ZIONS BANCORPORATION /UT/
Form 10-K
March 03, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2013
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ___________ to ___________
COMMISSION FILE NUMBER 001-12307
ZIONS BANCORPORATION
(Exact name of Registrant as specified in its charter)

UTAH	87-0227400
(State or other jurisdiction of incorporation or organization)	(Internal Revenue Service Employer Identification Number)
One South Main, 15th Floor Salt Lake City, Utah	84133
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (801) 524-4787
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, without par value	
Warrants to Purchase Common Stock (expiring May 22, 2020)	
Warrants to Purchase Common Stock (expiring November 14, 2018)	The NASDAQ Stock Market LLC
Depositary Shares each representing a 1/40th ownership interest in a	The NASDAQ Stock Market LLC
share of Series A Floating-Rate Non-Cumulative Perpetual Preferred	The NASDAQ Stock Market LLC
Stock	
Depositary Shares each representing a 1/40th ownership interest in a	New York Stock Exchange
share of Series F 7.9% Non-Cumulative Perpetual Preferred Stock	
Depositary Shares each representing a 1/40th ownership interest in a	New York Stock Exchange
share of Series G Fixed/Floating Rate Non-Cumulative Perpetual	
Preferred Stock	New York Stock Exchange
Depositary Shares each representing a 1/40th ownership interest in a	
share of Series H Fixed-Rate Non-Cumulative Perpetual Preferred	New York Stock Exchange
Stock	New York Stock Exchange
Convertible 6% Subordinated Notes due September 15, 2015	New York Stock Exchange
3.50% Senior Notes due September 15, 2015	New York Stock Exchange
6.95% Fixed-to-Floating Rate Subordinated Notes due September 15, 2028	

Securities registered pursuant to Section 12(g) of the Act: None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ý No ¨
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No ý

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 ý 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 ý No ¨
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. Large accelerated filer ý 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 ý
Aggregate Market Value of Common Stock Held by Non-affiliates at June 30, 2013 $5,196,248,111
Number of Common Shares Outstanding at February 18, 2014 184,870,116 shares
Documents Incorporated by Reference: Portions of the Company's Proxy Statement – Incorporated into Part III

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PART I

FORWARD-LOOKING INFORMATION

Statements in this Annual Report on Form 10-K that are based on other than historical data are forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements provide current expectations or forecasts of future events and include, among others:

- statements with respect to the beliefs, plans, objectives, goals, guidelines, expectations, anticipations, future financial condition, results of operations, and performance of Zions Bancorporation (“the Parent”) and its subsidiaries (collectively “the Company,” “Zions,” “we,” “our,” “us”); and
- statements preceded by, followed by, or that include the words “may,” “could,” “should,” “would,” “believe,” “anticipat “estimate,” “expect,” “intend,” “plan,” “projects,” or similar expressions.

These forward-looking statements are not guarantees of future performance, nor should they be relied upon as representing management’s views as of any subsequent date. Forward-looking statements involve significant risks and uncertainties and actual results may differ materially from those presented, either expressed or implied, including, but not limited to, those presented in Management’s Discussion and Analysis. Factors that might cause such differences include, but are not limited to:

- the Company’s ability to successfully execute its business plans, manage its risks, and achieve its objectives;
- changes in local, national and international political and economic conditions, including without limitation the political and economic effects of the recent economic crisis, delay of recovery from that crisis, economic and fiscal conditions in the United States and other countries, potential or actual downgrades in ratings of sovereign debt issued by the United States and other countries, and other major developments, including wars, military actions, and terrorist attacks;
- changes in financial market conditions, either internationally, nationally or locally in areas in which the Company conducts its operations, including without limitation, rates of business formation and growth, commercial and residential real estate development, and real estate prices;
- changes in markets for equity, fixed-income, commercial paper and other securities, including availability, market liquidity levels, and pricing;
- changes in interest rates, the quality and composition of the Company’s loan and securities portfolios, demand for loan products, deposit flows and competition;
- acquisitions and integration of acquired businesses;
- increases in the levels of losses, customer bankruptcies, bank failures, claims, and assessments;
- changes in fiscal, monetary, regulatory, trade and tax policies and laws, and regulatory assessments and fees, including policies of the U.S. Department of Treasury, the OCC, the Board of Governors of the Federal Reserve Board System, and the FDIC;
- the impact of executive compensation rules under the Dodd-Frank Act and banking regulations which may impact the ability of the Company and other U.S. financial institutions to retain and recruit executives and other personnel necessary for their businesses and competitiveness;
- the impact of the Dodd-Frank Act and of new Basel III international standards, and rules and regulations thereunder, on our required regulatory capital and yet to be promulgated liquidity levels, governmental assessments on us, the scope of business activities in which we may engage, the manner in which we engage in such activities, the fees we may charge for certain products and services, and other matters affected by the Dodd-Frank Act and these international standards;
- the need for the Company to meet expectations established by bank regulatory agencies under their broad supervisory, examination, and enforcement panels, which expectations are often not publicly articulated in written regulations or guidance.
- continuing consolidation in the financial services industry;

- new legal claims against the Company, including litigation, arbitration and proceedings brought by governmental or self-regulatory agencies, or changes in existing legal matters;
- success in gaining regulatory approvals, when required;
- changes in consumer spending and savings habits;
- increased competitive challenges and expanding product and pricing pressures among financial institutions;
- inflation and deflation;
- technological changes and the Company's implementation of new technologies;
- the Company's ability to develop and maintain secure and reliable information technology systems;
- legislation or regulatory changes which adversely affect the Company's operations or business;
- the Company's ability to comply with applicable laws and regulations;
- changes in accounting policies or procedures as may be required by the Financial Accounting Standards Board or regulatory agencies; and
- costs of deposit insurance and changes with respect to FDIC insurance coverage levels.

Except to the extent required by law, the Company specifically disclaims any obligation to update any factors or to publicly announce the result of revisions to any of the forward-looking statements included herein to reflect future events or developments.

AVAILABILITY OF INFORMATION

We also make available free of charge on our website, www.zionsbancorporation.com, annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as well as proxy statements, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the U.S. Securities and Exchange Commission.

GLOSSARY OF ACRONYMS

ABS	Asset-Backed Security	CLTV	Combined Loan-to-Value Ratio
ACL	Allowance for Credit Losses	CMC	Capital Management Committee
AFS	Available-for-Sale	COSO	Committee of Sponsoring Organizations of the Treadway Commission
ALCO	Asset/Liability Committee	CFPB	Consumer Financial Protection Bureau
ALLL	Allowance for Loan and Lease Losses	CFTC	Commodity Futures Trading Commission
Amegy	Amegy Corporation	CPP	Capital Purchase Program
AOCI	Accumulated Other Comprehensive Income	CRA	Community Reinvestment Act
ASC	Accounting Standards Codification	CRE	Commercial Real Estate
ASU	Accounting Standards Update	CSV	Cash Surrender Value
ATM	Automated Teller Machine	DB	Deutsche Bank AG
BCBS	Basel Committee on Banking Supervision	DBRS	Dominion Bond Rating Service
BCF	Beneficial Conversion Feature	DDA	Demand Deposit Account
BHC Act	Bank Holding Company Act	Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act
bps	basis points	DTA	Deferred Tax Asset
BSA	Bank Secrecy Act	ERMC	Enterprise Risk Management Committee
CB&T	California Bank & Trust	FAMC	Federal Agricultural Mortgage Corporation, or "Farmer Mac"
CCAR	Comprehensive Capital Analysis and Review	FASB	Financial Accounting Standards Board
CDO	Collateralized Debt Obligation	FDIC	Federal Deposit Insurance Corporation
CDR	Constant Default Rate	FDICIA	Federal Deposit Insurance Corporation Improvement Act
CET1	Common Equity Tier 1 (Basel III)	FHLB	Federal Home Loan Bank

FICO	Fair Isaac Corporation	Parent	Zions Bancorporation
FINRA	Financial Industry Regulatory Authority	PCAOB	Public Company Accounting Oversight Board
FRB	Federal Reserve Board	PCI	Purchased Credit-Impaired
FTE	Full-time Equivalent	PD	Probability of Default
GAAP	Generally Accepted Accounting Principles	PIK	Payment in Kind
GDP	Gross Domestic Product	REIT	Real Estate Investment Trust
GLB Act	Gramm-Leach-Bliley Act	RSU	Restricted Stock Unit
HECL	Home Equity Credit Line	RULC	Reserve for Unfunded Lending Commitments
HTM	Held-to-Maturity	SBA	Small Business Administration
IA	Indemnification Asset	SBIC	Small Business Investment Company
IFR	Interim Final Rule	SEC	Securities and Exchange Commission
ISDA	International Swap Dealer Association	SIFI	Systemically Important Financial Institution
LGD	Loss Given Default	SOC	Securitization Oversight Committee
LIBOR	London Interbank Offered Rate	SSU	Salary Stock Unit
Lockhart	Lockhart Funding LLC	TARP	Troubled Asset Relief Program
MD&A	Management's Discussion and Analysis	TCBO	The Commerce Bank of Oregon
MVE	Market Value of Equity	TCBW	The Commerce Bank of Washington
NASDAQ	National Association of Securities Dealers Automated Quotations	TDR	Troubled Debt Restructuring
NBAZ	National Bank of Arizona	TRS	Total Return Swap
NIM	Net Interest Margin	Vectra	Vectra Bank Colorado
NRSRO	Nationally Recognized Statistical Rating Organization	VIE	Variable Interest Entity
NSB	Nevada State Bank	VR	Volcker Rule
OCC	Office of the Comptroller of the Currency	T1C	Tier 1 Common (Basel I)
OCI	Other Comprehensive Income	TruPS	Trust Preferred Securities
OREO	Other Real Estate Owned	Zions Bank	Zions First National Bank
OTC	Over-the-Counter	ZMFU	Zions Municipal Funding
OTTI	Other-Than-Temporary Impairment	ZMSC	Zions Management Services Company

ITEM 1. BUSINESS

DESCRIPTION OF BUSINESS

Zions Bancorporation ("the Parent") is a financial holding company organized under the laws of the State of Utah in 1955, and registered under the BHC Act, as amended. The Parent and its subsidiaries (collectively "the Company") own and operate eight commercial banks with a total of 469 domestic branches at year-end 2013. The Company provides a full range of banking and related services through its banking and other subsidiaries, primarily in Utah, California, Texas, Arizona, Nevada, Colorado, Idaho, Washington, and Oregon. Full-time equivalent employees totaled 10,452 at December 31, 2013. For further information about the Company's industry segments, see "Business Segment Results" on page 46 in MD&A and Note 22 of the Notes to Consolidated Financial Statements. For information about the Company's foreign operations, see "Foreign Operations" on page 46 in MD&A. The "Executive Summary" on page 24 in MD&A provides further information about the Company.

PRODUCTS AND SERVICES

The Company focuses on providing community banking services by continuously strengthening its core business lines of 1) small and medium-sized business and corporate banking; 2) commercial and residential development, construction and term lending; 3) retail banking; 4) treasury cash management and related products and services; 5) residential mortgage servicing and lending; 6) trust and wealth management; 7) limited capital markets activities, including municipal finance advisory and underwriting, and 8) investment activities. It operates eight different banks in ten Western and Southwestern states with each bank operating under a different name and each having its own

board of directors, chief executive officer, and management team. The banks provide a wide variety of

commercial and retail banking and mortgage lending products and services. They also provide a wide range of personal banking services to individuals, including home mortgages, bankcard, other installment loans, home equity lines of credit, checking accounts, savings accounts, certificates of deposit of various types and maturities, trust services, safe deposit facilities, direct deposit, and Internet and mobile banking. In addition, certain subsidiary banks provide services to key market segments through their Women's Financial, Private Client Services, and Executive Banking Groups. We also offer wealth management services through various subsidiaries, including Contango Capital Advisors and Zions Trust Company, and online and traditional brokerage services through Zions Direct and Amegy Investments.

In addition to these core businesses, the Company has built specialized lines of business in capital markets and public finance, and is a leader in SBA lending. Through its subsidiary banks, the Company is one of the nation's largest providers of SBA 7(a) and SBA 504 financing to small businesses. The Company owns an equity interest in Farmer Mac and is its top originator of secondary market agricultural real estate mortgage loans. The Company is a leader in finance advisory and corporate trust services for municipalities. The Company uses its trust powers to provide trust services to individuals in its wealth management business and to provide bond transfer, stock transfer, and escrow services in its corporate trust business.

COMPETITION

The Company operates in a highly competitive environment. The Company's most direct competition for loans and deposits comes from other commercial banks, credit unions, and thrifts, including institutions that do not have a physical presence in our market footprint but solicit via the Internet and other means. In addition, the Company competes with finance companies, mutual funds, brokerage firms, securities dealers, investment banking companies, and a variety of other types of companies. Many of these companies have fewer regulatory constraints and some have lower cost structures or tax burdens.

The primary factors in competing for business include convenience of office locations and other delivery methods, range of products offered, the quality of service delivered, and pricing. The Company must compete effectively along all of these dimensions to remain successful.

SUPERVISION AND REGULATION

The banking and financial services business in which we engage is highly regulated. Such regulation is intended, among other things, to improve the stability of banking and financial companies and to protect the interests of customers, including both loan customers and depositors. These regulations are not, however, generally intended to protect the interests of our shareholders or creditors. Described below are the material elements of selected laws and regulations applicable to the Company. The descriptions are not intended to be complete and are qualified in their entirety by reference to the full text of the statutes and regulations described. Changes in applicable law or regulations, and in their application by regulatory agencies, cannot be predicted, but they may have a material effect on the business and results of the Company.

The Parent is a bank holding company and a financial holding company as provided by the BHC Act, as modified by the GLB Act and the Dodd-Frank Act. These and other federal statutes provide the regulatory framework for bank holding companies and financial holding companies, which have as their umbrella regulator the FRB. The supervision of the separately regulated subsidiaries of a bank holding company is conducted by each subsidiary's primary functional regulator and the laws and regulations administered by those regulators. The GLB Act allows our subsidiary banks to engage in certain financial activities through financial subsidiaries. To qualify for and maintain status as a financial holding company, or to do business through a financial subsidiary, the Parent and its subsidiary banks must satisfy certain ongoing criteria. The Company currently engages in only limited activities for which financial holding company status is required.

The Parent's subsidiary banks and Zions Trust are subject to the provisions of the National Bank Act or other statutes governing national banks or, for those that are state-chartered banks, the banking laws of their various states, as well as the rules and regulations of the OCC (for those that are national banks), and the FDIC. They are

also subject to periodic examination and supervision by the OCC or their respective state banking departments, and the FDIC. Many of our nonbank subsidiaries are also subject to regulation by the FRB and other federal and state agencies. These bank regulatory agencies may exert considerable influence over our activities through their supervisory and examination role. Our brokerage and investment advisory subsidiaries are regulated by the SEC, FINRA and/or state securities regulators.

The Dodd-Frank Act

The recent financial crisis led to numerous new laws in the United States and internationally for financial institutions. The Dodd-Frank Act, which was enacted in July 2010, is one of the most far reaching legislative actions affecting the financial services industry in decades and significantly restructures the financial regulatory regime in the United States.

The Dodd-Frank Act and regulations adopted under the Dodd-Frank Act broadly affect the financial services industry by creating new resolution authorities, requiring ongoing stress testing of our capital, mandating higher capital and liquidity requirements, increasing regulation of executive and incentive-based compensation, requiring banks to pay increased fees to regulatory agencies, and requiring numerous other provisions aimed at strengthening the sound operation of the financial services sector. Among other things affecting capital standards, the Dodd-Frank Act provides that:

- the requirements applicable to large bank holding companies (those with consolidated assets of greater than $50 billion) be more stringent than those applicable to other financial companies;
- standards applicable to bank holding companies be no less stringent than those applied to insured depository institutions; and
- bank regulatory agencies implement countercyclical elements in their capital requirements.

Regulations promulgated under the Dodd-Frank Act will require us to maintain greater levels of capital and liquid assets than was generally the case before the crisis and will limit the forms of capital that we will be able to rely upon for regulatory purposes. For example, provisions of the Dodd-Frank Act require us to transition trust preferred securities from Tier 1 capital to Tier 2 capital over a two-year period that begins January 1, 2015. In 2015, 75% of trust preferred securities transition to Tier 2 Capital from Tier 1 and the remaining 25% in 2016. In addition, in its supervisory role with respect to our stress testing and capital planning, our ability to deliver returns to our shareholders through dividends and stock repurchases is subject to prior non-objection by the FRB. The stress testing and capital plan process also could substantially reduce our flexibility to respond to market developments and opportunities in such areas as capital raising and acquisitions.

The Dodd-Frank Act's provisions and related regulations also affect the fees we must pay to regulatory agencies and pricing of certain products and services, including the following:

- The assessment base for federal deposit insurance was changed to consolidated assets less tangible capital instead of the amount of insured deposits.
- The federal prohibition on the payment of interest on business transaction accounts was repealed.
- The FRB was authorized to issue regulations governing debit card interchange fees (although the FRB's enacted regulation to limit interchange fees charged for debit card transactions to no more than 21 cents per transaction and 5 bps multiplied by the value of the transaction was successfully challenged by retailers in a U.S. District Court as being overly generous – a ruling that is currently under appeal).

The Dodd-Frank Act also created the CFPB, which is responsible for promulgating regulations designed to protect consumers' financial interests and examining financial institutions for compliance with, and enforcing, those regulations. The Dodd-Frank Act adds prohibitions on unfair, deceptive or abusive acts and practices to the scope of consumer protection regulations overseen and enforced by the CFPB. The CFPB also enacted new regulations, which became fully effective January 10, 2014, which require significant changes to residential mortgage origination; these changes include definition of a "qualified mortgage" and requirement regarding how a borrower's "ability to repay" must be determined. The Dodd-Frank Act subjected national banks to the possibility of further

regulation by restricting the preemption of state laws by federal laws, which had enabled national banks and their subsidiaries to comply with federal regulatory requirements without complying with various state laws. In addition, the Act gives greater power to state attorneys general to pursue legal actions against banking organizations for violations of federal law.

The Dodd-Frank Act contains numerous provisions that limit or place significant burdens and costs on activities traditionally conducted by banking organizations, such as originating and securitizing mortgage loans and other financial assets, arranging and participating in swap and derivative transactions, proprietary trading and investing in private equity and other funds. For the affected activities, these provisions may result in increased compliance and other costs, increased legal risk, and decreased scope of product offerings and earning assets.

On December 10, 2013, the federal banking regulators, the SEC and the CFTC published the final Volcker Rule pursuant to the Dodd-Frank Act. The rule significantly restricts certain activities by covered bank holding companies, including restrictions on proprietary trading and private equity investing. On January 14, 2014, these regulators revised the Volcker Rule’s application to certain CDO securities through publication of an Interim Final Rule related to primarily bank trust preferred CDOs. This IFR clarified that primarily bank trust preferred CDOs were not prohibited investments for bank holding companies, and therefore not subject to the Volcker Rule divestiture requirements. The Company’s fourth quarter 2013 financial results incorporated all of the immediate impact that resulted from the Volcker Rule and the IFR. However, the Company may experience additional impacts in future quarters for example, as CDOs and other investments are sold (see “Subsequent Event” on page 61). In addition, while the Company concluded it still had the ability to hold $358 million of disallowed insurance CDOs with $67 million of unrealized losses in OCI to recovery of their amortized cost basis, the Company will reassess this conclusion quarterly. The Company also has $58 million of private equity securities prohibited by the Volcker Rule and is evaluating options to dispose of these securities with minimal negative impact.

The Company and other companies subject to the Dodd-Frank Act are subject to a number of requirements regarding the time, manner and form of compensation given to its key executives and other personnel receiving incentive compensation, which are being imposed through the supervisory process as well as published guidance and proposed rules. These requirements generally implement the compensation restrictions imposed by the Dodd-Frank Act and include documentation and governance, deferral, risk balancing, and claw-back requirements.

As discussed further throughout this section, many aspects of Dodd-Frank are subject to further rulemaking and will take effect over several years, making it difficult to anticipate the overall financial impact on the Company or the industry.

Capital Standards – Basel Framework

The FRB has established capital guidelines for bank holding companies. The OCC, the FDIC and the FRB have also issued regulations establishing capital requirements for banks. These bank regulatory agencies’ risk-based capital guidelines are based upon the 1988 capital accord (“Basel I”) of the BCBS. The BCBS is a committee of central banks and bank supervisors/regulators from the major industrialized countries that develops broad policy guidelines that each country’s supervisors can use to determine the supervisory policies they apply.

