

ZIONS BANCORPORATION /UT/
Form 10-K
February 28, 2008
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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, 2007

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

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(State or other jurisdiction

(Internal Revenue Service Employer

of incorporation or organization)

Identification Number)

ONE SOUTH MAIN, 15TH FLOOR

SALT LAKE CITY, UTAH
(Address of principal executive offices)

84111
(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
6% Subordinated Notes due September 15, 2015	New York Stock Exchange
Depository Shares each representing a 1/40 th ownership interest in a share of Series A	
Floating-Rate 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 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

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 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. _____

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

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

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

Yes No

Aggregate Market Value of Common Stock Held by Non-affiliates at June 30, 2007	\$ 7,974,285,987
Number of Common Shares Outstanding at February 15, 2008	107,139,628 shares

Documents Incorporated by Reference:

Portions of the Company's Proxy Statement (to be dated approximately March 10, 2008) for the Annual Meeting of Shareholders to be held April 24, 2008 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 and its subsidiaries (collectively the Company);

statements preceded by, followed by or that include the words may, could, should, would, believe, anticipate, estimate, expect, projects, or similar expressions.

These forward-looking statements are not guarantees of future performance, nor should they be relied upon as representing management's views as of any subsequent date. Forward-looking statements involve significant risks and uncertainties and actual results may differ materially from those presented, either expressed or implied, in 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 the economic effects of terrorist attacks against the United States and related events;

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

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

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

acquisitions and integration of acquired businesses;

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

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

continuing consolidation in the financial services industry;

new litigation or changes in existing litigation;

success in gaining regulatory approvals, when required;

changes in consumer spending and savings habits;

increased competitive challenges and expanding product and pricing pressures among financial institutions;

demand for financial services in the Company's market areas;

inflation and deflation;

technological changes and the Company's implementation of new technologies;

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the Company's ability to develop and maintain secure and reliable information technology systems;

legislation or regulatory changes which adversely affect the Company's operations or business;

the Company's ability to comply with applicable laws and regulations; and

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

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.

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 508 domestic branches at year-end 2007. 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 10,933 at year-end 2007. For further information about the Company's industry segments, see Business Segment Results 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 in MD&A. The Executive Summary in MD&A provides further information about the Company.

PRODUCTS AND SERVICES

The Company focuses on providing community-minded 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

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banking and mortgage lending products and services. They also provide a wide range of personal banking services to individuals, including home mortgages, bankcard, other installment loans, home equity lines of credit, checking accounts, savings accounts, time certificates of various types and maturities, trust services, safe deposit facilities, direct deposit, and 24-hour ATM access. In addition, certain banking subsidiaries provide services to key market segments through their Women's Financial, Private Client Services, and Executive Banking Groups. We also offer wealth management services through a subsidiary, Contango Capital Advisors, Inc., (Contango) that was launched in 2004 and online brokerage services through Zions Direct.

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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 U.S. 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 the nation's top originator 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, Inc. (NetDeposit) and P5, Inc. (P5) subsidiaries are leaders in the provision of check imaging and clearing software and of web-based medical claims tracking and cash management services, respectively.

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.

SUPERVISION AND REGULATION

The Parent is a bank holding company that has elected to become a financial holding company under the BHC Act. The Gramm-Leach-Bliley Act of 1999 (the GLB Act) provides a regulatory framework for financial holding companies, which have as their umbrella regulator the Federal Reserve Board (FRB). 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.

In addition, the Company's subsidiary banks are subject to the provisions of the National Bank Act or the banking laws of their respective states, as well as the rules and regulations of the Office of the Comptroller of the Currency (OCC), the FRB, and the Federal Deposit Insurance Corporation (FDIC). They are also under the supervision of, and are 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 other nonbank subsidiaries may be subject to the laws and regulations of the federal government and/or the various states in which they conduct business.

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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:

Requirements for approval of acquisitions and activities. The 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. The federal bank regulatory agencies have adopted and are proposing risk-based capital rules described below. 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 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 and in June 2004 released the final version of its proposed new capital framework (Basel II) with an update in November 2005. Basel II provides two approaches for setting capital standards for credit risk: an internal ratings-based approach tailored to individual institutions' circumstances (which for many asset classes is itself broken into a foundation approach and an advanced or A-IRB approach, the availability of which is subject to additional restrictions) and a standardized approach that bases risk weightings on external credit assessments to a much greater extent than permitted in existing risk-based capital guidelines. Basel II also sets capital requirements for operational risk and refines the existing capital requirements for market risk exposures. However, U.S. regulatory authorities consistently have taken the position that U.S. banks would not be permitted to utilize the foundation approach. Operational risk is defined to mean the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems, or from external events. Basel I does not include separate capital requirements for operational risk.

