

**ZIONS BANCORPORATION**

2014 Mid-Cycle Stress Test

Dodd-Frank Act Company-Run Stress Disclosure

September 30, 2014

## **Table of Contents**

Introduction .....	<a href="#">2</a>
Macroeconomic Scenario.....	<a href="#">2</a>
Summary of Results .....	<a href="#">6</a>
Risks .....	<a href="#">9</a>
Methodologies.....	<a href="#">11</a>
Forward-Looking Statement.....	<a href="#">12</a>

## **Introduction**

Zions Bancorporation ("the Company" or "Zions") is one of the nation's premier financial services companies, consisting of a collection of great banks in select western U.S. markets with combined total assets exceeding \$55 billion. Zions operates its banking businesses under local management teams and community identities in 11 western and southwestern states: Arizona, California, Colorado, Idaho, Nevada, New Mexico, Oregon, Texas, Utah, Washington and Wyoming. The company is a national leader in Small Business Administration lending and public finance advisory services and is a consistent recipient of numerous Greenwich Excellence awards in banking. In addition, Zions is included in the S&P 500 and NASDAQ Financial 100 indices.

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 condition.

## **Macroeconomic Scenario**

It is important to note that the hypothetical scenario developed by Zions and used in the company-run stress test differs significantly from the severely adverse scenario provided by the Federal Reserve during the Dodd-Frank Act stress test conducted in early 2014; the scenario used was designed by Zions to be even more severe than the Federal Reserve's assumptions and contains assumptions designed to test and analyze risks that are unique to Zions, for example, its collateralized debt obligation portfolio. The company's board of directors approved the stress test selected to demonstrate the company's ability to withstand a deep and severe economic scenario and maintain a significant level of excess capital.

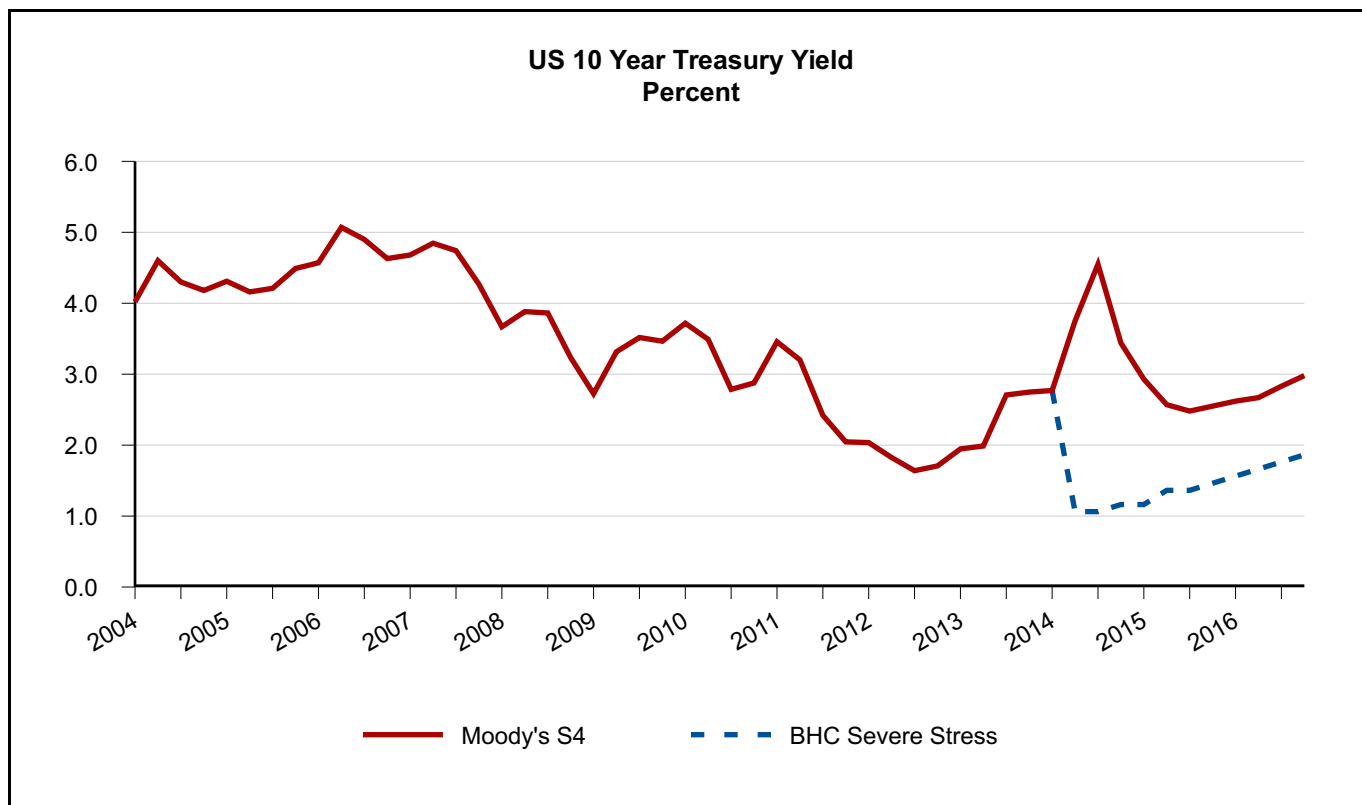
In developing its internal severely adverse macroeconomic scenario, Zions incorporates multiple variables, including the unemployment rate, various measures of domestic output (e.g. gross domestic product), home price indices (HPI), commercial real estate price indices, capital markets price changes, and many others. Interest rate projections include overnight federal funds rate, LIBOR, swap rates, and

