ZIONS BANCORPORATION /UT/
Form 10-Q
November 08, 2005
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# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-Q

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

**For the quarterly period ended September 30, 2005**

**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 0-2610**

# ZIONS BANCORPORATION

**(Exact name of registrant as specified in its charter)**

| | |
|---|---|
| **UTAH** | **87-0227400** |
| **(State or other jurisdiction** | **(I.R.S. Employer** |

| | |
|---|---|
| **of incorporation or organization)** | **Identification No.)** |
| **ONE SOUTH MAIN, SUITE 1134** | |
| **SALT LAKE CITY, UTAH** | **84111** |
| **(Address of principal executive offices)** | **(Zip Code)** |

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

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

Yes x No ¨

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes x No ¨

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

Yes ¨ No x

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

| | |
|---|---|
| Common Stock, without par value, outstanding at October 25, 2005 | 90,133,492 shares |

**ZIONS BANCORPORATION AND SUBSIDIARIES**

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (Unaudited)

ZIONS BANCORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

| (In thousands, except share amounts) | September 30, 2005 (Unaudited) | December 31, 2004 | September 30, 2004 (Unaudited) |
|---|---|---|---|
| ASSETS | | | |
| Cash and due from banks | $ 1,109,202 | $ 850,998 | $ 1,066,516 |
| Money market investments: | | | |
| Interest-bearing deposits | 13,350 | 1,251 | 2,893 |
| Federal funds sold | 460,167 | 130,086 | 106,957 |
| Security resell agreements | 528,763 | 461,750 | 698,569 |
| Investment securities: | | | |
| Held to maturity, at cost (approximate market value $641,264, $ 641,783 and $ 640,462) | 642,687 | 641,659 | 639,372 |
| Available for sale, at market | 3,997,593 | 4,189,486 | 3,986,046 |
| Trading account, at market (includes $141,535, $163,248 and $120,825 transferred as collateral under repurchase agreements) | 352,059 | 290,070 | 433,273 |
| | 4,992,339 | 5,121,215 | 5,058,691 |
| Loans: | | | |
| Loans held for sale | 213,223 | 196,736 | 151,199 |
| Loans and leases | 23,823,715 | 22,535,344 | 21,459,920 |
| | 24,036,938 | 22,732,080 | 21,611,119 |
| Less: | | | |
| Unearned income and fees, net of related costs | 106,921 | 104,959 | 104,076 |
| Allowance for loan losses | 287,237 | 271,117 | 269,413 |
| Loans and leases, net of allowance | 23,642,780 | 22,356,004 | 21,237,630 |
| Other noninterest-bearing investments | 708,368 | 665,198 | 666,214 |
| Premises and equipment, net | 410,800 | 409,210 | 404,226 |
| Goodwill | 639,120 | 642,645 | 642,645 |
| Core deposit and other intangibles | 47,670 | 55,440 | 57,665 |
| Other real estate owned | 15,176 | 11,877 | 14,222 |
| Other assets | 854,966 | 764,160 | 774,812 |
| | $ 33,422,701 | $ 31,469,834 | $ 30,731,040 |
| LIABILITIES AND SHAREHOLDERS EQUITY | | | |
| Deposits: | | | |
| Noninterest-bearing demand | $ 7,725,179 | $ 6,821,528 | $ 6,656,856 |
| Interest-bearing: | | | |
| Savings and money market | 13,442,012 | 13,349,347 | 13,446,840 |
| Time under $ 100,000 | 1,554,064 | 1,387,784 | 1,388,649 |

| | | | |
|---|---|---|---|
| Time $100,000 and over | 1,892,210 | 1,294,109 | 1,281,280 |
| Foreign | 786,276 | 439,493 | 391,506 |
| | 25,399,741 | 23,292,261 | 23,165,131 |
| Securities sold, not yet purchased | 331,891 | 309,893 | 376,150 |
| Federal funds purchased | 1,262,646 | 1,841,092 | 1,069,430 |
| Security repurchase agreements | 756,631 | 683,984 | 723,000 |
| Other liabilities | 571,583 | 429,129 | 539,694 |
| Commercial paper | 149,089 | 165,447 | 168,344 |
| Federal Home Loan Bank advances and other borrowings: | | | |
| One year or less | 13,063 | 15,949 | 18,106 |
| Over one year | 226,482 | 228,152 | 228,733 |
| Long-term debt | 1,685,683 | 1,690,589 | 1,693,710 |
| Total liabilities | 30,396,809 | 28,656,496 | 27,982,298 |
| Minority interest | 26,719 | 23,359 | 24,481 |
| Shareholders equity: | | | |
| Capital stock: | | | |
| Preferred stock, without par value; authorized 3,000,000 shares; issued and outstanding, none | | | |
| Common stock, without par value; authorized 350,000,000 shares; issued and outstanding 90,067,016, 89,829,947 and 89,638,753 shares | 971,002 | 972,065 | 965,166 |
| Retained earnings | 2,084,439 | 1,830,064 | 1,753,934 |
| Accumulated other comprehensive income (loss) | (52,088) | (7,932) | 9,240 |
| Cost of shares held in trust for deferred compensation and other | (4,180) | (4,218) | (4,079) |
| Total shareholders equity | 2,999,173 | 2,789,979 | 2,724,261 |
| | $ 33,422,701 | $ 31,469,834 | $ 30,731,040 |

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ZIONS BANCORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

| (In thousands, except per share amounts) | Three Months Ended September 30, 2005 | Three Months Ended September 30, 2004 | Nine Months Ended September 30, 2005 | Nine Months Ended September 30, 2004 |
|---|---|---|---|---|
| Interest income: | | | | |
| Interest and fees on loans | $ 406,319 | $ 311,927 | $ 1,137,487 | $ 896,633 |
| Interest on loans held for sale | 2,462 | 932 | 6,683 | 3,595 |
| Lease financing | 3,980 | 4,213 | 12,069 | 12,652 |
| Interest on money market investments | 7,723 | 4,994 | 18,402 | 11,529 |
| Interest on securities: | | | | |
| Held to maturity taxable | 1,827 | 1,765 | 5,465 | 3,724 |
| Held to maturity nontaxable | 6,066 | 6,000 | 18,057 | 12,770 |
| Available for sale taxable | 49,339 | 39,784 | 145,361 | 114,822 |
| Available for sale nontaxable | 808 | 897 | 2,498 | 8,197 |
| Trading account | 4,753 | 8,884 | 15,832 | 23,227 |
| Total interest income | 483,277 | 379,396 | 1,361,854 | 1,087,149 |
| Interest expense: | | | | |
| Interest on savings and money market deposits | 59,539 | 33,048 | 149,511 | 85,988 |
| Interest on time and foreign deposits | 31,536 | 15,692 | 75,980 | 43,825 |
| Interest on borrowed funds | 51,550 | 39,541 | 149,832 | 105,902 |
| Total interest expense | 142,625 | 88,281 | 375,323 | 235,715 |
| Net interest income | 340,652 | 291,115 | 986,531 | 851,434 |
| Provision for loan losses | 12,107 | 9,363 | 32,907 | 30,908 |
| Net interest income after provision for loan losses | 328,545 | 281,752 | 953,624 | 820,526 |
| Noninterest income: | | | | |
| Service charges and fees on deposit accounts | 32,233 | 33,486 | 94,421 | 99,660 |
| Loan sales and servicing income | 21,649 | 21,633 | 56,507 | 60,504 |
| Other service charges, commissions and fees | 28,983 | 27,137 | 83,903 | 78,675 |
| Trust and investment management income | 3,817 | 3,718 | 11,753 | 12,590 |
| Income from securities conduit | 8,553 | 9,104 | 25,989 | 26,682 |
| Dividends and other investment income | 6,954 | 7,157 | 22,398 | 23,797 |
| Market making, trading and nonhedge derivative income | 4,069 | 2,454 | 14,362 | 14,650 |
| Equity securities gains (losses), net | 1,089 | 4,277 | (3,076) | (5,056) |
| Fixed income securities gains, net | 276 | 307 | 422 | 2,444 |
| Other | 3,626 | 3,883 | 14,118 | 18,648 |
| Total noninterest income | 111,249 | 113,156 | 320,797 | 332,594 |
| Noninterest expense: | | | | |

| | | | | |
|---|---|---|---|---|
| Salaries and employee benefits | 142,590 | 133,609 | 418,960 | 393,241 |
| Occupancy, net | 19,048 | 18,734 | 56,005 | 55,205 |
| Furniture and equipment | 16,979 | 16,612 | 49,158 | 49,328 |
| Legal and professional services | 8,575 | 6,568 | 24,792 | 23,675 |
| Postage and supplies | 6,510 | 6,290 | 19,796 | 19,247 |
| Advertising | 5,875 | 4,789 | 15,303 | 14,817 |
| Impairment losses on long-lived assets | | | 633 | 712 |
| Restructuring charges | | 370 | 92 | 436 |
| Merger related expense | 207 | | 207 | |
| Amortization of core deposit and other intangibles | 3,684 | 3,682 | 10,813 | 10,686 |
| Provision for unfunded lending commitments | 435 | 932 | 3,148 | (185) |
| Other | 44,569 | 41,227 | 131,566 | 117,965 |
| Total noninterest expense | 248,472 | 232,813 | 730,473 | 685,127 |
| Impairment loss on goodwill | | 602 | | 602 |
| Income before income taxes and minority interest | 191,322 | 161,493 | 543,948 | 467,391 |
| Income taxes | 68,200 | 58,140 | 194,279 | 167,485 |
| Minority interest | 152 | 858 | (2,345) | (1,100) |
| Net income | $ 122,970 | $ 102,495 | $ 352,014 | $ 301,006 |
| Weighted average shares outstanding during the period: | | | | |
| Basic shares | 89,980 | 89,617 | 89,901 | 89,643 |
| Diluted shares | 91,605 | 90,957 | 91,606 | 90,820 |
| Net income per common share: | | | | |
| Basic | $ 1.37 | $ 1.14 | $ 3.92 | $ 3.36 |
| Diluted | 1.34 | 1.13 | 3.84 | 3.31 |

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ZIONS BANCORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY AND COMPREHENSIVE INCOME

(Unaudited)

| | Nine Months Ended September 30, 2005 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | Accumulated Other Comprehensive Income (Loss) | | | | | |
| **(In thousands)** | **Common Stock** | **Retained Earnings** | **Net Unrealized Gains (Losses) on Investments, Retained Interests and Other** | **Net Unrealized Losses on Derivative Instruments** | **Minimum Pension Liability** | **Subtotal** | **Cost of Shares Held in Trust for Deferred Compensation and Other** | **Total Shareholders Equity** |
| Balance, December 31, 2004 | $ 972,065 | $ 1,830,064 | $ 19,774 | $ (9,493) | $ (18,213) | $ (7,932) | $ (4,218) | $ 2,789,979 |
| Comprehensive income: | | | | | | | | |
| Net income for the period | | 352,014 | | | | | | 352,014 |
| Other comprehensive income, net of tax: | | | | | | | | |
| Net realized and unrealized holding losses during the period, net of income tax benefit of $5,650 | | | (9,122) | | | (9,122) | | |
| Foreign currency translation | | | (1,313) | | | (1,313) | | |
| Reclassification for net realized gains recorded in operations, net of income tax expense of $200 | | | (323) | | | (323) | | |
| Net unrealized losses on derivative instruments, net of reclassification to operations of $10,618 and income tax benefit of $20,991 | | | | (33,398) | | (33,398) | | |
| Other comprehensive loss | | | (10,758) | (33,398) | | (44,156) | | (44,156) |
| Total comprehensive income | | | | | | | | 307,858 |
| Stock redeemed and retired | (80,795) | | | | | | | (80,795) |
| Restricted stock issued (2,000 shares) and stock options exercised (1,395,250 shares), net of shares tendered and retired | 79,732 | | | | | | | 79,732 |
| Cash dividends common, $1.08 per share | | (97,639) | | | | | | (97,639) |
| Cost of shares held in trust for deferred compensation and other | | | | | | | 38 | 38 |
| Balance, September 30, 2005 | $ 971,002 | $ 2,084,439 | $ 9,016 | $ (42,891) | $ (18,213) | $ (52,088) | $ (4,180) | $ 2,999,173 |

| (In thousands) | Common Stock | Retained Earnings | Net Unrealized Gains (Losses) on Investments, Retained Interests and Other | Net Unrealized Gains (Losses) on Derivative Instruments | Minimum Pension Liability | Subtotal | Cost of Shares Held in Trust for Deferred Compensation | Total Shareholders Equity |
|---|---|---|---|---|---|---|---|---|
| | Nine Months Ended September 30, 2004 | | | | | | | |
| | | | Accumulated Other Comprehensive Income (Loss) | | | | | |
| Balance, December 31, 2003 | $ 985,904 | $ 1,538,677 | $ 24,015 | $ 10,716 | $ (15,690) | $ 19,041 | $ (3,599) | $ 2,540,023 |
| Comprehensive income: | | | | | | | | |
| Net income for the period | | 301,006 | | | | | | 301,006 |
| Other comprehensive income, net of tax: | | | | | | | | |
| Net realized and unrealized holding gains during the period, net of income tax expense of $438 | | | 473 | | | 473 | | |
| Reclassification for net realized gains recorded in operations, net of income tax expense of $1,218 | | | (1,967) | | | (1,967) | | |
| Net unrealized losses on derivative instruments, net of reclassification to operations of $35,040 and income tax benefit of $5,093 | | | | (8,307) | | (8,307) | | |
| Other comprehensive loss | | | (1,494) | (8,307) | | (9,801) | | (9,801) |
| Total comprehensive income | | | | | | | | 291,205 |
| Stock redeemed and retired | (79,881) | | | | | | | (79,881) |
| Stock options exercised (1,145,556 shares), net of shares tendered and retired | 59,143 | | | | | | | 59,143 |
| Cash dividends common, $.94 per share | | (85,749) | | | | | | (85,749) |
| Cost of shares held in trust for deferred compensation | | | | | | | (480) | (480) |
| Balance, September 30, 2004 | $ 965,166 | $ 1,753,934 | $ 22,521 | $ 2,409 | $ (15,690) | $ 9,240 | $ (4,079) | $ 2,724,261 |

Total comprehensive income for the three months ended September 30, 2005 and 2004 was $83,787 and $125,973, respectively.

