ZIONS BANCORPORATION /UT/
Form 10-K
February 28, 2008
Table of Contents

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**

(State or other jurisdiction of incorporation or organization)	(Internal Revenue Service Employer Identification Number)
ONE SOUTH MAIN, 15TH FLOOR	
SALT LAKE CITY, UTAH	**84111**
(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
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
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 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, 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

Table of Contents

FORM 10-K TABLE OF CONTENTS

		Page
	PART I	
Item 1.	Business.	4
Item 1A.	Risk Factors.	9
Item 1B.	Unresolved Staff Comments.	11
Item 2.	Properties.	11
Item 3.	Legal Proceedings.	11
Item 4.	Submission of Matters to a Vote of Security Holders.	11
	PART II	
Item 5.	Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.	12
Item 6.	Selected Financial Data.	15
Item 7.	Management s Discussion and Analysis of Financial Condition and Results of Operations.	16
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk.	113
Item 8.	Financial Statements and Supplementary Data.	114
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.	174
Item 9A.	Controls and Procedures.	174
Item 9B.	Other Information.	174
	PART III	
Item 10.	Directors, Executive Officers and Corporate Governance.	174
Item 11.	Executive Compensation.	174
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.	175
Item 13.	Certain Relationships and Related Transactions, and Director Independence.	175
Item 14.	Principal Accounting Fees and Services.	175
	PART IV	
Item 15.	Exhibits, Financial Statement Schedules.	176
Signatures		182

Table of Contents

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;

3

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

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.

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.

Table of Contents

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 1A 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.

Table of Contents

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 Strengthing 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.

Table of Contents

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.

Table of Contents

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

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 polices of governmental and regulatory agencies, in particular the FRB.

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.

Table of Contents

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.

Table of Contents

PART II

ITEM 5. MARKET FOR REGISTANT 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

depositary 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.

Table of Contents

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 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.

Table of Contents

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.

14

Table of Contents

ITEM 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%

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 *(in thousands)*	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.

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 financi 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.

Table of Contents

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.

18

Table of Contents

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.

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.

Table of Contents

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

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.

Table of Contents

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.

Table of Contents

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.

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

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

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.

Table of Contents

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.

Table of Contents

In addition, we believe that the Company should engage or invest in business activities that provide attractive returns on equity. Chart 9 illustrates that as a result of earnings improvement, the exit of underperforming businesses and returning unneeded capital to the shareholders, the Company s return on average common equity improved from 2003 to 2005. The decline in 2006 resulted from the additional common equity held due to additional intangible assets (primarily goodwill and core deposit intangibles) that resulted from the premium paid to acquire Amegy. The further decline in the return on average common equity in 2007 resulted primarily from the securities impairment charges and larger provision for loan losses discussed previously, as well as from the additional intangible assets that resulted from the premium paid to acquire Stockmen s.

As depicted in Chart 10, tangible return on average tangible common equity further improved in 2006 as the Company continued to improve its core operating results. However, it deteriorated significantly in 2007 primarily as a result of the securities impairment and valuation losses and the increased provision for loan losses discussed previously.

Note: Tangible return is net earnings applicable to common

shareholders plus after-tax amortization of core deposit and

other intangibles and impairment losses on goodwill.

Specialty Financial Services and Technology Businesses

In addition to its community and regional banking businesses, the Company operates a number of specialized businesses some of which are national in scope. These businesses include SBA 7(a) loan originations in which the Company ranks in the top 15 nationally. The Company also ranks #1 in the nation in owner occupied real estate loans originated in conjunction with the SBA 504 loan program, and provides public finance advisory and underwriting services, and software and cash management services related to the electronic imaging of checks pursuant to the Check 21 Act. Other such specialty businesses include our Contango Capital Advisors, Inc. (Contango) fee-only wealth management advisory business, and our Employee Stock Option Appreciation Rights Securities (ESOARS) market-based employee stock options expense determination service.

National Real Estate Lending

This business consists of making SBA 504 and similar low loan-to-value, primarily owner-occupied, first mortgage small business commercial loans. During both 2007 and 2006, the Company originated directly and purchased from correspondents approximately $1.5 billion and $1.2 billion of these loans, respectively. From 2000 through 2005, the Company securitized and credit enhanced these loans and sold them to a qualifying special-purpose entity (QSPE), Lockhart, which funded them through the issuance of commercial paper. However during 2007 and 2006, no additional loans were securitized and sold to Lockhart. The Company does not expect to securitize and sell to Lockhart any additional loans going forward, for reasons discussed elsewhere in this report. See Off-Balance Sheet Arrangements on page 85 for further discussion.

Treasury Management, NetDeposit and Related Services

Zions believes it has a significant opportunity to increase its treasury management penetration of commercial customers in its geographic territory, and continued to invest in these capabilities in 2007. An increased level of investment in treasury management, both in technology and service and in sales, is expected to continue in 2008.

In addition to enhancing its general treasury management capabilities, Zions has made significant investments specifically in creating enhanced capabilities in services related to claims processing and reconciliation for medical providers. Included among these investments was the acquisition of the remaining minority interests in P5, Inc. (P5) during 2006; Zions had for several years owned a majority interest in this start-up provider of web-based claims reconciliation services. At year-end 2007, P5 provided these services to over 1,200 medical practitioners, mostly pharmacy outlets, as compared to 800 at year-end 2006. The Company is in the process of integrating P5 s services and other payment processing services into its more traditional treasury management products and services for the medical provider industry. P5 also has applied for and has been granted several patents covering key aspects of Internet-based medical claims processing and lending against medical claims submitted through the Internet. It also is considering appropriate steps to enforce its intellectual property rights.

We also continue to invest in our NetDeposit, Inc. (NetDeposit) subsidiary that was created to develop and sell software and processes that facilitate electronic check clearing. With the implementation of the Check 21 Act late in 2004, this company and its products are well positioned to take advantage of the revolution in check processing now underway in America. During 2007,

Table of Contents

NetDeposit reduced earnings by $0.05 per diluted share, compared to $0.07 per share in 2006. Revenues for 2007 increased 32.5% from 2006. During 2007, NetDeposit largely completed the build-out of its full suite of intended products, and launched major upgrades of older products. Consequently, late in 2007 we were able to slow the rate of additional investment in this business and reduce expenses. We currently believe that NetDeposit is likely to reach break-even late in 2008.

The Company generates revenues in several ways from this business. First, NetDeposit licenses software, sells consulting services, and resells scanners to other banks and processors. Newly announced customers since January 1, 2007 include US Merchant Services, Whitney Bank, Farm Bureau Bank, United Commercial Bank, and Home National Bank. These activities initially generate revenue from scanner sales, consulting, and licensing fees. Deployment-related fees related to work station site licenses and check processing follow, but have been slower to increase than expected as deployment throughout the industry has been slower than expected.

Second, NetDeposit has licensed its software to the Company s banks, which use the capabilities of the software to provide state-of-the art cash management services to business customers and to correspondent banks. At year-end, over 6,000 Zions affiliate bank cash management customers were using NetDeposit, and we processed over $8.9 billion of imaged checks from our cash management customers in the month of December.

Third, Zions Bank uses NetDeposit software to provide check-clearing services to correspondent banks. Zions Bank has contracts and co-marketing agreements with a number of bank processors and resellers.

NetDeposit seeks to protect its intellectual property in business methods related to the electronic processing and clearing of checks. During 2007 two patents were issued to NetDeposit and several additional patent applications are pending. The Company believes that one or more competitors may be infringing on its patents and is now considering appropriate steps to enforce its intellectual property rights.

Wealth Management

We have extensive relationships with small and middle-market businesses and business owners that we believe present an unusual opportunity to offer wealth management services. As a result, the Company established a wealth management business, Contango, and launched the business in the latter half of 2004. The business offers financial and tax planning, trust and inheritance services, over-the-counter, exchange-traded and synthetic derivative and hedging strategies, quantitative asset allocation and risk management and a global array of investment strategies from equities and bonds through alternative and private equity investments. At year-end, Contango had over $1.3 billion of client assets under management and a strong pipeline of referrals from our affiliate banks, as compared to over $885 million under management at December 31, 2006. At December 31, 2007, the Company had total discretionary assets under management of $2.9 billion, including assets managed by Contango, Amegy, and Western National Trust Company, a wholly-owned subsidiary of Zions Bank. During 2007, Contango generated net losses of $0.08 per diluted share compared with $0.07 per diluted share during 2006.

Employee Stock Option Appreciation Rights

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 123R, *Share-Based Payment*, which is a revision of SFAS No. 123, *Accounting for Stock-Based Compensation*. We have developed a market-based method for the valuation of employee stock options for SFAS 123R purposes. This method uses an online auction to price a tracking instrument that measures the fair value of the option grant. On January 25, 2007, we received notice from the Office of the Chief Accountant of the Securities and Exchange Commission (SEC) that they concur with our view that our tracking instrument, with modifications described in the notification, is sufficiently designed to be used for SFAS 123R.

From May 4-7, 2007, the Company successfully conducted an auction of its ESOARS. As allowed by SFAS 123R, the Company used the results of that auction to value its employee stock options issued on May 4. The value established was $12.06 per option, which the Company estimates is approximately 14% 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.

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 SFAS 123R. 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 Company has not as yet conducted ESOARS auctions on behalf of any non-Zions companies, but anticipates that it is likely to do so in 2008.

Challenges to Operations

As we enter 2008, we see several significant challenges to improving performance.

Global capital and funding markets remain under significant stress, and most observers are increasing their forecast probabilities for a recession in the U. S. economy. We believe this will likely have several ramifications for the Company. First, the continued ability of Lockhart to issue sufficient commercial paper to fund its assets will remain uncertain. Therefore, it is quite possible that the Company will continue to purchase Lockhart s commercial paper, and/or purchase assets from Lockhart pursuant to the Liquidity Agreement. Downgrades of additional Lockhart securities also are possible, which would, if sufficiently severe, trigger their purchase by Zions Bank pursuant to the Liquidity Agreement. All of these actions are likely to keep the Company s balance sheet larger than it otherwise would like, and to depress its net interest margin. The same conditions may lead to further weaknesses in securities we own that are collateralized by junior debt and trust preferred debt including REIT CDOs.

Table of Contents

Continued weakness in the residential housing construction markets, particularly in Arizona, Nevada and California, is likely to result in continued higher levels of loan loss provisions and nonperforming assets than has been experienced by the Company in recent years. If the economy does slip into a more broad-based recession, this credit quality weakness could spread to other sectors of our loan portfolio, although we have seen no material indication of that yet.

We expect that commercial real estate loans, which declined in CB&T and NSB in the fourth quarter, may continue to decline in our Southwestern markets throughout the first half of 2008. However, commercial loan growth has been strong, particularly at Zions Bank, Amegy and Vectra, which has kept aggregate Company loan growth robust. In addition, the Company has been able to obtain somewhat better pricing (as measured by spread over matched maturity cost of funds) on a number of newly originated loans in recent months. We expect that this pricing improvement may continue for at least the first part of 2008.

However, due to the previously discussed general tight conditions for funding of all types, as well as large needs for funding that are specific to several major competitors in our market, deposit pricing has not adjusted as expected in response to recent rate reductions by the Federal Reserve. Also, deposit growth, particularly lower cost types of deposits, has remained relatively weak. These factors, combined with the impact of Lockhart-related actions on our assets and liabilities, means that our net interest margin came under more downward pressure than expected in the second half of 2007. We now expect that these pressures on the net interest margin may persist in the first half of 2008.

Compliance with regulatory requirements poses an ongoing challenge. In particular, regulatory scrutiny of compliance programs related to Anti-Money Laundering (AML) and the Bank Secrecy Act (BSA) continues to increase. 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 these complex regulations.

We have a number of business initiatives that, while we believe they will ultimately produce profits for our shareholders, currently generate expenses in excess of revenues. Three significant initiatives are Contango, a wealth management business started in 2004, NetDeposit, our subsidiary that provides electronic check processing systems, and the increased investments in treasury management and medical claims capabilities as previously discussed. We will need to manage these businesses carefully to ensure that expenses and revenues develop in a planned way and that profits are not impaired to an extent that is not warranted by the opportunities these businesses provide.