mortgage rates, among others. The variables selected demonstrate a relatively strong correlation with historical financial results.

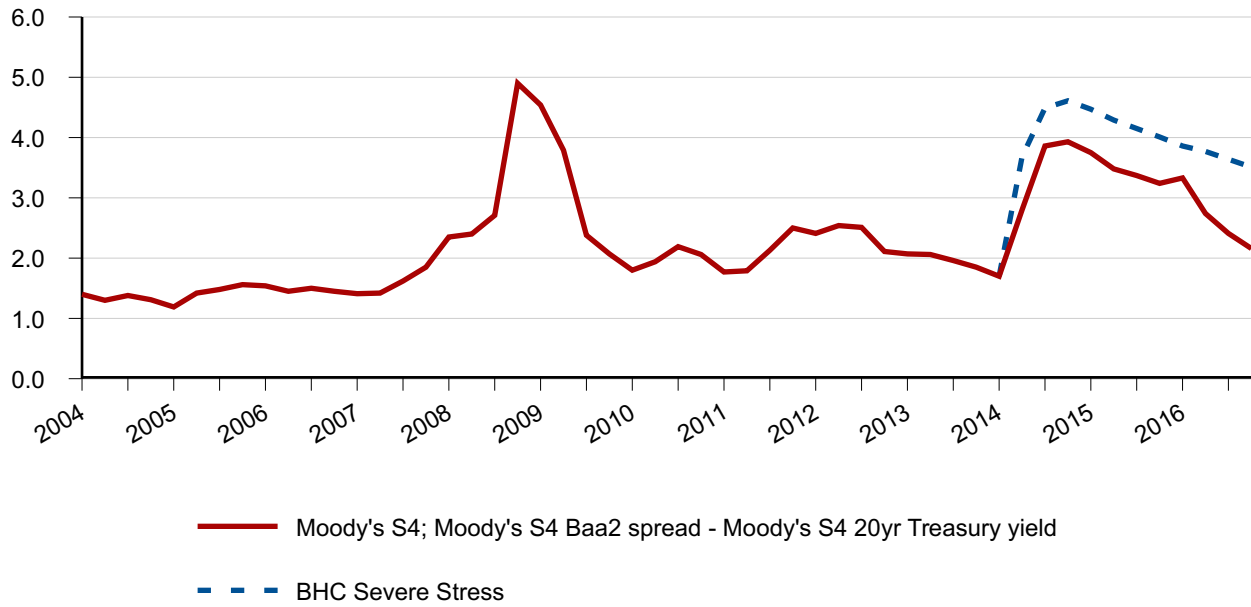
The scenarios are hypothetical and are assumed to begin on March 31, 2014; in the "severely adverse" scenario, the most sensitive assumptions include:

- A decline in various interest rate indices; for example, the US 10-year Treasury rate declines to 1.06% from 2.77%
- A significant widening of credit spreads, using an index of bonds rated Baa2 by Moody's, to 4.61% from 1.70%
- A sharp increase in unemployment to 11.52% from the recent 6.67%
- A 22.3% decline in commercial property values
- A 25.7% decline in residential property values
- A significant decline in gross domestic product (down cumulatively by nearly 4.42%),
- A 49.5% decline in the stock prices, as measured by the Dow Jones Total Stock Market Index