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ZIONS BANCORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

| (In thousands) | Three Months Ended September 30, 2005 | Three Months Ended September 30, 2004 | Nine Months Ended September 30, 2005 | Nine Months Ended September 30, 2004 |
|---|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | | |
| Net income | $ 122,970 | $ 102,495 | $ 352,014 | $ 301,006 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | | | |
| Impairment losses on goodwill and long lived assets | | 602 | 633 | 1,314 |
| Provision for loan losses | 12,107 | 9,363 | 32,907 | 30,908 |
| Depreciation of premises and equipment | 14,718 | 15,274 | 44,160 | 44,747 |
| Amortization | 10,061 | 10,230 | 27,116 | 29,990 |
| Deferred income tax benefit | (9,155) | (7,889) | (28,830) | (18,074) |
| Gain (loss) allocated to minority interest | 152 | 858 | (2,345) | (1,100) |
| Equity securities losses (gains), net | (1,089) | (4,277) | 3,076 | 5,056 |
| Fixed income securities gains, net | (276) | (307) | (422) | (2,444) |
| Net decrease (increase) in trading securities | (69,977) | 168,310 | (61,989) | 102,268 |
| Principal payments on and proceeds from sales of loans held for sale | 233,122 | 219,443 | 703,106 | 431,718 |
| Additions to loans held for sale | (224,648) | (197,235) | (684,140) | (368,497) |
| Net gains on sales of loans, leases and other assets | (15,131) | (14,618) | (36,495) | (42,705) |
| Net increase in cash surrender value of bank owned life insurance | (4,372) | (4,802) | (13,581) | (14,002) |
| Undistributed earnings of affiliates | (1,702) | (1,614) | (6,169) | (6,260) |
| Change in accrued income taxes | 20,631 | 25,916 | 26,364 | 7,617 |
| Change in accrued interest receivable | 4,448 | (1,178) | (202) | 525 |
| Change in other assets | (119,792) | 218,444 | (118,519) | 137,741 |
| Change in other liabilities | (745) | (111,760) | 113,158 | (111,776) |
| Change in accrued interest payable | 7,308 | 4,906 | 9,507 | 8,170 |
| Other, net | 6,922 | (1,803) | 924 | 7,798 |
| Net cash provided by (used in) operating activities | (14,448) | 430,358 | 360,273 | 544,000 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | | |
| Net decrease (increase) in money market investments | (401,622) | 22,602 | (409,193) | (3,163) |
| Proceeds from maturities of investment securities held to maturity | 39,795 | 54,886 | 95,245 | 86,359 |
| Purchases of investment securities held to maturity | (32,525) | (51,965) | (96,064) | (89,165) |
| Proceeds from sales of investment securities available for sale | 1,016,707 | 413,207 | 1,672,979 | 2,689,399 |
| Proceeds from maturities of investment securities available for sale | 162,697 | 166,219 | 1,129,569 | 569,534 |
| Purchases of investment securities available for sale | (1,214,851) | (772,797) | (2,622,369) | (3,447,038) |
| Proceeds from sales of loans and leases | 880,965 | 684,773 | 1,100,060 | 912,946 |
| Net increase in loans and leases | (1,001,829) | (829,207) | (2,435,084) | (2,713,987) |
| Net increase in other noninterest-bearing investments | (2,815) | (12,484) | (3,808) | (38,644) |
| Proceeds from sales of premises and equipment | 1,170 | 1,380 | 3,158 | 8,893 |
| Purchases of premises and equipment | (16,889) | (20,818) | (49,640) | (49,649) |
| Proceeds from sales of other real estate owned | 1,114 | 2,085 | 11,666 | 11,207 |
| Net cash received from (paid for) acquisitions | (200) | | (200) | 1,076 |
| Net cash paid for net liabilities on branches sold | | (998) | (16,076) | (17,746) |

| | | | | |
|---|---|---|---|---|
| Net cash used in investing activities | (568,283) | (343,117) | (1,619,757) | (2,079,978) |

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ZIONS BANCORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(Unaudited)

| (In thousands) | Three Months Ended September 30, 2005 | Three Months Ended September 30, 2004 | Nine Months Ended September 30, 2005 | Nine Months Ended September 30, 2004 |
|---|---|---|---|---|
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | | |
| Net increase in deposits | $ 1,001,206 | $ 808,878 | $ 2,131,330 | $ 2,433,523 |
| Net change in short-term funds borrowed | (516,755) | (848,473) | (503,045) | (894,012) |
| Payments on FHLB advances and other borrowings over one year | (557) | (1,395) | (1,670) | (2,707) |
| Proceeds from issuance of long-term debt | | | | 300,000 |
| Debt issuance costs | | (116) | | (1,804) |
| Payments on long-term debt | | (65,001) | | (240,004) |
| Proceeds from issuance of common stock | 8,795 | 14,351 | 69,507 | 53,777 |
| Payments to redeem common stock | (737) | (25,000) | (80,795) | (79,881) |
| Dividends paid | (32,546) | (28,801) | (97,639) | (85,749) |
| Net cash provided by (used in) financing activities | 459,406 | (145,557) | 1,517,688 | 1,483,143 |
| Net increase (decrease) in cash and due from banks | (123,325) | (58,316) | 258,204 | (52,835) |
| Cash and due from banks at beginning of period | 1,232,527 | 1,124,832 | 850,998 | 1,119,351 |
| Cash and due from banks at end of period | $ 1,109,202 | $ 1,066,516 | $ 1,109,202 | $ 1,066,516 |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION: | | | | |
| Cash paid for: | | | | |
| Interest | $ 133,205 | $ 79,437 | $ 361,239 | $ 221,125 |
| Income taxes | 55,438 | 38,937 | 189,471 | 174,821 |
| Loans transferred to other real estate owned | 5,835 | 2,229 | 16,329 | 7,767 |
| Investment securities available for sale transferred to investment securities held to maturity | | | | 636,494 |

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ZIONS BANCORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

September 30, 2005

1. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements of Zions Bancorporation ( the Parent ) and its majority-owned subsidiaries (collectively the Company, we, our, us ) have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included.

Certain prior period amounts have been reclassified to conform to the current period presentation. This includes a reclassification of certain fees previously classified as interest and fees on loans in interest income to other service charges, commissions and fees in noninterest income. For the three- and nine-month periods ended September 30, 2004, the amounts reclassified were $3.7 million and $9.8 million, which had the effect of reducing the net interest margin from 4.25% to 4.20% and from 4.26% to 4.21% for the respective periods. There was no impact on net income.

Operating results for the three- and nine-month periods ended September 30, 2005 are not necessarily indicative of the results that may be expected in future periods. The balance sheet at December 31, 2004 is from the audited financial statements at that date, but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. For further information, refer to the consolidated financial statements and footnotes thereto included in Zions Bancorporation s Annual Report on Form 10-K for the year ended December 31, 2004.

2. OTHER RECENT ACCOUNTING PRONOUNCEMENT

The American Institute of Certified Public Accountants has issued Statement of Position 03-3, ( SOP 03-3 ), *Accounting for Certain Loans or Debt Securities Acquired in a Transfer*. SOP 03-3 requires acquired loans, including debt securities, to be recorded at the amount of the purchaser s initial investment and prohibits carrying over valuation allowances from the seller for those individually-evaluated loans that have evidence of deterioration in credit quality since origination, and it is probable all contractual cash flows on the loan will be unable to be collected. SOP 03-3 also requires the excess of all undiscounted cash flows expected to be collected at acquisition over the purchaser s initial investment to be recognized as interest income on a level-yield basis over the life of the loan. Subsequent increases in cash flows expected to be collected are recognized prospectively through an adjustment of the loan s yield over its remaining life, while subsequent decreases are recognized as impairment. Loans carried at fair value, mortgage loans held for sale, and loans to borrowers in good standing under revolving credit agreements are excluded from the scope of SOP 03-3. The guidance is effective for loans acquired in fiscal years beginning after December 15, 2004. Management has not yet determined the effect SOP 03-3 will have on the pending acquisition discussed in Note 7.

However, acquired loans within the scope of SOP 03-3 will be recorded at their net fair value.

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ZIONS BANCORPORATION AND SUBSIDIARIES

3. SHARE-BASED COMPENSATION

The following disclosures are required for interim financial statements by Statement of Financial Accounting Standards ( SFAS ) No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure,* issued by the Financial Accounting Standards Board ( FASB ). SFAS 148 provides guidance to transition from the intrinsic value method of accounting for share-based compensation under Accounting Principles Board Opinion No. 25 ( APB 25 ), *Accounting for Stock Issued to Employees,* to the fair value method under SFAS No. 123, *Accounting for Stock-Based Compensation*.

The impact on net income and net income per common share if we had applied the provisions of SFAS 123 to share-based payments was as follows *(in thousands, except per share amounts)*:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| Net income, as reported | $ 122,970 | $ 102,495 | $ 352,014 | $ 301,006 |
| Deduct: Total share-based compensation expense determined under fair value based method for all awards, net of related tax effects | (3,002) | (3,152) | (7,456) | (8,836) |
| Pro forma net income | $ 119,968 | $ 99,343 | $ 344,558 | $ 292,170 |
| Net income per common share: | | | | |
| Basic as reported | $ 1.37 | $ 1.14 | $ 3.92 | $ 3.36 |
| Basic pro forma | 1.33 | 1.11 | 3.83 | 3.26 |
| Diluted as reported | 1.34 | 1.13 | 3.84 | 3.31 |
| Diluted pro forma | 1.31 | 1.09 | 3.76 | 3.22 |

In December 2004, the FASB issued SFAS No. 123 (revised 2004), *Share-Based Payment*, which is a revision of SFAS 123. SFAS 123R supersedes APB 25 and amends SFAS No. 95, *Statement of Cash Flows*. SFAS 123R is effective for public companies for interim or annual periods beginning after June 15, 2005. On April 15, 2005, the Securities and Exchange Commission announced that it was amending Regulation S-X to provide up to a six-month delay for the adoption of SFAS 123R, or January 1, 2006 for calendar year public companies. The Company will adopt SFAS 123R beginning January 1, 2006.

SFAS 123R utilizes a modified grant-date approach in which the fair value of an equity award is estimated on the grant date without regard to service or performance vesting conditions. Generally, this approach is similar to that of SFAS 123. However, SFAS 123R would require all share-based awards to employees, including grants of employee stock options, to be recognized in the statement of income based on their fair values. The pro forma disclosure previously shown that is permitted by SFAS 123 will no longer be an alternative.

Our adoption of SFAS 123R will utilize the modified prospective method. Under this method, compensation cost is recognized beginning with the effective date based on the requirements of SFAS 123R for all share-based awards granted after the effective date, and based on the requirements of SFAS 123 for all awards granted to employees prior to the effective date of SFAS 123R that remain unvested on the effective date.

As permitted by SFAS 123, we currently account for share-based awards to employees using APB 25 s intrinsic value method and, as such, generally recognize no compensation cost for employee stock options.

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Accordingly, the adoption of SFAS 123R s fair value method will have a significant impact on our reported results of operations, although it will have no impact on our overall financial position. The impact of adopting SFAS 123R cannot be predicted at this time because it will depend on levels of share-based awards granted in the future. However, had we adopted SFAS 123R in prior periods, the impact of that standard would have approximated the impact of SFAS 123 as previously described in the disclosure of pro forma net income and net income per common share.

SFAS 123R also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as required under current accounting literature. This requirement will reduce net operating cash flows and increase net financing cash flows in periods after adoption. While we cannot estimate what those amounts will be in the future (because they depend on, among other things, when employees exercise stock options), the amount of operating cash flows recognized in prior years for such excess tax deductions has not been significant.

4. GUARANTEES

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

| | September 30, 2005 | December 31, 2004 |
|---|---|---|
| Standby letters of credit: | | |
| Financial | $ 651,929 | $ 646,489 |
| Performance | 176,936 | 136,660 |
| | $ 828,865 | $ 783,149 |

The Company s Annual Report on Form 10-K for the year ended December 31, 2004 contains further information on the nature of these letters of credit along with their terms and collateral requirements. At September 30, 2005, the carrying value recorded by the Company as a liability for these guarantees was $3.9 million.

Certain mortgage loans sold have limited recourse provisions for periods ranging from 3 months to 1 year. The amount of losses resulting from the exercise of these provisions has been insignificant.

As of September 30, 2005, the Parent has guaranteed approximately $580.3 million of debt issued by a subsidiary and by affiliated trusts issuing trust preferred securities. The trusts and related trust preferred securities are described in the Company s Annual Report on Form 10-K for the year ended December 31, 2004.

Zions First National Bank ( ZFNB ) provides a liquidity facility ( Liquidity Facility ) for a fee to Lockhart Funding, LLC ( Lockhart ), a qualifying special-purpose entity securities conduit. Lockhart purchases floating rate U.S. Government and AAA-rated securities with funds from the issuance of commercial paper. ZFNB also provides interest rate hedging support and administrative and investment advisory services for a fee. Pursuant to the Liquidity Facility contract, ZFNB is required to purchase securities from Lockhart to provide funds for Lockhart to repay maturing commercial paper upon Lockhart s inability to access the commercial paper market, or upon a commercial paper market disruption as specified in governing documents for Lockhart. Pursuant to the governing documents, including the liquidity agreement, if any security in Lockhart is downgraded below AA-, ZFNB may 1) place its letter of credit on the security, or 2) obtain credit enhancement from a third party, or 3) purchase the security from Lockhart at book value. At any given time, the maximum commitment of ZFNB is the book value of Lockhart s securities portfolio, which

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is not allowed to exceed the size of the Liquidity Facility commitment. At September 30, 2005, the book value of Lockhart s securities portfolio was $5.5 billion, which approximated market value, and the size of the Liquidity Facility commitment was $6.12 billion. No amounts were outstanding under the Liquidity Facility at September 30, 2005.

