3/12/2014

Zions Bancorporations Warrants (NYSC: ZIONW & ZIONZ)

Company Background:

We own warrants in Zions Bancorporation (Zions or "ZION") for our clients. While the price of the warrants is very volatile, Gator Capital Management believes they present an interesting asymmetrical risk/reward situation that could produce high returns. Gator originally purchased ZIONZ when the Treasury auctioned their holding into the market. Since then, they have added to the position as the Fund has had in-flows. Zions actually has two warrant issues outstanding: ZIONW and ZIONZ. Both are listed on the NYSE.

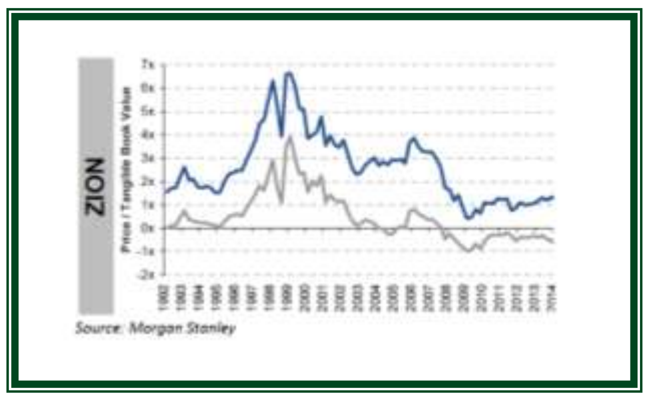
Investment Thesis:

1. ZION stock on a stand-alone basis is interesting and the related warrants are a way to use non- recourse leverage to participate in the upside potential of ZION stock.

2. ZION has a compelling valuation. ZION has a tangible book value of $23.88 and is estimated to earn $1.83 in 2014 and $2.03 in 2015. On 3/7/14, ZION closed at $31.57, which is a Price-to- Tangible Book (or P/TB) of 1.3x and a P/E of 17.2x. Because Gator believes ZION is reporting earnings well below its actual earnings power, they will focus on the Price-to-Tangible Book measures. In the chart below from Morgan Stanley, ZION's historical Price-to-Tangible Book is represented by the blue line. The grey line represents ZION's P/TB versus its regional bank peer group. From 2002 to 2007, ZION traded around 3x P/TB. So, Gator thinks it is reasonable to consider the possibility that ZION may again trade up to 2x P/TB. Also, they can see that ZION trades at a discount to its regional bank peers. Peers trade at a median 1.9x P/TB.

3. ZION has two sources of hidden earnings power:

a. ZION holds $8.5 billion or 16% of its balance sheet in cash versus its peers; holding just 1% of their balance sheet in cash. ZION earns 0.25% on this cash. Management does this because they fear the potential losses if they invested in bonds and rates rose. Gator agrees with this decision. However, they believe this positioning hurts current earnings. If ZION moved $8 billion of its cash to 15-



year MBS and earned a current yield of 1.5%, the bank would generate an additional $65 million of income or $0.35 per share.

b. ZION is also the regional bank most leveraged to higher interest rates due to their floating rate loans and high cash balances. Management estimates that if interest rates rose 2% gradually that net interest income at the bank would rise 17% or about $200 million after-tax. This is more than $1 per share of hidden earnings power.

4. Least exposed to bond losses among peers – As discussed above, ZION has a higher percentage of its balance sheet invested in cash vs. its peers. The slide below is taken from a ZION investor presentation. As you can see, the low securities balances will protect ZION from recording unrealized losses when rates eventually rise. ZION management's aversion to mortgage-backed securities (MBS) is particularly noteworthy because the duration of MBS will extend with increases in rates.

5. Attractive branch footprint – ZION has an attractive branch footprint with a dominant position in Utah and significant operations in Southern California, Houston, Las Vegas, Phoenix and Denver. Of its peers, ZION's branch footprint has the highest expected GDP growth.

6. Potential Loan Growth – ZION's earnings will benefit if loan growth can accelerate. Recently, they have seen evidence of stronger loan growth through both increased demand from banking customers and fewer payoffs through refinances. Importantly, ZION's management has seen evidence of loan demand from small business customers. Small business loans are priced with wider margins than middle-market loans. Loan growth is the best possible use of the excess cash that ZION has on its balance sheet.

