ZIONS BANCORPORATION /UT/
Form 10-Q
November 09, 2009
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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, 2009

OR

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

COMMISSION FILE NUMBER 001-12307

ZIONS BANCORPORATION

(Exact name of registrant as specified in its charter)

UTAH	**87-0227400**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
ONE SOUTH MAIN, 15TH FLOOR	
SALT LAKE CITY, UTAH	**84133**
(Address of principal executive offices)	**(Zip Code)**

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

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

Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ¨ No ¨

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

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

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

Yes ¨ No x

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 31, 2009	138,209,896 shares

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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, 2009 (Unaudited)	December 31, 2008	September 30, 2008 (Unaudited)
ASSETS			
Cash and due from banks	$ 992,940	$ 1,475,976	$ 1,441,957
Money market investments:			
Interest-bearing deposits and commercial paper	2,234,337	2,332,759	568,875
Federal funds sold	44,056	83,451	274,129
Security resell agreements	52,539	286,707	170,009
Investment securities:			
Held-to-maturity, at adjusted cost (approximate fair value $835,814, $1,443,555 and $1,587,006)	877,105	1,790,989	1,917,354
Available-for-sale, at fair value	3,547,092	2,676,255	2,792,236
Trading account, at fair value (includes $0, $538 and $531 transferred as collateral under repurchase agreements)	76,709	42,064	45,769
	4,500,906	4,509,308	4,755,359
Loans held for sale	206,387	200,318	152,095
Loans:			
Loans and leases excluding FDIC-supported assets	39,782,240	41,791,237	41,876,371
FDIC-supported assets	2,025,425		
	41,807,665	41,791,237	41,876,371
Less:			
Unearned income and fees, net of related costs	134,629	132,499	140,773
Allowance for loan losses	1,432,715	686,999	609,433
Loans and leases, net of allowance	40,240,321	40,971,739	41,126,165
Other noninterest-bearing investments	1,061,464	1,044,092	1,170,367
Premises and equipment, net	698,225	687,096	675,480
Goodwill	1,017,385	1,651,377	2,009,504
Core deposit and other intangibles	123,551	125,935	133,989
Other real estate owned	359,187	191,792	156,817
Other assets	1,872,374	1,532,241	1,339,422
	$ 53,403,672	$ 55,092,791	$ 53,974,168
LIABILITIES AND SHAREHOLDERS EQUITY			
Deposits:			
Noninterest-bearing demand	$ 11,453,247	$ 9,683,385	$ 9,413,484
Interest-bearing:			
Savings and NOW	5,392,096	4,452,919	4,341,873
Money market	17,413,735	16,826,846	14,087,288
Time under $100,000	2,784,593	2,974,566	2,954,116
Time $100,000 and over	3,949,684	4,756,218	4,468,225

Foreign	2,014,626	2,622,562	3,325,915
	43,007,981	41,316,496	38,590,901
Securities sold, not yet purchased	39,360	35,657	29,528
Federal funds purchased	1,008,181	965,835	1,179,197
Security repurchase agreements	509,014	899,751	734,379
Other liabilities	651,139	669,111	649,672
Commercial paper	2,449	15,451	40,493
Federal Home Loan Bank advances and other borrowings:			
One year or less	42,962	2,039,853	4,690,784
Over one year	18,803	128,253	128,855
Long-term debt	2,599,895	2,493,368	2,334,044
Total liabilities	47,879,784	48,563,775	48,377,853
Shareholders equity:			
Preferred stock, without par value, authorized 3,000,000 shares	1,524,722	1,581,834	286,949
Common stock, without par value; authorized 350,000,000 shares; issued and outstanding 136,398,089, 115,344,813, and 115,302,598 shares	2,974,256	2,599,916	2,482,517
Retained earnings	1,487,707	2,433,363	2,968,242
Accumulated other comprehensive income (loss)	(469,112)	(98,958)	(157,305)
Deferred compensation	(15,218)	(14,459)	(14,376)
Controlling interest shareholders equity	5,502,355	6,501,696	5,566,027
Noncontrolling interests	21,533	27,320	30,288
Total shareholders equity	5,523,888	6,529,016	5,596,315
	$ 53,403,672	$ 55,092,791	$ 53,974,168

See accompanying notes to consolidated financial statements.

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ZIONS BANCORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(In thousands, except per share amounts)	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Interest income:				
Interest and fees on loans	$ 586,246	$ 663,677	$ 1,749,688	$ 1,995,227
Interest on loans held for sale	2,434	1,916	8,272	7,632
Lease financing	5,125	5,515	14,453	17,100
Interest on money market investments	1,195	9,267	6,114	40,608
Interest on securities:				
Held-to-maturity taxable	4,864	21,780	33,139	39,965
Held-to-maturity nontaxable	5,806	6,319	17,867	18,972
Available-for-sale taxable	23,460	25,044	72,145	122,459
Available-for-sale nontaxable	1,830	1,697	5,286	5,459
Trading account	842	437	2,236	1,277
Total interest income	631,802	735,652	1,909,200	2,248,699
Interest expense:				
Interest on savings and money market deposits	54,554	90,720	194,056	274,851
Interest on time and foreign deposits	42,780	74,837	158,036	264,519
Interest on short-term borrowings	2,325	50,164	12,006	158,507
Interest on long-term borrowings	56,093	27,928	100,589	87,618
Total interest expense	155,752	243,649	464,687	785,495
Net interest income	476,050	492,003	1,444,513	1,463,204
Provision for loan losses	565,930	156,606	1,626,208	363,080
Net interest income after provision for loan losses	(89,880)	335,397	(181,695)	1,100,124
Noninterest income:				
Service charges and fees on deposit accounts	54,466	53,695	159,087	154,347
Other service charges, commissions and fees	39,227	42,794	117,745	127,137
Trust and wealth management income	8,209	8,865	24,124	28,842
Capital markets and foreign exchange	12,106	12,257	41,621	34,850
Dividends and other investment income	2,597	7,042	13,689	30,361
Loan sales and servicing income	2,359	3,633	15,250	19,959
Income from securities conduit		336	1,086	3,960
Fair value and nonhedge derivative income (loss)	58,092	(26,155)	82,412	(42,157)
Equity securities gains (losses), net	(1,805)	12,971	339	14,918
Fixed income securities gains, net	1,900	135	3,539	1,988
Impairment losses on investment securities:				
Impairment losses on investment securities	(198,378)	(28,022)	(435,509)	(107,568)
Noncredit-related losses on securities not expected to be sold (recognized in other comprehensive income)	141,863		254,352	
Net impairment losses on investment securities	(56,515)	(28,022)	(181,157)	(107,568)

Valuation losses on securities purchased			(212,092)	(5,204)
Gains on swap termination and debt modification			466,333	
Acquisition related gains	146,153		169,130	
Other	3,951	2,059	9,716	11,549
Total noninterest income	270,740	89,610	710,822	272,982
Noninterest expense:				
Salaries and employee benefits	205,433	208,995	612,014	619,640
Occupancy, net	28,556	30,552	83,534	84,715
Furniture and equipment	25,320	24,281	75,189	73,629
Other real estate expense	30,419	7,126	72,510	10,254
Legal and professional services	9,076	11,297	27,116	30,743
Postage and supplies	7,680	9,257	24,126	27,582
Advertising	4,418	6,782	17,244	20,653
FDIC premiums	19,820	5,286	76,320	14,113
Amortization of core deposit and other intangibles	7,575	8,096	21,539	25,107
Provision for unfunded lending commitments	36,537	(3,264)	46,291	2,044
Other	59,873	63,868	174,498	168,316
Total noninterest expense	434,707	372,276	1,230,381	1,076,796
Impairment loss on goodwill			633,992	
Income (loss) before income taxes	(253,847)	52,731	(1,335,246)	296,310
Income taxes (benefit)	(98,565)	11,214	(284,531)	83,147
Net income (loss)	(155,282)	41,517	(1,050,715)	213,163
Net income (loss) applicable to noncontrolling interests	(2,394)	3,757	(4,143)	(3,544)
Net income (loss) applicable to controlling interest	(152,888)	37,760	(1,046,572)	216,707
Preferred stock dividends	(26,603)	(4,409)	(78,336)	(9,316)
Preferred stock redemption			52,418	
Net earnings (loss) applicable to common shareholders	$ (179,491)	$ 33,351	$ (1,072,490)	$ 207,391
Weighted average common shares outstanding during the period:				
Basic shares	127,581	108,407	119,248	107,176
Diluted shares	127,581	108,497	119,248	107,333
Net earnings (loss) per common share:				
Basic	$ (1.41)	$ 0.31	$ (8.99)	$ 1.94
Diluted	(1.41)	0.31	(8.99)	1.93

See accompanying notes to consolidated financial statements.

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ZIONS BANCORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY AND COMPREHENSIVE INCOME

(Unaudited)

(In thousands, except per share amounts)	Preferred stock	Common stock Shares	Common stock Amount	Retained earnings	Accumulated other comprehensive income (loss)	Deferred compensation	Noncontrolling interests	Total shareholders equity
Balance, December 31, 2008	$ 1,581,834	115,344,813	$ 2,599,916	$ 2,433,363	$ (98,958)	$ (14,459)	$ 27,320	$ 6,529,016
Cumulative effect of change in accounting principle, adoption of FSP FAS 115-2 and 124-2				137,462	(137,462)			
Comprehensive loss:								
Net loss for the period				(1,046,572)			(4,143)	(1,050,715)
Other comprehensive income (loss), net of tax:								
Net realized and unrealized holding losses on investments and retained interests					(82,003)			
Reclassification for net realized losses on investments recorded in operations					96,545			
Noncredit-related impairment losses on securities not expected to be sold					(152,531)			
Accretion of securities with noncredit-related impairment losses not expected to be sold					963			
Net unrealized losses on derivative instruments					(95,666)			
Other comprehensive loss					(232,692)			(232,692)
Total comprehensive loss								(1,283,407)
Preferred stock redemption	(100,511)		1,763	52,266				(46,482)
Subordinated debt converted to preferred stock	27,757							27,757
Dividends on preferred stock	15,642			(78,336)				(62,694)
Issuance of common stock		20,503,925	311,259					311,259
Subordinated debt modification			45,326					45,326
Net stock issued under employee plans and related tax benefits		549,351	15,992					15,992
Dividends on common stock, $.09 per share				(10,476)				(10,476)
Change in deferred compensation						(759)		(759)
Other changes in noncontrolling interests							(1,644)	(1,644)
Balance, September 30, 2009	$ 1,524,722	136,398,089	$ 2,974,256	$ 1,487,707	$ (469,112)	$ (15,218)	$ 21,533	$ 5,523,888
Balance, December 31, 2007	$ 240,000	107,116,505	$ 2,212,237	$ 2,910,692	$ (58,835)	$ (11,294)	$ 30,939	$ 5,323,739
Cumulative effect of change in accounting principle, adoption of FAS 159				(11,471)	11,471			
Comprehensive income:								
Net income for the period				216,707			(3,544)	213,163
Other comprehensive income (loss), net of tax:								
Net realized and unrealized holding losses on investments and retained interests					(207,190)			
Foreign currency translation					(52)			

Reclassification for net realized losses on investments recorded in operations					63,463			
Net unrealized gains on derivative instruments					33,104			
Pension and postretirement					734			
Other comprehensive loss					(109,941)			(109,941)
Total comprehensive income								103,222
Issuance of preferred stock	46,949		(503)					46,446
Issuance of common stock		7,194,079	244,889					244,889
Stock issued under dividend reinvestment plan		39,857	1,261					1,261
Net stock issued under employee plans and related tax benefits		952,157	24,633					24,633
Dividends on preferred stock				(9,316)				(9,316)
Dividends on common stock, $1.29 per share				(138,370)				(138,370)
Change in deferred compensation						(3,082)		(3,082)
Other changes in noncontrolling interests							2,893	2,893
Balance, September 30, 2008	$ 286,949	115,302,598	$ 2,482,517	$ 2,968,242	$ (157,305)	$ (14,376)	$ 30,288	$ 5,596,315

Total comprehensive income (loss) for the three months ended September 30, 2009 and 2008 was $(256,230) and $42,537, respectively.

See accompanying notes to consolidated financial statements.