The FASB has proposed various amendments to SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, including an Exposure Draft issued in August 2005, *Accounting for Transfer of Financial Assets, an amendment of FASB Statement No. 140*. This new guidance, among other things, proposes to change the requirements that an entity must meet to be considered a qualifying special-purpose entity. Subject to the requirements of the final standard, Lockhart s operations may need to be modified to preserve its off-balance sheet status as a qualifying special-purpose entity.

5. RETIREMENT PLANS

The following disclosures are required for interim financial statements by SFAS No. 132R, *Employers Disclosures about Pensions and Other Postretirement Benefits (in thousands)*:

| | Pension Benefits | | Postretirement Benefits | | Pension Benefits | | Postretirement Benefits | |
|---|---|---|---|---|---|---|---|---|
| | Three Months Ended September 30, | | | | Nine Months Ended September 30, | | | |
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| Service cost | $ 373 | $ 98 | $ 29 | $ 27 | $ 659 | $ 448 | $ 89 | $ 77 |
| Interest cost | 5,775 | 2,073 | 86 | 39 | 10,044 | 6,323 | 261 | 289 |
| Expected return on plan assets | (6,833) | (2,388) | | | (12,041) | (7,238) | | |
| Amortization of prior service cost | | | | 14 | | | | 64 |
| Amortization of net actuarial (gain) loss | 1,238 | 235 | (86) | (234) | 1,958 | 885 | (261) | (384) |
| Net periodic benefit cost (credit) | $ 553 | $ 18 | $ 29 | $ (154) | $ 620 | $ 418 | $ 89 | $ 46 |

These disclosures include revisions made to the annual estimate of net periodic pension benefit cost by the Company s actuary in the third quarters of 2005 and 2004.

As disclosed in the Company s Annual Report on Form 10-K for the year ended December 31, 2004, we expected to contribute $654 thousand in 2005 to meet estimated benefit payments to participants in our postretirement welfare plan. As of September 30, 2005, we have contributed $489 thousand of this amount and expect to contribute the remaining portion during the rest of 2005. We did not expect to make any contributions to the pension plan in 2005 and have not done so as of September 30, 2005. As disclosed in the Company s Annual Report on Form 10-K for the year ended December 31, 2004, participation and benefit accruals for the pension plan were frozen effective January 1, 2003.

6. GOODWILL

During the nine months ended September 30, 2005, goodwill relating to a banking subsidiary was reduced by $3.7 million. This reduction resulted from the recognition of a portion of acquired state net operating loss carryforward benefits. This accounting follows the guidance of SFAS No. 109, *Accounting for Income Taxes*. There was no impact on net income.

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7. SUBSEQUENT EVENTS

As previously disclosed, the Company and Amegy Bancorporation, Inc., headquartered in Houston, Texas, announced on July 6, 2005 that they had signed a definitive agreement under which the Company will acquire all of the outstanding common stock of Amegy. On October 11, 2005, the shareholders of Amegy approved the definitive agreement. Consideration valued as of September 30, 2005 would consist of approximately $600 million in cash and approximately 14.3 million shares of the Company s common stock prior to the effect of any outstanding options, or a total estimated transaction value of approximately $1.7 billion. The acquisition is subject to approval by banking regulators and is expected to close during the fourth quarter of 2005. Upon completion of the transaction, Amegy will operate under its current name, charter and management as a separate banking subsidiary of the Company. At September 30, 2005, Amegy had assets of approximately $7.9 billion and shareholders equity of approximately $0.6 billion.

On October 26, 2005, the Company opened The Commerce Bank of Oregon in Portland, Oregon. The Company funded this new banking subsidiary in October 2005 with an initial capital contribution of $20 million. The new bank is not expected to have a material effect on the Company s operations for several years.

8. OPERATING SEGMENT INFORMATION

We manage our operations and prepare management reports and other information with a primary focus on geographical area. As of September 30, 2005, we operated six community/regional banks in distinct geographical areas. Performance assessment and resource allocation are based upon this geographical structure. Zions First National Bank ( ZFNB ) operates 110 branches in Utah and 23 in Idaho. California Bank & Trust ( CB&T ) operates 91 branches in California. Nevada State Bank ( NSB ) operates 69 branches in Nevada. National Bank of Arizona ( NBA ) operates 54 branches in Arizona. Vectra Bank Colorado ( Vectra ) operates 40 branches in Colorado and one branch in New Mexico. The Commerce Bank of Washington ( Commerce ) operates one branch in the state of Washington. The operating segment identified as Other includes the parent company, other smaller nonbank operating units, and eliminations of transactions between segments.

The accounting policies of the individual operating segments are the same as those of the Company. Transactions between operating segments are primarily conducted at fair value, resulting in profits that are eliminated for reporting consolidated results of operations. Operating segments pay for centrally provided services based upon estimated or actual usage of those services. We also allocate income among participating banking subsidiaries to better match revenues from hedging strategies to the operating units that gave rise to the exposures being hedged.

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ZIONS BANCORPORATION AND SUBSIDIARIES

The following table presents selected operating segment information for the three months ended September 30, 2005 and 2004:

| (In millions) | Zions First National Bank and Subsidiaries | | California Bank & Trust | | Nevada State Bank | | National Bank of Arizona | |
|---|---|---|---|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| CONDENSED INCOME STATEMENT | | | | | | | | |
| Net interest income excluding hedge income | $ 104.2 | $ 83.9 | $ 113.3 | $ 100.7 | $ 44.7 | $ 35.8 | $ 48.3 | $ 35.4 |
| Hedge income recorded directly at subsidiary | (0.3) | 3.6 | (0.5) | 3.5 | 0.2 | 0.4 | 0.4 | 0.1 |
| Allocated hedge income | 0.7 | (2.9) | | | (0.1) | 0.3 | (0.2) | 0.8 |
| Net interest income | 104.6 | 84.6 | 112.8 | 104.2 | 44.8 | 36.5 | 48.5 | 36.3 |
| Provision for loan losses | 6.0 | 4.1 | 4.5 | 3.0 | (0.9) | 1.1 | 1.9 | 1.0 |
| Net interest income after provision for loan losses | 98.6 | 80.5 | 108.3 | 101.2 | 45.7 | 35.4 | 46.6 | 35.3 |
| Noninterest income | 68.7 | 69.4 | 19.1 | 19.8 | 7.7 | 8.3 | 6.0 | 5.2 |
| Noninterest expense | 98.2 | 91.6 | 59.6 | 57.9 | 26.8 | 23.5 | 24.3 | 21.0 |
| Impairment loss on goodwill | | 0.6 | | | | | | |
| Income before income taxes and minority interest | 69.1 | 57.7 | 67.8 | 63.1 | 26.6 | 20.2 | 28.3 | 19.5 |
| Income tax expense (benefit) | 23.1 | 20.4 | 27.3 | 25.2 | 9.2 | 6.9 | 11.2 | 7.9 |
| Minority interest | | | | | | | | |
| Net income (loss) | $ 46.0 | $ 37.3 | $ 40.5 | $ 37.9 | $ 17.4 | $ 13.3 | $ 17.1 | $ 11.6 |
| AVERAGE BALANCE SHEET DATA | | | | | | | | |
| Assets | $ 12,497 | $ 12,249 | $ 10,236 | $ 9,710 | $ 3,693 | $ 3,248 | $ 3,972 | $ 3,396 |
| Net loans and leases | 8,523 | 7,212 | 7,269 | 6,808 | 2,791 | 2,456 | 3,464 | 2,769 |
| Deposits | 8,620 | 7,822 | 8,627 | 8,186 | 3,271 | 2,877 | 3,420 | 2,974 |
| Shareholder s equity | 791 | 733 | 1,048 | 1,016 | 234 | 213 | 289 | 247 |

| (In millions) | Vectra Bank Colorado | | The Commerce Bank of Washington | | Other | | Consolidated Company | |
|---|---|---|---|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| CONDENSED INCOME STATEMENT | | | | | | | | |
| Net interest income excluding hedge income | $ 22.6 | $ 19.5 | $ 7.5 | $ 5.7 | $ 0.2 | $ (0.4) | $ 340.8 | $ 280.6 |
| Hedge income recorded directly at subsidiary | (0.1) | 1.6 | (0.1) | 0.4 | 0.2 | 0.9 | (0.2) | 10.5 |
| Allocated hedge income | (0.3) | 1.3 | (0.1) | 0.5 | | | | |
| Net interest income | 22.2 | 22.4 | 7.3 | 6.6 | 0.4 | 0.5 | 340.6 | 291.1 |
| Provision for loan losses | 0.3 | | 0.3 | 0.3 | | (0.1) | 12.1 | 9.4 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Net interest income after provision for loan losses | 21.9 | 22.4 | 7.0 | 6.3 | 0.4 | 0.6 | 328.5 | 281.7 |
| Noninterest income | 6.3 | 7.7 | 0.4 | 0.3 | 3.1 | 2.5 | 111.3 | 113.2 |
| Noninterest expense | 22.1 | 22.7 | 3.0 | 2.7 | 14.5 | 13.4 | 248.5 | 232.8 |
| Impairment loss on goodwill | | | | | | | | 0.6 |
| Income before income taxes and minority interest | 6.1 | 7.4 | 4.4 | 3.9 | (11.0) | (10.3) | 191.3 | 161.5 |
| Income tax expense (benefit) | 2.2 | 2.7 | 1.3 | 1.2 | (6.1) | (6.1) | 68.2 | 58.2 |
| Minority interest | | | | | 0.1 | 0.8 | 0.1 | 0.8 |
| Net income (loss) | $ 3.9 | $ 4.7 | $ 3.1 | $ 2.7 | $ (5.0) | $ (5.0) | $ 123.0 | $ 102.5 |
| AVERAGE BALANCE SHEET DATA | | | | | | | | |
| Assets | $ 2,324 | $ 2,348 | $ 781 | $ 700 | $ (285) | $ (282) | $ 33,218 | $ 31,369 |
| Net loans and leases | 1,511 | 1,520 | 375 | 341 | 76 | 114 | 24,009 | 21,220 |
| Deposits | 1,645 | 1,628 | 429 | 443 | (1,205) | (1,200) | 24,807 | 22,730 |
| Shareholder s equity | 296 | 344 | 50 | 47 | 265 | 77 | 2,973 | 2,677 |

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ZIONS BANCORPORATION AND SUBSIDIARIES

The following table presents selected operating segment information for the nine months ended September 30, 2005 and 2004:

| (In millions) | Zions First National Bank and Subsidiaries | | California Bank & Trust | | Nevada State Bank | | National Bank of Arizona | |
|---|---|---|---|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| CONDENSED INCOME STATEMENT | | | | | | | | |
| Net interest income excluding hedge income | $ 300.7 | $ 249.4 | $ 330.9 | $ 290.9 | $ 123.9 | $ 101.7 | $ 134.8 | $ 99.1 |
| Hedge income recorded directly at subsidiary | 2.6 | 15.6 | 2.4 | 11.1 | 1.1 | 1.2 | 1.3 | 0.3 |
| Allocated hedge income | (0.5) | (13.5) | | | | 1.4 | 0.1 | 3.5 |
| Net interest income | 302.8 | 251.5 | 333.3 | 302.0 | 125.0 | 104.3 | 136.2 | 102.9 |
| Provision for loan losses | 19.7 | 15.8 | 7.0 | 6.0 | (0.4) | 3.8 | 4.8 | 3.0 |
| Net interest income after provision for loan losses | 283.1 | 235.7 | 326.3 | 296.0 | 125.4 | 100.5 | 131.4 | 99.9 |
| Noninterest income | 200.1 | 204.9 | 56.7 | 58.7 | 23.4 | 23.9 | 16.5 | 16.7 |
| Noninterest expense | 286.2 | 258.8 | 182.9 | 174.2 | 77.9 | 70.3 | 72.0 | 62.6 |
| Impairment loss on goodwill | | 0.6 | | | | | | |
| Income before income taxes and minority interest | 197.0 | 181.2 | 200.1 | 180.5 | 70.9 | 54.1 | 75.9 | 54.0 |
| Income tax expense (benefit) | 65.2 | 62.0 | 80.7 | 72.5 | 24.5 | 18.6 | 30.2 | 21.6 |
| Minority interest | (0.1) | (0.3) | | | | | | |
| Net income (loss) | $ 131.9 | $ 119.5 | $ 119.4 | $ 108.0 | $ 46.4 | $ 35.5 | $ 45.7 | $ 32.4 |
| AVERAGE BALANCE SHEET DATA | | | | | | | | |
| Assets | $ 12,367 | $ 12,247 | $ 10,165 | $ 9,540 | $ 3,518 | $ 3,123 | $ 3,809 | $ 3,171 |
| Net loans and leases | 8,265 | 7,141 | 7,163 | 6,666 | 2,679 | 2,321 | 3,297 | 2,583 |
| Deposits | 8,335 | 7,509 | 8,450 | 7,881 | 3,086 | 2,750 | 3,255 | 2,747 |
| Shareholder s equity | 771 | 737 | 1,044 | 996 | 228 | 205 | 279 | 243 |

| (In millions) | Vectra Bank Colorado | | The Commerce Bank of Washington | | Other | | Consolidated Company | |
|---|---|---|---|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| CONDENSED INCOME STATEMENT | | | | | | | | |
| Net interest income excluding hedge income | $ 64.7 | $ 59.0 | $ 21.5 | $ 16.7 | $ (0.6) | $ (0.4) | $ 975.9 | $ 816.4 |
| Hedge income recorded directly at subsidiary | 1.5 | 4.6 | 0.1 | 1.3 | 1.6 | 0.9 | 10.6 | 35.0 |
| Allocated hedge income | 0.3 | 6.3 | 0.1 | 2.3 | | | | |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Net interest income | 66.5 | 69.9 | 21.7 | 20.3 | 1.0 | 0.5 | 986.5 | 851.4 |
| Provision for loan losses | 0.9 | 1.6 | 0.9 | 0.8 | | (0.1) | 32.9 | 30.9 |
| Net interest income after provision for loan losses | 65.6 | 68.3 | 20.8 | 19.5 | 1.0 | 0.6 | 953.6 | 820.5 |
| Noninterest income | 19.8 | 22.5 | 1.2 | 1.2 | 3.1 | 4.7 | 320.8 | 332.6 |
| Noninterest expense | 65.4 | 69.0 | 9.2 | 8.4 | 36.9 | 41.8 | 730.5 | 685.1 |
| Impairment loss on goodwill | | | | | | | | 0.6 |
| Income before income taxes and minority interest | 20.0 | 21.8 | 12.8 | 12.3 | (32.8) | (36.5) | 543.9 | 467.4 |
| Income tax expense (benefit) | 7.1 | 7.9 | 3.9 | 4.0 | (17.3) | (19.1) | 194.3 | 167.5 |
| Minority interest | | | | | (2.3) | (0.8) | (2.4) | (1.1) |
| Net income (loss) | $ 12.9 | $ 13.9 | $ 8.9 | $ 8.3 | $ (13.2) | $ (16.6) | $ 352.0 | $ 301.0 |
| AVERAGE BALANCE SHEET DATA | | | | | | | | |
| Assets | $ 2,302 | $ 2,425 | $ 761 | $ 704 | $ (390) | $ (464) | $ 32,532 | $ 30,746 |
| Net loans and leases | 1,480 | 1,607 | 373 | 337 | 86 | 116 | 23,343 | 20,771 |
| Deposits | 1,592 | 1,674 | 425 | 441 | (1,198) | (1,247) | 23,945 | 21,755 |
| Shareholder s equity | 312 | 360 | 50 | 49 | 208 | 35 | 2,892 | 2,625 |

