ZIONS BANCORPORATION

2014 Comprehensive Capital Analysis and Review (CCAR) and Dodd-Frank Stress Tests

Comprehensive Capital Plan submitted to the Federal Reserve Bank on January 6, 2014

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Introduction

Zions Bancorporation's ("the Company" or "Zions") Dodd-Frank Act Stress Test results are presented within this document, as calculated by Zions using scenarios provided by the Federal Reserve Board. The scenarios are hypothetical and are assumed to begin on September 30, 2013; in the "severely adverse" scenario, assumptions include:

- A sharp increase in unemployment to 11.3%,
- A significant decline in gross domestic product (down by nearly 4.75%),
- A 50% decline in the stock prices, as measured by the Dow Jones Total Stock Market Index,
- A 25% decline in residential property values, and
- A 35% decline in commercial property values

This economic deterioration is projected to have begun in the fourth quarter of 2013, with little economic recovery during the ensuing 27-month hypothetical period.

Background

In accordance with section 165(i)(2) of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act") and the implementation of this act under 12 CFR 252.148, Bank Holding Companies (BHC's) with total consolidated assets of $50 billion or more ("Covered Companies") are annually required to participate in a Comprehensive Capital Analysis and Review (CCAR) as conducted by Federal Reserve. In November 2011, the Federal Reserve issued a final ruling requiring a Covered Company to submit a capital plan ("Capital Plan") for objection or non-objection as part of the CCAR process. The proposed capital actions in the Capital Plan are presented on a *pro-forma* basis with forward-looking projections of revenues, expenses, and losses through several baseline and stressed macroeconomic scenarios.

The process and results of these stress tests are used by Zions and the Federal Reserve to evaluate the financial condition, risk profile, and capital adequacy of the Company, and assess the proposed Capital Plan, under adverse economic conditions.

Dodd-Frank Stress Test Results

The implementation of the Dodd-Frank Act ("DFA") under 12 CRF 252.148 requires the Company to publicly disclose a summary of stress test results under the Federal Reserve's severely adverse stress scenario. This scenario is not a forecast, but rather a hypothetical scenario designed to assess the Company's resilience to adverse economic conditions. The scenario contains 16 domestic variables and 12 international variables designed to feature a severe recession with substantial weakening in economic activity.

Each covered company is further required to publish the stress test results using DFA stress test capital actions which are as follows:

- The initial quarter of the planning horizon includes the actual capital actions taken in the quarter.
- For quarters 2-9 of the planning horizon:
    - common stock dividends equal to the quarterly average dollar amount of common stock dividends that the company paid in the previous year;
    - payments on any other instrument that is eligible for inclusion in the numerator of a regulatory capital ratio equal to the stated dividend, interest, or principal due on such instrument during the quarter; and
    - an assumption of no issuance, redemption or repurchase of any capital instrument that is eligible for inclusion in the numerator of a regulatory capital ratio.

Risks and Methods

Zions categorizes its risk exposures under eight classifications for the purposes of risk identification:

1. Credit risk, including obligor default risk, counterparty credit risk, guarantor non-performance, credit risk of securities held, and collateral management.
2. Market risk which includes risk arising from changes in interest rate levels, equity prices, property prices, commodity prices, and credit spreads.
3. Funding/liquidity risk which may arise from any of the following: inability to access funding sources (e.g., depositors), funding mismatches, off-balance sheet commitments, deteriorating earnings performance, public or market perception, and obstacles to cash movement among subsidiaries.
4. Operational risk, including: internal fraud; external fraud; inadequate employment practices and workplace safety; inability to meet some contractual and/or fiduciary obligations; damage to physical assets; business disruption and/or systems failures; failures in execution, delivery, and process management.
5. Legal and compliance risk, including: capital management / stress testing regulations; laws, rules, or regulations; accounting / financial reporting laws; prescribed practices; internal policies and procedures; exposure to litigation; failure to identify and properly communicate regulatory / legal requirements; and situations where the laws or rules may be ambiguous or untested.
6. Reputational risk, including: unethical or deceptive business practices; high-profile litigation; poor financial performance; violations of laws, regulations, or controls (e.g., conflicts of interest); customer dissatisfaction / complaints (e.g., privacy breach); and public communication.
7. Strategic risk, including: adverse business decisions; poor implementation of business decisions; and lack of responsiveness to changes in the industry / operating environment.
8. Model (including data) risk: fundamental errors leading to inaccurate model output, and incorrect or inappropriate model usage.