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. We do not currently expect to be an early opt in bank holding company, as the Company does not have in place the data collection and analytical capabilities necessary to adopt the Advanced Approach. However, we believe that the competitive advantages afforded to companies that do adopt the Advanced Approach may make it necessary for the Company to elect to opt in at some point, and we have begun investing in the required capabilities and required data.

Also, in July 2007, the U.S. banking regulators agreed to issue a proposed rule that would provide non-core banks with the option of adopting the Standardized Approach proposed in Basel II, replacing the previously proposed Basel IA framework. While the Advanced Approach uses sophisticated mathematical models to measure and assign capital to specific risks, the Standardized Approach categorizes risks by type and then assigns capital requirements. Following the publication of the proposed rule, the Company will evaluate the benefit of adopting the Standardized Approach.

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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 become impaired.

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 as summarized in Note 19 of the Notes to Consolidated Financial Statements.

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 systems, 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

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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.

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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 quoted 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 system of strong 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, and state legislatures 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 fiscal and other policies adopted by various governmental authorities. The Company is particularly affected by the monetary policies of the FRB, which affect short-term interest rates and the national supply of bank credit. The methods of monetary policy available to the FRB include:

open-market operations in U.S. government securities;

adjustment of the discount rates or cost of bank borrowings from the FRB; and

imposing or changing reserve requirements against bank deposits.

term auction facilities collateralized by bank loans

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.

ITEM 1A. RISK FACTORS

The following list describes several risk factors which are significant to the Company including but not limited to:

Credit risk is one of our most significant risks. The Company's level of credit quality weakened during the latter half of 2007 although it remained relatively strong compared to historical company and industry standards. The deterioration in credit quality was mainly related to weakness in loans related to residential land acquisition, development and construction in Arizona, California, and Nevada and could weaken further in 2008. We have not seen any evidence of significant deterioration in other components of our lending portfolio, but worsening economic conditions including further declines in property values could result in deterioration in other components of the portfolio. Economic conditions in the high growth Southwestern geographical areas in which our banks operate have been weakening and continued economic weakness could result in further deterioration of property values that could significantly increase the Company's credit risk.

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 its achieving a relatively stable interest rate 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

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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.

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Funding availability, as opposed to funding cost, became a more important risk factor in the latter half of 2007, as what has been described as a global liquidity crisis affected financial institutions generally, including the Company. It is expected that liquidity stresses will continue to be a risk factor in 2008 for the Company, the Parent and its affiliate banks, and for Lockhart Funding, LLC (Lockhart).

Zions Bank sponsors an off-balance sheet qualifying special-purpose entity (QSPE), Lockhart, which funds its assets by issuing asset-backed commercial paper. Its assets include AAA-rated securities that are collateralized by small business loans, U.S. Government, agency and other AA-rated securities. Factors beyond the Company s control can significantly influence whether Lockhart will remain as an off-balance sheet QSPE and whether the Company will be required to purchase securities and possibly incur losses on the securities from Lockhart under the provisions of a Liquidity Agreement the Company provides to Lockhart. These factors include Lockhart s inability to issue asset-backed commercial paper, rating agency downgrades of securities, and instability in the credit markets.

The Company s on-balance sheet 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 the subprime market. In addition, asset-backed securities also include structured asset-backed collateralized debt obligations (ABS CDOs) (also known as diversified structured finance CDOs) purchased from Lockhart which have minimal exposure to subprime and home equity mortgage securitizations. Factors beyond the Company s control can significantly influence the fair value of these securities and potential adverse changes to the fair value of these securities. These factors include but are not limited to rating agency downgrades of securities, defaults of collateralized debt issuers, lack of market pricing of securities, rating agency downgrades of monoline insurers that insure certain asset-backed securities, and continued instability in the credit markets. See Investment Securities Portfolio on page 77 for further details.

The Company is exposed to accounting, financial reporting, and regulatory/compliance risk. The Company provides to its customers 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.

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.

As noted previously, U.S. and international regulators have adopted new capital standards commonly known as Basel II. These standards would apply to a number of our largest competitors and potentially give them a significant competitive advantage over banks that do not adopt these standards. Sophisticated systems and data are required to adopt Basel II standards; the Company does not yet have these systems and data. While the Company is developing some of the systems, data, and analytical capabilities required to adopt Basel II, adoption is difficult and the Company has not yet decided that it will or can adopt Basel II.