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ZIONS BANCORPORATION AND SUBSIDIARIES

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

FINANCIAL HIGHLIGHTS

(Unaudited)

| (In thousands, except per share and ratio data) | Three Months Ended September 30, 2005 | Three Months Ended September 30, 2004 | % Change | Nine Months Ended September 30, 2005 | Nine Months Ended September 30, 2004 | % Change |
|---|---|---|---|---|---|---|
| **EARNINGS** | | | | | | |
| Taxable-equivalent net interest income | $ 345,826 | $ 296,384 | 16.68 % | $ 1,002,034 | $ 867,519 | 15.51 % |
| Taxable-equivalent revenue | 457,075 | 409,540 | 11.61 % | 1,322,831 | 1,200,113 | 10.23 % |
| Net interest income | 340,652 | 291,115 | 17.02 % | 986,531 | 851,434 | 15.87 % |
| Noninterest income | 111,249 | 113,156 | (1.69)% | 320,797 | 332,594 | (3.55)% |
| Provision for loan losses | 12,107 | 9,363 | 29.31 % | 32,907 | 30,908 | 6.47 % |
| Noninterest expense | 248,472 | 232,813 | 6.73 % | 730,473 | 685,127 | 6.62 % |
| Impairment loss on goodwill | | 602 | (100.00)% | | 602 | (100.00)% |
| Income before income taxes and minority interest | 191,322 | 161,493 | 18.47 % | 543,948 | 467,391 | 16.38 % |
| Income taxes | 68,200 | 58,140 | 17.30 % | 194,279 | 167,485 | 16.00 % |
| Minority interest | 152 | 858 | (82.28)% | (2,345) | (1,100) | 113.18 % |
| Net income | 122,970 | 102,495 | 19.98 % | 352,014 | 301,006 | 16.95 % |
| **PER COMMON SHARE** | | | | | | |
| Net income (diluted) | 1.34 | 1.13 | 18.58 % | 3.84 | 3.31 | 16.01 % |
| Dividends | 0.36 | 0.32 | 12.50 % | 1.08 | 0.94 | 14.89 % |
| Book value | | | | 33.30 | 30.39 | 9.58 % |
| **SELECTED RATIOS** | | | | | | |
| Return on average assets | 1.47% | 1.30% | | 1.45% | 1.31% | |
| Return on average common equity | 16.41% | 15.23% | | 16.27% | 15.32% | |
| Efficiency ratio | 54.36% | 56.85% | | 55.22% | 57.09% | |
| Net interest margin | 4.59% | 4.20% | | 4.57% | 4.21% | |

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ZIONS BANCORPORATION AND SUBSIDIARIES

FINANCIAL HIGHLIGHTS (Continued)

(Unaudited)

| (In thousands, except share and ratio data) | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|---|---|---|---|---|---|---|
| | 2005 | 2004 | % Change | 2005 | 2004 | % Change |
| **AVERAGE BALANCES** | | | | | | |
| Total assets | $ 33,218,477 | $ 31,368,578 | 5.90 % | $ 32,531,725 | $ 30,746,329 | 5.81 % |
| Securities | 4,993,735 | 5,232,188 | (4.56)% | 5,091,701 | 5,181,732 | (1.74)% |
| Net loans and leases | 24,009,024 | 21,220,481 | 13.14 % | 23,343,316 | 20,770,913 | 12.38 % |
| Goodwill | 638,957 | 645,462 | (1.01)% | 640,151 | 649,751 | (1.48)% |
| Core deposit and other intangibles | 52,276 | 62,923 | (16.92)% | 53,964 | 66,622 | (19.00)% |
| Total deposits | 24,807,387 | 22,729,540 | 9.14 % | 23,945,430 | 21,754,978 | 10.07 % |
| Core deposits (1) | 23,029,389 | 21,463,026 | 7.30 % | 22,376,328 | 20,521,173 | 9.04 % |
| Minority interest | 26,220 | 23,791 | 10.21 % | 25,270 | 22,456 | 12.53 % |
| Shareholders equity | 2,972,615 | 2,677,404 | 11.03 % | 2,892,162 | 2,625,039 | 10.18 % |
| Weighted average common and common-equivalent shares outstanding | 91,605,279 | 90,956,674 | 0.71 % | 91,606,315 | 90,819,586 | 0.87 % |
| **AT PERIOD END** | | | | | | |
| Total assets | | | | $ 33,422,701 | $ 30,731,040 | 8.76 % |
| Securities | | | | 4,992,339 | 5,058,691 | (1.31)% |
| Net loans and leases | | | | 23,930,017 | 21,507,043 | 11.27 % |
| Sold loans being serviced (2) | | | | 3,561,818 | 3,152,924 | 12.97 % |
| Allowance for loan losses | | | | 287,237 | 269,413 | 6.62 % |
| Allowance for unfunded lending commitments | | | | 15,830 | 12,030 | 31.59 % |
| Goodwill | | | | 639,120 | 642,645 | (0.55)% |
| Core deposit and other intangibles | | | | 47,670 | 57,665 | (17.33)% |
| Total deposits | | | | 25,399,741 | 23,165,131 | 9.65 % |
| Core deposits (1) | | | | 23,507,531 | 21,883,851 | 7.42 % |
| Minority interest | | | | 26,719 | 24,481 | 9.14 % |
| Shareholders equity | | | | 2,999,173 | 2,724,261 | 10.09 % |
| Common shares outstanding | | | | 90,067,016 | 89,638,753 | 0.48 % |
| Average equity to average assets | 8.95% | 8.54% | | 8.89% | 8.54% | |
| Common dividend payout | 26.47% | 28.10% | | 27.74% | 28.49% | |
| Tangible common equity ratio | | | | 7.06% | 6.74% | |
| Nonperforming assets | | | | 83,101 | 91,105 | (8.79)% |
| Accruing loans past due 90 days or more | | | | 15,836 | 18,182 | (12.90)% |
| Nonperforming assets to net loans and leases and other real estate owned at period end | | | | 0.35% | 0.42% | |

(1) Amount consists of total deposits excluding time deposits $100,000 and over.
(2) Amount represents the outstanding balance of loans sold and being serviced by the Company, excluding conforming first mortgage residential real estate loans.

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ZIONS BANCORPORATION AND SUBSIDIARIES

**FORWARD-LOOKING INFORMATION**

Statements in Management s Discussion and Analysis that are based on other than historical data are forward-looking, within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements provide current expectations or forecasts of future events and include, among others:

- statements with respect to the Company s beliefs, plans, objectives, goals, guidelines, expectations, anticipations, and future financial condition, results of operations and performance;
- statements preceded by, followed by or that include the words may, could, should, would, believe, anticipate, estimate, exp plan, projects, or similar expressions.

These forward-looking statements are not guarantees of future performance, nor should they be relied upon as representing management s views as of any subsequent date. Forward-looking statements involve significant risks and uncertainties and actual results may differ materially from those presented, either expressed or implied, in 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 and commercial real estate development;
- fluctuations in the equity and fixed-income markets;
- changes in interest rates;
- 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;

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;

inflation and deflation;

technological changes;

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.

In addition, the following factors relating to the Company s proposed acquisition of Amegy Bancorporation, Inc., among others, could cause actual results to differ materially from the anticipated results or other expectations expressed in the forward-looking statements: (1) the businesses of Zions Bancorporation and Amegy Bancorporation may not be combined successfully, or such combination may take longer, be more difficult, time-consuming or costly to accomplish than expected; (2) the expected growth opportunities and

cost savings from the merger may not be fully realized or may take longer to realize than expected; (3) operating costs, customer losses and business disruption following the merger, including adverse effects on

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relationships with employees, may be greater than expected; and (4) governmental approvals of the merger may not be obtained or adverse regulatory conditions may be imposed in connection with governmental approvals of the merger.

Additional factors that could cause actual results to differ materially from those expressed in the forward-looking statements are discussed in the 2004 Annual Reports on Form 10-K of Zions Bancorporation and Amegy Bancorporation, Inc. filed with the Securities and Exchange Commission ( SEC ) and available at the SEC s Internet site (http://www.sec.gov).

The Company specifically disclaims any obligation to update any factors or to publicly announce the result of revisions to any of the forward-looking statements included herein to reflect future events or developments.

**CRITICAL ACCOUNTING POLICIES AND SIGNIFICANT ESTIMATES**

The Company has made no significant changes in its critical accounting policies and significant estimates from those disclosed in its Annual Report on Form 10-K for the year ended December 31, 2004.

**RESULTS OF OPERATIONS**

Zions Bancorporation ( the Parent ) and subsidiaries (collectively Zions, the Company, we, our ) reported net income of $123.0 million, or $1. per diluted share for the third quarter of 2005 compared with $102.5 million, or $1.13 per diluted share for the third quarter of 2004. The annualized return on average assets was 1.47% in the third quarter of 2005 compared to 1.30% in the third quarter of 2004. For the same comparative periods, the annualized return on average common equity was 16.41% compared to 15.23%. In addition, the efficiency ratio, which is defined as the percentage of noninterest expenses to taxable-equivalent revenue, was 54.4% compared to 56.8% for the third quarter of 2004.

Net income for the first nine months of 2005 was $352.0 million or $3.84 per diluted share, compared to $301.0 million or $3.31 per diluted share for the first nine months of 2004. For the first nine months of 2005, the annualized return on average assets was 1.45% compared to 1.31% for the same period of 2004. For the same comparative periods, the annualized return on average common equity was 16.27% compared to 15.32%. The efficiency ratio for the first nine months of 2005 was 55.2% compared to 57.1% for 2004.

**Net Interest Income, Margin and Interest Rate Spreads**

Taxable-equivalent net interest income for the third quarter of 2005 increased 16.7% to $345.8 million compared with $296.4 million for the comparable period of 2004. The increase reflects growth in both loans and deposits coupled with the effect of an increase in the net interest margin. For the first nine months of 2005, net interest income on a fully taxable-equivalent basis was $1,002.0 million, an increase of 15.5%

compared to $867.5 million in 2004. The incremental tax rate used for calculating all taxable-equivalent adjustments is 35% for all periods presented.

The Company s net interest margin was 4.59% for the third quarter of 2005, compared to 4.60% for the second quarter of 2005 and 4.20% for the third quarter of 2004. Since the middle of 2004, the margin has been positively impacted by the benefits of increasing noninterest-bearing demand deposits and the increasing spreads earned on those deposits. Also, reductions in lower-yielding short-term investments have been used to fund higher-yielding loans. The margin for the third quarter of 2005 continued to be influenced by solid loan and deposit growth. During the first quarter of 2005, the Company reclassified certain fees from

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interest income to Other service charges, commissions and fees in noninterest income. This had the effect of reducing the net interest margin by four to six basis points in that and prior quarters. Prior quarters have been reclassified for comparability.

The yield on average earning assets increased 103 basis points during the third quarter of 2005 compared to the same period in 2004. The average rate paid this quarter on interest-bearing funds increased 93 basis points from the third quarter of 2004. The spread on average interest-bearing funds for the third quarter of 2005 was 3.93%, up from 3.83% for the third quarter of 2004. Comparing the first nine months of 2005 with 2004, the yield on average earning assets increased 94 basis points, while the cost of interest-bearing funds increased 81 basis points.

The Federal Reserve raised its target for the federal funds rate twice during the quarter by a combined 50 basis points. These increases were followed by corresponding increases in the prime rate charged by most major banks, including Zions subsidiary banks. The Federal Reserve has indicated that it will continue monitoring the economy and implement additional rate changes as appropriate. The Company expects to continue its efforts to maintain a slightly asset sensitive position with regard to interest rate risk. However, its actual position is highly dependent upon changes in both short-term and long-term interest rates, as well as the actions of competitors and customers in response to those changes.