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ZIONS BANCORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)	**Three Months Ended September 30, 2009**	**Three Months Ended September 30, 2008**	**Nine Months Ended September 30, 2009**	**Nine Months Ended September 30, 2008**
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income (loss) for the period	$ (155,282)	$ 41,517	$ (1,050,715)	$ 213,163
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Impairment and valuation losses on investment securities, goodwill, and long-lived assets	56,515	30,261	1,027,241	115,011
Gains on swap termination and debt modification			(466,333)	
Acquisition related gains	(146,153)		(169,130)	
Debt extinguishment cost			5,103	
Provision for credit losses	602,467	153,342	1,672,499	365,124
Depreciation of premises and equipment	18,731	17,918	55,824	52,830
Amortization	65,249	19,729	101,273	48,996
Deferred income tax benefit	(48,989)	(48,293)	(158,650)	(119,187)
Share-based compensation	7,297	8,875	22,641	23,255
Excess tax benefits from share-based compensation	(4)	(128)	(33)	(527)
Equity securities losses (gains), net	1,805	(12,971)	(339)	(14,918)
Fixed income securities gains, net	(1,900)	(135)	(3,539)	(1,988)
Net decrease (increase) in trading securities	1,899	5,901	(34,645)	(15,819)
Principal payments on and proceeds from sales of loans held for sale	462,313	224,344	1,608,039	887,700
Originations of loans held for sale	(412,247)	(221,828)	(1,609,246)	(851,599)
Net write-down of and losses from sales of other real estate owned	26,221	6,300	61,761	9,028
Net gains on sales of loans, leases and other assets	(948)	(1,713)	(11,248)	(14,984)
Income from increase in cash surrender value of bank-owned life insurance	(5,928)	(6,393)	(18,083)	(18,994)
Change in accrued income taxes	(119,817)	8,861	(187,216)	(68,764)
Change in accrued interest receivable	11,074	14,171	48,261	36,390
Change in other assets	(30,987)	164,171	(97,921)	82,898
Change in other liabilities	14,037	90,954	(53,540)	58,321
Change in accrued interest payable	1,662	1,308	(25,030)	(10,016)
Other, net	13,376	(892)	9,105	7,959
Net cash provided by operating activities	360,391	495,299	726,079	783,879
CASH FLOWS FROM INVESTING ACTIVITIES:				
Net decrease (increase) in money market investments	(877,777)	250,244	375,680	487,195
Proceeds from maturities and paydowns of investment securities held-to-maturity	75,494	28,379	130,397	82,271
Purchases of investment securities held-to-maturity	(14,041)	(43,162)	(45,830)	(83,345)
Proceeds from sales of investment securities available-for-sale	127,737	82,422	666,127	586,878
Proceeds from maturities and paydowns of investment securities available-for-sale	162,725	382,356	390,442	3,021,041
Purchases of investment securities available-for-sale	(74,882)	(459,523)	(1,530,131)	(2,786,420)
Proceeds from sales of loans and leases	22,995	211,808	72,886	260,947
Securitized loans purchased		(8,639)		(1,165,943)

Loan and lease originations, net of collections	479,745	(358,017)	991,706	(2,288,981)
Net decrease (increase) in other noninterest-bearing investments	(895)	(6,624)	12,214	(120,492)
Proceeds from sales of premises and equipment and other assets	1,527	106	6,263	8,534
Purchases of premises and equipment	(14,489)	(37,999)	(72,172)	(81,806)
Proceeds from sales of other real estate owned	70,007	14,875	167,619	33,866
Net cash received from acquisitions	305,464	688,940	452,415	688,940
Net cash provided by (used in) investing activities	263,610	745,166	1,617,616	(1,357,315)

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ZIONS BANCORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(Unaudited)

(In thousands)	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
CASH FLOWS FROM FINANCING ACTIVITIES:				
Net increase (decrease) in deposits	$ (1,065,061)	$ 250,943	$ (989,336)	$ 936,107
Net change in short-term funds borrowed	(360,996)	(1,904,974)	(2,482,307)	(794,175)
Repayments of FHLB advances over 90 days and up to one year			(110,311)	
Proceeds from FHLB advances and other borrowings over one year			90	3,500
Repayments of FHLB advances and other borrowings over one year	(79)	(619)	(109,540)	(2,257)
Proceeds from issuance of long-term debt	405,724		696,952	28,495
Debt issuance and extinguishment costs	(4,383)	(64)	(22,466)	(675)
Repayments of long-term debt	(69)	(137,000)	(207)	(155,025)
Proceeds from issuance of preferred stock		46,446		46,446
Cash paid for preferred stock redemption	(152)		(46,482)	
Proceeds from issuance of common stock	187,518	244,914	311,259	246,355
Payments to redeem common stock	(146)	(55)	(1,246)	(2,635)
Excess tax benefits from share-based compensation	4	128	33	527
Dividends paid on preferred stock	(21,368)	(4,409)	(62,694)	(9,316)
Dividends paid on common stock	(1,258)	(45,542)	(10,476)	(137,109)
Net cash provided by (used in) financing activities	(860,266)	(1,550,232)	(2,826,731)	160,238
Net decrease in cash and due from banks	(236,265)	(309,767)	(483,036)	(413,198)
Cash and due from banks at beginning of period	1,229,205	1,751,724	1,475,976	1,855,155
Cash and due from banks at end of period	$ 992,940	$ 1,441,957	$ 992,940	$ 1,441,957
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:				
Cash paid for:				
Interest	$ 139,077	$ 239,041	$ 462,846	$ 793,697
Net payment made (cash refund received) for income taxes	90	42,150	(29,924)	259,402
Noncash items:				
Amortized cost of investment securities held-to-maturity transferred to investment securities available-for-sale			1,058,159	
Fair value of investment securities available-for-sale transferred to investment securities held-to-maturity				1,226,832
Loans transferred to other real estate owned	158,603	57,951	391,929	192,425
Subordinated debt transferred to common stock as a result of debt modification			45,326	
Subordinated debt converted to preferred stock	27,757		27,757	
Acquisitions:				
Assets acquired	1,611,693	66,192	2,981,279	66,192
Liabilities assumed	1,553,040	737,116	2,929,448	737,116

See accompanying notes to consolidated financial statements.

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ZIONS BANCORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

September 30, 2009

1. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements of Zions Bancorporation (the Parent) and its majority-owned subsidiaries (collectively the Company, Zions, we, our, us) have been prepared in accordance with U.S. generally accepted accounting principles for inte 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. Subsequent events have been evaluated through November 9, 2009, the date of filing these financial statements with the Securities and Exchange Commission (SEC).

Operating results for the three- and nine-month periods ended September 30, 2009 are not necessarily indicative of the results that may be expected in future periods. The consolidated balance sheet at December 31, 2008 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 the Company s Annual Report on Form 10-K for the year ended December 31, 2008.

The Company provides a full range of banking and related services through banking subsidiaries in ten Western and Southwestern states as follows: Zions First National Bank (Zions Bank), in Utah and Idaho; California Bank & Trust (CB&T); Amegy Corporation (Amegy) and its subsidiary, Amegy Bank, in Texas; National Bank of Arizona (NBA); Nevada State Bank (NSB); Vectra Bank Colorado (Vectra), in Colorado and New Mexico; The Commerce Bank of Washington (TCBW); and The Commerce Bank of Oregon (TCBO). The Parent also owns and operates certain nonbank subsidiaries that engage in the development and sale of financial technologies and related services, and in wealth management services.

2. CERTAIN RECENT ACCOUNTING PRONOUNCEMENTS

In June 2009, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 168, *The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162*. With the issuance of SFAS 168, the FASB Accounting Standards Codification (the Codification or ASC) becomes the single source of authoritative U.S. accounting and reporting standards applicable for all nongovernmental entities, with the exception of guidance issued by the SEC. This change is effective for financial statements issued for interim or annual periods ending after September 15, 2009. Accordingly, all specific references herein to generally accepted accounting principles (GAAP) refer to the Codification and not to the pre-Codification literature.

The Codification does not modify existing GAAP nor any guidance issued by the SEC. Nonauthoritative accounting literature is excluded from the Codification. To improve usability, the Codification does include certain SEC guidance. GAAP accounting standards used to populate the Codification are superseded, with the exception of certain standards yet to be codified as of September 30, 2009, including SFAS 166 and 167 described subsequently.

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In June 2009, the FASB issued SFAS No. 166, *Accounting for Transfers of Financial Assets, an amendment of FASB Statement No. 140*, and SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)*. These Statements modify the accounting for transfers of financial assets and the determination of what entities must be consolidated, and will have a significant effect on securitizations and special-purpose entities. We will adopt these Statements effective January 1, 2010, as required. Management is evaluating the impact these Statements may have on the Company s financial statements.

FASB ASC 855 includes new guidance on subsequent events that became effective for the second quarter of 2009. The definition of subsequent events was modified and entities are required to disclose the date through which subsequent events have been evaluated and the basis for that date. Adoption of this guidance was not significant to the Company s financial statements.

FASB ASC 810 includes new requirements for presenting consolidated financial statements, which we adopted January 1, 2009, as required. Under the new view of an economic entity in consolidated financial statements, the presentation of noncontrolling (or minority) interests has been changed in that all operating amounts attributable to a noncontrolling interest are included in the statement of income and accumulated balances are included as a separate component of equity. Also required is the allocation of losses to a noncontrolling interest even when such losses result in a negative carrying balance. The effect of adoption was not significant to the Company s financial statements. As of January 1, 2009, minority interest of $27.3 million was reclassified to shareholders equity and reported as noncontrolling interests. As required, retrospective application was made to all prior periods for comparative presentation.

FASB ASC 260 includes new guidance which clarifies that unvested share-based payment awards with rights to receive nonforfeitable dividends are participating securities and should be included in the computation of earnings per share. We adopted this guidance effective January 1, 2009 and were required to retrospectively adjust earnings per share information, which was not significant to any prior period included in the accompanying financial statements.

Additional accounting guidance recently adopted is discussed where applicable in the Notes to Consolidated Financial Statements.

3. MERGER AND ACQUISITION ACTIVITY

Effective January 1, 2009, we adopted new accounting provisions under FASB ASC 805 relating to business combinations. Among the most significant changes is the elimination of the step acquisition model used with previous accounting. Upon initially obtaining control, the acquirer now recognizes 100% of all acquired assets (including goodwill) and all assumed liabilities regardless of the percentage owned. Certain transaction and restructuring costs must be expensed as incurred. Changes to the acquirer s existing income tax valuation allowances and uncertainty accruals from a business combination must be recognized as an adjustment to current income tax expense and not to goodwill over the subsequent annual period.

On July, 17, 2009, CB&T acquired the banking operations of the failed Vineyard Bank from the Federal Deposit Insurance Corporation (FDIC) as receiver. The acquisition consisted of approximately $1.6 billion of assets, including $1.4 billion of loans, $1.5 billion of deposits, and 16 branches mostly located in the Inland Empire area of Southern California. CB&T assumed Vineyard s deposit obligations other than brokered deposits, and purchased most of Vineyard s assets, including all loans, at a discount of $242 million to stated value. CB&T received approximately $87.5 million in cash from the FDIC and entered into a loss sharing agreement in which the FDIC will bear 80% of the first $465 million of losses on loans and other real estate owned and 95% of any losses above that amount for a period of up to ten years.

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On April 17, 2009, NSB acquired the banking operations of the failed Great Basin Bank of Nevada headquartered in Elko, Nevada, from the FDIC as receiver. The acquisition consisted of approximately $212 million of assets, including the entire loan portfolio, $209 million of deposits, and five branches in Northern Nevada. NSB received approximately $17.8 million in cash from the FDIC and entered into a loss sharing agreement in which the FDIC will assume 80% of the first $40 million of losses on loans and other real estate owned and 95% of any losses above that amount for a period of up to ten years.

On February 6, 2009, CB&T acquired the banking operations of the failed Alliance Bank headquartered in Culver City, California from the FDIC as receiver. The acquisition consisted of approximately $1.1 billion of assets, including the entire loan portfolio, $1.0 billion of deposits, and five branches. CB&T received approximately $10 million in cash from the FDIC and entered into a loss sharing agreement in which the FDIC will assume 80% of the first $275 million of credit losses and 95% of any losses above that amount for a period of up to ten years.

As a result of these loss sharing arrangements, the acquired loans and foreclosed assets are presented separately in the Company s balance sheet as FDIC-supported assets. These assets were recorded at fair value without a corresponding allowance for credit losses. Because the fair value of net assets acquired exceeded cost, and taking into consideration the amounts of cash received from the FDIC, the Company recognized acquisition related gains of $146.2 million and $169.1 million during the three and nine months ended September 30, 2009, respectively.

The following summarizes the carrying value of FDIC-supported assets at September 30, 2009 for (1) acquired loans accounted for under FASB ASC 310 which have evidence of credit deterioration and for which it is probable that not all contractual payments will be collected, (2) acquired loans without evidence of credit deterioration, and (3) all other acquired assets and estimated loss reimbursement from FDIC *(in thousands)*:

	Loans with deterioration	Loans without deterioration	Other	Total
Commercial lending	$ 69,012	$ 456,108		$ 525,120
Commercial real estate	385,958	570,997		956,955
Consumer	17,758	107,660		125,418
Other real estate owned			$ 54,714	54,714
Estimated loss reimbursement from FDIC	240,784	122,434		363,218
Total FDIC-supported assets	$ 713,512	$ 1,257,199	$ 54,714	$ 2,025,425

The estimated loss reimbursement from FDIC was fair valued using projected cash flows based on credit adjustments for each loan type and the loss sharing reimbursement of 80% or 95%, as appropriate. The timing of the cash flows was adjusted to reflect management s expectations to receive the FDIC reimbursements within the estimated loss period. Discount rates were based on U.S. Treasury rates or the AAA composite yield on investment grade bonds of similar maturity.

The estimated loss reimbursement from FDIC is adjusted as actual loss experience is developed and estimated losses covered under the loss sharing arrangements are updated. Estimated loan losses, if any, in excess of the amounts recoverable through the loss sharing arrangements are reflected as period expenses through the provision for loan losses.

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As of the respective dates of acquisition for Vineyard, Great Basin and Alliance, the preliminary estimates of the contractually required payments receivable for loans with evidence of credit deterioration were $960.6 million, the cash flows expected to be collected were $879.3 million including interest, and the estimated fair value of the acquired loans was $877.5 million. These amounts were determined based upon the estimated remaining life of the underlying loans, which included the effects of estimated prepayments. Because of the estimation process required, certain refinements will likely be made to the above estimates in future reporting periods. Interest income on acquired loans in FDIC supported assets, other than those accounted for under FASB ASC 310, is recognized through the accrual of interest at the contractual rate adjusted for accretion of the interest discount.