The Company projects the impact of its key exposures and material risks in several scenarios including the supervisory severely adverse scenario using a variety modeling techniques.

Methodologies used:

1. The Company models credit losses using separate loan-level loss models for Commercial & Industrial (C&I), residential real estate (RRE), and commercial real estate (CRE); portfolio level models for other loan categories including small business, auto, and credit card; security loss models for CDO TruPS, municipal securities, and Small Business Administration securities; and the counterparty credit risk model.
2. Market risk is captured through interest rates used in PPNR models; equity prices through PPNR and credit models, and the private equity model; energy commodity prices are indirectly stressed through specific sector employment in the C&I model; credit spreads impact the loan growth and pricing models; and real estate prices are used in PPNR, CRE, RRE, and C&I models.
3. Liquidity risk is measured through liquidity stress test scenarios and the parent liquidity model; asset/liability model; unfunded commitments included in credit loss models; earnings impacts through PPNR projections; capital buffers; and affiliate liquidity levels.
4. Operational risk is captured in scenario analysis as well as through an operational loss model.
5. Legal risk is captured through scenario analysis, operational loss model, and specific litigation expense buffers.
6. While reputational risk is difficult to quantify, it is included in a substantial policy buffer above the Tier 1 Common ratio regulatory minimum.

7. Strategic risk is captured through a substantial policy buffer above the Tier 1 Common ratio regulatory minimum as well as modeling the impact of known strategic decisions through revenue models.
8. Model risk is captured through a model risk buffer.

In the severely adverse scenario, the Company's capital position declines significantly from the impact of the following:

- **Loan loss provisions.** During 2013, the Company recorded a negative provision for loan losses of $87 million. In the severely adverse scenario, the Company recorded an annualized provision of $947 million, or a cumulative $2.1 billion for the nine-quarter scenario period. Such provisions were primarily attributable to modeled net loan losses of $1.8 billion, or an annualized $789 million. This compares to actual 2013 net charge-offs of $51 million.

- **Impairment charges on securities.** The impact of the original Volcker Rule on Zions' bank and insurance trust preferred securities ("TruPS") collateralized debt obligation ("CDO") portfolio resulted in significant securities losses under Zions' company-run stress test. Zions was instructed to use the Volcker Rule as it stood as of January 6, 2014, which resulted in $637 million of securities impairment charges, as most of the CDO securities would have been required to be sold prior to realizing the amortized cost of such securities, and therefore the accounting treatment of such securities would have required an immediate impairment charge to reduce the amortized cost to the carrying or fair market value at September 30, 2013. Subsequent to the submission, the Federal Reserve issued an interim final rule ("IFR"), which allowed Zions to keep its primarily bank TruPS CDOs and did not require an impairment charge on those securities. Subsequent to the issuance of the IFR, Zions has sold a significant portion of its CDOs to reduce risk; this sale of CDOs is expected to significantly improve the result of Zions' earnings and capital under future stress test submissions, including the previously-announced April 2014 resubmission.
  - In the Dodd-Frank Act Stress Test (DFAST) run by the Federal Reserve, the IFR was used, and therefore the impairment charges on securities, although quite material, were not as severe as Zions' company-run test; therefore, the results between the two tests are not comparable for this line item.