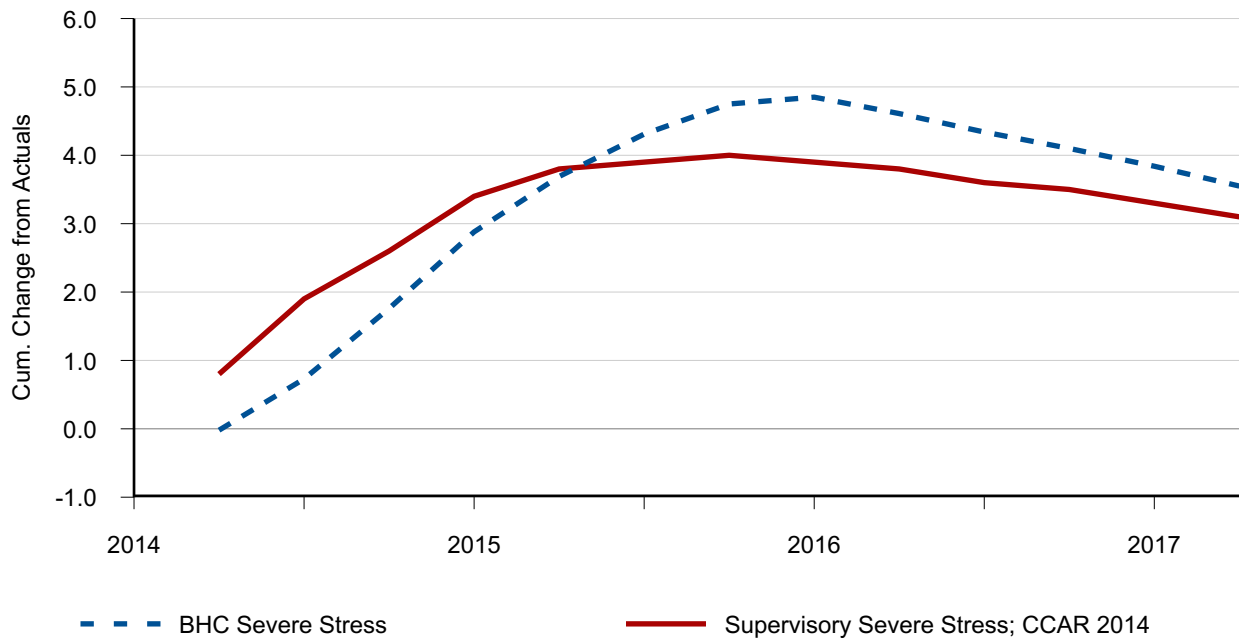
In the charts shown below, some of the economic indicators are shown; the "BHC Severe Stress" represents the Bank Holding Company Severe Stress, or Zions' Severe Stress scenario, as approved by Zions Bancorporation's board of directors. Some charts include the Moody's S4 scenario, which represents a view of Moody's Investor Services of a severely adverse scenario. Some charts also reference the CCAR 2014 scenario, which was provided to the systemically important financial institutions in 2013 for the CCAR submission that was due in January 2014.