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More recently, U.S. banking regulators issued the final rule which requires 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. We do not currently expect to be an early opt in bank holding company. However, our initial analysis indicates that a significant risk of competitive inequity may exist between banks operating under Basel II and those not using Basel II by potentially allowing Basel II banks to operate with lower levels of capital for certain lines of business.

From time to time the Company makes acquisitions. The success of any acquisition depends, in part, on our ability to realize the projected cost savings from the merger and on the continued growth and profitability of the acquisition target. We have been successful with most prior mergers, but it is possible that the merger and 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 established an Enterprise-Wide Risk Management policy and appointed an Enterprise Risk Management Committee in late 2005 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, and reputation risk.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

At December 31, 2007, the Company operated 508 domestic branches, of which 263 are owned and 245 are leased premises. The Company also leases its headquarter 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.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

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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 15, 2008 was \$51.80 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:

	2007		2006	
	High	Low	High	Low
1st Quarter	\$ 88.56	81.18	85.25	75.13
2nd Quarter	86.00	76.59	84.18	76.28
3rd Quarter	81.43	67.51	84.09	75.25
4th Quarter	73.00	45.70	83.15	77.37

As of February 15, 2008, there were 6,437 holders of record of the Company's common stock.

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
2007	\$ 0.39	0.43	0.43	0.43
2006	0.36	0.36	0.36	0.39

On January 24, 2008, the Company's Board of Directors approved a dividend of \$0.43 per common share payable on February 20, 2008 to shareholders of record on February 6, 2008. 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.

In December 2006, we issued 240,000 shares of our Series A Floating-Rate Non-Cumulative Perpetual Preferred Stock with an aggregate liquidation preference of \$240 million, or \$1,000 per share. The preferred stock was offered in the form of 9,600,000 depositary shares with each

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depository share representing a 1/40th ownership interest in a share of the preferred stock. In general, preferred shareholders are entitled to receive asset distributions before common shareholders; however, preferred shareholders have no preemptive or conversion rights, and only limited voting rights pertaining generally to amendments to the terms of the preferred stock or the issuance of senior preferred stock as well as the right to elect two directors in the event of certain defaults. The preferred stock is not redeemable prior to December 15, 2011, but will be redeemable subsequent to that date at the Company's option at the liquidation preference value plus any declared but unpaid dividends. The preferred stock dividend reduces earnings available to common shareholders and is computed at an annual rate equal to the greater of three-month LIBOR plus 0.52%, or 4.0%. Dividend payments are made quarterly in arrears on the 15th day of March, June, September, and December.

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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 2007:

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(2)
October	490	\$ 66.76		\$ 56,250,315
November	229	50.71		56,250,315
December	143	48.22		56,250,315
Fourth quarter	862	59.42		

(1) All share repurchases in the fourth quarter of 2007 were made to pay for payroll taxes upon the vesting of restricted stock.

(2) Remaining balance available under the \$400 million common stock repurchase Plan approved by the Board of Directors in December 2006.

The Company has not repurchased any shares under the Plan since August 16, 2007. It currently does not anticipate making additional common stock repurchases under the plan during most or all of 2008.

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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 KBW50 Index which includes Zions Bancorporation. The KBW50 Index is a market-capitalization weighted bank stock index developed and published by Keefe, Bruyette & Woods, Inc., a national recognized brokerage and investment banking firm specializing in bank stocks. The index is composed of 50 of the nation's largest banking companies. The stock performance graph is based upon an initial investment of \$100 on December 31, 2002 and assumes reinvestment of dividends.

Table of ContentsITEM 6. SELECTED FINANCIAL DATA**FINANCIAL HIGHLIGHTS**

(In millions, except per share amounts)

