FIRST NATIONAL OF NEBRASKA INC
Form ARS
March 05, 2001

**To Stockholders**

*Two thousand was a great year for First National of Nebraska.*

*Asset growth was the strongest in First National's history. Year-end managed assets totaled $10.7 billion. This was an increase of $1.5 billion over the $9.2 billion at year-end 1999.*

*Gross revenue increased 18.2% to $1.3 billion compared to the $1.1 billion recorded in 1999.*

*Net income reached a new high of $105.5 million. This is an increase of 14.2% over the $92.4 million achieved in 1999.*

*Return on average stockholders' equity was 15.4%, making 2000 the twenty-eighth consecutive year that return on average stockholders' equity has been 15% or greater.*

***Expansion***

*During 2000, the Company achieved strong growth in revenue and managed assets. This growth came mostly from internally generated assets, but also included several acquisitions and expansions into new locations.*

*The Company's banking business is primarily focused in three areas:*

***Community Banking***

*The Company's ten independently operated community banks headquartered in Nebraska, Colorado, Kansas, and South Dakota expanded their facilities in an effort to better serve our customers and to achieve greater future growth.*

*First National Bank of Omaha opened a new branch at 175$^{th}$ and West Center Road. This is our western most branch in Omaha. We also acquired a bank charter in Texas and converted it to a branch of Omaha. The new location will be known as First National Bank Frisco Office. Frisco is a rapidly growing suburb north of Dallas.*

*First National Bank of Kansas opened its seventh office in Johnson County. This one is located in Shawnee at 6301 Pflumm Road.*

*First National Bank South Dakota opened a check processing center in Sioux Falls. This is designed to more efficiently serve the four communities where the bank's offices are located: Yankton, Mitchell, Huron, and Woonsocket.*

*First National Bank of Colorado (the new name for The Bank in Boulder) opened a new facility at the Flat Iron Crossing Shopping Center on Highway 36 and will open another in early 2001 in the Qwest Tower on 17$^{th}$ Street, in downtown Denver. This bank continues to show strong growth with total assets up 43.3% over 1999.*

*In February 2000, we acquired Cornerstone Mortgage Company. Cornerstone, with headquarters in Houston, has offices throughout Texas and during 2000 expanded its operations into Arizona and Colorado. This mortgage banking operation will bring additional expertise to the real estate lending part of our business.*

**MAP DEPICTING:**

| Nebraska | South Dakota | Kansas | Colorado |
|---|---|---|---|
| Omaha(1) | Yankton(1) | Fairway(1) | Fort Collins(2) |
| North Platte(1) | Mitchell(1) | Overland Park(1) | Greeley(1) |
| Columbus(1) | Huron(1) | Olathe(1) | Loveland(2) |
| Kearney(1) | Woonsocket(1) | Shawnee(1) | Windsor(1) |

| | |
|---|---|
| **Fremont(1)** | **Boulder(2)** |
| **Beatrice(1)** | **Longmont(1)** |
| **David City(1)** | **Louisville(1)** |
| **Chadron(1)** | **Broomfield(1)** |
| **Alliance(1)** | **Brighton(1)** |
| **Scottsbluff(1)** | **Johnstown(1)** |
| **Gering(1)** | **Denver(2)** |
| **Norfolk(1)** | |
| **Lincoln(1)** | |

| **Texas** | **Texas (cont.)** | **Arizona** |
|---|---|---|
| **Frisco(1)** | **North Houston(3)** | **Scottsdale(3)** |
| **Plano(3)** | **Houston(3)** | **Tucson(3)** |
| **Dallas(3)** | **Sugar Land(3)** | **Sierra Vista(3)** |
| **Hurst(3)** | **San Antonio(3)** | |
| **Waco(3)** | **The Woodlands(3)** | |
| **Temple(3)** | **Beaumont(3)** | |
| **Bryan(3)** | **Austin(3)** | |

**(1) Banking Locations**
**(2) Banking Locations and Cornerstone Mortgage Company**
**(3) Cornerstone Mortgage Company**

*During 2000, the strong economy and our continuing increase in market share resulted in substantial loan growth. Our community banks' non-credit card loan portfolios grew $846.9 million, or 21.9%.*

*First National of Nebraska ranks among the ten largest banking companies headquartered west of the Mississippi River.*

***Credit Card Issuing***

*This extremely competitive business continues to consolidate as bank mergers decrease the number of participants and others exit the industry.*

*During 2000, we acquired 14 credit card portfolios with total loans outstanding of $154 million. We also joined forces with Inficorp Holdings, Inc., whose headquarters are in Atlanta, Georgia. Inficorp is a sophisticated credit card marketing and management organization with strong expertise in the credit card issuing industry. We believe Inficorp will help us grow both fee income and new consumer account relationships.*

*After three years of hard work to improve the quality of our portfolio and a year (1999) of declining outstandings, the year 2000 was very satisfying. Total managed credit card loans outstanding grew $526.6 million, or 17%. This was the second best dollar growth year in our history. At year end, managed credit card loans totaled $3.6 billion. Equally as important, credit quality continued to improve with year-end delinquencies on reported credit card loans of 4.7% compared to December 31, 1999 delinquencies of 5.1%, and December 31, 1998 delinquencies of 5.9%.*

*Today, First National is the 15th largest issuer of bank credit cards and the 9th largest commercial bank issuer of Visa and Master Cards.*

***Processing***

*First National Bank of Omaha has an historic commitment to the in-house processing of its own items and to the customized processing of work for others. The bank is recognized nationally as a leader in several areas. It is the 11th largest merchant credit card processor, the 19th retail lockbox processor and ranks among the top 20 in processing automated clearing house transactions.*

*In addition to processing both paper and electronic transactions, First National Information Solutions converts paper to images. In 2000, Mountain States Imaging of Denver became an important part of this operation.*

*Since 1993, merchant credit card processing has been divided between two organizations: First of Omaha Merchant Processing, and Retriever Payment Systems in Houston. From a strategic standpoint we decided to sell Retriever to a management led group which will operate independently of First of Omaha Merchant Processing. First National has retained a 19.87% interest in Retriever and a five-year contract to continue processing its merchant transactions.*

*During 2000, John R. Lauritzen passed away. John's career at First National Bank of Omaha spanned half a century (1943-1994). He will long be remembered for his ability to see the big picture, his thirst for new products, his willingness to teach and mentor others, and his entrepreneurial spirit. His most lasting legacy for our Company was his creation of First Bankcard Center and his untiring promotion of the bank credit card business.*

*Looking ahead, although this was a good year for First National of Nebraska, I do have some concerns about the future. Our economy has weakened which could adversely impact our borrowers' ability to service their debts. In spite of good growth in our managed credit card portfolio, managed credit card loans continue to decline as a percentage of our total managed loans, which results in a reduced net interest margin for the Company. Our industry will continue to experience consolidations, while at the same time the number of competitors from the non-banking sector will continue to grow. The combination of these factors cause increased pressure on industry profitability and particularly, the net interest margin of the Company.*

*The major commitments we are making in people, software, equipment, facilities, and marketing are investments in the future. They may have an adverse impact on our earnings over the next few years. However, we believe that these commitments will help us to fulfill our vision.*

*The First National vision is to be a significant regional banking company, which has the ability to compete nationally with certain niche products. I believe this can be accomplished by providing our customers with quality products and especially with superior service.*

*Two thousand was a fine year. I want to thank our associates and customers who made this year a success, and who, with our shareholders, look forward to creating a strong long term future for First National of Nebraska.*

*Bruce R. Lauritzen*

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**First National of Nebraska and Subsidiaries**

**Performance Trends**

(in millions)