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ZIONS BANCORPORATION AND SUBSIDIARIES

CONSOLIDATED AVERAGE BALANCE SHEETS, YIELDS AND RATES

(Unaudited)

| (In thousands) | Three Months Ended September 30, 2005 | | | Three Months Ended September 30, 2004 | | |
|---|---|---|---|---|---|---|
| | Average Balance | Amount of Interest (1) | Average Rate | Average Balance | Amount of Interest (1) | Average Rate |
| ASSETS | | | | | | |
| Money market investments | $ 915,954 | $ 7,723 | 3.35% | $ 1,605,277 | $ 4,994 | 1.24% |
| Securities: | | | | | | |
| Held to maturity | 641,745 | 11,159 | 6.90% | 640,207 | 10,996 | 6.83% |
| Available for sale | 3,866,988 | 50,582 | 5.19% | 3,753,811 | 41,164 | 4.36% |
| Trading account | 485,002 | 4,753 | 3.89% | 838,170 | 8,884 | 4.22% |
| Total securities | 4,993,735 | 66,494 | 5.28% | 5,232,188 | 61,044 | 4.64% |
| Loans: | | | | | | |
| Loans held for sale | 187,692 | 2,462 | 5.20% | 124,000 | 932 | 2.99% |
| Net loans and leases (2) | 23,821,332 | 411,772 | 6.86% | 21,096,481 | 317,695 | 5.99% |
| Total loans and leases | 24,009,024 | 414,234 | 6.85% | 21,220,481 | 318,627 | 5.97% |
| Total interest-earning assets | 29,918,713 | 488,451 | 6.48% | 28,057,946 | 384,665 | 5.45% |
| Cash and due from banks | 1,123,297 | | | 1,038,432 | | |
| Allowance for loan losses | (284,423) | | | (272,463) | | |
| Goodwill | 638,957 | | | 645,462 | | |
| Core deposit and other intangibles | 52,276 | | | 62,923 | | |
| Other assets | 1,769,657 | | | 1,836,278 | | |
| Total assets | $ 33,218,477 | | | $ 31,368,578 | | |
| LIABILITIES | | | | | | |
| Interest-bearing deposits: | | | | | | |
| Savings and NOW | $ 3,404,743 | 7,756 | 0.90% | $ 3,379,890 | 5,359 | 0.63% |
| Money market super NOW | 9,943,220 | 51,783 | 2.07% | 9,821,968 | 27,689 | 1.12% |
| Time under $100,000 | 1,522,194 | 10,941 | 2.85% | 1,407,490 | 6,773 | 1.91% |
| Time $100,000 and over | 1,777,998 | 14,954 | 3.34% | 1,266,514 | 7,557 | 2.37% |
| Foreign | 715,838 | 5,641 | 3.13% | 409,644 | 1,362 | 1.32% |
| Total interest-bearing deposits | 17,363,993 | 91,075 | 2.08% | 16,285,506 | 48,740 | 1.19% |
| Borrowed funds: | | | | | | |
| Securities sold, not yet purchased | 503,722 | 4,660 | 3.67% | 708,342 | 7,135 | 4.01% |
| Federal funds purchased and security repurchase agreements | 2,186,773 | 16,368 | 2.97% | 2,397,862 | 7,959 | 1.32% |

| | | | | | | |
|---|---|---|---|---|---|---|
| Commercial paper | 143,239 | 1,294 | 3.58% | 191,767 | 756 | 1.57% |
| FHLB advances and other borrowings: | | | | | | |
| One year or less | 107,606 | 891 | 3.29% | 154,593 | 519 | 1.34% |
| Over one year | 226,786 | 2,885 | 5.05% | 229,703 | 2,928 | 5.07% |
| Long-term debt | 1,701,575 | 25,452 | 5.93% | 1,697,356 | 20,244 | 4.74% |
| Total borrowed funds | 4,869,701 | 51,550 | 4.20% | 5,379,623 | 39,541 | 2.92% |
| Total interest-bearing liabilities | 22,233,694 | 142,625 | 2.55% | 21,665,129 | 88,281 | 1.62% |
| Noninterest-bearing deposits | 7,443,394 | | | 6,444,034 | | |
| Other liabilities | 542,554 | | | 558,220 | | |
| Total liabilities | 30,219,642 | | | 28,667,383 | | |
| Minority interest | 26,220 | | | 23,791 | | |
| Total shareholders equity | 2,972,615 | | | 2,677,404 | | |
| Total liabilities and shareholders equity | $ 33,218,477 | | | $ 31,368,578 | | |
| Spread on average interest-bearing funds | | | 3.93% | | | 3.83% |
| Taxable-equivalent net interest income and net yield on interest-earning assets | | $ 345,826 | 4.59% | | $ 296,384 | 4.20% |

(1) Taxable-equivalent rates used where applicable.

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

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CONSOLIDATED AVERAGE BALANCE SHEETS, YIELDS AND RATES (Continued)

(Unaudited)

| (In thousands) | Nine Months Ended September 30, 2005 | | | Nine Months Ended September 30, 2004 | | |
|---|---|---|---|---|---|---|
| | Average Balance | Amount of Interest (1) | Average Rate | Average Balance | Amount of Interest (1) | Average Rate |
| ASSETS | | | | | | |
| Money market investments | $ 865,182 | $ 18,402 | 2.84% | $ 1,576,519 | $ 11,529 | 0.98% |
| Securities: | | | | | | |
| Held to maturity | 640,090 | 33,245 | 6.94% | 453,902 | 23,370 | 6.88% |
| Available for sale | 3,919,114 | 149,204 | 5.09% | 3,956,116 | 127,433 | 4.30% |
| Trading account | 532,497 | 15,832 | 3.98% | 771,714 | 23,227 | 4.02% |
| Total securities | 5,091,701 | 198,281 | 5.21% | 5,181,732 | 174,030 | 4.49% |
| Loans: | | | | | | |
| Loans held for sale | 190,604 | 6,683 | 4.69% | 157,452 | 3,595 | 3.05% |
| Net loans and leases (2) | 23,152,712 | 1,153,991 | 6.66% | 20,613,461 | 914,080 | 5.92% |
| Total loans and leases | 23,343,316 | 1,160,674 | 6.65% | 20,770,913 | 917,675 | 5.90% |
| Total interest-earning assets | 29,300,199 | 1,377,357 | 6.29% | 27,529,164 | 1,103,234 | 5.35% |
| Cash and due from banks | 1,073,089 | | | 1,000,655 | | |
| Allowance for loan losses | (278,708) | | | (271,782) | | |
| Goodwill | 640,151 | | | 649,751 | | |
| Core deposit and other intangibles | 53,964 | | | 66,622 | | |
| Other assets | 1,743,030 | | | 1,771,919 | | |
| Total assets | $ 32,531,725 | | | $ 30,746,329 | | |
| LIABILITIES | | | | | | |
| Interest-bearing deposits: | | | | | | |
| Savings and NOW | $ 3,392,567 | 20,640 | 0.81% | $ 3,338,766 | 15,398 | 0.62% |
| Money market super NOW | 9,820,469 | 128,871 | 1.75% | 9,316,936 | 70,590 | 1.01% |
| Time under $100,000 | 1,463,881 | 28,398 | 2.59% | 1,449,637 | 20,195 | 1.86% |
| Time $100,000 and over | 1,569,102 | 35,780 | 3.05% | 1,233,805 | 21,015 | 2.28% |
| Foreign | 573,938 | 11,802 | 2.75% | 317,667 | 2,615 | 1.10% |
| Total interest-bearing deposits | 16,819,957 | 225,491 | 1.79% | 15,656,811 | 129,813 | 1.11% |
| Borrowed funds: | | | | | | |
| Securities sold, not yet purchased | 507,137 | 13,903 | 3.67% | 659,441 | 19,152 | 3.88% |
| | 2,314,856 | 44,783 | 2.59% | 2,750,202 | 21,375 | 1.04% |

| | | | | | | |
|---|---|---|---|---|---|---|
| Federal funds purchased and security repurchase agreements | | | | | | |
| Commercial paper | 149,637 | 3,471 | 3.10% | 205,559 | 2,057 | 1.34% |
| FHLB advances and other borrowings: | | | | | | |
| One year or less | 269,859 | 5,837 | 2.89% | 332,646 | 2,825 | 1.13% |
| Over one year | 227,319 | 8,587 | 5.05% | 230,338 | 8,758 | 5.08% |
| Long-term debt | 1,694,642 | 73,251 | 5.78% | 1,648,176 | 51,735 | 4.19% |
| Total borrowed funds | 5,163,450 | 149,832 | 3.88% | 5,826,362 | 105,902 | 2.43% |
| Total interest-bearing liabilities | 21,983,407 | 375,323 | 2.28% | 21,483,173 | 235,715 | 1.47% |
| Noninterest-bearing deposits | 7,125,473 | | | 6,098,167 | | |
| Other liabilities | 505,413 | | | 517,494 | | |
| Total liabilities | 29,614,293 | | | 28,098,834 | | |
| Minority interest | 25,270 | | | 22,456 | | |
| Total shareholders equity | 2,892,162 | | | 2,625,039 | | |
| Total liabilities and shareholders equity | $ 32,531,725 | | | $ 30,746,329 | | |
| Spread on average interest-bearing funds | | | 4.01% | | | 3.88% |
| Taxable-equivalent net interest income and net yield on interest-earning assets | | $ 1,002,034 | 4.57% | | $ 867,519 | 4.21% |

(1) Taxable-equivalent rates used where applicable.

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

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**Provisions for Credit Losses**

The provision for loan losses is the amount of expense that, based on our judgment, is required to maintain the allowance for loan losses at an adequate level based upon the inherent risks in the portfolio. The provision for unfunded lending commitments is used to maintain the allowance for unfunded lending commitments at an adequate level. See Credit Risk Management for more information on how we determine the appropriate level for the allowances for loan and lease losses and unfunded lending commitments.

The provision for loan losses for the third quarter of 2005 was $12.1 million compared to $9.4 million for the same period in 2004. On an annualized basis, the provision was 0.20% of average loans for the third quarter of 2005 and 0.18% for the third quarter of 2004. The provision for unfunded lending commitments was $0.4 million for the third quarter of 2005 compared to $0.9 million for the same period of 2004. 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 fundings. The related provision will generally reflect these fluctuations. When combined, the provisions for credit losses for the third quarter of 2005 were $12.5 million compared to $10.3 million for the third quarter of 2004.

The provision for loan losses for the first nine months of 2005 was $32.9 million, 6.5% more than the $30.9 million provision for the first nine months of 2004. The relatively low level of the provision corresponds to the general good credit quality that the Company is experiencing. However, we do not expect that the provision for loan losses can remain at these low levels indefinitely and we believe that the provision may increase at some point in the future. The provision for unfunded lending commitments was $3.1 million for the first nine months of 2005 compared to ($0.2) million for the same period in 2004, in part reflecting the rising levels of unfunded commitments resulting from the current strong levels of new commitment originations.

**Noninterest Income**

Compared with the third quarter of 2004, noninterest income for the third quarter of 2005 decreased $1.9 million, or 1.7%. The decrease included a $3.2 million decrease in net equity securities gains, as discussed later in this section. Service charges and fees on deposit accounts also decreased $1.3 million from the third quarter of 2004 and income from the Company s securities conduit decreased $0.6 million. The decline in service charges and fees on deposit accounts was primarily the result of higher earnings credit rates on commercial transaction accounts as market interest rates continued to rise, and to a lesser extent, lower other fees on consumer accounts. Other service charges, commissions and fees increased $1.8 million from the third quarter of 2004 mainly due to a $1.7 million increase in debit card interchange fees. Market making, trading and nonhedge derivative income increased $1.6 million.

Net equity securities gains were $1.1 million for the third quarter of 2005 compared with net gains of $4.3 million for the same period in 2004 and included net gains on venture capital equity investments of $0.6 million in 2005 compared to net gains of $3.3 million in 2004. Adjusted for expenses, minority interest and income taxes, venture capital funds reduced net income by $0.1 million for the third quarter of 2005 and increased net income by $0.9 million in the third quarter of 2004.

Income from securities conduit represents fees that we receive from Lockhart Funding, a qualifying special-purpose entity securities conduit, in return for back-up liquidity, an interest rate agreement and administrative services that Zions First National Bank provides to the entity in accordance with a servicing agreement. The decrease in income for the third quarter of 2005 when compared to the same period in 2004 resulted from compression of spreads between Lockhart s assets and liabilities.

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Trading income for the third quarter of 2005 was $3.8 million compared to $3.5 million for the same period in 2004. Nonhedge derivative income for the third quarter of 2005 was $0.3 million compared to losses of $1.1 million for the comparable period of 2004.

Loan sales and servicing income for the third quarter of 2005 includes a gain of $2.6 million from the securitization of small business loans compared to a gain of $0.8 million from a securitization of small business loans during the third quarter of 2004. See Sold Loans Being Serviced for additional information on the securitization.

Noninterest income for the first nine months of 2005 of $320.8 million decreased $11.8 million or 3.5% from $332.6 million for the first nine months of 2004. Service charges and fees on deposit accounts decreased $5.2 million for the reasons previously discussed in the quarterly comparison. Other service charges, commissions and fees for the first nine months of 2005 increased $5.2 million compared to the same period in 2004 principally as a result of increases in debit card interchange and loan-related service charges, partially offset by reduced brokerage fees.

Market making, trading and nonhedge derivative income was $14.4 million compared to $14.7 million in the first nine months of 2004. Of these amounts, trading income was $12.8 million for 2005 compared to $14.1 million for 2004 and nonhedge derivative income was $1.6 million compared to $0.6 million for 2004.

Equity securities losses includes $3.9 million in net losses on venture capital equity investments, while for the same period in 2004 net losses were $5.2 million. Adjusted for expenses, minority interest and income taxes, the losses related to venture capital funds reduced net income by $2.2 million and $4.2 million in the first nine months of 2005 and 2004, respectively.

Net fixed income securities gains for the first nine months of 2005 include an impairment loss of $1.6 million on a security that was repurchased from Lockhart Funding, LLC, in accordance with the terms of the Lockhart Liquidity Facility. This is the only security that we have repurchased under the terms of the Liquidity Agreement and the security is still rated at an investment grade level. In addition, we expect to recover our investment plus contractual interest on the security. See Liquidity for additional information on Lockhart Funding, LLC.