	2007/2006 CHANGE	2007	2006	2005 (3)	2004	2003
FOR THE YEAR						
Net interest income	+7%	\$ 1,882.0	1,764.7	1,361.4	1,160.8	1,084.9
Noninterest income	-25%	412.3	551.2	436.9	431.5	500.7
Total revenue	-1%	2,294.3	2,315.9	1,798.3	1,592.3	1,585.6
Provision for loan losses	+110%	152.2	72.6	43.0	44.1	69.9
Noninterest expense	+6%	1,404.6	1,330.4	1,012.8	923.2	893.9
Impairment loss on goodwill				0.6	0.6	75.6
Income from continuing operations before						
income taxes and minority interest	-19%	737.5	912.9	741.9	624.4	546.2
Income taxes	-26%	235.8	318.0	263.4	220.1	213.8
Minority interest	-32%	8.0	11.8	(1.6)	(1.7)	(7.2)
Income from continuing operations	-15%	493.7	583.1	480.1	406.0	339.6
Loss on discontinued operations						(1.8)
Net income	-15%	493.7	583.1	480.1	406.0	337.8
Net earnings applicable to common						
shareholders	-17%	479.4	579.3	480.1	406.0	337.8
PER COMMON SHARE						
Earnings from continuing operations diluted	-18%	4.42	5.36	5.16	4.47	3.74
Net earnings diluted	-18%	4.42	5.36	5.16	4.47	3.72
Net earnings basic	-18%	4.47	5.46	5.27	4.53	3.75
Dividends declared	+14%	1.68	1.47	1.44	1.26	1.02
Book value (1)	+6%	47.17	44.48	40.30	31.06	28.27
Market price end		46.69	82.44	75.56	68.03	61.34
Market price high		88.56	85.25	77.67	69.29	63.86
Market price low		45.70	75.13	63.33	54.08	39.31
AT YEAR-END						
Assets	+13%	52,947	46,970	42,780	31,470	28,558
Net loans and leases	+13%	39,088	34,668	30,127	22,627	19,920
Sold loans being serviced (2)	-27%	1,885	2,586	3,383	3,066	2,782
Deposits	+6%	36,923	34,982	32,642	23,292	20,897
Long-term borrowings	+4%	2,591	2,495	2,746	1,919	1,843
Shareholders equity	+6%	5,293	4,987	4,237	2,790	2,540
PERFORMANCE RATIOS						
Return on average assets		1.01%	1.32%	1.43%	1.31%	1.20%
Return on average common equity		9.57%	12.89%	15.86%	15.27%	13.69%
Efficiency ratio		60.53%	56.85%	55.67%	57.22%	55.65%
Net interest margin		4.43%	4.63%	4.58%	4.27%	4.41%
CAPITAL RATIOS(1)						
Equity to assets		10.00%	10.62%	9.90%	8.87%	8.89%
Tier 1 leverage		7.37%	7.86%	8.16%	8.31%	8.06%
Tier 1 risk-based capital		7.57%	7.98%	7.52%	9.35%	9.42%

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Total risk-based capital	11.68%	12.29%	12.23%	14.05%	13.52%
Tangible equity	6.17%	6.51%	5.28%	6.80%	6.53%

SELECTED INFORMATION

Average common and common-equivalent shares (<i>in thousands</i>)	108,523	108,028	92,994	90,882	90,734
Common dividend payout ratio	37.82%	27.10%	27.14%	28.23%	27.20%
Full-time equivalent employees	10,933	10,618	10,102	8,026	7,896
Commercial banking offices	508	470	473	386	412
ATMs	627	578	600	475	553

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

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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 \$53 billion financial holding company headquartered in Salt Lake City, Utah. The Company is the twenty-third largest domestic bank holding company in terms of deposits, operating banking businesses through 508 domestic branches and 627 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 a number of 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 S&P 500 and NASDAQ Financial 100 indices.

In operating its banking businesses, the Company seeks to combine the 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.

Banking Businesses

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

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We believe that the Company distinguishes itself by having a 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.

Table of Contents*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 slowdowns in population, employment, and key indicators of economic growth in some of these markets in 2007, which is expected to persist through much of 2008, 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.

SCHEDULE 1

DEMOGRAPHIC PROFILE

BY STATE

(Dollar amounts in thousands)	Number of branches 12/31/2007	Deposits at 12/31/2007(1)	Percent of Zions deposit base	Estimated 2007 total population(2)	Estimated population % change 2000-2007(2)	Projected population % change 2007-2012(2)	Estimated median household income 2007(2)	Estimated household income % change 2000-2007(2)	Projected household income % change 2007-2012(2)
Utah	114	\$ 10,674,230	28.91%	2,610,198	16.88%	12.02%	\$ 58.4	27.70%	18.39%
California	90	8,081,319	21.89	37,483,448	10.66	6.75	60.3	26.55	16.59
Texas	87	8,057,997	21.82	23,986,432	15.03	9.89	51.1	27.96	18.02
Arizona	76	3,851,422	10.43	6,363,799	24.04	16.96	53.3	31.34	21.43
Nevada	74	3,279,288	8.88	2,645,277	32.38	19.90	56.3	26.21	17.07
Colorado	40	1,697,382	4.60	4,883,413	13.53	8.53	61.0	29.01	19.49
Idaho	24	633,515	1.72	1,513,708	16.98	11.98	48.5	28.57	19.71
Washington	1	599,864	1.62	6,516,384	10.56	7.05	59.1	29.04	18.91
New Mexico	1	24,248	0.07	1,993,495	9.59	6.90	43.4	26.95	17.76
Oregon	1	23,488	0.06	3,752,734	9.69	6.72	51.7	26.35	17.86
Zions weighted average					14.95	9.82	61.3	30.10	19.41
Aggregate national				306,348,230	8.86	6.26	53.2	26.06	17.59