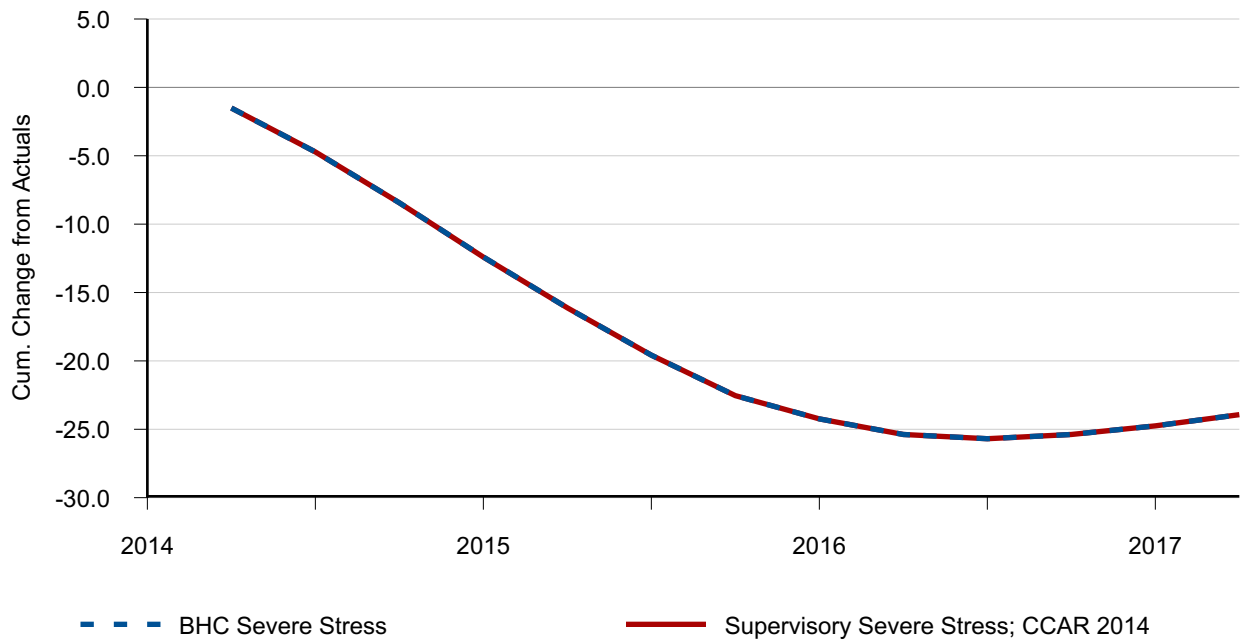
**Baa2 spread (28 year YTM)  
Percent**



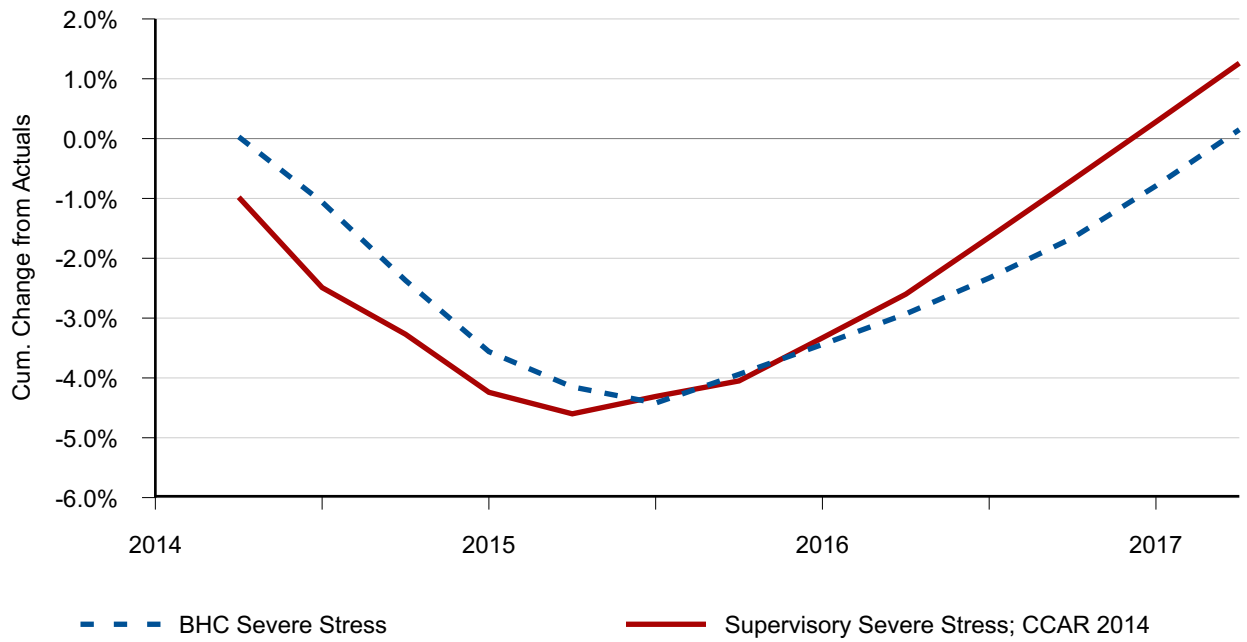
**Unemployment**

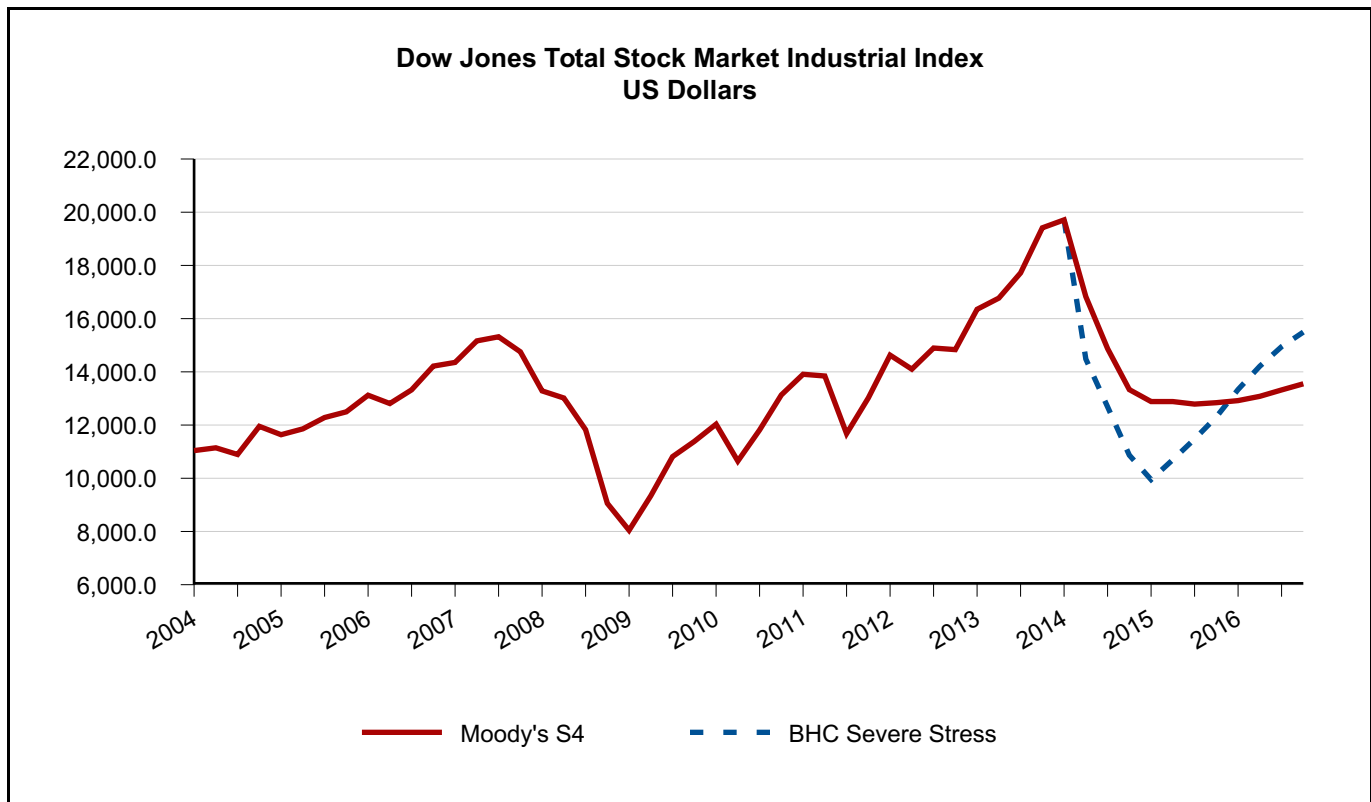


### All Transactions Home Price Index



### Real Gross Domestic Product





## Summary of Results

The following data are the stress test results submitted by Zions in its 2014 mid-cycle stress test submission for the BHC Severely Adverse scenario. These results represent estimates of Zions' capital as of 2Q16 under this scenario, although this scenario is considered highly unlikely to occur. **As such, these estimates do not represent forecasts of expected results.** The economic assumptions used to arrive at these results involve an economic outcome that is significantly more adverse than current market expectations for the economy generally or for Zions specifically.

