposits	**11.1**	9.1	22%
Average total deposits	**42.8**	37.6	14%
	(In millions)		
Net interest income	$ **1,897.5**	1,971.6	(4)%
Provision for loan losses	**(2,016.9)**	(648.3)	(211)%
Net impairment and valuation losses on securities	**(492.6)**	(317.1)	(55)%
Impairment loss on goodwill	**(636.2)**	(353.8)	(80)%
Net interest margin	**3.94%**	4.18%	(24)bp
Ratio of nonperforming assets, excluding FDIC-supported assets, to net loans and leases and other real estate owned	**6.00%**	2.71%	(329)bp
Efficiency ratio	**61.34%**	67.47%	613bp
	(In billions)		
Total Tier 1 regulatory capital raised*	$ **1.06**	0.29	266%
	(In millions of shares)		
Total net common shares issued	**35.1**	8.2	328%

bp basis points

** Excludes the impact of TARP preferred stock*

The Company s performance in 2009 compared to 2008 reflected the following:

Weak internal loan growth in the latter half of 2008 became actual loan portfolio run-off in 2009 as loan demand continued to weaken during the national recession. The Company s growing loan charge-offs were a further drag on net loan balances.

Strong deposit growth, particularly of noninterest-bearing deposits, which resulted in significant excess reserves kept with the Federal Reserve Bank.

Strengthening net interest margin during the first half of the year, due to higher spreads on new loans and lower funding costs, followed by a reduced net interest margin in the latter half of the year. This resulted largely from the amortization of the increased debt discounts resulting from the Company s modification of over $1 billion of subordinated debt in June 2009.

Increased nonperforming loans and other assets, loan losses and provisions for loan losses stemming from continued credit-quality deterioration. While most loan losses occurred in our Southwestern residential land acquisition, development and construction lending portfolios, credit quality weakened more broadly in other loan types and geographic markets as the recession became severe and national in scope.

Significant net impairment and valuation losses on the Company s investment securities, primarily its portfolio of bank trust preferred CDOs, as the number of failed banks and banks deferring payment on trust preferred securities grew throughout the year.

Goodwill impairment charges resulting from the Company s determination during the first quarter that approximately 51% of the goodwill at Amegy was impaired. This accounted for over 99% of the total $636 million during the year.

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Significant additions to the Company s capital base and financial liquidity through a number of different actions including nonoperating gains from capital actions and acquisition related gains. While these actions significantly strengthened the Company, they resulted in meaningful dilution of existing shareholder s interests and a drag on future earnings from increased interest expense.

Loan and Deposit Growth

From 2005 through 2008, the Company experienced steady and strong loan growth and moderate deposit growth, augmented in 2005 and 2006 by the Amegy acquisition, in 2007 by the Stockmen s acquisition, and in 2008 by the Silver State acquisition (deposits only). From 2004 through 2006, we consider this performance to be primarily a result of strong economic conditions throughout most of our geographical footprint, and of effectively executing our operating strategies. The continued strong organic loan growth in the latter half of 2007 may also have begun to reflect the increasing lack of nonbank sources of credit as global credit market conditions deteriorated sharply. Chart 4 depicts this growth.

After strong growth in the first half of 2008, loan growth slowed sharply in the latter half, and continued to slow throughout 2009. Loan demand weakened throughout 2009 in all geographic markets that the Company serves, and in most core loan types, as a result of sharply curtailed real estate activities and the national recession. The net shrinkage in the commercial construction and land development ($1.96 billion, or 26.1%) and commercial and industrial ($1.53 billion, or 13.3%) loan categories was particularly noteworthy. In addition to weak loan demand, significant loan charge-offs contributed to these declines, particularly in the construction and land development category. The Company experienced significant organic net growth only in the commercial real estate term loan category, which grew by $1.1 billion, or 17.1%. This growth reflected both new originations as well as the completion of credit-worthy construction projects that rolled into term loans. The Company also acquired loans in three transactions with the FDIC related to failed banks (Alliance and Vineyard banks in California and Great Basin Bank in Nevada); these loans totaled $1.4 billion at year-end 2009, compared to zero at the end of 2008. However, these sources of growth were not sufficient to offset declines in other categories, and the Company s loan portfolio shrank $1.5 billion, or 3.5%; excluding FDIC-supported loans, the shrinkage was $2.9 billion, or 7.0% for the full year 2009.

While total deposits were relatively unchanged, core deposit growth in 2009 was strong, which enabled the Company to pay down more expensive sources of funding, including wholesale borrowings from Federal Home Loan Banks and time deposits, and to reduce interest expense significantly. Growth was particularly strong in noninterest-bearing transaction accounts ($2.64 billion, or 27.3%) and savings and NOW accounts ($1.39 billion or 31.2%). The Company believes that both the unlimited deposit insurance coverage of noninterest-bearing

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transaction accounts and the very low short-term interest rate levels resulting from Federal Reserve policy, as well as the Company s own sales efforts contributed to this growth. The FDIC-assisted acquisitions discussed above contributed relatively less to deposit growth than to loan totals, as a large portion of their total funding was from high-cost certificates of deposits, brokered deposits, and other expensive deposits; a large portion of these deposits left the Company, by design, when rates on such accounts were reset to lower levels.

Credit Quality

The ratio of nonperforming lending-related assets, excluding FDIC-supported assets, to net loans and other real estate owned (OREO) increased to 6.00% at year-end, compared to 2.71% at the end of 2008. See Chart 5. Net loan charge-offs for 2009 were $1,172.6 million, or 2.90% of average loans, excluding FDIC-supported loans, compared to $393.7 million or 0.96% of average loans for 2008. Chart 7 highlights net charge-offs by loan category. The provision for loan losses increased significantly during 2009 to $2,016.9 million compared to $648.3 million for 2008. While the Company s ratio of net charge-offs to average loans and leases, excluding FDIC-supported loans, is now higher than the peer median (see Chart 6), its ratio of nonperforming assets to net loans and OREO, excluding FDIC-supported assets, is now below the peer median (see Chart 5).

These trends reflect the impact of varying degrees of deteriorating credit quality in most of the Company s loan types and geographic regions as a result of the national recession. The rate of deterioration was most severe in the first half of the year, and showed signs of stabilization in the fourth quarter of 2009. Net charge-offs came predominantly from the commercial real estate portfolio (see Chart 7), mainly construction and land development. As a result of the economic recession s continued adverse impact on credit quality, the Company continued to strengthen its allowance for credit losses, which stood at 4.25% at year-end 2009 (see Chart 8).

Note: Peer group is defined as bank holding companies

with assets > $10 billion excluding banks providing

primarily trust services.

Peer data source: SNL Financial Database

** Excluding FDIC-supported assets*

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Note: Peer group is defined as bank holding companies

with assets > $10 billion excluding banks providing

primarily trust services.

Peer data source: SNL Financial Database

** Excluding FDIC-supported loans*

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Note: Peer group is defined as bank holding companies

with assets > $10 billion excluding banks providing

primarily trust services.

Peer data source: SNL Financial Database

** Excluding FDIC-supported loans*

Interest Rate Risk

Our focus in managing interest rate risk traditionally has been to not take positions based upon management s forecasts of interest rates, but rather to maintain a position of slight asset-sensitivity. However, in 2009, in response to short term interest rates that were at or near zero, and term interest rates at historic lows, the Company has positioned its balance sheet to be more asset sensitive than its historical position. It has chosen not to take certain actions commonly used in the industry to increase duration and reduce asset sensitivity, such as using excess liquidity to buy longer term securities. This means that our assets (primarily loans) tend to reprice slightly more quickly than our liabilities (primarily deposits). The Company historically has made extensive use of interest rate swaps to hedge interest rate risk in order to seek to achieve this desired position. This practice has enabled us to achieve a relatively stable net interest margin during periods of volatile interest rates, which is depicted in Chart 9.

Market levels of interest rates remained at historically low and relatively unchanged levels throughout 2009. Therefore, changes in loan and deposit pricing and in the composition of earning assets and funding were more significant drivers of the net interest income and margin than the Company s hedging strategies. The Company pushed spreads over cost of funds on newly originated loans higher throughout most of the year. In part this was accomplished through the use of pricing floors on a significant amount of newly originated or renewed variable rate loans. At year-end 2009, $10.6 billion (26.3% of total loans) had floors or other pricing characteristics that were in the money relative to their underlying pricing index plus spread. Offsetting this was the loss of interest income from nonperforming lending related assets, which totaled $2.8 billion at year-end 2009, compared to $1.1 billion at year-end 2008. The cost of funding was favorably impacted by the significant increase in noninterest-bearing deposits discussed above, as well as both rate declines in all interest-bearing deposit categories and a shift toward a lower cost mix of such deposits.

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Due to changes in newly originated and renewed loan spreads, changes in the relationship between the prime rate and London Inter-Bank Offer Rate (LIBOR), changes in the pattern of prime rate behavior in several of our banks, and other factors, our hedging strategy continued to be more difficult to conduct in 2009. In particular, a number of our interest rate swaps were terminated that had ineffectiveness under the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) No. 815, *Derivatives and Hedging*, and the Company elected not to replace them at historically low interest rates. Instead, the Company relied more on obtaining interest rate floors on new and renewed loans, as discussed previously. On the whole, Company management believes its actions continued to result in one of the highest and most stable net interest margins in the industry. We believe that our risk position at December 31, 2009 was more asset sensitive than has typically been the case.

As noted previously (see Loan and Deposit Growth), the lower-cost core deposit categories grew significantly during 2009, while reliance on higher-cost sources of funding was reduced. In addition, rates paid on most interest-bearing funding sources declined significantly in 2009 compared to 2008 due to weak economic conditions and the Federal Reserve s policy of maintaining low short term interest rates and injecting liquidity into the banking system. These factors contributed significantly to an overall lower cost of funding in 2009 compared to 2008, and therefore to the maintenance of a relatively high net interest margin.

Taxable-equivalent net interest income in 2009 decreased 3.7% from 2008. The net interest margin declined to 3.94% for 2009, down from 4.18% for 2008. The Company was able to achieve this performance despite rising levels of nonaccrual loans and other nonperforming assets and the impact of debt modification discount amortization. These factors resulted in a fairly steady compression, until the fourth quarter, of the net interest margin.

Note: Peer group is defined as bank holding companies

with assets > $10 billion excluding banks providing

primarily trust services.

Peer data source: SNL Financial Database

See Interest Rate Risk on page 117 for more information regarding the Company s asset-liability management (ALM) philosophy and practice and interest rate risk management.

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Controlling Expenses

During 2009, the Company s efficiency (expense-to-revenue) ratio improved to 61.3% from 67.5% for 2008. The efficiency ratio is the relationship between noninterest expense and total taxable-equivalent revenue. Despite this improvement, the efficiency ratio continued to be adversely impacted by the effect on revenue of the net impairment and valuation losses on securities as previously discussed. Because of the significant securities impairment and valuation losses, the Company believes that its efficiency ratio is not a particularly useful measure of how well operating expenses were contained in 2008 and 2009; nor does it believe that this measure is particularly useful for its peers, many of which also experienced large losses and impairment charges as a result of market turmoil and deteriorating credit conditions. Noninterest expense increased 13.3% in 2009 compared to 2008. This increase resulted mainly from the increased provision for unfunded lending commitments, OREO and credit-related expenses, and FDIC premiums; excluding the effects of these items, noninterest expense decreased 2.1% in 2009 compared to 2008.

Note: Peer group is defined as bank holding companies

with assets > $10 billion excluding banks providing

primarily trust services.

Peer data source: SNL Financial Database

Capital

As regulated financial institutions, the Parent and its subsidiary banks are required to maintain adequate levels of capital as measured by several regulatory capital ratios. One of our goals is to maintain capital levels that are at least well capitalized under regulatory standards. The Company and each of its banking subsidiaries exceeded the well capitalized guidelines at December 31, 2009. In addition, the Parent and certain of its banking subsidiaries have issued various debt securities that have been rated by the principal rating agencies. As a result, another goal is to maintain capital at levels consistent with an investment grade rating for these debt securities. The Company has maintained its investment grade debt ratings from Standard & Poors, Fitch and Dominion Bond Rating Service, but has a rating that is significantly below investment grade from Moody s.

During 2009 the Company took a variety of actions that had the effect of augmenting its capital in the face of continuing operating losses and stress in its loan and securities portfolios. Collectively these actions totaled $1.06 billion and included:

Issuance of $464.1 million of common equity under two common equity distribution programs;

Common equity increased $124.9 million from preferred stock redemptions and conversions into common equity;

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Preferred equity decreased $108.6 million due to the impact of the preferred stock redemptions, conversions into common stock, and subordinated debt conversions into preferred stock;

Modification of $1.2 billion of subordinated debt to add options allowing the holder to convert debt into either of two outstanding issues of preferred stock which resulted in a $478.5 million increase in common equity net of increased debt discount amortization expense;

Acquisitions of three failed banks with FDIC assistance at bargain purchase prices, which added $99.2 million to common equity; and

In July 2009, the Company reduced the dividend on its common stock to $0.01 per share per quarter in order to preserve capital. These actions are summarized in Schedule 3. In deciding what capital actions to take, Company management has attempted to raise amounts prudently needed while causing as little dilution as possible to the ownership interests of existing shareholders, under very difficult market conditions. The results of this approach are shown in Chart 11, and indicate that during 2009 the Company added 36.8% to its core capital base while adding only 30.0% to common shares outstanding.

Schedule 3

TIER 1 REGULATORY CAPITAL ACTIONS

	Increase to		
	Statement of income		Tier 1
(In millions)	**Pretax**	**After-tax**	**equity**
Common equity issuances	$		464.1
Common equity from preferred stock conversions and redemptions	84.6	84.6	124.9
Preferred equity reduction from conversions and redemptions			(108.6)
Gain on subordinated debt modification, net of increased discount amortization of $62.4 million	446.5	275.7	275.7
Beneficial conversion feature recorded in common stock			202.8
Acquisition related gains	169.2	99.2	99.2
	$	459.5	1,058.1

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The Company expects that it (and the banking industry as a whole) may be required by market forces and/or regulation to operate with higher capital ratios than in the recent past. In addition, the CPP capital preferred dividend is scheduled to increase from 5% to 9% in 2013, making it more expensive as a source of capital if not redeemed at or prior to that time. Thus, in addition to maintaining higher levels of capital, the Company s capital structure may continue to be subject to greater variation over the next few years than has been true historically, due to the still highly uncertain economic and regulatory environments. Therefore, in 2010, continuing to preserve and augment capital in response to these uncertainties and in preparation for the eventual repayment of TARP CPP preferred stock are likely to take precedence over making capital investments to expand the business, or returning capital to shareholders in the form of higher dividends or share repurchases.

Challenges to Operations

As we enter 2010, we see a number of significant challenges confronting the industry and our Company.

Global capital and funding markets remain under stress; however, domestic credit spreads from the related financing have narrowed significantly since the height of the downturn, providing an improved operating environment for financial services companies. Nevertheless, continued economic conditions may lead to:

- Continued elevated levels of substandard loans, with the possibility of further material deterioration if the macroeconomic recovery reverses course.

- Further declines in value and potential other than temporary impairment (OTTI) charges on CDO securities we own that are largely collateralized by junior debt and trust preferred debt issued by banks and insurance companies.

Regulatory policy and actions have become increasingly subject to change and difficult to predict, both in general and as they may be applied specifically to the Company. A number of proposals have been offered by the President, the Federal Reserve, members of Congress, and in international regulatory forums. Many of these proposals, if enacted, may have significant and adverse impacts on the Company, the ultimate effects of which are currently difficult to predict.

Capital and funding markets have improved significantly during the latter half of 2009, but still remain somewhat stressed as we enter 2010. The degree to which this improvement is still dependent upon unprecedented actions by the Federal Reserve System to provide direct support to various markets is difficult to quantify; therefore, the potential for additional disruption may exist in the future if and when that support is withdrawn. While the Company by many measures has higher levels of capital and funding than it has had in a very long time, the Company, like most financial institutions, at some point may need to access capital and funding markets to support its operations. The conditions under which the Company can access those markets may remain highly uncertain in 2010. Further, as discussed previously, the Company may be required to repay the preferred stock issued under TARP at a time or in amounts that may be unfavorable.

These challenges and others are more fully discussed under Risk Factors on page 12.

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CRITICAL ACCOUNTING POLICIES AND SIGNIFICANT ESTIMATES

The Notes to Consolidated Financial Statements contain a summary of the Company s significant accounting policies. We believe that an understanding of certain of these policies, along with the related estimates that we are required to make in recording the financial transactions of the Company, is important in order to have a complete picture of the Company s financial condition. In addition, in arriving at these estimates, we are required to make complex and subjective judgments, many of which include a high degree of uncertainty. The following is a discussion of these critical accounting policies and significant estimates related to these policies. We have discussed each of these accounting policies and the related estimates with the Audit Committee of the Board of Directors.

We have included sensitivity schedules and other examples to demonstrate the impact of the changes in estimates made for various financial transactions. The sensitivities in these schedules and examples are hypothetical and should be viewed with caution. Changes in estimates are based on variations in assumptions and are not subject to simple extrapolation, as the relationship of the change in the assumption to the change in the amount of the estimate may not be linear. In addition, the effect of a variation in one assumption is in reality likely to cause changes in other assumptions, which could potentially magnify or counteract the sensitivities.

Fair Value Accounting

Effective January 1, 2008, the Company adopted ASC 820, *Fair Value Measurements and Disclosures*. ASC 820 defines fair value, establishes a consistent framework for measuring fair value, and enhances disclosures about fair value measurements. Adoption of ASC 820 for the measurement of all nonfinancial assets and nonfinancial liabilities was delayed one year until January 1, 2009. The adoption of ASC 820 did not have a material effect on the Company s consolidated financial statements, but significantly expanded the disclosure requirements for fair value measurements.

ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. To measure fair value, ASC 820 has established a hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs. This hierarchy uses three levels of inputs to measure the fair value of assets and liabilities as follows:

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

Level 2 Observable inputs other than Level 1 including quoted prices for similar assets or liabilities, quoted prices in less active markets, or other observable inputs that can be corroborated by observable market data; also includes derivative contracts whose value is determined using a pricing model with observable market inputs or that can be derived principally from or corroborated by observable market data. This category generally includes certain U.S. Government and agency securities; certain CDO securities; corporate debt securities; certain private equity investments; certain securities sold, not yet purchased; and certain derivatives. See Accounting for Derivatives on page 47 for further details on fair value accounting for derivatives.

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

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

At December 31, 2009, approximately 7.8% of total assets, or $4.0 billion, consisted of financial instruments recorded at fair value on a recurring basis. Of this amount, $2.2 billion of these financial instruments used valuation methodologies involving market-based or market-derived information, collectively Level 1 and 2 measurements, to measure fair value. Approximately $1.8 billion of these financial assets are measured using model-based techniques or nonbinding single dealer quotes, both of which constitute Level 3 measurements. At December 31, 2009, approximately 0.3% of total liabilities, or $119 million, consisted of financial instruments recorded at fair value on a recurring basis. At December 31, 2009, approximately 0.8% of total assets, or $412 million of financial assets were valued on a nonrecurring basis.