In July 2013, the FRB published final rules (the “Basel III Capital Rules”) establishing a new comprehensive capital framework for U.S. banking organizations. The FDIC and the OCC have adopted substantially identical rules (in the case of the FDIC, as interim final rules). The rules implement the Basel Committee’s December 2010 framework, commonly referred to as Basel III, for strengthening international capital standards as well as certain provisions of the Dodd-Frank Act. The Basel III Capital Rules substantially revise the risk-based capital requirements applicable to bank holding companies and depository institutions, including the Company, compared to the current U.S. risk-based capital rules. The Basel III Capital Rules define the components of capital and address other issues affecting the numerator in banking institutions’ regulatory capital ratios. The Basel III Capital Rules also address risk weights and other issues affecting the denominator in banking institutions’ regulatory capital ratios and replace the existing risk-weighting approach, which was derived from Basel I capital accords of the Basel Committee, with a more risk-sensitive approach based, in part, on the standardized approach in the Basel Committee’s 2004 Basel II capital

accords. The Basel III Capital Rules also implement the requirements of Section 939A of the Dodd-Frank Act to remove references to credit ratings from the federal banking agencies' rules. The Basel III Capital Rules are effective for the Company on January 1, 2015 (subject to phase-in periods for certain of their components).

The Basel III Capital Rules, among other things, (i) introduce a new capital measure called "Common Equity Tier 1" ("CET1"), (ii) specify that Tier 1 capital consist of CET1 and "Additional Tier 1 capital" instruments meeting specified requirements, (iii) apply most deductions/adjustments to regulatory capital measures to CET1 and not to the other components of capital, thus potentially requiring higher levels of CET1 in order to meet minimum ratios, and (iv) expand the scope of the deductions/adjustments from capital as compared to existing regulations.

Under the Basel III Capital Rules, the minimum capital ratios as of January 1, 2015 will be as follows:

- 4.5% CET1 to risk-weighted assets;
- 6.0% Tier 1 capital (i.e., CET1 plus Additional Tier 1) to risk-weighted assets;
- 8.0% Total capital (i.e., Tier 1 plus Tier 2) to risk-weighted assets; and
- 4.0% Tier 1 capital to average consolidated assets as reported on consolidated financial statements (known as the "leverage ratio").

When fully phased in on January 1, 2019, the Basel III Capital Rules will also require the Company and its subsidiary banks to maintain a 2.5% "capital conservation buffer," composed entirely of CET1, on top of the minimum capital ratios, effectively resulting in minimum ratios of (i) CET1 to risk-weighted assets of at least 7.0%, (ii) Tier 1 capital to risk-weighted assets of at least 8.5%, and (iii) Total capital to risk-weighted assets of at least 10.5%.

The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of CET1 to risk-weighted assets above the minimum but below the capital conservation buffer will face constraints on dividends, equity repurchases, and compensation based on the amount of the shortfall. The implementation of the capital conservation buffer will begin on January 1, 2016 at the 0.625% level and increase by 0.625% on each subsequent January 1, until it reaches 2.5% on January 1, 2019.

The Basel III Capital Rules provide for a number of deductions from and adjustments to CET1. These include, for example, the requirement that mortgage servicing rights, deferred tax assets dependent upon future taxable income, and significant investments in common equity issued by nonconsolidated financial entities be deducted from CET1 to the extent that any one such category exceeds 10% of CET1 or all such categories in the aggregate exceed 15% of CET1. The Company's preliminary analysis indicates that application of this part of the rule should not result in any deductions from CET1. The "corresponding deduction approach" section of the Basel III Capital Rules would, if the Rules were phased in immediately, eliminate a significant portion, approximately $628 million of $1,004 million, of the Company's noncommon Tier 1 capital, pro forma incorporating sales of CDOs in January and February 2014. In addition, deductions from Tier 2 capital would arise from our concentrated investment in insurance-only trust preferred CDO securities. These deductions will not begin until January 1, 2015 for the Company, and even after January 1, 2015, they will be phased-in in portions over time through the beginning of 2018, as indicated below. Thus, the impact may be mitigated prior to or during the phase-in period by repayment, determination of other than temporary impairment ("OTTI"), additional accumulation of retained earnings, and/or additional sales of CDO securities.

Under current capital standards, the effects of AOCI items included in capital are excluded for purposes of determining regulatory capital ratios. Under the Basel III Capital Rules, the effects of certain AOCI items are not excluded; however, "non-advanced approaches banking organizations," including the Company and its subsidiary banks, may make a one-time permanent election as of January 1, 2015 to continue to exclude these items. The Company's CCAR 2014 Capital Plan, as submitted, incorporated the assumption that the Company would "opt out," that is, exclude these items; however, this decision is not binding until the first quarter of 2015. The deductions and other adjustments to CET1 will be phased in incrementally between January 1, 2015 and January 1, 2018.

The Basel III Capital Rules require that trust preferred securities be phased out from Tier 1 capital by the end of 2015, although for a banking organization such as the Company, that has greater than $15 billion in total consolidated assets, but is not an "advanced approaches banking organization," the Basel III Capital Rules permit permanent inclusion of trust preferred securities issued prior to May 19, 2010 in Tier 2 capital regardless of whether they would otherwise meet the qualifications for Tier 2 capital.

With respect to the Company's subsidiary banks, the Basel III Capital Rules also revise the "prompt corrective action" regulations pursuant to Section 38 of the Federal Deposit Insurance Act, by (i) introducing a CET1 ratio requirement at each capital quality level (other than critically undercapitalized), with the required CET1 ratio being 6.5% for well-capitalized status; (ii) increasing the minimum Tier 1 capital ratio requirement for each category, with the minimum Tier 1 capital ratio for well-capitalized status being 8% (as compared to the current 6%); and (iii) requiring a leverage ratio of 4% to be adequately capitalized (as compared to the current 3% leverage ratio for a bank with a composite supervisory rating of 1) and a leverage ratio of 5% to be well-capitalized. The Basel III Capital Rules do not change the total risk-based capital requirement for any "prompt corrective action" category.

The Basel III Capital Rules prescribe a standardized approach for calculating risk-weighted assets that expand the risk-weighting categories from the current four Basel I-derived categories (0%, 20%, 50% and 100%) to a much larger and more risk-sensitive number of categories, depending on the nature of the assets, generally ranging from 0% for U.S. Government and agency securities, to 600% for certain equity exposures, and resulting in higher risk weights for a variety of asset categories. In addition, the Basel III Capital Rules also provide more advantageous risk weights for derivatives and repurchase-style transactions cleared through a qualifying central counterparty and increase the scope of eligible guarantors and eligible collateral for purposes of credit risk mitigation.

The Company believes that, as of December 31, 2013, the Company and its subsidiary banks would meet all capital adequacy requirements under the Basel III Capital Rules on a fully phased-in basis if such requirements were currently effective, including after giving effect to the deductions described above.

Stress Testing, Prudential Standards, and Early Remediation

As a bank holding company with assets greater than $50 billion, the Company is required by the Dodd-Frank Act to participate in an annual stress test known as the Federal Reserve's Comprehensive Capital Analysis and Review ("CCAR"). The Company timely submitted its capital plan and stress test results to the FRB on January 6, 2014. However, the Company has announced that it intends to resubmit its stress test and capital plan, as a result of the publication of the Interim Final Rule that modified the Volcker Rule (as discussed previously), and of the sale of some of its portfolio of CDO securities in January and February 2014. In its capital plan, the Company was required to forecast under a variety of economic scenarios for nine quarters ending the fourth quarter of 2015, its estimated regulatory capital ratios under Basel I rules, its Tier 1 common ratio under Basel I rules, the same ratios under Basel III rules, and its GAAP tangible common equity ratio. In September 2013, the FRB issued an interim final rule amending its capital plan and stress test rules to clarify how bank holding companies with over $50 billion in total consolidated assets should incorporate the recently adopted Basel III Capital Rules for the 2014 capital plan review process and the supervisory and company run stress tests. Under the FRB's interim final rule, any such bank holding company must both (i) project its regulatory capital ratios and meet the required minimums under the Basel III Capital Rules for each quarter of the nine-quarter planning horizon in accordance with the minimum capital requirements that are in effect during that quarter, subject to appropriate phase-ins/phase-outs under the new rules and (ii) continue to meet the minimum 5% Tier 1 common ratio as calculated under the previously applicable risk-based capital rules. Under the implementing regulations for CCAR, a bank holding company may generally raise and redeem capital, pay dividends and repurchase stock and take similar capital-related actions only under a capital plan as to which the FRB has not objected.

On February 17, 2014, the Federal Reserve published final rules to implement Section 165, Enhanced Supervision and Prudential Standards for Nonbank Financial Companies Supervised by the Board of Governors and Certain Bank Holding Companies, of the Dodd-Frank Act. The Company has not yet completed its assessment of the impact of these rules, but believes that it already largely is in compliance with them.

Prompt Corrective Action

The Federal Deposit Insurance Corporation Improvement Act, or “FDICIA,” requires each federal banking agency to take prompt corrective action to resolve the problems of insured depository institutions, including but not limited to those that fall below one or more prescribed minimum capital ratios. Pursuant to FDICIA, the FDIC promulgated regulations defining the following five categories in which an insured depository institution will be placed, based on the level of its capital ratios: well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. Under the prompt corrective action provisions of FDICIA, an insured depository institution generally will be classified as well-capitalized if it has a Tier 1 capital ratio of at least 6%, a total capital ratio of at least 10% and a Tier 1 leverage ratio of at least 5%, and an insured depository institution generally will be classified as undercapitalized if its total risk-based capital is less than 8% or its Tier 1 risk-based capital or leverage ratio is less than 4%. An institution that, based upon its capital levels, is classified as “well-capitalized,” “adequately capitalized,” or “undercapitalized,” may be treated as though it were in the next lower capital category if the appropriate federal banking agency, after notice and opportunity for hearing, determines that an unsafe or unsound condition or an unsafe or unsound practice warrants such treatment. Under the fully phased-in Basel III Capital Rules, (i) a new CET1 ratio requirement will be introduced at every level (other than critically undercapitalized), with the required CET1 ratio being 6.5% for well-capitalized status; (ii) the minimum Tier 1 capital ratio requirement for each category will be increased, with the minimum Tier 1 capital ratio for well-capitalized status being 8%; and (iii) the current provision that provides that a bank with a composite supervisory rating of 1 may have a 3% leverage ratio and still be well-capitalized will be eliminated. At each successive lower capital category, an insured depository institution is subject to more restrictions and prohibitions, including restrictions on growth, restrictions on interest rates paid on deposits, restrictions or prohibitions on payment of dividends and restrictions on the acceptance of brokered deposits. Furthermore, if a bank is classified in one of the undercapitalized categories, it is required to submit a capital restoration plan to the federal bank regulator, and the holding company must guarantee the performance of that plan.

Other Regulations

The Company is subject to a wide range of other requirements and restrictions contained in both the laws of the United States and the states in which its banks and other subsidiaries operate. These regulations include but are not limited to the following:

- Requirements that the Parent serve as a source of strength for its subsidiary banks. The FRB has a policy that a bank holding company is expected to act as a source of financial and managerial strength to each of its subsidiary banks and, under appropriate circumstances, to commit resources to support each subsidiary bank. The Dodd-Frank Act codifies this policy as a statutory requirement. In addition, the regulators may order an assessment of the Parent if the capital of one of its subsidiary banks were to fall below capital levels required by the regulators.
- Limitations on dividends payable by subsidiaries. A significant portion of the Parent’s cash, which is used to pay dividends on our common and preferred stock and to pay principal and interest on our debt obligations, is derived from dividends paid by the Parent’s subsidiary banks. These dividends are subject to various legal and regulatory restrictions. See Note 19 of the Notes to Consolidated Financial Statements.
- Limitations on dividends payable to shareholders. The Parent’s ability to pay dividends on both its common and preferred stock may be subject to regulatory restrictions. See discussion under “Liquidity Management Actions” on page 85.
- Cross-guarantee requirements. All of the Parent’s subsidiary banks are insured by the FDIC. Each commonly controlled FDIC-insured bank can be held liable for any losses incurred, or reasonably expected to be incurred, by the FDIC due to another commonly controlled FDIC-insured bank being placed into receivership, and for any assistance provided by the FDIC to another commonly controlled FDIC-insured bank that is subject to certain conditions indicating that receivership is likely to occur in the absence of regulatory assistance.
- Safety and soundness requirements. Federal and state laws require that our banks be operated in a safe and sound manner. We are subject to additional safety and soundness standards prescribed in the Federal Deposit Insurance Corporate Improvement Act of 1991, including standards related to internal controls, information

systems, internal audit, loan documentation, credit underwriting, interest rate exposure, asset growth and compensation, as well as other operational and management standards deemed appropriate by the federal banking agencies. The safety and soundness requirements give bank regulatory agencies significant latitude in their supervisory authority over us.

- Requirements for approval of acquisitions and activities and restrictions on other activities. Prior approval of the FRB is required under the BHC Act for a financial holding company to acquire or hold more than a 5% voting interest in any bank, to acquire substantially all the assets of a bank or to merge with another financial or bank holding company. The BHC Act also requires approval for certain nonbanking acquisitions, restricts the activities of bank holding companies that are not financial holding companies to banking, managing or controlling banks and other activities that the FRB has determined to be so closely related to banking as to be a proper incident thereto, and restricts the nonbanking activities of a financial holding company to those that are permitted for financial holding companies or that have been determined by the FRB to be financial in nature, incidental to financial activities, or complementary to a financial activity. Laws and regulations governing national and state-chartered banks contain similar provisions concerning acquisitions and activities.
- Limitations on the amount of loans to a borrower and its affiliates.
- Limitations on transactions with affiliates. The Dodd-Frank Act significantly expanded the coverage and scope of the limitations on affiliate transactions within a banking organization.
- Restrictions on the nature and amount of any investments and ability to underwrite certain securities.
- Requirements for opening of branches and the acquisition of other financial entities.
- Fair lending and truth in lending requirements to provide equal access to credit and to protect consumers in credit transactions.
- Broker-dealer and investment advisory regulations. Certain of our subsidiaries are broker-dealers that engage in securities underwriting and other broker-dealer activities. These companies are registered with the SEC and are members of FINRA. Certain other subsidiaries are registered investment advisers under the Investment Advisers Act of 1940, as amended, and as such are supervised by the SEC. They are also subject to various U.S. federal and state laws and regulations. These laws and regulations generally grant supervisory agencies broad administrative powers, including the power to limit or restrict the carrying on of business for failure to comply with such laws.
- Provisions of the GLB Act and other federal and state laws dealing with privacy for nonpublic personal information of individual customers.
- CRA requirements. The CRA requires banks to help serve the credit needs in their communities, including providing credit to low and moderate income individuals. If the Company or its subsidiaries fail to adequately serve their communities, penalties may be imposed including denials of applications to add branches, relocate, add subsidiaries and affiliates, and merge with or purchase other financial institutions.
- Anti-money laundering regulations. The BSA, Title III of the Uniting and Strengthening of America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (“USA Patriot Act”), and other federal laws require financial institutions to assist U.S. Government agencies in detecting and preventing money laundering and other illegal acts by maintaining policies, procedures and controls designed to detect and report money laundering, terrorist financing, and other suspicious activity.

The Parent is subject to the disclosure and regulatory requirements of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended, both as administered by the SEC. As a company listed on the NASDAQ Global Select Market, the Parent is subject to NASDAQ listing standards for quoted companies.

The Company is subject to the Sarbanes-Oxley Act of 2002, the Dodd-Frank Act, and other federal and state laws and regulations which address, among other issues, corporate governance, auditing and accounting, executive compensation, and enhanced and timely disclosure of corporate information. NASDAQ has also adopted corporate governance rules, which are intended to allow shareholders and investors to more easily and efficiently monitor the performance of companies and their directors.

The Board of Directors of the Parent has implemented a comprehensive system of corporate governance practices. This system includes Corporate Governance Guidelines, a Code of Business Conduct and Ethics for Employees, a Directors Code of Conduct, a Related Party Transaction Policy, Stock Ownership and Retention Guidelines, a Compensation Clawback Policy, an insider trading policy including provisions prohibiting hedging and placing some restrictions on the pledging of company stock by insiders, and charters for the Audit, Risk Oversight, Executive Compensation and Nominating and Corporate Governance Committees. More information on the Company's corporate governance practices is available on the Company's website at www.zionsbancorporation.com. (The Company's website is not part of this Annual Report on Form 10-K).

The Company has adopted policies, procedures and controls to address compliance with the requirements of the banking, securities and other laws and regulations described above or otherwise applicable to the Company. The Company intends to make appropriate revisions to reflect any changes required.

Regulators, Congress, state legislatures, and international consultative bodies continue to enact rules, laws, and policies to regulate the financial services industry and public companies and to protect consumers and investors. The nature of these laws and regulations and the effect of such policies on future business and earnings of the Company cannot be predicted.

GOVERNMENT MONETARY POLICIES

The earnings and business of the Company are affected not only by general economic conditions, but also by policies adopted by various governmental authorities. The Company is particularly affected by the monetary policies of the FRB, which affect both short-term and long-term interest rates and the national supply of bank credit. The tools available to the FRB which may be used to implement monetary policy include:

- open-market operations in U.S. Government and other securities;
- adjustment of the discount rates or cost of bank borrowings from the FRB;
- imposing or changing reserve requirements against bank deposits;
- term auction facilities collateralized by bank loans; and
- other programs to purchase assets and inject liquidity directly in various segments of the economy.

These methods are used in varying combinations to influence the overall growth or contraction of bank loans, investments and deposits, and the interest rates charged on loans or paid for deposits.

In view of the changing conditions in the economy and the effect of the FRB's monetary policies, it is difficult to predict future changes in loan demand, deposit levels and interest rates, or their effect on the business and earnings of the Company. FRB monetary policies have had a significant effect on the operating results of commercial banks in the past and are expected to continue to do so in the future.

ITEM 1A. RISK FACTORS

The Company's Board of Directors has established a Risk Oversight Committee of the Board and an Enterprise Risk Management policy and has appointed an Enterprise Risk Management Committee consisting of senior management to oversee and implement the policy. In addition to credit and interest rate risk, the Committee also monitors the following risk areas: strategic risk, market risk, liquidity risk, compliance risk, compensation-related risk, operational risk, information technology risk, and reputation risk.

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

We have been and could continue to be negatively affected by adverse economic conditions.

The United States and many other countries recently faced a severe economic crisis, including a major recession from which it is slowly recovering. These adverse economic conditions have negatively affected the Company's assets, including its loans and securities portfolios, capital levels, results of operations, and financial condition. In response to the economic crisis, the United States and other governments established a variety of programs and policies designed to mitigate the effects of the crisis. These programs and policies had a stabilizing effect in

the United States following the severe financial crisis that occurred in the second half of 2008, but troubling economic conditions continue to exist in the United States and globally. Moreover, some of these programs have begun to expire and the impact of their expiration on the financial industry and economic recovery is unknown. It is possible economic conditions may again become more severe or that troubling economic conditions may continue for a substantial period of time. In addition, economic and fiscal conditions in the United States and other countries may directly or indirectly adversely impact economic conditions faced by the Company and its customers. Any increase in the severity or duration of adverse economic conditions, including a recession or continued weak economic recovery, would adversely affect the Company.

Economic and other circumstances may require us to raise capital at times or in amounts that are unfavorable to the Company.

Our subsidiary banks must maintain certain risk-based and leverage capital ratios as required by their banking regulators which can change depending upon general economic conditions or hypothetical future adverse economic scenarios and their particular condition, risk profile and growth plans. Compliance with capital requirements may limit the Company's ability to expand and has required, and may require, capital investment from the Parent, and the need or requirement to raise additional capital. These uncertainties and risks created by the legislative and regulatory uncertainties discussed above may themselves increase the Company's cost of capital and other financing costs.

Our business is highly correlated to local economic conditions in a specific geographic region of the United States.

As a regional bank holding company, the Company provides a full range of banking and related services through its banking and other subsidiaries in Utah, California, Texas, Arizona, Nevada, Colorado, Idaho, Washington, and Oregon. Approximately 85% of the Company's total net interest income for the year ended December 31, 2013 and 77% of total assets as of December 31, 2013 relate to the subsidiary banks in Utah, California and Texas. As a result of this geographic concentration, our financial results depend largely upon economic conditions in these market areas. Accordingly, adverse economic conditions affecting these three states in particular could significantly affect our consolidated operations and financial results. For example, our credit risk could be elevated to the extent our lending practices in these three states focus on borrowers or groups of borrowers with similar economic characteristics that are similarly affected by the same adverse economic events. As of December 31, 2013, loan balances at our subsidiary banks in Utah, California and Texas comprised 81% of the Company's commercial lending portfolio, 74% of the commercial real estate lending portfolio, and 69% of the consumer lending portfolio. Loans originated by these banks are primarily to companies in their respective states.