Other noninterest income decreased $4.5 million from the first nine months of 2005 compared with the same period in 2004. Other noninterest income for 2005 includes a $2.3 million gain on the sale of a branch by Zions First National Bank and a $2.5 million increase in sales of scanners by NetDeposit (a subsidiary of Zions that develops and markets Check 21 software). Other noninterest income for the first nine months of 2004 includes $5.3 million from litigation settlements, $1.5 million from the sale of certain personal trust accounts in Arizona and a $1 million gain on the sale of a building in California.

**Noninterest Expense**

Noninterest expense for the third quarter of 2005 of $248.5 million increased $15.7 million or 6.7% over the $232.8 million for the third quarter of 2004. The Company s efficiency ratio was 54.4% for the third quarter of 2005 compared to 56.8% for the same period of 2004.

Salaries and employee benefits increased $9.0 million or 6.7%, compared to the third quarter of 2004. The increase from the prior year was due principally to increased costs of performance-based incentive plans, inflationary salary increases and increased staffing levels in selected areas. Over the past year, the Company has specifically increased staffing related to its new Private Client Services business and the activities related to NetDeposit.

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Legal and professional services for the third quarter of 2005 increased $2.0 million when compared to the third quarter of 2004. The increased expenses for 2005 result mainly from increased consulting costs associated with systems conversions efforts and data systems development. Other noninterest expense increased $3.3 million or 8.1% when compared to the same period in 2004. The increase is primarily attributable to increased data processing costs, increased NetDeposit scanner costs and higher operational losses.

Noninterest expense for the first nine months of 2005 of $730.5 million increased 6.6% from $685.1 million for the first nine months of 2004. The Company s efficiency ratio was 55.2% for the first nine months of 2005 compared to 57.1% for the same period of 2004. Explanations previously provided for the quarterly changes also apply to the year-to-date changes. Additional explanations of variances follow.

Salaries and employee benefits for the first nine months of 2005 increased $25.7 million, or 6.5% when compared to the same period in 2004. The increase was primarily the result of higher performance-based bonus and profit sharing plan costs and increases in staff. Other noninterest expense for the first nine months of 2005 increased $13.6 million or 11.5% compared to the first nine months of 2004. The increase is primarily attributable to increased bankcard expense, higher data processing costs, NetDeposit scanner costs and higher fidelity insurance premiums.

As discussed in Note 3 of the Notes to Consolidated Financial Statements, in December 2004, the FASB issued SFAS No. 123R, *Share-Based Payment*, which is a revision of SFAS No. 123, *Accounting for Stock-Based Compensation*. SFAS 123R requires that all share-based payments to employees, including grants of employee stock options, be recognized in the statement of income for all awards that vest based on their fair values. On April 15, 2005, the Securities and Exchange Commission ( SEC ) announced that it was amending Regulation S-X to provide up to a six-month delay for the adoption of SFAS No. 123R, or January 1, 2006 for calendar year public companies. The Company will adopt the standard beginning January 1, 2006. Upon adoption of this Statement, salaries and employee benefits expense will increase.

At September 30, 2005, the Company had 7,977 full-time equivalent employees, 389 domestic branches, and 475 ATMs, compared to 7,924 full-time equivalent employees, 385 domestic branches, and 479 ATMs at September 30, 2004.

**Income Taxes**

The Company s income tax expense increased to $68.2 million for the third quarter of 2005 compared to $58.1 million for the same period in 2004. The Company s effective income tax rates, including the effects of minority interest, were 35.7% and 36.2% for the third quarters of 2005 and 2004, respectively. The effective income tax rates for the first nine months of 2005 and 2004 were 35.6% and 35.7% respectively. As discussed in previous filings, the Company has received Federal income tax credits under the Community Development Financial Institutions Fund set up by the U.S. Government that will be recognized over the next seven years. The effect of these tax credits was to reduce income tax expense by $1.1 million for the third quarter of 2005 and $59 thousand for the third quarter of 2004 and first nine months of 2004. The credits reduced income tax expense by $2.6 million for the first nine months of 2005. The tax rates reflect a lower proportion of tax exempt income to total income for 2005 compared to 2004, offset by the increased tax credits.

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**BALANCE SHEET ANALYSIS**

**Interest-Earning Assets**

Interest-earning assets are those assets that have interest rates or yields associated with them and consist of money market investments, securities and loans.

Average interest-earning assets increased 6.4% to $29.3 billion for the nine months ended September 30, 2005 compared to $27.5 billion for the comparable period in 2004. Interest-earning assets comprised 90.1% of total average assets for the first nine months of 2005, compared with 89.5% for the comparable period of 2004.

Average money market investments, consisting of interest-bearing deposits, federal funds sold and security resell agreements, decreased 45.1% to $865 million for the first nine months of 2005 compared to $1.6 billion for the first nine months of 2004. Reductions in money market instruments have been used to fund new loan growth during 2005. Average net loans and leases for the first nine months of 2005 increased by 12.4% when compared to the same period in 2004. Average total deposits for the first nine months of 2005 increased 10.1% compared to the same period in 2004, with interest-bearing deposits increasing 7.4% and noninterest-bearing deposits increasing 16.8%.

**Investment Securities Portfolio**

The following table presents the Company s held-to-maturity and available-for-sale investment securities:

| | September 30, 2005 | | December 31, 2004 | | September 30, 2004 | |
|---|---|---|---|---|---|---|
| **(In millions)** | **Amortized Cost** | **Estimated Market Value** | **Amortized Cost** | **Estimated Market Value** | **Amortized Cost** | **Estimated Market Value** |
| HELD TO MATURITY | | | | | | |
| Municipal securities | $ 643 | $ 641 | $ 642 | $ 642 | $ 639 | $ 640 |
| AVAILABLE FOR SALE | | | | | | |
| U.S. Treasury securities | 35 | 36 | 36 | 36 | 36 | 37 |
| U.S. government agencies and corporations: | | | | | | |
| Small Business Administration loan-backed securities | 748 | 746 | 712 | 711 | 687 | 690 |
| Other agency securities | 254 | 251 | 275 | 277 | 258 | 259 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Municipal securities | 90 | 91 | 95 | 96 | 96 | 98 |
| Mortgage/asset-backed and other debt securities | 2,593 | 2,613 | 2,743 | 2,760 | 2,621 | 2,637 |
| | 3,720 | 3,737 | 3,861 | 3,880 | 3,698 | 3,721 |
| Other securities: | | | | | | |
| Mutual funds | 255 | 254 | 301 | 301 | 257 | 258 |
| Stock | 6 | 7 | 6 | 8 | 7 | 7 |
| | 261 | 261 | 307 | 309 | 264 | 265 |
| | 3,981 | 3,998 | 4,168 | 4,189 | 3,962 | 3,986 |
| Total | $ 4,624 | $ 4,639 | $ 4,810 | $ 4,831 | $ 4,601 | $ 4,626 |

The amortized cost of investment securities at September 30, 2005 decreased 3.9% from the amount at December 31, 2004 but was up slightly from the balance at September 30, 2004. The Company s securities portfolio increased during 2004 as it took advantage of the availability of core deposits and favorable opportunities to issue debt. However, we have been reducing the securities portfolio during 2005 to fund a portion of the Company s new loan growth. Since loan growth is expected to continue, we anticipate that additional reductions of investment securities may be necessary.

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The investment securities portfolio includes $1.1 billion of nonrated, fixed income securities, compared to $1.0 billion at both December 31, 2004 and September 30, 2004. These securities include nonrated municipal securities as well as nonrated, asset-backed subordinated tranches.

**Loan Portfolio**

Net loans and leases at September 30, 2005 were $23.9 billion, an annualized increase of 7.7% from December 31, 2004 and an increase of 11.3% over the balance at September 30, 2004. See Sold Loans Being Serviced for a description of a small business loan sale during the third quarter of 2005.

The following table sets forth the loan portfolio by type of loan:

| (In millions) | September 30, 2005 | December 31, 2004 | September 30, 2004 |
|---|---|---|---|
| Loans held for sale | $ 213 | $ 197 | $ 151 |
| Commercial lending: | | | |
| Commercial and industrial | 4,885 | 4,643 | 4,474 |
| Leasing | 359 | 370 | 374 |
| Owner occupied | 4,063 | 3,790 | 3,472 |
| Total commercial lending | 9,307 | 8,803 | 8,320 |
| Commercial real estate: | | | |
| Construction | 4,435 | 3,536 | 3,289 |
| Term | 4,051 | 3,998 | 3,804 |
| Total commercial real estate | 8,486 | 7,534 | 7,093 |
| Consumer: | | | |
| Home equity credit line | 1,041 | 1,104 | 1,026 |
| 1-4 family residential | 4,229 | 4,234 | 4,118 |
| Bankcard and other revolving plans | 194 | 225 | 217 |
| Other | 437 | 532 | 573 |
| Total consumer | 5,901 | 6,095 | 5,934 |
| Foreign loans | 5 | 5 | 4 |
| Other receivables | 125 | 98 | 109 |
| Total loans | $ 24,037 | $ 22,732 | $ 21,611 |

The strong loan growth noted above for commercial and commercial real estate lending was widely diversified across our geographical footprint and consistent with the economic activity in that area.

**Sold Loans Being Serviced**

Zions performs loan servicing on both loans that it holds in its portfolios and also on loans that are owned by third party investor-owned trusts. In addition, Zions has a practice of securitizing and selling a portion of the loans that it originates, and in many instances provides the servicing on these loans as a condition of the sale.

In September 2005, we finalized a loan securitization that resulted in removing approximately $707 million of small business loans and $38 million of related loan purchase premiums from the Company s balance sheet. Of these loans, an allocated amount of approximately $661 million was securitized and sold to Lockhart Funding, LLC, which is a qualifying special-purpose entity securities conduit. The Company recorded capitalized residual cash flows of approximately $45 million and subordinated retained interests of

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$42 million as a result of the securitization. The gain recognized from the sale of the loans was $2.6 million, net of sales expenses.

| (In millions) | Sold loans being serviced | | Residual interests on balance sheet at September 30, 2005 | | |
|---|---|---|---|---|---|
| | Sales for nine months ended September 30, 2005 | Outstanding balance at September 30, 2005 | Subordinated retained interests | Capitalized residual cash flows | Total |
| Home equity credit lines | $ 336 | $ 505 | $ 13 | $ 9 | $ 22 |
| Small business loans | 707 | 2,460 | 221 | 111 | 332 |
| SBA 7(a) loans | 17 | 205 | | 5 | 5 |
| Farmer Mac | 40 | 392 | | 6 | 6 |
| Total | $ 1,100 | $ 3,562 | $ 234 | $ 131 | $ 365 |

Consumer and other loan securitizations being serviced for others totaled $3.6 billion at the end of the third quarter of 2005, $3.1 billion at December 31, 2004 and $3.2 billion at September 30, 2004.

As of September 30, 2005, the Company had recorded assets, comprised of subordinated retained interests and capitalized residual cash flows, in the amount of $365 million in connection with the $3.6 billion of sold loans being serviced. As is a common practice with securitized transactions, the Company had retained subordinated interests in the securitized assets that totaled $234 million at September 30, 2005, and represented junior positions to the other investors in the trust securities. The capitalized residual cash flows, which are sometimes referred to as excess servicing, of $131 million primarily represent the present value of the excess cash flows that have been projected over the lives of the sold loans.

As of September 30, 2005, conforming long-term first mortgage real estate loans being serviced for others were $423 million, compared with $404 million at December 31, 2004 and $418 million at September 30, 2004.

**Other Noninterest-Bearing Investments**

As of September 30, 2005, the Company had $708 million of other noninterest-bearing investments compared with $665 million at December 31, 2004 and $666 million at September 30, 2004.

| (In millions) | September 30, 2005 | December 31, 2004 | September 30, 2004 |
|---|---|---|---|
| Bank-owned life insurance | $ 417 | $ 385 | $ 380 |
| Federal Home Loan Bank and Federal Reserve stock | 127 | 124 | 124 |
| SBIC investments | 72 | 70 | 71 |
| Other public companies | 39 | 40 | 41 |
| Other nonpublic companies | 37 | 30 | 34 |
| Trust preferred securities | 16 | 16 | 16 |
| | $ 708 | $ 665 | $ 666 |

**Deposits**

Total deposits at the end of the third quarter of 2005 increased at an annualized rate of 12.1% from the balances reported at December 31, 2004, and increased 9.6% over the September 30, 2004 amounts. Core deposits at September 30, 2005 increased 9.1%, annualized, compared to the December 31, 2004 balance and

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7.4% compared to the balance at September 30, 2004. Noninterest-bearing demand deposits increased 17.7% annualized, compared to year end balances and 16.0% from balances at September 30, 2004.

The mix of deposits remained favorable during the third quarter of 2005 as demand, savings and money market deposits comprised 83.3% of total deposits at the end of the third quarter, compared with 86.6% and 86.8% as of December 31, 2004 and September 30, 2004, respectively.

**RISK ELEMENTS**

Since risk is inherent in most of the Company s operations, management of risk is an integral part of its operations and is also a key determinant of its overall performance. We apply various strategies to reduce the risks to which the Company s operations are exposed, namely credit, operational, interest rate and market, and liquidity risks.

**Credit Risk Management**

Effective management of credit risk is essential in maintaining a safe and sound financial institution. We have structured the organization to separate the lending function from the credit administration function, which adds strength to the control over and the independent evaluation of credit activities. Formal loan policies and procedures provide the Company with a framework for consistent underwriting and a basis for sound credit decisions. In addition, the Company has a well-defined set of standards for evaluating its loan portfolio, and management utilizes a comprehensive loan grading system to determine the risk potential in the portfolio. Further, an independent, internal credit examination department periodically conducts examinations of the Company s lending departments. These examinations are designed to review credit quality, adequacy of documentation, appropriate loan grading administration and compliance with lending policies, and reports thereon are submitted to the Audit Committee of the Board of Directors.