Finally, competition from credit unions continues to pose a significant challenge. The aggressive expansion of some credit unions, far beyond the traditional concept of a common bond, presents a competitive threat to Zions and many other banking companies. While this is an issue in all of our markets, it is especially acute in Utah where two of the five largest financial institutions (measured by local deposits) are credit unions that are exempt from all state and federal income tax.

Table of Contents

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.

Securitization Transactions

The Company from time to time enters into securitization transactions that involve transfers of loans or other receivables to off-balance sheet QSPEs as defined in SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. In most instances, we provide the servicing on these loans as a condition of the sale. In addition, as part of these transactions, the Company may retain a cash reserve account, an interest-only strip, or in some cases a subordinated tranche, all of which are considered to be retained interests in the securitized assets.

Whenever we initiate a securitization, the first determination that we must make in connection with the transaction is whether the transfer of the assets constitutes a sale under U.S. generally accepted accounting principles (GAAP). If it does, the assets are removed from the Company s consolidated balance sheet with a gain or loss recognized. Otherwise, the transfer is considered a financing transaction, resulting in no gain or loss being recognized and the recording of a liability on the Company s consolidated balance sheet. The financing treatment could have unfavorable financial implications including an adverse effect on Zions results of operations and capital ratios. However, all of the Company s securitizations have been structured to meet the existing criteria for sale treatment.

Another determination that must be made is whether the special-purpose entity involved in the securitization is independent from the Company or whether it should be included in its consolidated financial statements. If the entity s activities meet certain criteria for it to be considered a QSPE, no consolidation is required. Since all of the Company s securitizations have been with entities that have met the requirements to be treated as QSPEs, they have met the existing accounting criteria for nonconsolidation.

Table of Contents

Finally, we must make assumptions to determine the amount of gain or loss resulting from the securitization transaction as well as the subsequent carrying amount for the retained interests. In determining the gain or loss, we use assumptions that are based on the facts surrounding each securitization. Using alternatives to these assumptions could affect the amount of gain or loss recognized on the transaction and, in turn, the Company s results of operations. In valuing the retained interests, since quoted market prices of these interests are generally not available, we must estimate their value based on the present value of the future cash flows associated with the securitizations. These value estimations require the Company to make a number of assumptions including:

the method to use in computing the prepayments of the securitized loans;

the annualized prepayment speed of the securitized loans;

the weighted average life of the loans in the securitization;

the expected annual net credit loss rate; and

the discount rate for the residual cash flows.

Quarterly, the Company reviews its valuation assumptions for retained beneficial interests under the rules contained in Emerging Issues Task Force Issue No. 99-20, *Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets*, (EITF 99-20). These rules require the Company to periodically update its assumptions used to compute estimated cash flows for its retained beneficial interests and compare the net present value of these cash flows to the carrying value. The Company complies with EITF 99-20 by quarterly evaluating and updating its assumptions including the default assumption as compared to the historical credit losses and the credit loss expectation of the portfolio, and its prepayment speed assumption as compared to the historical prepayment speeds and prepayment rate expectation. Changes in certain 2007 assumptions from 2006 for securitizations were made in accordance with this process.

At December 31, 2007 the Company had seven small business securitizations and one home equity loan securitization. The retained beneficial interests for certain of the small business securitizations required impairment charges during 2007 and 2006 following the application of EITF 99-20. For the twelve months ended December 31, 2007, the Company incurred impairment charges of $12.6 million before income taxes as compared to impairment charges of $7.1 million during 2006.

Schedule 3 summarizes the key economic assumptions that we used for measuring the values of the retained interests at the date of sale for securitizations during 2006 and 2005. No securitizations of small business loans were completed during 2007 or 2006. Also in December 2006, the Company ceased selling loans into its revolving home equity loan securitization.

Table of Contents

SCHEDULE 3

KEY ECONOMIC ASSUMPTIONS USED TO VALUE

RETAINED INTERESTS

	Home equity loans	Small business loans
2006:		
Prepayment method	na(1)	na(2)
Annualized prepayment speed	na(1)	na(2)
Weighted average life (in months)	11	na(2)
Expected annual net loss rate	0.10%	na(2)
Residual cash flows discounted at	15.0%	na(2)
2005:		
Prepayment method	na(1)	CPR(3)
Annualized prepayment speed	na(1)	4 - 15 Ramp in 25 months(4)
Weighted average life (in months)	12	69
Expected annual net loss rate	0.10%	0.40%
Residual cash flows discounted at	15.0%	15.0%

(1) The weighted average life assumption includes consideration of prepayment to determine the fair value of the capitalized residual cash flows.
(2) No small business loan securitization sales occurred in 2006 and 2007.
(3) Constant Prepayment Rate.
(4) Annualized prepayment speed begins at 4% and increases at equal increments to 15% in 25 months.

Schedule 4 sets forth the sensitivity of the current fair value of the capitalized residual cash flows at December 31, 2007 to immediate 10% and 20% adverse changes to those key assumptions that reflect the current portfolio assumptions.

36

Table of Contents

SCHEDULE 4

SENSITIVITY OF RESIDUAL CASH FLOWS TO ADVERSE CHANGES

OF CURRENT PORTFOLIO KEY VALUATION ASSUMPTIONS

(In millions of dollars and annualized percentage rates)		Home equity loans	Small business loans
Carrying amount/fair value of capitalized residual cash flows		$ 0.8	49.8
Weighted average life (in months)		13.6	31 - 41
Prepayment speed assumption		na(1)	20.0% - 26.0%
Decrease in fair value due to adverse change	10%	$ 0.1	1.2
	20%	$ 0.1	2.2
Expected credit losses		0.10%	0.50% - 1.00%
Decrease in fair value due to adverse change	10%	$ < 0.1	1.6
	20%	$ < 0.1	3.2
Residual cash flows discount rate		12.0%	16.0%
Decrease in fair value due to adverse change	10%	$ < 0.1	1.1
	20%	$ < 0.1	2.2

(1) The weighted average life assumption includes consideration of prepayment to determine the fair value of the capitalized residual cash flows.

Zions Bank provides a liquidity facility for a fee to a QSPE securities conduit, Lockhart, which purchases U.S. Government and AAA-rated securities, which are funded through the issuance of its commercial paper. At December 31, 2007 approximately 53% of the AAA-rated securities held by Lockhart were created by the Company s securitization of small business loans. Zions Bank also receives a fee in exchange for providing hedge support and administrative and investment advisory services.

Lockhart is an off-balance sheet QSPE as defined by SFAS 140. Should Zions Bancorporation and affiliates together own more than 90% of Lockhart s outstanding commercial paper, Lockhart would cease to be a QSPE and would be required to be consolidated. Zions Bancorporation affiliates owned 34% and 68% of the outstanding commercial paper of Lockhart at December 31, 2007 and February 15, 2008, respectively.

See Off-Balance Sheet Arrangements beginning on page 85 for further discussion of Lockhart including the Liquidity Agreement and security purchases from Lockhart required by the Liquidity Agreement, assets held by Lockhart, and information regarding the impact to the Company if it were required to consolidate Lockhart or purchase its remaining assets.

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 are individually evaluated in accordance with SFAS No. 114, *Accounting by Creditors for Impairment of a Loan,* to determine the level of impairment and establish a specific reserve. A specific allowance may also be established for adversely graded loans below $500 thousand when it is determined that the risk associated with the loan differs significantly from the risk factor amounts established for its loan segment and risk grade.

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 twelve-month period and comparing projected losses to actual loss experience, the model estimates the expected losses in dollars for the forecasted period. 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 nine product groupings with similar risk profiles.

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 the imprecision inherent in most 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 all of the 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 $250 million of nonclassified loans were to

Table of Contents

be immediately classified as special mention, substandard and doubtful in the same proportion as the existing portfolio of the criticized and classified loans, the amount of the allowance for loan losses at December 31, 2007 would increase by approximately $15.3 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 are in the process of developing potential changes to enhance our methodology for determining the allowance for loan losses. The potential changes include incorporating a two-factor grading system to include probability of default and loss given default. We currently anticipate that these changes will be phased in during 2008 and 2009.

Nonmarketable Equity Securities

The Company either directly, through its banking subsidiaries or through its Small Business Investment Companies (SBIC), owns investments in venture funds and other capital securities that are not publicly traded and are not accounted for using the equity method. Since these nonmarketable securities have no readily ascertainable fair values, they are reported at amounts we have estimated to be their fair values. In estimating the fair value of each investment, we must apply judgment using certain assumptions. Initially, we believe that an investment s cost is the best indication of its fair value, provided that there have been no significant positive or negative developments subsequent to its acquisition that indicate the necessity of an adjustment to a fair value estimate. If and when such an event takes place, we adjust the investment s cost by an amount that we believe reflects the nature of the event. In addition, any minority interests in the Company s SBICs reduce its share of any gains or losses incurred on these investments.

As of December 31, 2007, the Company s total investment in nonmarketable equity securities not accounted for using the equity method was $103.7 million, of which its equity exposure to investments held by the SBICs, net of related minority interest of $28.7 million, was $44.3 million. In addition, exposure to non-SBIC equity investments not accounted for by the equity method was $30.7 million.

The values we have assigned to these securities where no market quotations exist are based upon available information and may not necessarily represent amounts that ultimately will be realized on these securities. Key information used in valuing these securities include the projected financial performance of these companies, the evaluation of the investee company s management team, and other industry, economic and market factors. If there had been an active market for these securities, the carrying value may have been significantly different from the amounts reported. In addition, since Zions Bank and Amegy are the principal business segments holding these investments, they would experience the largest impact of any changes in the fair values of these securities.

Table of Contents

Accounting for Goodwill

Goodwill arises from business acquisitions and represents the value attributable to the unidentifiable intangible elements in our acquired businesses. Goodwill is initially recorded at fair value and is subsequently evaluated at least annually for impairment in accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*. The Company performs this annual test as of October 1 of each year. Evaluations are also performed on a more frequent basis if events or circumstances indicate impairment could have taken place. Such events could include, among others, a significant adverse change in the business climate, 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 call for 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; comparable acquisitions of financial services companies in the Western and Southwestern states; 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 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.

We use a similar methodology in evaluating impairment in nonbank subsidiaries but generally use companies and acquisition transactions nationally in the analysis.

If step 1 indicates a potential impairment of a reporting unit, step 2 requires us to estimate the implied fair value 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. If the 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 the calculated value.

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, changes in revenue growth trends, cost structures and technology, changes in discount rates, changes in stock and mergers and acquisitions market values, and changes in industry or market sector conditions.

40

During the fourth quarter of 2007, we performed our annual goodwill impairment evaluation for the entire organization, effective October 1, 2007. Step 1 was performed by using both market value and transaction value approaches for all reporting units and, in certain cases, the discounted cash flow approach was also used. In the market value approach, we identified a group of publicly traded banks that are similar in size and location to Zions subsidiary banks and then used valuation multiples developed from the group to apply to our subsidiary banks. In the transaction value approach, we reviewed the purchase price paid in recent mergers and acquisitions of banks similar in size to Zions subsidiary banks. From these purchase prices we developed a set of valuation multiples, which we applied to our subsidiary banks. In instances where the discounted cash flow approach was used, we discounted projected cash flows to their present value to arrive at our estimate of fair value.

Upon completion of step 1 of the evaluation process, we concluded that no potential impairment existed for any of the Company s reporting units. In reaching this conclusion, we determined that the fair values of goodwill exceeded the recorded values of goodwill. Since this evaluation process required us to make estimates and assumptions with regard to the fair value of the Company s reporting units, 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. However, had our estimated fair values been 10% lower, there would still have been no indication of impairment for any of our banking reporting units.

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.

All derivative instruments are carried on the balance sheet at fair value. As of December 31, 2007, the recorded amounts of derivative assets, classified in other assets, and derivative liabilities, classified in other liabilities, were $307.5 million and $104.0 million, respectively. Since there are no market value quotes for the specific derivative instruments that the Company holds, we must estimate their fair values. This estimate is 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. As a result, the estimated values of these derivatives will typically change over time as cash is received and paid and also 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

Table of Contents

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 SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, may not qualify in the future as highly effective, as defined by the Statement, as well as the risk that hedged transactions in cash flow hedging relationships may no longer be considered probable to occur. During 2007, an immaterial amount of hedge ineffectiveness was required to be reported in earnings on the Company s cash flow hedging relationships. Further, new interpretations and guidance related to SFAS 133 continue to be issued and we cannot predict the possible impact that they will have on our use of derivative instruments in the future.