Estimates of Fair Value

The Company measures or monitors many of its assets and liabilities on a fair value basis. Fair value is used on a recurring basis for certain assets and liabilities in which fair value is the primary basis of accounting. Examples of these include derivative instruments, available-for-sale and trading securities, and private equity investments. Additionally, fair value is used on a nonrecurring basis to evaluate assets or liabilities for impairment or for disclosure purposes in accordance with ASC 825. Examples of these nonrecurring uses of fair value include loans held for sale accounted for at the lower of cost or fair value, impaired loans, long-lived assets, goodwill, and core deposit and other intangible assets. Depending on the nature of the asset or liability, the Company uses various valuation techniques and assumptions when estimating the instrument s fair value. These valuation techniques and assumptions are in accordance with ASC 820.

Fair value is the price that could be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. If observable market prices are not available, then fair value is estimated using modeling techniques such as discounted cash flow analyses. These modeling techniques utilize assumptions that market participants would use in pricing the asset or the liability, including assumptions about the risk inherent in a particular valuation technique, the effect of a restriction on the sale or use of an asset, and the risk of nonperformance. To increase consistency and comparability in fair value measures, ASC 820 established a three-level hierarchy to prioritize the inputs used in valuation techniques between observable inputs that reflect quoted prices in active markets, inputs other than quoted prices with observable market data, and unobservable data such as the Company s own data or single dealer nonbinding pricing quotes.

Fair values for some investment securities, trading assets, and most derivative financial instruments are based on independent, third party market prices, or if identical market prices are not available they are based on the market prices of similar instruments if available. If market prices of similar instruments are not available, instruments are valued based on the best available data, some of which may not be readily observable in the market. The fair values of loans held for sale are typically based on quotes from market participants. The fair values of OREO and other repossessed assets are typically determined based on appraisals by third parties, less estimated selling costs.

Estimates of fair value are also required when performing an impairment analysis of long-lived assets, goodwill, and core deposit and other intangible assets. The Company reviews goodwill for impairment at the reporting unit level on an annual basis, or more often if events or circumstances indicate the carrying value may not be recoverable. The goodwill impairment test compares the fair value of the reporting unit with its carrying value. If the carrying amount of the Company s investment in the reporting unit exceeds its fair value, an additional analysis must be performed to determine the amount, if any, by which goodwill is impaired. In

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determining the fair value of the Company s reporting units, management uses discounted cash flow models which require assumptions about growth rates of the reporting units and the cost of equity. To the extent that adequate data is available, other valuation techniques relying on market data may be incorporated into the estimate of a reporting unit s fair value. The selection and weighting of the various fair value techniques may result in a higher or lower fair value. Judgment is applied in determining the amount that is most representative of fair value. For long-lived assets and intangible assets subject to amortization, an impairment loss is recognized if the carrying amount of the asset is not likely to be recoverable and exceeds its fair value. In determining the fair value, management uses models which require assumptions about growth rates, the life of the asset, and/or the fair value of the assets. The Company tests long-lived assets for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable.

Valuation of Asset-Backed Securities (ABS)

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

Schedule 4

ABS FAIR VALUES

	Held-to-maturity			**Available-for-sale**		
(In millions)	**Par**	**Amortized cost**	**Estimated fair value**	**Par**	**Amortized cost**	**Estimated fair value**
Trust preferred securities bank and insurance:						
Internal model	$ 265	265	208	2,369	1,985	1,340
Third party models				31	21	7
Dealer quotes				15	15	13
Other Level 2				3	2	1
	265	265	208	2,418	2,023	1,361
Trust preferred securities real estate investment trusts:						
Third party models				95	56	24
				95	56	24
Other:						
Internal model				2		
Third party models	37	30	16	101	44	22
Dealer quotes				16	16	13
CDS spreads				54	53	27
Other Level 2				16	14	15
	37	30	16	189	127	77
Municipal Securities:						
Third party models				54	48	48
CDS spreads				16	15	16
				70	63	64
Auction Rate Securities:						
Third party models				173	160	160

				173	160	160
Total	$ 302	295	224	2,945	2,429	1,686

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Internal Model

In the third quarter of 2009, the Company changed the way it forecasts the default assumption for private banks and nonperforming public banks within its collateralized debt obligation (CDO) pools. Beginning in the third quarter of 2008, the Company used a combination of a licensed third party model for public companies in conjunction with third party ratings for private companies to forecast defaults of bank and insurance collateral. The third party model estimated probabilities of default (PDs) using a proprietary reduced form model derived using logistic regression on a historical default database. Because the licensed third party model required equity valuation related inputs (along with other macro and issuer specific inputs) to produce default probabilities, the model did not produce results for private firms and some very small public firms without readily available market data. The Company utilized the third party model to calculate the average of the default probabilities by rating level of the public collateral, and this rating level default probability was applied to each private issuer within the CDO pools. When combined with pool specific collateral lists these PDs created estimates of pool-level expected loss rates for each CDO.

This ratings bucketing approach for private issuers was replaced in the quarter ending September 30, 2009 by a statistical regression using financial ratios which the Company has identified as predictive of future bank failures for the private banks in the CDO pools. As this credit cycle has progressed, the Company has an increasingly significant data set of failed banks. The regression draws upon the quarterly Call Report ratios of failed banks for the four quarters prior to failure to determine one year default probabilities. A five year default probability is calculated by assigning a mathematical relationship to the one year and five year default probabilities from the licensed third party model. The updated model has a significantly stronger correlation with actual bank failures than in the prior method. The Company found this ratio-based approach produced higher default probabilities than the previous approach for private banks that subsequently failed during the third and fourth quarters of 2009. Although both methods produced a comparable expected number of failures, the ratio based approach exhibited better specificity in regard to predicting which banks would fail.

The inputs and regression formula were updated in the quarter ending December 31, 2009 and will be updated quarterly to include the most recent available financial ratios and to utilize those financial ratios which have best predicted bank failures during this credit cycle.

The Company has seen nearly all of the failures within its predominantly bank CDO pools come from those banks that have previously deferred the payment of interest on their trust preferred securities. The terms of the securities within the CDO pools generally allow for deferral of current interest for five years without causing default. The Company found that for the public deferring banks, the ratio-based approach generally resulted in higher PDs than did the licensed third party model for banks that subsequently failed. In the interest of better projecting public bank failures, the Company utilized the higher of PDs from its ratio-based approach and those from the licensed third party model for public deferring banks effective for the quarters ending September 30, 2009 and December 31, 2009.

In the fourth quarter, the Company increased the ratio-based PDs by a calibration adjustment of 7.8%. The calibration adjustment was calculated as the average difference between the actual 100% default probability for all banks failing in the third or fourth quarter of 2009 (both CDO and non-CDO banks) and the PD generated for each deferring bank using the ratio based approach. Ratio based PDs for deferring banks were adjusted upward by the 7.8% from the level produced by the fourth quarter regression model. The resulting effective PDs ranged from 100% for the worst deferring banks to 8.2% for the best deferring bank. The weighted average assumed loss rate on deferring collateral was 44%. The change from the 35% assumed minimum loss rate used in the third quarter of 2009 was supported by the preponderance of all failures coming from higher default probability banks and the addition, in the fourth quarter of 2009, of the calibration adjustment. These assumption changes were not material with respect to their effect on either OTTI credit loss or fair value.

The Company s experience with deferring collateral was that 47% of the CDO collateral that elected to defer at or after January 2007 had subsequently defaulted by December 31, 2009, and 53% remained within the allowable deferrable period as of that date.

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The model for projecting expected cash flows for CDO tranches after identifying collateral level probabilities of default remains the same as disclosed in previous filings. Estimates of expected loss for the individual pieces of underlying collateral are aggregated to arrive at a pool-level expected loss rate for each CDO. These loss assumptions are applied to the CDO s structure to generate cash flow projections for each tranche of the CDO. The presence OTTI is identified and the amount of the credit component of OTTI is calculated by discounting the resulting loss-adjusted cash flows at each tranche s coupon rate and comparing that value to the Company s amortized cost of the tranche. The fair value of each tranche is determined by discounting its resultant loss-adjusted cash flows with appropriate market-based discount rates.

Beginning in the quarter ending March 31, 2009, the Company began utilizing a more granular approach to reflect the specific risks embedded in every deal and to reference trading levels of publicly traded single-issuer trust preferred securities as a data point. This change in inputs/assumptions was driven by market developments and was not due to a change in accounting rules during the first quarter of 2009.

The discount rate assumption used for valuation purposes for each CDO tranche was derived from trading yields on publicly traded trust preferred securities and projected probabilities of default on the underlying issuers. Beginning in the quarter ending September 30, 2009, the data set included a publicly traded trust preferred security which was in deferral with regard to the payment of current interest. The discount margins on the traded securities, including the deferring security, were regressed to those of the CDOs by comparing expected levels of cash flow impairments between the CDOs and the publicly traded trust preferred securities.

For the quarter ending September 30, 2009, the Company increased the discount rate range to LIBOR +3.75% for the highest quality/most over-collateralized tranches and LIBOR +17.35% for the lowest credit quality tranche in order to reflect market level assumptions for structured finance securities. In addition, in order to acknowledge the greater uncertainty in the cash flows of those junior trust preferred CDO tranches which are PIKing (capitalizing interest), the Company utilized a discount rate of at least LIBOR + 13% using the forward LIBOR curve.

At December 31, 2009, the Company further increased the discount rate range to LIBOR +3.75% for the highest quality/most over collateralized tranches and LIBOR + 24.65% for the lowest credit quality tranche in order to reflect market level assumptions for structured finance securities. In addition, in order to acknowledge the greater uncertainty in the cash flows of those junior trust preferred CDO tranches which are PIKing (capitalizing interest), the Company utilized a discount rate of at least LIBOR + 13% using the forward LIBOR curve. These discount rates are in addition to the credit related discounts applied to the cash flows for each tranche. The range of the projected cumulative credit loss of the CDO pools varies extensively across pools and ranges between 8.6% and 87.8%.

CDO tranches with greater uncertainty in their cash flows should be discounted at higher rates than those that market participants would use for tranches with more stable expected cash flows (e.g., as a result of more subordination and/or better credit quality in the underlying collateral). The high end of the discount margin spectrum was applied to tranches in which minor changes in future default assumptions produced substantial deterioration in tranche cash flows. These discount rates are applied to credit-stressed cash flows, which constitute each tranche s expected cash flows; discount rates are not applied to a hypothetical contractual cash flow.

As shown in Schedule 5, the fair value of bank and insurance CDOs (determined using an internal model) declined $128 million from $1,289 million at December 31, 2008 to $1,161 million at December 31, 2009. In 2009, the Company recorded net credit impairment of $163 million related to these CDO securities that were held in the portfolio at December 31, 2009. The decline in fair value is due primarily to the use of generally higher discount rate assumptions at year-end 2009 versus 2008, and to deterioration of projected cash flows for particular securities during the year. Schedule 5 sets forth the fair values of securities held at December 31, 2009 compared to their fair values at December 31, 2008 by original ratings level. The 2008 portion of the schedule presents securities in their 2009 ratings categories in order to isolate the 2009 changes to this securities portfolio.

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The line titled Other in the schedule includes additions to the portfolio in 2009 from the Company purchasing securities from Lockhart Funding LLC (Lockhart), subtractions from the portfolio in 2009 due to securities sales and principal pay downs and transfers of securities from HTM to AFS during 2009.

Schedule 5

EFFECT OF BANK AND INSURANCE CDO ASSUMPTION CHANGES AND COLLATERAL CHANGES ON FAIR VALUES

	Estimated fair value of Level 3 bank and insurance CDOs, internal model					
	December 31, 2009			December 31, 2008		
(In millions)	**Held-to-maturity**	**Available-for-sale**	**Total**	**Held-to-maturity**	**Available-for-sale**	**Total**
Securities presented using 2009 categories:						
AAA original rating	**$**	**539**	**539**		588	588
A original rating	**208**	**361**	**569**	141	490	631
BBB original rating		**43**	**43**		60	60
NR original rating		**10**	**10**		10	10
Total securities using 2009 categories	**208**	**953**	**1,161**	141	1,148	1,289
Other		**387**	**387**	530	(510)	20
Total	**$ 208**	**1,340**	**1,548**	671	638	1,309

2008 credit assumptions: 0% recovery on deferrals and defaulted collateral. Performing collateral from TARP banks assumed to have a 40% recovery upon default and non-TARP banks assumed to have a 10% recovery upon default.

2008 discount rate assumptions: LIBOR +6.0% weighted average discount margin, with L+2.2% minimum and L+11.6% maximum.

2009 credit assumptions: 0% recovery on defaults. Probability of default on deferrals calculated by the ratio-based probability of default plus a 7.8% calibration adjustment.

2009 discount rate assumptions: LIBOR +6.97% weighted average discount margin, with L+3.75% minimum, PIKing tranches at a minimum of L+13%, and L+24.65% maximum.

The original A-rated securities in the HTM portfolio are primarily from insurance only CDOs which had lower discount rate assumptions at year end 2009 compared to year end 2008.

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

Schedule 6

SENSITIVITY OF BANK AND INSURANCE CDO VALUATIONS TO ADVERSE CHANGES IN CURRENT MODEL KEY VALUATION ASSUMPTIONS

		Bank and insurance CDOs at Level 3			
(Amounts in millions)		**Held-to-maturity**		**Available-for-sale**	
Fair value balance at December 31, 2009		$208		$1,340	
Expected collateral credit losses[1]					
		Incremental	**Cumulative**	**Incremental**	**Cumulative**
Weighted average:					
Loss percentage from currently defaulted or deferring collateral[2]			3.5%		18.3%
Projected loss percentage from currently performing collateral:					
1 year		1.5%	5.0%	1.5%	19.8%
Years 2-5		2.8%	7.8%	2.7%	22.5%
Years 6-30		3.9%	11.7%	3.7%	26.2%
Decrease in fair value due to increase in projected loss percentage from currently performing collateral[3]	25%	$ (0.3)		$ (13.7)	
	50%	(0.7)		(28.4)	
	100%	(3.4)		(64.2)	
Discount rate[4]					
Weighted average spread over LIBOR		448bp		725bp	
Decrease in fair value due to increase in discount rate	+ 100bp	$ (18.0)		$ (110.3)	
	+ 200bp	(33.8)		(207.3)	

[1] *The Company uses an expected credit loss model which specifies cumulative losses at the 1-year, 5-year, and 30-year points from the date of valuation.*

[2] *Weighted average percentage of collateral that is defaulted due to bank failures or deferring payment as allowed under the terms of the security, including a 0% recovery rate on defaulted collateral and a credit specific probability of default on deferring collateral which ranges from 8.2% to 100%.*

[3] *Percentage increase is applied to incremental projected loss percentages from currently performing collateral. For example, the 50% and 100% stress scenarios for AFS securities would result in cumulative 30 year losses of 30.2% =26.2% + 50% (1.5%+2.7%+3.7%) and 34.1%= 26.2% + 100% (1.5%+2.7%+3.7%) respectively.*

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

During the fourth quarter the Company experienced adverse changes in the loss percentage from currently defaulted or deferring collateral and adverse changes in future cumulative projected credit losses. The changes were driven by loss experience due to default in excess of projections, future loss projections from previously performing institutions electing to defer current interest payments and the deterioration of ratios of certain institutions. Given the transfers of securities from held-to-maturity (HTM) to available-for-sale (AFS) during the second quarter of 2009, the remaining HTM portfolio is generally of better credit quality than the portion held in the AFS portfolio. See Investment Securities Portfolio on page 91 for further information regarding the transfers of securities.

Third Party Models

At December 31, 2009, the Company utilized third party valuation services for fifteen securities with an aggregate amortized cost of $152 million in the ABS CDO and trust preferred asset classes. These securities continued to have insufficient observable market data available to directly determine prices. The Company reviewed all relevant data inputs and the appropriateness of key model methodologies and assumptions employed by third party models. These assumptions included, but were not limited to, probability of default, collateral recovery rates, discount rates, over-collateralization levels, and rating transition probability matrices from rating agencies. The model valuations obtained from third party services were evaluated for reasonableness including quarter to quarter changes in assumptions and comparison to other available data which included third party and internal model results and valuations. A range of value estimates is not provided because third party vendors utilized point estimates.

Auction rate and municipal securities with an amortized cost of $208 million were valued using third party matrix referencing ratings as the key variable with regards to valuation.

Dealer Quotes

The $31 million of asset-backed securities at amortized cost are valued using nonbinding and unadjusted dealer quotes. Multiple quotes are not available and the values provided are based on a combination of proprietary dealer quotes. Broker disclosure levels vary and the Company seeks to minimize dependence on this Level 3 source.

CDS Spreads

A total of $53 million at amortized cost of insured securities were valued using the relevant monoline insurers credit derivative levels.

In addition, a total of $15 million of municipal securities with puts back to the underwriter in 2010 were valued using the CDS Spread of the underwriter.

See Note 4 of the Notes to Consolidated Financial Statements and Investment Securities Portfolio on page 91 for further information.

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

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

The Company s OTTI evaluation process conforms to the rules as required by the debt securities subsequent measurement topic in ASC 320. These rules require the Company to take into consideration current market conditions, fair value in relationship to cost, extent and nature of change in fair value, issuer rating changes and trends, volatility of earnings, current analysts evaluations, all available information relevant to the collectability of debt securities, our ability and intent to hold investments until a recovery of amortized cost (which may be maturity), and other factors when evaluating for the existence of OTTI in our securities portfolio.

On January 12, 2009, the FASB amended the debt securities subsequent measurement topic in ASC 320. This amendment is effective for interim and annual reporting periods ending after December 15, 2008, applied prospectively. The amendment eliminated the requirement that a holder s best estimate of cash flows be based upon those that a market participant would use. Instead, the amendment requires that OTTI be recognized as a realized loss through earnings when it is probable there has been an adverse change in the holder s estimated cash flows from the cash flows previously projected to determine amortized cost.

On April 9, 2009, the FASB amended the debt securities subsequent measurement topic in ASC 320. This amendment was effective for interim and annual reporting periods ending after June 15, 2009, applied prospectively with a cumulative effect adjustment for prior OTTI illiquidity losses, with the option to early adopt for the first quarter of 2009. The Company elected to early adopt this amendment during the first quarter of 2009. The Company recorded a $137.5 million after tax cumulative effect adjustment upon adoption of the amendment. Retained earnings were increased and accumulated other comprehensive income decreased. The amendment significantly changes how an entity evaluates whether impairment is other than temporary and how to recognize OTTI for debt securities classified as available-for-sale or held-to-maturity.

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

The Company recognized pretax OTTI losses of $569.9 million during 2009 and $304.0 million during 2008 on investment debt securities. All of the impairment for 2009 related to securities valued using Level 3 inputs. Management determined that $289.4 million of the impairment in 2009 was due to noncredit-related losses on securities not expected to be sold, resulting in a net impairment of $280.5 million. The significant inputs used in the methodology to calculate the credit loss impairment is described under Valuation of Asset-Backed Securities, on page 37 with the exception that while the discount rate used for valuation is a market level discount rate, the discount rate used to determine the presence and amount of credit impairment is the security specific coupon rate. The expected cash flows are credit stressed in that they incorporate the effect of both collateral nonperformance and projected additional nonperformance.