Catastrophic events including, but not limited to, hurricanes, tornadoes, earthquakes, fires, floods, and prolonged drought, may adversely affect the general economy, financial and capital markets, specific industries, and the Company.

The Company has significant operations and a significant customer base in Utah, Texas, California and other regions where natural and other disasters may occur. These regions are known for being vulnerable to natural disasters and other risks, such as hurricanes, tornadoes, earthquakes, fires, floods, and prolonged drought. These types of natural catastrophic events at times have disrupted the local economy, the Company's business and customers, and have posed physical risks to the Company's property. In addition, catastrophic events occurring in other regions of the world may have an impact on the Company's customers and in turn on the Company. A significant catastrophic event could materially adversely affect the Company's operating results.

Problems encountered by other financial institutions could adversely affect financial markets generally and have indirect adverse effects on us.

The commercial soundness of many financial institutions may be closely interrelated as a result of credit, trading, clearing or other relationships between the institutions. As a result, concerns about, or a default or threatened default by, one institution could lead to significant market-wide liquidity and credit problems, losses or defaults by other institutions. This is sometimes referred to as "systemic risk" and may adversely affect

financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges, with which we interact on a daily basis, and therefore could adversely affect us.

We and/or the holders of our securities could be adversely affected by unfavorable rating actions from rating agencies.

Our ability to access the capital markets is important to our overall funding profile. This access is affected by the ratings assigned by rating agencies to us, certain of our affiliates, and particular classes of securities that we and our affiliates issue. The interest rates that we pay on our securities are also influenced by, among other things, the credit ratings that we, our affiliates, and/or our securities receive from recognized rating agencies. Downgrades to us, our affiliates, or our securities could increase our costs or otherwise have a negative effect on our results of operations or financial condition or the market prices of our securities.

Failure to effectively manage our interest rate risk and prolonged periods of low interest rates could adversely affect us.

Net interest income is the largest component of the Company's revenue. The management of interest rate risk for the Company and its subsidiary banks is centralized and overseen by an Asset Liability Management Committee appointed by the Company's Board of Directors. Failure to effectively manage our interest rate risk could adversely affect us. Factors beyond the Company's control can significantly influence the interest rate environment and increase the Company's risk. These factors include competitive pricing pressures for our loans and deposits, adverse shifts in the mix of deposits and other funding sources, and volatile market interest resulting from general economic conditions and the policies of governmental and regulatory agencies, in particular the FRB.

The Company remains in an "asset sensitive" interest rate risk position, and the FRB has stated its expectations that short-term interest rates may remain low until unemployment is reduced to below 6.5% or inflationary expectations exceed 2.5% and perhaps beyond. Such a scenario may continue to create or exacerbate margin compression for us as a result of repricing of longer-term loans and pricing pressure on new loans.

Our estimates of our interest rate risk position for noninterest-bearing demand deposits are dependent on assumptions for which there is little historical experience, and the actual behavior of those deposits in a changing interest rate environment may differ materially from our estimates which could materially affect our results of operations.

We have experienced a low interest rate environment for the past several years. Our views with respect to, among other things, the degree to which we are "asset-sensitive," including our interest rate risk position for noninterest-bearing demand deposits, are dependent on modeled projections that rely on assumptions regarding changes in balances of such deposits in a changing interest rate environment. Because there is no modern precedent for this current prolonged low interest rate environment, there is little historical experience upon which to base such assumptions. If interest rates begin to increase, our assumptions regarding changes in balances of noninterest-bearing demand deposits and regarding the speed and degree to which other deposits are repriced may prove to be incorrect, and business decisions made in reliance on our modeled projections and underlying assumptions could prove to be unsuccessful. Because noninterest-bearing demand deposits are a significant portion of our deposit base, errors in our modeled projections and the underlying assumptions could materially affect our results of operations.

As a regulated entity, we are subject to capital and liquidity requirements that may limit our operations and potential growth.

We are a bank holding company and a financial holding company. As such, we and our subsidiary banks are subject to the comprehensive, consolidated supervision and regulation of the Federal Reserve Board, the OCC (in the case of our national subsidiary banks) and the FDIC, including risk-based and leverage capital ratio requirements, and Basel III liquidity requirements. Capital needs may rise above normal levels when we experience deteriorating earnings and credit quality, and our banking regulators may increase our capital requirements based on general economic conditions and our particular condition, risk profile and growth plans. In addition, we may be required to increase our capital levels even in the absence of actual adverse economic conditions or forecasts as a result of stress testing and capital planning based on hypothetical future adverse

economic scenarios. Compliance with the capital requirements, including leverage ratios, may limit operations that require the intensive use of capital and could adversely affect our ability to expand or maintain present business levels. For a summary of recently announced capital rules, see "Basel III" in "Capital Management" on page 91 of MD&A in this Form 10-K.

The regulation of incentive compensation under the Dodd-Frank Act may adversely affect our ability to retain our highest performing employees.

The bank regulatory agencies have published guidance and proposed regulations which limit the manner and amount of compensation that banking organizations provide to employees. These regulations and guidance may adversely affect our ability to retain key personnel. If we were to suffer such adverse effects with respect to our employees, our business, financial condition and results of operations could be adversely affected, perhaps materially.

Stress testing and capital management under Dodd-Frank may limit our ability to increase dividends, repurchase shares of our stock, and access the capital markets.

Under the CCAR, we are required to submit to the Federal Reserve each year our capital plan for the applicable planning horizon, along with the results of required stress tests. Each annual capital plan will, among other things, specify our planned actions with respect to dividends, redemptions, repurchases, capital raising, and similar matters and will be subject to the objection or non-objection by the Federal Reserve. Moreover, the CCAR process requires us to analyze the pro forma impact on our financial condition of various hypothetical future adverse economic scenarios selected by us or the Federal Reserve and to maintain or raise capital sufficient to meet our risk management and regulatory expectations under such hypothetical scenarios. Similarly, stress tests required by the Dodd-Frank Act are devised by the OCC and FDIC for our subsidiary banks with assets in excess of $10 billion. The severity of the hypothetical scenarios devised by the FRB and other bank regulators and employed in these stress tests is undefined by law or regulation, and is thus subject solely to the discretion of the regulators. The stress testing and capital planning processes may, among other things, require us to increase our capital levels, modify our business strategies, or decrease our exposure to various asset classes.

Under stress testing and capital management standards implemented by bank regulatory agencies under the Dodd-Frank Act, we may declare dividends, repurchase common stock, redeem preferred stock and debt, access capital markets for certain types of capital, make acquisitions, and enter into similar transactions only with bank regulatory approval. Any transactions not contemplated in our annual capital plan will require FRB approval. These requirements may significantly limit our ability to respond to and take advantage of market developments.

Increases in FDIC insurance premiums may adversely affect our earnings.

Our deposits are insured by the FDIC up to legal limits and, accordingly, we are subject to FDIC deposit insurance assessments. During 2008 and 2009, higher levels of bank failures dramatically increased resolution costs of the FDIC and depleted the deposit insurance fund. In addition, the FDIC instituted two temporary programs to further insure customer deposits at FDIC insured banks. These programs, which were later extended by the Dodd-Frank Act, have placed additional stress on the deposit insurance fund. In order to maintain a strong funding position and restore reserve ratios of the deposit insurance fund, the FDIC has increased assessment rates of insured institutions. Further, on January 12, 2010, the FDIC requested comments on a proposed rule tying assessment rates of FDIC-insured institutions to the institution's employee compensation programs. The exact requirements of such a rule are not yet known, but such a rule could increase the amount of premiums we must pay for FDIC insurance. Further, as described below, under the Dodd-Frank Act, the FDIC must undertake several initiatives that will result in higher deposit insurance fees being paid to the FDIC. For example, an FDIC final rule issued on February 7, 2011 revises the assessment system applicable to large banks and implements the use of assets as the base for deposit insurance assessments instead of domestic deposits. We are generally unable to control the amount of premiums that we are required to pay for FDIC insurance. These announced increases and any future increases or required prepayments of FDIC insurance premiums or special assessments may adversely impact our earnings.

The Dodd-Frank Act imposes significant limitations on our business activities and subjects us to increased regulation and additional costs.

The Dodd-Frank Act has material implications for the Company and the entire financial services industry. The Act places significant additional regulatory oversight and requirements on financial institutions, including the Company, particularly those with more than $50 billion of assets. In addition, among other things, the Act:

- affects the levels of capital and liquidity with which the Company must operate and how it plans capital and liquidity levels (including a phased-in elimination of the Company’s existing trust preferred securities as Tier 1 capital);
- subjects the Company to new and/or higher fees paid to various regulatory entities, including but not limited to deposit insurance fees to the FDIC;
- impacts the Company’s ability to invest in certain types of entities or engage in certain activities;
- impacts a number of the Company’s business strategies;
- requires us to develop substantial heightened risk management policies and infrastructure;
- regulates the pricing of certain of our products and services and restricts the revenue that the Company generates from certain businesses;
- subjects the Company to new capital planning actions, including stress testing or similar actions and timing expectations for capital-raising;
- subjects the Company to supervision by the CFPB, with very broad rule-making and enforcement authorities;
- grants authority to state agencies to enforce state and federal laws against national banks;
- subjects the Company to new and different litigation and regulatory enforcement risks; and
- limits the manner in which compensation is paid to executive officers and employees generally.

The Company has incurred and will continue to incur substantial personnel, systems, consulting, and other costs in order to comply with new regulations promulgated under the Dodd-Frank Act, particularly with respect to stress testing and risk management. Because the responsible agencies are still in the process of proposing and finalizing many of the regulations required under the Dodd-Frank Act, the full impact of this legislation on the Company, its business strategies, and financial performance cannot be known at this time, and may not be known for some time. Individually and collectively, regulations adopted under the Dodd-Frank Act may materially adversely affect the Company’s business, financial condition, and results of operations.

Other legislative and regulatory actions taken now or in the future may have a significant adverse effect on our operations.

In addition to the Dodd-Frank Act described above, bank regulatory agencies and international regulatory consultative bodies have proposed or are considering new regulations and requirements, some of which may be imposed without formal promulgation.

There can be no assurance that any or all of these regulatory changes or actions will ultimately be adopted. However, if adopted, some of these proposals could adversely affect the Company by, among other things: impacting after tax returns earned by financial services firms in general; limiting the Company’s ability to grow; increasing taxes or fees on some of the Company’s funding or activities; limiting the range of products and services that the Company could offer; and requiring the Company to raise capital at inopportune times.

The ultimate impact of these proposals cannot be predicted, as it is unclear which, if any, may be adopted.

We could be adversely affected by accounting, financial reporting, and regulatory and compliance risk.

The Company is exposed to accounting, financial reporting, and regulatory/compliance risk. The level of regulatory/compliance oversight has been heightened in recent periods as a result of rapid changes in regulations that affect financial institutions. The administration of some of these regulations and related changes has required the Company to comply before their formal adoption.

The Company provides to its customers, invests in, and uses for its own capital, funding, and risk management needs, a number of complex financial products and services. Estimates, judgments, and interpretations of complex and changing accounting and regulatory policies are required in order to provide and account for these products and services. Changes in our accounting policies or in accounting standards could materially affect how we report our financial results and conditions. Identification, interpretation and implementation of complex and changing accounting standards as well as compliance with regulatory requirements therefore pose an ongoing risk.

We could be adversely affected by legal and governmental proceedings.

We are subject to risks associated with legal claims, fines, litigation, and regulatory and other government proceedings. The Company's exposure to these proceedings has increased and may further increase as a result of stresses on customers, counterparties and others arising from the past or current economic environments, new regulations promulgated under recently adopted statutes, the creation of new examination and enforcement bodies, and increasingly aggressive enforcement and legal actions against banking organizations.

Credit quality has adversely affected us and may adversely affect us in the future.

Credit risk is one of our most significant risks. If the strength of the U.S. economy in general and the strength of the local economies in which we and our subsidiary banks conduct operations declined, this could result in, among other things, deterioration in credit quality and/or reduced demand for credit, including a resultant adverse effect on the income from our loan portfolio, an increase in charge-offs and an increase in the allowance for loan and lease losses.

Failure to effectively manage our credit concentration or counterparty risk could adversely affect us.

Increases in concentration or counterparty risk could adversely affect the Company. Concentration risk across our loan and investment portfolios could pose significant additional credit risk to the Company due to exposures which perform in a similar fashion. Counterparty risk could also pose additional credit risk.

The quality and liquidity of our asset-backed investment securities portfolio has adversely affected us and may continue to adversely affect us.

The Company's asset-backed investment securities portfolio includes CDOs collateralized by trust preferred securities issued by bank holding companies, and insurance companies. Many factors, some of which are beyond the Company's control, significantly influence the fair value and impairment status of these securities. These factors include, but are not limited to, defaults, deferrals, and restructurings by debt issuers, the views of banking regulators, changes in our accounting treatment with respect to these securities, rating agency downgrades of securities, lack of market pricing of securities, or the return of market pricing that varies from the Company's current model valuations, and changes in prepayment rates and future interest rates. The occurrence of one or more of these factors could result in additional OTTI charges with respect to our CDO portfolio, which could be material.

The Company may not be able to utilize the significant deferred tax asset recorded on its balance sheet.

The Company's balance sheet includes a significant deferred tax asset. The largest components of this asset result from additions to our allowance for loan and lease losses for purposes of generally accepted accounting principles in excess of loan losses actually taken for tax purposes and other than temporary impairment losses taken on our securities portfolio that have not yet been realized for tax purposes by selling the securities. Our ability to continue to record this deferred tax asset is dependent on the Company's ability to realize its value through net operating loss carry-backs or future projected earnings. Loss of part or all of this asset would adversely impact tangible capital. In addition, inclusion of this asset in determining regulatory capital is subject to certain limitations. There are immaterial amounts of deferred tax assets disallowed for regulatory purposes at some of the Company's subsidiary banks. No deferred tax assets are disallowed at the Parent level.

We could be adversely affected by failure in our internal controls.

A failure in our internal controls could have a significant negative impact not only on our earnings, but also on the perception that customers, regulators and investors may have of the Company. We continue to devote a

significant amount of effort, time and resources to improving our controls and ensuring compliance with complex accounting standards and regulations.

Our information systems may experience an interruption or security breach.

We rely heavily on communications and information systems to conduct our business. We, our customers, and other financial institutions with which we interact, are subject to ongoing, continuous attempts to penetrate key systems by individual hackers, organized criminals, and in some cases, state-sponsored organizations. Any failure, interruption or breach in security of these systems could result in failures or disruptions in our customer relationship management, general ledger, deposit, loan and other systems, misappropriation of funds, and theft of proprietary Company or customer data. While we have policies and procedures designed to prevent or limit the effect of the possible failure, interruption or security breach of our information systems, there can be no assurance that any such failure, interruption or security breach will not occur or, if they do occur, that they will be adequately addressed. The occurrence of any failure, interruption or security breach of our information systems could damage our reputation, result in a loss of customer business, subject us to additional regulatory scrutiny, or expose us to civil litigation and possible financial liability.

We are making a significant investment to replace our core loan and deposit systems and to upgrade our accounting systems. The actual duration, cost, expected savings, and other factors to implement these initiatives may vary significantly from our estimates, which could materially affect the Company, including its results of operations.

During the second quarter of 2013, our Board of Directors approved a significant investment by us to replace our loan and deposit systems and to upgrade our accounting systems. The new integrated system for most of our loans and deposits is expected to employ technology that is a significant improvement over our current systems. These initiatives will be completed in phases to allow for appropriate testing and implementation so as to minimize time delays and cost overruns. However, these initiatives are in the early stages of development and by their very nature, projections of duration, cost, expected savings, and related items are subject to change and significant variability.

We may encounter significant adverse developments in the completion and implementation of these initiatives. These may include significant time delays, cost overruns, and other adverse developments that could result in disruptions to our systems and adversely impact our customers.

We have plans, policies and procedures designed to prevent or limit the negative effect of these adverse developments. However, there can be no assurance that any such adverse developments will not occur or, if they do occur, that they will be adequately remediated. The occurrence of any adverse development could damage our reputation, result in a loss of customer business, subject us to additional regulatory scrutiny, or expose us to civil litigation and possible financial liability, any of which could materially affect the Company, including its results of operations in any given reporting period.

Our results of operations depend upon the performance of our subsidiaries.

We are a holding company that conducts substantially all of our operations through our banking and other subsidiaries. We receive substantially all of our revenues from dividends from our subsidiaries. These dividends are the principal source of funds to pay dividends on our common and preferred stock and interest and principal on our debt. We and certain of our subsidiaries have experienced periods of unprofitability or reduced profitability since the financial crisis. The ability of the Company and our subsidiary banks to pay dividends is restricted by regulatory requirements, including profitability and the need to maintain required levels of capital. Lack of profitability or reduced profitability exposes us to the risk that regulators could restrict the ability of our subsidiary banks to pay dividends. It also increases the risk that the Company may have to establish a “valuation allowance” against its net deferred tax asset.

The ability of our subsidiary banks to pay dividends or make other payments to us is also limited by their obligations to maintain sufficient capital and by other general regulatory restrictions on their dividends. If they do not satisfy these regulatory requirements, we may be unable to pay interest on our indebtedness. The OCC, the primary regulator for certain of our subsidiary banks, has issued policy statements generally requiring

insured banks only to pay dividends out of current earnings. In addition, if, in the opinion of the applicable regulatory authority, a bank under its jurisdiction is engaged in or is about to engage in an unsafe or unsound practice, which could include the payment of dividends, such authority may take actions requiring that such bank refrain from the practice. Payment of dividends could also be subject to regulatory limitations if a subsidiary bank were to become "under-capitalized" for purposes of the applicable federal regulatory "prompt corrective action" regulations.

ITEM 1B. UNRESOLVED STAFF COMMENTS

There are no unresolved written comments that were received from the SEC's staff 180 days or more before the end of the Company's fiscal year relating to our periodic or current reports filed under the Securities Exchange Act of 1934.

ITEM 2. PROPERTIES

At December 31, 2013, the Company operated 469 domestic branches, of which 286 are owned and 183 are leased. The Company also leases its headquarters offices in Salt Lake City, Utah. Other operations facilities are either owned or leased. The annual rentals under long-term leases for leased premises are determined under various formulas and factors, including operating costs, maintenance, and taxes. For additional information regarding leases and rental payments, see Note 18 of the Notes to Consolidated Financial Statements.

ITEM 3. LEGAL PROCEEDINGS

The information contained in Note 18 of the Notes to Consolidated Financial Statements is incorporated by reference herein.

ITEM 4. MINE SAFETY DISCLOSURES

None.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

MARKET INFORMATION

The Company's common stock is traded on the NASDAQ Global Select Market under the symbol "ZION." The last reported sale price of the common stock on NASDAQ on February 18, 2014 was $30.92 per share.

The following schedule sets forth, for the periods indicated, the high and low sale prices of the Company's common stock, as quoted on NASDAQ.

	2013		2012	
	High	Low	High	Low
1st Quarter	$25.86	$21.56	$22.81	$16.40
2nd Quarter	29.41	23.10	21.55	17.45
3rd Quarter	31.40	26.79	21.68	17.58
4th Quarter	30.13	26.89	22.66	19.03

During 2013, the Company redeemed all of the outstanding $800 million par amount (799,467 shares) of its 9.5% Series C preferred stock at 100% of the $25 per depositary shares. The Company also issued several series of preferred stock during 2013, including $172 million of Series G (171,827 shares), $126 million of Series H (126,221 shares), $301 million of Series I (300,893 shares), $195 million of Series J (195,152 shares), and $6 million of additional Series A shares (5,907 shares).

See Note 14 of the Notes to Consolidated Financial Statements for further information regarding equity transactions during 2013.

As of February 18, 2014, there were 5,558 holders of record of the Company's common stock.

EQUITY CAPITAL AND DIVIDENDS

We have 4,400,000 authorized shares of preferred stock without par value and with a liquidation preference of $1,000 per share. As of December 31, 2013, 66,000, 143,750, 171,827, 126,221, 300,893, and 195,152 of preferred shares series A, F, G, H, I, and J respectively, have been issued and are outstanding. In addition, holders of $227 million of the Company's subordinated debt have the right to convert that debt into either Series A or C preferred stock. In general, preferred shareholders may receive asset distributions before common shareholders; however, preferred shareholders have only limited voting rights generally with respect to certain provisions of the preferred stock, the issuance of senior preferred stock, and the election of directors. Preferred stock dividends reduce earnings available to common shareholders and are paid quarterly in arrears. The redemption amount is computed at the per share liquidation preference plus any declared but unpaid dividends. All the outstanding series of preferred stock are registered with the SEC. In addition, Series A, F, G, and H preferred stock are listed and traded on the New York Stock Exchange. See Note 14 of the Notes to Consolidated Financial Statements for further information regarding the Company's preferred stock.