(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 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. As a result, 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 many cases, the Company's relationship with its customers is primarily driven by the goal to satisfy their needs for credit to finance their expanding business opportunities. In addition to our commercial business, we also provide a broad base of consumer financial products in selected markets, including home mortgages, home equity 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 2007 as loan growth significantly outpaced low cost 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.

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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 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.

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MANAGEMENT'S OVERVIEW OF 2007 PERFORMANCE

The Company's primary or core business consists of providing community and regional banking services to both individuals and businesses in ten Western and Southwestern states. We believe that this core banking business performed well in many markets during 2007, but came under considerable stress in the second half of the year as residential housing markets deteriorated significantly, particularly in Arizona, California and Nevada. This deterioration adversely affected the Company's residential land acquisition, development and construction related business; its loans to these business activities in these markets comprise approximately six percent of the Company's total loan portfolio.

Despite credit quality deterioration and the virtual cessation of net organic loan growth in our banks in these three states, the Company experienced strong loan growth of 12.8%. Most of our growth in 2007 was organic. However, on January 17, 2007, we also acquired Stockmen's Bancorp, Inc. (Stockmen's), a bank holding company with \$1.2 billion in assets headquartered in Kingman, Arizona. Stockmen's parent company was merged into the Parent and Stockmen's banking subsidiary was merged into our NBA affiliate bank. On November 2, 2007, the Company sold 11 Stockmen's branches located in California which included \$169 million of loans and \$190 million of deposits. During the year, the Company explored other acquisition opportunities throughout its current geographical area markets, but only completed the Stockmen's acquisition and the acquisition of Intercontinental Bank Shares Corporation, (Intercon) in Texas with \$115 million in assets. Through the first half of the year, the Company generally found that the prices being sought by potential sellers were too high to allow the Company to create significant value for its shareholders through bank acquisitions. Later, as some of its key markets weakened, the Company did not pursue certain opportunities because of the difficulty in quantifying potential risks in a rapidly changing banking environment. The Company believes that current economic stresses affecting a number of banking companies may result in more potential acquisition opportunities at more reasonable prices later in 2008 and beyond, but this cannot be assured.

The Company reported earnings for 2007 of \$479.4 million or \$4.42 per diluted common share. This compares with \$579.3 million or \$5.36 per diluted share for 2006 and \$480.1 million or \$5.16 per share for 2005. Return on average common equity was 9.57% and return on average assets was 1.01% in 2007, compared with 12.89% and 1.32% in 2006 and 15.86% and 1.43% in 2005.

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The key drivers of the Company's performance during 2007 were as follows:

SCHEDULE 2

KEY DRIVERS OF PERFORMANCE

2007 COMPARED TO 2006

Driver	2007	2006	Change
	(in billions)		
Average net loans and leases	\$ 36.8	32.4	14%
Average total noninterest-bearing deposits	9.4	9.5	-1%
Average total deposits	35.8	32.8	9%
	(in millions)		
Net interest income	\$ 1,882.0	1,764.7	7%
Provision for loan losses	152.2	72.6	110%
Impairment and valuation losses on securities	158.2		
Average Lockhart-related assets held on the balance sheet (1)	253.3		
Net interest margin	4.43%	4.63%	-20bp
Ratio of nonperforming assets to net loans and leases and other real estate owned	0.73%	0.24%	49bp
Efficiency ratio	60.53%	56.85%	368bp

(1) Average Lockhart-related assets include commercial paper issued by Lockhart and securities purchased from Lockhart. Average Lockhart-related assets held on the balance sheet for the last six months of 2007 were \$506.6 million.