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

Allowance for Credit Losses

Allowance for loan losses

The allowance for loan losses represents our estimate of the losses that are inherent in the loan and lease portfolios. The determination of the appropriate level of the allowance is based on periodic evaluations of the portfolios along with other relevant factors. These evaluations are inherently subjective and require us to make numerous assumptions, estimates and judgments.

In analyzing the adequacy of the allowance for loan losses, we utilize a comprehensive loan grading system to determine the risk potential in the portfolio and also consider the results of independent internal credit reviews. To determine the adequacy of the allowance, the Company s loan and lease portfolio is broken into segments based on loan type. For commercial loans, we use historical loss experience factors by loan segment, adjusted for changes in trends and conditions, to help determine an indicated allowance for each segment based on individual loan grades. These factors are evaluated and updated using migration analysis techniques and other considerations based on the makeup of the specific portfolio segment. The other considerations used in our analysis include volumes and trends of delinquencies, levels of nonaccrual loans, repossessions and bankruptcies, trends in criticized and classified loans, and expected losses on loans secured by real estate. In addition, new credit products and policies, economic conditions, concentrations of credit risk, and the experience and abilities of lending personnel are also taken into consideration.

In addition to the segment evaluations, nonaccrual loans graded substandard or doubtful with an outstanding balance of $500 thousand or more, as well as all loans designated as troubled debt restructurings, are individually evaluated in accordance with ASC 310, *Receivables,* to determine the level of impairment and establish a specific reserve.

The allowance for consumer loans is determined using historically developed loss experience roll rates at which loans migrate from one delinquency level to the next higher level. Using average roll rates for the most recent period, currently six months, and comparing projected losses to actual loss experience, the model estimates the expected losses in dollars for the forecasted period of twelve months. By refreshing the model with updated data, it is able to project losses for a new twelve-month period each month, segmenting the portfolio into twelve consumer loan product groupings and four bankcard product groupings with similar risk profiles. The residential mortgage and home equity portfolios models implicitly take into consideration housing price depreciation (appreciation) and homeowners loss (gain) of equity in the collateral by incorporating current roll rates and loss severity rates. The models make no assumptions about future housing price changes. This methodology is an accepted industry practice, and the Company believes it has a sufficient volume of information to produce reliable projections.

As a final step to the evaluation process, we perform an additional review of the adequacy of the allowance based on the loan portfolio in its entirety. This enables us to mitigate, but not eliminate, the imprecision inherent in loan- and segment-level estimates of expected credit losses. This review of the allowance includes our judgmental consideration of any adjustments necessary for subjective factors such as economic uncertainties and concentration risks.

There are numerous components that enter into the evaluation of the allowance for loan losses. Some are quantitative while others require us to make qualitative judgments. Although we believe that our processes for determining an appropriate level for the allowance adequately address the various components that could potentially result in credit losses, the processes and their elements include features that may be susceptible to significant change. Any unfavorable differences between the actual outcome of credit-related events and our estimates and projections could require an additional provision for credit losses, which would negatively impact the Company s results of operations in future periods. As an example, if a total of $1.5 billion of pass grade loans were to be immediately classified as special mention, substandard and doubtful in the sam proportion as the existing criticized and classified loans to the whole portfolio, the quantitatively determined amount of the allowance for loan losses at December 31, 2009 would increase by approximately $128 million. This sensitivity analysis is hypothetical and has been provided only to indicate the potential impact that changes in the level of the criticized and classified loans may have on the allowance estimation process. We believe that given the procedures we follow in determining the potential losses in the loan portfolio, the various components used in the current estimation processes are appropriate.

We regularly evaluate the appropriateness of our loss estimation methods to reduce differences between estimated and actual losses and update our methodology for determining the allowance for loan losses. We have recently enhanced our internal loan loss database to provide the ability to refine our segmentation by bank, loan segment, and loan grade. During 2009, this enhancement allowed management to calculate loan loss migration factors that are self-correcting in that they are more weighted toward recent loss experience. This enhancement provided management with loss factors applicable to adversely graded credits that reflect more recent loss experience for the portfolio, and which facilitated management s decision to increase the allowance for credit losses during mid-2009 as credit quality was deteriorating at an accelerated pace. These loss factors currently are based on the most recent six months loss rates for consumer loans, and the higher of the most recent six or twelve month loss rates for commercial loans. A preliminary reserve is then calculated that is adequate to cover one year of losses at that loss rate for consumer loans and 1.5 years for commercial loans. The final reserve is then adjusted to incorporate management s judgment regarding several qualitative factors.

Allowance for loan losses for FDIC-supported loans

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

Reserve for unfunded lending commitments

The Company also estimates a reserve for potential losses associated with off-balance sheet commitments and standby letters of credit. We determine the reserve for unfunded lending commitments using a process that is similar to the one we use for commercial loans. Based on historical experience, we have developed experience-based loss factors that we apply to the Company s unfunded lending commitments to estimate the potential for loss arising from those commitments. The reserve is included with other liabilities in the Company s consolidated balance sheet, with any related increases or decreases in the reserve included in noninterest expense in the statement of income.

Accounting for Goodwill

Goodwill arises from business acquisitions and represents the value attributable to the unidentifiable intangible elements in our acquired businesses. Goodwill is initially recorded at fair value and is subsequently evaluated at least annually for impairment in accordance with ASC 350, *Intangibles Goodwill and Other*. The Company performs this annual test as of October 1 of each year. Evaluations are also performed on a more frequent basis if events or circumstances indicate impairment could have taken place. Such events could include, among others, a significant adverse change in the business climate, a significant adverse change in market values of similar businesses, an adverse action by a regulator, an unanticipated change in the competitive environment, and a decision to change the operations or dispose of a reporting unit.

The first step in this evaluation process is to determine if a potential impairment exists in any of the Company s reporting units, and if required from the results of this step, a second step measures the amount of any impairment loss. The computations required by steps 1 and 2 require us to make a number of estimates and assumptions. In completing step 1, we determine the fair value of the reporting unit that is being evaluated. In determining the fair value, we generally calculate value using a combination of up to three separate methods: comparable publicly traded financial service companies in the western and southwestern states (Market Value); comparable acquisitions of financial services companies in the western and southwestern states (Transaction Value); and the discounted present value of management s estimates of future cash or income flows. Critical assumptions that are used as part of these calculations include:

- selection of comparable publicly traded companies, based on location, size, and business composition;
- selection of market comparable acquisition transactions, based on location, size, business composition, and date of the transaction;
- the discount rate applied to future earnings, based on an estimate of the cost of capital;
- the potential future earnings of the reporting unit;
- the relative weight given to the valuations derived by the three methods described; and
- the control premium associated with reporting units.

We use a similar methodology in evaluating impairment in nonbank subsidiaries, but generally assess companies and acquisition transactions at a national level in the analysis.

The Company applies a control premium in the Market Value approach to determine the reporting units equity values. Control premiums represent the ability of a controlling shareholder to benefit from synergies and other intangible assets that arise from control that might cause the fair value of a reporting unit as a whole to exceed its market capitalization. Based on a review of historical recent bank transactions within the Company s geographic footprint, comparing market values 30 days prior to the announced transaction to the deal value, the Company determined that a control premium of 25% was appropriate.

Since estimates are an integral part of the impairment computations, changes in these estimates could have a significant impact on any calculated impairment amount. Factors that may significantly affect the estimates include, among others, competitive forces, customer behaviors and attrition, loan losses, changes in revenue growth trends, cost structures and technology, changes in discount rates, changes in equity market values and merger and acquisition valuations, and changes in industry conditions.

If step 1 indicates a potential impairment of a reporting unit, step 2 requires us to estimate the implied fair value of the goodwill of the reporting unit. This process estimates the fair value of the unit s individual assets and liabilities in the same manner as if a purchase of the reporting unit were taking place. To do this, we must determine the fair value of the assets, liabilities and identifiable intangible assets of the reporting unit based upon the best available information. We estimate the fair market value of all of the tangible assets, identifiable intangible assets and liabilities of the associated reporting units in accordance with the principles of ASC 820. Loans, deposits with maturities, and debt are fair valued using standard software and assumptions used by Zions in its interest rate risk management processes and using other estimates such as credit assumptions to comply with ASC 820. Deposits with no maturities are valued at book value. Larger occupied properties are appraised, while for smaller properties and furniture, fixtures and equipment, it is assumed that depreciated book value approximates fair market value. If the implied fair value of goodwill calculated in step 2 is less than the carrying amount of goodwill for the reporting unit, an impairment is indicated and the carrying value of goodwill is written down to its implied fair value.

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

Upon completion of step 1 of the evaluation process, we concluded that potential impairment primarily existed at the Company s Amegy reporting unit. Step 2 was completed with the assistance of an independent valuation consultant and the Company s internal valuation resources and resulted in $634.0 million of impairment losses in the first quarter of 2009.

During the fourth quarter of 2009, we performed our annual goodwill impairment evaluation for the entire organization, effective October 1, 2009. Step 1 was performed by using the discounted cashflow approach for all reporting units and in cases where similar publicly traded comparables existed, the comparable Market Value approach was also used. In the discounted cash flow approach, we discounted projected cash flows to their present value to derive our estimate of fair value. In instances where the Market Value approach was used, we identified a group of publicly traded banks using primarily size, location and business mix compared to Zions subsidiary banks. We then used valuation multiples, including a control premium, developed from this group to apply to our subsidiary banks. From these purchase prices we developed a set of valuation multiples, which we applied to our subsidiary banks. The Transaction Value approach was not used in this analysis, due to the limited number of nondistressed or nonfailed bank merger transactions that occurred over the past 12 months.

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Upon completion of step 1 of the evaluation process, we concluded that none of our bank affiliates were impaired; however, potential impairment existed at the Welman Holdings, Inc., reporting unit. Step 2 was completed with the Company s internal accounting and valuation resources, determining that all the goodwill associated with Welman Holdings, Inc. was impaired, resulting in $2.2 million of impairment loss. Additionally, we determined that the fair values of the reporting units of Amegy, CB&T, and Zions Bank exceed their carrying values by 7%, 6%, and 23%, respectively.

This evaluation process required us to make estimates and assumptions with regard to the fair value of the Company s reporting units, and actual values may differ significantly from these estimates. Such differences could result in future impairment of goodwill that would, in turn, negatively impact the Company s results of operations and the business segments where the goodwill is recorded. Significant remaining amounts of goodwill at December 31, 2009 were as follows: Amegy $616 million; CB&T $379 million; and Zions Bank $20 million.

At September 30, 2009, the Company s fair value of its reporting units exceeded the market value of the Company s common equity by approximately $2.0 billion. The Company reconciled those values as of September 30, 2009 by attempting to identify items priced into the market equity value but not in the fair value of the Company s reporting units. These reconciling items were based on market expectation of future loan losses and future credit OTTI, and high levels of short interest in the Company s common stock. We believe applying a 25% control premium and the above mentioned factors explains the $2.0 billion difference between book and market equity values.

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

Accounting for Derivatives

Our interest rate risk management strategy involves hedging the repricing characteristics of certain assets and liabilities so as to mitigate adverse effects on the Company s net interest margin and cash flows from changes in interest rates. While we do not participate in speculative derivatives trading, we consider it prudent to use certain derivative instruments to add stability to the Company s interest income and expense, to modify the duration of specific assets and liabilities, and to manage the Company s exposure to interest rate movements.

Additionally, the Company executes derivative instruments, including interest rate swaps and options, futures contracts, forward currency exchange contracts, and energy commodity swaps, with commercial banking customers to facilitate their respective risk management strategies. Those derivatives are immediately hedged by offsetting derivative contracts, such that the Company minimizes its net risk exposure resulting from such transactions. The Company does not use credit default swaps in its investment or hedging operations.

As of December 31, 2009, the recorded amounts of derivative assets, classified in other assets, and derivative liabilities, classified in other liabilities, were $142 million and $86 million, respectively. When quoted market prices are not available, the valuation of derivative instruments is determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves, foreign exchange rates, commodity prices, and implied volatilities. The estimates of fair value are made by an independent third party using a standardized methodology that nets the discounted expected future cash receipts and cash payments (based on observable market inputs). These future net cash flows, however, are susceptible to change due primarily to fluctuations in interest rates (most significantly), foreign exchange rates, and commodity prices. As a result, the estimated values of these derivatives will change over time as cash is received and paid and as market conditions change. As these changes take place, they may have a positive or negative impact on our estimated valuations. Based on the nature and limited purposes of the derivatives that the Company employs, fluctuations in interest rates have only had a modest effect on its results of operations. As such, fluctuations are generally expected to be countered by offsetting changes in income, expense and/or values of assets and liabilities. However, the Company retains basis risk due to changes between the prime rate and LIBOR on nonhedge derivative basis swaps.

In addition to making the valuation estimates, we also face the risk that certain derivative instruments that have been designated as hedges and currently meet the strict hedge accounting requirements of ASC 815 may not qualify in the future as highly effective, as well as the risk that hedged transactions in cash flow hedging relationships may no longer be considered probable to occur. Further, new interpretations and guidance related to ASC 815 may be issued in the future, and we cannot predict the possible impact that such guidance may have on our use of derivative instruments going forward.

Although the majority of the Company s hedging relationships have been designated as cash flow hedges, for which hedge effectiveness is assessed and measured using a long haul approach, the Company also had five fair value hedging relationships, which were terminated during the first quarter of 2009, that were designated using the shortcut method. The Company believes that the shortcut method was appropriate for those hedges because we had precisely complied with the documentation requirements and each of the applicable shortcut criteria. During 2009, there was no hedge ineffectiveness required to be reported in earnings on the Company s outstanding cash flow hedging relationships. However, the Company reclassified $104.7 million from other comprehensive income to earnings during 2009, as the hedged forecasted transactions related to certain terminated cash flow hedging relationships became probable not to occur. This income is included in fair value and nonhedge derivative income (loss).

Futures contracts are primarily highly liquid exchange-traded federal funds futures contracts that are traded to manage interest rate risk on certain CDO securities. These identified mixed straddle trades are executed to convert three- and six-month fixed cash flows into cash flows that vary with daily fluctuations in interest rates. Because of daily settlement of valuation changes, there is no recording of fair values in the financial statements.

Derivative contracts can be exchange-traded or over-the-counter (OTC). The Company s exchange-traded derivatives consist of forward currency exchange contracts, which are part of the Company s services provided to commercial customers. Exchange-traded derivatives are classified as Level 1 in the fair value hierarchy, as the values of these derivatives are obtained from quoted prices in active markets for identical contracts.

The Company s OTC derivatives consist of interest rate swaps and options, as well as energy commodity derivatives for customers. The Company has classified its OTC derivatives in Level 2 of the fair value hierarchy, as the significant inputs to the overall valuations are based on market-observable data or information derived from or corroborated by market-observable data, including market-based inputs to models, model calibration to market-clearing transactions, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency. Where models are used, the selection of a particular model to value an OTC derivative depends upon the contractual terms of, and specific risks inherent in, the instrument as well as the availability of pricing information in the market. The Company generally uses similar models to value similar instruments. Valuation models require a variety of inputs, including contractual terms, market prices, yield curves, credit curves, measures of volatility, and correlations of such inputs. For OTC derivatives that trade in liquid markets, such as generic forwards, swaps and options, model inputs can generally be verified and model selection does not involve significant management judgment.

To comply with the provisions of ASC 820, the Company incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty s nonperformance risk in the fair value measurements of its OTC derivatives. The credit valuation adjustments are calculated by determining the total expected exposure of the derivatives (which incorporates both the current and potential future exposure) and then applying each counterparty s credit spread to the applicable exposure. For derivatives with two-way exposure, such as interest rate swaps, the counterparty s credit spread is applied to the Company s exposure to the counterparty, and the Company s own credit spread is applied to the counterparty s exposure to the Company, and the net credit valuation adjustment is reflected in the Company s derivative valuations. The total expected exposure of a derivative is derived using market-observable inputs, such as yield curves and volatilities. For the Company s own credit spread and for counterparties having publicly available credit information, the credit spreads over LIBOR used in the calculations represent implied credit default swap spreads obtained from a third party credit data provider. For counterparties without publicly available credit information, which are primarily commercial banking customers, the credit spreads over LIBOR used in the calculations are estimated by the Company based on current market conditions, including consideration of current borrowing spreads for similar customers and transactions, review of existing collateralization or other credit enhancements, and changes in credit sector and entity-specific credit information. In adjusting the fair value of its derivative contracts for the effect of nonperformance risk, the Company has considered the impact of netting and any applicable credit enhancements, such as collateral postings, current threshold amounts, mutual puts, and guarantees. Additionally, the Company actively monitors counterparty credit ratings for significant changes.

As of December 31, 2009, the net credit valuation adjustments reduced the settlement values of the Company s derivative assets and liabilities by $2.0 million and $1.6 million, respectively. During 2009, the Company recognized a gain of $3.0 million related to credit valuation adjustments on nonhedge derivative instruments, which is included in noninterest income. Various factors impact changes in the credit valuation adjustments over time, including changes in the credit spreads of the parties to the contracts, as well as changes in market rates and volatilities, which affect the total expected exposure of the derivative instruments.

Although the Company has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparties. However, as of December 31, 2009, the Company has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments are not significant to the overall valuation of its derivatives. As a result, the Company has classified its OTC derivative valuations in Level 2 of the fair value hierarchy.

When appropriate, valuations are also adjusted for various factors such as liquidity and bid/offer spreads, which factors were deemed immaterial by the Company as of December 31, 2009.

Share-Based Compensation

The Company used the Black-Scholes option-pricing model to estimate the fair value of stock options granted in 2009. Also, the Black-Scholes option-pricing model was used to estimate the value of stock options for all stock option grants prior to 2007 and off-cycle stock option grants during 2007 and 2008. The assumptions used to apply this model include a weighted average risk-free interest rate, a weighted average expected life, an expected dividend yield, and an expected volatility. The 2009 stock options grant assumptions for significant grants were 2.24% for the weighted average risk-free interest rate, 4.5 years for the weighted average expected life, 1.0% for the expected dividend yield, and 33.0% for the expected volatility. Use of these assumptions is subjective and requires management judgment to determine the assumptions used in the model as described in Note 17. During 2009, the Company granted 714,085 stock options and 698,311 shares of restricted stock.

From April 24-25, 2008, the Company successfully conducted an auction of its Employee Stock Option Appreciation Rights Securities (ESOARS). As allowed by ASC 718, the Company used the results of that auction to value its primary grant of employee stock options issued on April 24, 2008. The value established was $5.73 per option, which the Company estimates is approximately 24% below its Black-Scholes model valuation on that date. The Company recorded the related estimated future settlement obligation of ESOARS as a liability in the balance sheet. The 2008 stock option expense for these grants was $2.2 million. If the ESOARS value was

10% lower, the expense would be $2.0 million and if the ESOARS value was 10% higher, the expense would be $2.4 million. Additionally, the primary grant of options in 2007 was valued with the results of an ESOARS auction in 2007. The number of stock options granted at the primary grant dates on May 4, 2007 and April 24, 2008 were 963,680 and 1,542,238, respectively, or 91.4% and 60.8% of the total stock options granted in 2007 and 2008, respectively.