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 outstanding as of December 31, 2007 that were designated using the shortcut method, as described in SFAS 133, paragraph 68. The Company believes that the shortcut method continues to be appropriate for those hedges because we have precisely complied with the documentation requirements and each of the applicable shortcut criteria described in paragraph 68.

In addition, the Company has a program to provide derivative financial instruments to certain customers, acting as an intermediary in the transaction. Upon issuance, all of these customer derivatives are immediately hedged by offsetting derivative contracts, such that the Company has minimized the net risk exposure resulting from such transactions.

Share-Based Compensation

As discussed in Note 17 of the Notes to Consolidated Financial Statements, effective January 1, 2006, we adopted SFAS No. 123R, *Share-Based Payment*, which requires all share-based payments to employees, including grants of employee stock options, to be recognized in the statement of income based on their fair values.

The Company used the Black-Scholes option-pricing model to estimate the value of stock options for all stock option grants prior to 2007 and off cycle stock option grants during 2007. 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. Use of these assumptions is subjective and requires judgment as described in Note 17.

From May 4-7, 2007, the Company successfully conducted an auction of its ESOARS. As allowed by SFAS No. 123R, the Company used the results of that auction to value its primary grant of employee stock options issued on May 4, 2007. The value established was $12.06 per option, which the Company estimates is approximately 14% 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 2007 stock option expense for these grants was $2.7 million. If the ESOARS value was 10% lower, the expense would be $2.5 million and if the ESOARS value was 10% higher, the expense would be $3.0 million.

Table of Contents

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 SFAS 123R. 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 SFAS 123R decreased income before income taxes by $15.8 million and net income by approximately $10.8 million for 2007, or $0.10 per diluted share. See Note 17 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 inherently complex laws, related regulations, and case law. 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 reinterpretation based on management s ongoing assessment of facts and evolving case law.

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 quarterly basis, if business events or circumstances warrant. Reserves for contingent tax liabilities are reviewed quarterly for adequacy based upon developments in tax law and the status of examinations or audits. During 2007, the Company reduced its liability for unrecognized tax benefits by approximately $12.4 million, net of any federal and/or state tax benefits. Of this reduction, $8.6 million decreased the Company s tax provision for 2007 and $3.8 million reduced goodwill and tax-related balance sheet accounts. The Company has tax reserves at December 31, 2007 of approximately $16.2 million, net of federal and/or state benefits, for uncertain tax positions primarily for various state tax contingencies in several jurisdictions.

Effective January 1, 2007, the Company adopted FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109, Accounting for Income Taxes*. As a result of adopting this new accounting guidance, the Company reduced its existing liability for unrecognized tax benefits by approximately $10.4 million at January 1, 2007 and recognized a cumulative effect adjustment as an increase to retained earnings. See Note 15 of the Notes to Consolidated Financial Statements for additional information on income taxes.

Valuation of Collateralized Debt Obligations Available-for-Sale Securities

During the third quarter of 2007, the Company enhanced its methodology to value certain CDOs, which are included in available-for-sale investment securities on the balance sheet. The Company uses a whole market price quote method.

The whole market price quote method for CDOs incorporates matrix pricing, which uses the prices of similarly rated and type of securities to value comparable securities held by the Company and includes restricted single dealer quotes. The enhancement was made due to dealers reluctance to provide unrestricted price quotes and to provide a more representative view of comparable instruments. The mechanics of the whole market price quote method included matrix market pricing when comparable securities pricing was available for securities on our balance sheet. Where comparable pricing was not available, the matrix incorporated single dealer quotes.

The pricing methodology is consistent with the Level 2 input pricing under the fair value measurement framework of SFAS No. 157, *Fair Value Measurements*. The Company will adopt SFAS 157 effective January 1, 2008. See Notes 1 and 4 of the Notes to Consolidated Financial Statements for further discussion. Also see Investment Securities Portfolio beginning on page 77 for further information.

Pending Adoption of Accounting Pronouncements

Effective January 1, 2008, the Company will adopt SFAS No. 157, *Fair Value Measurements* and SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. SFAS 157 defines fair value, establishes a consistent framework for measuring fair value, and enhances disclosures about fair value measurements. Adoption of SFAS 157 has been delayed one year for the measurement of all nonfinancial assets and nonfinancial liabilities. The Company does not expect that the adoption of SFAS 157 will have a material effect on the consolidated financial statements. SFAS 159 allows for the option to report certain financial assets and liabilities at fair value initially and at subsequent measurement with changes in fair value included in earnings. The option may be applied instrument by instrument, but is on an irrevocable basis. The Company has determined to apply the fair value option to one available-for-sale trust preferred REIT CDO security and three retained interests on selected small business loan securitizations. In conjunction with the adoption of SFAS 159 on the selected REIT CDO security, the Company plans to implement a directional hedging program in an effort to hedge the credit exposure the Company has to homebuilders in its REIT CDO portfolio. The cumulative effect of adopting SFAS 159 is estimated to reduce the beginning balance of retained earnings at January 1, 2008 by approximately $11.5 million, comprised of a decrease of $11.7 million for the REIT CDO and an increase of $0.2 million for the three retained interests.

RESULTS OF OPERATIONS

As previously disclosed, the Company completed its acquisition of Stockmen s, a bank holding company with $1.2 billion in assets on January 17, 2007, and the subsequent sale of its 11 California branches on November 2, 2007, and the purchase of Intercon on September 6, 2007 with $115 million in assets. All comparisons of 2007 to 2006 and prior periods reflect the effects of these acquisitions.

As previously disclosed, the Company completed its acquisition of Amegy Bancorporation, Inc. in December 2005. All comparisons of 2007 and 2006 to 2005 and prior periods reflect the effects of the Amegy acquisition.

Net Interest Income, Margin and Interest Rate Spreads

Net interest income is the difference between interest earned on assets and interest incurred on liabilities. Taxable-equivalent net interest income is the largest component of Zions revenue. For the year 2007, it was 82.2% of our taxable-equivalent revenues, compared to 76.4% in 2006 and 76.0% in 2005. The increased percentage for 2007 was mainly due to the $158.2 million of impairment and valuation losses on securities which reduced total taxable-equivalent noninterest revenues. On a taxable-equivalent basis, net interest income for 2007 was up $119.1 million or 6.7% from 2006, which was up $406.6 million or 29.4% from 2005. The increase in taxable-equivalent net interest income for 2007 was driven by strong organic loan growth that increased interest-earning assets, partially offset by a 20 basis point decrease in the net interest margin compared to 2006. The net interest margin for 2006 was up 5 basis points from 2005. 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 98 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 consistently 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 4.43% in 2007 compared with 4.63% in 2006 and 4.58% in 2005. For the fourth quarter of 2007, the Company s net interest margin was 4.27%. The margin compression for 2007 compared to 2006 resulted from the Company s strong loan growth being funded mainly by higher cost deposit products and nondeposit borrowings, a decline in noninterest-bearing demand deposits, competitive pricing pressures, and purchases of Lockhart commercial paper. Higher yielding average loans and leases increased $4.4 billion from 2006 while lower yielding average money market investments and securities slightly decreased by $32.4 million. Average interest-bearing deposits increased $3.2 billion from 2006 with most of the increase in higher cost Internet money market, time and foreign deposits. Average borrowed funds increased $850 million compared to 2006. Average noninterest-bearing deposits were 26.2% of total average deposits for 2007, compared to 29.0% for 2006. Average time deposits greater than $100,000 increased to 13.3% of total average deposits compared to 10.0% for 2006.

The increased net interest margin for 2006 compared to 2005 resulted mainly from an improved asset and liability mix and from the impact of increasing short-term interest rates on Zions balance sheet. Higher yielding average loans and leases increased $8.4 billion from 2005 while lower yielding average money market investments and securities increased $128 million. The net increase in interest-earnings assets was mainly funded by increases in lower cost average interest-bearing deposits, which increased $5.8 billion and average noninterest-bearing deposits which increased $2.1 billion, while average borrowed funds increased $1.1 billion from 2005.

The Company expects to continue its efforts to maintain a slightly asset-sensitive position with regard to interest rate risk. However, our estimates of the Company s actual position are 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.

During the third and fourth quarters of 2007, the FRB lowered the federal funds rate by 100 basis points. This decrease had a rapid impact on loans tied to LIBOR and the prime rate as these rates were lowered by 50, 25, and 25 basis points on September 18th, October 31st, and December 11th, respectively. Due to the intense competition for bank deposits, the rates paid to consumers for their deposits were lowered less than 100 basis points. Competitive pressures on deposit rates impeded our ability to reprice deposits, which had a negative impact on the net interest margin during the fourth quarter of 2007. We expect that these competitive pricing pressures may continue into 2008. See Interest Rate Risk on page 99 for further information.

Schedule 5 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.

Table of Contents

SCHEDULE 5

DISTRIBUTION OF ASSETS, LIABILITIES, AND SHAREHOLDERS EQUITY

AVERAGE BALANCE SHEETS, YIELDS AND RATES

(Amounts in millions)	2007			2006		
	Average balance	**Amount of interest(1)**	**Average rate**	**Average balance**	**Amount of interest(1)**	**Average rate**
ASSETS:						
Money market investments	$ 834	43.7	5.24%	$ 479	24.7	5.16%
Securities:						
Held-to-maturity	684	47.7	6.97	645	44.1	6.83
Available-for-sale	4,661	269.2	5.78	4,992	285.5	5.72
Trading account	61	3.3	5.40	157	7.7	4.91
Total securities	5,406	320.2	5.92	5,794	337.3	5.82
Loans:						
Loans held for sale	233	14.9	6.37	261	16.5	6.30
Net loans and leases(2)	36,575	2,852.7	7.80	32,134	2,463.9	7.67
Total loans and leases	36,808	2,867.6	7.79	32,395	2,480.4	7.66
Total interest-earning assets	43,048	3,231.5	7.51	38,668	2,842.4	7.35
Cash and due from banks	1,477			1,476		
Allowance for loan losses	(391)			(349)		
Goodwill	2,005			1,887		
Core deposit and other intangibles	181			181		
Other assets	2,527			2,379		
Total assets	$ 48,847			$ 44,242		
LIABILITIES:						
Interest-bearing deposits:						
Savings and NOW	$ 4,443	41.4	0.93	$ 4,180	30.9	0.74
Money market	10,351	358.1	3.46	10,684	328.2	3.07
Internet money market	1,611	79.8	4.95	986	46.2	4.68
Time under $100,000	2,529	110.7	4.38	2,065	77.4	3.75
Time $100,000 and over	4,779	231.2	4.84	3,272	142.6	4.36
Foreign	2,710	130.5	4.81	2,065	95.5	4.62
Total interest-bearing deposits	26,423	951.7	3.60	23,252	720.8	3.10
Borrowed funds:						
Securities sold, not yet purchased	30	1.4	4.56	66	3.0	4.57
Federal funds purchased and security repurchase agreements	3,211	148.5	4.62	2,838	124.7	4.39
Commercial paper	256	13.8	5.41	220	11.4	5.20
FHLB advances and other borrowings:						
One year or less	1,099	55.0	5.00	479	25.3	5.27

Over one year	131	7.6	5.77	148	8.6	5.80
Long-term debt	2,365	145.4	6.15	2,491	159.6	6.41
Total borrowed funds	7,092	371.7	5.24	6,242	332.6	5.33
Total interest-bearing liabilities	33,515	1,323.4	3.95	29,494	1,053.4	3.57
Noninterest-bearing deposits	9,401			9,508		
Other liabilities	647			697		
Total liabilities	43,563			39,699		
Minority interest	36			34		
Shareholders equity:						
Preferred equity	240			16		
Common equity	5,008			4,493		
Total shareholders equity	5,248			4,509		
Total liabilities and shareholders equity	$ 48,847			$ 44,242		
Spread on average interest-bearing funds			3.56%			3.78%
Taxable-equivalent net interest income and net yield on interest-earning assets		1,908.1	4.43%		1,789.0	4.63%