As illustrated by the previous schedule, the Company's earnings growth in 2007 compared to 2006 reflected the following:

Strong organic loan growth;

Additional unplanned balance sheet growth resulting from the purchase of Lockhart Funding, LLC (Lockhart) commercial paper and securities in response to deteriorating liquidity conditions in the global asset-backed commercial paper market;

Lagging organic deposit growth, particularly the lack of noninterest-bearing deposit growth, resulting in a greater dependence on market rate funds;

Net interest margin deterioration in the latter half of the year, mainly due to funding strong loan growth with more expensive funding, the addition of lower net interest spread Lockhart commercial paper to the balance sheet, and pricing pressure on deposits in a difficult liquidity environment experienced by most of the domestic financial system;

An increased provision for loan losses stemming mainly from credit-quality deterioration in our Southwestern residential land acquisition, development and construction lending portfolios;

Significant impairment charges on the Company's available-for-sale securities deemed other-than-temporarily impaired and valuation losses associated with securities purchased from Lockhart pursuant to the Liquidity Agreement between Lockhart and Zions Bank.

We continue to focus on four primary objectives to drive our business success: 1) organic loan and deposit growth, 2) maintaining credit quality at high levels, 3) managing interest rate risk, and 4) controlling expenses. However in 2007, results were significantly

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and adversely impacted by the effects of the housing market, subprime mortgage and global liquidity crisis on the Company. This affected both the cost and availability of funding to the Company and its sponsored off-balance sheet entity, Lockhart, as well as the values of a number of securities held by the Company for investment.

Organic Loan and Deposit Growth

Since 2003, the Company has experienced steady and strong loan growth and moderate deposit growth, augmented in 2005 and 2006 by the Amegy acquisition and in 2007 by the Stockmen's acquisition. Through most of this period, we consider this performance to be a direct result of steadily improving 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 3 depicts this growth.

As expected, the Company experienced little or no net organic loan growth in 2007 in its three Southwestern banks (CB&T, NBA, and NSB), which were most heavily impacted by deteriorating conditions in the residential real estate markets. In these banks, declining rates of residential housing development and construction lending offset growth in commercial real estate and commercial and industrial lending. The Company expects that the slower rate of residential development and construction lending will continue to result in continued slower or no net loan growth in CB&T, NBA, and NSB through most if not all of 2008.

However, loan growth remained strong throughout the year in our banks that serve geographies in which economic conditions remained more robust, including Zions Bank, Amegy, Vectra and TCBW. The result was net loan growth of \$4.4 billion including the effect of the Stockmen's acquisition, or 12.8%, from year-end 2007 compared to year-end 2006, and a mix shift away from commercial real estate and towards commercial lending sectors in new loan originations.

Reflecting trends throughout the banking industry, core deposits grew only \$1.9 billion from year-end 2006, a rate of 6.0% significantly lagging the growth rate of loans. In addition, noninterest-bearing demand deposits decreased by \$0.4 billion from year-end 2006. Thus, the Company increased its reliance on more costly sources of funding during the year.

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Maintaining Credit Quality at High Levels

The ratio of nonperforming assets to net loans and other real estate owned deteriorated to 0.73% at year-end, compared to 0.24% at the end of 2006. Net loan charge-offs for 2007 were \$64 million, compared to \$46 million for 2006. The provision for loan losses during 2007 increased significantly to \$152.2 million compared to \$72.6 million for 2006. All of these trends largely reflect the impact of deteriorating credit quality conditions in residential land acquisition and development and construction lending in the Southwest, and also very strong loan growth. However, these credit quality measures remain stronger than our peer group averages. The Company also has not seen clear evidence of material spillover of this deterioration into other components of its portfolio, including residential mortgages, credit card, other consumer lending, and commercial and industrial lending. However, in view of the unsettled market conditions and possible recession of the economy, we are closely monitoring our credit measures.

Note: Peer group is defined as bank holding companies with assets > \$10 billion.

Peer data source: SNL Financial Database

Peer information for 2007 is from 3rd quarter 2007 and does not reflect 4th quarter 2007 performance.

Managing Interest Rate Risk

Our focus in managing interest rate risk is not to take positions based upon management's forecasts of interest rates, but rather to maintain a position of slight asset-sensitivity. This means that our assets, primarily loans, tend to reprice slightly more quickly than our liabilities, primarily deposits. The Company makes 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 5.

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Taxable-equivalent net interest income in 2007 increased 6.7% over 2006. The net interest margin declined to a still high 4.43% for 2007, down from 4.63% for 2006. The Company was able to achieve this performance despite the challenges of a flat-to-inverted yield curve through most of 2007, and significant pressures on both loan pricing and funding costs that resulted in fairly steady compression of the net interest spread (the difference between the average yield on all interest-earning assets and the average cost of all interest-bearing funding sources).