On October 22, 2007, the Company announced it had received notification from the SEC that its ESOARS are sufficiently designed as a market-based method for valuing employee stock options under ASC 718. The SEC staff did not object to the Company s view that the market-clearing price of ESOARS in the Company s auction was a reasonable estimate of the fair value of the underlying employee stock options.

The accounting for stock option compensation under ASC 718 decreased 2009 income before income taxes by $9.6 million and net earnings applicable to common shareholders by $6.8 million, or $0.05 per diluted share, as compared to $13.1 million, $9.2 million, and $0.08, respectively, in 2008. See Note 17 of the Notes to Consolidated Financial Statements for additional information on stock options and restricted stock.

Income Taxes

The Company is subject to the income tax laws of the United States, its states and other jurisdictions where it conducts business. These laws are complex and subject to different interpretations by the taxpayer and the various taxing authorities. In determining the provision for income taxes, management must make judgments and estimates about the application of these laws and related regulations. In the process of preparing the Company s tax returns, management attempts to make reasonable interpretations of the tax laws. These interpretations are subject to challenge by the tax authorities upon audit or to re-interpretation based on management s ongoing assessment of facts and evolving case law.

The Company had net deferred tax assets (DTAs) of $498 million at December 31, 2009, compared to $479 million at December 31, 2008. The most significant portions of the deductible temporary differences relate to (1) the allowance for loan losses and (2) fair value adjustments or impairment write-downs related to securities. No valuation allowance has been recorded as of December 31, 2009 related to DTAs except for a full valuation reserve related to certain acquired net operating losses from an immaterial nonbank subsidiary. In assessing the need for a valuation allowance, both the positive and negative evidence about the realization of DTAs were evaluated. The ultimate realization of DTAs is based on the Company s ability to carryback net operating losses to prior tax periods, tax planning strategies that are prudent and feasible, the reversal of deductible temporary differences that can be offset by taxable temporary differences and future taxable income.

The Company has available carryback potential to offset federal tax of approximately $107 million and $340 million in the 2008 and 2007 tax years, respectively. During 2009, the Company does anticipate a net operating loss for tax purposes that will largely offset the taxable income for the 2007 tax year. In the fourth quarter of 2009, the Company entered into certain Identified Mixed Straddle transactions for the management of interest rate risk on certain of its investment assets. These transactions not only increased the 2009 net operating loss, but also decreased the DTAs that existed at December 31, 2009 by approximately $150 million.

Tax planning strategies represent a source of positive evidence that must be considered when assessing the need for a valuation allowance. Tax planning strategies must be prudent and feasible (and within the control of the company), something that a company might not ordinarily implement, but would implement to prevent an operating loss or tax credit carryforward from expiring unused, and would result in the realization of DTAs. The Company has evaluated a number of tax planning strategies that, if implemented, could result in the realization of a majority of the net DTA balance that exists at December 31, 2009. These strategies mainly involve the sale of highly appreciated assets (e.g., certain fixed assets, publicly-traded securities and insurance policies). Management would not expect that the execution of any of the actions would involve a significant amount of expense.

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The Company has taxable temporary differences, or deferred tax liabilities (DTLs) that will reverse and offset DTAs in the periods prior to the expiration of any benefits. Based on our analysis and experience, the general reversal pattern of DTLs against DTAs would be somewhat similar in character and timing. Because of this generally consistent reversal pattern, we believe it is appropriate to reduce our gross DTAs by our DTLs.

The Company has a strong history of positive earnings and has generated significant levels of net income in 42 out of the previous 45 years. While the recent economic downturn has been severe, the Company has consistently maintained strong levels of pretax, precredit-cost income. The Company is well positioned in the highest growth areas in the country and is fundamentally strong in its capital, liquidity, business practices, and has actually grown its customer base during the current economic downturn. The Company has a long history of profitability and is expected to be profitable again in the near future. The Company is relying on future taxable income to realize a small amount of its DTA and expects to generate this income through 2011.

After evaluating all of the factors previously summarized and considering the weight of the positive evidence compared to the negative evidence, management has concluded it is more likely than not that the Company will realize the existing DTAs and that an additional valuation allowance is not needed.

On a quarterly basis, management assesses the reasonableness of its effective tax rate based upon its current best estimate of net income and the applicable taxes expected for the full year. Deferred tax assets and liabilities are also reassessed on a regular basis. Reserves for contingent tax liabilities are reviewed quarterly for adequacy based upon developments in tax law and the status of examinations or audits. The Company has tax reserves at December 31, 2009 of approximately $6.2 million, net of federal and/or state benefits, for uncertain tax positions primarily for various state tax contingencies in several jurisdictions.

PENDING ADOPTION OF ACCOUNTING PRONOUNCEMENTS

On June 12, 2009, the FASB issued Accounting Standards Update (ASU) No. 2009-16 incorporated in ASC 860, *Transfers and Servicing*, to address transfer and servicing accounting practices that have developed and concerns of financial statement users that many of the financial assets that have been derecognized should continue to be reported in the financial statements of transferors. Additionally, because of significant events in the credit markets, financial statement users have expressed concerns about the transparency of disclosures regarding the nature and extent of a transferor continuing involvement with transferred financial assets. The objective of ASU 2009-16 is to improve the comparability, relevance and transparency of the information that a reporting entity provides in its financial reports about a transfer of financial assets; the effects of a transfer on its financial position, financial performance and cash flows; and a transferor s continuing involvement in transferred financial assets. To meet those objectives, ASU 2009-16 clarifies several key principles of the derecognition criteria.

Based on the new conditions for reporting a transfer of a portion of a financial asset, many transfers that have occurred in which the transferor transfers a senior interest and retains a subordinated interest in the contractual cash flows of a specified asset will not qualify for sale accounting in the future. Also, future transactions that involve participations, transfers of undivided interests, and syndications will require additional accounting analysis to determine if the transaction qualifies for transfer accounting. ASU 2009-16 is effective for enterprises in fiscal years beginning after November 15, 2009. The Company will adopt the ASU as of January 1, 2010 as required, and does not expect the adoption of this guidance to be significant to the Company s financial statements.

On June 12, 2009, the FASB issued ASU 2009-17, which amends certain of the key provisions of ASC 810, *Consolidation*. ASU 2009-17 responds to certain concerns about the application of provisions of ASC 810, such as the complexity involved with determining the primary beneficiary, and concern over the lack of transparency of enterprises involvement with off balance sheet structures. ASU 2009-17 eliminates the qualifying special-purpose entity scope exceptions and revises guidance for determining whether equity lacks the characteristics of a controlling financial interest. The ASU also revises guidance on whether decision maker/service provider fees are variable interests, indicates that only substantive terms, transactions, and arrangements should be considered, and provides new criteria for determining the primary beneficiary of a variable interest entity. Finally, the ASU requires additional interim and annual disclosures and subjects more entities to consolidation assessments and reassessments. ASU 2009-17 is effective for enterprises in fiscal years beginning after November 15, 2009. The Company will adopt the ASU as of January 1, 2010 as required, and does not expect the adoption of this guidance to be significant to the Company s financial statements.

RESULTS OF OPERATIONS

Net Interest Income, Margin and Interest Rate Spreads

Net interest income is the difference between interest earned on interest-bearing assets and interest incurred on interest-bearing liabilities. Taxable-equivalent net interest income is the largest component of Zions revenue. For the year 2009, it was 70.5% of our taxable-equivalent revenues, compared to 91.3% in 2008 and 82.2% in 2007. The decreased percentage for 2009 as compared to 2008 was primarily due to the 2009 gain on subordinated debt modification of $508.9 million and acquisition related gains of $169.2 million which increased total taxable-equivalent revenues. The increased percentage for 2008 over 2007 was mainly due to the net impairment and valuation losses on securities which reduced total taxable-equivalent revenues by $317.1 million in 2008 and $158.2 million in 2007. On a taxable-equivalent basis, net interest income for 2009 was down $74.5 million or 3.7% from 2008, which was up $87.3 million or 4.6% from 2007. The decrease in taxable-equivalent net interest income for 2009 was mainly due to the impact of increased nonaccrual loans, securities on nonaccrual status and higher average money market balances earning lower interest rates. The increase in taxable-equivalent net interest income for 2008 was mainly due to increased interest-earning assets driven by loan growth and partially offset by declines of 25 basis points in the net interest margin for 2008. The incremental tax rate used for calculating all taxable-equivalent adjustments was 35% for all years discussed and presented.

By its nature, net interest income is especially vulnerable to changes in the mix and amounts of interest-earning assets and interest-bearing liabilities. In addition, changes in the interest rates and yields associated with these assets and liabilities significantly impact net interest income. See Interest Rate and Market Risk Management on page 116 for a complete discussion of how we manage the portfolios of interest-earning assets and interest-bearing liabilities and associated risk.

A gauge that we use to measure the Company s success in managing its net interest income is the level and stability of the net interest margin. The net interest margin was 3.94% in 2009 compared with 4.18% in 2008 and 4.43% in 2007. For the fourth quarter of 2009, the Company s net interest margin was 3.81%, which was reduced by 28 basis points due to the impact of the subordinated debt discount amortization. In addition, the net interest margin continued to be under pressure due to the level of nonaccrual assets and interest reversals as loans moved into nonaccrual status.

The decreased net interest margin for 2009 compared to 2008 resulted from increased nonaccrual loans and securities; the impact of the discount amortization on the modified subordinated debt, including the effect of the conversion of subordinated debt into Series C preferred stock; and higher money market investment balances earning lower rates. This was offset in part by a lower cost mix of deposit funding, lower rates paid on interest-bearing deposits, and larger incremental spreads on new loan generation. Average loans and leases increased $0.7 billion due to the acquisition of FDIC-supported loans, and average money market investments increased $0.5 billion due to strong growth in certain deposit categories, which the Company chose not to invest in longer-duration securities. Average interest-bearing deposits increased $3.4 billion from 2008, with the increase being driven primarily by money market and savings deposits. Average borrowed funds decreased $5.3 billion compared to 2008, primarily due to decreased borrowing from the Federal Home Loan Bank (FHLB) and the Federal Reserve. Average noninterest-bearing deposits increased $1.9 billion compared to 2008 and were 25.8%

of total average deposits for 2009, compared to 24.3% for 2008. The net interest margin for 2009 was unfavorably impacted by 5 basis points for the discount amortization on the modified subordinated debt and an additional 7 basis points from the impact of accelerated debt discount amortization resulting from the conversion of subordinated debt into Series C preferred stock.

The spread on average interest-bearing funds for 2009 was 3.52%, which decreased from 3.68% for 2008. The spread on average interest-bearing funds for 2009 was adversely impacted by the same factors that reduced the net interest margin.

The decreased net interest margin for 2008 compared to 2007 resulted from increased nonperforming assets reducing average asset yields, loan yields dropping more than deposit rates, a decline in noninterest-bearing demand deposits, competitive pricing pressures, and purchases of low yielding Lockhart commercial paper. Average loans and leases increased $4.2 billion and average money market investments increased $1.1 billion due to the impact of the capital investment from the U.S. Treasury and purchases of commercial paper from Lockhart. Average interest-bearing deposits increased $2.0 billion from 2007, with the increase being driven primarily by higher cost Internet money market, brokered and foreign deposits. Average borrowed funds increased $3.0 billion in 2008 compared to 2007, primarily due to increased borrowing from the FHLB and the Federal Reserve. Average noninterest-bearing deposits declined $257 million compared to 2007 and were 24.3% of total average deposits for 2008, compared to 26.2% for 2007.

The net interest margin will continue to be adversely affected in future quarters due to the impact of nonperforming assets and amortization of debt discounts related to the debt modification transactions. Also, the net interest margin was previously favorably impacted by accreted swap gains on terminated swaps that reduced interest expense on long-term subordinated debt. The debt modification transaction during 2009 reduced the unrecognized swaps gains. The debt modification transaction also resulted in a discount on the modified convertible subordinated debt, which as of December 31, 2009 was approximately $616 million. This discount will be amortized as interest expense over the remaining life of the debt using an interest method. If in future periods debt holders exercise their option to convert debt to preferred stock, the amortization of the discount will be accelerated at the time of conversion.

The Company expects to continue its efforts over the long run to maintain a slightly asset-sensitive position with regard to interest rate risk. However, because of the current low interest rate environment the Company is allowing the balance sheet to become more asset-sensitive than has historically been the case, by (1) reducing our use of interest rate swaps against our floating rate loans; (2) terminating receive fixed / pay variable swaps on the Company s subordinated debt; and (3) using certain straddle transactions on the CDO portfolio to manage interest rate risk. As of December 31, 2009, the Company had $0.9 billion notional amount of interest rate swaps designated as cash flow hedges, down from $2.4 billion one year ago. Such swaps are used to protect net interest income from declining in a falling rate environment by countering the effect of lost revenue on loans. With interest rates at historically low levels, there is a reduced need to protect against falling interest rates. Our estimate of the Company s actual rate risk position is highly dependent upon changes in both short-term and long-term interest rates, modeling assumptions, and the actions of competitors and customers in response to those changes. For further details on interest rate risk see Interest Rate Risk on page 117.

Schedule 7 summarizes the average balances, the amount of interest earned or incurred and the applicable yields for interest-earning assets and the costs of interest-bearing liabilities that generate taxable-equivalent net interest income.

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Schedule 7

DISTRIBUTION OF ASSETS, LIABILITIES, AND SHAREHOLDERS EQUITY

AVERAGE BALANCE SHEETS, YIELDS AND RATES

(Amounts in millions)	2009			2008		
	Average balance	Amount of interest[1]	Average rate	Average balance	Amount of interest[1]	Average rate
ASSETS						
Money market investments	$ 2,380	7.9	0.33%	$ 1,889	47.8	2.53%
Securities:						
Held-to-maturity	1,263	66.9	5.29	1,516	101.3	6.68
Available-for-sale	3,313	104.1	3.14	3,266	162.1	4.97
Trading account	75	2.7	3.65	43	1.9	4.41
Total securities	4,651	173.7	3.73	4,825	265.3	5.50
Loans held for sale	226	11.0	4.88	182	10.1	5.52
Loans:						
Net loans and leases excluding FDIC-supported loans[2]	40,455	2,281.6	5.64	40,795	2,674.4	6.56
FDIC-supported loans	1,058	64.4	6.09			
Total loans and leases	41,513	2,346.0	5.65	40,795	2,674.4	6.56
Total interest-earning assets	48,770	2,538.6	5.21	47,691	2,997.6	6.29
Cash and due from banks	1,245			1,380		
Allowance for loan losses	(1,104)			(546)		
Goodwill	1,174			1,937		
Core deposit and other intangibles	125			137		
Other assets	3,838			3,163		
Total assets	$ 54,048			$ 53,762		
LIABILITIES						
Interest-bearing deposits:						
Savings and NOW	$ 5,035	21.6	0.43	$ 4,446	35.6	0.80
Money market	17,513	216.4	1.24	13,739	335.0	2.44
Time under $100,000	2,908	69.5	2.39	2,695	96.2	3.57
Time $100,000 and over	4,327	98.5	2.28	4,382	161.9	3.69
Foreign	2,011	18.7	0.93	3,166	84.2	2.66
Total interest-bearing deposits	31,794	424.7	1.34	28,428	712.9	2.51
Borrowed funds:						
Securities sold, not yet purchased	41	2.2	5.22	33	1.5	4.82
Federal funds purchased and security repurchase agreements	1,923	5.7	0.30	2,733	53.3	1.95
Commercial paper	2		1.38	110	4.2	3.84
FHLB advances and other borrowings:						
One year or less	303	6.8	2.25	4,589	119.8	2.61
Over one year	50	2.7	5.48	128	7.4	5.73
Long-term debt	2,388	175.7	7.36	2,449	103.1	4.21
Total borrowed funds	4,707	193.1	4.10	10,042	289.3	2.88

Total interest-bearing liabilities	**36,501**	**617.8**	**1.69**	38,470	1,002.2	2.61
Noninterest-bearing deposits	**11,053**			9,145		
Other liabilities	**558**			578		
Total liabilities	**48,112**			48,193		
Shareholders equity:						
Preferred equity	**1,558**			432		
Common equity	**4,354**			5,108		
Controlling interest shareholders equity	**5,912**			5,540		
Noncontrolling interests	**24**			29		
Total shareholders equity	**5,936**			5,569		
Total liabilities and shareholders equity	**$ 54,048**			$ 53,762		
Spread on average interest-bearing funds			**3.52%**			3.68%
Taxable-equivalent net interest income and net yield on interest-earning assets		**$ 1,920.8**	**3.94%**		$ 1,995.4	4.18%

[1] *Taxable-equivalent rates used where applicable.*
[2] *Net of unearned income and fees, net of related costs. Loans include nonaccrual and restructured loans.*

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	2007			2006			2005	
Average balance	**Amount of interest[1]**	**Average rate**	**Average balance**	**Amount of interest[1]**	**Average rate**	**Average balance**	**Amount of interest[1]**	**Average rate**
$ 834	43.7	5.24%	$ 479	24.7	5.16%	$ 988	31.7	3.21%
684	47.7	6.97	645	44.1	6.83	639	44.2	6.93
4,661	269.2	5.78	4,992	285.5	5.72	4,021	207.7	5.16
61	3.3	5.40	157	7.7	4.91	497	19.9	4.00
5,406	320.2	5.92	5,794	337.3	5.82	5,157	271.8	5.27
233	14.9	6.37	261	16.5	6.30	205	9.8	4.80
36,575	2,852.7	7.80	32,134	2,463.9	7.67	23,804	1,618.0	6.80
36,575	2,852.7	7.80	32,134	2,463.9	7.67	23,804	1,618.0	6.80
43,048	3,231.5	7.51	38,668	2,842.4	7.35	30,154	1,931.3	6.40
1,477			1,476			1,123		
(391)			(349)			(285)		
2,005			1,887			746		
181			181			66		
2,527			2,379			1,799		
$ 48,847			$ 44,242			$ 33,603		
$ 4,443	41.4	0.93	$ 5,129	75.3	1.47	$ 4,347	36.7	0.84
11,962	437.9	3.66	10,721	330.0	3.08	9,131	183.9	2.01
2,529	110.7	4.38	2,065	77.4	3.75	1,523	41.7	2.74
4,779	231.2	4.84	3,272	142.6	4.36	1,713	54.7	3.19
2,710	130.5	4.81	2,065	95.5	4.62	737	23.3	3.16
26,423	951.7	3.60	23,252	720.8	3.10	17,451	340.3	1.95
30	1.4	4.56	66	3.0	4.57	475	17.7	3.72
3,211	148.5	4.62	2,838	124.7	4.39	2,307	63.6	2.76
256	13.8	5.41	220	11.4	5.20	149	5.0	3.36
1,099	55.0	5.00	479	25.3	5.27	204	5.9	2.90
131	7.6	5.77	148	8.6	5.80	228	11.5	5.05
2,365	145.4	6.15	2,491	159.6	6.41	1,786	104.9	5.88
7,092	371.7	5.24	6,242	332.6	5.33	5,149	208.6	4.05
33,515	1,323.4	3.95	29,494	1,053.4	3.57	22,600	548.9	2.43
9,401			9,508			7,417		
647			697			533		
43,563			39,699			30,550		
240			16					

5,008			4,493			3,027		
5,248			4,509			3,027		
36			34			26		
5,284			4,543			3,053		
$48,847			$ 44,242			$ 33,603		
		3.56%			3.78%			3.97%
	$ 1,908.1	4.43%		$ 1,789.0	4.63%		$ 1,382.4	4.58%

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Schedule 8 analyzes the year-to-year changes in net interest income on a fully taxable-equivalent basis for the years indicated. For purposes of calculating the yields in these schedules, the average loan balances also include the principal amounts of nonaccrual and restructured loans. However, interest received on nonaccrual loans is included in income only to the extent that cash payments have been received and not applied to principal reductions. In addition, interest on restructured loans is generally accrued at reduced rates.