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

Table of Contents

2005			2004			2003		
Average balance	Amount of interest(1)	Average rate	Average balance	Amount of interest(1)	Average rate	Average balance	Amount of interest(1)	Average rate
$ 988	31.7	3.21%	$ 1,463	16.4	1.12%	$ 1,343	13.0	0.97%
639	44.2	6.93	500	34.3	6.86			
4,021	207.7	5.16	3,968	174.5	4.40	3,736	171.5	4.59
497	19.9	4.00	732	29.6	4.04	711	24.7	3.47
5,157	271.8	5.27	5,200	238.4	4.59	4,447	196.2	4.41
205	9.8	4.80	159	5.1	3.16	220	8.3	3.77
23,804	1,618.0	6.80	20,887	1,252.8	6.00	19,105	1,194.2	6.25
24,009	1,627.8	6.78	21,046	1,257.9	5.98	19,325	1,202.5	6.22
30,154	1,931.3	6.40	27,709	1,512.7	5.46	25,115	1,411.7	5.62
1,123			1,026			953		
(285)			(272)			(282)		
746			648			711		
66			65			77		
1,799			1,760			1,630		
$ 33,603			$ 30,936			$ 28,204		
$ 3,636	17.5	0.48	$ 3,671	14.1	0.38	$ 3,344	15.4	0.46
9,086	182.5	2.01	8,540	96.4	1.13	8,063	88.1	1.09
756	20.6	2.72	606	10.7	1.76	467	8.1	1.74
1,523	41.7	2.74	1,436	27.5	1.92	1,644	36.9	2.25
1,713	54.7	3.19	1,244	29.2	2.35	1,290	33.3	2.58
737	23.3	3.16	338	4.4	1.30	186	1.7	0.89
17,451	340.3	1.95	15,835	182.3	1.15	14,994	183.5	1.22
475	17.7	3.72	625	24.2	3.86	538	20.4	3.80
2,307	63.6	2.76	2,682	32.2	1.20	2,605	25.5	0.98
149	5.0	3.36	201	3.0	1.51	215	3.0	1.41
204	5.9	2.90	252	2.9	1.14	145	1.9	1.32
228	11.5	5.05	230	11.7	5.08	237	12.3	5.19

1,786	104.9	5.88	1,659	74.3	4.48	1,277	57.3	4.48
5,149	208.6	4.05	5,649	148.3	2.62	5,017	120.4	2.40
22,600	548.9	2.43	21,484	330.6	1.54	20,011	303.9	1.52
7,417			6,269			5,259		
533			501			444		
30,550			28,254			25,714		
26			23			22		
3,027			2,659			2,468		
3,027			2,659			2,468		
$ 33,603			$ 30,936			$ 28,204		
		3.97%			3.92%			4.10%
	1,382.4	4.58%		1,182.1	4.27%		1,107.8	4.41%

48

Table of Contents

Schedule 6 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 6

ANALYSIS OF INTEREST CHANGES DUE TO VOLUME AND RATE

	2007 over 2006			2006 over 2005		
	Changes due to		Total	Changes due to		Total
(In millions)	Volume	Rate(1)	changes	Volume	Rate(1)	changes
INTEREST- EARNING ASSETS:						
Money market investments	$ 18.6	0.4	19.0	(16.3)	9.3	(7.0)
Securities:						
Held-to-maturity	2.7	0.9	3.6	0.5	(0.6)	(0.1)
Available-for-sale	(18.9)	2.6	(16.3)	53.7	24.1	77.8
Trading account	(4.7)	0.3	(4.4)	(13.6)	1.4	(12.2)
Total securities	(20.9)	3.8	(17.1)	40.6	24.9	65.5
Loans:						
Loans held for sale	(1.7)	0.1	(1.6)	3.2	3.5	6.7
Net loans and leases(2)	345.7	43.1	388.8	619.1	226.8	845.9
Total loans and leases	344.0	43.2	387.2	622.3	230.3	852.6
Total interest-earning assets	$ 341.7	47.4	389.1	646.6	264.5	911.1
INTEREST-BEARING LIABILITIES:						
Interest-bearing deposits:						
Savings and NOW	$ 2.1	8.4	10.5	4.0	9.4	13.4
Money market	(10.5)	40.4	29.9	36.5	109.2	145.7
Internet money market	30.9	2.7	33.6	7.6	18.0	25.6
Time under $100,000	19.0	14.3	33.3	17.5	18.2	35.7
Time $100,000 and over	71.5	17.1	88.6	62.7	25.2	87.9
Foreign	31.0	4.0	35.0	57.5	14.7	72.2
Total interest-bearing deposits	144.0	86.9	230.9	185.8	194.7	380.5
Borrowed funds:						
Securities sold, not yet purchased	(1.6)		(1.6)	(15.2)	0.5	(14.7)
Federal funds purchased and security repurchase agreements	17.1	6.7	23.8	17.2	43.9	61.1
Commercial paper	1.9	0.5	2.4	3.0	3.4	6.4
FHLB advances and other borrowings:						
One year or less	31.0	(1.3)	29.7	12.1	7.3	19.4
Over one year	(1.0)		(1.0)	(4.0)	1.1	(2.9)
Long-term debt	(7.8)	(6.4)	(14.2)	44.5	10.2	54.7

Total borrowed funds	39.6	(0.5)	39.1	57.6	66.4	124.0
Total interest-bearing liabilities	$ 183.6	86.4	270.0	243.4	261.1	504.5
Change in taxable-equivalent net interest income	$ 158.1	(39.0)	119.1	403.2	3.4	406.6

(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.

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 88 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 2007, the provision for loan losses was $152.2 million, compared to $72.6 million for 2006 and $43.0 million for 2005. The increased provision for 2007 resulted mainly from significant softening in our credit quality, particularly in relation to residential land development and construction activity in the Southwest, with Arizona, California, and Nevada being most severely impacted. Net loan and lease charge-offs increased to $63.6 million in 2007 up from $45.8 million in 2006 and $25.0 million in 2005. The $17.8 million increase during 2007 was primarily driven by higher charge-offs in Amegy and higher charge-offs in NBA, CB&T, and NSB primarily related to residential land development and construction loans. The provision for 2006 reflected increased provisioning driven by loan growth and a $10.9 million loss at NBA on an equipment lease related to an alleged accounting fraud at a water bottling company.

Including the provision for unfunded lending commitments, the total provision for credit losses was $154.0 million for 2007, $73.8 million for 2006, and $46.4 million for 2005. From period to period, the amounts of unfunded lending commitments may be subject to sizeable fluctuation due to changes in the timing and volume of loan originations and associated funding.

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 2007 comprised 17.8% of taxable-equivalent revenues reflecting the $158.2 million of impairment and valuation losses on securities, which reduced noninterest income for 2007, compared to 23.6% for 2006 and 24.0% for 2005. Schedule 7 presents a comparison of the major components of noninterest income for the past three years.

Table of Contents

SCHEDULE 7

NONINTEREST INCOME

(Amounts in millions)	2007	Percent change	2006	Percent change	2005
Service charges and fees on deposit accounts	$ 183.6	14.2 %	$ 160.8	29.3 %	$ 124.4
Loan sales and servicing income	38.5	(29.0)	54.2	(30.3)	77.8
Other service charges, commissions and fees	196.8	14.6	171.8	47.2	116.7
Trust and wealth management income	36.5	21.7	30.0	35.1	22.2
Income from securities conduit	18.2	(43.5)	32.2	(8.0)	35.0
Dividends and other investment income	50.9	27.6	39.9	33.0	30.0
Trading and nonhedge derivative income	3.1	(83.2)	18.5	17.8	15.7
Equity securities gains (losses), net	17.7	(0.6)	17.8	1,469.2	(1.3)
Fixed income securities gains, net	3.0	(53.1)	6.4	166.7	2.4
Impairment losses on available-for-sale securities and valuation losses on securities purchased from Lockhart Funding	(158.2)			nm	(1.6)
Other	22.2	13.3	19.6	25.6	15.6
Total	$ 412.3	(25.2)%	$ 551.2	26.2 %	$ 436.9

nm not meaningful

Noninterest income for 2007 decreased $138.9 million or 25.2% compared to 2006. The largest component of this decrease was the $158.2 million of impairment and valuation losses on securities. Excluding the impairment and valuation losses on securities, noninterest income increased $19.3 million or 3.5% compared to 2006. Noninterest income for 2006 increased $114.3 million or 26.2% compared to 2005 reflecting the impact of the Amegy acquisition in December 2005. Excluding the impact of the Amegy acquisition, the largest components of this increase were in net equity securities gains, which were $17.8 million in 2006 compared with net losses of $1.3 million in 2005, and net gains from fixed income securities, which increased $4.0 million.

Service charges and fees on deposit accounts increased $22.8 million in 2007. The increase was mainly due to the impact of fee increases across the Company, continuing efforts to promote treasury management services to our customers, and the acquisition of Stockmen s. The significant increase for 2006 was mainly a result of the acquisition of Amegy.

Loan sales and servicing income includes revenues from securitizations of loans as well as from revenues that we earn through servicing loans that have been sold to third parties. For 2007, loan sales and servicing income decreased 29.0% compared to 2006 and decreased 30.3% between 2006 and 2005. The decreases were due to no home equity loan securitization sale transactions in 2007, no small business loan securitization sale transactions in 2007 and 2006, lower servicing fees from lower loan balances, and retained interest impairment write-downs of $12.6 million in 2007 and $7.1 million in 2006. These write-downs resulted primarily from higher than expected loan prepayments, increased default assumptions, and changes in the interest rate environment as determined from our periodic evaluation of beneficial interests as required by EITF 99-20. As of December 31, 2007, the Company had $49.8 million of retained interests in small business securitizations recorded on the balance sheet that are exposed to additional future impairments due to the above mentioned factors. See Note 6 of the Notes to Consolidated Financial Statements for additional information on the Company s securitization programs.

Other service charges, commissions, and fees, which is comprised of public finance fees, Automated Teller Machine (ATM) fees, insurance commissions, bankcard merchant fees, debit card interchange fees, cash management fees and other miscellaneous fees, increased $25.0 million, or 14.6% from 2006, which was up 47.2% from 2005. The increase in 2007 was primarily driven by higher public finance fees, debit card fees, and cash management related fees. The cash management fees include web-based medical claims transaction fees, remote check imaging fees, and third-party ACH transaction fees. The increase was offset by decreased insurance income of $5.0 million resulting from the sale of the Company s Grant Hatch insurance agency and certain other insurance assets completed during the first quarter of 2007. The 2006 increase was primarily due to the Amegy acquisition.

Trust and wealth management income for 2007 increased 21.7% compared to 2006, which was up 35.1% compared to 2005. The increase for 2007 was from organic growth in the trust and wealth management business, including growth related to our Contango wealth management and associated trust business, as well as growth in the Amegy trust and wealth management business. The increase for 2006 is from the Amegy acquisition and increased fees from organic growth in the trust and wealth management business.

Income from securities conduit decreased $14.0 million or 43.5% for 2007 compared to 2006. This income represents fees we receive from Lockhart, a QSPE securities conduit. The decrease in income is due to the higher cost of asset-backed commercial paper used to fund Lockhart resulting from the recent disruptions in the credit markets and a decrease in the size of Lockhart s securities portfolio. The book value of Lockhart s securities portfolio declined to $2.1 billion at December 31, 2007 from $4.1 billion at December 31, 2006 due to repayments of principal and Zions purchase of securities out of Lockhart. We expect that the book value of the Lockhart portfolio will continue to decrease. Income from securities conduit will depend both on the amount of securities held in the portfolio and on the cost of the commercial paper used to fund those securities. The 8.0% decrease in income for 2006 compared to 2005 resulted from lower fees on the investment holdings in Lockhart s securities portfolio. See Off-Balance Sheet Arrangements on page 85, Liquidity Management Actions on page 106, and Note 6 of the Notes to Consolidated Financial Statements for further information regarding securitizations and Lockhart.

Dividends and other investment income consist of revenue from the Company s bank-owned life insurance program, dividends on securities holdings, and revenues from other investments. Revenues from investments include dividends on Federal Home Loan Bank (FHLB) stock, Federal Reserve Bank stock, and equity in earnings from unconsolidated affiliates, and were $23.0 million in 2007, $13.3 million in 2006, and $11.1 million in 2005. The increased income in 2007 is primarily from investments accounted for using the equity method. Income from equity method investments was $9.7 million in 2007 compared to $2.3 million in 2006. The increase for 2006 is mainly due to the Amegy acquisition. Revenue from bank-owned life insurance programs was $27.9 million in 2007, $26.6 million in 2006, and $18.9 million in 2005.