BAR GRAPHS DEPICTING:

| Managed Assets* 2000: $10,695 | | Earnings 2000: $105.5 | | Capital & Loan Loss Allowance 2000: $856 | |
|---|---|---|---|---|---|
| YEAR | | YEAR | | YEAR | |
| 1972 | 298 | 1972 | 1.959 | 1972 | 20 |
| 1973 | 366 | 1973 | 2.213 | 1973 | 22 |
| 1974 | 360 | 1974 | 2.405 | 1974 | 20 |
| 1975 | 351 | 1975 | 2.597 | 1975 | 18 |
| 1976 | 372 | 1976 | 3.155 | 1976 | 20 |

| | | | | | |
|---|---|---|---|---|---|
| 1977 | 439 | 1977 | 3.614 | 1977 | 23 |
| 1978 | 503 | 1978 | 3.976 | 1978 | 27 |
| 1979 | 583 | 1979 | 4.473 | 1979 | 31 |
| 1980 | 625 | 1980 | 5.075 | 1980 | 35 |
| 1981 | 666 | 1981 | 5.743 | 1981 | 41 |
| 1982 | 715 | 1982 | 6.575 | 1982 | 46 |
| 1983 | 844 | 1983 | 7.000 | 1983 | 49 |
| 1984 | 873 | 1984 | 8.700 | 1984 | 59 |
| 1985 | 1,081 | 1985 | 10.076 | 1985 | 69 |
| 1986 | 1,118 | 1986 | 11.637 | 1986 | 80 |
| 1987 | 1,314 | 1987 | 15.133 | 1987 | 95 |
| 1988 | 1,726 | 1988 | 23.253 | 1988 | 121 |
| 1989 | 2,076 | 1989 | 28.123 | 1989 | 147 |
| 1990 | 2,548 | 1990 | 33.217 | 1990 | 186 |
| 1991 | 3,033 | 1991 | 40.017 | 1991 | 225 |
| 1992 | 3,574 | 1992 | 52.126 | 1992 | 272 |
| 1993 | 4,272 | 1993 | 70.082 | 1993 | 345 |
| 1994 | 5,262 | 1994 | 77.133 | 1994 | 415 |
| 1995 | 6,311 | 1995 | 82.241 | 1995 | 498 |
| 1996 | 7,112 | 1996 | 70.232 | 1996 | 593 |
| 1997 | 8,282 | 1997 | 75.187 | 1997 | 639 |
| 1998 | 8,841 | 1998 | 86.492 | 1998 | 706 |
| 1999 | 9,211 | 1999 | 92.361 | 1999 | 757 |
| 2000 | 10,695 | 2000 | 105.477 | 2000 | 856 |

| Managed Loans* 2000: $8,318 | | Deposits 2000: $7,848 | | Return On Average Equity 2000: 15.4% | |
|---|---|---|---|---|---|
| YEAR | | YEAR | | YEAR | % |
| 1972 | 152 | 1972 | 251 | 1972 | 13.5 |
| 1973 | 183 | 1973 | 296 | 1973 | 16.5 |
| 1974 | 172 | 1974 | 299 | 1974 | 17.4 |
| 1975 | 175 | 1975 | 280 | 1975 | 18.5 |
| 1976 | 202 | 1976 | 302 | 1976 | 19.5 |
| 1977 | 215 | 1977 | 336 | 1977 | 19.2 |
| 1978 | 268 | 1978 | 369 | 1978 | 18.2 |
| 1979 | 318 | 1979 | 411 | 1979 | 17.9 |
| 1980 | 289 | 1980 | 428 | 1980 | 17.7 |
| 1981 | 370 | 1981 | 411 | 1981 | 17.4 |
| 1982 | 411 | 1982 | 432 | 1982 | 17.1 |
| 1983 | 515 | 1983 | 557 | 1983 | 16.3 |

| | | | | | |
|---|---|---|---|---|---|
| 1984 | 634 | 1984 | 608 | 1984 | 18.6 |
| 1985 | 729 | 1985 | 741 | 1985 | 18.0 |
| 1986 | 806 | 1986 | 799 | 1986 | 18.0 |
| 1987 | 979 | 1987 | 970 | 1987 | 19.8 |
| 1988 | 1,312 | 1988 | 1,308 | 1988 | 25.7 |
| 1989 | 1,570 | 1989 | 1,642 | 1989 | 24.3 |
| 1990 | 1,878 | 1990 | 2,097 | 1990 | 23.2 |
| 1991 | 2,212 | 1991 | 2,575 | 1991 | 23.3 |
| 1992 | 2,591 | 1992 | 3,070 | 1992 | 24.7 |
| 1993 | 3,173 | 1993 | 3,652 | 1993 | 26.8 |
| 1994 | 3,934 | 1994 | 4,383 | 1994 | 24.1 |
| 1995 | 4,639 | 1995 | 5,090 | 1995 | 20.8 |
| 1996 | 5,296 | 1996 | 5,836 | 1996 | 15.4 |
| 1997 | 5,948 | 1997 | 6,401 | 1997 | 15.2 |
| 1998 | 6,386 | 1998 | 6,868 | 1998 | 15.7 |
| 1999 | 6,949 | 1999 | 7,009 | 1999 | 15.1 |
| 2000 | 8,318 | 2000 | 7,848 | 2000 | 15.4 |

*Reported assets or loans plus securitized credit card loans

**First National of Nebraska and Subsidiaries**
**Financial Highlights**

| | Years ended December 31, | | | | |
|---|---|---|---|---|---|
| | **2000** | **1999** | **1998** | **1997** | **1996** |
| (in thousands except per share data) | | | | | |
| Total managed assets (1) | **$ 10,695,352** | $ 9,211,488 | $ 8,840,837 | $ 8,282,021 | $ 7,112,057 |
| Total reported assets | **$ 9,283,314** | $ 8,560,444 | $ 8,187,815 | $ 7,332,021 | $ 6,912,057 |
| Net income | **$ 105,477** | $ 92,361 | $ 86,492 | $ 75,187 | $ 70,232 |
| Stockholders' equity | **$ 750,203** | $ 650,474 | $ 584,303 | $ 510,057 | $ 487,966 |
| Allowance for loan losses | **$ 105,304** | $ 106,484 | $ 121,877 | $ 128,990 | $ 104,812 |
| (1) Reported assets plus securitized credit card loans | | | | | |
| Per share data: | | | | | |
| Net income | **$ 315.33** | $ 276.02 | $ 258.19 | $ 220.68 | $ 202.53 |
| Dividends | **$ 46.47** | $ 38.72 | $ 35.00 | $ 33.76 | $ 37.22 |
| Stockholders' equity | **$ 2,242.76** | $ 1,943.91 | $ 1,744.19 | $ 1,522.56 | $ 1,407.19 |
| Profit ratios: | | | | | |
| Return on average equity | **15.4%** | 15.1% | 15.7% | 15.2% | 15.4% |
| Return on average assets | **1.2%** | 1.2% | 1.2% | 1.1% | 1.1% |

**A picture of the new headquarters for First National Bank of Kansas in Overland Park**

**First National of Nebraska and Subsidiaries**
**Consolidated Statements of Financial Condition**

| | December 31, | |
|---|---|---|
| | **2000** | **1999** |
| (in thousands except share and per share data) | | |
| **Assets** | | |
| Cash and due from banks | **$ 430,091** | $ 407,584 |
| Federal funds sold and other short-term investments | **385,360** | 247,148 |
| Total cash and cash equivalents | **815,451** | 654,732 |
| Investment securities: | | |
| Available-for-sale (amortized cost $814,458 and $987,943) | **813,398** | 971,449 |
| Held-to-maturity (fair value $203,127 and $178,188) | **201,253** | 179,406 |
| Federal Home Loan Bank stock and other securities, at cost | **24,843** | 42,215 |
| Total investment securities | **1,039,494** | 1,193,070 |
| Loans | **6,926,199** | 6,313,732 |
| Less: Allowance for loan losses | **105,304** | 106,484 |
| Unearned income | **20,591** | 15,429 |
| Net loans | **6,800,304** | 6,191,819 |
| Premises and equipment, net | **164,410** | 149,803 |
| Other assets | **463,655** | 371,020 |
| **Total assets** | **$ 9,283,314** | $ 8,560,444 |
| **Liabilities and Stockholders' Equity** | | |
| Deposits: | | |
| Noninterest-bearing | **$ 954,665** | $ 858,895 |
| Interest-bearing | **6,893,284** | 6,149,817 |
| Total deposits | **7,847,949** | 7,008,712 |
| Federal funds purchased and securities sold under repurchase agreements | **156,805** | 341,485 |
| Federal Home Loan Bank advances | **189,325** | 372,077 |
| Other borrowings | **91,098** | 3,758 |
| Other liabilities | **154,340** | 89,549 |
| Capital notes | **93,594** | 94,389 |
| Total liabilities | **8,533,111** | 7,909,970 |
| Contingencies and commitments | | |
| Stockholders' equity: | | |
| Common stock, $5 par value, 346,767 shares authorized | | |

| | | |
|---|---|---|
| 334,500 shares issued and outstanding | **1,673** | 1,673 |
| Additional paid-in capital | **2,511** | 2,511 |
| Retained earnings | **746,718** | 656,786 |
| Accumulated other comprehensive income (loss) | **(699)** | (10,496) |
| Total stockholders' equity | **750,203** | 650,474 |
| **Total liabilities and stockholders' equity** | **$ 9,283,314** | $ 8,560,444 |