Schedule 8

ANALYSIS OF INTEREST CHANGES DUE TO VOLUME AND RATE

	2009 over 2008			2008 over 2007		
	Changes due to		Total	Changes due to		Total
(Amounts in millions)	Volume	Rate[1]	changes	Volume	Rate[1]	changes
INTEREST-EARNING ASSETS						
Money market investments	**$ 1.6**	**(41.5)**	**(39.9)**	26.7	(22.6)	4.1
Securities:						
Held-to-maturity	**(13.3)**	**(21.1)**	**(34.4)**	55.6	(2.0)	53.6
Available-for-sale	**1.6**	**(59.6)**	**(58.0)**	(69.5)	(37.6)	(107.1)
Trading account	**1.1**	**(0.3)**	**0.8**	(0.8)	(0.6)	(1.4)
Total securities	**(10.6)**	**(81.0)**	**(91.6)**	(14.7)	(40.2)	(54.9)
Loans held for sale	**2.1**	**(1.2)**	**0.9**	(2.8)	(2.0)	(4.8)
Loans:						
Net loans and leases excluding FDIC-supported loans[2]	**(19.2)**	**(373.6)**	**(392.8)**	275.1	(453.4)	(178.3)
FDIC-supported loans	**64.4**		**64.4**			
Total loans and leases	**45.2**	**(373.6)**	**(328.4)**	275.1	(453.4)	(178.3)
Total interest-earning assets	**$ 38.3**	**(497.3)**	**(459.0)**	284.3	(518.2)	(233.9)
INTEREST-BEARING LIABILITIES						
Interest-bearing deposits:						
Savings and NOW	**$ 2.4**	**(16.4)**	**(14.0)**		(5.8)	(5.8)
Money market	**46.0**	**(164.6)**	**(118.6)**	43.2	(146.1)	(102.9)
Time under $100,000	**5.1**	**(31.8)**	**(26.7)**	5.9	(20.4)	(14.5)
Time $100,000 and over	**(1.4)**	**(62.0)**	**(63.4)**	(14.4)	(54.9)	(69.3)
Foreign	**(10.7)**	**(54.8)**	**(65.5)**	12.1	(58.4)	(46.3)
Total interest-bearing deposits	**41.4**	**(329.6)**	**(288.2)**	46.8	(285.6)	(238.8)
Borrowed funds:						
Securities sold, not yet purchased	**0.5**	**0.2**	**0.7**	0.1		0.1
Federal funds purchased and security repurchase agreements	**(2.5)**	**(45.1)**	**(47.6)**	(9.3)	(85.9)	(95.2)
Commercial paper	**(1.5)**	**(2.7)**	**(4.2)**	(5.6)	(4.0)	(9.6)
FHLB advances and other borrowings:						
One year or less	**(96.5)**	**(16.5)**	**(113.0)**	91.1	(26.3)	64.8
Over one year	**(4.3)**	**(0.4)**	**(4.7)**	(0.1)	(0.1)	(0.2)
Long-term debt	**(2.5)**	**75.1**	**72.6**	3.5	(45.8)	(42.3)
Total borrowed funds	**(106.8)**	**10.6**	**(96.2)**	79.7	(162.1)	(82.4)
Total interest-bearing liabilities	**$ (65.4)**	**(319.0)**	**(384.4)**	126.5	(447.7)	(321.2)

Change in taxable-equivalent net interest income	**$ 103.7**	**(178.3)**	**(74.6)**	157.8	(70.5)	87.3

[1] Taxable-equivalent income used where applicable.
[2] Net of unearned income and fees, net of related costs. Loans include nonaccrual and restructured loans.
In the analysis of interest changes due to volume and rate, changes due to the volume/rate variance are allocated to volume with the following exceptions: when volume and rate both increase, the variance is allocated proportionately to both volume and rate; when the rate increases and volume decreases, the variance is allocated to the rate.

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Provisions for Credit Losses

The provision for loan losses is the amount of expense that, based on our judgment, is required to maintain the allowance for loan losses at an adequate level based upon the inherent risks in the portfolio. The provision for unfunded lending commitments is used to maintain the reserve for unfunded lending commitments at an adequate level. In determining adequate levels of the allowance and reserve, we perform periodic evaluations of the Company s various portfolios, the levels of actual charge-offs, and statistical trends and other economic factors. See Credit Risk Management on page 103 for more information on how we determine the appropriate level for the allowance for loan and lease losses and the reserve for unfunded lending commitments.

For the year 2009, the provision for loan losses was $2,016.9 million, compared to $648.3 million for 2008 and $152.2 million for 2007. The increased provision for 2009 was attributable to a higher level of criticized and classified loans, higher realized loss content in these loan categories, and continued deterioration in collateral values primarily in construction and land development loans, all of which resulted in increases of some of our loss migration factors and application of the updated factors at all banking subsidiaries using the most recent loss experience. See Nonperforming Assets and Allowance for Credit Losses on pages 110 and 112 for further details. Net loan and lease charge-offs increased to $1,172.6 million in 2009 up from $393.7 million in 2008 and $63.6 million in 2007. The $778.9 million increase during 2009 was driven by increased net charge-offs of $294.8 million at NSB, $179.7 million at Zions Bank, $119.1 million at Amegy, $82.6 million at CB&T, and $67.0 million at NBA, primarily related to the commercial real estate and commercial lending portfolios. Including the provision for unfunded lending commitments, the total provision for credit losses was $2,082.4 million for 2009, $649.7 million for 2008, and $154.0 million for 2007. The provision for loan losses was $390.7 million for the fourth quarter of 2009 and net charge-offs for the quarter were $292.1 million.

The Company s expectation is that credit costs will improve slowly in 2010 due to a stabilization of economic conditions. We expect provisioning and net charge-offs to be modestly lower for at least the next several quarters than the recent elevated levels of credit costs.

Noninterest Income

Noninterest income represents revenues the Company earns for products and services that have no interest rate or yield associated with them. Noninterest income for 2009 comprised 29.5% of taxable-equivalent revenues, compared to 8.7% for 2008 and 17.8% for 2007. Schedule 9 presents a comparison of the major components of noninterest income for the past three years.

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Schedule 9

NONINTEREST INCOME

(Amounts in millions)	2009	Percent change	2008	Percent change	2007
Service charges and fees on deposit accounts	**$ 212.6**	**2.7%**	$ 207.0	12.7%	$ 183.6
Other service charges, commissions and fees	**156.5**	**(6.7)**	167.7	(1.7)	170.6
Trust and wealth management income	**30.0**	**(20.4)**	37.7	3.3	36.5
Capital markets and foreign exchange	**50.3**	**0.8**	49.9	14.4	43.6
Dividends and other investment income	**26.6**	**(42.7)**	46.4	(8.8)	50.9
Loan sales and servicing income	**22.3**	**(8.6)**	24.4	(36.6)	38.5
Income from securities conduit	**1.1**	**(80.0)**	5.5	(69.8)	18.2
Fair value and nonhedge derivative income (loss)	**113.8**	**337.1**	(48.0)	(235.7)	(14.3)
Equity securities gains (losses), net	**(1.8)**	**(325.0)**	0.8	(95.5)	17.7
Fixed income securities gains (losses), net	**(3.8)**	**(575.0)**	0.8	(73.3)	3.0
Impairment losses on investment securities:					
Impairment losses on investment securities	**(569.9)**	**(87.5)**	(304.0)	(179.9)	(108.6)
Noncredit-related losses on securities not expected to be sold (recognized in other comprehensive income)	**289.4**				
Net impairment losses on investment securities	**(280.5)**	**7.7**	(304.0)	(179.9)	(108.6)
Valuation losses on securities purchased	**(212.1)**	**(1,519.1)**	(13.1)	73.6	(49.6)
Gain on subordinated debt modification	**508.9**				
Acquisition related gains	**169.2**				
Other	**11.0**	**(29.5)**	15.6	(29.7)	22.2
Total	**$ 804.1**	**321.7%**	$ 190.7	(53.7)%	$ 412.3

Noninterest income for 2009 increased $613.4 million or 321.7% compared to 2008. The largest components of this increase were $169.2 million of acquisition related gains and the $508.9 million gain on subordinated debt modification, offset by $492.6 million of net impairment and valuation losses on securities. Fair value and nonhedge derivative income (loss) also increased $161.8 million. Noninterest income for 2008 decreased $221.6 million or 53.7% compared to 2007. The largest component of this decrease was a $158.9 million increase in impairment and valuation losses on securities. Other significant components contributing to the noninterest income decrease in 2008 included loan sales and servicing income, income from securities conduit, fair value and nonhedge derivative loss, and net equity securities gains.

Service charges and fees on deposit accounts increased $5.6 million in 2009 and $23.4 million in 2008. The increased fees for 2009 primarily related to the acquisitions previously discussed and reduced business deposit account earnings credits due to lower interest rates. The increase in 2008 was mainly due to the impact of fee increases across the Company, and reduced deposit account earnings credits due to lower interest rates.

Other service charges, commissions, and fees, which are comprised of Automated Teller Machine (ATM) fees, insurance commissions, bankcard merchant fees, debit card interchange fees, cash management fees, lending commitment fees, syndication and servicing fees and other miscellaneous fees, decreased $11.2 million, or 6.7% from 2008, which was down 1.7% from 2007. The decrease in 2009 was due to lower lending related fees, official check fees, mutual fund commission fees and cash management related fees, offset by increased accounts receivable factoring fees. The decrease in 2008 was principally due to lower lending related fees and official check fees offset by increased accounts receivable factoring fees, debit card fees, and cash management related fees. The cash management fees include remote check imaging fees, third-party ACH transaction fees, and web-based medical claims transaction fees.

Trust and wealth management income for 2009 decreased 20.4% compared to 2008, which was up 3.3% compared to 2007. The decrease for 2009 was primarily due to lower fees from our trust and wealth management business resulting from lower balances of assets under management and lower 12b-1 mutual fund fees due to lower balances. The increase for 2008 was from modest organic growth in the trust and wealth management business, partially offset by declines in fees due primarily to declines in market values of a number of asset classes.

Capital markets and foreign exchange includes trading income, public finance fees, foreign exchange income, and other capital market related fees and increased 0.8% from 2008, which was up 14.4% from 2007. The increase in 2008 was primarily driven by increased trading income, partially offset by lower public finance fees.

Dividends and other investment income consists of revenue from the Company s bank-owned life insurance program and revenues from other investments. Revenues from other investments include dividends on FHLB stock, Federal Reserve Bank stock, and earnings from unconsolidated affiliates including certain alternative venture investments, and were $1.5 million in 2009, $15.6 million in 2008, and $23.0 million in 2007. The decreased income from other investments in 2009 is due to a $14.7 million decrease in earnings from Amegy s alternative investments program, a $14.4 million decrease in two investment funds, and a $5.7 million decrease in dividends from FHLB stock. These decreases were offset by a $13.6 million increase in equity in earnings of Farmer Mac and a $7.1 million increase in dividends and equity in earnings on other investments. The decreased income from other investments in 2008 is primarily due to a $14.1 million decrease in equity in earnings of Farmer Mac, offset by a $6.0 million increase in earnings from Amegy s alternative investments program. The decrease in earnings from Farmer Mac was mainly due to their losses in securities holdings in Lehman Brothers and Fannie Mae. Revenue from bank-owned life insurance programs was $25.1 million in 2009, $30.7 million in 2008, and $27.9 million in 2007.

Loan sales and servicing income includes revenues from securitizations of loans, gains and losses from sales of loans, as well as revenues that we earn through servicing loans that we sold to third parties. For 2009, loan sales and servicing income decreased 8.6% compared to 2008 and decreased 36.6% between 2008 and 2007. The decreased income in 2009 was primarily due to decreased servicing fees on small business loans resulting from the dissolution of loan securitizations in Lockhart during 2008, offset by increased gains on sold mortgage loans. The decreased income for 2008 is mainly due to reduced servicing fees on securitized small business loans. Upon dissolution of securitization trusts as described in Termination of Off-Balance Sheet Arrangement on page 103, these loans were recorded on Zions Bank s balance sheet and no longer serviced for investors.

Income from securities conduit decreased $4.4 million or 80.0% for 2009 compared to 2008 and decreased 69.8% between 2008 and 2007. This income represents fees we received from Lockhart, a QSPE securities conduit. The decrease in income is due to the termination of Lockhart. See Termination of Off-Balance Sheet Arrangement on page 103, Liquidity Management Actions on page 123, and Note 6 of the Notes to Consolidated Financial Statements for further information regarding securitizations and Lockhart.

Fair value and nonhedge derivative income (loss) consists of the following:

Schedule 10

FAIR VALUE AND NONHEDGE DERIVATIVE INCOME (LOSS)

(Amounts in millions)	**2009**	**Percent change**	**2008**	**Percent change**	**2007**
Nonhedge derivative income (loss)	**$ 111.9**	**409.1%**	$ (36.2)	(139.7)%	$ (15.1)
Fair value decreases on instruments elected under fair value option	**(0.9)**	**90.2**	(9.2)		
Derivative fair value credit adjustments	**3.0**	**196.8**	(3.1)		
Other	**(0.2)**	**(140.0)**	0.5	(37.5)	0.8
Total	**$ 113.8**	**337.1%**	$ (48.0)	(235.7)%	$ (14.3)

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During 2009, $104.7 million was accelerated from other comprehensive income to earnings related to certain terminated cash flow hedging relationships. The losses on nonhedge derivatives for 2008 and 2007 resulted from decreasing spreads between LIBOR and the prime rate during the second half of 2007. In an effort to employ the most liquid instrument available for Zions hedging program and execute transactions with the most economically favorable terms, it has been Zions practice to use LIBOR as the floating index on swaps executed with external counterparties. As a significant portion of the Company s loan assets are prime rate floating loans, many of the Company s swaps are structured with a prime floating rate. In conjunction with the execution of swaps in which the Company receives a fixed rate and pays prime, Zions also executes a swap in which it pays LIBOR plus a spread and receives prime. The Company therefore has chosen to retain the prime-LIBOR basis risk in this hedging activity.

Net equity securities losses in 2009 were $1.8 million, compared to net gains of $0.8 million in 2008 and $17.7 million in 2007. Net losses for 2009 included gains of $4.4 million on various investments, offset by a $3.5 million impairment loss on the Company s investment in a public company, and net losses of $2.7 million on venture capital equity investments. Net gains for 2008 included a $12.4 million gain on the VISA stock redemption, a $7.7 million gain on the sale of an interest in a mutual fund management company, an $11.0 million impairment loss on the Company s investment in Farmer Mac, and net losses of $8.4 million on venture capital equity investments.

Net impairment losses on investment securities and valuation losses on securities purchased were $492.6 million in 2009, compared to $317.1 million in 2008 and $158.2 million in 2007. The 2009 losses included net impairment losses of $280.5 million for certain CDOs, including bank and insurance CDOs, ABS CDOs, and REIT trust preferred CDOs. The valuation losses in 2009 consist of $187.9 million from purchases of securities from Lockhart, prior to fully consolidating Lockhart in June 2009, and $24.2 million for valuation adjustments to auction rate securities purchased from customers during the first quarter of 2009. The 2008 losses consisted of impairment losses of $304.0 million on ABS, REIT trust preferred, and bank and insurance trust preferred CDOs and valuation losses of $13.1 million on securities purchased from Lockhart. See Other-than-Temporary-Impairment Debt Investment Securities on page 42, Investment Securities Portfolio on page 91, and Termination of Off-Balance Sheet Arrangement on page 103 for further discussion.

In 2009, the Company recorded a gain on subordinated debt modification of $508.9 million. The Company exchanged approximately $0.2 billion of subordinated notes for new notes with the same terms. The remaining $1.2 billion of subordinated notes were modified to permit conversion on a par for par basis into either the Company s Series A or Series C preferred stock.

Acquisition related gains were $169.2 million which resulted from the Company s acquisition of failed banks from the FDIC with loss sharing agreements. The Company recognized $146.5 million in gains resulting from the acquisition of Vineyard Bank, a failed financial institution acquired from the FDIC on July 17, 2009. The gains resulted from the acquisition of assets that had fair values in excess of the fair value of liabilities assumed. The Company also recognized acquisitions related gains of $22.7 million from the acquisition of the failed Alliance Bank on February 6, 2009 by California Bank & Trust and Great Basin Bank on April 17, 2009 by Nevada State Bank. The acquisitions involved loss sharing arrangements with the FDIC.

Other noninterest income for 2009 was $11.0 million, compared to $15.6 million for 2008 and $22.2 million for 2007. The decrease in 2009 and 2008 included reduced remote deposit scanner sales to third party financial institutions.

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Noninterest Expense

Noninterest expense for 2009 increased 13.3% over 2008, which was 5.0% higher than in 2007. The 2009 increase was impacted by the increased provision for unfunded lending commitments, other real estate expense, and credit related expenses due to the deterioration in the Company s loan credit quality. Additionally, FDIC expense increased due to the higher premiums the FDIC has assessed on the Company s banks. Excluding these expenses, noninterest expense decreased $29.5 million or 2.1% from 2008. Schedule 11 summarizes the major components of noninterest expense and provides a comparison of the components over the past three years.

Schedule 11

NONINTEREST EXPENSE

(Amounts in millions)	2009	Percent change	2008	Percent change	2007
Salaries and employee benefits	**$ 818.8**	**1.0%**	$ 810.5	1.3%	$ 799.9
Occupancy, net	**112.2**	**(1.8)**	114.2	6.3	107.4
Furniture and equipment	**99.9**	**(0.2)**	100.1	3.7	96.5
Other real estate expense	**110.8**	**119.8**	50.4	1,045.5	4.4
Legal and professional services	**37.2**	**(18.2)**	45.5	3.9	43.8
Postage and supplies	**32.0**	**(14.7)**	37.5	2.7	36.5
Advertising	**23.0**	**(25.1)**	30.7	14.1	26.9
FDIC premiums	**100.5**	**405.0**	19.9	206.2	6.5
Amortization of core deposit and other intangibles	**31.7**	**(4.5)**	33.2	(26.1)	44.9
Provision for unfunded lending commitments	**65.5**	**4,578.6**	1.4	(22.2)	1.8
Other	**239.9**	**3.6**	231.6	(1.9)	236.0
Total	**$ 1,671.5**	**13.3%**	$ 1,475.0	5.0%	$ 1,404.6

The Company s efficiency ratio was 61.3% for 2009, compared to 67.5% for 2008 and 60.5% for 2007. The efficiency ratio has been significantly impacted due to the previously discussed impairment and valuation losses on securities, acquisition related gains, and the gain on subordinated debt modification.