The frequency and amount of common stock dividends paid during the last two years are as follows:

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
2013	$0.01	$0.04	$0.04	$0.04
2012	0.01	0.01	0.01	0.01

The Company's Board of Directors approved a dividend of $0.04 per common share payable on February 27, 2014 to shareholders of record on February 20, 2014. The Company expects to continue its policy of paying regular cash dividends on a quarterly basis, although there is no assurance as to future dividends because they depend on future earnings, capital requirements, financial condition, and regulatory approvals.

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

The information contained in Item 12 of this Form 10-K is incorporated by reference herein.

SHARE REPURCHASES

The following schedule summarizes the Company's share repurchases for the fourth quarter of 2013.

Period	Total number of shares repurchased [1]	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Approximate dollar value of shares that may yet be purchased under the plan
October	1,860	$27.40	—	$—
November	550	28.25	—	—
December	140	29.20	—	—
Fourth quarter	2,550	27.68	—	

[1]Represents common shares acquired from employees in connection with the Company's stock compensation plan. Shares were acquired from employees to pay for their payroll taxes upon the vesting of restricted stock and restricted stock units under the "withholding shares" provision of an employee share-based compensation plan.

PERFORMANCE GRAPH

The following stock performance graph compares the five-year cumulative total return of Zions Bancorporation's common stock with the Standard & Poor's 500 Index and the KBW Bank Index, both of which include Zions Bancorporation. The KBW Bank Index is a market capitalization-weighted bank stock index developed and published by Keefe, Bruyette & Woods, Inc., a nationally recognized brokerage and investment banking firm specializing in bank stocks. The index is composed of 24 geographically diverse stocks representing national money center banks and leading regional financial institutions. The stock performance graph is based upon an initial investment of $100 on December 31, 2008 and assumes reinvestment of dividends.

PERFORMANCE GRAPH FOR ZIONS BANCORPORATION INDEXED COMPARISON OF 5-YEAR CUMULATIVE TOTAL RETURN

	2008	2009	2010	2011	2012	2013
Zions Bancorporation	100.0	52.7	99.6	67.0	88.4	124.3
KBW Bank Index	100.0	98.3	121.3	93.2	123.8	170.5
S&P 500	100.0	126.5	145.5	148.6	172.3	228.0

ITEM 6. SELECTED FINANCIAL DATA
FINANCIAL HIGHLIGHTS

(Dollar amounts in millions, except per share amounts)	2013/2012 Change	2013	2012	2011	2010	2009
For the Year						
Net interest income	-2 %	$1,696.3	$1,731.9	$1,756.2	$1,714.3	$1,885.6
Noninterest income	-20 %	337.4	419.9	498.2	453.6	816.0
Total revenue	-5 %	2,033.7	2,151.8	2,254.4	2,167.9	2,701.6
Provision for loan losses	-713 %	(87.1)	14.2	74.5	852.7	2,017.1
Noninterest expense	+7 %	1,714.4	1,595.0	1,658.6	1,718.3	1,671.3
Impairment loss on goodwill	-100 %	—	1.0	—	—	636.2
Income (loss) before income taxes	-25 %	406.4	541.6	521.3	(403.1)	(1,623.0)
Income taxes (benefit)	-26 %	142.9	193.4	198.6	(106.8)	(401.3)
Net income (loss)	-24 %	263.5	348.2	322.7	(296.3)	(1,221.7)
Net income (loss) applicable to noncontrolling interests	-77 %	(0.3)	(1.3)	(1.1)	(3.6)	(5.6)
Net income (loss) applicable to controlling interest	-25 %	263.8	349.5	323.8	(292.7)	(1,216.1)
Net earnings (loss) applicable to common shareholders	+65 %	294.0	178.6	153.4	(412.5)	(1,234.4)
Per Common Share						
Net earnings (loss) – diluted	+63 %	1.58	0.97	0.83	(2.48)	(9.92)
Net earnings (loss) – basic	+63 %	1.58	0.97	0.83	(2.48)	(9.92)
Dividends declared	+225 %	0.13	0.04	0.04	0.04	0.10
Book value[1]	+11 %	29.57	26.73	25.02	25.12	27.85
Market price – end		29.96	21.40	16.28	24.23	12.83
Market price – high		31.40	22.81	25.60	30.29	25.52
Market price – low		21.56	16.40	13.18	12.88	5.90
At Year-End						
Assets	+1 %	56,031	55,512	53,149	51,035	51,123
Net loans and leases	+4 %	39,043	37,665	37,258	36,830	40,260
Deposits	— %	46,362	46,133	42,876	40,935	41,841
Long-term debt	-3 %	2,274	2,337	1,954	1,943	2,033
Shareholders' equity:						
Preferred equity	-11 %	1,004	1,128	2,377	2,057	1,503
Common equity	+11 %	5,461	4,924	4,608	4,591	4,190
Noncontrolling interests	+100 %	—	(3)	(2)	(1)	17
Performance Ratios						
Return on average assets		0.48 %	0.66 %	0.63 %	(0.57)%	(2.25)%
Return on average common equity		5.73 %	3.76 %	3.32 %	(9.26)%	(28.35)%
Tangible return on average tangible common equity		7.44 %	5.18 %	4.72 %	(11.88)%	(18.93)%
Net interest margin		3.36 %	3.57 %	3.77 %	3.70 %	3.91 %
Capital Ratios[1]						
Equity to assets		11.54 %	10.90 %	13.14 %	13.02 %	11.17 %
Tier 1 common		10.18 %	9.80 %	9.57 %	8.95 %	6.73 %

Tier 1 leverage	10.48	%	10.96	%	13.40	%	12.56	%	10.38	%
Tier 1 risk-based capital	12.77	%	13.38	%	16.13	%	14.78	%	10.53	%
Total risk-based capital	14.67	%	15.05	%	18.06	%	17.15	%	13.28	%
Tangible common equity	8.02	%	7.09	%	6.77	%	6.99	%	6.12	%
Tangible equity	9.85	%	9.15	%	11.33	%	11.10	%	9.16	%
Selected Information										
Average common and common-equivalent shares (in thousands)	184,297		183,236		182,605		166,054		124,443	
Common dividend payout ratio	8.20	%	4.14	%	4.80	%	na		na	
Full-time equivalent employees	10,452		10,368		10,606		10,524		10,529	
Commercial banking offices	469		480		486		495		491	

[1] At year-end.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

MANAGEMENT'S DISCUSSION AND ANALYSIS

EXECUTIVE SUMMARY

Company Overview

Zions Bancorporation ("the Parent") and subsidiaries (collectively "the Company," "Zions," "we," "our," "us") together compr
$56 billion financial holding company headquartered in Salt Lake City, Utah. The Company is considered a "systemically important financial institution" under the Dodd-Frank Act.

- As of December 31, 2013, the Company was the 17th largest domestic bank holding company in terms of deposits and is included in the S&P 500 and NASDAQ Financial 100 indices.
- At December 31, 2013, the Company operated banking businesses through 469 domestic branches in ten Western and Southwestern states.
- The Company ranked in the top 10 nationally for loans provided to small businesses, under both the Small Business Administration's 7(a) and 504 programs.
- The Company has been awarded numerous "Excellence" awards by Greenwich Associates, having received 12 awards for the 2013 survey.
- Revenues and profits are primarily derived from commercial customers.
- The Company also provides public finance, wealth management and brokerage services.

Long-Term Strategy

We strive to maintain a local community and regional bank approach for customer-facing elements of our business. We believe that our target customers appreciate the local focus and fast decision-making provided by our local management teams. By retaining a significant degree of autonomy in product offerings and pricing, we believe our banks have a meaningful competitive advantage over larger national banks whose loan and deposit products are often homogeneous. However, we centralize or oversee centrally many non-customer facing operations, such as risk and capital management, and technology and back-office operations. By centralizing many of these functions, we believe we can generally achieve greater economies of scale and stronger risk management, and that scale gives our portfolio of community banks superior access to capital markets, and more robust treasury management and other product capabilities than smaller, independent community banks.

Our strategy is driven by four key factors:

- focus on growth markets;
- maintain a sustainable competitive advantage over large national and global banks by keeping many decisions that affect customers local;
- maintain a sustainable competitive advantage over community banks through superior products, productivity, efficiency, and a lower cost of capital; and
- centralize and standardize policies and oversight of key risks, technology and operations.

Focus on Growth Markets

The Company seeks to grow both organically and through acquisitions in growth markets. The states in our Western geographic footprint have, on average, experienced higher rates of population and economic growth than the rest of the country. Our footprint is well diversified by industry, and enjoys strong business formation rates, real estate development, and general economic expansion.

- GDP growth in our footprint has exceeded nominal U.S. GDP by an average of 1.3% per year (compounded) over the last ten years; i.e., from 2002-2012, nominal U.S. GDP grew by 3.8%, while nominal GDP in Zions' footprint (weighted by December 31, 2013 assets) grew by 5.1%.
- Job creation within the Zions' footprint has greatly exceeded the national rate during the past ten years. U.S. nonfarm payroll jobs increased by 5.0% during the last ten years; however, job creation in Zions' footprint increased by 13.6%.

While some states in our footprint experienced a significant slowing in economic activity during the recent recession, others have experienced above-average growth and stronger resistance to the economic downturn.

More than 75% of the Company's assets are located in Utah, California and Texas. Zions Bank has approximately $19 billion in assets, which represent 33% of the Company's assets. Zions Bank is the second largest full-service commercial bank in the state of Utah and the fourth largest in Idaho as measured by domestic deposits, and operates in all submarkets in Utah and most submarkets in Idaho. The Utah economy is primarily based on the energy, agriculture, real estate, computer technology, education, health care, and financial services sectors. During 2013, Utah employment grew at a rate of 6.4% compared to the national employment growth rate of 1.6%. This growth decreased Utah's overall unemployment rate to 4.1% in 2013 from 5.4% in 2012. In addition, the Utah state government has been recognized for its policies promoting a business-friendly climate, providing a predictable and stable tax policy, and controlling government spending levels. See "Business Segment Results" on page 46 for further discussion on the 2013 performance of Zions Bank.

California's economy is the largest in the United States, representing approximately 13% of the nation's GDP, and is based on a diverse group of business sectors. CB&T has approximately $11 billion in assets, which represent 19% of the Company's assets. The state has continued to experience improvements in residential property and CRE values. Increased employment, combined with recently approved increases in taxes have resulted in an estimated $2.4 billion surplus for the state budget. Trends in unemployment, home foreclosures, and bank credit problems continue to improve throughout California, resulting in corresponding reductions in problem credits and nonperforming assets at CB&T. The state's unemployment rate steadily declined from its peak of 12.4% in October 2010, to 8.3% in December 2013, but still remains well above the 6.7% national average. California's recovery, however, has been uneven, with coastal areas experiencing much greater gains in employment and housing prices than the interior parts of the state. CB&T's primary markets – the coastal and major metropolitan areas in California including the San Francisco Bay area, Los Angeles County, Orange County, and San Diego – continued to experience economic improvements in 2013 compared to 2012. Unemployment rates are much lower in CB&T's primary markets compared to the state as a whole. See "Business Segment Results" on page 46 for further discussion of the 2013 performance of CB&T.

Amegy, located in Texas, has $14 billion in assets, which represent 24% of the Company's assets. Texas has a well diversified economy that is the second largest in the United States. Significant drivers of its growth are the energy, health care, manufacturing, transportation, and technology sectors. In addition, the Texas economic environment benefits from business-friendly growth policies and affordable housing markets. These attributes and industry sectors have propelled the Texas economy to outperform the nation, which has resulted in the unemployment rate declining to 6.0% compared to the national rate of 6.7%. Amegy's three primary markets, Houston, Dallas and San Antonio, experienced strong job growth in 2013. See "Business Segment Results" on page 46 for further discussion on the 2013 performance of Amegy.

Keep Decisions That Affect Customers Local

We believe that over the long term, ensuring that local management teams retain the authority over many of the decisions affecting their customers is a strategy that ultimately generates optimal growth and profitability in our banking businesses. We operate eight different community and regional banks, each under a different name and each with its own charter, chief executive officer, and management team. We believe this approach allows us to attract

and retain exceptional management, and provides service of the highest quality to our targeted customers. This structure helps ensure that many of the decisions related to customers are made at a local level:

- branding and marketing strategies;
- product offerings and pricing;
- credit decisions (within the limits of established corporate policy); and
- relationship management strategies and the integration of various business lines.

The results of this service are evident in the outcome of the Greenwich Associates annual survey, wherein the Company consistently receives numerous “Excellent” ratings from small and middle-market businesses.

Maintain a Sustainable Competitive Advantage Over Community Banks

To create a sustainable competitive advantage over other smaller community banks, we focus on achieving better product breadth and quality, productivity, economies of scale, availability of liquidity, and a lower cost of capital. Compared to community banks:

- We use the combined scale of all of our banking operations to create a broad product offering;
- Our larger capital base and breadth of product offerings allows us to lend to business customers of a wide range of sizes, from small businesses to large companies;
- For certain products for which economies of scale are believed to be critical, the Company “manufactures” the product centrally or is able to obtain services from third-party vendors at lower costs due to volume-driven pricing power; and
- Our combined size and diversification affords us superior access to the capital markets for debt and equity financing; over the long term, this advantage has historically, and should in the future, result in a lower cost of capital than our subsidiary banks could achieve on their own.

Centralize and Standardize Policies and Oversight of Key Risks

We seek to standardize policies and practices related to the management of key risks in order to assure a consistent risk profile in an otherwise decentralized management model. Among these key risks and functions are credit, interest rate, liquidity, and market risks.

- The Company conducts regular stress testing of the loan portfolio using multiple economic scenarios. Such tests help to identify pockets of risk and enable management to reduce risk.
- The Company oversees credit risk using a single credit policy and specialists in business, commercial real estate’ consumer lending, and in concentration risk management.
- The Company regularly measures interest rate and liquidity risk and uses capital markets instruments to adjust risks to stay within Board-approved levels.
- The Company centrally monitors and oversees operational risk. Centralized internal audit, credit examination, and compliance functions test compliance with established policies.

MANAGEMENT’S OVERVIEW OF 2013 PERFORMANCE

The Company reported net earnings applicable to common shareholders for 2013 of $294.0 million or $1.58 per diluted common share compared to $178.6 million or $0.97 per diluted common share for 2012.

While we are encouraged with the 2013 results, we strive to further improve our return on equity through improved business operations, lower cost of funding, and increased revenue.

Areas Experiencing Strength in 2013

- The Company improved its profitability, generating a 7.44% tangible return on average tangible common equity compared to 5.18% in 2012. Two major items had a significant adverse impact on profitability during the year: 1) extinguishment expense related to high-cost debt that was redeemed during 2013, and 2) net impairment losses on investment securities. Together, these items reduced after-tax earnings by approximately $174.2 million. One major item had a significant favorable impact on profitability – the preferred stock redemption of $126 million associated with the call of Zions' Series C preferred stock.
- Tier 1 common ("T1C") capital plus reserves for credit losses improved and now ranks at or above peer medians (see Chart 1). We made significant additional progress toward reducing the cost of our capital and debt. In 2013, we fully redeemed our high-cost Series C preferred stock which had a carrying value of $926 million. To redeem the Series C preferred stock, we issued lower-cost Series G, H, I and J preferred shares. As a result of these actions, we estimate that preferred dividends in 2014 will be approximately $72 million, compared to preferred dividends paid of $95 million in 2013. Our T1C capital ratio further improved to 10.18% at December 31, 2013. We successfully tendered for $258 million of expensive senior notes and $250 million of expensive subordinated debt; in both instances, the cost of replacement debt was significantly lower.
- Asset quality improved significantly; nonperforming lending-related assets declined 39% in 2013 (see Chart 2), and net charge-offs declined to $52 million in 2013 from $155 million in 2012. As a result, credit costs, including other real estate expense and credit-related expense, declined 50%.
- Loans, our primary revenue driver, increased on a net basis by $1.4 billion, or 3.7%, compared to December 31, 2012, including increases of $1.2 billion in commercial and industrial, $387 million in 1-4 family residential, and $244 million in construction and land development loans. This loan growth came despite the net run-off of $152 million in owner occupied loans, $57 million in commercial real estate term loans, and $178 million in FDIC-supported loans. Unfunded lending commitments increased $1.9 billion in 2013, which is expected to result in improved loan growth in 2014.
- Despite a difficult interest rate environment and modest loan growth, we successfully maintained relatively stable net interest income in 2013 compared to 2012 (see Chart 3).
- AOCI improved by $254 million, due in large measure to improved market values for the Company's CDO securities and reduction of impairment losses on investment securities.

Chart 1. TIER 1 COMMON CAPITAL + RESERVES AS A PERCENTAGE OF RISK-WEIGHTED ASSETS

Chart 2. NONPERFORMING LENDING-RELATED ASSETS AS A PERCENTAGE OF NET LOANS AND OTHER REAL ESTATE OWNED

Chart 3. NET INTEREST INCOME
(amounts in millions)

Areas Experiencing Weakness in 2013

- Our net interest margin declined to 3.36% from 3.57% in 2012, but continued to remain reasonably strong relative to other peer banks. This decline was predominantly due to the substantial increase in low-yielding money market investments, which was driven by a strong increase in noninterest-bearing demand deposits. Additional pressure on the NIM in 2013 was also due to loan maturities and resets. Many loans that were originated in prior years had higher rates than market rates during 2013, and thus when such loans mature or the rates reset, the yield frequently declines compared to the prior yield.
- Redemption expenses of high-cost debt weighed significantly on profitability. The high cost of debt is a byproduct of our efforts to stabilize the Company's capital base and funding during the recent recession. While significant debt refinancing activities were completed in 2013, some additional relatively expensive debt that matures in 2014 and 2015 remains.
- While some credit quality ratios, such as net charge-offs as a percentage of average loans, have improved to prerecession levels, other ratios, such as nonperforming lending-related assets as a percentage of loans and other real estate owned, are still elevated compared to long-term averages.

- Net impairment losses on investment securities were $165 million in 2013. Of this amount, $137.1 million was related to planned CDO sales. The CDOs were sold during the first quarter of 2014 at prices higher than their market prices during the recent recession.

Areas of Focus for 2014

- Increase the loan growth rate, primarily through continued strong business lending and additional growth in residential mortgage lending.
- Further reduce nonaccrual and classified loans.
- Increase fee income through changes to product pricing, improved product distribution, and improved cross sales.
- Manage noninterest expenses.

Schedule 1 presents the key drivers of the Company's performance during 2013 and 2012:

Schedule 1
KEY DRIVERS OF PERFORMANCE
2013 COMPARED TO 2012

Driver	2013	2012	Change better/(worse)
	(Amounts in billions)		
Average net loans and leases	$38.1	$37.0	3 %
Average money market investments	8.8	7.9	11 %
Average noninterest-bearing deposits	18.0	16.7	8 %
Average total deposits	45.3	43.4	4 %
	(Amounts in millions)		
Net interest income	$1,696.3	$1,731.9	(2)%
Provision for loan losses	(87.1)	14.2	nm
Net impairment losses on investment securities	(165.1)	(104.1)	(59)%
Other noninterest income	502.5	524.0	(4)%
Noninterest expense	1,714.4	1,596.0	(7)%
Nonaccrual loans [1]	406	648	37 %
Net interest margin	3.36 %	3.57 %	(21)bps
Ratio of nonperforming lending-related assets to net loans and leases and other real estate owned [2]	1.15 %	1.96 %	81 bps
Ratio of total allowance for credit losses to net loans and leases outstanding	2.14 %	2.66 %	52 bps
Tier 1 common capital ratio	10.18 %	9.80 %	38 bps

[1] Includes FDIC-supported loans
[2] Includes loans for sale

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CRITICAL ACCOUNTING POLICIES AND SIGNIFICANT ESTIMATES

Note 1 of the Notes to Consolidated Financial Statements contains a summary of the Company’s significant accounting policies. Further explanations of significant accounting policies are included where applicable in the remaining Notes to Consolidated Financial Statements. Discussed below are certain significant accounting policies that we consider critical to the Company’s financial statements. These critical accounting policies were selected because the amounts affected by them are significant to the financial statements. Any changes to these amounts, including changes in estimates, may also be significant to the financial statements. We believe that an understanding of certain of these policies, along with the related estimates we are required to make in recording the financial transactions of the Company, is important to have a complete picture of the Company’s financial condition. In addition, in arriving at these estimates, we are required to make complex and subjective judgments, many of which include a high degree of uncertainty. The following discussion of these critical accounting policies includes the significant estimates related to these policies. We have discussed each of these accounting policies and the related estimates with the Audit Committee of the Board of Directors.