Table of Contents

Trading and nonhedge derivative income consists of the following:

SCHEDULE 8

TRADING AND NONHEDGE DERIVATIVE INCOME

(Amounts in millions)	2007	Percent change	2006	Percent change	2005
Trading income	$ 17.3	(3.4)%	$ 17.9	9.8%	$ 16.3
Nonhedge derivative income (loss)	(14.2)	(2,466.7)	0.6	200.0	(0.6)
Total	$ 3.1		$ 18.5		$ 15.7

Trading and nonhedge derivative income decreased $15.4 million or 83.2% compared to 2006. The decline is primarily due to decreases in the fair value of nonhedge derivatives resulting from decreasing spreads during the second half of the year between the London Interbank Offer Rate (LIBOR) and the prime rate. Trading income for 2006 increased $1.6 million or 9.8% compared to 2005. Excluding Amegy, trading income decreased $5.2 million during 2006 mainly due to a decision made to close our London trading office in the fourth quarter of 2005 and reduce the amount of the Company s trading assets in response to margin pressures. Nonhedge derivative income was $0.6 million for 2006 compared to a loss of $0.6 million in 2005, which included losses of $0.9 million from two ineffective cash flow hedges.

Net equity securities gains in 2007 were $17.7 million as compared to net gains of $17.8 million in 2006 and net losses of $1.3 million in 2005. Net gains for 2007 included a $2.5 million gain on the sale of an investment in a community bank and net gains on venture capital equity investments of $15.4 million. Net of related minority interest of $8.0 million, income taxes and other expenses, venture capital investments contributed $3.4 million to net income in 2007, compared to net income of $4.1 million for 2006 and losses of $2.2 million for 2005.

Impairment losses of $108.6 million on eight REIT trust preferred CDO available-for-sale securities combined with valuation losses of $49.6 million on securities purchased from Lockhart aggregated to a $158.2 million impairment and valuation loss during 2007. The losses on the eight REIT trust preferred CDO securities were a result of our ongoing review for other-than-temporary impairment. The valuation losses on securities purchased from Lockhart was due to marking to fair value $55 million of securities purchased after rating agency downgrades and $840 million of securities purchased due to the absence of sufficient commercial paper funding for Lockhart. See Investment Securities Portfolio on page 77 and Off-Balance Sheet Arrangements on page 85 for further discussion.

Other noninterest income for 2007 was $22.2 million, compared to $19.6 million for 2006 and $15.6 million for 2005. The increase in 2007 included a $2.9 million gain of the sale of the Company s insurance business during 2007. The increase in 2006 was primarily due to the acquisition of Amegy, and NetDeposit revenue from scanner sales.

Noninterest Expense

Noninterest expense for 2007 increased 5.6% over 2006, which was 31.4% higher than in 2005. The 2006 increase was impacted by the acquisition of Amegy, $20.5 million of merger related expenses, and debt extinguishment costs of $7.3 million. Schedule 9 summarizes the major components of noninterest expense and provides a comparison of the components over the past three years.

Table of Contents

SCHEDULE 9

NONINTEREST EXPENSE

(Amounts in millions)	2007	Percent change	2006	Percent change	2005
Salaries and employee benefits	$ 799.9	6.4 %	$ 751.7	31.0 %	$ 573.9
Occupancy, net	107.4	7.8	99.6	28.7	77.4
Furniture and equipment	96.5	8.8	88.7	30.1	68.2
Legal and professional services	43.8	9.2	40.1	15.2	34.8
Postage and supplies	36.5	10.3	33.1	23.0	26.9
Advertising	26.9	1.5	26.5	23.8	21.4
Debt extinguishment cost	0.1	(98.6)	7.3		
Impairment losses on long-lived assets		nm	1.3	(58.1)	3.1
Restructuring charges				nm	2.4
Merger related expense	5.3	(74.1)	20.5	521.2	3.3
Amortization of core deposit and other intangibles	44.9	4.4	43.0	154.4	16.9
Provision for unfunded lending commitments	1.8	50.0	1.2	(64.7)	3.4
Other	241.5	11.1	217.4	20.0	181.1
Total	$ 1,404.6	5.6 %	$ 1,330.4	31.4 %	$ 1,012.8

nm not meaningful

The Company s efficiency ratio was 60.5% for 2007 compared to 56.9% for 2006 and 55.7% for 2005. The increase in the efficiency ratio to 60.5% for 2007 was primarily due to the previously discussed impairment and valuation losses on securities. The efficiency ratio was 56.7% excluding the impairment and valuation losses.

Salary costs for 2007 increased 6.4% over 2006, which were up 31.0% from 2005. The increases for 2007 resulted mainly from merit pay salary increases and increased staffing related to other business expansion. The salary costs for 2007 also included share-based compensation expense of approximately $28.3 million, up from $24.4 million for 2006. The increases for 2006 resulted primarily from the acquisition of Amegy, increased incentive plan costs, additional staffing related to the build-out of our wealth management business, NetDeposit, and to other business expansion and share-based compensation expense resulting from the adoption of SFAS 123R in 2006. Employee health and insurance benefits for 2007 increased 24.2% from 2006, which increased 9.7% from 2005. The increase for 2006 resulted primarily from the acquisition of Amegy. Employee health and insurance expense for 2006 included an adjustment which reduced expense by approximately $4.0 million to reflect accumulated cash balances available to pay incurred but not reported medical claims. Salaries and employee benefits are shown in greater detail in Schedule 10.

Table of Contents

SCHEDULE 10

SALARIES AND EMPLOYEE BENEFITS

(Dollar amounts in millions)	2007	Percent change	2006	Percent change	2005
Salaries and bonuses	$ 678.1	5.8%	$ 641.1	31.7%	$ 486.7
Employee benefits:					
Employee health and insurance	42.1	24.2	33.9	9.7	30.9
Retirement	36.3	(4.0)	37.8	35.0	28.0
Payroll taxes and other	43.4	11.6	38.9	37.5	28.3
Total benefits	121.8	10.1	110.6	26.8	87.2
Total salaries and employee benefits	$ 799.9	6.4%	$ 751.7	31.0%	$ 573.9
Full-time equivalent employees (FTEs) at December 31	10,933	3.0%	10,618	5.1%	10,102

Occupancy expense increased $7.8 million or 7.8% compared to 2006 which was up 28.7% from 2005. The 2007 increase is impacted by higher facilities rent expense, higher facilities maintenance and utilities expense, and the impact of the acquisition of Stockmen s. The increase for 2006 was mainly due to the Amegy acquisition.

Furniture and equipment expense for 2007 increased $7.8 million or 8.8% compared to 2006, which was up 30.1% from 2005. The increase in 2007 was mainly due to increased maintenance contract costs related to technology and operational assets. The increase for 2006 resulted primarily from the acquisition of Amegy.

Merger related expense decreased $15.2 million or 74.1% compared to 2006. The decrease is mainly due to the completion of the Amegy system conversion during 2006. Merger related expenses for 2006 and 2005 are mainly incremental costs associated with the integration and system conversions of Amegy. See Note 3 of the Notes to Consolidated Financial Statements for additional information on merger related expenses.

Other noninterest expense for 2007 increased $24.1 million or 11.1% compared to 2006, which was up 20.0% from 2005. The increase included an $8.1 million Visa litigation accrual, increased other real estate expenses of $4.3 million, and a $4.0 million write-down on repossessed equipment, which was collateral for an equipment lease on which we recorded a loan loss related to an alleged accounting fraud at a water bottling company during the fourth quarter of 2006. The Visa litigation accrual represents an estimate of the Company s proportionate share of a contingent obligation to indemnify Visa Inc. for certain litigation matters. The increase for 2006 resulted primarily from the acquisition of Amegy.

Impairment Losses on Goodwill

During the fourth quarter of 2007, 2006 and 2005, the Company completed the annual goodwill impairment analysis as required by SFAS 142 and concluded there was no impairment on the goodwill balances.

Foreign Operations

Zions Bank and Amegy both operate foreign branches in Grand Cayman, Grand Cayman Islands, B.W.I. The branches only accept deposits from qualified customers. While deposits in these branches are not subject to Federal Reserve Board reserve requirements or Federal Deposit Insurance Corporation insurance requirements, 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, 2007, 2006, and 2005 totaled $3.4 billion, $2.6 billion and $2.2 billion, respectively, and averaged $2.7 billion for 2007, $2.1 billion for 2006, and $0.7 billion for 2005. All of these foreign deposits were related to domestic customers of the banks. See Schedule 29 on page 81 for foreign loans outstanding.

In addition to the Grand Cayman branch, Zions Bank, through a wholly-owned subsidiary, had an office in the United Kingdom that provided sales support for its U.S. Dollar trading operations. The office was closed during the fourth quarter of 2005.

Income Taxes

The Company s income tax expense for 2007 was $235.7 million compared to $318.0 million for 2006 and $263.4 million for 2005. The Company s effective income tax rates, including the effects of minority interest, were 32.3% in 2007, 35.3% in 2006, and 35.4% in 2005. See Note 15 of the Notes to Consolidated Financial Statements for more information on income taxes.

During the fourth quarter of 2007, the Company reduced its liability for unrecognized tax benefits by approximately $12.2 million, net of any federal and/or state tax benefits. Of this reduction, $9.1 million decreased the Company s tax provision for 2007 and $3.1 million reduced goodwill. The primary cause of the decrease was the closing of various state statutes of limitations and tax examinations. As a result of the recognition of certain tax benefits, accrued interest payable on unrecognized tax benefits was also reduced by approximately $2.8 million, net of any federal and/or state benefits. Since the Company classifies interest and penalties related to tax matters as a component of tax expense, the reduction in interest on unrecognized tax benefits also resulted in a decrease to the Company s tax provision for 2007. The average effective tax rate in 2007 also was lower than in prior years because the securities impairment charges recorded in 2007 affected taxable revenue, thereby increasing the proportion of nontaxable income relative to total income.

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, 2007, 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. Zions invested $20 million in its subsidiary in 2005, an additional $10 million in 2006, and another $10 million during 2007. Income tax expense was reduced by $5.6 million for 2007, $4.5 million for 2006, and $4.0 million for 2005 as 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 be for the years 2004 through 2013.

Table of Contents

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.

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 11th largest in Idaho, as measured by deposits booked in the state. Zions Bank also includes most of the Company s Capital Markets operations, which include Zions Direct, Inc., fixed income trading, correspondent banking, public finance and trust, and investment advisory, liquidity and hedging services for Lockhart. Contango, a wealth management business, and Western National Trust Company, which together constitute the Wealth Management Group, are also included in Zions Bank.

SCHEDULE 11

ZIONS BANK

(In millions)

	2007	2006	2005
CONDENSED INCOME STATEMENT			
Net interest income	$ 551.4	472.3	407.9
Impairment losses on available-for-sale securities and valuation losses on securities purchased from Lockhart Funding	(59.7)		(1.6)
Other noninterest income	236.8	263.7	270.8
Total revenue	728.5	736.0	677.1
Provision for loan losses	39.1	19.9	26.0
Noninterest expense	463.2	426.1	391.1
Impairment loss on goodwill			0.6
Income before income taxes and minority interest	226.2	290.0	259.4
Income tax expense	72.2	98.1	85.4

Minority interest	0.2	0.1	(0.1)
Net income	$ 153.8	191.8	174.1
YEAR-END BALANCE SHEET DATA			
Total assets	$ 18,446	14,823	12,651
Net loans and leases	12,997	10,702	8,510
Allowance for loan losses	133	108	107
Goodwill, core deposit and other intangibles	24	27	27
Noninterest-bearing demand deposits	2,445	2,320	1,986
Total deposits	11,644	10,450	9,213
Common equity	1,048	972	836

Net income for Zions Bank decreased 19.8% to $153.8 million for 2007 compared to $191.8 million for 2006 and $174.1 million for 2005. The decrease in earnings was primarily due to impairment losses on investment securities and increased provision for loan losses. Results include the Wealth Management group, which includes Contango and which had after-tax net losses of $8.8 million in 2007, $7.9 million in 2006 and $6.2 million in 2005. On January 1, 2008, Contango became a direct subsidiary of the Parent.