Changes in the carrying amount and accretable yield for loans with evidence of credit deterioration were as follows during the three and nine months ended September 30, 2009 (or from the respective dates of acquisition) *(in thousands)*:

	Three Months Ended September 30, 2009		**Nine Months Ended September 30, 2009**	
	Net accretable discount	**Carrying amount of loans**	**Net accretable discount**	**Carrying amount of loans**
Fair value of acquired loans at beginning of period (or date of acquisition)	$ 1,988	$ 809,127	$ 1,808	$ 877,505
Payments received		(40,257)		(76,207)
Transfers to OREO		(319)		(319)
Charge-offs		(54,931)		(87,179)
Amortization	108	(108)	288	(288)
Balance at end of period	$ 2,096	$ 713,512	$ 2,096	$ 713,512

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4. INVESTMENT SECURITIES

Investment securities are summarized as follows *(in thousands)*:

	September 30, 2009						
		Recognized in OCI [1]			Not recognized in OCI [1]		
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Carrying value	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Held-to-maturity							
Municipal securities	$ 610,661	$	$	$ 610,661	$ 9,452	$ 4,535	$ 615,578
Asset-backed securities:							
Trust preferred securities banks and insurance	265,293		25,564	239,729	5	37,527	202,207
Other	32,304		5,689	26,615	546	9,230	17,931
Other debt securities	100			100		2	98
	$ 908,358	$	$ 31,253	$ 877,105	$ 10,003	$ 51,294	$ 835,814
Available-for-sale							
U.S. Treasury securities	$ 40,631	$ 645	$	$ 41,276			$ 41,276
U.S. Government agencies and corporations:							
Agency securities	243,371	6,195	189	249,377			249,377
Agency guaranteed mortgage-backed securities	386,417	12,143	214	398,346			398,346
Small Business Administration loan-backed securities	799,313	2,614	21,473	780,454			780,454
Municipal securities	241,214	5,644	658	246,200			246,200
Asset-backed securities:							
Trust preferred securities - banks and insurance	2,133,893	41,633	784,219	1,391,307			1,391,307
Trust preferred securities - real estate investment trusts	67,566		40,465	27,101			27,101
Auction rate securities	165,106	1,274	2,116	164,264			164,264
Other	146,518	2,006	54,538	93,986			93,986
	4,224,029	72,154	903,872	3,392,311			3,392,311
Other securities:							
Mutual funds and stock	154,770	11		154,781			154,781
	$ 4,378,799	$ 72,165	$ 903,872	$ 3,547,092			$ 3,547,092

[1] *Other comprehensive income*

As part of our ongoing review of the investment securities portfolio, we reassessed the classification of certain asset-backed and trust preferred collateralized debt obligation (CDO) securities. During the first two quarters of 2009, we reclassified a total of $596 million at fair value of held-to-maturity (HTM) securities to available-for-sale (AFS). Unrealized losses added to OCI at the time of these transfers were $126.5 million. The reclassifications were made subsequent to ratings downgrades, as permitted under FASB ASC 320. No gain or loss was recognized in the statement of income at the time of reclassification.

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The amortized cost and estimated fair value of investment debt securities are shown below as of September 30, 2009 by expected maturity distribution for asset-backed securities and by contractual maturity distribution for other debt securities. Actual maturities may differ from expected or contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties *(in thousands)*:

	Held-to-maturity		Available-for-sale	
	Amortized cost	Estimated fair value	Amortized cost	Estimated fair value
Due in one year or less	$ 69,614	$ 69,341	$ 451,391	$ 453,585
Due after one year through five years	270,478	269,572	930,277	899,572
Due after five years through ten years	219,720	205,331	724,762	644,338
Due after ten years	348,546	291,570	2,117,599	1,394,816
	$ 908,358	$ 835,814	$ 4,224,029	$ 3,392,311

The following is a summary of the amount of gross unrealized losses for debt securities and the estimated fair value by length of time the securities have been in an unrealized loss position *(in thousands)*:

	September 30, 2009					
	Less than 12 months		12 months or more		Total	
	Gross unrealized losses	Estimated fair value	Gross unrealized losses	Estimated fair value	Gross unrealized losses	Estimated fair value
Held-to-maturity						
Municipal securities	$ 406	$ 24,261	$ 4,129	$ 24,973	$ 4,535	$ 49,234
Asset-backed securities:						
Trust preferred securities banks and insurance	104	449	62,987	201,757	63,091	202,206
Other	421	2,719	14,498	15,212	14,919	17,931
Other debt securities	2	98			2	98
	$ 933	$ 27,527	$ 81,614	$ 241,942	$ 82,547	$ 269,469
Available-for-sale						
U.S. Government agencies and corporations:						
Agency securities	$ 18	$ 4,012	$ 171	$ 3,563	$ 189	$ 7,575
Agency guaranteed mortgage-backed securities	206	28,993	8	874	214	29,867
Small Business Administration loan-backed securities	1,595	129,603	19,878	468,249	21,473	597,852
Municipal securities	644	32,115	14	777	658	32,892
Asset-backed securities:						
Trust preferred securities banks and insurance	6,094	71,656	778,125	941,215	784,219	1,012,871
Trust preferred securities real estate investment trusts	31,923	18,265	8,542	8,836	40,465	27,101
Auction rate securities	2,116	150,519			2,116	150,519
Other	2,182	8,110	52,356	65,065	54,538	73,175
	$ 44,778	$ 443,273	$ 859,094	$ 1,488,579	$ 903,872	$ 1,931,852

We conduct a formal review of investment securities on a quarterly basis for the presence of other-than-temporary impairment (OTTI). Our review was made under FASB ASC 320, which includes new guidance that we adopted effective January 1, 2009. We assess whether OTTI is present when the fair value of a debt security is less than its amortized cost basis at the balance sheet date. Under these circumstances, OTTI is considered to have occurred (1) if we intend to sell the security; (2) if it is more likely than not we will be required to sell the security before recovery of its amortized cost basis; or (3) the present value of expected cash flows is not sufficient to recover the entire amortized cost basis. The more likely than not criteria is a lower threshold than the probable criteria used under previous guidance.

The new guidance requires that credit-related OTTI is recognized in earnings while noncredit-related OTTI on securities not expected to be sold is recognized in other comprehensive income (OCI). Noncredit-related OTTI is based on other factors, including illiquidity. Presentation of OTTI is made in the statement of income on a gross basis with an offset for the amount of OTTI recognized in OCI. For securities classified as HTM, the amount of OTTI recognized in OCI is accreted to the credit-adjusted expected cash flow amounts of the securities over future periods. Noncredit-related OTTI recognized in earnings previous to January 1, 2009 is reclassified from retained earnings to accumulated OCI as a cumulative effect adjustment.

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As stated in our 2008 Annual Report on Form 10-K, our OTTI evaluation process also takes into consideration current market conditions, fair value in relationship to cost, extent and nature of change in fair value, issuer rating changes and trends, volatility of earnings, current analysts evaluations, all available information relevant to the collectibility of debt securities, our ability and intent to hold investments until a recovery of fair value, which may be maturity, and other factors, when evaluating for the existence of OTTI in our securities portfolio. Additionally, OTTI is recognized as a realized loss through earnings when there has been an adverse change in the holder s expected cash flows such that it is probable that the full amount will not be received. This is a change from previous guidance that a holder s best estimate of cash flows should be based upon those that a market participant would use.

For all AFS security types discussed below where we believe that no OTTI exists at September 30, 2009, we applied the criteria required in the new guidance in that we do not intend to sell the securities and it is not more likely than not that we will be required to sell the securities before recovery of their amortized cost basis.

Municipal securities

The HTM securities are purchased directly from the municipalities and are generally not rated by a credit rating agency. The AFS securities are rated as investment grade by various credit rating agencies. Both the HTM and AFS securities are at fixed and variable rates with maturities from one to 25 years. Fair values of these securities are highly driven by interest rates. We perform credit quality reviews on these securities at each reporting period. Because the decline in fair value is not attributable to credit quality, we believe that no OTTI exists for these securities at September 30, 2009.

Asset-backed securities

Trust preferred securities banks and insurance: These CDO securities are variable rate pools of trust preferred securities related to banks and insurance companies. They are rated by one or more Nationally Recognized Statistical Rating Organizations (NRSROs) which are rating agencies registered with the SEC. They were purchased generally at par. Unrealized losses were caused mainly by the following factors: (1) collateral deterioration due to bank failures and credit concerns across the banking sector; (2) widening of credit spreads for asset-backed securities; and (3) general illiquidity in the market for CDOs. Our ongoing review of these securities in accordance with the previous discussion and the policy in our 2008 Annual Report on Form 10-K determined that OTTI should be recorded on certain of these securities. See subsequent summary.

Trust preferred securities real estate investment trusts (REIT): These CDO securities are variable rate pools of trust preferred securities primarily related to real estate investment trusts, and are rated by one or more NRSROs. They were purchased generally at par. Unrealized losses were caused mainly by severe deterioration in mortgage REITs and homebuilder credit in addition to the same factors previously discussed for banks and insurance CDOs. Our ongoing review of these securities in accordance with the previous discussion and the policy in our 2008 Annual Report on Form 10-K determined that OTTI should be recorded on certain of these securities. See subsequent summary.

Auction rate securities: These debt instruments primarily relate to auction market preferred stock and certain corporate and municipal bonds for which the interest rate was determined through an auction process. Due to the failure of these auctions and attendant illiquidity of the securities, the Company voluntarily purchased these securities at par and recorded them at fair value. They had previously been sold to customers by certain Company subsidiaries. Adjustments to fair value were included in valuation losses on securities purchased. See subsequent discussion.

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Other asset-backed securities: The majority of these CDO securities were purchased from Lockhart Funding LLC (Lockhart) at their carrying values and were adjusted to fair value. Certain of these CDOs consist of structured asset-backed CDOs (ABS CDOs) (also known as diversified structured finance CDOs). Our ongoing review of these securities in accordance with the previous discussion and the policy in our 2008 Annual Report on Form 10-K determined that OTTI should be recorded on certain of these securities. See subsequent summary.

U.S. Government agencies and corporations

Agency securities: These securities consist of discount notes and medium term notes issued by the Federal Agricultural Mortgage Corporation (FAMC), Federal Home Loan Bank (FHLB), Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation (FHLMC), and Federal National Mortgage Association (FNMA). These securities are fixed rate and were purchased at premiums or discounts. They have maturity dates from one to 30 years and have contractual cash flows guaranteed by agencies of the U.S. Government. In the latter half of 2008, the U.S. Government provided substantial liquidity to FNMA and FHLMC to bolster their creditworthiness. Because the decline in fair value is not attributable to credit quality, we believe that no OTTI exists for these securities at September 30, 2009.

Agency guaranteed mortgage-backed securities: These securities are comprised largely of fixed and variable rate residential and agricultural mortgage-backed securities issued by the Government National Mortgage Association (GNMA), FNMA, FAMC, or FHLMC. They have maturity dates from one to 30 years and have contractual cash flows guaranteed by agencies of the U.S. Government. In the latter half of 2008, the U.S. Government provided substantial liquidity to both FNMA and FHLMC to bolster their creditworthiness. Because the decline in fair value is not attributable to credit quality, we believe that no OTTI exists for these securities at September 30, 2009.

Small Business Administration (SBA) loan-backed securities: These securities were generally purchased at premiums with maturities from five to 25 years and have principal cash flows guaranteed by the SBA. Because the decline in fair value is not attributable to credit quality, we believe that no OTTI exists for these securities at September 30, 2009.

The following summarizes the amounts of credit-related OTTI recognized in earnings during the three and nine months ended September 30, 2009 according to the previously discussed categories *(in thousands)*:

	Three Months Ended September 30, 2009			Nine Months Ended September 30, 2009		
	HTM	**AFS**	**Total**	**HTM**	**AFS**	**Total**
Asset-backed securities:						
Trust preferred securities banks and insurance	$	$ (37,339)	$ (37,339)	$ (3)	$ (86,307)	$ (86,310)
Trust preferred securities real estate investment trusts		(9,245)	(9,245)		(77,064)	(77,064)
Other (including ABS CDOs)		(9,931)	(9,931)	(1,758)	(16,025)	(17,783)
	$	$ (56,515)	$ (56,515)	$ (1,761)	$ (179,396)	$ (181,157)

To determine the credit component of OTTI for all security types, the expected cash flows are credit-stressed in that they incorporate the effect of both collateral nonperformance and projected additional nonperformance. These expected cash flows are discounted at a security specific coupon rate.

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The following is a tabular rollforward of the amount of credit-related OTTI recognized in earnings (in *thousands)*:

	Three Months Ended September 30, 2009			Nine Months Ended September 30, 2009		
	HTM	AFS	Total	HTM	AFS	Total
Balance of credit-related OTTI at beginning of period	$ (3,667)	$ (303,379)	$ (307,046)	$ (29,142)	$ (153,262)	$ (182,404)
Adjustment for transfers from HTM to AFS				43,987	(43,987)	
Additions for credit-related OTTI not previously recognized		(20,655)	(20,655)	(15,222)	(34,552)	(49,774)
Additional increases for credit-related OTTI previously recognized when there is no intent to sell and no requirement to sell before recovery of amortized cost basis		(35,860)	(35,860)	(3,290)	(128,093)	(131,383)
Subtotal of additions		(56,515)	(56,515)	(18,512)	(162,645)	(181,157)
Balance of credit-related OTTI at end of period	$ (3,667)	$ (359,894)	$ (363,561)	$ (3,667)	$ (359,894)	$ (363,561)

Noncredit-related OTTI of $141.9 million and $254.4 million ($84.7 million and $152.5 million after-tax) on securities not expected to be sold, and for which it is not more likely than not that we will be required to sell the securities before recovery of their amortized cost basis, was recognized in OCI during the three and nine months ended September 30, 2009, respectively. As of January 1, 2009, we reclassified $137.5 million after-tax as a cumulative effect adjustment for the noncredit-related portion of OTTI losses previously recognized in earnings.