Both the credit policy and the credit examination functions are managed centrally. Each affiliate bank is permitted to modify corporate credit policy to be more conservative; however, approval at the corporate level must be obtained if a bank wishes to create an exception to policy that is more liberal. Historically, only a limited number of such exceptions have been approved. This entire process has been designed to place an emphasis on early detection of potential problem credits so that any required action plans can be developed and implemented on a timely basis to mitigate any potential losses.

Another aspect of the Company s credit risk management strategy is to diversify its loan portfolio. The Company maintains a diversified loan portfolio with some emphasis in real estate. As set forth in the following table, at September 30, 2005 no single loan type exceeded 20.3% of the Company s total loan portfolio.

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| (In millions) | September 30, 2005 Amount | September 30, 2005 % of total loans | December 31, 2004 Amount | December 31, 2004 % of total loans | September 30, 2004 Amount | September 30, 2004 % of total loans |
|---|---|---|---|---|---|---|
| Commercial lending: | | | | | | |
| Commercial and industrial | $ 4,885 | 20.3% | $ 4,643 | 20.4% | $ 4,474 | 20.7% |
| Leasing | 359 | 1.5% | 370 | 1.6% | 374 | 1.7% |
| Owner occupied | 4,063 | 16.9% | 3,790 | 16.7% | 3,472 | 16.1% |
| Commercial real estate: | | | | | | |
| Construction | 4,435 | 18.5% | 3,536 | 15.6% | 3,289 | 15.2% |
| Term | 4,051 | 16.9% | 3,998 | 17.6% | 3,804 | 17.6% |
| Consumer: | | | | | | |
| Home equity credit line | 1,041 | 4.3% | 1,104 | 4.9% | 1,026 | 4.7% |
| 1-4 family residential | 4,229 | 17.6% | 4,234 | 18.6% | 4,118 | 19.1% |
| Bankcard and other revolving plans | 194 | 0.8% | 225 | 1.0% | 217 | 1.0% |
| Other | 437 | 1.8% | 532 | 2.3% | 573 | 2.7% |
| Other | 343 | 1.4% | 300 | 1.3% | 264 | 1.2% |
| Total loans | $ 24,037 | 100.0% | $ 22,732 | 100.0% | $ 21,611 | 100.0% |

The Company s potential risk from concentration in owner occupied commercial loans is substantially reduced by the emphasis we place on lending programs sponsored by the Small Business Administration. On these types of loans, the Small Business Administration bears a major portion of the credit risk. In addition, the Company attempts to avoid the risk of an undue concentration of credits in a particular industry, trade group or property type. The Company also has no significant exposure to highly-leveraged transactions and the majority of the Company s business activity is with customers located within the states of Utah, Idaho, California, Nevada, Arizona, Colorado, and Washington. Finally, the Company has no significant exposure to any individual customer or counterparty.

A more comprehensive discussion of our credit risk management is contained in Zions Annual Report on Form 10-K for the year ended December 31, 2004. In addition, as discussed in the following sections, the Company s level of credit quality continued to be very strong during the third quarter of 2005 compared to historical standards. We believe that this level of credit quality will not be able to be maintained indefinitely.

**Nonperforming Assets**

Nonperforming assets include nonaccrual loans, restructured loans and other real estate owned. Loans are generally placed on nonaccrual status when the loan is 90 days or more past due as to principal or interest, unless the loan is both well secured and in the process of collection. Consumer loans, however, are not normally placed on a nonaccrual status, inasmuch as they are generally charged off when they become 120 days past due. Loans occasionally may be restructured to provide a reduction or deferral of interest or principal payments. This generally occurs when the financial condition of a borrower deteriorates to the point that the borrower needs to be given temporary or permanent relief from the original contractual terms of the loan. Other real estate owned is acquired primarily through or in lieu of foreclosure on loans secured by real estate.

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The following table sets forth the Company s nonperforming assets:

| (In millions) | September 30, 2005 | December 31, 2004 | September 30, 2004 |
|---|---|---|---|
| Nonaccrual loans | $ 67 | $ 72 | $ 76 |
| Restructured loans | 1 | | 1 |
| Other real estate owned | 15 | 12 | 14 |
| Total | $ 83 | $ 84 | $ 91 |
| % of net loans and leases* and other real estate owned | 0.35% | 0.37% | 0.42% |
| Accruing loans past due 90 days or more | $ 16 | $ 16 | $ 18 |
| % of net loans and leases* | 0.07% | 0.07% | 0.08% |

* Includes loans held for sale

Total nonperforming assets decreased 1.4% as of September 30, 2005 compared with the balance at December 31, 2004.

Included in nonaccrual loans are loans that we have determined to be impaired. Loans, other than those included in large groups of smaller-balance homogeneous loans, are considered impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due in accordance with the contractual terms of the loan agreement, including scheduled interest payments. The amount of the impairment is measured based on either the present value of expected cash flows, the observable market price of the loan, or the fair value of the collateral securing the loan.

The Company s total recorded investment in impaired loans was $35 million at September 30, 2005, compared with $41 million at December 31, 2004 and $40 million at September 30, 2004. Estimated losses on impaired loans are included in the allowance for loan losses. At September 30, 2005, the allowance for loan losses included $4 million for impaired loans with a recorded investment of $14 million. At December 31, 2004, the allowance included $9 million for impaired loans with a $27 million recorded investment, and at September 30, 2004 the allowance included $6 million for impaired loans with a $21 million recorded investment.

**Allowances for Credit Losses**

**Allowance for Loan Losses** 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 portfolio segment. These factors are evaluated and updated using migration analysis techniques and other considerations based on the makeup of the specific segment. These other considerations include:

- volumes and trends of delinquencies;
- levels of nonaccruals, repossessions and bankruptcies;
- trends in criticized and classified loans;

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expected losses on real estate secured loans;

new credit products and policies;

economic conditions;

concentrations of credit risk; and

experience and abilities of the Company s lending personnel.

The allowance for consumer loans is determined using historically developed experience 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 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. This methodology is an accepted industry practice, and the Company believes it has a sufficient volume of information to produce reliable projections.

The following table shows the changes in the allowance for loan losses and a summary of loan loss experience:

| **(In millions)** | **Nine Months Ended September 30, 2005** | **Twelve Months Ended December 31, 2004** | **Nine Months Ended September 30, 2004** |
|---|---|---|---|
| Loans* and leases outstanding (net of unearned income) at end of period | $ 23,930 | $ 22,627 | $ 21,507 |
| Average loans* and leases outstanding (net of unearned income) | $ 23,343 | $ 21,046 | $ 20,771 |
| Allowance for loan losses: | | | |
| Balance at beginning of the year | $ 271 | $ 269 | $ 269 |
| Allowance of branches sold | | (2) | (2) |
| Provision charged against earnings | 33 | 44 | 31 |
| Loans and leases charged-off: | | | |
| Commercial lending | (15) | (35) | (21) |
| Commercial real estate | (1) | (1) | (1) |
| Consumer | (14) | (23) | (17) |
| Other receivables | (1) | (1) | (1) |
| Total | (31) | (60) | (40) |

| | | | |
|---|---|---|---|
| Recoveries: | | | |
| Commercial lending | 9 | 15 | 7 |
| Commercial real estate | 1 | | |
| Consumer | 4 | 5 | 4 |
| Total | 14 | 20 | 11 |
| Net loan and lease charge-offs | (17) | (40) | (29) |
| Balance at end of period | $ 287 | $ 271 | $ 269 |
| Ratio of annualized net charge-offs to average loans and leases | 0.10% | 0.19% | 0.18% |
| Ratio of allowance for loan losses to net loans and leases at end of period | 1.20% | 1.20% | 1.25% |
| Ratio of allowance for loan losses to nonperforming loans | 422.87% | 374.42% | 350.42% |
| Ratio of allowance for loan losses to nonaccrual loans and accruing loans past due 90 days or more | 345.72% | 307.61% | 284.96% |

* Includes loans held for sale

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Net loan and lease charge-offs, along with their annualized ratios to average loans and leases, are shown in the preceding table for the periods presented. The same respective amounts for the third quarter of 2005 were $6.3 million and 0.10%.

The allowance for loan losses at September 30, 2005 increased $16.1 million from the level at year-end 2004. The amount of the allowance for loan losses indicated for criticized and classified loans increased when compared to year-end 2004 by approximately $4.9 million. Criticized and classified loans increased for both the commercial and commercial real estate portfolios. In addition, we had a $17.7 million increase in the level of the allowance indicated for noncriticized and classified loans as a result of $1.5 billion of commercial and commercial real estate loan growth since year-end 2004. The allowance for consumer loans at September 30, 2005 decreased by $6.5 million when compared to the allowance at the end of 2004 principally as a result of a $194 million reduction in the consumer portfolio.

**Allowance for Unfunded Lending Commitments** The Company also estimates an allowance for potential losses associated with off-balance sheet commitments and standby letters of credit. We determine the allowance for unfunded lending commitments using a process that is similar to the one we use for commercial loans. Based on historical experience, we have developed experience-based loss factors that we apply to the Company s unfunded lending commitments to estimate the potential for loss in that portfolio. These factors are generated from tracking commitments that become funded and develop into problem loans.

The following table sets forth the allowance for unfunded lending commitments:

| (In millions) | Nine Months Ended September 30, 2005 | Twelve Months Ended December 31, 2004 | Nine Months Ended September 30, 2004 |
|---|---|---|---|
| Balance at beginning of period | $ 12.7 | $ 12.2 | $ 12.2 |
| Provision credited (charged) against earnings | 3.1 | 0.5 | (0.2) |
| Balance at end of period | $ 15.8 | $ 12.7 | $ 12.0 |

Commitments to extend credit on loans and standby letters of credit upon which the above allowances were calculated were $4.1 billion, $3.8 billion and $3.6 billion on September 30, 2005, December 31, 2004, and September 30, 2004, respectively.

The following table sets forth the combined allowances for credit losses:

| (In millions) | September 30, 2005 | December 31, 2004 | September 30, 2004 |
|---|---|---|---|
| Allowance for loan losses | $ 287 | $ 271 | $ 269 |

| | | | |
|---|---|---|---|
| Allowance for unfunded lending commitments | 16 | 13 | 12 |
| Total allowances for credit losses | $ 303 | $ 284 | $ 281 |

**Operational Risk Management**

Operational risk is the potential for unexpected losses attributable to human error, systems failures, fraud, or inadequate internal controls and procedures. In its ongoing efforts to identify and manage operational risk, the Company has created an Operating Risk Management Group, whose responsibility is to help Company management identify and monitor the key internal controls and processes that the Company has in place to mitigate operational risk.

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To manage and minimize its operating risk, the Company has in place transactional documentation requirements, systems and procedures to monitor transactions and positions, regulatory compliance reviews, and periodic reviews by internal audit and credit examination. In addition, reconciliation procedures have been established to ensure that data processing systems consistently and accurately capture critical data. Further, we maintain contingency plans and systems for operations support in the event of natural or other disasters. We expect to continue enhancing the Company s oversight of operational risk throughout 2005.

**Interest Rate and Market Risk Management**

Interest rate risk is the potential for loss resulting from adverse changes in the level of interest rates on the Company s net interest income. Market risk is the potential for loss arising from adverse changes in the prices of fixed income securities, equity securities, other earning assets and derivative financial instruments as a result of changes in interest rates or other factors. As a financial institution that engages in transactions involving an array of financial products, Zions is exposed to both interest rate risk and market risk.

**Interest Rate Risk** Interest rate risk is one of the most significant risks to which the Company is regularly exposed. In general, our goal in managing interest rate risk is to have net interest income tend to increase in a rising interest rate environment, which tends to mitigate any declines in the market value of equity due to higher discount rates. This approach is based on our belief that in a rising interest rate environment, the market cost of equity, or implied rate at which future earnings are discounted, would also tend to rise. We refer to this goal as being slightly asset sensitive, which we believe is the current situation.

We attempt to control the effects that changes in interest rates will have on net interest income through the management of maturities and repricing of the Company s assets and liabilities and also with the use of interest rate swaps. The prime lending rate and the London Interbank Offer Rate ( LIBOR ) curves are the primary indices used for pricing the Company s loans, and the 91-day Treasury bill rate is the index used for pricing many of the Company s deposits. The Company does not hedge the prime/LIBOR/Treasury Bill spread risk through the use of derivative instruments.

We monitor interest rate risk through the use of two complementary measurement methods: duration of equity and income simulation. In the duration of equity method, we measure the changes in the market values of equity in response to changes in interest rates. In the income simulation method, we analyze the changes in income in response to changes in interest rates. For income simulation, Company policy requires that net interest income be expected to decline by no more than 10% during one year if rates were to immediately rise or fall in parallel by 200 basis points. As of September 30, 2005, the results of the duration of equity and income simulation computations were not significantly different from those set forth in Zions Annual Report on Form 10-K for the year ended December 31, 2004.

**Market Risk Fixed Income** The Company engages in trading and market making of U.S. Treasury, U.S. Government Agency, municipal and corporate securities. This trading and market making exposes the Company to a risk of loss arising from adverse changes in the prices of these fixed income securities held by the Company.

The Company monitors its risk in fixed income trading and market making through Value-at-Risk ( VAR ). VAR is the worst-case loss expected within a specified confidence level, based on statistical models using historical data. The models used by Zions to calculate its VAR are provided by Bloomberg. The confidence level used by Zions in this analysis is 99%, which means that losses larger than the VAR would only be expected on 1% of trading days (or approximately 2.5 trading days per year), assuming that the Company maintained the same VAR on a daily basis. Reports of trading income and losses and VAR measurements are reviewed with the Executive Committee of ZFNB on a monthly basis.

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For the nine months ended September 30, 2005 and year ended December 31, 2004, the results of the VAR computations were as follows:

| (Dollar amounts in thousands) | Nine months ended September 30, 2005 | Year ended December 31, 2004 |
|---|---|---|
| Value at Risk: (1) | | |
| Average daily VAR | $ 529 | $ 730 |
| Largest daily VAR during the period | 1,292 | 1,348 |
| Smallest daily VAR during the period | 159 | 373 |

(1) Does not include nonhedge derivative portfolios.