See Notes to Consolidated Financial Statements

**First National of Nebraska and Subsidiaries**
**Consolidated Statements of Income**

| | For the years ended December 31, | | |
|---|---|---|---|
| | **2000** | **1999** | **1998** |
| (in thousands except share and per share data) | | | |
| Interest income: | | | |
| Interest and fees on loans and lease financing | **$ 811,867** | $ 749,376 | $ 755,803 |
| Interest on securities: | | | |
| Taxable interest income | **63,890** | 65,504 | 65,598 |
| Nontaxable interest income | **1,912** | 1,191 | 835 |
| Interest on federal funds sold and other short-term investments | **16,361** | 9,557 | 13,320 |
| Total interest income | **894,030** | 825,628 | 835,556 |
| Interest expense: | | | |
| Interest on deposits | **351,315** | 284,482 | 305,127 |
| Interest on federal funds purchased and securities sold under repurchase agreements | **9,847** | 8,394 | 8,310 |
| Interest on Federal Home Loan Bank advances | **10,482** | 7,162 | 1,003 |
| Interest on other borrowings | **5,069** | 391 | 1,435 |
| Interest on capital notes | **7,168** | 7,104 | 7,187 |
| Total interest expense | **383,881** | 307,533 | 323,062 |
| Net interest income | **510,149** | 518,095 | 512,494 |
| Provision for loan losses | **131,073** | 144,573 | 173,311 |
| Net interest income after provision for loan losses | **379,076** | 373,522 | 339,183 |
| Noninterest income: | | | |
| Processing services | **107,968** | 83,359 | 87,987 |
| Credit card securitization income | **96,615** | 64,384 | 60,980 |
| Gain on sale of subsidiary | **59,414** | -- | -- |
| Deposit services | **32,584** | 27,865 | 24,948 |
| Trust and investment services | **22,165** | 22,980 | 22,979 |
| Miscellaneous | **62,679** | 50,029 | 61,869 |

| | | | |
|---|---|---|---|
| Total noninterest income | **381,425** | 248,617 | 258,763 |
| Noninterest expense: | | | |
| Salaries and employee benefits | **264,449** | 216,263 | 182,848 |
| Communications and supplies | **76,426** | 58,529 | 58,046 |
| Equipment rentals, depreciation and maintenance | **55,375** | 50,637 | 45,839 |
| Net occupancy expense of premises | **43,290** | 30,554 | 30,045 |
| Processing expense | **35,269** | 27,661 | 28,784 |
| Professional services | **33,346** | 25,543 | 44,177 |
| Loan servicing expense | **29,728** | 29,917 | 26,065 |
| Goodwill and other intangibles amortization | **26,898** | 21,460 | 18,620 |
| Miscellaneous | **30,756** | 19,264 | 21,322 |
| Total noninterest expense | **595,537** | 479,828 | 455,746 |
| Income before income taxes | **164,964** | 142,311 | 142,200 |
| Income tax expense (benefit): | | | |
| Current | **70,324** | 50,059 | 57,165 |
| Deferred | **(10,837)** | (109) | (1,457) |
| Total income tax expense | **59,487** | 49,950 | 55,708 |
| **Net income** | **$ 105,477** | $ 92,361 | $ 86,492 |
| Average number of common shares outstanding | **334,500** | 334,622 | 335,000 |
| Net income per common share | **$ 315.33** | $ 276.02 | $ 258.19 |
| Cash dividends declared per common share | **$ 46.47** | $ 38.72 | $ 35.00 |

See Notes to Consolidated Financial Statements

**First National of Nebraska and Subsidiaries**
**Consolidated Statements of Comprehensive Income**

| | For the years ended December 31, | | |
|---|---|---|---|
| | **2000** | **1999** | **1998** |
| (in thousands) | | | |
| **Net Income** | **$105,477** | $92,361 | $86,492 |
| Other comprehensive income (loss), before tax: | | | |
| Net unrealized holding gains (losses) on available-for-sale securities | **17,419** | (17,415) | 495 |
| Less: Reclassification adjustment for net gains realized in net income | **2,070** | 888 | 1,307 |
| Other comprehensive income (loss), before tax | **15,349** | (18,303) | (812) |
| Less: Income tax expense (benefit) for other comprehensive income | **5,552** | (6,645) | (291) |
| **Other comprehensive income (loss), net of tax** | **9,797** | (11,658) | (521) |

| **Comprehensive income** | **$115,274** | $80,703 | $85,971 |
|---|---|---|---|

**Consolidated Statements of Stockholders' Equity**

**For the years ended December 31, 2000, 1999 and 1998**

| | **Common Stock ($5 par value)** | **Additional Paid-in Capital** | **Retained Earnings** | **Accumulated Other Comprehensive Income (Loss)** | **Employee Stock Trust** | **Total Stockholders Equity** |
|---|---|---|---|---|---|---|
| (in thousands except per share data) | | | | | | |
| Balance, January 1, 1998 | $1,675 | $2,515 | $504,184 | $1,683 | $ -- | $510,057 |
| Net Income | -- | -- | 86,492 | -- | -- | 86,492 |
| Net unrealized depreciation on securities available-for-sale, net of tax | -- | -- | -- | (521) | -- | (521) |
| Cash dividends - $35.00 per share | -- | -- | (11,725) | -- | -- | (11,725) |
| Balance, December 31, 1998 | 1,675 | 2,515 | 578,951 | 1,162 | -- | 584,303 |
| Net Income | -- | -- | 92,361 | -- | -- | 92,361 |
| Repurchase of common stock | (2) | (4) | (1,568) | -- | -- | (1,574) |
| Net unrealized depreciation on securities available-for-sale, net of tax | -- | -- | -- | (11,658) | -- | (11,658) |
| Cash dividends - $38.72 per share | -- | -- | (12,958) | -- | -- | (12,958) |
| Balance, December 31, 1999 | 1,673 | 2,511 | 656,786 | (10,496) | -- | 650,474 |
| Net Income | -- | -- | 105,477 | -- | -- | 105,477 |
| Net unrealized appreciation on securities available-for-sale, net of tax | -- | -- | -- | 9,797 | -- | 9,797 |
| Purchase shares for employee stock trust | -- | -- | -- | -- | 4,901 | 4,901 |
| Employee stock trust obligation | -- | -- | -- | -- | (4,901) | (4,901) |
| Cash dividends - $46.47 per share | -- | -- | (15,545) | -- | -- | (15,545) |
| **Balance, December 31, 2000** | **$1,673** | **$2,511** | **$746,718** | **$(699)** | **$ --** | **$750,203** |