Earnings at Zions Bank for 2007 were driven by a 16.7%, or $79.1 million increase in net interest income. This increase resulted from strong loan growth of $2.3 billion, strong deposit growth, and stable net interest margin. Balance sheet growth reflected strong economic conditions in Zions Bank s primary markets, the bank s successful sales efforts, and our decision not to securitize and sell any small business loans during the year. The net interest margin was 3.90% for 2007, compared to 3.89% for 2006 and 3.68% for 2005.

Noninterest income, excluding impairment and valuation losses on securities, decreased 10.2% to $236.8 million compared to $263.7 million for 2006 and $269.2 million for 2005. The bank recognized other-than-temporary impairment losses on available-for-sale securities of $10.1 million and valuation losses on securities purchased from Lockhart of $49.6 million during 2007. The valuation losses on securities purchased from Lockhart resulted from the purchase of securities pursuant to a Liquidity Agreement between the bank and Lockhart. When this agreement is triggered, securities are purchased at Lockhart s carrying value and recorded by the bank at fair value. See Off-Balance Sheet Arrangements on page 85 for further discussion of Lockhart. Income generated from providing services to Lockhart declined by $14.0 million this year to $18.2 million. This lower fee income resulted from Lockhart s higher funding cost due to changes in LIBOR and spreads over LIBOR. Loan sales and servicing income declined $14.9 million due to a reduction of $744 million in average sold loans, prepayments and margin compression. Also included in loan sales and servicing income was a pretax impairment charge on retained interests of $12.6 million in 2007 compared to a $7.1 million in 2006. Debit card interchange fees increased $8.5 million in 2007. Service charges and fees on deposit accounts increased $8.8 million as a result of increased analysis fees on commercial accounts and other service charge fees. Nonhedge derivative income declined by $15.8 million in 2007 compared to 2006. This decline is primarily due to decreases in the fair value of nonhedge derivatives resulting from decreasing spreads during the third and fourth quarters between LIBOR and the prime rate.

Noninterest expense for 2007 increased $37.1 million or 8.7% from 2006. Increases for 2007 included an $11.5 million or 6.0% increase in salaries and benefits. Zions Bank expensed $5.1 million of the Company s total Visa litigation accrual of $8.1 million, which represents an estimate of the Company s proportionate share of a contingent obligation to indemnify Visa Inc. for certain litigation matters. Bankcard expenses increased $9.0 million primarily because of volume increases in debit and credit card transactions.

Year-end deposits for 2007 increased 11.4% from 2006 or $1.2 billion compared to growth of $1.2 billion or 13.4% over 2005. Both the branch network and Internet Banking deposit products contributed to this growth.

SCHEDULE 12

ZIONS BANK

(Dollar amounts in millions)

	2007	2006	2005
PERFORMANCE RATIOS			
Return on average assets	0.98%	1.39%	1.40%
Return on average common equity	15.04%	21.47%	22.22%
Tangible return on average tangible common equity	15.49%	22.27%	23.32%
Efficiency ratio	62.82%	57.15%	56.95%
Net interest margin	3.90%	3.89%	3.68%
CREDIT QUALITY			
Provision for loan losses	$ 39.1	19.9	26.0
Net loan and lease charge-offs	14.0	18.9	17.5
Ratio of net charge-offs to average loans and leases	0.12%	0.20%	0.21%
Allowance for loan losses	$ 133	108	107
Ratio of allowance for loan losses to net loans and leases	1.02%	1.01%	1.26%
Nonperforming assets	$ 45.0	17.1	22.1
Ratio of nonperforming assets to net loans and leases and other real estate owned	0.35%	0.16%	0.26%
Accruing loans past due 90 days or more	$ 36.5	8.5	4.4
Ratio of accruing loans past due 90 days or more to net loans and leases	0.28%	0.08%	0.05%
OTHER INFORMATION			
Full-time equivalent employees	2,668	2,687	2,517
Domestic offices:			
Traditional branches	109	107	104
Banking centers in grocery stores	29	29	30
Foreign office	1	1	1
Total offices	139	137	135
ATMs	184	165	178

Nonperforming assets for Zions Bank were $45.0 million at December 31, 2007, up from $17.1 million at December 31, 2006. Accruing loans past due 90 days or more increased to $36.5 million compared to $8.5 million at year-end 2006. Net loan and lease charge-offs for 2007 were $14.0 million compared with $18.9 million for 2006. For 2007, Zions Bank s loan loss provision was $39.1 million compared with $19.9 million for 2006 and $26.0 million for 2005. The increased provision for 2007 was mainly driven by loan growth and the increase in nonperforming assets.

During 2007, Zions Bank ranked as Utah s top SBA 7(a) lender for the 14th consecutive year and ranked first in Idaho s Boise District for the sixth consecutive year.

Table of Contents

California Bank & Trust

CB&T is a full service commercial bank headquartered in San Diego and is the fourteenth largest financial institution in California measured by deposits booked in the state. CB&T operates 90 full-service traditional branch offices throughout the state. CB&T manages its branch network by a regional structure, allowing decision-making to remain as close as possible to the customer. These regions include San Diego, Los Angeles, Orange County, San Francisco, Sacramento, and the Central Valley. In addition to the regional structure, core businesses are managed functionally. These functions include retail banking, corporate and commercial banking, construction and commercial real estate financing, and SBA lending. CB&T plans to continue its emphasis on relationship banking providing commercial, real estate and consumer lending, depository services, international banking, cash management, and community development services.

SCHEDULE 13

CALIFORNIA BANK & TRUST

(In millions)

	2007	2006	2005
CONDENSED INCOME STATEMENT			
Net interest income	$ 434.8	469.4	451.4
Impairment losses on available-for-sale securities	(79.2)		
Other noninterest income	87.3	80.7	75.0
Total revenue	442.9	550.1	526.4
Provision for loan losses	33.5	15.0	9.9
Noninterest expense	230.8	244.6	243.9
Income before income taxes	178.6	290.5	272.6
Income tax expense	71.2	117.9	109.7
Net income	$ 107.4	172.6	162.9
YEAR-END BALANCE SHEET DATA			
Total assets	$ 10,156	10,416	10,896
Net loans and leases	7,792	8,092	7,671
Allowance for loan losses	105	95	91
Goodwill, core deposit and other intangibles	390	400	408
Noninterest-bearing demand deposits	2,509	2,824	2,952
Total deposits	8,082	8,410	8,896
Common equity	1,067	1,123	1,072

Net income decreased 37.8% to $107.4 million in 2007 compared with $172.6 million for 2006, and $162.9 million for 2005. The decrease in earnings was primarily due to a decrease in net interest income, impairment losses on investment securities, and increased provision for loan losses.

Net interest income for 2007 decreased 7.4% or $34.6 million to $434.8 million compared to $469.4 million for 2006 and $451.4 million for 2005. The decrease was the result of a 6.3% or $620 million decrease in average earning assets, primarily due to lower loan balances in the residential land acquisition and development and construction portfolios, and to a lesser extent a lower net interest margin. Net interest income for 2006 increased 4.0% or 18.0 million compared to 2005. This increase was attributable to a 6.2% or $572 million growth in average earning assets offset slightly by a lower net interest margin.

Table of Contents

Noninterest income, excluding impairment losses on available-for-sale securities, increased $6.6 million to $87.3 million for 2007 compared to $80.7 million for 2006 and $75.0 million for 2005.

Noninterest expense for 2007 decreased $13.8 million or 5.6% to $230.8 million compared to $244.6 million for 2006 and $243.9 for 2005. Decreases for 2007 included a $7.7 million or 5.6% decrease in salaries and benefits related to a reversal of an accrual for a long-term incentive plan and lower accruals for profit sharing and bonus incentives, a $1.7 million or 21.3% decrease in furniture and equipment expense, a $0.8 million or 12.5% decrease in legal and professional services and a $2.0 million or 65.8% decrease in advertising.

SCHEDULE 14

CALIFORNIA BANK & TRUST

(Dollar amounts in millions)

	2007	2006	2005
PERFORMANCE RATIOS			
Return on average assets	1.06%	1.59%	1.59%
Return on average common equity	9.83%	15.40%	15.53%
Tangible return on average tangible common equity	16.02%	24.68%	26.26%
Efficiency ratio	52.07%	44.42%	46.29%
Net interest margin	4.76%	4.81%	4.91%
CREDIT QUALITY			
Provision for loan losses	$ 33.5	15.0	9.9
Net loan and lease charge-offs	23.1	10.9	4.9
Ratio of net charge-offs to average loans and leases	0.29%	0.14%	0.07%
Allowance for loan losses	$ 105	95	91
Ratio of allowance for loan losses to net loans and leases	1.35%	1.17%	1.18%
Nonperforming assets	$ 62.4	27.1	20.0
Ratio of nonperforming assets to net loans and leases and other real estate owned	0.80%	0.34%	0.26%
Accruing loans past due 90 days or more	$ 13.0	3.5	1.7
Ratio of accruing loans past due 90 days or more to net loans and leases	0.17%	0.04%	0.02%
OTHER INFORMATION			
Full-time equivalent employees	1,572	1,659	1,673
Domestic offices:			
Traditional branches	90	91	91
ATMs	103	103	105

Net loans and leases contracted $300 million or 3.7% in 2007 compared to 2006. Commercial and small business loans grew modestly in 2007 compared to 2006, while real estate construction, commercial real estate, residential real estate and consumer loans declined. This reduction in earning assets resulted from CB&T s decision to reduce its loan exposure to residential land acquisition and development activities in response to deteriorating market and credit conditions. This deterioration also drove the increase in

the provision for loan losses to $33.5 million in 2007 compared to $15.0 million in 2006, as well as the increased net loan charge-offs. CB&T continues to emphasize growing the commercial and small business loan portfolios and managing the run-off of real estate loans. CB&T does not expect total loans to grow significantly in 2008 compared to 2007 given the tenuous business climate and uncertain economy.

Total deposits declined $328 million or 3.9% in 2007 compared to 2006. The ratio of noninterest-bearing deposits to total deposits was 31.0% in 2007 and 33.6% in 2006. CB&T was challenged in its deposit growth in 2007 and will continue to be challenged in 2008.

Nonperforming assets were $62.4 million at December 31, 2007 compared to $27.1 million one year ago, an increase of $35.3 million or 130.3%. Nearly all of the increase is attributable to deterioration of real estate construction, land development and land loans. Nonperforming assets to net loans and other real estate owned at December 31, 2007 was 0.80% compared to 0.34% at December 31, 2006. Net loan and lease charge-offs were $23.1 million for 2007 compared with $10.9 million for 2006 and $4.9 million for 2005. CB&T s loan loss provision was $33.5 million for 2007 compared to $15.0 million for 2006 and $9.9 million for 2005. The ratio of the allowance for loan losses to net loans and leases was 1.35% and 1.17% at December 31, 2007 and 2006, respectively.

Amegy Corporation

Amegy is headquartered in Houston, Texas, and operates Amegy Bank, the tenth largest full-service commercial bank in Texas as measured by domestic deposits in the state. Amegy operates 69 full-service traditional branches and eight banking centers in grocery stores in the Houston metropolitan area, and six traditional branches and one loan production office in the Dallas metropolitan area. During 2007, Amegy expanded its presence in the San Antonio market through the acquisition of Intercontinental Bank Shares Corporation (Intercon Bank) on September 6, 2007. Intercon had $115 million in total assets and added three branches to Amegy s presence bringing the total to four branches in that market. Amegy also operates a broker-dealer (Amegy Investments), a trust and private bank, and a mortgage company (Amegy Mortgage Company).

Texas added more jobs than any other state in 2007, with two of Amegy s three primary markets among the top five fastest growing metropolitan areas in the nation. Houston has a diversified economy driven by energy, healthcare, and international business, and in 2007 it added 99,400 jobs for a total of 2.6 million jobs. Dallas also has a diversified economy which is driven by the telecommunications, distribution and transportation industries. The Dallas-Fort Worth metroplex added 113,700 jobs in 2007 for a total of three million jobs. In addition, the San Antonio economy added approximately 28,100 jobs in 2007 based on strong growth in healthcare, tourism, and trade with a growing manufacturing sector. In 2008, Amegy plans to continue its expansion in its primary markets and plans to open two traditional branches in the Houston market, two in the Dallas/Ft. Worth metropolis, and one in San Antonio.

In 2007, Amegy continued its strong financial performance with record levels of activity in many key areas. Net income for the year was a record $94.4 million. The earnings performance for the year was driven by strong levels of loan growth, higher net interest income, fee income generation, improved balance sheet efficiency, and moderate increases in operating expenses, offset by a lower net interest margin and a higher loan loss provision.