We have included, where applicable in this document, sensitivity schedules and other examples to demonstrate the impact of the changes in estimates made for various financial transactions. The sensitivities in these schedules and examples are hypothetical and should be viewed with caution. Changes in estimates are based on variations in assumptions and are not subject to simple extrapolation, as the relationship of the change in the assumption to the change in the amount of the estimate may not be linear. In addition, the effect of a variation in one assumption is in reality likely to cause changes in other assumptions, which could potentially magnify or counteract the sensitivities.

Fair Value Estimates

The Company measures or monitors many of its assets and liabilities on a fair value basis. Fair value is the price that could be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. To increase consistency and comparability in fair value measures, current accounting guidance has established a three-level hierarchy to prioritize the valuation inputs among (1) observable inputs that reflect quoted prices in active markets, (2) inputs other than quoted prices with observable market data, and (3) unobservable data such as the Company’s own data or single dealer nonbinding pricing quotes.

When observable market prices are not available, fair value is estimated using modeling techniques such as discounted cash flow analysis. These modeling techniques utilize assumptions that market participants would use in pricing the asset or the liability, including assumptions about the risk inherent in a particular valuation technique, the effect of a restriction on the sale or use of an asset, the related life of the asset and applicable growth rate, the risk of nonperformance, and other related assumptions.

The selection and weighting of the various fair value techniques may result in a fair value higher or lower than carrying value. Considerable judgment may be involved in determining the amount that is most representative of fair value.

For assets and liabilities recorded at fair value, the Company’s policy is to maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurements for those items where there is an active market. In certain cases, when market observable inputs for model-based valuation techniques may not be readily available, the Company is required to make judgments about assumptions market participants would use in estimating the fair value of the financial instrument. The models used to determine fair value adjustments are periodically evaluated by management for relevance under current facts and circumstances.

Changes in market conditions may reduce the availability of quoted prices or observable data. For example, reduced liquidity in the capital markets or changes in secondary market activities could result in observable market inputs becoming unavailable. When market data is not available, the Company would use valuation techniques requiring more management judgment to estimate the appropriate fair value.

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Fair value is used on a recurring basis for certain assets and liabilities in which fair value is the primary measure of accounting. Fair value is used on a nonrecurring basis to measure certain assets or liabilities (including HTM securities, loans held for sale, and OREO) for impairment or for disclosure purposes in accordance with current accounting guidance.

Impairment analysis also relates to long-lived assets, goodwill, and core deposit and other intangible assets. An impairment loss is recognized if the carrying amount of the asset is not likely to be recoverable and exceeds its fair value. In determining the fair value, management uses models and applies the techniques and assumptions previously discussed.

Investment securities are valued using several methodologies, which depend on the nature of the security, availability of current market information, and other factors. Certain CDOs are valued using an internal model and the assumptions are analyzed for sensitivity. "Investment Securities Portfolio" on page 51 provides more information regarding this analysis.

Investment securities are reviewed formally on a quarterly basis for the presence of OTTI. The evaluation process takes into account current market conditions, the fair value of the security relative to its amortize cost, and many other factors. The decision to deem these securities OTTI is based on a specific analysis of the structure of each security and an evaluation of the underlying collateral. OTTI is considered to have occurred if (1) we intend to sell the security; (2) 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.

Notes 1, 6, 8, 10 and 21 of the Notes to Consolidated Financial Statements and "Investment Securities Portfolio" on page 51 contain further information regarding the use of fair value estimates.

Allowance for Credit Losses

The allowance for credit losses includes the allowance for loan losses and the reserve for unfunded lending commitments. The allowance for loan losses provides for probable losses that have been identified with specific customer relationships and for probable losses believed to be inherent in the loan portfolio, but which have not been specifically identified. The determination of the appropriate level of the allowance is based on periodic evaluations of the portfolios. This process includes both quantitative and qualitative analyses, as well as a qualitative review of the results. The qualitative review requires a significant amount of judgment, and is described in more detail in Note 7 of the Notes to Consolidated Financial Statements.

The reserve for unfunded lending commitments provides for potential losses associated with off-balance sheet lending commitments and standby letters of credit. The reserve is estimated using the same procedures and methodologies as for the allowance for loan losses, plus assumptions regarding the probability and amount of unfunded commitments being drawn.

There are numerous components that enter into the evaluation of the allowance for loan losses. Although we believe that our processes for determining an appropriate level for the allowance adequately address the various components that could potentially result in credit losses, the processes and their elements include features that may be susceptible to significant change. Any unfavorable differences between the actual outcome of credit-related events and our estimates and projections could require an additional provision for credit losses. As an example, if a total of $1.5 billion of Pass grade loans were to be immediately classified as Special Mention, Substandard or Doubtful (as defined in Note 7 of the Notes to Consolidated Financial Statements) in the same proportion and in the same loan categories as the existing criticized and classified loans to the whole portfolio, the quantitatively determined amount of the allowance for loan losses at December 31, 2013 would increase by approximately $63 million. This sensitivity analysis is hypothetical and has been provided only to indicate the potential impact that changes in the level of the

criticized and classified loans may have on the allowance estimation process.

Although the qualitative process is subjective, it represents the Company's best estimate of qualitative factors impacting the determination of the allowance for loan losses. Such factors include, but are not limited to, national and regional economic trends and indicators. We believe that given the procedures we follow in determining the allowance for loan losses for the loan portfolio, the various components used in the current estimation processes are appropriate.

Note 7 of the Notes to Consolidated Financial Statements and "Credit Risk Management" on page 65 contain further information and more specific descriptions of the processes and methodologies used to estimate the allowance for credit losses.

Accounting for Goodwill

Goodwill is initially recorded at fair value and is subsequently evaluated at least annually for impairment in accordance with current accounting guidance. We perform this annual test as of October 1 of each year, or more often if events or circumstances indicate that carrying value may not be recoverable. The goodwill impairment test for a given reporting unit (generally one of our subsidiary banks) compares its fair value with its carrying value. If the carrying amount exceeds fair value, an additional analysis must be performed to determine the amount, if any, by which goodwill is impaired.

To determine the fair value, we generally use a combination of up to three separate methods: comparable publicly traded financial service companies (primarily banks and bank holding companies) in the Western and Southwestern states ("Market Value"); where applicable, comparable acquisitions of financial services companies in the Western and Southwestern states ("Transaction Value"); and the discounted present value of management's estimates of future cash flows. Critical assumptions that are used as part of these calculations include:

- selection of comparable publicly traded companies based on location, size, and business focus and composition;
- selection of market comparable acquisition transactions based on location, size, business focus and composition, and date of the transaction;
- the discount rate, which is based on Zions estimate of its cost of capital, applied to future cash flows;
- the potential future earnings and cash flows of the reporting unit;
- the relative weight given to the valuations derived by the three methods described; and
- the control premium associated with reporting units.

We apply a control premium in the Market Value approach to determine the reporting units' equity values. Control premiums represent the ability of a controlling shareholder to change how the Company is managed and can cause the fair value of a reporting unit as a whole to exceed its market capitalization. Based on a review of historical bank acquisition transactions within the Company's geographic footprint, and a comparison of the target banks' market values 30 days prior to the announced transaction to the deal value, we have determined that a control premium of 25% was appropriate at the most recent test date.

Since estimates are an integral part of the impairment computations, changes in these estimates could have a significant impact on any calculated impairment amount. Estimates include economic conditions, which impact the assumptions related to interest and growth rates, loss rates and imputed cost of equity capital. The fair value estimates for each reporting unit incorporate current economic and market conditions, including Federal Reserve monetary policy expectations and the impact of legislative and regulatory changes. Additional factors that may significantly affect the estimates include, among others, competitive forces, customer behaviors and attrition, loan losses, changes in growth trends, cost structures and technology, changes in equity market values and merger and acquisition valuations, and changes in industry conditions.

Weakening in the economic environment, a decline in the performance of the reporting units, or other factors could cause the fair value of one or more of the reporting units to fall below carrying value, resulting in a goodwill

impairment charge. Additionally, new legislative or regulatory changes not anticipated in management's expectations may cause the fair value of one or more of the reporting units to fall below the carrying value, resulting in a goodwill impairment charge. Any impairment charge would not affect the Company's regulatory capital ratios, tangible common equity ratio, or liquidity position.

During the fourth quarter of 2013, we performed our annual goodwill impairment evaluation of the entire organization, effective October 1, 2013. Upon completion of the evaluation process, we concluded that none of our subsidiary banks was impaired. Furthermore, the evaluation process determined that the fair values of Amegy, CB&T, and Zions Bank exceeded their carrying values by 18%, 44% and 13%, respectively. Additionally, we performed a hypothetical sensitivity analysis on the discount rate assumption to evaluate the impact of an adverse change to this assumption. If the discount rate applied to future earnings were increased by 100 bps, then the fair values of Amegy, CB&T, and Zions Bank would exceed their carrying values by 14%, 39%, and 4%, respectively. Note 10 of the Notes to Consolidated Financial Statements contains additional information related to goodwill.

Income Taxes

The Company is subject to the income tax laws of the United States, its states and other jurisdictions where the Company conducts business. These laws are complex and subject to different interpretations by the taxpayer and the various taxing authorities. In determining the provision for income taxes, management must make judgments and estimates about the application of these laws and related regulations. In the process of preparing the Company's tax returns, management attempts to make reasonable interpretations of the tax laws. These interpretations are subject to challenge by the tax authorities upon audit or to reinterpretation based on management's ongoing assessment of facts and evolving case law.

The Company had net Deferred Tax Assets ("DTAs") of $304 million at December 31, 2013, compared to $406 million at December 31, 2012. The most significant portions of the deductible temporary differences relate to (1) the allowance for loan losses and (2) fair value adjustments or impairment write-downs related to securities. No valuation allowance has been recorded as of December 31, 2013 related to DTAs except for a full valuation reserve related to certain acquired net operating losses from an immaterial nonbank subsidiary. In assessing the need for a valuation allowance, both the positive and negative evidence about the realization of DTAs were evaluated. The ultimate realization of DTAs is based on the Company's ability to (1) carry back net operating losses to prior tax periods, (2) utilize the reversal of taxable temporary differences to offset deductible temporary differences, (3) implement tax planning strategies that are prudent and feasible, and (4) generate future taxable income.

After considering the weight of the positive evidence compared to the negative evidence, management has concluded it is more likely than not that the Company will realize the existing DTAs and that an additional valuation allowance is not needed.

On a quarterly basis, management assesses the reasonableness of its effective tax rate based upon its current best estimate of net income and the applicable taxes expected for the full year. Deferred tax assets and liabilities are also reassessed on a regular basis. Reserves for contingent tax liabilities are reviewed quarterly for adequacy based upon developments in tax law and the status of examinations or audits. The Company has tax reserves at December 31, 2013 of approximately $2 million, net of federal and/or state benefits, for uncertain tax positions primarily for various state tax contingencies in several jurisdictions.

Note 15 of the Notes to Consolidated Financial Statements contains additional information regarding income taxes.

RECENT ACCOUNTING PRONOUNCEMENTS AND DEVELOPMENTS

Note 2 of the Notes to Consolidated Financial Statements discusses the expected impact of accounting pronouncements recently issued but not yet required to be adopted. Where applicable, the other Notes to

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Consolidated Financial Statements and MD&A discuss new accounting pronouncements adopted during 2013 to the extent they materially affect the Company's financial condition, results of operations, or liquidity.

RESULTS OF OPERATIONS

The Company reported net earnings applicable to common shareholders of $294.0 million, or $1.58 per diluted common share for 2013, compared to $178.6 million, or $0.97 per diluted common share for 2012. The following changes had a favorable impact on net earnings applicable to common shareholders:

- $125.7 million benefit from preferred stock redemption;
- $101.4 million decrease in the provision for loan losses;
- $75.4 million reduction in preferred stock dividends;
- $21.5 million decrease in the provision for unfunded lending commitments; and
- $18.0 million decline in other real estate expense.

The impact of these items was partially offset by the following:

- $120.2 million increase in debt extinguishment cost;
- $61.1 million increase in net impairment losses on investment securities;
- $35.6 million decrease in net interest income;
- $27.3 million increase in salaries and employee benefits; and
- $25.3 million increase in other noninterest expense.

In 2012, the Company reclassified credit card interchange fee income from interest and fees on loans to other service charges, commissions and fees. Additionally, income on factored receivables was reclassified from other service charges, commissions and fees to interest and fees on loans. There was no change in net earnings for any prior period presented and the reclassification did not significantly impact the Company's net interest margin. See Note 1 of the Notes to Consolidated Financial Statements for additional information.

The Company reported net earnings applicable to common shareholders for 2012 of $178.6 million, or $0.97 per diluted share, compared to $153.4 million, or $0.83 per diluted share for 2011. The following changes had a favorable impact on net earnings:

- $60.3 million decrease in the provision for loan losses;
- $57.8 million decrease in other real estate expense;
- $20.5 million decrease in FDIC premiums;
- $13.4 million increase in dividends and other investment income; and
- $11.9 million increase in loan sales and servicing income.

The impact of these items was partially offset by the following:

- $70.4 million increase in net impairment losses on investment securities;
- $24.2 million decrease in net interest income;
- $16.8 million increase in fair value and nonhedge derivative loss;
- $16.5 million decrease in other noninterest income; and
- $13.7 million increase in the provision for unfunded lending commitments.

Net Interest Income, Margin and Interest Rate Spreads

Net interest income is the difference between interest earned on interest-earning assets and interest paid on interest-bearing liabilities. Taxable-equivalent net interest income is the largest portion of the Company's revenue. For 2013, taxable-equivalent net interest income was $1,711.8 million, compared to $1,750.2 million and $1,776.4 million, in 2012 and 2011, respectively. The tax rate used for calculating all taxable-equivalent adjustments was 35% for all periods presented.

Net interest margin in 2013 vs. 2012

The net interest margin was 3.36% and 3.57% for 2013 and 2012, respectively. The decrease resulted primarily from:

- lower yields on loans, excluding FDIC-supported loans, and AFS investment securities; and
- increased balance of low-yielding money market investments.

The impact of these items was partially offset by the following favorable developments:

- lower yields on long-term debt and deposit funding; and
- higher yields on FDIC-supported loans.

Even though the Company’s average loan portfolio, excluding FDIC-supported loans, was $1.3 billion higher in 2013 than in 2012, the average interest rate earned on those assets was 42 bps lower. This decline in interest income was primarily caused by (1) adjustable rate loans originated in the past resetting to lower rates due to the current repricing index being lower than the rate when the loans were originated, and (2) maturing loans, many of which had rate floors, being replaced with new loans at lower original coupons and/or lower floors compared to the rates at which loans were originated when spreads were higher.

The yield earned on AFS securities during 2013 was 77 bps lower than in the prior year. The yield decline primarily related to lower yields on asset backed securities. The fair values of these securities increased during 2013, but the coupon rates stayed the same, resulting in lower yields. Also, the interest rates for most of the securities in the AFS securities portfolio are based on variable rate indexes such as the 3-month LIBOR rate, which decreased between these reporting periods.

During 2013, most of the Company’s excess liquidity was invested in money market assets, primarily deposits with the Federal Reserve Bank. Average money market investments increased to 17.3% of total interest-earning assets in 2013 compared to 16.2% in the prior year period. The average rate earned on these investments remained essentially unchanged for these time periods.

Noninterest-bearing demand deposits provided the Company with low cost funding and comprised 39.7% of average total deposits in 2013 compared to 38.4% in 2012. Additionally, the average rate paid on interest-bearing deposits during 2013 decreased by 8 bps compared to 2012. As a practical matter, it is becoming difficult to reduce deposit costs further as these costs approach zero.

During 2013, the Company refinanced a portion of its long-term debt by redeeming and repurchasing higher cost debt, while issuing new lower cost debt. This resulted in a $39 million increase in the average balance of long-term debt. The average interest rate paid on long-term debt decreased by 191 bps due to these transactions, as well as a reduction in the accelerated amortization of discount related to conversions of subordinated debt to preferred stock. Refer to the “Liquidity Management Actions” section on page 85 for more information.

Net interest margin in 2012 vs. 2011

The net interest margin was 3.57% and 3.77% for 2012 and 2011, respectively. The 20 bps decrease was primarily caused by:

- lower yields on loans; and
- increased balance of low-yielding money market investments.

The impact of these items was partially offset by the following favorable developments:

- decreased accelerated amortization on convertible subordinated debt; and
- lower cost of funding due to continued favorable change in the mix of funding sources and rates.

The Company’s average loan portfolio, excluding FDIC-supported loans, was $359 million higher in 2012 than in

2011 and the average interest rate earned on those assets was 41 bps lower. The decline in interest income was primarily caused by (1) adjustable rate loans originated in the past resetting to lower rates due to the current repricing index being lower than the rate when the loans were originated, and (2) maturing loans, many of which had rate floors, being replaced with new loans at lower original coupons and/or lower floors compared to the rates at which loans were originated.
During 2012, a large portion of the Company’s excess liquidity was invested in money market assets, primarily deposits with the Federal Reserve Bank. Average money market investments increased to 16.2% of total interest-earning assets in 2012 compared to 11.4% in 2011. The average rate earned by these investments was 0.27% in 2012, essentially unchanged from 2011.
Noninterest-bearing demand deposits provided the Company with low cost funding and comprised 38.4% of average total deposits in 2012 compared to 35.2% in 2011. Additionally, the average rate paid on interest-bearing deposits in 2012 decreased by 18 bps from 2011.

Chart 4 illustrates recent trends in the net interest margin and the average federal funds rate.

Chart 4. NET INTEREST MARGIN
See “Interest Rate and Market Risk Management” on page 78 for further discussion of how we manage the portfolios of interest-earning assets, interest-bearing liabilities, and the associated risk.

The spread on average interest-bearing funds was 3.02%, 3.16% and 3.21% for 2013, 2012 and 2011, respectively. The spread on average interest-bearing funds for 2013 was affected by the same factors that had an impact on the net interest margin.

We expect the mix of interest-earning assets to change over the next several quarters due to planned sales of certain AFS CDO securities, further decreases in the FDIC-supported loan portfolio, and slight-to-moderate loan growth. Loan yields are likely to continue to experience downward pressure due to competitive pricing and lower benchmark indices (such as LIBOR). We believe that some of the downward pressure on the net interest margin will be mitigated by the lower interest expense on long-term debt resulting from the refinancing transactions executed in 2013. We expect to further reduce interest expense in 2014 through the maturities of debt with relatively high interest costs. We also believe we can offset some of the pressure on the net interest margin through loan growth. However, net interest income is likely to decline over the next year compared to 2013 and the quarterly path may exhibit some volatility.

During 2009, the Company executed a subordinated debt modification and exchange transaction. The original discount on the convertible subordinated debt was $679 million; the remaining discount at December 31, 2013 was $42 million, which is 18.7% of the $227 million of remaining outstanding convertible subordinated notes. It

included the following components:

- the fair value discount on the debt; and
- the value of the beneficial conversion feature which added the right of the debt holder to convert the debt into preferred stock.

The discount associated with the convertible subordinated debt is amortized to interest expense using the interest method over the remaining term of the subordinated debt (referred to herein as "discount amortization"). When holders of the convertible subordinated notes convert to preferred stock, the rate of amortization is accelerated by immediately expensing any unamortized discount associated with the converted debt (referred to herein as "accelerated discount amortization"). At December 31, 2012, the unamortized discount on the convertible subordinated debt was $149 million, or 32.6% of the $458 million of convertible subordinated notes that were outstanding at that time.

The Company expects to remain "asset-sensitive" with regard to interest rate risk. The current period of low interest rates has lasted for several years. During this time, the Company has maintained an interest rate risk position that is more asset sensitive than it was prior to the economic crisis, and it expects to maintain this more asset-sensitive position for what may be a prolonged period. With interest rates at low levels, there is a reduced need to protect against falling interest rates. Our estimates of the Company's actual interest rate risk position are highly dependent upon a number of assumptions regarding the repricing behavior of various deposit and loan types in response to changes in both short-term and long-term interest rates, balance sheet composition, and other modeling assumptions, as well as the actions of competitors and customers in response to those changes. In addition, our modeled projections for noninterest-bearing demand deposits, a substantial portion of our deposit balances, are particularly reliant on assumptions for which there is little historical experience. Further detail on interest rate risk is discussed in "Interest Rate Risk" on page 79.