### *Projected Capital Ratios as of June 30, 2016 in the BHC Severely Adverse Stress scenario*

	Actual As of March 31, 2014	BHC Severely Adverse Stress Scenario	
		As of June 30, 2016	Minimum ratio during projection period
Tier 1 Common Capital Ratio	10.6 %	8.7 %	8.7 %
Tier 1 Leverage Ratio	10.7 %	8.0 %	8.0 %
Tier 1 Capital Ratio	13.2 %	11.1 %	11.1 %
Total Risk-Based Capital Ratio	15.1 %	13.3 %	13.3 %

*Projected loan losses by category  
March 31, 2014 through June 30, 2016  
in the BHC Severely Adverse Stress scenario  
(in billions)*

	Cumulative Amount	Loss Rates, not annualized
Loan Losses	\$1.69	4.3 %
Domestic closed-end first-lien mortgages	0.07	1.4
Domestic junior lien mortgages and home equity lines of credit	0.10	4.2
Commercial and industrial	0.44	3.8
Commercial real estate	0.96	5.5
Credit card exposures	0.02	14.1
Other consumer	0.03	7.9
Other loans	0.06	3.8

*Earnings Impact on Regulatory Capital  
March 31, 2014 through June 30, 2016  
in the BHC Severely Adverse Stress scenario  
(in billions)*