Table of Contents

SCHEDULE 15

AMEGY CORPORATION

(In millions)

	2007	2006	2005 (1)
CONDENSED INCOME STATEMENT			
Net interest income	$ 331.3	304.7	25.5
Noninterest income	126.7	114.9	9.0
Total revenue	458.0	419.6	34.5
Provision for loan losses	21.2	7.8	
Noninterest expense	295.6	283.5	23.7
Income before income taxes and minority interest	141.2	128.3	10.8
Income tax expense	46.7	39.5	3.3
Minority interest	0.1	1.8	
Net income	$ 94.4	87.0	7.5
YEAR-END BALANCE SHEET DATA			
Total assets	$ 11,675	10,366	9,350
Net loans and leases	7,902	6,352	5,389
Allowance for loan losses	68	55	49
Goodwill, core deposit and other intangibles	1,355	1,370	1,404
Noninterest-bearing demand deposits	2,243	2,245	2,145
Total deposits	8,058	7,329	6,905
Common equity	1,932	1,805	1,768

(1) Amounts for 2005 include Amegy at December 31, 2005 and for the month of December 2005. Amegy was acquired on December 3, 2005.

Record levels of revenue resulted from Amegy s strong sales culture, a healthy Texas economy, and the dedicated efforts of a stable and talented corps of relationship officers and administrative personnel.

Net interest income was driven by record levels of period end loan growth of $1.6 billion, or 24.4%. The net interest margin declined from 4.36% in 2006 to 4.13% in 2007 as a result of increased competitive pressure for deposits and a heavier reliance on wholesale type funding to support growth in the loan portfolio. Loan growth was primarily focused in the commercial and industrial sectors with continued growth in the real estate lending groups.

Noninterest income was $126.7 million, an increase of 10.3%. Record levels of fee income were generated in the deposit and retail services area, commercial loan fees, and in the capital markets group.

Noninterest expense increased by $12.1 million, or 4.3%. The primary component of the increase was in salaries and benefits of $16.2 million, or 13.9%, reflecting Amegy s continuing investment in expanding its market presence in Houston and Dallas, and the addition of Intercon Bank in the San Antonio market. The efficiency ratio improved to 63.8% from 66.8%.

Table of Contents

Year end deposits grew by $729 million or 9.9%. Year end noninterest-bearing deposits were $2.2 billion, essentially unchanged from the prior year.

SCHEDULE 16

AMEGY CORPORATION

(Dollar amounts in millions)

	2007	2006	2005 (1)
PERFORMANCE RATIOS			
Return on average assets	0.91%	0.93%	0.97 %
Return on average common equity	5.10%	4.87%	4.97 %
Tangible return on average tangible common equity	22.46%	26.25%	29.72 %
Efficiency ratio	63.83%	66.79%	68.03 %
Net interest margin	4.13%	4.36%	4.44 %
CREDIT QUALITY			
Provision for loan losses	$ 21.2	7.8	
Net loan and lease charge-offs	9.0	1.9	(0.2)
Ratio of net charge-offs to average loans and leases	0.13%	0.03%	(0.04)%
Allowance for loan losses	$ 68	55	49
Ratio of allowance for loan losses to net loans and leases	0.86%	0.87%	0.92 %
Nonperforming assets	$ 45.6	15.7	17.3
Ratio of nonperforming assets to net loans and leases and other real estate owned	0.58%	0.25%	0.32 %
Accruing loans past due 90 days or more	$ 3.8	9.7	5.1
Ratio of accruing loans past due 90 days or more to net loans and leases	0.05%	0.15%	0.09 %
OTHER INFORMATION			
Full-time equivalent employees	1,694	1,599	1,983
Domestic offices:			
Traditional branches	79	70	67
Banking centers in grocery stores	8	8	15
Foreign office	1	1	1
Total offices	88	79	83
ATMs	142	129	130

(1) Amounts for 2005 include Amegy at December 31, 2005 and for the month of December 2005. Amegy was acquired on December 3, 2005.

The provision for loan losses increased to $21.2 million for 2007 reflecting the increase in the loan portfolio outstanding and deterioration in asset quality principally among four loan customers in the commercial and industrial loan portfolio. Nonperforming assets increased to $45.6 million, or 0.58% of net loans and leases, and other real estate owned. Net charge-offs to average loans and leases was 0.13% and was within Amegy s historical range of credit statistics.

Table of Contents

National Bank of Arizona

NBA, the Company s financial institution responsible for operations in Arizona, is the fourth largest full-service commercial bank in Arizona measured by deposits booked in the state. Following the acquisition by NBA in January 2007 of Stockmen s, the branch network in Arizona expanded by 43% to the present level of 76 branches reaching every county within the state. Arizona s economic performance and outlook has taken a downturn over the year, yet population growth continues to be one the strongest in the entire country. Population in the state exceeds 6.5 million residents and increased over 3% in 2007 compared to 2006. The Phoenix and Tucson metropolitan areas also experienced an increase of over 3% over 2006 and together comprise over 80% of the state s population with over 5.2 million individuals. Net migration into the state is expected to continue over the next several years, but at a slightly more moderate pace.

The housing industry was deeply impacted during the year by the contraction in the real estate market, which has been a key economic driver for the state s economy. Permits for new residential construction plummeted from one of the highest point experienced in 2005 of over 85,000 to approximately 66,062 in 2006 and approximately 50,000 in 2007. By November-December 2007, the annualized run rate of new permits issued had declined to approximately 16,000. This downward trend is expected to continue into the near future at a lower pace. The effects of the housing industry slowdown have begun to impact the commercial real estate segment of the market, but not nearly as severely. Vacancy rates have exhibited a slight increase over the year and the velocity of rental rate increases, on a per square foot basis, have tapered in the year within the metropolitan marketplaces.

Despite the impacts from the construction industry, trimming over 23,000 jobs in the state within one year, the state s job market still reflected positive gains for the full year 2007. However, job growth did turn negative late in the year. The trend of employment declines is expected to continue into the next year with a projected increase in unemployment as the fallout from the struggling home building industry begins to impact other market sectors.

Table of Contents

SCHEDULE 17

NATIONAL BANK OF ARIZONA

(In millions)

	2007	2006	2005
CONDENSED INCOME STATEMENT			
Net interest income	$ 250.8	214.9	187.6
Noninterest income	33.4	25.4	21.5
Total revenue	284.2	240.3	209.1
Provision for loan losses	30.5	16.3	5.2
Noninterest expense	142.4	103.0	97.8
Income before income taxes	111.3	121.0	106.1
Income tax expense	43.5	47.8	42.1
Net income	$ 67.8	73.2	64.0
YEAR-END BALANCE SHEET DATA			
Total assets	$ 5,279	4,599	4,209
Net loans and leases	4,585	4,066	3,698
Allowance for loan losses	65	43	38
Goodwill, core deposit and other intangibles	195	66	68
Noninterest-bearing demand deposits	1,100	1,160	1,191
Total deposits	3,871	3,695	3,599
Common equity	581	346	299

NBA s net income of $67.8 million in 2007 reflected a decrease of 7.4%, which followed a 14.4% growth in earnings in 2006. Net interest income increased by 16.7% to $250.8 million, as earning assets and net interest income increased with the acquisition of Stockmen s at the beginning of the year. The net interest margin declined from 5.20% in 2006 to 5.08% in 2007. The margin compression primarily reflects a decline in noninterest-bearing deposits, a continued reliance on noncore deposit funding, coupled with the consequences of deposit pricing in an increasingly competitive marketplace seeking to attract and retain deposits.

Noninterest income increased 31.5% in 2007 compared to 2006, following an 18.1% improvement in 2006. During 2007, NBA increased the number of depository accounts, largely a result of the Stockmen s acquisition. The increase in the number of customer accounts, coupled with fee increases drove a 73.6% increase in deposit service charges. Loan sales and servicing income declined 19.4%, reflecting the diminished residential housing activity in Arizona.

Noninterest expense rose by $39.4 million in 2007 or 38.3% compared with an increase of $5.2 million or 5.3% in 2006. The 2007 change is almost solely due to the operating costs, amortization and merger costs related to the Stockmen s acquisition early in 2007. Through the acquisition, NBA was able to expand its branch network and operating personnel, providing a positive impact on the enterprise s revenue stream.

Table of Contents

SCHEDULE 18

NATIONAL BANK OF ARIZONA

(Dollar amounts in millions)

	2007	2006	2005
PERFORMANCE RATIOS			
Return on average assets	1.25%	1.66%	1.65%
Return on average common equity	11.36%	22.49%	22.62%
Tangible return on average tangible common equity	18.55%	28.76%	30.48%
Efficiency ratio	49.90%	42.81%	46.67%
Net interest margin	5.08%	5.20%	5.23%
CREDIT QUALITY			
Provision for loan losses	$ 30.5	16.3	5.2
Net loan and lease charge-offs	13.6	11.3	0.4
Ratio of net charge-offs to average loans and leases	0.29%	0.29%	0.01%
Allowance for loan losses	$ 65	43	38
Ratio of allowance for loan losses to net loans and leases	1.42%	1.06%	1.03%
Nonperforming assets	$ 76.1	12.2	9.7
Ratio of nonperforming assets to net loans and leases and other real estate owned	1.66%	0.30%	0.26%
Accruing loans past due 90 days or more	$ 11.8	2.3	3.2
Ratio of accruing loans past due 90 days or more to net loans and leases	0.26%	0.06%	0.09%
OTHER INFORMATION			
Full-time equivalent employees	1,137	911	871
Domestic offices:			
Traditional branches	76	53	53
ATMs	69	55	53

Net loans grew by $519 million for the year, an increase of 12.8%, following a 10.0% growth rate in 2006. The net loans acquired in the Stockmen s acquisition were $561 million which exceeded NBA s net loan growth for 2007. In light of the slowing and changing economy, growth has also slowed and reflects the selective ability to pursue customers and relationships which fit the long term profile of the bank. Net deposit growth, totaling $176 million, also was attributable to the purchase of Stockmen s Bank. The continued competitive pressures and the expanding reach of new financial institutions into the market during the year placed pressure on attracting new and retaining existing deposits.

The return on average assets and average common equity for NBA declined for the year principally due to the higher provision for loan losses and credit costs and net interest margin compression. As margin compression lowered the net interest income, the impact of higher credit and merger related expenses outpaced revenue improvements and thus increased the efficiency ratio in 2007 when compared to prior years.

Nonperforming assets increased to $76.1 million at December 31, 2006, compared to $12.2 million at year-end 2006 reflecting the affects of a softening economy, particularly on residential land acquisition, development and construction loan quality. Net charge-offs were $13.6 million for 2007, up from $11.3 million for 2006. The provision for loan losses increased to $30.5 million compared to $16.3 million in the prior year. The change in all of these credit quality related amounts reflect the deterioration in the housing and general real estate market in Arizona.

Nevada State Bank

NSB, headquartered in Las Vegas, Nevada, is the fifth largest full-service commercial bank in the state measured by deposits booked in the state. Travel and tourism, construction and mining are Nevada s three largest industries. Visitor volume in the Silver State is off modestly and gaming revenue and taxable sales are off from prior year levels. The Silver State continues to attract new investments and job growth increased in 2007 compared to 2006. However, reduced residential sales and construction activity in reaction to earlier over expansion in the sector has impacted the economic expansion enjoyed during the last few years.

SCHEDULE 19

NEVADA STATE BANK

(In millions)

	2007	2006	2005
CONDENSED INCOME STATEMENT			
Net interest income	$ 182.5	197.5	171.3
Noninterest expense	32.9	31.2	31.0
Total revenue	215.4	228.7	202.3
Provision for loan losses	23.3	8.7	(0.4)
Noninterest expense	111.8	110.8	106.2
Income before income taxes	80.3	109.2	96.5
Income tax expense	27.9	38.1	33.4
Net income	$ 52.4	71.1	63.1
YEAR-END BALANCE SHEET DATA			
Total assets	$ 3,903	3,916	3,681
Net loans and leases	3,231	3,214	2,846
Allowance for loan losses	56	35	28
Goodwill, core deposit and other intangibles	21	21	22
Noninterest-bearing demand deposits	929	1,002	1,122
Total deposits	3,304	3,401	3,171
Common equity	261	273	244

NSB s net income for 2007 decreased 26.3% to $52.4 million compared to $71.1 million for 2006 and $63.1 million for 2005. Net interest income declined to $182.5 million, or 7.6% from 2006, which was up 15.3% from 2005. The decrease in 2007 reflects modest growth in the loan portfolio, along with compression of the net interest margin that resulted from an adverse funding mix shift and deposit pricing pressure.