Schedule 2 summarizes the average balances, the amount of interest earned or incurred and the applicable yields for interest-earning assets and the costs of interest-bearing liabilities that generate taxable-equivalent net interest income.

Schedule 2
DISTRIBUTION OF ASSETS, LIABILITIES, AND SHAREHOLDERS' EQUITY
AVERAGE BALANCE SHEETS, YIELDS AND RATES

(Amounts in millions)	2013 Average balance	Amount of interest [1]	Average rate	2012 Average balance	Amount of interest [1]	Average rate
ASSETS						
Money market investments	$8,848	$23.4	0.26 %	$7,930	$21.1	0.27 %
Securities:						
Held-to-maturity	762	37.4	4.91	774	42.3	5.47
Available-for-sale	3,107	72.2	2.32	3,047	94.2	3.09
Trading account	32	1.0	3.29	24	0.7	3.13
Total securities	3,901	110.6	2.84	3,845	137.2	3.57
Loans held for sale	149	5.4	3.58	187	6.6	3.51
Loans [2]:						
Loans and leases	37,677	1,701.1	4.51	36,400	1,796.1	4.93
FDIC-supported loans	430	116.4	27.08	637	95.9	15.06
Total loans	38,107	1,817.5	4.77	37,037	1,892.0	5.11
Total interest-earning assets	51,005	1,956.9	3.84	48,999	2,056.9	4.20
Cash and due from banks	1,016			1,102		
Allowance for loan losses	(830)			(986)		
Goodwill	1,014			1,015		
Core deposit and other intangibles	44			60		
Other assets	2,693			3,089		
Total assets	$54,942			$53,279		
LIABILITIES						
Interest-bearing deposits:						
Saving and money market	$22,891	39.7	0.17	$22,061	52.3	0.24
Time	2,792	15.9	0.57	3,208	23.1	0.72
Foreign	1,662	3.3	0.20	1,493	4.7	0.31
Total interest-bearing deposits	27,345	58.9	0.22	26,762	80.1	0.30
Borrowed funds:						
Federal funds purchased and other short-term borrowings	278	0.3	0.11	499	1.4	0.28
Long-term debt	2,274	185.9	8.17	2,234	225.2	10.08
Total borrowed funds	2,552	186.2	7.29	2,733	226.6	8.29
Total interest-bearing liabilities	29,897	245.1	0.82	29,495	306.7	1.04
Noninterest-bearing deposits	17,971			16,668		
Other liabilities	586			605		
Total liabilities	48,454			46,768		
Shareholders' equity:						
Preferred equity	1,360			1,768		
Common equity	5,130			4,745		
Controlling interest shareholders' equity	6,490			6,513		
Noncontrolling interests	(2)			(2)		
Total shareholders' equity	6,488			6,511		
Total liabilities and shareholders' equity	$54,942			$53,279		
Spread on average interest-bearing funds			3.02 %			3.16 %
Taxable-equivalent net interest income and net yield on interest-earning assets		$1,711.8	3.36 %		$1,750.2	3.57 %

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

2011			2010			2009		
Average balance	Amount of interest [1]	Average rate	Average balance	Amount of interest [1]	Average rate	Average balance	Amount of interest [1]	Average rate
$5,356	$13.8	0.26 %	$4,085	$11.0	0.27 %	$2,380	$7.9	0.33 %
818	44.7	5.47	866	44.3	5.12	1,263	66.9	5.29
3,895	89.6	2.30	3,416	91.5	2.68	3,313	104.2	3.14
58	2.0	3.45	61	2.2	3.64	75	2.7	3.65
4,771	136.3	2.86	4,343	138.0	3.18	4,651	173.8	3.73
146	5.7	3.94	187	8.9	4.78	226	11.0	4.88
36,041	1,924.5	5.34	37,116	2,056.1	5.54	40,511	2,269.7	5.60
856	128.5	15.01	1,210	114.4	9.46	1,058	64.4	6.09
36,897	2,053.0	5.56	38,326	2,170.5	5.66	41,569	2,334.1	5.62
47,170	2,208.8	4.68	46,941	2,328.4	4.96	48,826	2,526.8	5.17
1,056			1,214			1,245		
(1,272)			(1,556)			(1,105)		
1,015			1,015			1,174		
78			101			125		
3,363			3,912			3,783		
$51,410			$51,627			$54,048		
$21,476	84.8	0.39	$22,039	126.5	0.57	$22,548	238.0	1.06
3,750	35.6	0.95	4,747	59.8	1.26	7,235	168.0	2.32
1,515	8.1	0.53	1,626	9.8	0.60	2,011	18.7	0.93
26,741	128.5	0.48	28,412	196.1	0.69	31,794	424.7	1.34
832	6.7	0.80	1,149	12.5	1.09	2,269	14.7	0.65
1,913	297.2	15.54	1,980	383.8	19.38	2,438	178.4	7.32
2,745	303.9	11.07	3,129	396.3	12.67	4,707	193.1	4.10
29,486	432.4	1.47	31,541	592.4	1.88	36,501	617.8	1.69
14,531			13,318			11,053		
523			576			558		
44,540			45,435			48,112		
2,257			1,732			1,558		
4,614			4,452			4,354		
6,871			6,184			5,912		
(1)			8			24		
6,870			6,192			5,936		
$51,410			$51,627			$54,048		
		3.21 %			3.08 %			3.48 %
	$1,776.4	3.77 %		$1,736.0	3.70 %		$1,909.0	3.91 %

Schedule 3 analyzes the year-to-year changes in net interest income on a fully taxable-equivalent basis for the years indicated. For purposes of calculating the yields in these schedules, the average loan balances also include the principal amounts of nonaccrual and restructured loans. However, interest received on nonaccrual loans is included in income only to the extent that cash payments have been received and not applied to principal reductions. In addition, interest on restructured loans is generally accrued at reduced rates.

Schedule 3
ANALYSIS OF INTEREST CHANGES DUE TO VOLUME AND RATE

	2013 over 2012			2012 over 2011		
	Changes due to		Total	Changes due to		Total
(In millions)	Volume	Rate[1]	changes	Volume	Rate[1]	changes
INTEREST-EARNING ASSETS						
Money market investments	$2.7	$(0.4)	$2.3	$6.7	$0.6	$7.3
Securities:						
Held-to-maturity	(0.6)	(4.3)	(4.9)	(2.4)	—	(2.4)
Available-for-sale	1.5	(23.5)	(22.0)	(19.5)	24.1	4.6
Trading account	0.3	—	0.3	(1.1)	(0.2)	(1.3)
Total securities	1.2	(27.8)	(26.6)	(23.0)	23.9	0.9
Loans held for sale	(1.3)	0.1	(1.2)	1.5	(0.6)	0.9
Loans [2]:						
Loans and leases	59.5	(154.5)	(95.0)	19.3	(147.7)	(128.4)
FDIC-supported loans	(31.2)	51.7	20.5	(32.9)	0.3	(32.6)
Total loans	28.3	(102.8)	(74.5)	(13.6)	(147.4)	(161.0)
Total interest-earning assets	30.9	(130.9)	(100.0)	(28.4)	(123.5)	(151.9)
INTEREST-BEARING LIABILITIES						
Interest-bearing deposits:						
Saving and money market	2.3	(14.9)	(12.6)	0.8	(33.3)	(32.5)
Time	(2.4)	(4.8)	(7.2)	(3.9)	(8.6)	(12.5)
Foreign	0.3	(1.7)	(1.4)	—	(3.4)	(3.4)
Total interest-bearing deposits	0.2	(21.4)	(21.2)	(3.1)	(45.3)	(48.4)
Borrowed funds:						
Federal funds purchased and other short-term borrowings	(0.2)	(0.9)	(1.1)	(0.9)	(4.4)	(5.3)
Long-term debt	3.3	(42.6)	(39.3)	32.4	(104.4)	(72.0)
Total borrowed funds	3.1	(43.5)	(40.4)	31.5	(108.8)	(77.3)
Total interest-bearing liabilities	3.3	(64.9)	(61.6)	28.4	(154.1)	(125.7)
Change in taxable-equivalent net interest income	$27.6	$(66.0)	$(38.4)	$(56.8)	$30.6	$(26.2)

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

In the analysis of interest changes due to volume and rate, changes due to the volume/rate variance are allocated to volume with the following exceptions: when volume and rate both increase, the variance is allocated proportionately to both volume and rate; when the rate increases and volume decreases, the variance is allocated to rate.

Provisions for Credit Losses

The provision for loan losses is the amount of expense that, in our judgment, is required to maintain the allowance for loan losses at an adequate level based upon the inherent risks in the loan portfolio. The provision for unfunded lending commitments is used to maintain the reserve for unfunded lending commitments at an adequate level based upon the inherent risks associated with such commitments. In determining adequate levels of the allowance and reserve, we

perform periodic evaluations of the Company's various loan portfolios, the levels of actual charge-offs, credit trends, and external factors. See Note 7 of the Notes to Consolidated Financial Statements and "Credit Risk

Management” on page 65 for more information on how we determine the appropriate level for the ALLL and the RULC.

The provision for loan losses for 2013 was $(87.1) million compared to $14.2 million and $74.5 million for 2012 and 2011, respectively. During the past few years, the Company has experienced a significant improvement in credit quality metrics, including lower levels of criticized and classified loans and lower realized loss rates in most loan segments. However, the Company continues to exercise caution with regard to the appropriate level of the allowance for loan losses, given the slow economic recovery. At December 31, 2013, classified loans were $1.3 billion compared to $1.9 billion and $2.3 billion at December 31, 2012 and 2011, respectively.

Net loan and lease charge-offs declined to $52 million in 2013 from $155 million and $456 million in 2012 and 2011, respectively. During the fourth quarter of 2013, the annualized ratio of net loan and lease charge-offs to average loans was 0.20%. See “Nonperforming Assets” on page 74 and “Allowance and Reserve for Credit Losses” on page 77 for further details.

During 2013, the Company recorded a $(17.1) million provision for unfunded lending commitments compared to $4.4 million in 2012 and $(9.3) million in 2011. The overall decrease in the provision from 2012 to 2013 resulted primarily from refinements in the process of estimating the rate at which such commitments are likely to convert into funded balances, and from continued improvements in credit quality. The decrease was partially offset by an increase in unfunded lending commitments. The increase in the provision from 2011 to 2012 was primarily caused by a higher level of unfunded loan commitments, which had outpaced improvements in credit quality. From period to period, the expense related to the reserve for unfunded lending commitments may be subject to sizeable fluctuations due to changes in the timing and volume of loan commitments, originations, and funding, as well as changes in credit quality.

Although classified and nonperforming loan volumes continue to be elevated when compared to long-term historical levels, most measures of credit quality continued to show improvement during 2013. Barring any significant economic downturn, we expect the Company’s credit costs to remain low for the next several quarters.

A significant portion of net earnings in recent periods is attributable to the reduction in the allowance for credit losses. This is primarily attributable to continued reduction in both the quantity of problem loans and the loss severity of such problem loans. Although we currently expect further reductions in the allowance based on expected improvements in credit quality, this source of earnings is not sustainable into perpetuity; furthermore, a deterioration in economic conditions within our footprint would likely result in net additions to the allowance, resulting in a significant change in profitability.

Noninterest Income

Noninterest income represents revenues the Company earns for products and services that have no interest rate or yield associated with them. For 2013, noninterest income was $337.4 million compared to $419.9 million in 2012 and $498.2 million in 2011.

Schedule 4 presents a comparison of the major components of noninterest income for the past three years.

Schedule 4
NONINTEREST INCOME

(Amounts in millions)	2013	Percent change	2012	Percent change	2011
Service charges and fees on deposit accounts	$176.3	(0.1)%	$176.4	1.1%	$174.4
Other service charges, commissions and fees	181.5	4.1	174.4	(6.2)	185.9
Trust and wealth management income	29.9	5.3	28.4	6.4	26.7
Capital markets and foreign exchange	28.1	4.9	26.8	(14.6)	31.4
Dividends and other investment income	46.1	(17.4)	55.8	31.6	42.4
Loan sales and servicing income	35.3	(11.8)	40.0	42.3	28.1
Fair value and nonhedge derivative loss	(18.2)	16.5	(21.8)	(336.0)	(5.0)
Equity securities gains, net	8.5	(24.8)	11.3	73.8	6.5
Fixed income securities gains (losses), net	(2.9)	(114.8)	19.6	64.7	11.9
Impairment losses on investment securities:					
Impairment losses on investment securities	(188.6)	(13.4)	(166.3)	(115.1)	(77.3)
Noncredit-related losses on securities not expected to be sold (recognized in other comprehensive income)	23.5	(62.2)	62.2	42.7	43.6
Net impairment losses on investment securities	(165.1)	(58.6)	(104.1)	(208.9)	(33.7)
Other	17.9	36.6	13.1	(55.7)	29.6
Total	$337.4	(19.6)	$419.9	(15.7)	$498.2

Other service charges, commissions and fees, which are comprised of ATM fees, insurance commissions, bankcard merchant fees, debit and credit card interchange fees, cash management fees, lending commitment fees, syndication and servicing fees, and other miscellaneous fees, increased by $7.1 million in 2013 compared to 2012. Most of the increase can be attributed to higher bankcard merchant and interchange fees. In 2013, other service charges, commissions and fees included approximately $34.4 million of debit card interchange fees, compared to approximately $32.5 million in 2012.

Other service charges, commissions, and fees, decreased by $11.5 million in 2012 compared to 2011. Most of the decline can be attributed to decreased debit card interchange and ATM fees, partially offset by growth in credit card interchange fees and loan fees. See Note 1 of the Notes to Consolidated Financial Statements for information regarding the reclassification of fees in prior years.

On June 29, 2011, the Federal Reserve voted to adopt regulations implementing the Durbin Amendment of The Dodd-Frank Act, which placed limits on debit card interchange fees charged by banks. The Durbin Amendment became effective in the fourth quarter of 2011 and resulted in a significant decrease in other service charges, commissions, and fees during 2012. The Company’s interchange fees may be adversely affected in the future by the recent ruling of the U.S. District Court for the District of Columbia, which invalidated the Federal Reserve Board’s current regulation of debit card interchange fees. The ruling is currently under appeal.

Capital markets and foreign exchange income includes trading income, public finance fees, foreign exchange income, and other capital market related fees. This revenue remained fairly stable in 2013 when compared to the prior year. In 2012, capital markets and foreign exchange income decreased by $4.6 million from 2011. The decrease was primarily caused by lower income from trading fixed income corporate bonds and decreased foreign exchange income, partially offset by higher fees from municipal bond transactions. In 2012, in anticipation of the adoption of the Volcker Rule of the Dodd-Frank Act, the Company discontinued the trading of corporate bonds.

Dividends and other investment income consists of revenue from the Company’s bank-owned life insurance program and revenues from other investments. Revenues from other investments include dividends on FHLB and

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Federal Reserve Bank stock, and earnings from other equity investments, including Federal Agricultural Mortgage Corporation ("FAMC") and certain alternative venture investments. For 2013, this income was $46.1 million, compared to $55.8 million in 2012. The decrease is mostly caused by lower income from alternative venture investments, partially offset by higher earnings from FHLB and FAMC.

For 2012, dividends and other investment income increased by 31.6% from 2011, mainly due to higher earnings from unconsolidated subsidiaries.

Loan sales and servicing income was $35.3 million for 2013, compared to $40.0 for the prior year. The decrease is mainly caused by decreased income from loan sales, partly offset by increased servicing fees. In 2013, the Company originated fewer mortgages and retained more loans in its portfolio than in 2012.

Loan sales and servicing income increased by $11.9 million in 2012 or 42.3% compared to 2011. The increase is primarily due to larger gains from loan sales.

Fair value and nonhedge derivative loss consists of the following:

Schedule 5
FAIR VALUE AND NONHEDGE DERIVATIVE LOSS

(Amounts in millions)	2013	Percent change	2012	Percent change	2011
Nonhedge derivative income (loss)	$(0.5)	66.7%	$(1.5)	(122.1)%	$6.8
Total return swap	(21.8)	(0.5)	(21.7)	(102.8)	(10.7)
Derivative fair value credit adjustments	4.1	192.9	1.4	227.3	(1.1)
Total	$(18.2)	16.5	$(21.8)	(336.0)	$(5.0)

Fair value and nonhedge derivative losses were $3.6 million lower in 2013 than in 2012. The decreased losses are primarily attributable to changes in fair value on interest rate swaps.

Fair value and nonhedge derivative losses were $21.8 million in 2012 and $5.0 million in 2011. The increased loss in 2012 was mainly due to higher fees related to the TRS agreement and a decrease in income from Eurodollar futures used to manage the Company's interest rate risk. TRS fees were higher in 2012 than in 2011 due to the timing of expense recognition.

During 2013, the Company recorded $8.5 million of equity securities gains, compared to $11.3 million in 2012 and $6.5 million in 2011. Most of the gains recognized in 2013 were generated by SBIC investments, private equity funds, and the sale of other investments. In 2012, the equity securities gains were primarily attributable to SBIC investments, and in 2011, to the sale of BServ, Inc. stock.

Fixed income securities losses were $2.9 million in 2013, compared to gains of $19.6 million in 2012 and $11.9 million in 2011. The net loss recorded in 2013 was primarily due to CDO sales, while the 2012 and 2011 gains resulted from the Company collecting principal payments for CDOs that had previously been written down.

The Company recognized net impairment losses on investment securities of $165.1 million in 2013, $104.1 million in 2012, and $33.7 million in 2011. See "Investment Securities Portfolio" on page 51 for additional information.

Other noninterest income was $17.9 million in 2013, compared to $13.1 million in 2012. The increase was primarily due to gains related to certain loans, which had been purchased from failed banks covered by FDIC loss-sharing agreements, as well as gains from branch deposit and asset sales. Other noninterest income was $29.6 million in 2011,

which included payments from the FDIC related to certain acquired loans that had been determined to be covered by loss sharing agreements.

Noninterest Expense

Noninterest expense increased by 7.4% to $1,714.4 million in 2013, compared to 2012. During 2013, the Company refinanced a considerable portion of its long-term debt and incurred debt extinguishment costs. The Company also continued to make significant progress in resolving problem loans and improving the credit quality of its loan portfolio, which resulted in substantially lower other real estate and credit-related expenses.

Schedule 6 presents a comparison of the major components of noninterest expense for the past three years.

Schedule 6

NONINTEREST EXPENSE

(Amounts in millions)	2013	Percent change	2012	Percent change	2011
Salaries and employee benefits	$912.9	3.1 %	$885.7	1.3 %	$874.3
Occupancy, net	112.3	(0.5)	112.9	0.4	112.5
Furniture and equipment	106.6	(2.2)	109.0	3.1	105.7
Other real estate expense	1.7	(91.4)	19.7	(74.6)	77.6
Credit-related expense	33.6	(33.5)	50.5	(18.0)	61.6
Provision for unfunded lending commitments	(17.1)	(488.6)	4.4	147.3	(9.3)
Professional and legal services	68.0	29.5	52.5	34.6	39.0
Advertising	23.4	(8.9)	25.7	(5.5)	27.2
FDIC premiums	38.0	(12.4)	43.4	(32.1)	63.9
Amortization of core deposit and other intangibles	14.4	(15.3)	17.0	(15.4)	20.1
Debt extinguishment cost	120.2	—	—	—	—
Other	300.4	9.2	275.2	(3.8)	286.0
Total	$1,714.4	7.4	$1,596.0	(3.8)	$1,658.6

Salaries and employee benefits increased by 3.1% during 2013. Most of the increase can be attributed to higher base salaries and bonuses, which were partially offset by decreased share-based compensation and lower retirement expense.

Salaries and employee benefits increased by 1.3% during 2012. Salary expense for 2012 included share-based compensation expense of $31.5 million, compared to $29.0 million in 2011. Bonus and incentive expenses were lower in 2012 than in 2011 because certain long-term incentive compensation plans were no longer expected to pay out, or to pay out at a reduced amount.

Salaries and employee benefits are shown in greater detail in Schedule 7.