See Notes to Consolidated Financial Statements

**First National of Nebraska and Subsidiaries**
**Consolidated Statements of Cash Flows**

| | **For the years ended December 31,** | | |
|---|---|---|---|
| | **2000** | **1999** | **1998** |
| (in thousands) | | | |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Net Income | **$ 105,477** | $ 92,361 | $ 86,492 |
| Adjustments to reconcile net income to net cash flows from operating activities: | | | |
| Provision for loan losses | **131,073** | 144,573 | 173,311 |
| Depreciation and amortization | **70,581** | 55,381 | 44,412 |
| Provision for deferred taxes | **(10,837)** | (109) | (1,457) |

| | | | |
|---|---|---|---|
| Origination of mortgage loans for resale | **(673,813)** | (132,466) | (146,816) |
| Proceeds from the sale of mortgage loans for resale | **654,769** | 142,921 | 131,847 |
| Gain on sale of subsidiary | **(59,414)** | -- | -- |
| Other asset and liability activity, net | **148** | (168,713) | 8,537 |
| Net cash flows from operating activities | **217,984** | 133,948 | 296,326 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Acquisitions, net of cash received (1) | **(32,907)** | (20,539) | (855) |
| Net cash received from sale of subsidiary | **57,810** | -- | -- |
| Maturities of securities available-for-sale | **182,744** | 202,169 | 45,587 |
| Sales of securities available-for-sale | **20,418** | 200,035 | 303,076 |
| Purchases of securities available-for-sale | **(32,920)** | (518,571) | (659,504) |
| Maturities of securities held-to-maturity | **70,989** | 266,526 | 625,871 |
| Purchases of securities held-to-maturity | **(91,643)** | (7,343) | (174,065) |
| Redemptions of FHLB stock and other securities | **17,636** | 163 | 525 |
| Purchases of FHLB stock and other securities | **(264)** | (24,475) | (6,413) |
| Net change in loans | **(1,286,639)** | (567,210) | (230,115) |
| Credit card securitization activities | **775,995** | (1,978) | (296,978) |
| Purchases of loan portfolios | **(165,688)** | (48,586) | (402,331) |
| Purchases of premises and equipment | **(55,471)** | (41,372) | (41,987) |
| Other, net | **2,927** | 3,178 | 2,277 |
| Net cash flows from investing activities | **(537,013)** | (558,003) | (834,912) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Net change in deposits | **804,462** | (84,414) | 466,836 |
| Assumption of deposits, net | **--** | 39,712 | -- |
| Net change in federal funds purchased and securities sold under repurchase agreements | **(184,680)** | (17,490) | 141,084 |
| Issuance of FHLB advances | **420,316** | 452,267 | 72,063 |
| Principal repayments on FHLB advances | **(603,068)** | (111,725) | (47,484) |
| Issuance of other borrowings | **661,994** | 10,286 | 14,000 |
| Principal repayments on other borrowings | **(602,936)** | (11,032) | (34,333) |
| Principal repayments on capital notes | **(795)** | (794) | (1,188) |
| Repurchase of common stock | **--** | (1,574) | -- |
| Cash dividends paid | **(15,545)** | (12,958) | (11,725) |
| Net cash flows from financing activities | **479,748** | 262,278 | 599,253 |
| Net change in cash and cash equivalents | **160,719** | (161,777) | 60,667 |
| Cash and cash equivalents at beginning of year | **654,732** | 816,509 | 755,842 |
| Cash and cash equivalents at end of year | **$ 815,451** | $ 654,732 | $ 816,509 |
| Cash paid during the year for: | | | |
| Interest | **$ 368,455** | $ 310,471 | $ 324,766 |
| Income taxes | **$ 50,933** | $ 52,632 | $ 53,387 |
| Non-cash investing and financing activities: | | | |
| Consideration for business acquisitions | **$ 5,000** | $ 2,319 | $ -- |

See Notes to Consolidated Financial Statements
(1) In acquisitions during 2000, the Company acquired non-cash assets of $103.8 million and assumed liabilities of $65.9 million. In acquisitions during 1999, the Company acquired non-cash assets of $214 million and assumed liabilities of $191.2 million.

**First National of Nebraska and Subsidiaries**
**Notes to Consolidated Financial Statements**
**Years Ended December 31, 2000, 1999 and 1998**

## A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of Presentation and Consolidation** - The consolidated financial statements of First National of Nebraska, Inc. and subsidiaries (the Company) include the accounts of the parent company; its 99.67% owned subsidiary, First National Bank of Omaha and subsidiaries (the Bank); its wholly-owned other banking subsidiaries; and its nonbanking subsidiaries. All material intercompany transactions and balances have been eliminated in consolidation.

**Nature of Business** - The Company is a Nebraska-based interstate financial holding company whose primary assets are its banking subsidiaries. The banking subsidiaries are principally engaged in consumer, commercial, real estate and agricultural lending and retail deposit activities. The Company also has subsidiaries which provide merchant credit card processing and other services.

These operating activities involve similar types of customers, products and services and distribution methods. Financial information is maintained and analyzed on a total entity basis for decision making and performance assessment. The Company's operations are also regulated by common regulatory authorities. Therefore, in accordance with Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information," the Company has determined that it is a single reportable entity.

**Use of Estimates** - In preparing consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Cash and Cash Equivalents** - For the purpose of the consolidated statements of cash flows, cash and cash equivalents include cash and due from banks, federal funds sold and other short-term investments with original maturities of three months or less.

**Securities** - Debt securities for which the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity and reported at amortized cost. Securities not classified as held-to-maturity or trading, including equity securities with readily determinable fair values, are classified as available-for-sale and recorded at fair value, with unrealized gains and losses on a net-of-tax basis excluded from earnings and reported in other comprehensive income. Federal Home Loan Bank stock and other securities are not actively traded and do not have readily determinable fair values, therefore, these securities are reported at cost.

Purchase premiums and discounts are recognized in interest income using the level yield method over the period to maturity. Gains and losses on the sale of securities are determined using the specific-identification method.

**Loans** - Loans are reported at their outstanding principal balance adjusted for charge-offs, the allowance for loan losses and any deferred fees or costs on originated loans. Loan fees and certain direct loan origination costs are deferred and recognized as an adjustment of the yield of the related loan over the estimated average life of the loan.

Accrual of interest is discontinued on a loan when management believes collection of interest is doubtful after considering economic and business conditions, collection efforts, and the financial condition of the borrower. All interest accrued but not collected for loans that are placed on non-accrual or charged off is reversed against interest income.

**Loans Held for Sale** - Loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated fair value in the aggregate. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income.

**Leases** - Equipment acquired with no outside financing is leased to customers under direct financing lease arrangements. The net investment in direct financing leases is the sum of all minimum lease payments and estimated residual values, less unearned income. Unearned income is

recognized as interest income over the terms of the leases by methods that approximate the level yield method.

**Allowance for Loan Losses** - The allowance for loan losses represents management s estimate of probable losses inherent in the loan portfolio. Additions to the allowance are made through increases in the provision for loan losses. Charge-offs are deducted from the allowance, and subsequent recoveries are added. Methods for measuring the appropriate level of the allowance for non-credit card loans include the application of estimated loss factors to outstanding loans and certain unused commitments based on internal risk classifications of such loans and commitments. For credit card loans, management projects future losses based on a model which tracks historical loss experience on delinquent accounts and charge-offs, net of estimated recoveries, due to bankruptcies, deceased cardholders and account settlements. In addition to these methods of measurement,

management also considers other factors such as general economic and business conditions affecting key lending areas, credit concentrations, credit quality trends, collateral values and the seasoning of the loan portfolio. Since the evaluation of the inherent loss with respect to these factors is subject to a higher degree of uncertainty, the measurement of the overall allowance is subject to estimation risk, and the amount of actual losses can vary significantly from the estimated amounts. The Company s measurement methods incorporate comparisons between recent experience and historical rates to reduce differences between estimated and actual losses. The allowance for loan losses is allocated to different parts of the loan portfolio based on the Company s measurement processes for internal analytical purposes only. The entire allowance is available to absorb probable credit losses in the Company s total loan portfolio.

**Premises and Equipment** - Premises, furniture and equipment, and leasehold improvements are carried at cost, less accumulated depreciation and amortization computed using the straight-line method over the estimated useful lives of the assets or the terms of the leases. Land is carried at cost.

**Credit Card Securitizations** - The Company sells receivables in securitizations of credit card loans on a revolving basis. In conjunction with these sales, the Company retains an interest in residual cash flows, known as interest-only strips, and servicing rights. A servicing asset or liability is not generally recognized in a credit card securitization since the Company receives adequate compensation relative to current market servicing rates. Gain or loss on the sale of credit card loans depends in part on the previous carrying amount of the financial assets involved in the transfer, allocated between the assets sold and the retained interests based on their relative fair value at the date of transfer. To obtain fair values, quoted market prices are used if available. However, quotes are generally not available for retained interests, so the Company generally uses its best estimates for fair value based on the present value of future expected cash flows using assumptions for credit losses, prepayment speeds and discount rates commensurate with the risks involved.