- **A significant reduction in Zions' Pre-Provision Net Revenue (PPNR).** Zions' PPNR for 2013, Zions' PPNR was $302 million (adjusts income before taxes by adding the provision for loan losses and the provision for unfunded lending commitments). Adjusted for the favorable impact of the cancellation of its Total Return Swap (related to Zions' CDO portfolio), net impairment losses on investment securities and debt extinguishment costs, the adjusted PPNR for 2013 would have been $609 million, or a nine-quarter equivalent $1.4 billion. Under the Company-run hypothetical severely adverse scenario, Zions' PPNR equaled an annualized $208 million, or $468 million for the nine-quarter period, which reflected:
  - Modestly lower net interest income attributable to low interest rates and moderately lower loan balances. Attributable in part to Zions' funding composition, Zions' funding for loans and securities is more skewed towards noninterest bearing deposits than most banks and, therefore, Zions has less ability to reduce funding costs. In 2013, Zions recorded net interest income of $1.8 billion; under the severely adverse scenario, Zions projected annualized net interest income of $1.7 billion.
  - Lower noninterest income. Excluding net impairment losses on investment securities in 2013, Zions realized $502 million of noninterest income. In the severely adverse scenario, Zions projected annualized noninterest income of $416 million.
  - Higher noninterest expenses. In 2013, excluding other real estate owned and credit-related expenses and debt extinguishment expenses, Zions recognized $1.6 billion of

noninterest expenses. Under the severely adverse scenario, Zions projected an annualized noninterest expense amount of $1.8 billion.
    - Higher other real estate owned and credit-related expenses. Compared to the 2013 amount of $35 million, Zions estimated such expenses would run an annualized $124 million during the 9-quarter period.

- **The projected regulatory disallowance of its Deferred Tax Asset (DTA).** Such disallowance is triggered by hypothetical earnings losses under the severely adverse scenario, which were driven primarily by high provisions for loan losses and securities impairment charges. The DTA disallowance in the severely adverse scenario was estimated by Zions to be $653 million, which was a direct deduction from capital. Additionally, hypothetical projected losses subsequent to the DTA disallowance affected the company significantly more than would be expected under a more mild economic scenario, as such losses did not receive a tax benefit — i.e., after-tax losses were the same as pre-tax losses.

Stress Test Results

Projected Capital Ratios as of December 31, 2015
in the Supervisory Severely Adverse Stress scenario
using DFAST capital actions

		Supervisory Severely Adverse Stress Scenario	
	Actual As of September 30, 2013	As of December 31, 2015	Minimum ratio during projection period
Tier 1 Common Capital Ratio	10.5%	5.9%	5.9%
Tier 1 Leverage Ratio	10.6%	5.8%	5.8%
Tier 1 Capital Ratio	13.1%	8.1%	8.1%
Total Risk-Based Capital Ratio	14.8%	10.1%	10.1%

Projected loan losses by category
September 30, 2013 through December 31, 2015
in the Supervisory Severely Adverse Stress scenario
(in billions)

	Cumulative Amount	Portfolio Loss Rates
Loan Losses	$1.78	4.8%
Domestic closed-end first-lien mortgages	0.08	1.6
Domestic junior lien mortgages and home equity lines of credit	0.09	3.8
Commercial and industrial	0.54	4.9
Commercial real estate	0.95	5.9
Credit card exposures	0.03	16.0
Other consumer	0.03	8.4
Other loans	0.06	4.1

Pre-Provision Net Revenue (PPNR) represents earnings prior to loan loss provisions, Other Than Temporary Impairment (OTTI) charges and income taxes. PPNR comprises net interest income (NII), noninterest income and noninterest expense. Net interest income represents the spread between interest income from earning assets and the interest paid on interest-bearing liabilities. Non-interest income and expenses include various fees, service charges, trading income, gains and losses from asset sales, and operational costs.

Earnings Impact on Regulatory Capital
September 30, 2013 through December 31, 2015
in the Supervisory Severely Adverse Stress scenario
(in billions)

		Amount
Net Interest Income	$	3.88
Plus:		
Non-Interest Income		0.94
Less:		
Operational Risk Expense		0.14
OREO Expense		0.16
Other Noninterest Expense		4.05
Equals:		
Pre-provision net revenue (PPNR)		0.47
Less:		
Provision for loan and lease losses		2.13
Trading and counterparty losses		—
Realized losses/(gains) on AFS/HTM securities		0.64
Equals:		
Net Income before taxes and extraordinary items (1)		(2.30)
Income tax benefit		0.21
Total Impact on Regulatory Capital from Net Income		(2.09)
Goodwill impairment (2)		1.01

(1) Excludes goodwill impairment charges
(2) No impact to regulatory capital