Schedule 7
SALARIES AND EMPLOYEE BENEFITS

(Dollar amounts in millions)	2013	Percent change	2012	Percent change	2011
Salaries and bonuses	$773.4	3.7 %	$745.7	1.6 %	$733.7
Employee benefits:					
Employee health and insurance	48.9	0.6	48.6	(1.0)	49.1
Retirement	39.0	(4.4)	40.8	(4.0)	42.5
Payroll taxes and other	51.6	2.0	50.6	3.3	49.0
Total benefits	139.5	(0.4)	140.0	(0.4)	140.6
Total salaries and employee benefits	$912.9	3.1	$885.7	1.3	$874.3
Full-time equivalent (“FTE”) employees at December 31	10,452	0.8	10,368	(2.2)	10,606

Other real estate expense decreased 91.3% in 2013, compared to 2012. The decrease is primarily due to lower write-downs of OREO values during work-out and lower holding expenses, partially offset by decreased gains from property sales. OREO balances declined by 53.0% during the last 12 months, mostly due to a reduction in OREO properties.

Other real estate expense decreased in 2012 by 74.6% from 2011. The decrease was primarily due to a 35.9% reduction in OREO balances from 2011 to 2012, which resulted in reduced holding expenses, as well as lower write-downs of property carrying values.

Credit-related expense includes costs incurred during the foreclosure process prior to the Company obtaining title to collateral and recording an asset in OREO, as well as other out-of-pocket costs related to the management of problem loans and other assets. During 2013 and 2012, credit-related expense was $33.6 million and $50.5 million, respectively. The decrease in 2013 is primarily attributable to lower foreclosure costs and legal expenses. Additionally, the levels of problem credits have decreased from 2012. Credit related expense in 2012 was 18.0% lower than in 2011. The decline was primarily attributable to lower property tax and legal costs incurred during work-out.

Professional and legal services were $68.0 million in 2013, compared to $52.5 million in 2012. Most of the increase is attributed to higher consulting expenses related to the Company’s upgrade of its stress testing and capital planning capabilities and processes to meet CCAR standards, and to consulting fees related to projects to replace and/or upgrade its core loan, deposit, and accounting systems.

Professional and legal services were $13.5 million higher in 2012 than in 2011. The increase was mostly due to regulatory, legal, and contractual matters.

FDIC premiums decreased in 2013 by 12.4% to $38.0 million. Most of the decrease was due to improved credit quality of the Company’s loan portfolio. FDIC premiums recorded during 2012 declined by 32.1% from 2011. The decrease in 2012 resulted from the combination of a change in the premium assessment formulas prescribed by the FDIC and improved risk factors employed in those formulas.

In 2013, the Company incurred $120.2 million of debt extinguishment cost due the extinguishment of several long-term debt instruments discussed in Note 13 of the Notes to the Consolidated Financial Statements. No such expenses were incurred in 2012 or 2011.

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Other noninterest expense for 2013 was $300.4 million, compared to $275.2 million in 2012. The increase is mostly the result of increased write-downs of the FDIC indemnification asset. The balance of FDIC supported loans has declined significantly during 2013, primarily due to pay-downs and pay-offs.

Other noninterest expense decreased by $10.8 million in 2012 compared to 2011. The decline was primarily the result of lower write-downs of the FDIC indemnification asset due to better than expected performance of FDIC-supported loans. Other noninterest expense in 2012 included $1.0 million of goodwill impairment.

Foreign Operations

Zions Bank and Amegy operate branches in Grand Cayman, Grand Cayman Islands, B.W.I. The foreign branches only accept deposits from qualified domestic customers. While deposits in these branches are not subject to FRB reserve requirements, there are no federal or state income tax benefits to the Company or any customers as a result of these operations.

Foreign deposits at December 31, 2013 and 2012 were $2.0 billion and $1.8 billion, respectively, and averaged $1.7 billion in 2013 and $1.5 billion in 2012. Foreign deposits are related to domestic customers of our subsidiary banks.

Income Taxes

The Company’s income tax expense was $143.0 million in 2013, $193.4 million in 2012, and $198.6 million in 2011. The Company’s effective income tax rates, including the effects of noncontrolling interests, were 35.1% in 2013, 35.6% in 2012, and 38.0% in 2011. The tax expense rates for all tax years were reduced by nontaxable municipal interest income and nontaxable income from certain bank-owned life insurance. These rate reductions were mostly offset by the nondeductibility of a portion of the accelerated discount amortization from the conversion of subordinated debt to preferred stock. However, in 2011, the amount of the nondeductible amortization from conversions of subordinated debt to preferred stock was significantly higher than the amounts in 2013 and 2012, increasing the tax rate for 2011.

As discussed in previous filings, the Company has received federal income tax credits under the U.S. Government’s Community Development Financial Institutions Fund that are recognized over a seven-year period from the year of investment. The effect of these tax credits provided an income tax benefit of $0.6 million in 2013, $1.2 million in 2012, and $2.4 million in 2011.

The Company had a net deferred tax asset balance of approximately $304 million at December 31, 2013, compared to $406 million at December 31, 2012. The decrease in the net deferred tax asset resulted primarily from items related to loan charge-offs in excess of loan loss provisions, fair value adjustments on securities, reduction in net operating and capital loss carryforwards, and OREO. The net decrease in deferred tax assets was partially offset by a decrease in the deferred tax liabilities related to premises and equipment, FDIC-supported transactions, and the nondeductibility of a portion of the accelerated discount amortization from the conversion of subordinated debt to preferred stock. The Company did not record any additional valuation allowance for GAAP purposes as of December 31, 2013. See Note 15 of the Notes to Consolidated Financial Statements and “Critical Accounting Policies and Significant Estimates” on page 30 for additional information.

BUSINESS SEGMENT RESULTS

The Company manages its banking operations and prepares management reports with a primary focus on its subsidiary banks and the geographies in which they operate. As discussed in the “Executive Summary” on page 24, most of the lending and other decisions affecting customers are made at the local level. Each subsidiary bank holds its own banking charter. Those with national bank charters (Zions Bank, Amegy, NBAZ, Vectra, and TCBW) are subject to regulatory oversight by the OCC. Those with state charters (CB&T, NSB, and TCBO) are regulated by the FDIC and applicable state authorities. The operating segment identified as “Other” includes the Parent, Zions Management Services Company, certain nonbank financial service subsidiaries, TCBO, and eliminations of transactions between

segments.

The accounting policies of the individual segments are the same as those of the Company. The Company allocates the cost of centrally provided services to the business segments based upon estimated or actual usage of those services. Note 22 of the Notes to Consolidated Financial Statements contains selected information from the respective balance sheets and statements of income for all segments.

During 2013, the Company's subsidiary banks generally experienced improved financial performance. Common areas of financial performance experienced at various levels of the segments include:

- increased loan balances;
- declining credit-related costs including reduced provisions for loan losses; and
- increased customer deposits invested in low-yielding cash-equivalent assets.

Schedule 8
SELECTED SEGMENT INFORMATION

(Amounts in millions)	Zions Bank			CB&T			Amegy		
	2013	2012	2011	2013	2012	2011	2013	2012	2011
KEY FINANCIAL INFORMATION									
Total assets	$18,590	$17,930	$17,531	$10,923	$11,069	$10,894	$13,705	$13,119	$12,282
Total deposits	16,257	15,575	14,905	9,327	9,483	9,192	11,198	10,706	9,731
Net income (loss)	224.6	189.3	150.5	140.1	127.1	134.4	130.5	166.7	161.6
Net interest margin	3.55 %	4.04 %	4.53 %	4.73 %	4.71 %	5.17 %	3.23 %	3.44 %	3.95 %
RISK-BASED CAPITAL RATIOS									
Tier 1 leverage	10.02 %	10.58 %	11.59 %	10.75 %	10.37 %	10.96 %	12.09 %	12.03 %	14.41 %
Tier 1 risk-based capital	13.32 %	12.96 %	13.37 %	12.40 %	12.92 %	13.81 %	13.61 %	13.91 %	15.99 %
Total risk-based capital	14.52 %	14.17 %	14.61 %	13.65 %	14.18 %	15.08 %	14.86 %	15.17 %	17.26 %
CREDIT QUALITY									
Provision for loan losses	$(40.5)	$88.3	$128.3	$(16.7)	$(7.9)	$(9.5)	$4.2	$(63.9)	$(37.4)
Net loan and lease charge-offs	19.7	74.4	179.5	(4.1)	19.8	53.9	23.8	4.6	71.4
Ratio of net charge-offs to average loans and leases	0.16 %	0.60 %	1.41 %	(0.05)%	0.24 %	0.65 %	0.27 %	0.06 %	0.91 %
Allowance for loan losses	$290	$350	$336	$123	$146	$186	$144	$164	$233
Ratio of allowance for loan losses to net loans and leases, at year-end	2.37 %	2.80 %	2.64 %	1.43 %	1.77 %	2.22 %	1.57 %	1.94 %	2.89 %

Nonperforming lending-related assets	$143.7		$259.0		$287.6		$109.9		$150.7		$200.2		$79.9		$138.8		$248.4	
Ratio of nonperforming lending-related assets to net loans and leases and other real estate owned	1.16	%	2.05	%	2.23	%	1.28	%	1.82	%	2.37	%	0.86	%	1.63	%	3.07	%
Accruing loans past due 90 days or more	$2.0		$2.6		$5.1		$36.9		$54.2		$79.7		$0.3		$3.4		$4.8	
Ratio of accruing loan past due 90 days or more to net loans and leases	0.02	%	0.02	%	0.04	%	0.43	%	0.66	%	0.95	%	—	%	0.04	%	0.06	%

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(Amounts in millions)	NBAZ 2013	2012	2011	NSB 2013	2012	2011	Vectra 2013	2012	2011	TCBW 2013	2012	2011
KEY FINANCIAL INFORMATION												
Total assets	$4,579	$4,575	$4,485	$3,980	$4,061	$4,100	$2,571	$2,511	$2,341	$943	$961	$874
Total deposits	3,931	3,874	3,731	3,590	3,604	3,546	2,178	2,164	2,004	793	791	693
Net income (loss)	43.9	30.9	25.5	18.8	21.8	46.6	21.4	18.9	(10.1)	7.7	7.9	2.7
Net interest margin	3.76%	4.00%	4.14%	2.99%	3.19%	3.41%	4.26%	4.82%	4.92%	3.24%	3.25%	3.52
RISK-BASED CAPITAL RATIOS												
Tier 1 leverage	11.54%	12.12%	13.65%	8.86%	10.30%	11.70%	12.02%	11.52%	11.01%	10.23%	9.39%	10.10
Tier 1 risk-based capital	13.33%	14.53%	17.71%	15.10%	18.94%	21.58%	13.02%	12.32%	12.52%	12.90%	12.30%	13.63
Total risk-based capital	14.59%	15.79%	18.98%	16.38%	20.22%	22.89%	14.28%	13.58%	13.79%	14.15%	13.56%	14.90
CREDIT QUALITY												
Provision for loan losses	$(15.0)	$(0.6)	$9.6	$(12.0)	$(9.6)	$(38.3)	$(4.9)	$7.0	$14.0	$(1.8)	$0.4	$7.8
Net loan and lease charge-offs	6.2	14.0	54.4	3.1	29.8	55.1	2.5	9.1	32.5	0.7	2.7	9.0
Ratio of net charge-offs to average loans and leases	0.17%	0.41%	1.66%	0.14%	1.38%	2.32%	0.12%	0.45%	1.77%	0.12%	0.48%	1.55
Allowance for loan losses	$62	$83	$98	$75	$90	$132	$42	$49	$51	$9	$12	$14
Ratio of allowance for loan losses to net loans and leases, at year-end	1.67%	2.31%	2.96%	3.25%	4.30%	5.89%	1.83%	2.30%	2.67%	1.46%	2.06%	2.49
Nonperforming lending-related assets	$49.1	$70.9	$130.1	$29.5	$73.1	$114.7	$34.4	$42.3	$70.7	$5.4	$10.7	$12.0
Ratio of nonperforming lending-related assets to net loans and leases and other real estate owned	1.31%	1.94%	3.89%	1.28%	3.47%	5.07%	1.50%	1.93%	3.61%	0.85%	1.88%	2.12

Accruing loans past due 90 days or more	$0.1	$0.6	$3.9	$0.7	$0.9	$0.1	$0.3	$—	$0.1	$—	$—	$—
Ratio of accruing loans past due 90 days or more to net loans and leases	—	%0.02	%0.12	% 0.03	%0.04	%0.01	% 0.01	%—	%—	% —	%—	%—

The above amounts do not include intercompany eliminations.

Zions First National Bank

Zions Bank is headquartered in Salt Lake City, Utah and is primarily responsible for conducting the Company's operations in Utah and Idaho. Zions Bank is the 2nd largest full-service commercial bank in Utah and the 4th largest in Idaho, as measured by domestic deposits in these states. Zions Bank conducts the largest portion of the Company's Capital Markets operations, which include Zions Direct, Inc., fixed income securities trading, correspondent banking, public finance, and trust and investment advisory services.

The net interest margin in 2013 decreased to 3.55% from 4.04% in 2012. Nonperforming lending-related assets decreased 44.5% from the prior year due to extensive efforts to work out problem loans and to sell OREO properties. Additionally, the higher credit quality of loans originated since the beginning of the financial crisis also contributed to the improved credit quality of the portfolio.

The loan portfolio decreased by $231 million during 2013, which consisted of a $186 million decline in commercial loans and an $84 million decline in commercial real estate loans, partially offset by a $39 million increase in consumer loans. The decline in commercial loans was mainly the result of a reduction in the National Real Estate owner occupied loan portfolio. Total deposits at December 31, 2013 were 4.4% higher than at December 31, 2012.

California Bank & Trust
California Bank & Trust is the 16th largest full-service commercial bank in California as measured by domestic deposits. Its core business is built on relationship banking by providing commercial, real estate and consumer lending, depository services, international banking, cash management, and community development services.

CB&T's net interest margin for 2013 increased to 4.73% from 4.71% in 2012. Its profitability during both of these years was favorably impacted by the better-than-expected performance of FDIC-supported loans. In 2013, CB&T was able to significantly reduce its accruing loans 90 days or more past due from $54 million at December 31, 2012 to $37 million at December 31, 2013.

Including the impact of FDIC-supported loans, CB&T's loan portfolio increased by $316 million in 2013 from the prior year. During 2013, commercial loans grew by $329 million and commercial real estate loans by $205 million, while consumer loans declined by $48 million. FDIC-supported loans decreased by $170 million in 2013. The balance of FDIC-supported loans continues to decline over time as the portfolio matures, and no additional loans have been purchased since the 2009 acquisitions. The credit quality of CB&T's loan portfolio continues to improve, and the ratio of allowance for loan losses to net loans and leases declined to 1.43% at December 31, 2013 from 1.77% a year earlier. Deposits at December 31, 2013 were 1.6% lower than at December 31, 2012.

Amegy Corporation
Amegy is headquartered in Houston, Texas and operates Amegy Bank, Amegy Mortgage Company, Amegy Investments, and Amegy Insurance Agency. Amegy Bank is the 9th largest full-service commercial bank in Texas as measured by domestic deposits in the state.

Over the past two years, Amegy has been able to achieve significant loan portfolio growth; $419 million in 2012, followed by $767 million in 2013. During 2013, commercial loans increased by $504 million, consumer loans by $264 million, while commercial real estate loans declined slightly by $1.5 million. Credit quality of Amegy's loan portfolio improved during 2013, and the ratio of allowance for loan losses to net loans and leases decreased to 1.57% at December 31, 2013 from 1.94% a year earlier. During 2013, nonperforming lending-related assets decreased by 42.4%. However, loan growth offset the impact of the improved credit metrics, resulting in a positive loan loss provision. The net interest margin for 2013 decreased to 3.23% from 3.44% in 2012. Deposits increased by 4.6% from 2012 to 2013.

National Bank of Arizona
National Bank of Arizona is the 4th largest full-service commercial bank in Arizona as measured by domestic deposits in the state.

NBAZ had net income of $43.9 million in 2013, a $13.0 million, or 42.1% increase from 2012. During 2013, the loan portfolio increased by $121 million, including a $118 million increase in commercial loans and a $15 million increase in commercial real estate loans, partially offset by a $12 million decline in consumer loans. The net interest margin for 2013 was 3.76% compared to 4.00% in 2012. Deposits at December 31, 2013 were 1.5% higher than a year earlier.

Nevada State Bank
Nevada State Bank is the 5th largest full-service commercial bank in Nevada as measured by domestic deposits in the state. NSB focuses on serving small and mid-sized businesses as well as retail consumers, with an emphasis in relationship banking.
In 2013, NSB had net income of $18.8 million, compared to $21.8 million in 2012. NSB's loans grew by $197 million during 2013, including a $126 million increase in commercial loans, and a $71 million increase in consumer loans. The credit quality of NSB's loan portfolio improved significantly, and the ratio of allowance for loan losses to

net loans and leases was 3.25% and 4.30% at December 31, 2013 and 2012, respectively. Net loan and lease charge-offs in 2013 declined to $3.1 million from $29.8 million in 2012, and nonperforming lending-related assets declined 59.6%. Deposits at December 31, 2013 were essentially unchanged from December 31, 2012.

Vectra Bank Colorado

Vectra Bank Colorado, N.A. is the 7th largest full-service commercial bank in Colorado as measured by domestic deposits in the state.

Vectra's net interest margin was 4.26% in 2013, compared to 4.82% in 2012. During 2013, total loans increased by $149 million, including a $68 million increase in consumer loans, a $50 million increase in commercial loans, and a $31 million increase in commercial real estate loans. The credit quality of Vectra's loan portfolio continued to improve, and the ratio of allowance for loan losses to net loans and leases decreased to 1.83% at December 31, 2013 from 2.30% a year earlier. Deposits at December 31, 2013 were essentially unchanged from December 31, 2012.

The Commerce Bank of Washington

The Commerce Bank of Washington is headquartered in Seattle, Washington, and operates out of a single office located in the Seattle central business district. Its business strategy focuses on serving the financial needs of commercial businesses, including professional services firms. TCBW has been successful in serving the greater Seattle/Puget Sound region without requiring extensive investments in a traditional branch network. It has been innovative in effectively utilizing couriers, bank by mail, remote deposit image capture, and other technologies.

TCBW was successful in maintaining consistent profitability and net interest margin from 2012 to 2013. Net income and net interest margin for 2013 were $7.7 million and 3.24%, respectively, compared to the 2012 amounts of $7.9 million and 3.25%, respectively. Nonperforming lending-related assets decreased 49.5% from the prior year. The loan portfolio increased by $59 million, including a $47 million increase in commercial loans, a $16 million increase in commercial real estate loans, slightly offset by a $4 million decline in consumer loans. Deposits at December 31, 2013 were essentially unchanged from December 31, 2012.

Other Segment

Operating components in the "Other" segment, as shown in Notes 22 and 24 of the Notes to Consolidated Financial Statements, relate primarily to the Parent, ZMSC and eliminations of transactions between segments. The major components at the Parent include net interest income, which includes interest expense on other borrowed funds, and net impairment losses on investment securities.

Significant changes in 2013 compared to 2012 include (1) a $125 million increase in noninterest expense, and (2) a $53.7 million increase in net impairment losses on investment securities, as discussed in "Investment Securities Portfolio" on page 51. Significant changes in 2012 compared to 2011 included $75.6 million improvement in net interest income, which was primarily related to lower interest income that resulted from reduced accelerated discount amortization on convertible subordinated debt, and a $68.2 million increase in net impairment losses on investment securities.

BALANCE SHEET ANALYSIS

Interest-Earning Assets

Interest-earning assets are those assets that have interest rates or yields associated with them. One of our goals is to maintain a high level of interest-earning assets relative to total assets, while keeping nonearning assets at a minimum. Interest-earning assets consist of money market investments, securities, loans, and leases.

Schedule 2, which we referred to in our discussion of net interest income, includes the average balances of the Company's interest earning assets, the amount of revenue generated by them, and their respective yields. Another

goal is to maintain a higher-yielding mix of interest-earning assets, such as loans, relative to lower-yielding assets, such as money market investments or securities, while maintaining adequate levels of highly liquid assets. The current period of slow economic growth accompanied by the moderate loan demand experienced in recent quarters has made it difficult to achieve these goals.

Average interest-earning assets were $51.0 billion in 2013 compared to $49.0 billion in the previous year. Average interest-earning assets as a percentage of total average assets were 92.8% in 2013 and 92.0% in 2012.

Average loans, including FDIC-supported loans, were $38.1 billion in 2013 and $37.0 billion in 2012. Average loans as a percentage of total average assets was 69.4% in 2013 compared to 69.5% in 2012.