**Securities Sold Under Repurchase Agreements** - Securities sold under agreements to repurchase, which are classified as secured borrowings, generally mature within one day from the transaction date. Securities sold under agreements to repurchase are reflected at the amount of cash received in connection with the transaction. The Company may be required to provide additional collateral based on the fair value of the underlying securities.

**Income Taxes** - The Company files consolidated federal and state tax returns. Taxes of the subsidiaries, computed on a separate return basis, are remitted to the parent company. Under the liability method used to calculate income taxes, the Company provides deferred taxes for differences between the financial statement carrying amounts and tax bases of existing assets and liabilities by applying currently enacted statutory tax rates which are applicable to future periods.

**Intangible Assets** - Goodwill represents the excess of the purchase price over the estimated fair value of identifiable net assets associated with merger and acquisition transactions. Goodwill is amortized on a straight-line basis over periods ranging up to 25 years. Core deposit intangibles represent the intangible value of depositor relationships resulting from deposit liabilities assumed in acquisitions and are amortized over periods not exceeding 10 years using straight-line and accelerated methods, as appropriate. Purchased credit card relationships represent the intangible value of acquired credit card relationships and are amortized over 15 years using an accelerated method.

The Company periodically assesses the recoverability of intangible assets by reviewing such assets whenever events or changes in circumstances indicate that the book value may not be recoverable. An impairment is recognized when undiscounted cash flows of assets are estimated to be insufficient to recover their related carrying value.

**Fair Values of Financial Instruments** - Fair values of financial instruments that are not actively traded are based on market prices of similar instruments and/or valuation techniques using market assumptions. Although management uses its best judgment in estimating the fair value of these financial instruments, there are inherent limitations in any estimation technique. The Company assumes that the carrying amount of cash and short-term financial instruments approximates their fair value.

**Trust Assets** - Property (other than cash deposits) held by banking subsidiaries in fiduciary or agency capacities for their customers is not included in the accompanying consolidated statements of financial condition since such items are not assets of the Company.

**Net Income Per Share** - Net income per share of common stock has been computed on the basis of the weighted average number of shares of common stock outstanding. The Company has no common stock equivalents.

**Other** - Certain reclassifications were made to prior years' financial statements to conform them to the improved classifications used in 2000. These reclassifications had no effect on net income or total assets.

**B. INVESTMENT SECURITIES**

Debt and equity securities have been classified in the consolidated statements of financial condition according to management's intent.

**Available-for-sale**

The amortized cost of available-for-sale securities and their approximate fair values at December 31 were as follows:

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| (in thousands) | | | | |
| **2000** | | | | |
| U.S. Government obligations | **$766,885** | **$1,401** | **$ (2,183)** | **$766,103** |
| Obligations of states and political subdivisions | **3,500** | **--** | **--** | **3,500** |
| Mortgage-backed securities | **42,052** | **177** | **(324)** | **41,905** |
| Other securities | **2,021** | **2** | **(133)** | **1,890** |
| Total securities available-for-sale | **$814,458** | **$1,580** | **$ (2,640)** | **$813,398** |
| **1999** | | | | |
| U.S. Government obligations | $924,897 | $ 89 | $(15,366) | $909,620 |
| Obligations of states and political subdivisions | 3,500 | -- | -- | 3,500 |
| Mortgage-backed securities | 52,530 | 14 | (1,197) | 51,347 |
| Other securities | 7,016 | 2 | (36) | 6,982 |
| Total securities available-for-sale | $987,943 | $ 105 | $(16,599) | $971,449 |
| **1998** | | | | |
| U.S. Government obligations | $812,156 | $3,340 | $ (1,325) | $814,171 |
| Obligations of states and political subdivisions | 30 | -- | -- | 30 |
| Mortgage-backed securities | 22,285 | -- | (206) | 22,079 |
| Other securities | -- | -- | -- | -- |
| Total securities available-for-sale | $834,471 | $3,340 | $ (1,531) | $836,280 |

The following table presents the amortized cost and fair value by the contractual maturity of available-for-sale debt securities held on December 31, 2000 as well as the weighted average yield for each range (stated on a taxable equivalent basis assuming a 35% marginal tax rate). Yield information does not give effect to changes in fair value that are reflected as a component of stockholders' equity.

| | Amortized | Fair | Weighted Average |
|---|---|---|---|

| | Cost | Value | Weighted Yield |
|---|---|---|---|
| (in thousands) | | | |
| **U.S. Government obligations** | | | |
| Due in one year or less | **$320,449** | **$320,126** | **5.33%** |
| Due after one year through five years | **444,983** | **444,479** | **5.53%** |
| Due after five years through ten years | **1,453** | **1,498** | **7.42%** |
| Due after ten years | **--** | **--** | **--** |
| Total | **$766,885** | **$766,103** | **5.45%** |
| **Obligations of states and political subdivisions** | | | |
| Due in one year or less | **$ --** | **$ --** | **--** |
| Due after one year through five years | **525** | **525** | **10.72%** |
| Due after five years through ten years | **1,090** | **1,090** | **11.12%** |
| Due after ten years | **1,885** | **1,885** | **11.81%** |
| Total | **$ 3,500** | **$ 3,500** | **11.43%** |
| **Other securities** | | | |
| Due in one year or less | **$ 1,031** | **$ 1,031** | **7.02%** |
| Due after one year through five years | **988** | **857** | **7.40%** |
| Due after five years through ten years | **--** | **--** | **--** |
| Due after ten years | **2** | **2** | **--** |
| Total | **$ 2,021** | **$ 1,890** | **7.20%** |

Gross realized gains on sales of available-for-sale securities were $2.1 million in 2000, $888,000 in 1999 and $1.3 million in 1998. The proceeds from sales of available-for-sale securities were $20 million, $200 million and $303.1 million for 2000, 1999 and 1998, respectively.

**Held-to-maturity**
The amortized cost of held-to-maturity securities and their approximate fair values at December 31 were as follows:

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| (in thousands) | | | | |
| **2000** | | | | |
| U.S. Government obligations | **$117,816** | **$ 628** | **$ (11)** | **$118,433** |
| Obligations of states and political subdivisions | **32,086** | **232** | **(39)** | **32,279** |
| Mortgage-backed securities | **50,894** | **1,102** | **(38)** | **51,958** |
| Other securities | **457** | **--** | **--** | **457** |
| Total securities held-to-maturity | **$201,253** | **$1,962** | **$ (88)** | **$203,127** |
| **1999** | | | | |
| U.S. Government obligations | $124,731 | $ 7 | $ (732) | $124,006 |
| Obligations of states and political subdivisions | 34,945 | 66 | (292) | 34,719 |
| Mortgage-backed securities | 19,280 | 7 | (274) | 19,013 |

| | | Gross | Gross | |
|---|---|---|---|---|
| Other securities | 450 | -- | -- | 450 |
| Total securities held-to-maturity | $179,406 | $ 80 | $(1,298) | $178,188 |
| **1998** | | | | |
| U.S. Government obligations | $ 374,009 | $2,109 | $ -- | $376,118 |
| Obligations of states and political subdivisions | 16,671 | 210 | -- | 16,881 |
| Mortgage-backed securities | 29,788 | 325 | (8) | 30,105 |
| Other securities | 450 | -- | -- | 450 |
| Total securities held-to-maturity | $420,918 | $ 2,644 | $ (8) | $423,554 |

The following table presents the amortized cost and fair value by the contractual maturity of held-to-maturity debt securities held on December 31, 2000 as well as the weighted average yield for each range (stated on a taxable equivalent basis assuming a 35% marginal tax rate).

| | **Amortized Cost** | **Fair Value** | **Weighted Average Yield** |
|---|---|---|---|
| (in thousands) | | | |
| **U.S. Government obligations** | | | |
| Due in one year or less | **$ 73,451** | **$73,540** | **6.12%** |
| Due after one year through five years | **44,365** | **44,893** | **6.32%** |
| Due after five years through ten years | **--** | **--** | **--** |
| Due after ten years | **--** | **--** | **--** |
| Total | **$117,816** | **$118,433** | **6.20%** |
| **Obligations of states and political subdivisions** | | | |
| Due in one year or less | **$ 5,620** | **$ 5,628** | **10.27%** |
| Due after one year through five years | **19,486** | **19,598** | **10.71%** |
| Due after five years through ten years | **3,012** | **3,073** | **10.94%** |
| Due after ten years | **3,968** | **3,980** | **10.22%** |
| Total | **$ 32,086** | **$ 32,279** | **10.60%** |
| **Other securities** | | | |
| Due in one year or less | **$ --** | **$ --** | **--** |
| Due after one year through five years | **450** | **450** | **6.64%** |
| Due after five years through ten years | **--** | **--** | **--** |
| Due after ten years | **7** | **7** | **--** |
| Total | **$ 457** | **$ 457** | **6.54%** |

Available-for-sale and held-to-maturity securities totaling $677.9 million and $675.1 million, at December 31, 2000 and 1999, respectively, were pledged to secure public deposits, repurchase agreements and for other purposes as required or permitted by law.