Salary costs for 2009 decreased 2.0% from 2008, which were up 4.2% from 2007. The decreases for 2009 resulted mainly from reduced variable pay and staff reductions. The increases for 2008 resulted mainly from merit pay salary increases offset by reductions in variable pay. The salary costs for 2009 also included share-based compensation expense of approximately $29.8 million, down from $31.8 million for 2008. Employee health and insurance benefits for 2009 increased 37.9% from 2008, which decreased 10.5% from 2007. Employee health and insurance expense for 2009 increased mainly due to higher health care costs from catastrophic claims. Employee health and insurance expense for 2008 included an adjustment which reduced expense by approximately $3.0 million to reflect the elimination of a health insurance benefit. Retirement expense for 2009 increased primarily due to pension expenses. Retirement expense for 2008 decreased primarily because no accrual was required for the Company s profit sharing plan. Salaries and employee benefits are shown in greater detail in Schedule 12.

Schedule 12

SALARIES AND EMPLOYEE BENEFITS

(Dollar amounts in millions)	2009	Percent change	2008	Percent change	2007
Salaries and bonuses	**$ 692.3**	**(2.0)%**	$ 706.5	4.2%	$ 678.1
Employee benefits:					
Employee health and insurance	**52.0**	**37.9**	37.7	(10.5)	42.1
Retirement	**30.0**	**45.6**	20.6	(43.3)	36.3
Payroll taxes and other	**44.5**	**(2.6)**	45.7	5.3	43.4
Total benefits	**126.5**	**21.6**	104.0	(14.6)	121.8
Total salaries and employee benefits	**$ 818.8**	**1.0 %**	$ 810.5	1.3%	$ 799.9
Full-time equivalent (FTE) employees at December 31	**10,529**	**(4.4)%**	11,011	0.7%	10,933

Other real estate expense increased to $110.8 million, compared $50.4 million for 2008 and $4.4 million for 2007. The increase is primarily due to increased OREO balances and write-downs resulting from declining property values, mainly in Utah and Nevada.

Legal and professional services decreased $8.3 million or 18.2% compared to 2008, which was up 3.9% from 2007. The decrease in 2009 was primarily driven by a reduction in the use of technology related consultants and professional services.

Postage and supplies expense decreased $5.5 million or 14.7% compared to 2008, which was up 2.7% from 2007. The decrease in 2009 was primarily driven by cost reduction measures implemented by the Company.

FDIC premiums for 2009 increased $80.6 million or 405.0% compared to 2008, which was up 206.2% from 2007 due to increased premium rates and a one-time special assessment charged by the FDIC. We expect this expense to remain elevated in 2010.

The provision for unfunded lending commitments was $65.5 million for 2009 compared to $1.4 million for 2008. See Provisions for Credit Losses on page 57 for further discussion.

Other noninterest expense for 2009 increased $8.3 million or 3.6% compared to 2008, which was down 1.9% from 2007. The increase in 2009 was primarily due to increased credit-related expenses of $20.9 million, offset by reductions in travel expense, other operational losses, and scanner equipment expense. During 2008 the Company reduced the Visa litigation accrual by $5.6 million as a result of Visa funding a litigation escrow account and settling certain covered litigation.

Impairment Losses on Goodwill

During 2009, goodwill impairment analysis completed in the first and fourth quarters resulted in total impairment losses on goodwill of $636.2 million, almost entirely at Amegy. The annual goodwill impairment analysis completed in the fourth quarter of 2008 resulted in total impairment losses on goodwill of $353.8 million at the NBA, Vectra, NSB, and P5 reporting units.

The primary causes of the impairment losses on goodwill in 2009 and 2008 at the Company s banking reporting units were declines in market values of comparable companies, and reduced earnings at the reporting units, which resulted primarily from deterioration in credit quality of loan portfolios. See Accounting for Goodwill on page 45 for further discussion of the goodwill impairment.

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Foreign Operations

Six of our subsidiary banks each operate a foreign branch in Grand Cayman, Grand Cayman Islands, B.W.I. The branches only accept deposits from qualified domestic customers. While deposits in these branches are not subject to FRB reserve requirements or FDIC insurance premiums, there are no federal or state income tax benefits to the Company or any customers as a result of these operations.

Foreign deposits at December 31, 2009, 2008 and 2007 totaled $1.7 billion, $2.6 billion and $3.4 billion, respectively, and averaged $2.0 billion for 2009, $3.2 billion for 2008, and $2.7 billion for 2007. All of these foreign deposits were related to domestic customers of the banks. See Schedule 35 on page 100 for foreign loans outstanding.

Income Taxes

The Company s income tax benefit for 2009 was $401.3 million, compared to an income tax benefit of $43.4 million for 2008 and income tax expense of $235.7 million for 2007. The Company s effective income tax rates, including the effects of noncontrolling interests, were 24.8% in 2009, 14.0% in 2008, and 32.3% in 2007. The 2009 average effective tax rate was higher than in 2008 primarily due to the smaller impact of nondeductible goodwill impairment charges in proportion to overall net taxable loss. See Note 15 of the Notes to Consolidated Financial Statements for more information on income taxes.

The average effective tax rate in 2008 was lower than in 2007 mainly because of the nondeductible goodwill impairment charges. Increased securities impairment charges, loan loss provision, and OREO charge-downs recorded in 2008 also affected taxable loss, thereby increasing the impact of nontaxable income relative to total loss. During 2008, the Company reduced its liability for unrecognized tax benefits by approximately $9.6 million, net of any federal and/or state tax benefits. Of this reduction, $5.2 million decreased the Company s tax expense for 2008 and $4.4 million reduced tax-related balance sheet accounts.

In 2004, the Company signed an agreement that confirmed and implemented its award of a $100 million allocation of tax credit authority under the Community Development Financial Institutions Fund set up by the U.S. Government. Under the program, Zions has invested $100 million as of December 31, 2009 in a wholly-owned subsidiary which makes qualifying loans and investments. In return, Zions receives federal income tax credits that will be recognized over seven years, including the year in which the funds were invested in the subsidiary. Income tax expense was reduced by $5.9 million for 2009, $5.8 million for 2008, and $5.6 million for 2007 as a result of these tax credits. We expect that we will be able to reduce the Company s federal income tax payments by a total of $39 million over the life of this award, which is expected to run from 2004 through 2013.

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BUSINESS SEGMENT RESULTS

The Company manages its banking operations and prepares management reports with a primary focus on geographical area. Segments, other than the Other segment, that are presented in the following discussion are based on geographical banking operations. The Other segment includes the Parent, Zions Management Services Company (ZMSC), nonbank financial service and financial technology subsidiaries, other smaller nonbank operating units, TCBO, which was opened during the fourth quarter of 2005 and is not yet significant, and eliminations of intercompany transactions.

During 2009 Zions Bank, CB&T and NSB sold at fair value to the Parent investment securities with an amortized cost of $572 million and recorded $75.8 million, $288.1 million and $11.8 million, respectively, of fixed income securities losses. In the following schedules presenting operating segment information, these losses are included in Loss on sale of investment securities to Parent of the respective subsidiary. The elimination of these losses is included in Elimination of loss on sale of investment securities to Parent for the Other segment. For 2009, these transactions increased the net loss applicable to controlling interest at Zions Bank, CB&T and NSB by $46.8 million, $166.9 million and $7.7 million, respectively.

Operating segment information is presented in the following discussion and in Note 22 of the Notes to Consolidated Financial Statements. The accounting policies of the individual segments are the same as those of the Company. The Company allocates centrally provided services to the business segments based upon estimated or actual usage of those services.

Zions Bank

Zions Bank is headquartered in Salt Lake City, Utah and is primarily responsible for conducting the Company s operations in Utah and Idaho. Zions Bank is the 2nd largest full-service commercial bank in Utah and the 4th largest in Idaho, as measured by domestic deposits in the state. Zions Bank operates 122 full-service traditional branches and 7 banking centers in grocery stores. During the first quarter of 2009, Zions Bank exited 21 banking centers in grocery stores and opened 8 new traditional branches. The leases on these banking centers were assumed by another bank and all loans and deposits were transferred to nearby Zions Bank traditional branches. Zions Bank includes most of the Company s Capital Markets operations, which include Zions Direct, Inc., fixed income trading, correspondent banking, public finance, trust and investment advisory services, and liquidity and hedging services for Lockhart until its termination in September 2009. Zions Bank also includes Western National Trust Company. On January 1, 2008, Welman Holdings, Inc. (Welman), the parent of Contango Capital Advisors, Inc. (Contango), became a subsidiary of the Parent. Results of operations for Zions Bank for 2007 include Welman. In 2007, Welman experienced after-tax losses of $8.8 million.

Utah s unemployment rate was 6.7% at December 31, 2009, compared to the national rate of 10%, with most job losses over the last 18 months occurring in construction and manufacturing. Utah s economy is also seeing weakness in areas such as trade, transportation and utilities and professional and business services. Housing prices in Utah were down 10.5% in the third quarter of 2009 compared to the third quarter of 2008, which ranks the state 48th in the nation in home price decline. In 2009, Idaho s unemployment rate was 9.1% in December compared to 6.1% in December of 2008. Like Utah, the majority of job losses in Idaho are attributable to overall economic decline in the construction and manufacturing sectors. Idaho housing starts dropped 26% from 2008 but are stabilizing and expected to reach 16,400 units by 2013. Attractive living costs and world-class recreational opportunities should assist Idaho s economy in 2010.

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Schedule 13

ZIONS BANK

(In millions)	2009	2008	2007
CONDENSED INCOME STATEMENT			
Net interest income	**$ 690.4**	662.5	551.4
Net impairment losses on investment securities	**(35.2)**	(79.4)	(10.1)
Valuation losses on securities purchased	**(203.0)**	(13.1)	(49.6)
Loss on sale of investment securities to Parent	**(75.8)**		
Other noninterest income	**199.3**	207.3	236.8
Total revenue	**575.7**	777.3	728.5
Provision for loan losses	**400.4**	163.1	39.1
Noninterest expense	**522.5**	463.4	463.2
Income (loss) before income taxes	**(347.2)**	150.8	226.2
Income tax expense (benefit)	**(144.4)**	44.0	72.2
Net income (loss) applicable to noncontrolling interests	**0.1**	0.1	0.2
Net income (loss) applicable to controlling interest	**$ (202.9)**	106.7	153.8
YEAR-END BALANCE SHEET DATA			
Total assets	**$ 17,652**	20,778	18,446
Total securities	**1,963**	1,698	2,039
Net loans and leases	**13,990**	14,684	12,910
Allowance for loan losses	**359**	214	133
Goodwill, core deposit and other intangibles	**20**	20	24
Noninterest-bearing demand deposits	**2,490**	2,198	2,445
Total deposits	**13,823**	16,118	11,644
Preferred equity	**460**	250	
Common equity	**1,282**	1,044	1,048

Zions Bank had a net loss of $202.9 million in 2009 compared to net income of $106.7 million for 2008 and net income of $153.8 million for 2007. The increase in the provision for loan losses of $237.3 million, the increase in impairment and valuation losses on securities of $145.7 million together with $75.8 million of losses on securities sold to the Parent were the main factors causing the decrease in earnings.

Nonperforming assets were $772.7 million at December 31, 2009 compared to $412.4 million one year ago, an increase of $360.3 million or 87.4%. This deterioration can mainly be attributed to real estate loans, including owner-occupied loans, which account for 87.4% of nonperforming loans. Nonperforming loans secured by owner-occupied properties increased $154.3 million in 2009. Nonperforming assets to net loans and other real estate owned at December 31, 2009 was 5.45% compared to 2.79% at December 31, 2008.

Net loan and lease charge-offs were $255.1 million for 2009 compared to $75.4 million for 2008 and $14.0 million for 2007. Total real estate secured net loan charge-offs were $158.9 million or 62.3% of total net charge-offs, including $85.9 million of net charge-offs related to construction and land development loans. Remaining net charge-offs are composed of $72.6 million in commercial loans and $23.6 million in consumer loans. The provision for loan losses was $400.4 million for 2009 compared to $163.1 million for 2008 and $39.1 million for 2007.

The ratio of the allowance for loan losses to net loans and leases was 2.57%, 1.45% and 1.03% at December 31, 2009, 2008 and 2007, respectively.

Net interest income at Zions Bank for 2009 increased $27.9 million or 4.2%. Average earning assets in 2009 compared to 2008 were up $1.3 billion or 7.2%. Average money market and securities balances increased $1.0

billion and average loans increased $0.3 billion in 2009. During 2009, $678 million in securities were purchased as required by the Liquidity Agreement between Zions Bank and Lockhart. The net interest margin was 3.68% for 2009, compared to 3.77% for 2008 and 3.90% for 2007. The biggest driver of margin compression has been the increase in nonperforming assets and the large increase in low yielding money market and investment securities.

Other noninterest income for 2009 was $199.3 million, $207.3 million in 2008 and $236.8 million in 2007. Trading income was up $5.1 million in 2009 and up $8.6 million in 2008 from 2007. Income from securities conduit declined $4.4 million in 2009 and $12.7 million in 2008 compared to 2007. Nonhedge derivatives losses were $26.7 million in 2009, $28.6 million in 2008 and $15.0 million in 2007. Trust income was down $2.3 million in 2009 from 2008 and flat in 2008 compared with 2007. Wealth Management income was down $2.0 million in 2009 compared to 2008 and down $6.4 million in 2008 from 2007. The majority of this decrease is attributable to Contango Capital Advisors which became a subsidiary of the Parent in January 2008. Contango contributed $6.9 million in noninterest income in 2007 to Zions Bank, while its results are included in the Other segment for 2008 and 2009. Public Finance income was essentially flat in 2009 compared to 2008 but declined $4.5 million from 2007. Loan sales and servicing income was down $0.4 million in 2009 from 2008 and $13.3 million in 2008 compared to 2007. In 2008, Zions Bank also received income from the redemption of VISA stock which contributed $7.8 million in equity security gains.

Noninterest expense was $522.5 million in 2009, $463.4 million in 2008 and $463.2 million in 2007. Noninterest expense for 2009 increased $59.1 million or 12.8% from 2008. Increases for 2009 included a $39.4 million or 241.9% increase in credit related and other real estate owned expenses. FDIC premiums increased $27.6 million or 385.9% compared to 2008. This increase is due to increased rates and a one-time assessment charged by the FDIC. Advertising expense was down $5.0 million and legal and professional services were down $3.7 million in 2009. The efficiency ratio was 89.10% for 2009, as compared to 59.04% for 2008 and 62.82% for 2007. The change in the efficiency ratio was mainly due to the increase in securities losses and increases in FDIC insurance, credit and other real estate owned expenses.

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Schedule 14

ZIONS BANK

(Dollar amounts in millions)	2009	2008	2007
PERFORMANCE RATIOS			
Return on average assets	**(0.98)%**	0.55%	0.98%
Return on average common equity	**(17.83)%**	9.90%	15.04%
Efficiency ratio	**89.10%**	59.04%	62.82%
Net interest margin	**3.68%**	3.77%	3.90%
RISK-BASED CAPITAL RATIOS			
Tier 1 leverage	**8.84%**	6.91%	6.22%
Tier 1 risk-based capital	**10.29%**	8.32%	6.84%
Total risk-based capital	**11.52%**	11.33%	10.75%
CREDIT QUALITY			
Provision for loan losses	**$ 400.4**	163.1	39.1
Net loan and lease charge-offs	**255.1**	75.4	14.0
Ratio of net charge-offs to average loans and leases	**1.77%**	0.53%	0.12%
Allowance for loan losses	**$ 359**	214	133
Ratio of allowance for loan losses to net loans and leases	**2.57%**	1.45%	1.03%
Nonperforming assets	**$ 772.7**	412.4	45.0
Ratio of nonperforming assets to net loans and leases and other real estate owned	**5.45%**	2.79%	0.35%
Accruing loans past due 90 days or more	**$ 53.0**	83.5	36.5
Ratio of accruing loans past due 90 days or more to net loans and leases	**0.38%**	0.57%	0.28%
OTHER INFORMATION			
Full-time equivalent employees	**2,345**	2,525	2,668
Domestic offices:			
Traditional branches	**122**	112	109
Banking centers in grocery stores	**7**	29	29
Foreign office	**1**	1	1
Total offices	**130**	142	139
ATMs	**149**	176	184

Net loans and leases contracted $694 million or 4.7% in 2009 compared to 2008. Commercial lending decreased by $436 million, consumer lending was down $354 million and commercial real estate increased $82 million. Of the $82 million increase in commercial real estate, construction and land development declined $195 million while commercial term real estate increased $277 million in 2009.

Total deposits decreased $2.3 billion in 2009 compared to 2008. The large decrease in 2009 deposits came from brokered deposits which were down $1.1 billion, and foreign deposits that were down $1.0 billion. Noninterest-bearing demand deposits increased $292 million in 2009 compared to 2008. The retail branch network had significant core deposit growth in 2009. The ratio of noninterest-bearing demand deposits to total deposits was 18.0% in 2009, 13.6% in 2008 and 21.0% in 2007.

Total securities increased $265 million or 15.6% in 2009 compared to 2008. The change mainly came from Zions Bank purchasing $678 million of securities from Lockhart. Zions Bank sold at fair value investment securities with an amortized cost of $138 million to the Parent in 2009.

The bank continued to be well capitalized in 2009. Its total risk-based capital ratio was 11.52% at December 31, 2009, 11.33% at December 31, 2008 and 10.75% at December 31, 2007. The increase in the total

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risk-based capital ratio for 2009 was mainly due to the issuance of qualifying Tier 1 capital preferred stock of $210 million to the Parent, a $305 million net decrease of qualifying Tier 2 capital subordinated debt due to the Parent, a $120 million capital contribution from the Parent, $275 million of capital in the form of loans and securities contributed to Zions Bank from the Parent, and net loss of $202.9 million.

During 2009, Zions Bank ranked as Utah s top SBA 7(a) lender for the 16th consecutive year and ranked 1st in Idaho s Boise District for the eighth consecutive year.

California Bank & Trust

California Bank & Trust is headquartered in San Diego, California, and is the twelfth largest full-service commercial bank in California as measured by domestic deposits in the state. CB&T operates 106 full-service traditional branches throughout the state. CB&T s regional structure allows decision-making to remain as close as possible to the customer, facilitating reasoned and rapid response with an understanding of the local marketplace. These regions include San Diego, Los Angeles, Orange County, San Francisco, Sacramento, Central Valley, San Bernardino and Riverside. CB&T plans to continue its core business of relationship banking by providing commercial, real estate and consumer lending, depository services, international banking, cash management and community development services. During 2009, CB&T acquired certain assets and liabilities of Alliance Bank and Vineyard Bank from the FDIC as receiver of those two failed banks. Prior to the purchase accounting adjustments, the two FDIC-assisted transactions had approximately $2.7 billion of assets, including $2.3 billion of loans and $2.5 billion of deposits. The loans and other real estate acquired are covered by loss share agreements with the FDIC.

California represents approximately 13% of the nation s gross domestic product. Like other parts of the country, California in 2009 experienced significant declines in real estate values and one of the worst recessions in recent times. Its unemployment rate was 12.4% in December 2009. The state government is facing a current budget deficit of approximately $20 billion. An economic turnaround is not likely to happen quickly. However, there are some modest signs of stabilization. For example, median home prices statewide have stopped falling after 27 months of year-over-year declines.