The Company's net interest margin declined more than we expected in the second half of 2007 as a result of several unusual events and trends. First, from August through year-end, the Company purchased various amounts of commercial paper issued by Lockhart during the global liquidity crisis that emerged in August (See "Off-Balance Sheet Arrangements" on page 85 for a discussion of this off-balance sheet funding entity). On average, the Company held approximately \$763 million of Lockhart commercial paper on its balance sheet during the fourth quarter of 2007. These assets had a very low spread over the cost of funding them, and detracted approximately six basis points from the margin during the quarter. The Company anticipates that this Lockhart-related spread compression will continue and likely will worsen during part or all of 2008.

Second, strong loan growth through the year was funded primarily with interest-bearing deposits and nondeposit funding. Noninterest-bearing deposits, as noted, actually declined during the year. This change in funding mix detracted approximately eight basis points from the margin in the fourth quarter and on average three basis points for the full year compared to 2006. We expect that pressure on the net interest margin may continue in 2008.

Finally, when the Federal Reserve Board (FRB) began lowering short-term interest rates in the second half of the year, deposit pricing adjusted downward much more slowly than expected based on historical patterns. The Company believes this is the result of strong liquidity pressures, and the resulting competition for deposits, that emerged globally in the second half of the year that were experienced by many depository institutions, and in particular some depository institutions in the West that were heavily exposed to residential mortgages, including sub-prime mortgages.

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See the section **Interest Rate Risk** on page 99 for more information regarding the Company's asset-liability management (ALM) philosophy and practice and our interest rate risk management.

Controlling Expenses

During 2007, the Company's efficiency ratio increased to 60.5% from 56.9% for 2006. The efficiency ratio is the relationship between noninterest expense and total taxable-equivalent revenue. The increase in the efficiency ratio to 60.5% for 2007 was primarily due to the effect of the impairment and valuation losses on securities as previously discussed. Therefore, the Company believes that its raw efficiency ratio is not a particularly useful measure of how well operating expenses were contained in 2007; nor does it believe that this measure is particularly useful for its peers in 2007, many of which experienced large losses, impairment charges, and loan loss provisions as a result of market turmoil and deteriorating credit conditions. The Company's efficiency ratio was 56.7% if the impairment and valuation losses on securities are excluded essentially unchanged from 2006 and better reflecting our success in keeping operating expenses under control.

Note: Peer group is defined as bank holding companies with assets > \$10 billion.

Peer data source: SNL Financial Database

Peer information for 2007 is from 3rd quarter 2007 and does not reflect 4th quarter 2007 performance.

Effects of Housing Market, Subprime Mortgage and Global Liquidity Crisis on the Company

It is now well recognized that during the period of roughly 2004-2006 a speculative bubble developed in residential housing in some of the Company's key markets (including Arizona, Southern Nevada, and parts of California), and elsewhere in the country. The volume of mortgage debt outstanding grew at unprecedented rates, fueled by record low interest rates and increasingly lax lending standards as reflected by so-called subprime, Alt-A, and other alternative mortgages. Median housing prices and housing starts both

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increased to record levels during this period. Home equity lending standards also deteriorated as lenders were lulled by low default rates and rising home prices.

The Company itself never originated subprime mortgages, had almost no direct exposure to these loans, and never offered residential option ARM, negative amortization, or piggy-back loans, and purchased very few broker-originated mortgages or brokered home equity loans. However, the Company has a significant business in financing residential land acquisition, development and construction activity. As the FRB began raising interest rates in 2005-2007, it became increasingly apparent that the prevailing levels of housing activity were unsustainable. Permits to build new homes hit a record peak of over 2,155,000 in 2005 and then began to decline. By December 2007, they had fallen to an annualized rate less than 900,000 nationally. This precipitous decline in housing activity has placed significant stress on a number of the Company's homebuilder customers, and therefore on the Company's loan portfolio in this sector. This portfolio peaked in mid 2006 as a percentage of the total loan portfolio and declined as a percentage of the total loan portfolio thereafter. Additionally, the portfolio began to shrink in dollar value terms in the latter half of 2007 in the Southwestern markets. Nonaccrual loans and provisions for loan losses began to increase significantly in late summer 2007, as it became clearer that this housing slump would likely be longer and deeper than originally believed. The Company now believes that these conditions are likely to persist throughout 2008 and into 2009, and that nonaccrual loans, the provision for loan losses, and net charge-offs will likely remain elevated throughout this period.

As home prices in many markets stopped appreciating and then began to decline in 2007, and as interest rates remained elevated, an increasing number of subprime mortgages began to default, and rating agencies began to downgrade ratings on mortgage-backed securities (MBS) and debt obligations developed from pools of MBSs (so-called Collateralized Debt Obligations, or CDOs). Values of such MBSs and CDOs began to decline and the holders of such instruments began to report large losses. At first these were isolated, but by the late summer these securities losses were both growing increasingly large and affecting a growing number of better known and well regarded financial institutions.