	Cumulative 9-Quarter Amount
Net Interest Income	\$4.02
Plus:	
Non-Interest Income	0.90
Less:	
Operational Risk Expense	0.17
OREO Expense	0.16
Other Noninterest Expense	3.89
Equals:	
Pre-provision net revenue (PPNR)	0.70
Less:	
Provision for loan and lease losses	2.10
Trading and counterparty losses	—
Realized losses/(gains) on AFS/HTM securities	0.04
Equals:	
Net Income before taxes and extraordinary items (1)	(1.44)
Income tax benefit	0.07
Total Impact on Regulatory Capital from Net Income	(1.37)
Goodwill impairment (2)	1.01

(1) Excludes goodwill impairment charges

(2) No impact to regulatory capital

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 BHC Severely Adverse scenario, the Company modeled an annualized provision of \$932 million, or a cumulative \$2.1 billion for the nine-quarter scenario period. Such modeled provisions were primarily attributable to modeled net loan losses of \$1.7 billion, or an annualized \$752 million. This compares to actual 2013 net charge-offs of only \$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. For CCAR 2014, 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 (Supervisory Severe Adverse), 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"), under which Zions does not have to sell its primarily bank TruPS CDOs, and therefore does 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 significantly improved the result of Zions' earnings and capital under stress test submissions, including the previously-announced April 2014 resubmission and this mid cycle submission. Further CDOs have been sold subsequent to the mid cycle submission, primarily as a way to mitigate the capital loss from CDO-related deferred tax asset impairment (or "disallowance") in the severe adverse scenario.

**A significant reduction in Zions' Pre-Provision Net Revenue (PPNR).** Zions' PPNR for 2013 was \$302 million (adjusts income before taxes by including the effect of 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 \$604 million, or a nine-quarter equivalent \$1.4 billion. Under the Mid-Cycle Company-run hypothetical severely adverse scenario, Zions' PPNR equaled an annualized \$308 million or \$693 million for the nine-quarter period, which reflected:

- **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. Zions' earning assets are skewed to shorter-duration instruments, the income from which is more adversely affected under a falling rate scenario than assets that have longer duration. In 2013, Zions recorded net interest income of \$1.7 billion; under the BHC severely adverse scenario, Zions projected annualized net interest income of \$1.8 billion. Zions projected that while loan balances would decline materially under a severe adverse stress scenario, interest income on loans would initially improve due to widening spreads, but would then start to decline due to the shrinking portfolio.
- **Lower noninterest income.** Excluding net impairment losses on investment securities in 2013, Zions realized \$497 million of noninterest income. In the BHC severely adverse scenario, Zions projected annualized noninterest income of \$399 million.
- **Higher noninterest expenses.** In 2013, excluding other real estate owned and credit-related expenses and debt extinguishment expenses, Zions recognized \$1.7 billion of noninterest expenses. Under the BHC severely adverse scenario, Zions projected 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 \$119 million during the 9-quarter period.