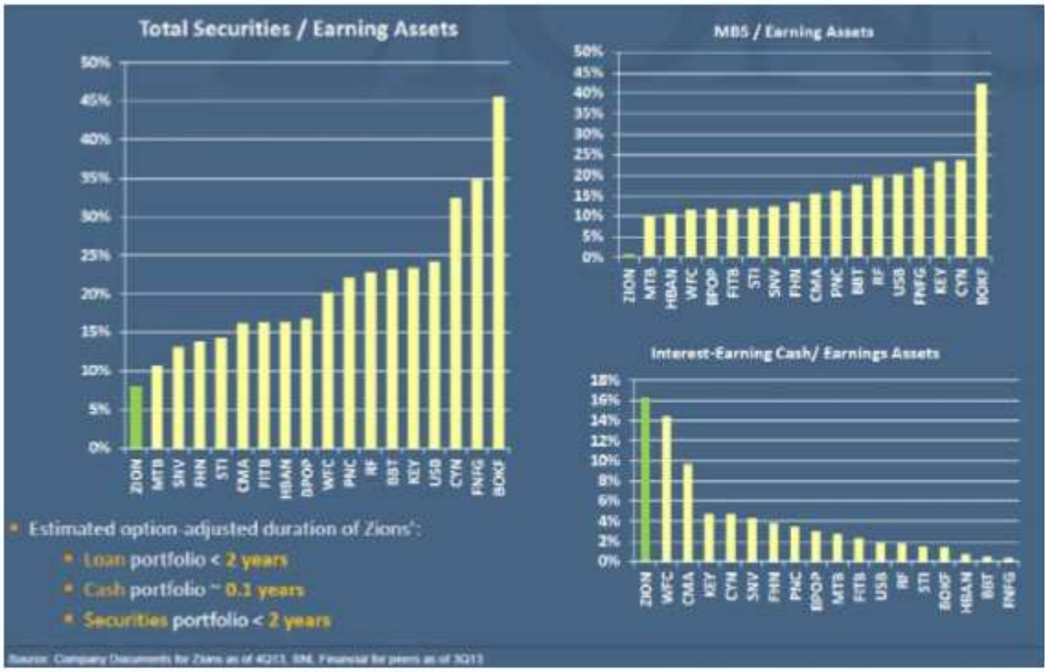
7. Potential upside of the ZIONW issue – The ZIONW warrant issue has a potential 5x upside. The ZIONW warrant issue was recently trading for $6.80. Tangible book value ("TBV") of ZION stock is ~$24 per share. The stock price was traded recently around $31, so it is priced at 1.3x TBV. The median P/TBV of ZION's regional banking peers is 1.9x TBV. There are 6.25 years until the warrant's expiration, and the strike is $36.63. At expiration, ZION's tangible book value per share should increase to ~$36 and the stock could trade at 2x tangible or ~$72. If it did, the warrant would be worth ~$35 or 5x the current market price.

Investment Risks:

1. Loan growth – A significant portion of this investment thesis is dependent on ZION working down its excess cash balance by growing its loan portfolio. If loan growth is disappointing, Gator thinks the potential 2x tangible book ratio six years from now will be difficult to achieve.

2. Interest rates stay low for an extended period of time – If interest rates, especially short-term interest rates, stay at the current low levels for the next six years, ZION will not benefit from its asset sensitive balance sheet. There is precedent that rates can stay at low levels for extended periods, so Gator will have to monitor the Federal Reserve's monetary policy decisions closely.

3. The Fund's ZION warrant position is at risk if the bank sells for cash prior to expiration – If ZION is sold for cash prior to the warrant expiration, warrant holders will not get the benefit of the additional time left on the warrants. If ZION is bought by another bank in a stock swap, the warrants will probably convert into warrants of the acquiring bank. Currently, there appears to be one cash acquirer lurking in the western U.S., UnionBanCal. UnionBanCal is a wholly owned subsidiary of Mitsubishi UFJ Financial Group and has made a few acquisitions of banks in the western U.S. and has paid cash. If UnionBanCal purchased ZION for cash, Gator would not benefit as much as expected from the warrant position. The company believes ZION selling is unlikely in the next six years as the CEO, Harris Simmons, is only 58 and has worked his entire career at the bank. His father ran the bank before him, so Gator believes it would be unlikely for him to sell the bank before he was ready to retire. With the ZION warrants, Gator has a leveraged way to participate in a regional bank trading at a discount to its peers. At the same time, they are one of the banks best positioned for higher interest rates.



Source: Zions Bancorporation

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