**C. LOANS AND ALLOWANCE FOR LOAN LOSSES**

The Company grants individual consumer, commercial, agricultural, and real estate loans to its customers. The commercial loan portfolio is diversified, consisting of numerous industries located or headquartered primarily in the Company's operating region which includes Nebraska, Colorado, Kansas, South Dakota, and Iowa. The majority of individual consumer loans are to customers located in the central part of the United States and are primarily credit card loans.

The table below reflects reported loans at December 31, and does not include securitized credit card loans:

| | **2000** | 1999 |
|---|---|---|
| (in thousands) | | |
| Individual consumer | **$2,806,528** | $3,016,705 |
| Real estate - mortgage | **1,516,400** | 1,176,024 |
| Commercial and financial | **1,273,926** | 1,171,786 |
| Agricultural | **663,422** | 534,004 |
| Real estate - construction | **546,405** | 303,836 |
| Lease financing | **101,988** | 80,196 |
| Other | **17,530** | 31,181 |
| Gross loans | **6,926,199** | 6,313,732 |
| Less: | | |
| Allowance for loan losses | **105,304** | 106,484 |
| Unearned income | **20,591** | 15,429 |
| Net loans | **$6,800,304** | $6,191,819 |

Lease financing at December 31 was comprised of the following:

| | **2000** | 1999 |
|---|---|---|
| (in thousands) | | |
| Direct financing leases: | | |
| Lease payments receivable | **$85,829** | $67,945 |
| Estimated residual value of equipment | **16,159** | 12,251 |
| | **101,988** | 80,196 |
| Less unearned income | **14,172** | 10,166 |
| Net leases | **$87,816** | $70,030 |

At December 31, 2000, minimum lease financing payments receivable for each of the five succeeding years are approximately: $25.1 million for 2001; $21.7 million for 2002; $16.1 million for 2003; $11.9 million for 2004; and $5.9 million for 2005.

In addition to loans owned by the Company, credit card loans securitized and serviced for others totaled $1.4 billion and $651 million at December 31, 2000 and 1999, respectively. Mortgage loans serviced for others totaled $604.5 million and $490.9 million, respectively, at December 31, 2000 and 1999. Loan participations sold to banks owned by shareholders of the Company were $100.5 million and $93 million, respectively, at December 31, 2000 and 1999. Loan participations of $50.8 million and $24.9 million were also purchased from companies owned by shareholders at December 31, 2000 and 1999, respectively. Loans to subsidiary bank directors and their associates were approximately $47.9 million and $27 million at December 31, 2000 and 1999, respectively. Loans held for sale at December 31, 2000 and 1999 were $65.1 million and $11.8 million, respectively.

Changes in the allowance for loan losses for the years ended December 31 are as follows:

| | **2000** | **1999** | **1998** |
|---|---|---|---|

| (in thousands) | 2000 | 1999 | 1998 |
|---|---|---|---|
| Balance beginning of year | **$ 106,484** | $ 121,877 | $ 128,990 |
| Provision for loan losses | **131,073** | 144,573 | 173,311 |
| Addition due to acquisitions of loans | **3,518** | 3,054 | 13,035 |
| Reduction due to sales of loans | **(12,210)** | | (8,990) |
| Loans charged off | **(146,306)** | (191,257) | (213,325) |
| Loans recovered | **22,745** | 28,237 | 28,856 |
| Total net charge-offs | **(123,561)** | (163,020) | (184,469) |
| Balance end of year | **$ 105,304** | $ 106,484 | $ 121,877 |

Individual consumer loans are predominately unsecured, and the allowance for potential losses associated with these loans has been established accordingly. The majority of the non-consumer loan categories are generally secured by real estate, operating assets, or financial instruments. The amount of collateral obtained is based upon management s evaluation of the borrower.

Impaired loans of the Company include larger-balance commercial, financial, agricultural, construction and commercial real estate loans where it is probable the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. A portion of the Company s allowance for loan losses is allocated to these impaired loans based on the present value of expected future cash flows discounted at the loan s effective interest rate, or, as a practical expedient, at the loan s observable market price or the fair value of the collateral if the loan is collateral dependent. As of December 31, 2000, 1999 and 1998 and for each of the three years then ended, the Company's recorded investment in impaired loans and associated interest income was immaterial.

**D. CREDIT CARD ACTIVITIES**

The Company sells credit card loans which are converted into securities and sold to investors, a process referred to as securitization. In credit card securitizations, designated pools of credit card receivables, including related allowances for credit losses, are removed from the balance sheet and a security is sold to investors. In all of these transactions, the Company retains servicing responsibilities. The Company receives annual servicing fees approximating two percent of the outstanding balances of the credit card loans and retains rights to future cash flows arising after investors in the securitization trust have received the return for which they are entitled to receive. These retained interests are subordinate to investor's interests. The value of the retained interests is subject to credit, prepayment and interest rate risks on the transferred financial assets. The investors and the securitization trusts have no recourse to the Company's assets for failure of debtors to pay. However, as contractually required, the Company may designate certain accounts, known as spread accounts, to be used as collateral for the benefit of investors.

As of December 31, 2000, managed credit card loan balances (those held by the Company in its portfolio and those sold to investors through securitizations) were $3.6 billion. The following table reflects the balance sheet impact of the Company's credit card securitizations and the delinquencies and the net charge-offs for the managed credit card loan portfolio. An account is considered contractually delinquent if the minimum payment is not received by the specified due date.

| (in thousands) | 2000 |
|---|---|
| Credit card loans | |
| Credit card loan portfolio included on the balance sheet | **$ 2,214,474** |
| Securitized credit card loans sold to investors and removed from the balance sheet | **1,412,038** |
| Total managed credit card loan portfolio at December 31 | **$ 3,626,512** |
| Delinquent loans in the managed credit card loan portfolio at December 31 | |
| 30-89 days | **$ 91,796** |
| 90 days or more and still accruing | **$ 61,700** |

| | |
|---|---|
| Total net charge-offs on the managed credit card loan portfolio for the year ended December 31 | **$ 160,751** |
| Annual average credit card loans | |
| Reported credit card loans | **$ 2,253,450** |
| Securitized credit card loans | **913,006** |
| Total annual average managed credit card loan portfolio | **$ 3,166,456** |
| Total net charge-offs as a percentage of annual average managed loans | **5.08%** |

At the time the Company enters into a securitization, an interest-only strip asset is recognized and the resulting gain on sale is recorded in noninterest income as a component of credit card securitization income. Credit card securitization income includes servicing income, income on interest-only strips and gains on securitizations. The interest-only strip represents the present value of the future cash flows related to the securitizations and is classified in other assets. During the revolving period of a credit card securitization, an additional gain is recognized over the life of the transactions as additional receivables are sold. The interest-only strip is amortized as the receivables sold to investors are repaid or as securitizations expire. In 2000, the Company recognized pretax gains of $43.4 million on securitizations of credit card receivables.