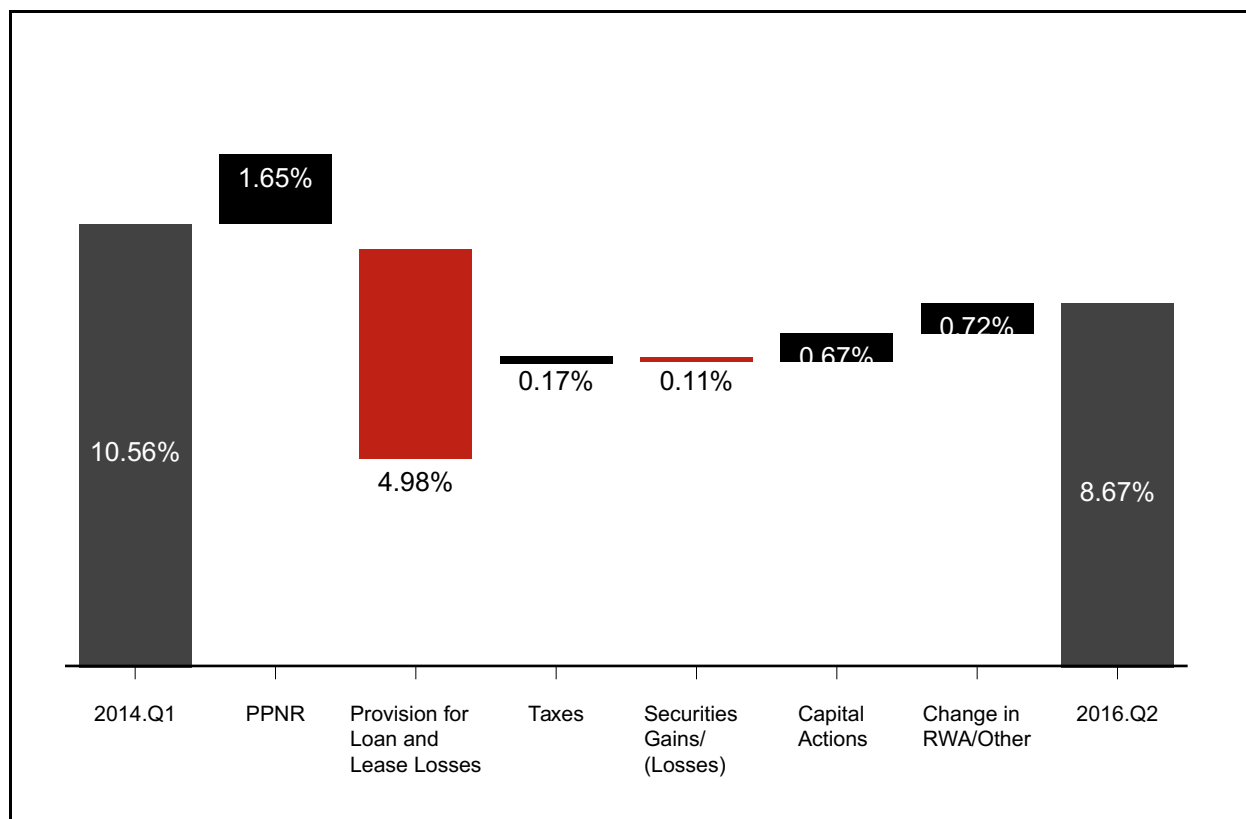
**The projected regulatory disallowance of its Deferred Tax Asset (DTA).** Such disallowance is triggered by hypothetical earnings losses under the severely adverse scenario, which were driven primarily by high provisions for loan losses and securities impairment charges. The DTA disallowance in the BHC severely adverse scenario was estimated by Zions to be \$501 million, which was a direct, dollar-for-dollar (i.e. no tax effect) deduction from capital. Additionally, hypothetical projected losses subsequent to the DTA disallowance affected the company significantly more than would be expected under a milder economic scenario, as such losses did not receive a tax benefit in the BHC severely adverse scenario - i.e., after-tax losses were the same as pre-tax losses.

**Risk Weighted Assets and Other impacts to Capital.** In accordance with the loan losses discussed above, overall loan balances declined by \$2.3 billion. With an average risk weighting near 89%, this was the primary contributor to the decline in risk weighted assets from \$44.3 billion to \$42.1 billion.

**Capital Actions.** Zions' mid-year stress test included proposed capital actions that were contained in its required capital plan resubmission. Among these actions was a proposed issuance of \$400 million of new common equity, which also was included in the mid-cycle update. Subsequently, Zions increased the amount of new common equity issued to \$525 million, or an additional \$125 million of common equity more than is reflected in this mid-cycle update. This capital action was completed in early August, 2014.

**Significant Drivers of Changes to the Projected Tier 1 Common Ratio under the Zions' Severely Adverse Scenario**

The chart below shows material impacts to earnings including provision for loan and lease losses (\$2.1B), partially offset by \$693MM of pre-provision net revenue.



## **Risks**

Zions administers its company-run stress tests through its Capital Adequacy Process (CAP). The CAP identifies and quantifies the company's material risks under different hypothetical risk events prescribed by the Zions Severely Adverse Scenario. Zions considers all identified risks that it has determined to be material based upon sensitivity analysis in its stress testing; in addition it has considered whether certain risks deemed individually to be immaterial could collectively be material. These risks range from idiosyncratic risks (geographical footprint and industry concentrations in credit portfolios) to broad economic, political, and regulatory and compliance risks that Zions believes will impact the company.

**Credit risk**, including obligor default risk, counterparty credit risk, guarantor non-performance, credit risk of securities held, and collateral management. Zions believes this is its primary risk, as the majority of its income is derived from lending-related activities.