At September 30, 2009, 116 HTM and 764 AFS investment securities were in an unrealized loss position, with a vast majority of the dollar amount residing in the CDO portfolio.

The following summarizes gains and losses, including OTTI, that are recognized in the statement of income *(in thousands)*:

	Three Months Ended September 30, 2009		Nine Months Ended September 30, 2009	
	Gross gains	Gross losses	Gross gains	Gross losses
Investment securities:				
Held-to-maturity	$	$	$	$ 1,761
Available-for-sale	1,906	56,519	6,660	391,504
Other noninterest-bearing investments:				
Securities held by consolidated SBICs	(348)	2,753	435	4,507
Other	1,294		1,306	
	2,852	59,272	8,401	397,772
Net losses		$ (56,420)		$ (389,371)
Statement of income information:				
Net impairment losses on investment securities		$ (56,515)		$ (181,157)

Valuation losses on securities purchased		(212,092)
	(56,515)	(393,249)
Equity securities gains (losses), net	(1,805)	339
Fixed income securities gains, net	1,900	3,539
Net losses	$ (56,420)	$ (389,371)

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Valuation losses on securities purchased of $212.1 million during the nine months ended September 30, 2009 included the following:

$187.9 million, primarily from the purchase of $678.1 million of securities by Zions Bank from Lockhart due to ratings downgrades prior to fully consolidating Lockhart effective June 5, 2009. Lockhart had previously functioned as an off-balance sheet qualifying special-purpose entity securities conduit. As of September 30, 2009, Lockhart was legally terminated.

$24.2 million, when we voluntarily purchased during the first quarter of 2009 all of the $255.3 million of auction rate securities previously sold to customers by certain Company subsidiaries.

As of September 30, 2009 and December 31, 2008, securities with an amortized cost of $1.6 billion and $1.8 billion, respectively, were pledged to secure public and trust deposits, advances, and for other purposes as required by law. Securities are also pledged as collateral for security repurchase agreements.

Subsequent to September 30, 2009, the Company was informed of outstanding offers from a hedge fund to the preferred shareholders (equity holders) of four CDOs in which the Company held senior debt. The offers sought to induce the equity holders, in exchange for payments to be made outside of the CDO, to approve sales to the hedge fund of substantial amounts of performing collateral at deeply discounted prices. Such sales, if consummated, would be detrimental to the interests of the more senior tranches of the CDO.

Although the equity holders in one of the CDOs have agreed to the proposed offer from the hedge fund, the trustee has not commenced to sell the collateral and has filed an action in the United States District Court for the Southern District of New York seeking that the court order the interested parties to interplead and settle all claims relating to the collateral. The Company and other bondholders of these four CDOs are retaining counsel to defend their interests in the CDOs and the collateral and to seek to block any such sales, and believe they have substantial legal bases to do so.

The Company has significant holdings in the four CDOs ($166 million in carrying value and $302 million in amortized cost at September 30, 2009). The Company s investment could be materially adversely affected if any or all of these offers are accepted by the equity holders, and if subsequent judicial determinations result in the sale of the performing collateral at significant discounts to fair value. The Company has not adjusted the carrying value of these securities as a result of the actions described above.

5. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

FASB ASC 815 includes new guidance that we adopted January 1, 2009 regarding the disclosure of information about derivatives. Greater transparency is required in disclosing the objectives for their use, the volume of derivative activity, tabular disclosure of financial statement amounts, and any credit-risk-related features. The new disclosure requirements were not significantly different from the Company s previous annual disclosures.

We record all derivatives on the balance sheet at fair value in accordance with FASB ASC 815. See Note 8 for a discussion of the determination of fair value for derivatives. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative and the resulting designation. Derivatives used to hedge the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives used to hedge the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges.

For derivatives designated as fair value hedges, changes in the fair value of the derivative are recognized in earnings together with changes in the fair value of the related hedged item. The net amount, if any, representing hedge ineffectiveness, is reflected in earnings. At September 30, 2009, the Company had no fair value hedges, as discussed subsequently.

For derivatives designated as cash flow hedges, the effective portion of changes in the fair value of the derivative are recorded in other comprehensive income and recognized in earnings when the hedged transaction affects earnings. The ineffective portion of changes in the fair value of cash flow hedges is recognized directly in earnings.

We assess the effectiveness of each hedging relationship by comparing the changes in fair value or cash flows on the derivative hedging instrument with the changes in fair value or cash flows on the designated hedged item or transaction. For derivatives not designated as hedges, changes in fair value are recognized in earnings.

Our objective in using derivatives is to add stability to interest income or expense, to modify the duration of specific assets or liabilities as we consider advisable, and to manage exposure to interest rate movements or other identified risks. To accomplish this objective, we use interest rate swaps and floors as part of our cash flow hedging strategy. These derivatives are used to hedge the variable cash flows associated with designated commercial loans.

In previous periods, we used fair value hedges to manage interest rate exposure to certain long-term debt. During the first quarter of 2009, all fair value derivatives were terminated. After significant declines in short-term interest rates, we believed it was highly unlikely that short-term rates could go significantly lower. By terminating the swaps, we locked in a substantial gain due to the increase in their fair value and increased our flexibility to exchange or modify the now unhedged subordinated debt. As discussed further in Note 7, the subordinated debt was modified during the second quarter of 2009, and certain amounts were exchanged and/or converted during the second and third quarters of 2009. As of September 30, 2009, no derivatives were designated for hedges of investments in foreign operations.

Exposure to credit risk arises from the possibility of nonperformance by counterparties. These counterparties primarily consist of financial institutions that are well established and well capitalized. We control this credit risk through credit approvals, limits, pledges of collateral, and monitoring procedures. No losses on derivative instruments have occurred as a result of counterparty nonperformance. Nevertheless, the related credit risk is considered and measured when and where appropriate. We have no significant exposure to credit default swaps.

Interest rate swap agreements designated as cash flow hedges involve the receipt of fixed-rate amounts in exchange for variable-rate payments over the life of the agreements without exchange of the underlying principal amount. Derivatives not designated as hedges, including basis swap agreements, are not speculative and are used to manage our exposure to interest rate movements and other identified risks, but do not meet the strict hedge accounting requirements.

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Selected information with respect to notional amounts and recorded gross fair values as of September 30, 2009 and the related gain (loss) of derivative instruments for the three and nine months ended September 30, 2009 is summarized as follows *(in thousands)*:

				Amount of derivative gain (loss) recognized/reclassified							
				OCI		Reclassified from AOCI to interest income		Other income		Offset to interest expense	
		Fair value									
	Notional amount	Other assets	Other liabilities	Three months ended	Nine months ended	Three months ended	Nine months ended	Three months ended	Nine months ended	Three months ended	Nine months ended
Derivatives designated as hedging instruments											
Asset derivatives											
Cash flow hedges[1]:											
Interest rate swaps	$ 1,190,000	$ 87,800	$	$ 15,165	$ 7,885	$ 26,316	$ 87,061				
Interest rate floors	190,000	5,373		(330)	2,510	1,773	4,272				
Terminated swaps and floors								$ 61,103	$ 74,259		
	1,380,000	93,173		14,835	10,395	28,089	91,333	61,103	74,259 [3]		
Liability derivatives											
Fair value hedges:											
Long-term debt										$ 1,565	$ 24,629
Terminated swap gain on debt modification									161,300		
Total derivatives designated as hedging instruments	1,380,000	93,173		14,835	10,395	28,089	91,333	61,103	235,559	1,565	24,629
Derivatives not designated as hedging instruments											
	210,354	4,576	4,652					(1,477)	(1,014)		

Interest rate swaps											
Interest rate swaps for customers[2]	3,675,581	82,113	83,274					(1,976)	6,459		
Energy commodity swaps for customers[2]	274,280	15,064	14,771					(626)	604		
Basis swaps	705,000	147	151					1,619	7,716		
Total derivatives not designated as hedging instruments	4,865,215	101,900	102,848					(2,460)	13,765		
Total derivatives	$ 6,245,215	$ 195,073	$ 102,848	$ 14,835	$ 10,395	$ 28,089	$ 91,333	$ 58,643	$ 249,324	$ 1,565	$ 24,629

[1] *Amounts recognized in OCI and reclassified from accumulated OCI (AOCI) represent the effective portion of the derivative gain (loss).*

[2] *Amounts include both the customer swaps and the offsetting derivative contracts.*

[3] *Amount of $74,259, which reflects the acceleration of OCI amounts reclassified to income that related to previously terminated hedges, together with the reclassification amount of $91,333 for the nine months ended September 30, 2009, or a total of $165,592, is the amount of reclassification included in the changes in OCI presented in Note 7.*

At September 30, 2009 in accordance with FASB ASC 820, the fair values of derivative assets and liabilities were reduced by net credit valuation adjustments of $2.3 million and $1.0 million, respectively. These adjustments are required to reflect both our own nonperformance risk and the respective counterparty s nonperformance risk.

FASB ASC 815 permits entities to offset fair value amounts recognized for the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) against recognized fair value amounts of derivatives executed with the same counterparty under a master netting arrangement. At September 30, 2009, cash collateral was used to reduce recorded amounts of derivative assets by $19.0 million and derivative liabilities by $2.5 million.

Interest rate swaps and energy commodity swaps for customers are offered to assist customers in managing their exposure to fluctuating interest rates and energy prices. Upon issuance, all of these customer swaps are immediately hedged by offsetting derivative contracts, such that the Company minimizes its net risk exposure resulting from such transactions. Fee income from customer swaps is included in other service charges, commissions and fees. As with other derivative instruments, we have credit risk for any nonperformance by counterparties.

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The remaining balances of any derivative instruments terminated prior to maturity, including amounts in AOCI for swap hedges, are accreted or amortized generally on a straight-line basis to interest income or expense over the period to their previously stated maturity dates. During the second quarter of 2009, the Company recognized gains when certain debt was modified. See discussion in Note 7.

Amounts in AOCI are reclassified to interest income as interest is earned on variable rate loans and as amounts for terminated hedges are accreted or amortized to earnings. For the 12 months following September 30, 2009, we estimate that an additional $93 million of gains and accretion/amortization will be reclassified.

6. GOODWILL

Changes in the carrying amount of goodwill by operating segment are as follows *(in thousands)*:

	Zions Bank	CB&T	Amegy	Other	Consolidated Company
Balance as of December 31, 2008	$ 19,514	$ 379,024	$ 1,248,950	$ 3,889	$ 1,651,377
Impairment losses			(633,327)	(665)	(633,992)
Balance at September 30, 2009	$ 19,514	$ 379,024	$ 615,623	$ 3,224	$ 1,017,385

The impairment losses totaling $634.0 million reflect impairment due to continued market deterioration during the first quarter of 2009, and related primarily to Amegy. The amount of the impairment losses was determined based on the calculation process specified in FASB ASC 350, which compares carrying value to the estimated fair values of assets and liabilities. These fair values were estimated with the assistance of independent valuation consultants utilizing the fair value provisions of FASB ASC 820. The estimation process took into account market value approaches including management estimates of projected discounted cash flows. For Amegy, the process included a review of transaction information and recent declines in market values of peer banks in and near Texas and a weaker economic outlook in that state.

7. DEBT AND SHAREHOLDERS EQUITY

During the second and third quarters of 2009, as disclosed in certain SEC filings, we initiated capital actions that affected certain long-term debt and increased net income and common shareholders equity during the nine months ended September 30, 2009 as follows *(in millions)*:

	Increase to Statement of income		
	Pretax	After-tax	Common shareholders equity
1. Subordinated debt modification	$ 305.0	$ 188.4	
2. Recognition of deferred gain on swap termination	161.3	99.6	
Gains on swap termination and debt modification	466.3	288.0	$ 288.0
3. Gain recognized in equity for conversion option			45.3
4. Preferred stock redemption		52.4	54.0
5. Common equity ongoing issuances			311.3

	$ 340.4	$ 698.6

1. Subordinated debt modification We exchanged approximately $0.2 billion of subordinated notes for new notes with the same terms. The remaining $1.2 billion of subordinated notes were modified to permit conversion on a par for par basis into either the Company s Series A or Series C preferred stock. Net of issuance costs and debt discount on the previous debt, the pretax gain recognized in the statement of income from this debt modification was approximately $305.0 million.

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2. Recognition of deferred gain on swap termination We recognized in the statement of income a deferred gain of approximately $161.3 million pretax on previously terminated swaps related to the subordinated debt that was modified. See Note 5.

3. Gain recognized in equity for conversion option We recognized directly in common stock a $45.3 million after-tax gain for the conversion option related to the subordinated debt modification.

4. Tender offer of Series A preferred stock We purchased 4,020,435 depositary shares (each share representing a 1/40th ownership interest in a share of preferred stock) at a price of $11.50 per depositary share, or an aggregate amount of $46.4 million including accrued dividends. At a $25 per depositary share liquidation preference, the purchase reduced the $240 million carrying value of the Series A preferred stock by approximately $100.5 million. Net of related costs, the preferred stock redemption resulted in a $54.0 million increase to common shareholders equity. The purchase price of $11.50 per depositary share was determined based on a modified Dutch auction pricing mechanism.

