



Comptroller of the Currency
Administrator of National Banks

Western District Office
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Conditional Approval #558 December 2002

DECISION OF THE COMPTROLLER OF THE CURRENCY (OCC) ON THE APPLICATION TO MERGE FRONTIER STATE BANK, SHOW LOW, ARIZONA WITH AND INTO NATIONAL BANK OF ARIZONA, TUCSON, ARIZONA UNDER THE CHARTER AND TITLE OF THE LATTER.

Introduction

On September 13, 2002, application was made to the OCC for prior authorization to merge Frontier State Bank, Show Low, Arizona with and into National Bank of Arizona, Tucson, Arizona. This application was based on an agreement entered into between the proponents and Zions Bancorporation, Salt Lake City, Utah on August 16, 2002.

Participating Financial Institutions

As of June 30, 2002, National Bank of Arizona (NBA) had total deposits of \$2.2 billion and operated 52 offices. On the same date, Frontier State Bank (FSB) had total deposits of \$86 million and operated six offices. NBA is 100% owned and controlled by Zions Bancorporation, a multi-bank holding company.

Competitive Analysis

The relevant geographic markets for this proposal include the Cottonwood, Arizona Banking Market (as defined by the Federal Reserve Bank of San Francisco) and Apache County, Arizona.¹ These are the areas where competition between NBA and FSB is direct and immediate.

¹ While FSB operates four branches in Navajo County, NBA does not operate any branches in Navajo County. Accordingly, this merger will have no adverse competitive effect in Navajo County.

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Cottonwood Banking Market

The OCC reviewed the competitive effects of this transaction in the Cottonwood Banking Market located in Yavapai County by using its standard procedures for determining whether a business combination clearly has minimal or no adverse competitive effects. The OCC finds the transaction satisfies its criteria for a merger that clearly has no or minimal adverse competitive effects.

Apache County

Within Apache County, five banks currently compete for \$113 million in deposits. NBA (with \$16.5 million in deposits) and FSB (with \$12.4 million in deposits) rank third and fourth in county deposits, respectively, and will rank third in county deposits (with a 25.5% market share of deposits) after consummation of the merger. Wells Fargo Bank Arizona, National Association ranks first, with \$42 million in deposits or a 37% market share, and Community First National Bank ranks second, with \$34 million in deposits or a 30% market share. Bank of America, National Association operates one branch in Apache County with \$8 million in deposits or a 7% market share. While the proposed transaction would eliminate some direct competition in this market, any adverse competitive effects would be mitigated by the presence of other banking alternatives. Accordingly, consummation of this proposal would not have a significantly adverse effect on competition in the Apache County.

Banking Factors and USA Patriot Act

The Bank Merger Act requires the OCC to consider, "...the effectiveness of any insured depository institution involved in the proposed merger transaction in combating money laundering activities, including in overseas branches." We have considered this factor, determined no material weaknesses to preclude approval are present, and conclude that approval of this transaction is appropriate. We find that the financial and managerial resources of National Bank of Arizona and Frontier State Bank do not raise concerns that would cause the application to be disapproved. The future prospects of the proponents, individually and combined, are considered favorable and the resulting bank is expected to meet the convenience and needs of the community to be served. All offices of both banks will continue to operate following consummation of the merger.

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Community Reinvestment Act

A review of the record of this application and other information available to the OCC as a result of its regulatory responsibilities has revealed no evidence that the applicants' records of helping to meet the credit needs of their communities, including low- and moderate-income neighborhoods, is less than satisfactory.

Conclusion

We have analyzed this proposal pursuant to the Bank Merger Act (12 USC1828(c)) and/or 12 CFR 5.33, and find that it will not significantly lessen competition in any relevant market. Other factors considered in evaluating this proposal are satisfactory. **Accordingly, the application is approved subject to the following condition.**

The OCC grants conditional approval for National Bank of Arizona to retain a nonconforming asset presently held by Frontier State Bank following consummation, subject to the condition that National Bank of Arizona divest the asset or bring it into conformance with applicable laws and regulations. The bank must conform or divest the asset within two years following consummation of the merger, unless the OCC has determined the asset is permissible for a national bank to hold. The asset is more fully described in separate correspondence from the bank's counsel dated October 11, 2002.

The condition of this approval is a condition "imposed in writing by the agency in connection with the granting of any application or other request" within the meaning of 12 USC 1818. As such, the condition is enforceable under 12 USC 1818.

/s/ James A. Bundy

James A. Bundy
Licensing Manager
Western District

November 8, 2002
Date

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