Certain estimates are used in determining the fair value of interest-only strips, including net revenues, prepayment speeds, weighted-average receivable lives and the discount rate. The components of net revenues, which are estimated, include finance charge and fee revenue (excluding interchange income) generated by the securitized loans in excess of interest paid to investors, related net credit losses and the cost of servicing. The resulting expected cash flows are discounted over the estimated lives of the receivables to determine the fair value. Such estimates and assumptions are subject to change and, accordingly, the Company may not recover all of the recorded investment of interest-only strips. The receivables in each trust have unique attributes; thus, the interest-only strips related to each trust are evaluated separately. The following assumptions were used to estimate the fair value of the interest-only strips related to credit card securitizations completed during 2000 (rates per annum):

| | |
|---|---|
| Prepayment speeds | **11.8% - 16.7%** |
| Weighted-average receivable lives (in years) | **.5 - .7** |
| Expected credit losses | **2.7% - 5.9%** |
| Discount rate | **15%** |

The fair value of interest-only strips was $18.2 million at December 31, 2000. At December 31, 2000, the Company calculated the sensitivity of the assumptions used in calculating the fair values of interest-only strips to immediate 10 percent and 20 percent adverse changes in the assumptions.

| | **Actual** | **Impact on Fair Value with an Adverse Change of** | |
|---|---|---|---|
| (in thousands and rates per annum) | | **10%** | **20%** |
| **As of December 31, 2000** | | | |
| Weighted average receivable lives (in years) | **.5 - .7** | **--** | **--** |
| Prepayment speeds | **11.8% - 16.7%** | **$ 1,710** | **$ 3,442** |
| Expected credit losses | **2.7% - 5.6%** | **$ 2,461** | **$ 4,930** |
| Discount rate | **15%** | **$ 102** | **$ 204** |

This sensitivity analysis is hypothetical and is as of a specific point in time. As a result, these scenarios should be used with caution. As the table indicates, changes in fair value based on a 10 percent variation in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also, in this table, the effect of a variation in a particular assumption on the fair values of interest-only strips are calculated without changing any other assumption; in reality, changes in one factor may result in changes in another which might magnify or counteract the sensitivities.

A summary of certain cash flows received from and paid to securitization trusts during 2000 are as follows:

(in thousands)

**Received from (paid to) the securitization trusts**

| | |
|---|---|
| Proceeds from new securitizations | **$1,199,000** |
| Purchases of previously securitized receivables | **(423,005)** |
| Change in securitization | **775,995** |
| Collections used by the trusts to purchase new balances in revolving credit card securitizations | **1,235,021** |
| Servicing fees received | **19,845** |
| Cash flows received on interest-only strips | **58,335** |

Credit enhancements associated with credit card securitizations, such as spread accounts, totaled $8.5 million at December 31, 2000, and are classified on the balance sheet in other assets. Transaction costs in the transaction are typically deferred and amortized over the life of the security and are reported in noninterest expense.

**E. PREMISES AND EQUIPMENT**

Premises and equipment were comprised of the following:

| | December 31, | |
|---|---|---|
| | **2000** | **1999** |
| (in thousands) | | |
| Land | **$ 18,536** | $ 18,091 |
| Buildings | **103,278** | 84,568 |
| Leasehold improvements | **30,516** | 27,281 |
| Equipment | **219,096** | 192,960 |
| | **371,426** | 322,900 |
| Less accumulated depreciation | **207,016** | 173,097 |
| Net premises and equipment | **$164,410** | $149,803 |

See footnote L for discussion of leased premises and equipment.

**F. DEPOSITS**

At December 31, 2000, the scheduled maturities of total certificates of deposit were as follows:

| | |
|---|---|
| (in thousands) | |
| 2001 | **$3,285,187** |
| 2002 | **810,686** |
| 2003 | **114,315** |
| 2004 | **56,185** |
| 2005 and thereafter | **86,924** |
| Total certificates of deposit | **$4,353,297** |

The aggregate amount of certificates of deposit, each with a minimum denomination of $100,000, was approximately $971.8 million and $762

million at December 31, 2000 and 1999, respectively.

**G. FEDERAL HOME LOAN BANK ADVANCES**

The Company had advances from the Federal Home Loan Bank as follows:

| | **December 31, 2000** | | **December 31, 1999** | |
|---|---|---|---|---|
| | **Weighted Average Rate** | **Amount** | **Weighted Average Rate** | **Amount** |
| (in thousands) | | | | |
| Scheduled maturities due on regular advances: | | | | |
| Due in one year or less | **6.50%** | **$58,048** | 5.66% | $123,001 |
| Due after one year through two years | **6.43%** | **1,464** | 6.18% | 915 |
| Due after two years through three years | **6.50%** | **12,366** | 6.30% | 1,336 |
| Due after three years through four years | **5.67%** | **29,974** | 5.25% | 21,238 |
| Due after four years through five years | **6.49%** | **1,887** | 5.57% | 30,846 |
| Due after five years | **5.67%** | **85,586** | 5.67% | 59,741 |
| Total regular advances | **5.99%** | **$189,325** | 5.62% | $237,077 |
| Total line of credit advances | **--** | **--** | 5.00% | $135,000 |
| Total Federal Home Loan Bank advances | **5.99%** | **$189,325** | 5.39% | $372,077 |

These Federal Home Loan Bank advances carried interest rates ranging from 4.98% to 7.82% as of December 31, 2000. Fixed-rate advances totaling $164.5 million at December 31, 2000 are convertible into adjustable-rate advances at the option of the Federal Home Loan Bank with call dates ranging from January 2001 to September 2006. These convertible advances include $45 million with scheduled maturities due in one year or less, $11 million with scheduled maturities due after two years through three years, $29 million with maturities due after three years through four years and $79.5 million with maturities due after five years. At December 31, 2000 and 1999, outstanding advances were collateralized by real estate loans totaling $375.4 million and $443.5 million, respectively, mortgage-backed securities totaling $89.8 million and $48.1 million, respectively, and investment securities totaling $0 and $15 million, respectively, in compliance with Federal Home Loan Bank requirements. Additionally, the Company held Federal Home Loan Bank stock totaling $15.4 million at December 31, 2000 and $33 million at December 31, 1999 which is also held as collateral.

**H. OTHER BORROWINGS**

The parent company has a $125 million syndicated revolving credit facility available for acquisitions or other corporate purposes which bears a variable rate of interest tied to publicly announced debt ratings of the Bank. At December 31, 2000 and 1999, the balance outstanding under this credit facility was $23 million and $0, respectively. The credit facility will mature on December 4, 2003, at which time, any outstanding balance will be due. Among other restrictions, the loan agreement requires that the Company maintain certain financial covenants.

Cornerstone Mortgage Company, a subsidiary of the Bank, acquired in February 2000, has a warehousing credit and security agreement providing for a $75 million credit line used to fund mortgage loan originations for resale. At December 31, 2000, the balance outstanding on this credit line was $45.9 million. This line bears a variable rate

of interest tied to LIBOR and the types of mortgage loans funded. The credit line is collateralized by the mortgage loans which the line is used to fund. Repayment periods for draws on the warehousing credit line range from 90-450 days based on the type of mortgage loan funded by the line. The warehousing credit and security agreement expires September 12, 2001. Among other restrictions, the warehousing credit and security agreement requires that Cornerstone Mortgage Company maintain certain financial covenants. As part of this agreement, the Bank issued a $2.9 million letter of credit.

InfiCorp Holdings, Inc., a subsidiary acquired in July 2000 by the parent company, entered into an agreement in November 2000 providing for a $9.5 million unsecured revolving credit line for operating purposes which bears a variable rate of interest tied to LIBOR. The balance outstanding under this credit line was $8.8 million at December 31, 2000. The credit line will mature on November 8, 2001, at which time, any outstanding balance will be due. Among other restrictions, the loan agreement requires that InfiCorp Holdings, Inc. maintain certain financial covenants. The parent company has guaranteed payment of this credit line.

In April 2000, a subsidiary of the parent company, Whitetail Finance Company, entered into an agreement providing for a $10 million unsecured revolving credit line for operating purposes which bears a variable rate of interest tied to LIBOR. At December 31, 2000, the balance outstanding under this credit line was $5.8 million. The credit line will mature on April 25, 2001, at which time, any outstanding balance will be due. Among other restrictions, the loan agreement requires that the Company maintain certain financial covenants. The parent company has guaranteed payment of this note.