5. Common equity ongoing issuances Under an equity distribution agreement, we issued $250 million of new common stock from June 1, 2009 to August 27, 2009, which consisted of a total of 16,832,925 shares at an average price of $14.85 (7,655,267 shares at an average price of $16.13 during the third quarter of 2009). Under a second equity distribution agreement for $250 million that commenced September 17, 2009, we issued $67.2 million of common stock through September 30, 2009, which consisted of 3,671,000 shares at an average price per share of $18.31. Net of commissions and fees, these common equity distribution programs added $311.3 million to shareholders equity during the second and third quarters of 2009.

The amounts of gain from the debt modification and the conversion option were determined based on the weighted average increase in the trading prices of the subordinated debt during the interval 10 days before and after the June 1, 2009 announcement date. In connection with the debt modification, we recorded a debt discount of approximately $385.8 million, which will be amortized to income using the interest method over the remaining terms of the subordinated debt. The rate of amortization will be accelerated if and as holders of the subordinated debt elect to convert it into preferred stock. During the third quarter of 2009, the $27.8 million conversion discussed subsequently accelerated this amortization by approximately $9.0 million.

During the third quarter of 2009, we recognized in preferred stock the conversion of $27.8 million of modified subordinated debt when holders received 1,110,280 depositary shares (each share representing a 1/40th ownership interest in a share of preferred stock), or 27,757 shares of the Company s Series C preferred stock.

During the three and nine months ended September 30, 2009, we issued senior medium-term notes of approximately $44.9 million and $81.1 million, and redeemed approximately $31.6 million and $235.6 million, respectively. At September 30, 2009, maturities of these notes ranged from May 2010 to September 2011 with rates from 5.25% to 6.00%.

On September 23, 2009, we issued $450 million of 7.75% unsecured senior notes due September 23, 2014 at a price of 86.888%. The notes are not redeemable prior to maturity.

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On January 21, 2009, we issued $254.9 million of senior floating rate notes due June 21, 2012 at a coupon rate of three-month LIBOR plus 37 basis points. The debt is guaranteed under the FDIC s Temporary Liquidity Guarantee Program that became effective on November 21, 2008.

Changes in accumulated other comprehensive income (loss) are summarized as follows (*in thousands*):

	Net unrealized gains (losses) on investments, retained interests and other	Net unrealized gains (losses) on derivative instruments	Pension and post-retirement	Total
Nine Months Ended September 30, 2009:				
Balance, December 31, 2008	$ (248,871)	$ 196,656	$ (46,743)	$ (98,958)
Cumulative effect of change in accounting principle, adoption of new OTTI guidance in FASB ASC 320	(137,462)			(137,462)
Other comprehensive income (loss), net of tax:				
Net realized and unrealized holding losses, net of income tax benefit of $50,543	(82,031)			(82,031)
Reclassification for net realized losses recorded in operations, net of income tax benefit of $61,639	96,545			96,545
Noncredit-related impairment losses on securities not expected to be sold, net of income tax benefit of $101,821	(152,531)			(152,531)
Accretion of securities with noncredit-related impairment losses not expected to be sold, net of income tax expense of $653	963			963
Net unrealized losses, net of reclassification to operations of $165,592 and income tax benefit of $59,531		(95,666)		(95,666)
Other comprehensive loss	(137,026)	(95,666)		(232,692)
Balance, September 30, 2009	$ (523,359)	$ 100,990	$ (46,743)	$ (469,112)
Nine Months Ended September 30, 2008:				
Balance, December 31, 2007	$ (108,766)	$ 65,213	$ (15,282)	$ (58,835)
Cumulative effect of change in accounting principle, adoption of FASB ASC 825, fair value option	11,471			11,471
Other comprehensive income (loss), net of tax:				
Net realized and unrealized holding losses, net of income tax benefit of $132,843	(207,190)			(207,190)
Foreign currency translation	(52)			(52)
Reclassification for net realized losses recorded in operations, net of income tax benefit of $40,044	63,463			63,463
Net unrealized gains, net of reclassification to operations of $40,219 and income tax expense of $20,927		33,104		33,104
Pension and postretirement, net of income tax expense of $477			734	734
Other comprehensive income (loss)	(143,779)	33,104	734	(109,941)
Balance, September 30, 2008	$ (241,074)	$ 98,317	$ (14,548)	$ (157,305)

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ZIONS BANCORPORATION AND SUBSIDIARIES

8. FAIR VALUE

FASB ASC 820 defines fair value, establishes a consistent framework for measuring fair value, and enhances disclosures about fair value measurements. Effective January 1, 2009, we adopted new guidance that affected our accounting and reporting of fair value as follows:

Inclusion of nonfinancial assets and nonfinancial liabilities, which for the Company primarily related to other real estate owned.

Estimation of fair value when the volume and level of activity for an asset or liability have significantly decreased in relation to normal market activity; additional guidance to determine when a transaction is not orderly; and enhanced disclosures of fair value measurements.

Disclosure of fair values on an interim rather than annual basis for certain financial instruments.

Fair Value Measurements

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

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

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

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

We use fair value to measure certain assets and liabilities on a recurring basis when fair value is the primary measure for accounting. This is done primarily for AFS and trading investment securities; private equity investments; securities sold, not yet purchased; and derivatives. Fair value is used on a nonrecurring basis to measure certain assets when applying lower of cost or market accounting or when adjusting carrying values, such as for loans held for sale, impaired loans, and other real estate owned. Fair value is also used when evaluating impairment on certain assets, including HTM and AFS securities, goodwill, core deposit and other intangibles, long-lived assets, and for disclosures of certain financial instruments.

AFS and trading investment securities are fair valued under Level 1 using quoted market prices when available for identical securities. When quoted prices are not available, fair values are determined under Level 2 using quoted prices for similar securities or independent pricing services that incorporate observable market data when possible. AFS securities also include certain CDOs that consist of trust preferred securities related to banks and insurance companies and to REITs.

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Substantially all the CDO portfolio is fair valued under a Level 3 cash flow modeling approach using several methodologies that primarily include internal and third party models.

A licensed third party model is used internally to fair value bank and insurance trust preferred CDOs. This model uses third party, model-derived estimates of expected losses on underlying collateral and applies market-based discount rates on resultant cash flows to estimate fair value. Adverse market developments that continued in the first half of 2009 made it more difficult to determine appropriate assumptions for this model. These developments related to ratings downgrades, declines in trading volumes, increases in the number of defaulting and deferring collateral issuers, and other factors. Assumptions for discount rates, probabilities of default, loss-given-default rates, etc., reflect related risk assessments on specific CDO securities and tranches within those securities.

Third party models are used to fair value certain REIT and ABS CDOs. These models utilize relevant data assumptions, which we evaluate for reasonableness. These assumptions include but are not limited to discount rates, probabilities of default, loss-given-default rates, over-collateralization levels, and rating transition probability matrices from rating agencies. The model prices obtained from third party services were evaluated for reasonableness including quarter to quarter changes in assumptions and comparison to other available data which included third party and internal model results and valuations.

Private equity investments valued under Level 2 on a recurring basis are investments in partnerships that invest in financial institutions. Fair values are determined from net asset values provided by the partnerships. Private equity investments valued under Level 3 on a recurring basis are recorded initially at acquisition cost, which is considered the best indication of fair value unless there have been significant subsequent positive or negative developments that justify an adjustment in the fair value estimate. Subsequent adjustments to recorded fair values are based as necessary on current and projected financial performance, recent financing activities, economic and market conditions, market comparables, market liquidity, sales restrictions, and other factors.

Derivatives are fair valued according to their classification as either exchange-traded or over-the-counter (OTC). Exchange-traded derivatives consist of forward currency exchange contracts that have been fair valued under Level 1 because they are traded in active markets. OTC derivatives consist of interest rate swaps and options as well as energy commodity derivatives for customers. These derivatives are fair valued primarily under Level 2 using third party services. Observable market inputs include yield curves, option volatilities, counterparty credit risk, and other related data. Credit valuation adjustments are required to reflect both our own nonperformance risk and the respective counterparty s nonperformance risk. These adjustments are determined generally by applying a credit spread for the counterparty or the Company as appropriate to the total expected exposure of the derivative. Amounts disclosed in the following table are also net of the cash collateral offsets discussed in Note 5.

Securities sold, not yet purchased are fair valued under Level 1 when quoted prices are available for the securities involved. Those under Level 2 are fair valued similar to trading account investment securities.

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Assets and liabilities measured at fair value on a recurring basis, including one security elected under the fair value option, are summarized as follows at September 30, 2009 and at December 31, 2008 *(in thousands)*:

	September 30, 2009			
	Level 1	**Level 2**	**Level 3**	**Total**
ASSETS				
Investment securities:				
Available-for-sale:				
U.S. Treasury and agencies	$ 39,914	$ 1,429,539		$ 1,469,453
Municipal securities		182,019	$ 64,181	246,200
Asset-backed securities:				
Trust preferred banks and insurance		1,524	1,389,783	1,391,307
Trust preferred real estate investment trusts			27,101	27,101
Auction rate			164,264	164,264
Other		22,565	71,421	93,986
Mutual funds and stock	147,868	6,913		154,781
Trading account		76,660	49 [1]	76,709
Other noninterest-bearing investments:				
Private equity		21,682	154,676	176,358
Other assets:				
Derivatives	4,023	176,282		180,305
	$ 191,805	$ 1,917,184	$ 1,871,475	$ 3,980,464
LIABILITIES				
Securities sold, not yet purchased	$ 1,203	$ 38,157		$ 39,360
Other liabilities:				
Derivatives	4,113	100,719		104,832
Other			$ 864	864
	$ 5,316	$ 138,876	$ 864	$ 145,056

	December 31, 2008			
	Level 1	**Level 2**	**Level 3**	**Total**
ASSETS				
Investment securities:				
Available-for-sale	$ 27,756	$ 1,898,082	$ 750,417	$ 2,676,255
Trading account		41,108	956 [1]	42,064
Other noninterest-bearing investments:				
Private equity		29,037	143,511	172,548
Other assets:				
Derivatives	9,922	395,272		405,194
	$ 37,678	$ 2,363,499	$ 894,884	$ 3,296,061
LIABILITIES				
Securities sold, not yet purchased		$ 35,657		$ 35,657

Other liabilities:				
Derivatives	$ 8,812	175,670		184,482
Other			$ 527	527
	$ 8,812	$ 211,327	$ 527	$ 220,666

[1] *Elected under fair value option, as discussed subsequently.*

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ZIONS BANCORPORATION AND SUBSIDIARIES

The following reconciles the beginning and ending balances of assets and liabilities for the three and nine months ended September 30, 2009 and 2008 that are measured at fair value on a recurring basis using Level 3 inputs *(in thousands)*:

	Three Months Ended September 30, 2009 Level 3 Instruments							
	Municipal securities	Trust preferred banks and insurance	Trust preferred REIT	Auction rate	Other asset-backed	Trading account[1]	Private equity investments	Other liabilities
Balance at June 30, 2009	$ 64,658	$ 1,534,823	$ 34,580	$ 171,252	$ 83,466	$ 49	$ 155,680	$ (215)
Total net gains (losses) included in:								
Statement of income[2]:								
Dividends and other investment income (loss)							(6,695)	
Net impairment losses on investment securities		(37,339)	(9,245)		(9,931)			
Other noninterest expense								(649)
Other comprehensive income (loss)	(108)	(105,175)	1,700	(213)	1,516			
Purchases, sales, issuances, and settlements, net	(369)	(2,526)	66	(6,775)	(3,630)		5,691	
Balance at September 30, 2009	$ 64,181	$ 1,389,783	$ 27,101	$ 164,264	$ 71,421	$ 49	$ 154,676	$ (864)

	Nine Months Ended September 30, 2009 Level 3 Instruments							
	Municipal securities	Trust preferred banks and insurance	Trust preferred REIT	Auction rate	Other asset-backed	Trading account[1]	Private equity investments	Other liabilities
Balance at January 1, 2009	$	$ 659,253	$ 23,897	$ 1,710	$ 65,557	$ 956	$ 143,511	$ (527)
Total net gains (losses) included in:								
Statement of income[2]:								
Dividends and other investment income (loss)							(8,415)	
Fair value and nonhedge derivative income (loss)						(907)		
Equity securities gains, net							109	
Fixed income securities gains (losses), net				247				
Net impairment losses on investment securities		(46,932)	(76,511)		(10,858)			
Valuation losses on securities purchased	(6,977)		96		96		96	96
Other (3)	26	71		97	59	22		81
Total assets	$ 357	$ 5,061	$ 964	$ 6,382	$ 542	$ 5,363	$ 439	$ 6,344

[redacted]

Liabilities:								
Trade accounts payable(1)	$	$ 545	$ 121	$ 666	$	$ 381	$ 76	$ 457
Unrealized loss on designated derivative contracts (4):								
Foreign exchange						11		11
Unrealized loss on undesignated derivative contracts (4):								
Foreign exchange	16	170		186	5	373		378
Commodities	243	458	71	772	361	439	89	889

Freight		82				12		94		81				14		95
Energy		14				20		34		11				17		28
Total liabilities	$	355	$	1,173	$	224	$	1,752	$	458	$	1,204	$	196	$	1,858

(1) Trade accounts receivable and payable are generally accounted for at amortized cost, with the exception of $9 million and $666 million, at June 30, 2014 and $6 million and $457 million at December 31, 2013, respectively, related to certain delivered inventory for which the receivable and payable, respectively, fluctuate based on changes in commodity prices. These receivables and payables are hybrid financial instruments for which Bunge has elected the fair value option.