The Company does not use VAR measurements to control risk for other than its market making and fixed income trading portfolios.

**Market Risk Equity Investments** Through its equity investment activities, the Company owns equity securities that are publicly traded and subject to fluctuations in their market prices or values. In addition, the Company owns equity securities in companies that are not publicly traded and that are accounted for under either the fair value or equity methods of accounting, depending upon the Company s ownership position and degree of involvement in influencing the investees affairs. In either case, the value of the Company s investment is subject to fluctuation. Since the market prices or values associated with these securities may fall below the Company s investment in them, the Company is exposed to the possibility of loss.

The Company conducts minority investing in pre-public venture capital companies in which it does not have strategic involvement, through four funds collectively referred to by us as Wasatch Venture Funds ( Wasatch ). Wasatch screens investment opportunities and makes investment decisions based on its assessment of business prospects and potential returns. After an investment is made, Wasatch actively monitors the performance of each company in which it has invested, and often has representation on the board of directors of the company.

The Company also, from time to time, either starts and funds businesses or makes significant investments in companies of strategic interest. These investments may result in either minority or majority ownership positions, and usually give board representation to Zions or its subsidiaries. These strategic investments generally are in companies that are financial services or financial technologies providers.

A more comprehensive discussion of the Company s interest rate and market risk management is contained in Zions Annual Report on Form 10-K for the year ended December 31, 2004.

**Liquidity Risk Management**

Liquidity is managed centrally for both the Parent and the bank subsidiaries. The Parent s cash requirements consist primarily of debt service, operating expenses, income taxes, dividends to shareholders and share repurchases. The Parent s cash needs are routinely met through dividends from its subsidiaries, investment income, subsidiaries proportionate share of current income taxes, management and other fees, bank lines, equity contributed through the exercise of stock options and debt issuances. The subsidiaries primary source of funding is their core deposits.

Operational cash flows, while constituting a funding source for the Company, are not large enough to provide funding in the amounts that fulfill the needs of the Parent and the bank subsidiaries. For the first nine

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months of 2005, operations contributed $360.3 million toward these needs. As a result, the Company utilizes other sources at its disposal to manage its liquidity needs.

During the first nine months of 2005, the Parent received $231.3 million in dividends from its subsidiaries. At September 30, 2005, $480.2 million of dividend capacity was available for the subsidiaries to pay to the Parent without having to obtain regulatory approval.

As discussed in the Company s Annual Report on Form 10-K for the year ended December 31, 2004, the Company filed a registration statement with the Securities and Exchange Commission during the fourth quarter of 2004 for the issuance of up to $1.1 billion of debt securities of Zions Bancorporation, capital securities of Zions Capital Trust C and Zions Capital Trust D and junior subordinated debentures and guarantees related to the capital securities. As of September 30, 2005, the Company had all of the issuance capacity remaining under this registration statement. It is anticipated that during the fourth quarter of 2005, the Company will issue $600 million of subordinated debt under this registration statement to fund the cash portion of the Amegy acquisition consideration.

The Parent also has a program to issue short-term commercial paper. At September 30, 2005, outstanding commercial paper was $149.1 million. In addition, at September 30, 2005, the Parent had a secured revolving credit facility with a subsidiary bank totaling $40 million. No amount was outstanding on this facility at September 30, 2005.

The subsidiaries primary source of funding is their core deposits, consisting of demand, savings and money market deposits, time deposits under $100,000 and foreign deposits. At September 30, 2005, these core deposits, in aggregate, constituted 92.6% of consolidated deposits, compared with 94.4% of consolidated deposits at December 31, 2004. For the first nine months of 2005, increases in deposits resulted in net cash inflows of $2.1 billion.

The Federal Home Loan Bank ( FHLB ) system is a major source of liquidity for each of the Company s subsidiary banks. ZFNB and Commerce are members of the FHLB of Seattle. CB&T, NSB, and NBA are members of the FHLB of San Francisco. Vectra is a member of the FHLB of Topeka. The FHLB allows member banks to borrow against their eligible loans to satisfy liquidity requirements. For the first nine months of 2005, the activity in short-term FHLB borrowings resulted in a net cash outflow of approximately $2.9 million.

The Company uses asset securitizations to sell loans, which also provide an alternative source of funding for the subsidiaries and enhance the flexibility in meeting their funding needs. During the first nine months of 2005, loan sales (other than loans held for sale) provided $1.1 billion in cash inflows and we expect that asset securitizations will continue to be a tool that we will use for liquidity management purposes.

While not considered a primary source of funding, the Company s investment activities can also provide or use cash, depending on the asset-liability management posture that is being observed. For the first nine months of 2005, investment securities activities resulted in a decrease in investment securities holdings and a net increase of cash in the amount of $179.4 million.

Maturing balances in the various loan portfolios also provide additional flexibility in managing cash flows. In most cases, however, growth in the loan portfolios has resulted in net cash outflows from a funding standpoint. For the first nine months of 2005, loan growth resulted in a net cash outflow of $2.4 billion.

At September 30, 2005, the Company managed approximately $3.6 billion of securitized assets that were originated or purchased by its subsidiary banks. Of these, approximately $2.2 billion were insured by a third

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party and held in Lockhart Funding, LLC, which is a qualifying special-purpose entity securities conduit and an important source of funding for the Company s loans. ZFNB provides a Liquidity Facility for a fee to Lockhart, which purchases floating-rate U.S. Government and AAA-rated securities with funds from the issuance of commercial paper. ZFNB also provides interest rate hedging support and administrative and investment advisory services for a fee. Pursuant to the Liquidity Facility, ZFNB is required to purchase securities from Lockhart to provide funds for it to repay maturing commercial paper upon Lockhart s inability to access the commercial paper market, or upon a commercial paper market disruption, as specified in the governing documents of Lockhart. In addition, pursuant to the governing documents, including the Liquidity Facility, if any security in Lockhart is downgraded below AA-, ZFNB must either 1) issue a letter of credit on the security, 2) obtain a credit enhancement on the security from a third party, or 3) purchase the security from Lockhart at book value. At any given time, the maximum commitment of ZFNB is the book value of Lockhart s securities portfolio, which is not allowed to exceed the size of the Liquidity Facility.

At September 30, 2005, the book value of Lockhart s securities portfolio was $5.5 billion, which approximated market value, and the size of the Liquidity Facility commitment was $6.12 billion. No amounts were outstanding under this Liquidity Facility at September 30, 2005, December 31, 2004 or September 30, 2004. Lockhart is limited in size by program agreements, agreements with rating agencies and by the size of the Liquidity Facility.

The FASB has proposed various amendments to SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, including an Exposure Draft issued in August 2005, *Accounting for Transfer of Financial Assets, an amendment of FASB Statement No. 140*. This new guidance, among other things, proposes to change the requirements that an entity must meet to be considered a qualifying special-purpose entity. Subject to the requirements of the final standard, Lockhart s operations may need to be modified to preserve its off-balance sheet status as a qualifying special-purpose entity.

A more comprehensive discussion of our liquidity management is contained in Zions Annual Report on Form 10-K for the year ended December 31, 2004.

**CAPITAL MANAGEMENT**

Zions has a fundamental financial objective to consistently produce superior risk-adjusted returns on its shareholders capital. We believe that a strong capital position is vital to continued profitability and to promoting depositor and investor confidence.

Total shareholders equity on September 30, 2005 was $3.0 billion, up 7.5% from $2.8 billion at December 31, 2004 and 10.1% from $2.7 billion at September 30, 2004. The Company s capital ratios were as follows as of the dates indicated:

| | September 30, 2005 | December 31, 2004 | September 30, 2004 |
|---|---|---|---|
| Tangible common equity ratio | 7.06% | 6.80% | 6.74% |

| | | | |
|---|---|---|---|
| Average common equity to average assets (three months ended) | 8.95% | 8.76% | 8.54% |
| Risk-based capital ratios: | | | |
| Tier 1 leverage | 8.67% | 8.31% | 8.07% |
| Tier 1 risk-based capital | 9.49% | 9.35% | 9.40% |
| Total risk-based capital | 13.88% | 14.05% | 14.27% |

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On July 6, 2005, the Company announced that it had suspended the repurchase of shares of its common stock in conjunction with its pending acquisition of Amegy Bancorporation, Inc. The Company expects that the acquisition will have the effect of reducing its tangible common equity ratio below 6.0% and anticipates that its common stock buyback program will remain suspended until it achieves a tangible common equity ratio of at least 6.25%. Prior to the suspension, Zions repurchased 10,000 shares of common stock during the third quarter of 2005 under repurchase programs approved by the Board of Directors at a cost of $0.7 million and an average price of $73.70 per share. This brought the total shares repurchased for the first nine months of 2005 to 1,159,522 shares at a total cost of $80.7 million and an average price of $69.64 per share.

Dividends per common share of $0.36 paid in the third quarter of 2005 represent a 12.5% increase over the $0.32 common share dividend paid in the same period of 2004. For the three months ended September 30, 2005, the Company paid $32.5 million in common stock dividends compared to $28.8 million in the same period of 2004.

We continue to believe that the Company has adequate levels of capital in relation to its balance sheet size, business mix and levels of risk. As a result, we do not presently expect that the capital ratios will materially increase from their present levels. It is our belief that capital not considered necessary to support current and anticipated business should be returned to the Company s shareholders through dividends and repurchases of its shares.

At its October 2005 meeting, the Company s Board of Directors declared a dividend in the amount of $0.36 per share of common stock. The dividend is payable on November 23, 2005 to shareholders of record as of the close of business on November 9, 2005.

**SUBSEQUENT EVENTS**

As previously disclosed, the Company and Amegy Bancorporation announced on July 6, 2005 that they had signed a definitive agreement under which the Company will acquire all of the outstanding common stock of Amegy. On October 11, 2005, the shareholders of Amegy approved the definitive agreement. Upon completion of the transaction, Amegy will operate under its current name, charter and management as a separate Zions banking subsidiary. The merger is subject to regulatory approval and is expected to close during the fourth quarter of this year. The Company filed a Form 8-K dated July 6, 2005 and an amended Form 8-K dated July 8, 2005, that contain the details of the transaction along with the Agreement and Plan of Merger.

On October 26, 2005, the Company opened The Commerce Bank of Oregon in Portland, Oregon, which will engage in operations similar to The Commerce Bank of Washington. The Company funded this new banking subsidiary in October 2005 with an initial capital contribution of $20 million. The new bank is not expected to have a material effect on the Company s operations for several years.

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ZIONS BANCORPORATION AND SUBSIDIARIES

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest rate and market risks are among the most significant risks regularly undertaken by the Company, and they are closely monitored as previously discussed. A discussion regarding the Company s management of interest rate and market risk is included in the section entitled Interest Rate and Market Risk Management in this Form 10-Q.

ITEM 4. CONTROLS AND PROCEDURES

An evaluation was carried out by the Company s management, with the participation of the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the Company s disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934). Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this report, these disclosure controls and procedures were effective. There have been no changes in the Company s internal control over financial reporting during the period covered by this report that have materially affected or are reasonably likely to materially affect the Company s internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is a defendant in various legal proceedings arising in the normal course of business. The Company does not believe that the outcome of any such proceedings will have a material effect on its consolidated financial position, operations, or liquidity.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

**Share Repurchases**

The following table summarizes the Company s share repurchases for the third quarter of 2005:

| **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)** |
|---|---|---|---|---|

| | | | | |
|---|---|---|---|---|
| July | 12,716 | $ 73.67 | 10,000 | $ 59,253,657 |
| August | 824 | 71.05 | | 59,253,657 |
| September | 1,272 | 71.19 | | 59,253,657 |
| Quarter | 14,812 | 73.32 | 10,000 | |

(1) Includes 4,812 mature shares tendered for exercise of stock options.
(2) The Company has suspended the repurchase of shares in conjunction with its pending acquisition of Amegy Bancorporation, Inc.

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ZIONS BANCORPORATION AND SUBSIDIARIES

ITEM 6. EXHIBITS

a) Exhibits

| Exhibit Number | Description | |
|---|---|---|
| 3.1 | Restated Articles of Incorporation of Zions Bancorporation dated November 8, 1993, incorporated by reference to Exhibit 3.1 of Form S-4 filed on November 22, 1993. | * |
| 3.2 | Articles of Amendment to the Restated Articles of Incorporation of Zions Bancorporation dated April 30, 1997, incorporated by reference to Exhibit 3.2 of Form 10-K for the year ended December 31, 2002. | * |
| 3.3 | Articles of Amendment to the Restated Articles of Incorporation of Zions Bancorporation dated April 24, 1998, incorporated by reference to Exhibit 3.3 of Form 10-K for the year ended December 31, 2003. | * |
| 3.4 | Articles of Amendment to Restated Articles of Incorporation of Zions Bancorporation dated April 25, 2001, incorporated by reference to Exhibit 3.6 of Form S-4 filed July 13, 2001. | * |
| 3.5 | Restated Bylaws of Zions Bancorporation dated July 19, 2004, incorporated by reference to Exhibit 3.5 of Form 10-K dated December 31, 2004. | * |
| 31.1 | Certification by Chief Executive Officer required by Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934 (filed herewith). | |
| 31.2 | Certification by Chief Financial Officer required by Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934 (filed herewith). | |
| 32 | Certification by Chief Executive Officer and Chief Financial Officer required by Sections 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 (15 U.S.C. 78m) and 18 U.S.C. Section 1350 (furnished herewith). | |

* Incorporated by reference

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## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ZIONS BANCORPORATION

/s/ HARRIS H. SIMMONS

**Harris H. Simmons, Chairman, President**

**and Chief Executive Officer**

/s/ DOYLE L. ARNOLD

**Doyle L. Arnold, Vice Chairman and**

**Chief Financial Officer**

Date: November 8, 2005