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Schedule 15

CALIFORNIA BANK & TRUST

(In millions)	2009	2008	2007
CONDENSED INCOME STATEMENT			
Net interest income	**$ 465.3**	414.3	434.8
Net impairment losses on investment securities	**(31.8)**	(118.0)	(79.2)
Loss on sale of investment securities to Parent	**(288.1)**		
Acquisition related gains	**152.7**		
Other noninterest income	**152.8**	82.6	87.3
Total revenue	**450.9**	378.9	442.9
Provision for loan losses	**251.5**	82.9	33.5
Noninterest expense	**295.2**	239.0	230.8
Income (loss) before income taxes	**(95.8)**	57.0	178.6
Income tax expense (benefit)	**(45.6)**	18.4	71.2
Net (loss) income	**$ (50.2)**	38.6	107.4
YEAR-END BALANCE SHEET DATA			
Total assets	**$ 11,097**	10,137	10,156
Total securities	**292**	654	951
Net loans and leases	**8,951**	7,861	7,792
Allowance for loan losses	**223**	116	105
Goodwill, core deposit and other intangibles	**396**	386	390
Noninterest-bearing demand deposits	**3,119**	2,338	2,509
Total deposits	**9,760**	7,964	8,082
Preferred equity	**262**	158	
Common equity	**1,120**	1,097	1,067

Net income for CB&T decreased $88.8 million to a net loss of $50.2 million for 2009 compared to net income of $38.6 million for 2008 and $107.4 million for 2007. The decrease in net income was primarily due to losses on investment securities and the increase in the provision for loan losses, offset by the gains on the FDIC-assisted acquisitions of Alliance Bank and Vineyard Bank.

Nonperforming assets, excluding FDIC-supported assets, were $261.6 million at December 31, 2009 compared to $147.0 million one year ago, an increase of $114.6 million or 78.0%. Nonperforming assets are comprised of nonaccrual loans of $238.1 million and foreclosed real estate of $23.5 million for 2009 compared to $135.0 million of nonaccrual loans and $12.0 million of foreclosed real estate in 2008. The majority of the increase in nonaccrual loans is in commercial and industrial, owner occupied commercial real estate (including SBA 504 loans), and investor commercial real estate loans. Nonperforming assets (excluding FDIC-supported assets) to net loans and other real estate owned at December 31, 2009 was 3.43% compared to 1.87% at December 31, 2008.

Net loan and lease charge-offs were $144.4 million for 2009 compared to $61.8 million for 2008 and $23.1 million for 2007. Net loan and lease charge-offs in 2009 were comprised primarily of commercial and industrial, and commercial real estate loans. The provision for loan losses was $251.5 million for 2009 compared to $82.9 million for 2008 and $33.5 million for 2007. The ratio of the allowance for loan losses to net loans and leases excluding FDIC-supported loans was 2.94% and 1.48% at December 31, 2009 and 2008, respectively.

Net interest income for 2009 increased $51.0 million or 12.3%. This increase resulted primarily from the increase in earning assets from the acquisitions of Alliance Bank and Vineyard Bank and the improvement in the net interest margin. The net interest margin was 4.88% for 2009, compared to 4.51% for 2008 and 4.76% for

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2007. The net interest margin improvement resulted primarily from increased spreads on loans, the lower cost of deposits and repayment of higher cost long-term debt.

CB&T recognized net impairment losses on CDOs of $31.8 million in 2009 compared to $118.0 million in 2008 and $79.2 million in 2007. In addition, CB&T recognized losses of $288.1 million on sales of CDOs to the Parent. The acquisition of assets and liabilities of Alliance Bank and Vineyard Bank in 2009 resulted in the recognition of acquisition related gains of $152.7 million.

Other noninterest income for 2009 increased $70.2 million to $152.8 million compared to $82.6 million for 2008 and $87.3 million for 2007. The largest changes in noninterest income were a $72.1 million increase in fair value and nonhedge derivative income related to the early termination of interest rate hedges and hedge ineffectiveness on outstanding cash flow hedging relationships and a $3.1 million increase in service charges on deposit accounts, offset by a $4.8 million decrease in other service charges, commissions, and fees, and a $1.3 million decrease in dividend income.

Noninterest expense for 2009 increased $56.2 million or 23.5% to $295.2 million from $239.0 million for 2008 and $230.8 million for 2007. Increases for 2009 include a $7.8 million or 151.2% increase in credit related and other real estate owned expenses. FDIC premiums were up $18.6 million due to increased rates and a one-time assessment charged by the FDIC as well as overall deposit growth. Salaries and employee benefits increased $17.5 million due to the impact of increased employees coming from FDIC-assisted acquisitions of Alliance Bank and Vineyard Bank. The efficiency ratio was 65.42% for 2009, compared to 63.03% for 2008 and 52.07% for 2007.

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Schedule 16

CALIFORNIA BANK & TRUST

(Dollar amounts in millions)	2009	2008	2007
PERFORMANCE RATIOS			
Return on average assets	**(0.46)%**	0.38%	1.06%
Return on average common equity	**(4.41)%**	3.59%	9.83%
Efficiency ratio	**65.42%**	63.03%	52.07%
Net interest margin	**4.88%**	4.51%	4.76%
RISK-BASED CAPITAL RATIOS			
Tier 1 leverage	**8.81%**	8.77%	6.97%
Tier 1 risk-based capital	**10.25%**	8.33%	7.33%
Total risk-based capital	**11.51%**	11.05%	11.58%
CREDIT QUALITY			
Provision for loan losses	**$ 251.5**	82.9	33.5
Net loan and lease charge-offs	**144.4**	61.8	23.1
Ratio of net charge-offs to average loans and leases	**1.85%**	0.78%	0.29%
Allowance for loan losses	**$ 223**	116	105
Ratio of allowance for loan losses to net loans and leases excluding FDIC-supported loans	**2.94%**	1.48%	1.35%
Nonperforming assets, excluding FDIC-supported assets	**$ 261.6**	147.0	62.3
Ratio of nonperforming assets, excluding FDIC-supported assets to net loans and leases and other real estate owned	**3.43%**	1.87%	0.80%
Accruing loans past due 90 days or more, excluding FDIC-supported loans	**$ 11.9**	7.4	13.0
Ratio of accruing loans past due 90 days or more, excluding FDIC-supported loans to net loans and leases	**0.16%**	0.09%	0.17%
OTHER INFORMATION			
Full-time equivalent employees	**1,653**	1,474	1,572
Domestic offices:			
Traditional branches	**106**	90	90
Foreign office	**1**	1	
Total offices	**107**	91	90
ATMs	**120**	103	103

Net loans and leases increased $1,090 million or 13.9% in 2009 compared to 2008. However, excluding the acquisitions of Alliance Bank and Vineyard Bank, loans decreased $260 million or 3.3% in 2009 compared to 2008. The decrease was comprised of $140 million in commercial lending and $440 million of construction and land development loans, offset by increases of $283 million in commercial real estate term loans and $39 million in consumer loans. CB&T continues to diversify its credit risks by reducing construction and land development loans. CB&T expects modest net loan growth, as growth in organically generated loans is expected to be offset by reductions in balances resulting from workouts of the FDIC-supported loan portfolios. CB&T continues to focus on growing the commercial and small business loan portfolios, while managing credit risk.

Total deposits increased $1,796 million or 22.6% in 2009 compared to 2008. Contributions to this increase were the acquisitions of Alliance Bank and Vineyard Bank of $930 million, organic growth of $464 million and foreign deposit growth of $402 million. The ratio of noninterest-bearing demand deposits to total deposits was 32.0% in 2009 and 29.4% in 2008. CB&T believes the increase in the ratio was due to the desire of depositors to carry larger balances in fully FDIC-insured noninterest-bearing accounts. CB&T expects the ratio to decline in 2010 when the FDIC removes the unlimited insurance feature. CB&T does not generally rely on or solicit brokered deposits. At December 31, 2009 brokered deposits were $40 million compared to $2 million at December 31, 2008. The year-end 2009 balances consisted entirely of brokered time deposits acquired from Alliance Bank.

Total securities declined $362 million or 55.4% to $292 million in 2009 compared to $654 million in 2008. The change was driven primarily by the sale of CDOs to the Parent.

The Tier 1 leverage, Tier 1 risk-based capital and total risk-based capital ratios all improved at December 31, 2009 compared to December 31, 2008 due to a combination of higher Tier 1 capital and lower risk-weighted assets. Tier 1 capital increased as a result of a $25 million capital infusion and the conversion of $154.5 million of Tier 2 capital to Tier 1 capital, offset by the net loss for the year.

Amegy Corporation

Amegy is headquartered in Houston, Texas and operates Amegy Bank, the 6th largest full-service commercial bank in Texas as measured by domestic deposits in the state. Amegy offers 69 full-service traditional branches and two banking centers in grocery stores in the Houston metropolitan area, six traditional branches in the Dallas metropolitan area and five traditional branches in San Antonio. Amegy also operates a mortgage company (Amegy Mortgage Company), a broker-dealer (Amegy Investments), an insurance agency (Amegy Insurance Agency), and a trust and private banking group.

The Texas economy the world s 12th largest continued to fare better than others in the nation, but did feel the effects of the recession in 2009. Texas lost 275,900 jobs in 2009 compared to the nation s 4.2 million job losses during the same period. Amegy s three primary markets Houston, Dallas, and San Antonio all experienced a small decline in employment of about 1%, but they and other markets within the state have continued to keep Texas s unemployment rate below the national average for 36 consecutive months. Recognized as an leading international business center, the Houston Metropolitan Statistical Area (MSA) reported total jobs for December 2009 at 2.6 million. The Dallas-Fort Worth-Arlington MSA, which is driven by the trade, transportation and utilities industries, reported 2.9 million jobs while a strong healthcare industry strongly influenced San Antonio s job count of nearly 850,000.

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Schedule 17

AMEGY CORPORATION

(In millions)	2009	2008	2007
CONDENSED INCOME STATEMENT			
Net interest income	**$ 385.7**	370.1	331.3
Valuation losses on securities purchased	**(7.5)**		
Other noninterest income	**136.1**	192.9	126.7
Total revenue	**514.3**	563.0	458.0
Provision for loan losses	**406.1**	71.9	21.2
Noninterest expense	**345.6**	305.2	295.6
Impairment loss on goodwill	**633.3**		
Income (loss) before income taxes	**(870.7)**	185.9	141.2
Income tax expense (benefit)	**(90.3)**	60.5	46.7
Net income (loss) applicable to noncontrolling interests		0.3	0.1
Net income (loss) applicable to controlling interest	**$ (780.4)**	125.1	94.4
YEAR-END BALANCE SHEET DATA			
Total assets	**$ 11,145**	12,406	11,675
Total securities	**850**	693	895
Net loans and leases	**8,262**	9,027	7,811
Allowance for loan losses	**379**	116	68
Goodwill, core deposit and other intangibles	**685**	1,334	1,355
Noninterest-bearing demand deposits	**3,743**	2,709	2,243
Total deposits	**8,880**	8,625	8,058
Preferred equity	**376**	80	
Common equity	**1,435**	2,049	1,932

Amegy had a net loss of $780.4 million for 2009 compared to net income of $125.1 million for 2008 and net income of $94.4 million for 2007. The net loss for the year was primarily due to a $633.3 million impairment loss on goodwill taken in the first quarter of 2009, along with a 464.8% increase in the provision for loan losses. The impairment loss on goodwill was primarily due to declines in market values of comparable companies and the lower short-term earnings potential of Amegy itself. The increase in the provision for loan losses was due to deterioration in the credit quality of the loan portfolio as a result of the difficult economic environment.

Nonperforming assets were $549.5 million at December 31, 2009 compared to $56.7 million one year ago, an increase of $492.8 million or 869.1%. The increase in nonperforming assets primarily was due to deterioration in the construction and land development segment of the loan portfolio. Nonperforming assets to net loans and other real estate owned at December 31, 2009 was 6.52% compared to 0.62% at December 31, 2008.

Net loan and lease charge-offs were $143.2 million for 2009 compared with $24.1 million for 2008 and $9.0 million for 2007. Net loan and lease charge-offs in 2009 were primarily in the construction and land development loan portfolio. The loan loss provision was $406.1 million for 2009 compared to $71.9 million for 2008 and $21.2 million for 2007. The ratio of the allowance for loan losses to net loans and leases was 4.58% at December 31, 2009 compared to 1.28% and 0.87% at December 31, 2008 and 2007, respectively.

Net interest income increased by 4.2% for 2009 due to a 4.7% or $450 million increase in average earning assets. The net interest margin was 3.90% for 2009, compared to 3.92% for 2008 and 4.13% for 2007.

Other noninterest income decreased 29.4% to $136.1 million compared to $192.9 million for 2008 and $126.7 million for 2007. The largest decreases in noninterest income were a $25.5 million or 65.6% decline in

fair value and nonhedge derivative income recognized in 2008 related to the early termination of interest rate hedges and hedge ineffectiveness on outstanding cash flow hedging relationships, and a $13.0 million or 144.2% decrease in income on other equity investments.

Noninterest expense increased $40.4 million or 13.2% from 2008. Increases for 2009 included a $37.2 million increase in the provision for losses on unfunded lending commitments, a $17.1 million or 370.7% increase in the cost of FDIC insurance and a $4.4 million, or 427.8% increase in expenses related to other real estate owned properties. These increases were partially offset by an expense reduction program which produced decreases in most operating expense categories. The largest decreases were $9.4 million or 6.8% in salaries and benefits, $4.1 million or 17.3% in occupancy expenses and $2.5 million or 46.7% in advertising. The efficiency ratio deteriorated to 66.60% in 2009 from 53.80% in 2008 and 63.83% in 2007. The change in the efficiency ratio was due to both the decrease in noninterest income and to the increase in noninterest expenses.

Schedule 18

AMEGY CORPORATION

(Dollar amounts in millions)	2009	2008	2007
PERFORMANCE RATIOS			
Return on average assets	**(6.64)%**	1.04%	0.91%
Return on average common equity	**(48.87)%**	6.28%	5.10%
Efficiency ratio	**66.60%**	53.80%	63.83%
Net interest margin	**3.90%**	3.92%	4.13%
RISK-BASED CAPITAL RATIOS[1]			
Tier 1 leverage	**11.79%**	8.67%	7.58%
Tier 1 risk-based capital	**12.29%**	8.10%	6.90%
Total risk-based capital	**13.57%**	11.13%	10.94%
CREDIT QUALITY			
Provision for loan losses	**$ 406.1**	71.9	21.2
Net loan and lease charge-offs	**143.2**	24.1	9.0
Ratio of net charge-offs to average loans and leases	**1.65%**	0.28%	0.13%
Allowance for loan losses	**$ 379**	116	68
Ratio of allowance for loan losses to net loans and leases	**4.58%**	1.28%	0.87%
Nonperforming assets	**$ 549.5**	56.7	45.6
Ratio of nonperforming assets to net loans and leases and other real estate owned	**6.52%**	0.62%	0.58%
Accruing loans past due 90 days or more	**$ 14.4**	5.5	3.8
Ratio of accruing loans past due 90 days or more to net loans and leases	**0.17%**	0.06%	0.05%
OTHER INFORMATION			
Full-time equivalent employees	**1,612**	1,756	1,694
Domestic offices:			
Traditional branches	**80**	80	79
Banking centers in grocery stores	**2**	3	8
Foreign office	**1**	1	1
Total offices	**83**	84	88
ATMs	**132**	140	142

[1] *Capital ratios are for Amegy Bank N.A.*

Net loans and leases contracted $765 million or 8.5% to $8.3 billion in 2009 compared to $9.0 billion in 2008. Declines in loans balances included decreases of $502 million in commercial lending, $507 million in construction and land development loans and $127 million in consumer loans, offset by an increase of $394

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million in commercial real estate term loans. The reduction in loan portfolio balances was due to the soft economy, commercial borrowers deleveraging, and to soft real estate markets. Amegy continues to be active in new loan originations by seeking borrowers meeting both its pricing and credit criteria.

Total deposits grew $255 million or 3.0% in 2009 compared to 2008, with noninterest-bearing demand deposits growing $1,034 million and total interest-bearing deposits shrinking $779 million. The ratio of noninterest-bearing demand deposits to total deposits was 42.2% in 2009 and 31.4% in 2008. Amegy continues to be a leader in providing treasury management services to commercial clients and in serving retail and small business enterprises through its branch network.

Total securities increased $157 million or 22.7% in 2009 compared to 2008 primarily due to the purchase of $134 million of adjustable auction rate securities from customers in the first quarter of 2009. This transaction was undertaken to restore liquidity to customers who had purchased the securities through Amegy Investments. This transaction generated a $7.5 million valuation loss at inception. Through the end of the year, $14.6 million of these securities had been redeemed at par which resulted in the recapture of $876 thousand of the valuation loss. Amegy expects to recover the entire valuation loss over the life of these securities. Amegy did not recognize any impairment or valuation losses in its core securities portfolio in either 2009 or 2008.

The total risk-based capital ratio at December 31, 2009 was 13.57% compared to 11.13% and 10.94% at December 31, 2008 and December 31, 2007, respectively. The increase in total risk-based capital was due to $177 million in direct capital injections from the Parent and the issuance of qualifying Tier 1 capital preferred stock of $296 million to the Parent, offset by the redemption of $231 million of subordinated debt (which qualified as Tier 2 capital) due to the Parent and the net loss of $148.0 million, excluding the after-tax goodwill impairment.

National Bank of Arizona

National Bank of Arizona is headquartered in Tucson, Arizona, and is the 4th largest full-service commercial bank in Arizona as measured by domestic deposits in the state. NBA operates 76 full-service traditional branches.

The Arizona economy began its contraction in late 2007 prior to much of the same trend being realized at the national level. In a twenty-four month period, beginning with the third quarter of 2007, the state workforce declined by more than 10%, or 275,000 nonfarm workers. The current pace of job loss has dissipated to roughly half of the average experienced during this 24 month period; however continued job losses are expected until the third quarter of 2010. Total unemployment was at 8.8% at the end of 2009 and is expected to improve to 7.7% by the end of 2010. The state s population grew at an historically low rate of 1.1%, or approximately 70,000, in 2009, and is expected to again increase at this slow pace in 2010. Residential home-building activity, as measured by new permits, decreased by 45% to 13,689 in 2009 compared to 2008. Although the reduction was significant for the full year, by mid-year 2009 the trend began to reflect some level of improvement. This slightly more positive trend is expected to continue into 2010, with a projected increase of 42% to just over 19,000 new residential permits. Commercial real estate values have declined significantly since their peak in late 2007; any recovery in commercial values is expected to lag behind expected residential improvement in 2010.