(2) Unrealized gains on designated and undesignated derivative contracts are generally included in other current assets. There are no such amounts included in other non-current assets at June 30, 2014 and December 31, 2013, respectively.

(3) Other includes the fair values of marketable securities and investments in other current assets and other non-current assets.

(4) Unrealized losses on designated and undesignated derivative contracts are generally included in other current liabilities. There are no such amounts included in other non-current liabilities at June 30, 2014 and December 31, 2013, respectively.

Derivatives Exchange traded futures and options contracts are valued based on unadjusted quoted prices in active markets and are classified within Level 1. Bunge s forward commodity purchase and sale contracts are classified as derivatives along with other OTC derivative instruments relating primarily to freight, energy, foreign exchange and interest rates, and are classified within Level 2 or Level 3 as described below. Bunge estimates fair values based on exchange quoted prices, adjusted as appropriate for differences in local markets. These differences are generally valued using inputs from broker or dealer quotations, or market transactions in either the listed or OTC markets. In such cases, these derivative contracts are classified within Level 2.

OTC derivative contracts include swaps, options and structured transactions that are valued at fair value generally determined using quantitative models that require the use of multiple market inputs including quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets which are not highly active, other observable inputs relevant to the asset or liability, and market inputs corroborated by correlation or other means. These valuation models include inputs such as interest rates, prices and indices to generate continuous yield or pricing curves and volatility factors. Where observable inputs are available for substantially the full term of the asset or liability, the instrument is categorized in Level 2. Certain OTC derivatives trade in less active markets with less availability of pricing information and certain structured transactions can require internally developed model inputs that might not be observable in or corroborated by the market. When unobservable inputs have a significant impact on the measurement of fair value, the instrument is categorized in Level 3.

Exchange traded or cleared derivative contracts are classified in Level 1, thus transfers of assets and liabilities into and/or out of Level 1 occur infrequently. Transfers into Level 1 would generally only be expected to occur when an exchange cleared derivative contract historically valued using a valuation model as the result of a lack of observable inputs becomes sufficiently observable, resulting in the valuation price being essentially the exchange traded price. There were no significant transfers into or out of Level 1 during the periods presented.

Readily marketable inventories Readily marketable inventories reported at fair value are valued based on commodity futures exchange quotations, broker or dealer quotations, or market transactions in either listed or OTC markets with appropriate adjustments for differences in local markets where Bunge s inventories are located. In such cases, the inventory is classified within Level 2. Certain inventories may utilize significant unobservable data related to local market adjustments to determine fair value. In such cases, the inventory is classified as Level 3.

If Bunge used different methods or factors to determine fair values, amounts reported as unrealized gains and losses on derivative contracts and readily marketable inventories at fair value in the condensed consolidated balance sheets and condensed consolidated statements of income could differ. Additionally, if market conditions change subsequent to the reporting date, amounts reported in future periods as unrealized gains and losses on derivative contracts and readily marketable inventories at fair value in the condensed consolidated balance sheets and condensed consolidated statements of income could differ.

Level 3 Measurements Transfers in and/or out of Level 3 represent existing assets or liabilities that were either previously categorized as a higher level for which the inputs to the model became unobservable or assets and liabilities that were previously classified as Level 3 for which the lowest significant input became observable during the period. Bunge s policy regarding the timing of transfers between levels is to record the transfers at the beginning of the reporting period.

Level 3 Derivatives Level 3 derivative instruments utilize both market observable and unobservable inputs within the fair value measurements. These inputs include commodity prices, price volatility, interest rates, volumes and locations. In addition, with the exception of the exchange cleared instruments, Bunge is exposed to loss in the event of the non-performance by counterparties on over-the-counter derivative instruments and forward purchase and sale contracts. Adjustments are made to fair values on occasions when non-performance risk is

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determined to represent a significant input in Bunge s fair value determination. These adjustments are based on Bunge s estimate of the potential loss in the event of counterparty non-performance. Bunge did not have significant adjustments related to non-performance by counterparties at June 30, 2014 and December 31, 2013, respectively.

Level 3 Readily marketable inventories and other The significant unobservable inputs resulting in Level 3 classification for readily marketable inventories, physically settled forward purchase and sale contracts, and trade accounts receivable and payable, net, relate to certain management estimations regarding costs of transportation and other local market or location-related adjustments, primarily freight related adjustments in the interior of Brazil and the lack of market corroborated information in Canada. In both situations, Bunge uses proprietary information such as purchase and sale contracts and contracted prices for freight, premiums and discounts to value its contracts. Movements in the price of these unobservable inputs alone would not have a material effect on Bunge s financial statements as these contracts do not typically exceed one future crop cycle.

The tables below present reconciliations for assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the six months ended June 30, 2014 and 2013. These instruments were valued using pricing models that management believes reflect the assumptions that would be used by a marketplace participant.

	Level 3 Instruments Fair Value Measurements Three Months Ended June 30, 2014			
(US$ in millions)	**Derivatives, Net (1)**	**Readily Marketable Inventories**	**Trade Accounts Receivable/ Payable, Net(2)**	**Total**
Balance, April 1, 2014	$ 54	$ 1,075	$ (463)	$ 666
Total gains and losses (realized/unrealized) included in cost of goods sold	12	35		47
Purchases		461		461
Sales		(856)	1	(855)
Issuances	(1)			(1)
Settlements	(109)		409	300
Transfers into Level 3	9	237	(1)	245
Transfers out of Level 3	22	(79)	(66)	(123)
Balance, June 30, 2014	**$ (13)**	**$ 873**	**$ (120)**	**$ 740**

(1) Derivatives, net include Level 3 derivative assets and liabilities.

(2) Trade Accounts Receivable and Trade Accounts Payable, net, include Level 3 inventory related receivables and payables.

Level 3 Instruments
Fair Value Measurements
Three Months Ended June 30, 2013

		Readily	Trade Accounts	

(US$ in millions)	Derivatives, Net (1)	Marketable Inventories	Receivable/ Payable, Net (2)	Total
Balance, April 1, 2013	$ (31)	$ 1,187	$ (449)	$ 707
Total gains and losses (realized/unrealized) included in cost of goods sold	123	3	(3)	123
Purchases		261		261
Sales		(239)	3	(236)
Issuances	(1)		(86)	(87)
Settlements	(109)		19	(90)
Transfers into Level 3	101	160		261
Transfers out of Level 3	6	(152)	(5)	(151)
Balance, June 30, 2013	**$ 89**	**$ 1,220**	**$ (521)**	**$ 788**

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(1) Derivatives, net include Level 3 derivative assets and liabilities.

(2) Trade Accounts Receivable and Trade Accounts Payable, net, include Level 3 inventory related receivables and payables.

(US$ in millions)	Derivatives, Net (1)	Readily Marketable Inventories	Trade Accounts Receivable/ Payable, Net(2)	Total
	Level 3 Instruments Fair Value Measurements Six Months Ended June 30, 2014			
Balance, January 1, 2014	$ 20	$ 298	$ (75)	$ 243
Total gains and losses (realized/unrealized) included in cost of goods sold	77	47	1	125
Purchases	13	1,550	(1)	1,562
Sales	(4)	(1,233)	8	(1,229)
Issuances	(1)		(393)	(394)
Settlements	(141)		408	267
Transfers into Level 3	(7)	363	(9)	347
Transfers out of Level 3	30	(152)	(59)	(181)
Balance, June 30, 2014	**$ (13)**	**$ 873**	**$ (120)**	**$ 740**

(1) Derivatives, net include Level 3 derivative assets and liabilities.

(2) Trade Accounts Receivable and Trade Accounts Payable, net, include Level 3 inventory related receivables and payables.

(US$ in millions)	Derivatives, Net (1)	Readily Marketable Inventories	Trade Accounts Receivable/ Payable, Net (2)	Total
	Level 3 Instruments Fair Value Measurements Six Months Ended June 30, 2013			
Balance, January 1, 2013	$ 66	$ 436	$ (40)	$ 462
Total gains and losses (realized/unrealized) included in cost of goods sold	99	(82)	68	85
Purchases		1,213		1,213
Sales	1	(505)	3	(501)
Issuances	(1)		(508)	(509)
Settlements	(182)	1	19	(162)
Transfers into Level 3	99	309	(58)	350
Transfers out of Level 3	7	(152)	(5)	(150)
Balance, June 30, 2013	**$ 89**	**$ 1,220**	**$ (521)**	**$ 788**

(1) Derivatives, net include Level 3 derivative assets and liabilities.

(2) Trade Accounts Receivable and Trade Accounts Payable, net, include Level 3 inventory related receivables and payables.

The tables below summarizes changes in unrealized gains or (losses) recorded in earnings during the three and six months ended June 30, 2014 and 2013 for Level 3 assets and liabilities that were held at June 30, 2014 and 2013.

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(US$ in millions)	Derivatives, Net (1)	Readily Marketable Inventories	Trade Accounts Receivable and Payable, Net(2)	Total
	Level 3 Instruments Fair Value Measurements Three Months Ended			
Changes in unrealized gains and (losses) relating to assets and liabilities held at June 30, 2014				
Cost of goods sold	$ 48	$ (14)	$	$ 34
Changes in unrealized gains and (losses) relating to assets and liabilities held at June 30, 2013				
Cost of goods sold	$ 120	$ 191	$	$ 311

(1) Derivatives, net include Level 3 derivative assets and liabilities.

(2) Trade Accounts Receivable and Trade Accounts Payable, net, include Level 3 inventory related receivables and payables.

(US$ in millions)	Derivatives, Net (1)	Readily Marketable Inventories	Trade Accounts Receivable and Payable, Net(2)	Total
	Level 3 Instruments Fair Value Measurements Six Months Ended			
Changes in unrealized gains and (losses) relating to assets and liabilities held at June 30, 2014				
Cost of goods sold	$ 63	$ (21)	$	$ 42
Changes in unrealized gains and (losses) relating to assets and liabilities held at June 30, 2013				
Cost of goods sold	$ 147	$ 927	$ 2	$ 1,076

(1) Derivatives, net include Level 3 derivative assets and liabilities.

(2) Trade Accounts Receivable and Trade Accounts Payable, net, include Level 3 inventory related receivables and payables.

Derivative Instruments

Interest rate derivatives Bunge from time-to-time uses interest rate derivatives, including interest rate swaps, interest rate basis swaps, interest rate options or interest rate futures. Interest rate derivatives used by Bunge as hedging instruments are recorded at fair value in the condensed consolidated balance sheets with changes in fair value recorded contemporaneously in earnings. Certain of these interest rate derivatives agreements may be designated as fair value hedges. The carrying amount of the associated hedged debt is also adjusted through earnings for changes in the fair value arising from changes in benchmark interest rates. Ineffectiveness is recognized to the extent that these two adjustments do not offset. Bunge may enter into interest rate derivatives agreements for the purpose of managing certain of its interest rate exposures. Bunge may also enter into interest rate derivatives agreements that do not qualify as hedges for accounting purposes. Changes in fair value of such interest rate derivatives agreements are recorded in earnings.

Foreign exchange derivatives Bunge uses a combination of foreign exchange forward, swap and option contracts in certain of its operations to mitigate the risk from exchange rate fluctuations in connection with certain commercial and balance sheet exposures. The foreign exchange forward and option contracts may be designated as cash flow hedges. Bunge may also use net investment hedges to partially offset the translation adjustments arising from the remeasurement of its investment in certain of its foreign subsidiaries.

Bunge assesses, both at the inception of the hedge and on an ongoing basis, whether the derivatives that are used in hedge transactions are highly effective in offsetting changes in the hedged items.

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The following table summarizes outstanding interest rate derivertives.

	June 30, 2014			
(US$ in millions)	Notional Amount of Hedged Obligation		Notional Amount Derivative	
Interest Rate Options	$		$	(1)
Interest Rate Futures	$		$	(5)

The table below summarizes the notional amounts of open foreign exchange positions.

	June 30, 2014						
	Exchange Traded		Non-exchange Traded				
(US$ in millions)	Net (Short) & Long (1)		(Short) (2)		Long (2)		Unit of Measure
Foreign Exchange							
Options	$	(16)	$	(91)	$	20	Delta
Forwards				(10,017)		9,495	Notional
Futures		(5)					Notional
Swaps				(5)		69	Notional

(1) Exchange traded futures and options are presented on a net (short) and long position basis.

(2) Non-exchange traded swaps, options and forwards are presented on a gross (short) and long position basis.

Commodity derivatives Bunge uses derivative instruments to manage its exposure to movements associated with agricultural commodity prices. Bunge generally uses exchange traded futures and options contracts to minimize the effects of changes in the prices of agricultural commodities on its agricultural commodity inventories and forward purchase and sale contracts, but may also from time-to-time enter into OTC commodity transactions, including swaps, which are settled in cash at maturity or termination based on exchange-quoted futures prices. Forward purchase and sale contracts are primarily settled through delivery of agricultural commodities. While Bunge considers these exchange traded futures and forward purchase and sale contracts to be effective economic hedges, Bunge does not designate or account for the majority of its commodity contracts as hedges. The forward contracts require performance of both Bunge and the contract counterparty in future periods. Contracts to purchase agricultural commodities generally relate to current or future crop years for delivery periods quoted by regulated commodity exchanges. Contracts for the sale of agricultural commodities generally do not extend beyond one future crop cycle.