Noninterest income for 2007 increased 5.4% to $32.9 million compared to $31.2 million for 2006 and $31.0 million for 2005.

Table of Contents

Noninterest expense increased by 0.9% compared to 2006, which was up 4.3% from 2005. Franchise expansion was the major drivers to the growth in noninterest expense in both 2007 and 2006, and salaries and increased affiliate service allocations were the largest components of those increases. NSB s efficiency ratio was 51.8% for 2007, 48.4% for 2006, and 52.4% for 2005. The bank continues to focus on managing operating costs to improve its efficiency.

SCHEDULE 20

NEVADA STATE BANK

(Dollar amounts in millions)

	2007	2006	2005
PERFORMANCE RATIOS			
Return on average assets	1.35%	1.82%	1.78%
Return on average common equity	19.90%	27.68%	27.35%
Tangible return on average tangible common equity	21.70%	30.35%	30.39%
Efficiency ratio	51.82%	48.37%	52.37%
Net interest margin	5.06%	5.46%	5.26%
CREDIT QUALITY			
Provision for loan losses	$ 23.3	8.7	(0.4)
Net loan and lease charge-offs	2.7	1.0	0.5
Ratio of net charge-offs to average loans and leases	0.09%	0.03%	0.02%
Allowance for loan losses	$ 56	35	28
Ratio of allowance for loan losses to net loans and leases	1.73%	1.10%	0.97%
Nonperforming assets	$ 44.2	0.6	4.2
Ratio of nonperforming assets to net loans and leases and other real estate owned	1.37%	0.02%	0.15%
Accruing loans past due 90 days or more	$ 8.9	18.3	1.7
Ratio of accruing loans past due 90 days or more to net loans and leases	0.28%	0.57%	0.06%
OTHER INFORMATION			
Full-time equivalent employees	854	875	811
Domestic offices:			
Traditional branches	39	37	34
Banking centers in grocery stores	35	35	35
Total offices	74	72	69
ATMs	81	79	78

The decline in residential construction has adversely impacted the robust construction industry of the past few years; however, employment remains strong because of new casino, hotel and other projects along the Strip. Net loans grew by $17 million or 0.5% in 2007 compared to 2006, which was up 12.9% from 2005. Loan growth was primarily in the commercial lending area.

Total deposits declined by $97 million or 2.9% in 2007 compared to 2006. Deposit growth continues to be a challenge. The ratio of interest-bearing deposits to total deposits continues to increase 71.9% at December 31, 2007 compared with 70.5% at December 31, 2006. NSB continues to enhance business development groups and core business relationship focus in order to try to increase noninterest-bearing deposits in

2008.

Nonperforming assets for NSB increased to $44.2 million at year-end 2007 compared to $0.6 million at year-end 2006. The level of nonperforming assets to net loans and other real estate at December 31, 2007 was 1.37% compared to 0.02% at December 31, 2006. Net loan and lease charge-offs were $2.7 million for 2007 compared to $1.0 million for 2006. For 2007, NSB s loan loss provision was $23.3 million compared to $8.7 million for 2006. The increased provision reflects the weakening Nevada economy and an increase in the bank s classified loans from the prior year, which are primarily in the residential land acquisition, development, and construction sector.

Vectra Bank Colorado

Vectra is headquartered in Denver, Colorado and is the eleventh largest full-service commercial bank in Colorado as measured by deposits booked in the state. Vectra operates 40 branches throughout central and western Colorado and one branch office in Farmington, New Mexico. Colorado experienced a steady, positive economic climate from 2005 through 2007. Colorado s annual employment growth has been slightly above 2% during the past three years. Colorado is a diversified economy and achieved 2007 employment gains in a broad range of industries including aerospace, bioscience and energy. Steady employment growth over the past three years has led to lower availability of labor; Colorado s unemployment rate averaged 3.8% during the first 11 months of 2007, down from 4.3% in 2006 and 5.6% during 2002-2005.

Vectra has continued to pursue a relationship banking strategy providing commercial and retail banking services, commercial, construction and real estate financing, and cash management services.

SCHEDULE 21

VECTRA BANK COLORADO

(In millions)

	2007	2006	2005
CONDENSED INCOME STATEMENT			
Net interest income	$ 96.9	94.2	89.1
Noninterest income	28.1	26.8	26.6
Total revenue	125.0	121.0	115.7
Provision for loan losses	4.0	4.2	1.6
Noninterest expense	86.3	85.0	86.8
Income before income taxes	34.7	31.8	27.3
Income tax expense	12.5	11.7	9.7
Net income	$ 22.2	20.1	17.6
YEAR-END BALANCE SHEET DATA			
Total assets	$ 2,667	2,385	2,324
Net loans and leases	1,987	1,725	1,539
Allowance for loan losses	26	24	21
Goodwill, core deposit and other intangibles	152	154	156

Noninterest-bearing demand deposits	485	510	541
Total deposits	1,752	1,712	1,636
Common equity	329	314	299

Net income increased 10.4% to $22.2 million in 2007, up from $20.1 million in 2006 and $17.6 million in 2005. Net interest income increased 2.9% to $96.9 million, up from $94.2 million in 2006 and $89.1 million in 2005. The increase in net interest income in 2007 was primarily due to steady loan growth and improvements in loan yield, which increased 20 basis points to 7.48% from 7.28% in 2006. Vectra has consistently maintained its sales management processes and had a record year of loan growth; loans grew $262 million, or 15.2%, from ending balances in 2006. Increased interest income was limited by higher funding costs as competition from national and community banks for deposits within Colorado resulted in higher deposit rates. As a result of higher funding costs, the net interest margin for Vectra declined 20 basis points from 4.73% in 2006 to 4.53% in 2007. Noninterest income rose as the bank generated higher consumer and commercial deposit and lending related fees.

Noninterest expense was up $1.3 million or 1.5% to $86.3 million compared to $85.0 million in 2006 and $86.8 million in 2005. Vectra s efficiency ratio of 68.8% improved compared to an efficiency ratio of 70.0% in 2006 and 74.7% in 2005. The bank continues to focus on revenue generation and expense management as a means of improving operational efficiency. Management of staffing levels enabled the bank to limit expense growth during 2007. The bank has consistently reduced staffing levels while increasing revenue, ending 2007 with 551 full-time equivalent employees, down from 621 in 2005.

Table of Contents

SCHEDULE 22

VECTRA BANK COLORADO

(Dollar amounts in millions)

	2007	2006	2005
PERFORMANCE RATIOS			
Return on average assets	0.90%	0.87%	0.76%
Return on average common equity	6.97%	6.63%	5.68%
Tangible return on average tangible common equity	14.25%	14.39%	12.50%
Efficiency ratio	68.78%	69.99%	74.72%
Net interest margin	4.53%	4.73%	4.57%
CREDIT QUALITY			
Provision for loan losses	$ 4.0	4.2	1.6
Net loan and lease charge-offs	1.3	1.7	0.9
Ratio of net charge-offs to average loans and leases	0.07%	0.10%	0.06%
Allowance for loan losses	$ 26	24	21
Ratio of allowance for loan losses to net loans and leases	1.32%	1.37%	1.37%
Nonperforming assets	$ 10.4	9.3	10.9
Ratio of nonperforming assets to net loans and leases and other real estate owned	0.52%	0.54%	0.71%
Accruing loans past due 90 days or more	$ 3.4	1.4	1.1
Ratio of accruing loans past due 90 days or more to net loans and leases	0.17%	0.08%	0.07%
OTHER INFORMATION			
Full-time equivalent employees	551	575	621
Domestic offices:			
Traditional branches	39	37	40
Banking centers in grocery stores	2	2	2
Total offices	41	39	42
ATMs	48	47	56

Net loans increased by 15.2% to $1,987 million from $1,725 million in 2006 and $1,539 million in 2005. Deposits increased to $1,752 million from $1,712 million in 2006 and $1,636 million in 2005. The bank experienced growth in its core business groups including the commercial and real estate lending units.

Credit quality continues to remain strong at Vectra. Nonperforming assets have been relatively unchanged for the last several years $10.4 million, or 0.52% of net loans and leases and other real estate owned at year-end 2007, compared to $9.3 million or 0.54% in 2006 and $10.9 million or 0.71% in 2005. Net loan and lease charge-offs remained low for 2007 at 0.07% of average loans and leases, compared to 0.10% in 2006 and 0.06% in 2005. Accruing loans past due 90 days or more increased to 0.17% of net loans and leases, compared to 0.08% in 2006 and 0.07% in 2005. The provision for loan losses was $4.0 million in 2007 compared to $4.2 million in 2006 and $1.6 million in 2008. The allowance for loan losses as a percentage of net loans and leases was 1.32% at the end of 2007, down slightly from 1.37% in both 2006 and 2005.

Table of Contents

The Commerce Bank of Washington

TCBW consists of a single office in downtown Seattle that serves the greater Seattle, Washington area. Its business strategy focuses on serving the financial needs of commercial businesses, including professional service firms and individuals, by providing a high level of customer service delivered by seasoned professionals.

TCBW has been successful in serving this market within the greater Seattle area by using couriers, bank by mail, remote deposit image capture, and other technology in lieu of a branch network. TCBW had strong earnings growth in 2007 due primarily to the increase in loans and deposits from 2006 to 2007. Expense control was also a factor, resulting in an improved efficiency ratio for 2007.

Credit quality improved with net recoveries of $115 thousand in 2007, an improvement over the net charge-offs of $212 thousand in 2006, reflecting the healthy western Washington economy.

SCHEDULE 23

THE COMMERCE BANK OF WASHINGTON

(In millions)

	2007	2006	2005
CONDENSED INCOME STATEMENT			
Net interest income	$ 35.1	33.6	29.6
Noninterest income	2.5	2.0	1.6
Total revenue	37.6	35.6	31.2
Provision for loan losses	0.3	0.5	1.0
Noninterest expense	14.4	13.9	12.6
Income before income taxes	22.9	21.2	17.6
Income tax expense	7.5	7.0	5.5
Net income	$ 15.4	14.2	12.1
YEAR-END BALANCE SHEET DATA			
Total assets	$ 947	808	789
Net loans and leases	509	428	402
Allowance for loan losses	5	5	4
Goodwill, core deposit and other intangibles			1
Noninterest-bearing demand deposits	145	120	130
Total deposits	608	513	442
Common equity	67	56	50

Net income for TCBW was $15.4 million for 2007, an increase over the $14.2 million earned in 2006 and $12.1 million in 2005. The 7.6% earnings increase for 2007 resulted from continued growth in loans and deposits, an increase in noninterest income of 25.8%, and an improvement in credit quality. Operational efficiencies also improved, resulting in an efficiency ratio of 37.7% in 2007, which was an improvement over the 38.4% in 2006. Net interest income for 2007 increased 4.5% over 2006 while the net interest margin declined to 4.41% in 2007 compared to 4.53% for 2006 and 4.16% for 2005.

Table of Contents

SCHEDULE 24

THE COMMERCE BANK OF WASHINGTON

(Dollar amounts in millions)

	2007	2006	2005
PERFORMANCE RATIOS			
Return on average assets	1.82 %	1.78%	1.57%
Return on average common equity	25.89 %	27.11%	24.26%
Tangible return on average tangible common equity	25.89 %	27.68%	24.86%
Efficiency ratio	37.68 %	38.38%	39.25%
Net interest margin	4.41 %	4.53%	4.16%
CREDIT QUALITY			
Provision for loan losses	$ 0.3	0.5	1.0
Net loan and lease charge-offs	(0.1)	0.2	0.9
Ratio of net charge-offs to average loans and leases	(0.02)%	0.05%	0.25%
Allowance for loan losses	$ 5	5	4
Ratio of allowance for loan losses to net loans and leases	1.01 %	1.11%	1.13%
Nonperforming assets	$ 0.2		2.1
Ratio of nonperforming assets to net loans and leases and other real estate owned	0.04 %		