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Schedule 19

NATIONAL BANK OF ARIZONA

(In millions)	2009	2008	2007
CONDENSED INCOME STATEMENT			
Net interest income	**$ 179.1**	219.5	250.8
Noninterest income	**44.0**	46.8	33.4
Total revenue	**223.1**	266.3	284.2
Provision for loan losses	**291.7**	211.8	30.5
Noninterest expense	**170.0**	161.2	142.4
Impairment loss on goodwill		168.6	
Income (loss) before income taxes	**(238.6)**	(275.3)	111.3
Income tax expense (benefit)	**(94.4)**	(56.7)	43.5
Net income (loss)	**$ (144.2)**	(218.6)	67.8
YEAR-END BALANCE SHEET DATA			
Total assets	**$ 4,524**	4,864	5,279
Total securities	**208**	204	258
Net loans and leases	**3,609**	4,108	4,566
Allowance for loan losses	**201**	124	65
Goodwill, core deposit and other intangibles	**18**	22	195
Noninterest-bearing demand deposits	**1,039**	916	1,100
Total deposits	**3,784**	3,923	3,871
Preferred equity	**405**	430	
Common equity	**228**	355	581

The net loss for NBA decreased 34.0% to $144.2 million for 2009 compared to a loss of $218.6 million for 2008 and net income of $67.8 million for 2007. In 2008, NBA recognized an impairment loss on the entire balance of goodwill totaling $168.6 million. Excluding the after tax goodwill impairment loss in 2008, the net loss for 2009 compared to 2008 increased $80.0 million. The increased loss is mainly due to the decline in net interest income and the increased provision for loan losses.

The allowance for loan losses and the provision for loan losses increased during the year as loan credit quality worsened through 2009. Loan credit quality did appear to begin stabilizing in mid-year, and to improve somewhat thereafter. This credit quality improvement was not due to improvement in the Arizona economy, but rather was primarily due to the fact that many problem loans had been charged-down or otherwise resolved. Nonperforming assets were $320.2 million at the end of 2009 compared to $273.0 million at the end of 2008. The level of nonperforming assets, although higher when comparing the end of 2009 with 2008, has declined from the peak experienced in mid-2009. The majority of the nonperforming loans are construction and land development loans and mortgages. Nonperforming assets to net loans and other real estate owned at December 31, 2009 was 8.66%, compared to 6.49% at December 31, 2008.

Net loan and lease charge-offs were $214.2 million for 2009, an increase of $67.0 million from the $147.2 million level experienced in 2008. Net loan and lease charge-offs were primarily related to the bank s real estate portfolio, including construction and land development loans and mortgages. The provision for loan losses was $291.7 million for 2009 compared to $211.8 million for 2008 and $30.5 million for 2007. The ratio of the allowance for loan losses to net loans and leases was 5.57% and 3.01% at December 31, 2009 and 2008, respectively.

Net interest income at NBA for 2009 decreased $40.4 million or 18.4% compared to 2008. A reduction in average earning assets of $203 million from 2008 to 2009, coupled with an increase in the level of nonperforming loans and competitive pressure on deposit pricing contributed to the decrease in net interest

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income for the year. The net interest margin was 3.95% for 2009, compared to 4.64% for 2008 and 5.08% for 2007. Comparatively low margins during 2009 were largely due to the level and severity of nonperforming assets and lower yields achieved on higher levels of liquidity maintained throughout the year.

Noninterest income decreased 6.0% to $44.0 million, compared to $46.8 million for 2008 and $33.4 million for 2007. The majority of the decrease is attributable to a $2.4 million decline in fair value and nonhedge derivative income during 2009.

Noninterest expense for 2009 increased by $8.8 million or 5.5% from 2008. Increases for 2009 include a $6.1 million or 200.8% increase in FDIC premiums from 2008 and a $3.2 million or 73.3% increase in credit related costs. Credit related and OREO costs totaled $36.7 million for all of 2009 and are a result of continued declines in the value of foreclosed properties. Several noninterest expense components, such as salaries and benefits, declined year over year as management worked to reduce controllable operating expenses. The efficiency ratio was 76.12% for 2009, compared to 60.45% for 2008 and 49.90% for 2007. The change in efficiency ratio was due to the heightened level of credit related expenditures and FDIC premiums, coupled with the overall reduction in net interest income.

Schedule 20

NATIONAL BANK OF ARIZONA

(Dollar amounts in millions)	**2009**	**2008**	**2007**
PERFORMANCE RATIOS			
Return on average assets	**(3.01)%**	(4.25)%	1.25%
Return on average common equity	**(50.93)%**	(39.40)%	11.36%
Efficiency ratio	**76.12%**	60.45%	49.90%
Net interest margin	**3.95%**	4.64%	5.08%
RISK-BASED CAPITAL RATIOS			
Tier 1 leverage	**11.59%**	15.19%	7.29%
Tier 1 risk-based capital	**14.46%**	17.49%	7.51%
Total risk-based capital	**15.76%**	18.76%	10.95%
CREDIT QUALITY			
Provision for loan losses	**$ 291.7**	211.8	30.5
Net loan and lease charge-offs	**214.2**	147.2	13.6
Ratio of net charge-offs to average loans and leases	**5.54%**	3.35%	0.29%
Allowance for loan losses	**$ 201**	124	65
Ratio of allowance for loan losses to net loans and leases	**5.57%**	3.01%	1.42%
Nonperforming assets	**$ 320.2**	273.0	68.2
Ratio of nonperforming assets to net loans and leases and other real estate owned	**8.66%**	6.49%	1.49%
Accruing loans past due 90 days or more	**$ 14.2**	17.0	11.8
Ratio of accruing loans past due 90 days or more to net loans and leases	**0.39%**	0.41%	0.26%
OTHER INFORMATION			
Full-time equivalent employees	**1,023**	1,100	1,137
Domestic offices:			
Traditional branches	**76**	79	76
Foreign office	**1**	1	
Total offices	**77**	80	76
ATMs	**78**	73	69

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Net loans and leases contracted $499 million in 2009 or a 12.1% decline when compared to 2008. At the end of 2009 commercial real estate loans were down $284 million or 17.4% and the commercial lending portfolio had decreased $162 million or 12.0% when compared to the 2008 year-end balance. The contraction in these categories was a direct result of NBA s focus on reducing its exposure to real estate related transactions and timely handling of troubled assets. This downward trend in exposure to commercial real estate loans is expected to continue in 2010; however the pace of decline will likely slow. Commercial lending activity is expected to increase during 2010, as NBA anticipates expanding its banking business.

Total deposits decreased $139 million or 3.5% in 2009 compared to 2008, as the bank worked to reduce balances in higher cost deposit categories. The ratio of noninterest-bearing demand deposits to total deposits was 27.5% in 2009 and 23.3% in 2008. Brokered deposit levels declined by the end of 2009 to $33 million as compared to $128 million at December 31, 2008.

The bank continued to be well capitalized in 2009; its total risk-based capital ratio was 15.76% at December 31, 2009, 18.76% at 2008 and 10.95% at 2007. The decrease in the ratio from 2008 to 2009 was a direct result of the net loss sustained during the year and the disallowance of a portion of the net deferred tax assets for purposes of calculating regulatory capital levels.

Nevada State Bank

Nevada State Bank is headquartered in Las Vegas, Nevada, and is the fifth largest full-service commercial bank in Nevada as measured by domestic deposits in the state. NSB operates 54 full-service traditional branches and 4 banking centers in grocery stores throughout the State of Nevada and provides banking services to Nevada s small and mid-sized businesses as well as retail consumers, with a focus on relationship banking.

During 2009, NSB acquired the banking operations of the former Great Basin Bank of Elko, Nevada, in an FDIC-assisted transaction. The acquisition consisted of approximately $212 million of assets, including the entire loan portfolio, $209 million of deposits, and five branches in Northern Nevada. NSB received approximately $17.8 million in cash from the FDIC and entered into a loss sharing agreement in which the FDIC assumes 80% of the first $40 million of losses on loans and other real estate owned and 95% of any losses above that amount for a period of up to ten years.

The markets in which NSB operates are heavily dependent on travel/tourism and construction. During spring 2008, financial conditions in these sectors began to deteriorate dramatically. This deterioration continued throughout 2009 but has begun to moderate, and in certain metrics there has been stabilization and slight improvement. As of October 2009 and compared to October 2008, gaming revenues are down 11.6%, airline passenger count is down 0.3% and visitor volume is up 0.7%. From November 2008 to November 2009 in Clark County, NSB s biggest market area, residential construction permits increased 1.0% after falling 87.7% in the prior year, while commercial construction permits fell 71.4% after declining 55.0% in the prior year. Washoe County saw residential permits fall 25.0% in 2009 after a decline of 57.4% in 2008; commercial construction permits declined 57.9% compared to 52.9% in 2008. These declines have led to an increase in the Nevada unemployment rate to 12.8% at December 2009, compared to 8.7% one year earlier. The consensus outlook for 2010 is that Nevada s economy will remain challenged as residential foreclosures continue, construction remains suppressed, and consumers remain conservative in their spending habits despite a slight increase in expected visitor volume.

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Schedule 21

NEVADA STATE BANK

(In millions)	2009	2008	2007
CONDENSED INCOME STATEMENT			
Net interest income	**$ 140.0**	159.0	182.5
Net impairment losses on investment securities	**(3.3)**	(2.0)	
Loss on sale of investment securities to Parent	**(11.8)**		
Acquisition related gains	**16.5**		
Other noninterest income	**60.8**	42.8	32.9
Total revenue	**202.2**	199.8	215.4
Provision for loan losses	**563.7**	100.3	23.3
Noninterest expense	**180.6**	137.9	111.8
Impairment loss on goodwill		21.0	
Income (loss) before income taxes	**(542.1)**	(59.4)	80.3
Income tax expense (benefit)	**(190.1)**	(13.6)	27.9
Net income (loss)	**$ (352.0)**	(45.8)	52.4
YEAR-END BALANCE SHEET DATA			
Total assets	**$ 4,187**	4,063	3,903
Total securities	**329**	194	412
Net loans and leases	**2,752**	3,200	3,230
Allowance for loan losses	**280**	82	56
Goodwill, core deposit and other intangibles	**9**	8	21
Noninterest-bearing demand deposits	**1,149**	912	929
Total deposits	**3,526**	3,514	3,304
Preferred equity	**360**	260	
Common equity	**296**	259	261

The net loss for NSB increased 668.6% to $352.0 million for 2009 compared to $45.8 million for 2008 and net income of $52.4 million for 2007. The increase in net loss was primarily due to an increase in the provision for loan losses of $463.4 million. Net interest income declined $19.0 million as loan volumes declined and higher yielding loans were replaced with low yielding federal funds sold. Expenses and losses related to other real estate owned increased $20.0 million, offset by a $16.5 million gain related to the Great Basin Bank acquisition.

Nonperforming assets, excluding FDIC-supported assets, were $319.5 million at December 31, 2009 compared to $222.0 million one year ago, an increase of $97.5 million or 43.9%. The majority of the increase is due to deterioration in commercial real estate term loans, while the remaining increase is generally attributable to deterioration of construction and land development loans. Nonperforming assets to net loans and other real estate owned at December 31, 2009 was 11.78%, compared to 6.85% at December 31, 2008.

Net loan and lease charge-offs were $366.4 million for 2009, compared with $71.6 million for 2008 and $2.7 million for 2007. Approximately 62% of net loan and lease charge-offs in 2009 related to construction and land development loans. The majority of the remaining net losses were investor-owned commercial real estate and commercial and industrial loans. The provision for loan losses was $563.7 million for 2009 compared to $100.3 million for 2008 and $23.3 million for 2007. The ratio of the allowance for loan losses to net loans and leases (excluding FDIC-supported loans) was 10.53% and 2.58% at December 31, 2009 and 2008, respectively.

Net interest income at NSB declined 11.9%, or $19.0 million from 2008 to 2009. This decrease resulted from a shift in earning assets from generally higher-yielding loans into lower-yielding federal funds sold, combined with a lower interest rate environment. The yield on earning assets declined 28.7% from 6.47% in

2008 to 4.61% in 2009, which was the primary driver of the reduced net interest income in 2009. The shift in earning assets was driven by a lack of quality loan demand in the markets in which we do business, combined with the high level of charge-offs incurred during the year. Loans declined from 89.2% of average earning assets in 2008 to 76.9% in 2009, and federal funds sold increased from 0.7% of average earning assets in 2008 to 15.0% in 2009. Further, lower interest rate levels in 2009 resulted in much of the loan portfolio being repriced at rates below those earned in 2008. Finally, higher levels of nonperforming loans lowered the yield on earning assets in 2009. The cost of interest-bearing deposits also declined, offsetting some of the decline in interest income. The lower interest rate environment and the strong core deposit base led to a decline in the cost of interest-bearing deposits from 2.67% in 2008 to 1.71% in 2009. The result of these changes in the balance sheet mix and the lower interest rate environment produced a net interest margin of 3.50% for 2009, compared to 4.43% for 2008 and 5.06% for 2007.

Other noninterest income increased 42.1% to $60.8 million, compared to $42.8 million for 2008 and $32.9 million for 2007. A $16.5 million gain on the acquisition of Great Basin Bank was recognized in 2009, while no such gains were recognized in 2008 or 2007. Gains related to terminated interest rate swaps and hedge ineffectiveness on outstanding cash flow hedging relationships totaled $27.1 million, $7.8 million and $0.6 million in 2009, 2008 and 2007, respectively. Other noninterest income components were generally flat from 2007 through 2009, with increases in deposit service charges offset by lower loan fees and dividends on restricted stock. The bank also recognized net impairment losses on investment securities of $3.3 million in 2009 compared to $2.0 million in 2008.

Noninterest expense for 2009 increased $42.7 million or 31.0% from 2008. Increases for 2009 included a $20.0 million or 169.4% increase in expenses and realized losses related to other real estate owned, a $12.5 million or 816.6% increase in the provision for unfunded lending commitments, and a $6.4 million or 231.6% increase in FDIC insurance premiums, attributable to a one-time assessment required by the FDIC in 2009 as well as higher assessment rates experienced throughout the banking industry. Recurring expenses such as salaries and benefits and occupancy experienced modest declines from 2008 to 2009 as savings from the closing of 28 grocery store center branches in early 2009 were largely offset by increased costs related to the addition of the Great Basin Bank operations. The efficiency ratio was 89.14% for 2009, as compared to 68.96% for 2008 and 51.82% for 2007. The increase in the efficiency ratio from 2008 to 2009 was driven by the higher other real estate owned expenses, unfunded commitment provisions, and FDIC assessments discussed above, while total revenue remained essentially flat. The bank incurred a goodwill impairment loss of $21.0 million during 2008, with no such losses incurred in 2009. No goodwill remains on the balance sheet of Nevada State Bank.

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Schedule 22

NEVADA STATE BANK

(Dollar amounts in millions)	2009	2008	2007
PERFORMANCE RATIOS			
Return on average assets	**(8.28)%**	(1.18)%	1.35%
Return on average common equity	**(155.84)%**	(15.61)%	19.90%
Efficiency ratio	**89.14%**	68.96%	51.82%
Net interest margin	**3.50%**	4.43%	5.06%
RISK-BASED CAPITAL RATIOS			
Tier 1 leverage	**13.10%**	12.75%	5.95%
Tier 1 risk-based capital	**18.71%**	14.31%	6.59%
Total risk-based capital	**20.07%**	15.58%	11.05%
CREDIT QUALITY			
Provision for loan losses	**$ 563.7**	100.3	23.3
Net loan and lease charge-offs	**366.4**	71.6	2.7
Ratio of net charge-offs to average loans and leases	**12.19%**	2.23%	0.09%
Allowance for loan losses	**$ 280**	82	56
Ratio of allowance for loan losses to net loans and leases excluding FDIC-supported loans	**10.53%**	2.58%	1.73%
Nonperforming assets, excluding FDIC-supported assets	**$ 319.5**	222.0	44.2
Ratio of nonperforming assets, excluding FDIC-supported assets to net loans and leases and other real estate owned	**11.78%**	6.85%	1.37%
Accruing loans past due 90 days or more, excluding FDIC-supported loans	**$ 12.1**	14.5	8.9
Ratio of accruing loans past due 90 days or more, excluding FDIC-supported loans to net loans and leases	**0.45%**	0.45%	0.28%
OTHER INFORMATION			
Full-time equivalent employees	**817**	863	854
Domestic offices:			
Traditional branches	**54**	45	39
Banking centers in grocery stores	**4**	32	35
Total offices	**58**	77	74
ATMs	**80**	85	81

Net loans and leases contracted $448 million or 14.0% in 2009 compared to 2008. Gross charge-offs were a major driver of the contraction, accounting for $381 million or 85.0% of the decline. A general lack of quality loan demand accounts for the remainder as Nevada experienced economic contraction throughout 2009. Construction and land development and other real estate secured loans experienced the largest decline, again driven by charge-offs but also due to management s efforts to reduce concentrations in this area. Loan demand is expected to remain challenged in 2010 as difficult economic conditions persist, and NSB s focus remains on growing the commercial and small business loan portfolios and managing the run-off of real estate loans.

Total deposits increased $12 million or 0.3% in 2009 compared to 2008. The deposit mix improved with the ratio of noninterest-bearing demand deposits to total deposits increasing to 32.6% in 2009 from 26.0% in 2008. Certificates of deposit declined from 32.6% of total deposits in 2008 to 18.5% in 2009 as NSB focused on growing core deposit relationships and reducing reliance on non-relationship, rate sensitive funds. Deposit growth is expected to be relatively flat in 2010 as an incrementally improving economy and potentially higher market interest rates may lead to the deployment of some depositor funds into higher yielding assets. NSB has no brokered certificates of deposit or internet money market accounts.

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Total securities increased $135 million or 69.6% in 2009 compared to 2008 as Nevada State Bank purchased US Government and Government Sponsored Enterprise guaranteed obligations as part of its balance sheet management strategy.

The bank continued to be well capitalized in 2009. Its total risk-based capital ratio was 20.07% at year-end 2009, 15.58% at 2008, and 11.05% at 2007. The increase in the ratio was impacted by capital contributions of $500 million of preferred and common equity from the Parent, partially offset by the net loss of $352.0 million and a reduction in risk-weighted assets as loans declined and federal funds sold increased.

Vectra Bank Colorado

Vectra Bank Colorado, N.A. is headquartered in Denver, Colorado, and is the 9th largest full-service commercial bank in Colorado as measured by domestic deposits in the state. Vectra operates 36 full service traditional branches and one grocery store banking center in Colorado, and one full service branch in Farmington, New Mexico.

The Colorado economy experienced a decline of 100,000 jobs during 2009. The losses have most heavily impacted the goods producing sectors including construction and manufacturing activities. While the state has seen declines in jobs, the December 2009 unemployment rate of 7.3% compares favorably to the national 10% jobless rate. The loss of jobs has resulted in a decline in retail sales of 12% during 2009. As of year-end 2009, the Denver metro area, the state s largest housing market, has seen a 13.0% decline in the medium home price since the market high in 2006, compared to a national decline of 22.0% over the same time frame. This relative stability in home values has resulted in a stable real estate market in most of the state and should assist in supporting a return to economic growth in 2010.

Schedule 23

VECTRA BANK COLORADO

(In millions)	**2009**	**2008**	**2007**
CONDENSED INCOME STATEMENT			
Net interest income	**$ 105.3**	103.6	96.9
Net impairment losses on investment securities	**(5.3)**	(6.4)	
Other noninterest income	**31.4**	29.9	28.1
Total revenue	**131.4**	127.1	125.0
Provision for loan losses	**78.5**	15.9	4.0
Noninterest expense	**96.4**	85.9	86.3
Impairment loss on goodwill		151.5	
Income (loss) before income taxes	**(43.5)**	(126.2)	34.7
Income tax expense (benefit)	**(17.9**		