The table below summarizes the volumes of open agricultural commodities derivative positions.

	June 30, 2014		
	Exchange Traded Net (Short) &	Non-exchange Traded	Unit of

	Long (1)	(Short) (2)	Long (2)	Measure
Agricultural Commodities				
Futures	(3,168,528)			Metric Tons
Options	(613,181)			Metric Tons
Forwards		(35,238,243)	22,238,554	Metric Tons
Swaps		(1,015,559)		Metric Tons

(1) Exchange traded futures and options are presented on a net (short) and long position basis.

(2) Non-exchange traded swaps, options and forwards are presented on a gross (short) and long position basis.

Ocean freight derivatives Bunge uses derivative instruments referred to as freight forward agreements (FFAs) and FFA options to hedge portions of its current and anticipated ocean freight costs. Changes in the fair values of ocean freight derivatives that are not designated as hedges are recorded in earnings. There were no designated hedges at June 30, 2014 and December 31, 2013, respectively.

The table below summarizes the open ocean freight positions.

	June 30, 2014			
	Exchange Cleared Net (Short) & Long (1)	Non-exchange Cleared		Unit of Measure
		(Short) (2)	Long (2)	
Ocean Freight				
FFA	(5,430)			Hire Days
FFA Options	(1,637)			Hire Days

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(1) Exchange cleared futures and options are presented on a net (short) and long position basis.

(2) Non-exchange cleared options and forwards are presented on a gross (short) and long position basis.

Energy derivatives Bunge uses derivative instruments for various purposes including to manage its exposure to volatility in energy costs. Bunge s operations use substantial amounts of energy, including natural gas, coal, and fuel oil, including bunker fuel.

The table below summarizes the open energy positions.

	June 30, 2014			
	Exchange Traded Net (Short) & Long (1)	**Non-exchange Cleared (Short) (2)**	**Non-exchange Cleared Long (2)**	**Unit of Measure (3)**
Natural Gas (3)				
Futures	1,290,000			MMBtus
Swaps			680,569	MMBtus
Energy Other				
Futures	588,074			Metric Tons
Forwards		(400,000)	36,479,946	Metric Tons
Swaps	275,000			Metric Tons
Options	18,854			Metric Tons

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(1) Exchange traded and exchange cleared futures and options are presented on a net (short) and long position basis.

(2) Non-exchange cleared swaps, options and forwards are presented on a gross (short) and long position basis.

(3) Million British Thermal Units (MMBtus) is the standard unit of measurement used to denote an amount of natural gas.

The Effect of Derivative Instruments on the Condensed Consolidated Statements of Income

The table below summarizes the effect of derivative instruments that are designated as fair value hedges and also derivative instruments that are undesignated on the condensed consolidated statements of income for the six months ended June 30, 2014 and 2013.

(US$ in millions)	Location	Gain or (Loss) Recognized in Income on Derivative Instruments Six Months Ended June 30, 2014	2013
Undesignated Derivative Contracts:			
Foreign Exchange	Foreign exchange gains (losses)	**$ 155**	$ (104)
Foreign Exchange	Income (loss) from discontinued operations, net of tax		(8)
Foreign Exchange	Cost of goods sold	**156**	69
Commodities	Cost of goods sold	**(314)**	248
Marketable Securities	Cost of goods sold	**1**	
Freight	Cost of goods sold	**(8)**	(48)
Energy	Cost of goods sold		3
Total		**$ (10)**	$ 160

The table below summarizes the effect of derivative instruments that are designated and qualify as cash flow and net investment hedges on the condensed consolidated statement of income for the six months ended June 30, 2014.

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(US$ in millions)	Notional Amount	Gain or (Loss) Recognized in Accumulated OCI (1)	Six Months Ended June 30, 2014 Gain or (Loss) Reclassified from Accumulated OCI into Income (1) Location	Amount	Gain or (Loss) Recognized in Income on Derivatives Location	Amount (2)
Cash Flow Hedge:						
Foreign Exchange (3)	$ 294	$ 32	Foreign exchange gains (losses)	$ 4	Cost of goods sold	$
Total	**$ 294**	**$ 32**		**$ 4**		**$**
Net Investment Hedge:						
Foreign Exchange (3)	$ 550	$ (48)	Foreign exchange gains (losses)	$	Foreign exchange gains (losses)	$
Total	**$ 550**	**$ (48)**		**$**		**$**

(1) The gain (loss) recognized relates to the effective portion of the hedging relationship. At June 30, 2014, Bunge expects to reclassify into income in the next 12 months $16 million after-tax gain (loss) related to its foreign exchange cash flow hedges.

(2) There was no gain or loss recognized in income relating to the ineffective portion of the hedging relationships or relating to amounts excluded from the assessment of hedge effectiveness.

(3) The foreign exchange contracts mature at various dates in 2014 and 2015.

The table below summarizes the effect of derivative instruments that are designated and qualify as cash flow hedges on the condensed consolidated statement of income for the six months ended June 30, 2013.

(US$ in millions)	Notional Amount	Gain or (Loss) Recognized in Accumulated OCI (1)	Six Months Ended June 30, 2013 Gain or (Loss) Reclassified from Accumulated OCI into Income (1) Location	Amount	Gain or (Loss) Recognized in Income on Derivatives Location	Amount (2)
Cash Flow Hedge:						
Foreign Exchange (3)	$ 426	$ (11)	Cost of goods sold	$ (1)	Cost of goods sold	$
Total	**$ 426**	**$ (11)**		**$** (1)		**$**
Net Investment Hedge:						
	$	$ 37		$		$

Foreign Exchange (3)				Foreign exchange gains (losses)		Foreign exchange gains (losses)	
Total	**$**	**$**	**37**		**$**		**$**

(1) The gain or (loss) recognized relates to the effective portion of the hedging relationship. At June 30, 2013, Bunge expected to reclassify into income in the next 12 months approximately $(11) million of after-tax losses related to its foreign exchange cash flow hedges. At June 30, 2013, Bunge expects to reclassify into income in the next 12 months $37 million after-tax gains related to its foreign exchange net investment hedge.

(2) There was no gain or loss recognized in income relating to the ineffective portion of the hedging relationships or to amounts excluded from the assessment of hedge effectiveness.

(3) The foreign exchange contracts mature at various dates in 2013 and 2014.

11. DEBT

On June 17, 2014, Bunge increased pursuant to an accordion provision, the $665 million five-year syndicated revolving credit agreement with CoBank, ACB, as administrative agent and certain lender party thereto to $865 million. Borrowings under the revolving credit agreement will bear interest at LIBOR plus a margin, which will vary between 1.050% and 1.675% per annum, based on the credit ratings of Bunge s long-term senior unsecured debt. Amounts under the revolving credit agreement that remain undrawn are subject to a commitment fee at rates ranging from 0.125% to 0.275% per annum based likewise on the ratings of Bunge s long-term senior unsecured debt. At June 30, 2014, there was $283 million outstanding under this facility.

On March 17, 2014, Bunge entered into an unsecured $1,750 million three-year syndicated revolving credit facility (Facility) with an option to request an extension of the maturity date for two additional one-year periods. Each lender in its sole discretion may agree to any such request. Borrowings under the Facility will bear interest at LIBOR plus a margin, which will vary from 0.70% to 1.70% per annum based on the credit ratings of Bunge s senior long-term unsecured debt. Bunge is also required to pay fees quarterly in arrears that vary from 0.10% to 0.40% per annum based on the utilization of the Facility. Amounts under the Facility that remain undrawn are subject to a commitment fee payable quarterly in arrears at a rate of 35% of the margin specified above, which will vary based on the rating level at each quarterly payment date. Bunge may, from time-to-time, with the consent of the Facility agent, request one or more of the existing lenders or new lenders to increase the total commitments under the Facility by up to $250 million pursuant to an accordion provision. At June 30, 2014, there was $566 million outstanding under this Facility.

Bunge s commercial paper program is supported by an identical amount of committed back-up bank credit lines (the Liquidity Facility) provided by banks that are rated at least A-1 by Standard & Poor s Financial Services and P-1 by Moody s Investors Service. The Liquidity Facility, which matures in November 2016, permits Bunge, at its option, to set up direct borrowings or issue commercial paper. The cost of borrowing under the Liquidity Facility would typically be higher than the cost of issuing under Bunge s commercial paper program. At June 30, 2014, there was $200 million outstanding under the commercial paper program and no borrowings under the Liquidity Facility.

At June 30, 2014, Bunge had $3,251 million of unused and available borrowing capacity under its committed credit facilities with a number of lending institutions.

The fair value of Bunge s long-term debt is based on interest rates currently available on comparable maturities to companies with credit standing similar to that of Bunge. The carrying amounts and fair value of long-term debt are as follows:

	June 30, 2014			December 31, 2013		
(US$ in millions)	**Carrying Value**	**Fair Value (Level 2)**	**Fair Value (Level 3)**	**Carrying Value**	**Fair Value (Level 2)**	**Fair Value (Level 3)**
Long-term debt, including current portion	$ 4,362	$ 4,397	$ 226	$ 3,941	$ 3,917	$ 257

12. TRADE RECEIVABLES SECURITIZATION PROGRAM

Bunge and certain of its subsidiaries participate in a trade receivables securitization program (Program) with a financial institution, as administrative agent, and certain commercial paper conduit purchasers and committed purchasers (collectively, Purchasers) that provides for funding up to $700 million against receivables sold into the Program.

As of June 30, 2014 and December 31, 2013, $678 million and $696 million, respectively, of receivables sold under the Program were derecognized from Bunge s condensed consolidated balance sheets. Proceeds received in cash related to transfers of receivables under the Program totaled $6,046 million and $6,082 million for the six months ended June 30, 2014 and 2013, respectively. In addition, cash collections from customers on receivables previously sold were $6,160 million and $6,239 million, respectively. As this is a revolving facility, cash collections from customers are reinvested to fund new receivable sales. Gross receivables sold under the Program for the six months ended June 30, 2014 and 2013 were $6,176 million and $6,235 million, respectively. These sales resulted in discounts of $2 million for each of the three month periods ended June 30, 2014 and 2013, and of $4 million for each of the six month periods ended June 30, 2014 and 2013, which were included in SG&A in the condensed consolidated statements of income. Servicing fees under the Program were not significant in any period.

Bunge s risk of loss following the sale of the trade receivables is limited to the deferred purchase price (DPP), which at June 30, 2014 and December 31, 2013 had a fair value of $96 million, respectively, and is included in other current assets in the condensed consolidated balance sheets (see Note 6). The DPP will be repaid in cash as receivables are collected, generally within 30 days. Delinquencies and credit losses on trade receivables sold under the Program during the three and six months ended June 30, 2014 and 2013 were insignificant. Bunge has reflected all cash flows under the Program as operating cash flows in the condensed consolidated statements of cash flows.

13. RELATED PARTY TRANSACTIONS

Bunge purchased soybeans, other commodity products and phosphate-based products from certain of its unconsolidated investees, totaling $152 million and $156 million for the three months ended June 30, 2014 and 2013, respectively, and $395 million and $285 million for the six months ended June 30, 2014 and 2013, respectively. Bunge also sold soybeans and other commodity products to certain of its unconsolidated investees, totaling $76 million and $174 million for the three months ended June 30, 2014 and 2013, respectively, and $189 million and $355 million for the six months ended June 30, 2014 and 2013, respectively.

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14. COMMITMENTS AND CONTINGENCIES

Bunge is party to a large number of claims and lawsuits, primarily tax and labor claims in Brazil and tax claims in Argentina, arising in the normal course of business. The ability to predict the ultimate outcome of such matters involves judgments, estimates and inherent uncertainties. Bunge records liabilities related to its general claims and lawsuits when the exposure item becomes probable and can be reasonably estimated. Bunge management does not expect these matters to have a material adverse effect on Bunge s financial condition, results of operations or liquidity. However, these matters are subject to inherent uncertainties and there exists the remote possibility of an adverse impact on Bunge s position in the period the uncertainties are resolved whereby the settlement of the identified contingencies could exceed the amount of provisions included in the condensed consolidated balance sheets. Included in other non-current liabilities at June 30, 2014 and December 31, 2013 are the following amounts related to these matters:

(US$ in millions)	June 30, 2014	December 31, 2013
Tax claims	**$ 73**	$ 59
Labor claims	**85**	76
Civil and other claims	**108**	101
Total	**$ 266**	$ 236

Tax claims The tax claims relate principally to claims against Bunge s Brazilian subsidiaries, primarily value-added tax claims (ICMS, IPI, PIS and COFINS). The determination of the manner in which various Brazilian federal, state and municipal taxes apply to the operations of Bunge is subject to varying interpretations arising from the complex nature of Brazilian tax law. Bunge monitors the Brazilian federal and state governments responses to recent Brazilian Supreme Court decisions invalidating certain ICMS incentives and benefits granted by various states on constitutional grounds. While Bunge was not a recipient of any of the incentives and benefits that were the subject of the Supreme Court decisions, it has received certain tax incentives and benefits. Bunge has not received any tax assessment related to the validity of ICMS incentives or benefits it has received and, based on its assessment of the matter under the provisions of GAAP, no liability has been recorded in the condensed consolidated financial statements.