Zions' business is subject to periodic fluctuations based on national, regional and local economic conditions. These fluctuations are not predictable, cannot be controlled, and may have a material adverse impact on Zions' operations and financial condition even if other favorable events occur. Zions' banking operations are locally oriented and predominantly community-based. Accordingly, Zions is dependent on local business conditions as well as conditions in the local residential and commercial real estate markets it serves. For example, an increase in unemployment, a decrease in real estate values or increases in interest rates, as well as other factors, could weaken the economies of the communities Zions serves. Weakness in Zions' market area could depress its earnings and its financial condition because: Clients may not want or need Zions' products or services; the quality of Zions' loan portfolio may decline for reasons including the borrowers may be unable or unwilling to repay their loans or the value of the collateral securing loans to borrowers may decline

Any of the above scenarios could require Zions to charge off a higher percentage of loans and/or increase provisions for credit losses, which would reduce Zions' net income. For example, while the credit deterioration that Zions experienced from 2007 through 2010 has improved considerably, the challenges in the economy still present credit deterioration risks for Zions in light of the slow pace of general economic recovery. Any further credit deterioration would result in increased loan charge-offs and higher provisions for credit losses, which may negatively impact Zions' net income. This would be exacerbated by flat to declining collateral values.

There continues to be concern regarding the possibility of a return to recessionary conditions, as well as increased turmoil or volatility in the financial system. Zions is part of the financial system and a systemic lack of available credit, a lack of confidence in the financial sector, continued volatility in the financial markets and/or reduced business activity could have a materially adverse effect on Zions' business, financial condition and results of operations.

Substantially all of Zions' stress testing models capture these risks and their potential effects on the performance of the bank's portfolios and revenue generating activities.

**Market risk** which includes risk arising from changes in interest rate levels, equity prices, property prices, commodity prices, and credit spreads. Zions' earnings and financial condition are largely dependent on net interest income, which is the difference between interest earned from loans and investments and interest paid on deposits and borrowings. The narrowing of interest rate spreads could adversely affect Zions' earnings and financial condition. Zions cannot control or predict with certainty changes in interest rates. Regional and local economic conditions, competitive pressures and the policies of regulatory authorities, including monetary policies of the Board of Governors of the Federal Reserve System, affect interest income and interest expense. Zions has ongoing policies and procedures designed to manage the risks associated with changes in market interest rates. However, changes in interest rates still may have an adverse effect on Zions' profitability. For example, high interest rates could adversely affect

Zions' mortgage banking business because higher interest rates could cause clients to apply for fewer mortgage refinancings or purchase mortgages. Zions actively manages against these risks. However, if Zions' assumptions regarding borrower behavior are wrong or overall economic conditions are significantly worse than anticipated, the company's risk mitigation techniques may be insufficient. The Zions Severely Adverse Scenario includes interest rate assumptions projected to cause a significant decrease in net interest income.

**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.

Liquidity is essential to Zions' businesses. If market disruption and volatility that was generally common during 2008-2012 were to arise at a later date, Zions' ability to access capital could be materially impaired. Economic losses sustained as a result of market disruption or poor general economic conditions would likely lead to higher loan and securities losses and reduced fee income, primarily from slower economic activity. Both factors would likely lead to reduced confidence in Zions as a financial institution, and could result in reduced deposit funding from Zions' customers.

**General economic condition risk.** Changes in national, regional and local economic conditions and deterioration in the geographic and financial markets in which Zions operates could lead to higher loan charge-offs and deposit run-off that may reduce or make negative Zions' net income and growth.

**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.

**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.

**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.

**Strategic risk**, including: adverse business decisions; poor implementation of business decisions; and lack of responsiveness to changes in the industry / operating environment.

**Model (including data) risk:** fundamental errors leading to inaccurate model output, and incorrect or inappropriate model usage.

## **Methodologies**

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

### **Forward-Looking Statement**

This disclosure contains statements relating to a stress test and analysis undertaken by Zions Bancorporation pursuant to regulatory requirements and possible future actions Zions may take to reduce risk or increase its capital. The stress test results are based upon the hypothetical impact of assumed future economic conditions on our capital, financial condition, and earnings under certain financial models. The stress test results are not intended to reflect our expectations about actual future conditions. Factors that might cause our understanding of the stress test results to change include detailed analyses of the multiple factors involved in the stress test. Factors that might cause our future actions to differ from those anticipated include our more detailed understanding of the stress test, changes to the underlying economic assumptions that drive the stress test results, the feasibility of various potential future actions (primarily although not solely related to capital and risk management), and actual market and macroeconomic conditions. Accordingly, the statements contained in this disclosure are based on facts and circumstances as understood by management of the Company on the date of this disclosure, which may change in the future. Except as required by law, Zions disclaims any obligation to update any statements or to publicly announce the results of any revisions to any of the forward-looking statements included herein to reflect future events, developments, determinations, or understandings.