Average money market investments, consisting of interest-bearing deposits, federal funds sold and security resell agreements, increased by 11.6% to $8.8 billion in 2013 compared to $7.9 billion in 2012. Average securities increased by 1.5% from 2012. Average total deposits increased by 4.3% while average total loans increased by 2.9% for 2013 when compared to 2012. Increased deposits combined with moderate loan growth resulted in higher balances of excess cash that was deployed in money market investments.

Chart 5. OUTSTANDING LOANS AND DEPOSITS
(at December 31)

Investment Securities Portfolio

We invest in securities to generate revenues for the Company; portions of the portfolio are also available as a source of liquidity. Schedule 9 presents a profile of the Company's investment securities portfolio. The amortized cost amounts represent the Company's original cost of the investments, adjusted for related accumulated amortization or accretion of any yield adjustments, and for impairment losses, including credit-related impairment. The estimated fair value measurement levels and methodology are discussed in detail in Note 21 of the Notes to Consolidated Financial Statements.

We have included selected credit rating information for certain of the investment securities schedules because this information is one indication of the degree of credit risk to which we are exposed, and significant declines in ratings for our investment portfolio could indicate an increased level of risk for the Company.

Schedule 9
INVESTMENT SECURITIES PORTFOLIO

	December 31, 2013			December 31, 2012			December 31, 2011		
(In millions)	Amortized cost	Carrying value	Estimated fair value	Amortized cost	Carrying value	Estimated fair value	Amortized cost	Carrying value	Estimated fair value
Held-to-maturity									
Municipal securities	$551	$551	$558	$525	$525	$537	$565	$565	$572
Asset-backed securities:									
Trust preferred securities – banks and insurance	80	38	51	255	213	126	263	222	144
Other	—	—	—	22	19	12	24	21	14
	631	589	609	802	757	675	852	808	730
Available-for-sale									
U.S. Treasury securities	1	2	2	104	105	105	4	5	5
U.S. Government agencies and corporations:									
Agency securities	518	519	519	109	113	113	153	158	158
Agency guaranteed mortgage-backed securities	309	317	317	407	425	425	535	553	553
Small Business Administration loan-backed securities	1,203	1,221	1,221	1,124	1,153	1,153	1,153	1,161	1,161
Municipal securities	65	66	66	75	76	76	121	122	122
Asset-backed securities:									
Trust preferred securities – banks and insurance	1,508	1,239	1,239	1,596	949	949	1,794	930	930
Trust preferred securities – real estate investment trusts	23	23	23	41	16	16	40	19	19
Auction rate securities	7	7	7	7	7	7	71	70	70
Other	28	28	28	26	19	19	65	50	50
	3,662	3,422	3,422	3,489	2,863	2,863	3,936	3,068	3,068
Mutual funds and other	287	280	280	228	228	228	163	163	163
	3,949	3,702	3,702	3,717	3,091	3,091	4,099	3,231	3,231
Total	$4,580	$4,291	$4,311	$4,519	$3,848	$3,766	$4,951	$4,039	$3,961

The amortized cost of investment securities on December 31, 2013 increased by 1.4% from the balances on December 31, 2012, primarily due to increases in agency securities, Small Business Administration loan-backed securities, and mutual funds, partially offset by decreased investments in trust preferred and other asset-backed securities, U.S. Treasury securities, and agency guaranteed mortgage-backed securities.

The amortized cost of investment securities on December 31, 2012 decreased by 8.7% from the balances on December 31, 2011, primarily due to reductions in agency guaranteed mortgage-backed securities, reductions and impairment of asset-backed securities, partially offset by increased investments in U.S. Treasury securities, and mutual funds and other securities.

As of December 31, 2013, 7.0% of the $3.7 billion fair value of available-for-sale (“AFS”) securities portfolio was valued at Level 1, 57.7% was valued at Level 2, and 35.3% was valued at Level 3 under the GAAP fair value accounting valuation hierarchy. At December 31, 2012, 10.4% of the $3.1 billion fair value of AFS securities portfolio was valued at Level 1, 57.1% was valued at Level 2, and 32.5% was valued at Level 3.

The amortized cost of AFS investment securities valued at Level 3 was $1,574 million at December 31, 2013 and the fair value of these securities was $1,305 million. The securities valued at Level 3 were comprised of ABS CDOs, primarily bank and insurance company trust preferred CDOs, and municipal securities. For these Level 3 securities, net pretax unrealized loss recognized in OCI at December 31, 2013 was $269 million. As of December

31, 2013, we believe that we will receive on settlement or maturity at least the amortized cost amounts of the Level 3 AFS securities. This expectation applies to both those securities for which OTTI has been recognized and those for which no OTTI has been recognized.

Estimated fair value determined under ASC 820 precludes the use of "blockage factors" or liquidity adjustments due to the quantity of securities held by the Company. The Company's ability to sell in a short period of time a substantial portion of its CDO securities at the indicated estimated fair values, particularly those valued under Level 3, is highly dependent upon then current market conditions. The market for such securities, which showed substantial improvement in late 2013, remains difficult to predict. In general, the Company believes that sales of large quantities of those securities has the potential to lower the prices received. However, the Company sold $282 million (amortized cost) of these CDOs in January and February 2014 into an improving market without a noticeable adverse impact on pricing. Please refer to Notes 6 and 21 of the Notes to Consolidated Financial Statements for more information.

Schedule 10 presents the Company's CDOs according to performing tranches without credit impairment, and nonperforming tranches. These CDOs are the large majority of our asset-backed securities and consist of both HTM and AFS securities.

Schedule 10
CDOs BY PERFORMANCE STATUS

	December 31, 2013						% of carrying value to par		
							December 31,		
(Dollar amounts in millions)	No. of tranches	Par amount	Amortized cost	Carrying value	Net unrealized losses recognized in AOCI [1]	Weighted average discount rate [2]	2013	2012	Change
Performing CDOs									
Predominantly bank CDOs	23	$687	$617	$499	$(118)	5.6%	73%	66%	7%
Insurance-only CDOs	22	433	413	346	(67)	4.9	80	72	8
Other CDOs	3	43	26	26	—	10.6	60	70	(10)
Total performing CDOs	48	1,163	1,056	871	(185)	5.5	75	68	7
Nonperforming CDOs [3]									
CDOs credit impaired prior to last 12 months	32	614	369	285	(84)	7.0	46	30	16
CDOs credit impaired during last 12 months	23	448	187	147	(40)	6.5	33	25	8
Total nonperforming CDOs	55	1,062	556	432	(124)	6.8	41	26	15
Total CDOs	103	$2,225	$1,612	$1,303	$(309)	6.1	59	49	10

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(Dollar amounts in millions)	December 31, 2012 No. of tranches	Par amount	Amortized cost	Carrying value	Net unrealized losses recognized in AOCI [1]	Weighted average discount rate [2]	% of carrying value to par December 31, 2012	2011	Change
Performing CDOs									
Predominantly bank CDOs	28	$811	$727	$538	$(189)	7.8 %	66 %	64 %	2 %
Insurance-only CDOs	22	454	449	327	(122)	8.6	72	79	(7)
Other CDOs	6	54	43	38	(5)	9.4	70	76	(6)
Total performing CDOs	56	1,319	1,219	903	(316)	8.1	68	69	(1)
Nonperforming CDOs [3]									
CDOs credit impaired prior to last 12 months	18	369	251	109	(142)	10.7	30	18	12
CDOs credit impaired during last 12 months	39	732	441	181	(260)	9.6	25	12	13
Total nonperforming CDOs	57	1,101	692	290	(402)	10.0	26	16	10
Total CDOs	113	$2,420	$1,911	$1,193	$(718)	9.0	49	47	2

[1] Accumulated other comprehensive income, amounts presented are pretax.
[2] Margin over related LIBOR index.
[3] Defined as either deferring current interest (“PIKing”) or OTTI; the majority are predominantly bank CDOs.

As shown in Schedule 11, 37 of the Company’s CDO securities, representing 52.2% of the CDO bank and insurance portfolio’s fair value at December 31, 2013, were upgraded by one or more NRSROs during 2013. The Company attributes these upgrades to improvements in over-collateralization ratios and de-leveraging combined with certain less severe rating agency assumptions and methodologies.

Schedule 11
BANK AND INSURANCE TRUST PREFERRED CDOs

(Dollar amounts in millions)	December 31, 2013 No. of securities	Par amount	Amortized cost	Fair value
Year-to-date rating changes [1]				
Upgrade	37	$979	$862	$662
No change	56	1,109	697	603
Downgrade	2	17	4	4
	95	$2,105	$1,563	$1,269

[1] By any NRSRO

Significant Assumption Changes for 2013
There were significant changes to the assumptions used in the model during 2013. The reduction in discount rates was the most significant change compared to 2012.

The Company uses unobservable assumptions including collateral default rates and prepayment rates to produce pool level cash flows for each CDO. Pool level cash flows are allocated to each security issued by the CDO in accordance

with the CDO's provisions, producing a best estimate of each CDO security's cash flows. To identify a fair value for each security, the Company must then discount the best estimate cash flow for a security using a market level discount rate. The Company identifies the appropriate market level discount rate for each security by utilizing market observable trade information available for some of the securities.

In 2013, the Company observed increased prices in market trades and incorporated these observations into the discount rate assumptions used to calculate fair value. This trade information included sales of CDO securities by the Company both before and after the publication of the Volcker Rule. Accordingly, the fair value of the Company's CDO portfolio also increased in 2013, consistent with observable CDO trades.

Probability of Default of Deferring Bank Holding Company Trust Preferred Collateral

Historically, our ratio-based valuation model assessed both performing and deferring issuers. Ratios predictive of bank failure were used in our model to identify the PD of bank holding company issuers of trust preferred securities. For deferring collateral, our ratio based approach includes a "time in deferral" variable, which assesses higher PDs as issuers near the end of their allowable deferral period of 20 quarters. For more information about the model. please refer to Note 21 of the Notes to Consolidated Financial Statements.

Effective September 30, 2013, our weighted average loss assumption for deferrals was 66%, compared to 55% as of June 30, 2013. Updated as of December 31, 2013, the weighted average loss assumption on remaining deferrals was 75%. Some of this percentage increase is a result of selection bias: as healthier deferring issuers reperform and come current on past interest, they are removed from the deferring bank pool for modeling purposes. The overall collateral pool to which the Company is exposed remains unchanged, but the deferring collateral pool becomes smaller and consists increasingly of weaker banks. At December 31, 2013, 76% of deferring issuers were subject to regulatory orders precluding payment. Nonetheless, 60% of these deferring issuers were both profitable and "well capitalized" under regulatory capital regulations.

Assumption Changes Regarding Prepayment Rate

Since the third quarter of 2010 as a result of the Dodd-Frank Act, we have assumed that large banks with investment grade ratings will fully prepay their trust preferred securities by the end of 2015. The Dodd-Frank Act phases in by year-end 2015 the disallowance of the inclusion of trust preferred securities in Tier 1 capital for banks with assets over $15 billion ("large banks"). For those large institutions within each pool with investment grade ratings, we assume that trust preferred securities will be called prior to the end of the disallowance period. The pace of these large bank prepayments to date has generally been consistent with our assumption.

In the fourth quarter of 2012, the Company increased the prepayment assumptions for small banks because of the extent of observed prepayments made by these types of banks. The prepayment rate assumption for small banks was increased from 3% per year for each year to 10% per year for three years and 3% thereafter. The Company expected a few years of this higher prepayment rate as a result of proposed regulations that would disallow over a phase-in period the inclusion of trust preferred as Tier 1 capital by small banks, as well as continued economic driven capital restructuring and industry consolidation. We changed this assumption because our CDO pools experienced significant and increasing prepayments of small bank trust preferred securities during the latter part of 2012. We define "small banks" as collateral that is not subject to the phased-in disallowance of bank trust preferred securities as Tier 1 capital required by the Dodd-Frank Act, the majority of which would be subject to a more lengthy phased-in disallowance under capital rules proposed by the Federal Reserve and other banking regulators. These are primarily banks with assets below $15 billion.

Observed prepayments by small banks in our CDO pools during 2013 were significantly less than the 10% per year assumed in the fourth quarter of 2012, and the proposed phase-out of trust preferred by small banks was not included in the final regulations. This led us to reduce the assumed prepayment rate to 9% in the second quarter of 2013, to 7.5% in the third quarter of 2013, and to 5.5% in the fourth quarter of 2013.

Given the 5.5% small bank prepayment rate assumption until the end of 2015 and 3% thereafter, and the differing extent of large banks remaining in CDO pools, the pool specific prepayment rate until the end of 2015 is calculated with reference to both (a) the percentage of each pool's performing collateral consisting of small banks, as well as, (b) the percentage which consists of collateral from large banks with investment grade ratings. After 2015, each pool is assumed to prepay at a 3% annual rate.

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For the fourth quarter of 2013, the resulting average annual prepayment rate assumption for pools, which includes both large and small banks, is 12% for each year through 2015, followed by an annual prepayment rate assumption of 3% thereafter. For pools without large banks, we assume a 5.5% annual prepayment rate for each year through 2015 and 3% thereafter. Increased prepayment rates are generally favorable for the fair value of the most senior tranches and adverse to the fair value of the more junior tranches. The small bank prepayment assumption changes were not material to either fair values or credit impairment during 2013.

Valuation Sensitivity of Level 3 Bank and Insurance CDOs

Schedule 12 sets forth the sensitivity of the current internally modeled CDOs' fair values to changes in the most significant assumptions utilized in the model.

Schedule 12

SENSITIVITY OF INTERNAL MODEL

(Amounts in millions)		Held-to-maturity		Available-for-sale	
Fair value at December 31, 2013		$52		$1,213	
		Incremental	Cumulative	Incremental	Cumulative
Currently Modeled Assumptions					
Expected collateral credit losses [1]					
Loss percentage from currently defaulted or deferring collateral [2]			16.4 %		22.2 %
Projected loss percentage from currently performing collateral					
1-year		0.3 %	16.7 %	0.3 %	22.5 %
years 2-5		2.0 %	18.7 %	1.9 %	24.4 %
years 6-30		11.8 %	30.5 %	10.0 %	34.4 %
Discount rate [3]					
Weighted average spread over LIBOR		592 bps		566 bps	
Sensitivity of Modeled Assumptions					
Increase (decrease) in fair value due to increase in projected loss percentage from currently performing collateral [4]	25%	$(0.9)		$(12.6)	
	50%	(1.7)		(25.1)	
	100%	(3.5)		(50.0)	
Increase (decrease) in fair value due to increase in projected loss percentage from currently performing collateral [4] and the immediate default of all deferring collateral with no recovery	25%	$(2.5)		$(67.5)	
	50%	(3.5)		(78.8)	
	100%	(5.4)		(100.4)	
Increase (decrease) in fair value due to increase in discount rate	+100 bps	$(5.0)		$(84.0)	
	+200 bps	(9.3)		(158.5)	
Increase (decrease) in fair value due to increase in forward LIBOR curve	+100 bps	$2.3		$27.1	
Increase (decrease) in fair value due to:					
increase in prepayment assumption[5]	+1%	$0.3		$18.3	
increase in prepayment assumption[6]	+2%	0.8		34.6	

[1] The Company uses an incurred credit loss model which specifies cumulative losses at the 1-year, 5-year, and 30-year points from the date of valuation. These current and projected losses are reflected in the CDO's fair value.

2

Weighted average percentage of collateral that is defaulted due to bank failures, or deferring payment as allowed under the terms of the security, including a 0% recovery rate on defaulted collateral and a credit-specific probability of default on deferring collateral which ranges from 2.18% to 100%.

[3]The discount rate is a spread over the forward LIBOR curve at the date of valuation.

[4] Percentage increase is applied to incremental projected loss percentages from currently performing collateral. For example, the 50% and 100% stress scenarios for AFS securities would result in cumulative 30-year losses of 40.5% = 34.4%+50% (0.3%+1.9%+10.0%) and 46.6% = 34.4%+100% (0.3%+1.9%+10.0%), respectively.

[5] Prepayment rate for small banks increased to 6.5% per year for the first two years and to 4% per year thereafter through maturity.

[6] Prepayment rate for small banks increased to 7.5% per year for the first two years and to 5% per year thereafter through maturity.

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During the year, the market level discount rates applicable to bank and insurance CDOs declined substantially and fair values rose. The discount rate, or credit spread, in the above 2013 sensitivity analysis of valuation assumptions is approximately 300 bps lower than that used in 2012. Trade data supported the extent of fair value increases through the year. In addition, the portfolio's fair value exhibited greater sensitivity to loss assumptions on performing collateral than was the case in 2012. The portion of bank collateral performing at the end of 2013 has increased as the rate of reperfomance by deferring issuers outpaced the rate of prepayment during 2013.

Bank Collateral Deferral Experience

The Company's loss and recovery experience on defaults as of December 31, 2013 (and our Level 3 modeling assumption) is essentially a 100% loss on defaulted bank collateral in CDOs, although we have, to date, received several, generally small, recoveries on a few defaults. Securities sales during 2013 resulted in the Company reducing its exposure to some unresolved deferring banks. For the remaining deferring banks, our cumulative experience to date with bank collateral in its first deferral cycle has been that 53% has defaulted, 29% has reperformed, and approximately 18% remains within the allowable deferral period. At December 31, 2013, the Company had exposure to 131 deferring issuers of which 123 were in their initial deferral period and eight were re-deferrals. Late 2012 events led the Company to increase its loss assumptions on deferrals, most of which were more than half-way through their allowable deferral period. We expected then and continue to expect that future losses on these deferrals may result from actions other than bank failures – primarily holding company bankruptcies and debt restructurings.

A significant number of previous deferrals have resumed interest payments; 117 issuing banks, with collateral aggregating to 29% of all deferrals to which we have exposure, have either come current and resumed interest payments on their trust preferred securities or have announced they intend to do so at the next payment date. Banks may come current on their trust preferred securities for one or more quarters and then redefer. Such redeferral has occurred in eight of the 131 banks that are currently deferring. Further information on the Company's valuation process is detailed in Note 21 of the Notes to Consolidated Financial Statements.

Schedules 13 and 14 provide additional information on the below-investment-grade rated bank and insurance trust preferred CDOs' portions of the AFS and HTM portfolios. The schedules reflect data and assumptions that are included in the calculations of fair value and OTTI. The schedules utilize the lowest rating assigned by any rating agency to identify those securities below investment grade. The schedules segment the securities by whether or not they have been determined to have credit-related OTTI, and by original ratings level to provide granularity on the seniority level of the securities and the distribution of unrealized losses. A few insurance CDO securities with no credit-related OTTI had OTTI in the fourth quarter due to the Company's intent to sell them, because they became prohibited investments as a result of the Volcker Rule. The best and worst pool-level statistic for each original ratings subgroup is presented, not the best and worst single security within the original ratings grouping. The number of issuers and the number of currently performing issuers noted in Schedule 14 are from the same security. The remaining statistics may not be from the same security.

Schedule 13
BANK AND INSURANCE TRUST PREFERRED CDO VALUES CURRENTLY RATED BELOW-INVESTMENT-GRADE –SORTED BY WHETHER CREDIT RELATED OTTI HAS BEEN TAKEN AND BY ORIGINAL RATINGS
At December 31, 2013

			Total				Credit OTTI loss		Valuation losses [1]
(Dollar amounts in millions)	Number of securities	% of portfolio	Par value	Amortized cost	Estimated fair value	Unrealized gain (loss)	Current year	Life-to-date	Life-to-date
Original ratings of securities, no credit OTTI recognized:									
Original AAA	20	31.6 %	$631	$ 578	$452	$(126)	$—	$—	$(71)
Original A	15	16.7	333	319	261	(58)	—	—	—
Original BBB	5	2.3	46	43	34	(9)	—	—	—
Total Non-OTTI		50.6	1,010	940	747	(193)	—	—	(71)
Original ratings of securities, credit OTTI recognized:									
Original AAA	1	2.5	50	43	28	(15)	—	(5)	(2)
Original A	45	44.4	885	485	391	(94)	(25)	(309)	—
Original BBB	4	2.5	50	5	6	1	(1)	(44)	—
Total OTTI		49.4	985	533	425	(108)	(26)	(358)	(2)
Total below-investment-grade bank and insurance CDOs		100.0 %	$1,995	$ 1,473	$ 1,172	$(301)	$(26)	$(358)	$(73)

[1] Valuation losses relate to securities purchased from Lockhart Funding LLC prior to its consolidation in June 2009.

(In millions)	Average amount of each security held [1]			
	Par value	Amortized cost	Estimated fair value	Unrealized loss
Original ratings of securities, no credit OTTI recognized:				
Original AAA	$30	$28	$22	$(6)
Original A	14	14	11	(3)
Original BBB	9	9	7	(2)
Original ratings of securities, credit OTTI recognized:				