In May 2014, the Brazilian tax authorities concluded an examination of the ICMS tax returns of one of Bunge s Brazilian subsidiaries for the years 2010-2011 and proposed adjustments totalling approximately 45 million Brazilian *reals* ($20 million) plus applicable interest and penalties. Management, in consultation with external legal advisors, has reviewed and responded to the proposed adjustments. In conjunction with this review, management has determined that no reserves are required.

In December, 2012, the Brazilian tax authorities concluded an examination of the PIS COFINS tax returns of one of Bunge s Brazilian subsidiaries for the years 2004-2007 and proposed adjustments totaling approximately 287 million Brazilian *reals* ($130 million) plus applicable interest and penalties. Management, in consultation with external legal advisors, has reviewed and responded to the proposed adjustments. In conjunction with this review, management has established appropriate reserves for potential exposures.

The Argentine tax authorities have been conducting a review of income and other taxes paid by exporters and processors of cereals and other agricultural commodities in the country. In that regard, in October 2010, the Argentine tax authorities carried out inspections at several of Bunge s locations in Argentina relating to allegations of income tax evasion covering the periods from 2007 to 2009. In December 2012, Bunge s Argentine subsidiary received an income tax assessment relating to fiscal years 2006 and 2007 with a claim of approximately 436 million Argentine pesos (approximately $54 million as of June 30, 2014), plus previously accrued interest on the outstanding amount due of approximately 828 million Argentine pesos (approximately $102 million as of June 30, 2014). Bunge s Argentine subsidiary has appealed this assessment before the National Tax Court. Fiscal years 2008 and 2009 are currently being audited by the tax authorities and it is likely that the tax authorities will also audit fiscal years 2010-2013, although no notice has been rendered to Bunge s Argentine subsidiary. Additionally, in April 2011, the Argentine tax authorities conducted inspections of Bunge s locations and those of several other grain exporters with respect to allegations of evasion of liability for value-added taxes and an inquest proceeding was initiated in the first quarter of 2012 to determine whether there is any potential criminal culpability relating to these matters. Also during 2011, Bunge paid $112 million of accrued export tax obligations in Argentina under protest while reserving all of its rights in respect of such payment. In the first quarter of 2012, the Argentine tax authorities assessed interest on these paid export taxes, which as of June 30, 2014, totaled approximately $161 million. In April 2012, the Argentine government suspended Bunge s Argentine subsidiary from a registry of grain traders and, in October 2012, the government excluded Bunge s subsidiary from this registry in connection with the income tax allegations discussed above. While the suspension and exclusion have not had a material adverse effect on Bunge s business in Argentina, these actions primarily result in additional administrative requirements and increased logistical costs on domestic grain shipments within Argentina. Bunge is challenging these actions in the Argentine courts. Management believes that these tax-related allegations and claims are without merit and intends to vigorously defend against them. However, management is, at this time, unable to predict their outcome.

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Labor claims The labor claims are principally claims against Bunge s Brazilian subsidiaries. The labor claims primarily relate to dismissals, severance, health and safety, salary adjustments and supplementary retirement benefits.

Civil and other The civil and other claims relate to various disputes with third parties, including suppliers and customers.

Guarantees Bunge has issued or was a party to the following guarantees at June 30, 2014:

(US$ in millions)		**Maximum Potential Future Payments**
Unconsolidated affiliates financing (1)	$	141
Residual value guarantee (2)		121
Total	**$**	**262**

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(1) Bunge issued guarantees to certain financial institutions related to debt of certain of its unconsolidated joint ventures. The terms of the guarantees are equal to the terms of the related financings which have maturity dates in 2014 through 2021. There are no recourse provisions or collateral that would enable Bunge to recover any amounts paid under these guarantees. At June 30, 2014, Bunge had no outstanding recorded obligation related to these guarantees.

(2) Bunge issued guarantees to certain financial institutions which are party to certain operating lease arrangements for railcars and barges. These guarantees provide for a minimum residual value to be received by the lessor at conclusion of the lease term. These leases expire at various dates from 2016 through 2019. At June 30, 2014, Bunge s recorded obligation related to these guarantees was $3 million.

In addition, Bunge Limited has provided full and unconditional parent level guarantees of the outstanding indebtedness under certain credit facilities entered into and senior notes issued by, its subsidiaries. At June 30, 2014, Bunge s condensed consolidated balance sheet includes debt with a carrying amount of $4,855 million related to these guarantees. This debt includes the senior notes issued by two of Bunge s 100% owned finance subsidiaries, Bunge Limited Finance Corp. and Bunge N.A. Finance L.P. There are no significant restrictions on the ability of Bunge Limited Finance Corp., Bunge N.A. Finance L.P. or any other Bunge subsidiary to transfer funds to Bunge Limited.

15. EQUITY

Share repurchase program Bunge has established a program for the repurchase of up to $975 million of Bunge s issued and outstanding common shares. The program runs indefinitely. Bunge repurchased 2,568,600 common shares for $200 million during the six months ended June 30, 2014. Total repurchases under the program from its inception on June 8, 2010 through June 30, 2014 were 11,216,459 shares for a total amount of $674 million.

Accumulated other comprehensive income (loss) attributable to Bunge The following table summarizes the balances of related after-tax components of accumulated other comprehensive income (loss) attributable to Bunge:

(US$ in millions)	**Foreign Exchange Translation Adjustment**	**Deferred Gains (Losses) on Hedging Activities**	**Pension and Other Postretirement Liability Adjustments**	**Unrealized Gains (Losses) on Investments**	**Accumulated Other Comprehensive Income (Loss)**
Balance, April 1, 2014	$ (2,363)	$ (34)	$ (69)	$ 5	$ (2,461)
Other comprehensive income (loss) before reclassifications	216	(3)	(1)		212
Amount reclassified from accumulated other comprehensive income		(5)			(5)
Balance, June 30, 2014	**$ (2,147)**	**$ (42)**	**$ (70)**	**$ 5**	**$ (2,254)**

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(US$ in millions)	Foreign Exchange Translation Adjustment	Deferred Gain (Loss) on Hedging Activities	Pension and Other Postretirement Liability Adjustments	Unrealized Gains (Losses) on Investments	Accumulated Other Comprehensive Income (Loss)
Balance, April 1, 2013	$ (1,189)	$ 14	$ (157)	$ 6	$ (1,326)
Other comprehensive income (loss) before reclassification	(834)	15	2	4	(813)
Amount reclassified from accumulated other comprehensive income					
Balance, June 30, 2013	**$ (2,023)**	**$ 29**	**$ (155)**	**$ 10**	**$ (2,139)**

(US$ in millions)	Foreign Exchange Translation Adjustment	Deferred Gains (Losses) on Hedging Activities	Pension and Other Postretirement Liability Adjustments	Unrealized Gains (Losses) on Investments	Accumulated Other Comprehensive Income (Loss)
Balance, December 31, 2013	$ (2,486)	$ (22)	$ (69)	$ 5	$ (2,572)
Other comprehensive income (loss) before reclassifications	339	(16)	(1)		322
Amount reclassified from accumulated other comprehensive income		(4)			(4)
Balance, June 30, 2014	**$ (2,147)**	**$ (42)**	**$ (70)**	**$ 5**	**$ (2,254)**

(US$ in millions)	Foreign Exchange Translation Adjustment	Deferred Gain (Loss) on Hedging Activities	Pension and Other Postretirement Liability Adjustments	Unrealized Gains (Losses) on Investments	Accumulated Other Comprehensive Income (Loss)
Balance, December 31, 2012	$ (1,265)	$ 3	$ (157)	$ 9	$ (1,410)
Other comprehensive income (loss) before reclassification	(758)	26	2	4	(726)
Amount reclassified from accumulated other comprehensive income				(3)	(3)
Balance, June 30, 2013	**$ (2,023)**	**$ 29**	**$ (155)**	**$ 10**	**$ (2,139)**

16. EARNINGS PER COMMON SHARE

The following table sets forth the computation of basic and diluted earnings per common share.

(US$ in millions, except for share data)	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Income from continuing operations	**$ 262**	$ 121	**$ 248**	$ 278
Net (income) loss attributable to noncontrolling interests	**11**	14	**17**	46
Income from continuing operations attributable to Bunge	**273**	135	**265**	324
Other redeemable obligations (1)	**(7)**	(17)	**(13)**	(19)

Convertible preference share dividends		**(9)**		(9)		**(17)**		(17)
Income (loss) from discontinued operations, net of tax		**15**		1		**10**		(8)
Net income available to Bunge common shareholders	**$**	**272**	$	110	**$**	**245**	$	280
Weighted-average number of common shares outstanding:								
Basic		**146,477,301**		147,128,500		**146,984,651**		146,889,234
Effect of dilutive shares:								
stock options and awards		**881,736**		745,341		**969,188**		1,015,658
convertible preference shares		**7,680,390**						
Diluted (2)		**155,039,427**		147,873,841		**147,953,839**		147,904,892
Basic earnings per common share:								
Net income (loss) from continuing operations	**$**	**1.75**	$	0.74	**$**	**1.59**	$	1.97
Net income (loss) from discontinued operations		**0.10**		0.02		**0.07**		(0.06)
Net income attributable to Bunge common shareholders basic	**$**	**1.85**	$	0.76	**$**	**1.66**	$	1.91
Diluted earnings per common share:								
Net income (loss) from continuing operations	**$**	**1.71**	$	0.74	**$**	**1.58**	$	1.95
Net income (loss) from discontinued operations		**0.10**		0.01		**0.07**		(0.05)
Net income attributable to Bunge common shareholders diluted	**$**	**1.81**	$	0.75	**$**	**1.65**	$	1.90

(1) Accretion of redeemable noncontrolling interest of $7 million and $17 million for the three months ended June 30, 2014 and 2013, respectively, and $13 million and $19 million for the six months ended June 30, 2014 and 2013, respectively, relates to a non-fair value variable put arrangement whereby the noncontrolling interest holder may require Bunge to purchase the remaining shares of an oilseed processing operation in Central and Eastern Europe. Accretion for the respective periods includes the effect of losses incurred by the operations for the three and six months ended June 30, 2014, and 2013, respectively.

(2) Approximately 3 million and 4 million outstanding stock options and contingently issuable restricted stock units were not dilutive and not included in the weighted-average number of common shares outstanding for the three and six months ended June 30, 2014 and 2013, respectively. Approximately 8 million weighted-average common shares that are issuable upon conversion of the convertible preference shares were not dilutive and not included in the weighted-average number of common shares outstanding for both the six months ended June 30, 2014 and 2013 and for the three months ended June 30, 2013.

17. SEGMENT INFORMATION

Bunge has five reportable segments agribusiness, sugar and bioenergy, edible oil products, milling products and fertilizer which are organized based upon similar economic characteristics and are similar in nature of products and services offered, the nature of production processes, the type and class of customer and distribution methods. The agribusiness segment is characterized by both inputs and outputs being agricultural commodities and thus high volume and low margin. The sugar and bioenergy segment involves sugarcane growing and milling in Brazil, sugar merchandising in various countries, as well as sugarcane-based ethanol production and corn-based ethanol investments and related activities. The edible oil products segment involves the processing, production and marketing of products derived from vegetable oils. The milling products segment involves the processing, production and marketing of products derived primarily from wheat and corn. Following the classification of the Brazilian fertilizer distribution and North American fertilizer businesses as discontinued operations, the activities of the fertilizer segment include its port operations in Brazil and its blending and retail operations in Argentina.

The Discontinued Operations & Unallocated column in the following table contains the reconciliation between the totals for reportable segments and Bunge consolidated totals, which consist primarily of amounts attributable to discontinued operations, corporate items not allocated to the operating segments and inter-segment eliminations. Transfers between the segments are generally valued at market. The revenues generated from these transfers are shown in the following table as Inter-segment revenues segments.

(US$ in millions)

Three Months Ended June 30, 2014	**Agribusiness**	**Sugar and Bioenergy**	**Edible Oil Products**	**Milling Products**	**Fertilizer**	**Discontinued Operations & Unallocated (1)**	**Total**
Net sales to external customers	**$ 12,855**	**$ 1,186**	**$ 2,099**	**$ 553**	**$ 100**	**$**	**$ 16,793**
Inter segment revenues	**880**		**40**	**3**	**1**	**(924)**	
Gross profit	**522**	**26**	**143**	**88**	**14**		**793**
Foreign exchange gains (losses)	**3**	**13**	**(1)**		**(1)**		**14**
Noncontrolling interests (1)	**1**	**1**	**1**		**(1)**	**9**	**11**
Other income (expense) net	**(1)**	**3**	**(1)**	**(2)**	**2**		**1**
Segment EBIT (2)	**311**	**6**	**46**	**44**	**11**		**418**
Discontinued operations (3)						**15**	**15**
Depreciation, depletion and amortization	**(59)**	**(62)**	**(25)**	**(13)**	**(4)**		**(163)**
Total assets	**$ 17,897**	**$ 3,555**	**$ 2,525**	**$ 1,338**	**$ 366**	**$ 330**	**$ 26,011**
Three Months Ended June 30, 2013							
Net sales to external customers	$ 11,566	$ 939	$ 2,376	$ 509	$ 101	$	$ 15,491
Inter segment revenues	1,238		39	9	27	(1,313)	
Gross profit	370	34	137	61	14		616
Foreign exchange gains (losses)	(2)	(4)			3		(3)
Noncontrolling interests (1)	4	3			(1)	8	14
Other income (expense) net	(1)	3		(1)	(2)		(1)
Segment EBIT (2)	170	(3)	34	29	9		