As the market lost confidence that it understood these problems and which institutions had exposure to them, liquidity began to be withdrawn from all participants. This affected Lockhart, an off-balance-sheet entity sponsored by Zions Bank, even though it had almost no exposure to subprime instruments. Investors became unwilling to buy so-called asset-backed commercial paper (ABCP) regardless of the quality of the assets backing the commercial paper (CP). Starting in August and continuing through year-end and into 2008, Lockhart had increasing difficulty issuing sufficient CP to fund its assets. The CP that it did issue was at much higher rates than had prevailed historically, and had a much shorter term - often only overnight. The Company and its affiliates purchased Lockhart CP and held it on their balance sheets. These actions enlarged the Company's balance sheet, decreased its net interest margin, decreased its capital ratios, and decreased the fee income earned from Lockhart.

In late December, it became clear that Lockhart would not be able to sell sufficient CP over or shortly after year-end to fully fund its assets. This then triggered the Liquidity Agreement between Zions Bank and Lockhart, and on December 26 and 27, Zions Bank

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purchased \$840 million of securities out of Lockhart at Lockhart's book value. Zions Bank recorded these assets on its balance sheet at fair value, and recognized a pretax loss of \$33.1 million through its income statement. In addition, during the fourth quarter two CDO securities held by Lockhart were downgraded by one rating agency to below AA-, which also triggered the purchase of \$55 million of these securities from Lockhart. These were also recorded on the Company's balance sheet at fair value, and a pretax loss of \$16.5 million was recognized.

Finally, several Real Estate Investment Trusts (REIT) CDOs held on the balance sheet of the Company declined sharply in value during the third and fourth quarters. These declines in value reflected in part the growing illiquidity of the markets for any type of debt securities with real estate exposure. However, in December as these declines in value continued and deepened, the Company conducted an analysis of the risk exposures represented by these CDOs. As a result of this analysis, the Company deemed seven of these CDOs to be other-than-temporarily impaired on December 18th, and recorded a \$94.1 million pretax impairment charge through its income statement to write the securities down to estimated fair value. On December 28th, an additional CDO was determined to be other-than-temporarily impaired and a pretax charge of \$14.5 million was recorded.

Altogether these purchases of securities from Lockhart, and the write-downs of securities held on our balance sheet reduced pretax income during the fourth quarter by \$158.2 million, or \$0.89 per share after-tax. These write-downs were in significant part the result of the turmoil in residential real estate markets and growing illiquidity of financial markets in the second half of the year. There can be no assurance that the Company will not record additional losses in 2008 arising from the same causes or related causes. Elsewhere in this report, including Off-Balance Sheet Arrangements on page 85, we disclose our exposure to and valuation marks to fair value by major asset class in both Lockhart's securities and the Company's available-for-sale securities portfolio.

Capital and Return on 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 met the well capitalized guidelines at December 31, 2007. 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 as have those of its bank subsidiaries that have ratings. At year-end 2007, the Company's tangible common equity ratio decreased to 5.70% compared to 5.98% at the end of 2006. In December 2006, the Company issued \$240 million of noncumulative perpetual preferred stock; this additional capital raised the Company's tangible equity ratio to 6.51% at the end of 2006. The Company announced in the fourth quarter of 2006 that it would target a tangible equity ratio of 6.25 - 6.50%, replacing the previously announced tangible common equity ratio target. At December 31, 2007, the Company's tangible equity ratio was 6.17%, which was slightly below this targeted range.

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In December 2006, the Company resumed its stock repurchase plan, which had been suspended since July 2005 because of the Amegy acquisition. On December 11, 2006, the Board authorized a \$400 million repurchase program. The Company repurchased and retired 3,933,128 shares of its common stock during 2007 at a total cost of \$318.8 million and an average per share price of \$81.04 under this share repurchase authorization. The remaining authorized amount for share repurchases as of December 31, 2007 was \$56.3 million. Due to growing uncertainties in global capital and funding markets, the Company decided that it was prudent to take steps to conserve capital, and suspended its common stock repurchase program on August 16, 2007.

The Company continues to believe that capital in excess of that required to support the risks of the business in which it engages should be returned to the shareholders. However, although the Company has \$56.3 million stock buyback authorization remaining, due to continued capital market disruptions and the potential for deteriorating economic conditions in 2008, it does not currently expect to resume this program until at least late 2008.

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