In July 2000, the parent company issued $1.5 million and $3.5 million in notes which mature on or before July 6, 2003 and July 6, 2010, respectively, and pay interest semi-annually at a fixed rate of 9.1% and 9.4%, respectively. These notes may be prepaid at the option of the parent company prior to maturity without penalty.

At December 31, 2000 and 1999, the existing 22-story headquarters building located in Omaha, Nebraska, was subject to a mortgage which requires annual payments of $1.3 million including interest at 7.75%, through the year 2003. The Bank may prepay the mortgage with a prepayment premium. The mortgage balance was $2.4 million and $3.4 million at December 31, 2000 and 1999, respectively.

## I. CAPITAL NOTES

The Bank has $75 million in subordinated capital notes which are due to mature on December 1, 2010. The subordinated capital notes pay interest semi-annually on June 1 and December 1 at a fixed rate of 7.32%. The subordinated capital notes are unsecured and subordinated to the claims of depositors and general creditors of the Bank. No sinking fund has been provided, and the subordinated capital notes may not be redeemed, in whole or in part, prior to maturity.

The parent company has unsecured capital notes which require principal payments through 2005. At December 31, 2000 and 1999, $16.3 million and $17.1 million, respectively, were outstanding on these notes. The capital notes are noncallable and carry interest rates ranging from 9% to 12.5%. Principal amounts due on capital notes in each of the succeeding five years and thereafter are approximately: $700,000 in 2001; $7.5 million in 2002; $1.9 million in 2003 and 2004; and $4.3 million in 2005.

A subsidiary bank of the parent company, First National Bank South Dakota, issued $2.3 million in capital notes which require principal payments beginning in 2006 through 2009. The capital notes pay interest quarterly beginning February 5, 2000 at a fixed rate of 7.5%. The capital notes are unsecured and subordinated to the claims of depositors and general creditors of the subsidiary.

## J. INCOME TAXES

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31 were as follows:

| | **2000** | **1999** |
|---|---|---|
| (in thousands) | | |
| **Deferred tax assets:** | | |
| Allowance for loan losses | **$40,194** | $36,927 |
| Employee benefits | **12,148** | 10,246 |
| Purchased credit card relationships | **8,634** | 6,113 |
| Gain on sale of subsidiary | **5,186** | -- |
| Net operating loss carryforwards from acquired company (1) | **5,467** | -- |
| Depreciation and amortization | **4,538** | 1,903 |
| Market adjustment on available-for-sale securities | **364** | 6,090 |
| Other | **4,889** | 3,442 |
| Total deferred tax assets | **81,420** | 64,721 |
| **Deferred tax liabilities:** | | |
| Lease financing | **2,891** | 2,469 |

| | | |
|---|---|---|
| Change in accrual method recognized over future periods for tax purposes | **1,678** | 4,550 |
| Retained interests recorded for securitization | **10,627** | 3,755 |
| Other | **2,052** | 2,255 |
| Total deferred tax liabilities | **17,248** | 13,029 |
| Net deferred tax assets | **$64,172** | $51,692 |

(1) Expires in 2020.

The following is a comparative analysis of the provision for federal and state taxes:

| | For the years ended December 31, | | |
|---|---|---|---|
| | **2000** | **1999** | **1998** |
| (in thousands) | | | |
| Current federal | **$65,567** | $45,073 | $51,680 |
| Current state | **4,757** | 4,986 | 5,485 |
| Total current taxes | **70,324** | 50,059 | 57,165 |
| Deferred federal | **(10,926)** | (30) | (1,497) |
| Deferred state | **89** | (79) | 40 |
| Total deferred taxes | **(10,837)** | (109) | (1,457) |
| Total provision for income taxes | **$59,487** | $49,950 | $55,708 |

The effective rates of total tax expense for the years ended December 31, 2000, 1999 and 1998 were different than the statutory federal tax rate. The reasons for the differences were as follows:

| | For the years ended December 31, | | |
|---|---|---|---|
| | **2000** | **1999** | **1998** |
| (percent of pretax income) | | | |
| Statutory federal tax rate | **35.0%** | 35.0% | 35.0% |
| Additions (reductions) in taxes resulting from: | | | |
| Tax-exempt interest income | **(0.8)%** | (0.7)% | (0.6)% |
| State taxes | **1.9%** | 2.2% | 2.0% |
| Change in tax estimate | **(0.2)%** | (2.7)% | 1.5% |
| Goodwill amortization | **1.7%** | 1.2% | 1.2% |
| Other items, net | **(1.5)%** | 0.1% | 0.1% |
| Effective tax rate | **36.1%** | 35.1% | 39.2% |

**K. EMPLOYEE BENEFIT PLANS**

The Company provides a noncontributory defined benefit pension plan to employees. The pension plan covers substantially all employees with one or more years of service. Pension benefits are based on years of service and the employee's highest average compensation using 60 consecutive months out of the last 120 months of employment. The pension benefits are funded under a self-administered pension trust with the Bank's trust department acting as trustee. The Company's policy is to fund the pension plan with sufficient assets necessary to meet benefit

obligations as determined on an actuarial basis (normally up to the amount deductible under existing tax regulations).

In addition to providing pension benefits, the Company also provides postretirement medical and death benefits to retired employees meeting certain eligibility requirements. The medical plan is contributory, whereby the retired employee pays a portion of the health insurance premium, and contains other cost-sharing features such as deductibles and coinsurance.

The following tables provide a reconciliation of the benefit obligations, plan assets and funded status of the pension and postretirement benefit plans.

| | Pension Benefits | | Postretirement Benefits | |
|---|---|---|---|---|
| | **2000** | **1999** | **2000** | **1999** |
| (in thousands) | | | | |
| **Change in benefit obligation:** | | | | |
| Benefit obligation at January 1 | **$58,382** | $58,753 | **$6,922** | $6,567 |
| Service cost | **5,529** | 4,940 | **689** | 614 |
| Interest cost | **4,374** | 3,524 | **536** | 443 |
| Retiree contributions | **--** | -- | **64** | 65 |
| Actuarial loss (gain) | **572** | (7,501) | **386** | (549) |
| Benefits paid | **(1,420)** | (1,334) | **(220)** | (218) |
| Benefit obligation at December 31 | **$67,437** | $58,382 | **$8,377** | $6,922 |

| | Pension Benefits | | Postretirement Benefits | |
|---|---|---|---|---|
| | **2000** | **1999** | **2000** | **1999** |
| (in thousands) | | | | |
| **Change in plan assets:** | | | | |
| Fair value of plan assets at January 1 | **$64,950** | $78,519 | **--** | -- |
| Actual return on plan assets | **1,514** | (12,235) | **--** | -- |
| Benefits paid | **(1,420)** | (1,334) | **--** | -- |
| Balance at December 31 | **$65,044** | $64,950 | **--** | -- |

| | Pension Benefits | | Postretirement Benefits | |
|---|---|---|---|---|
| | **2000** | **1999** | **2000** | **1999** |
| (in thousands) | | | | |
| Funded status | **$(2,393)** | $6,568 | **$(8,377)** | $(6,922) |
| Unrecognized net actuarial gain | **(351)** | (4,554) | **(1,577)** | (2,010) |
| Unrecognized prior service cost | **359** | 422 | -- | -- |
| Unrecognized net assets at transition | -- | (333) | -- | -- |
| Unrecognized transition obligation | -- | -- | **2,617** | 2,834 |
| Prepaid (accrued) benefit cost | **$(2,385)** | $2,103 | **$(7,337)** | $(6,098) |

| | Pension Benefits | | Postretirement Benefits | |
|---|---|---|---|---|
| | **2000** | **1999** | **2000** | **1999** |
| **Assumptions as of December 31:** | | | | |
| **(weighted averages)** | | | | |
| Discount rate | **7.50%** | 7.50% | **7.50%** | 7.50% |
| Expected return on plan assets | **8.00%** | 8.00% | **--** | -- |
| Rate of compensation increase | **5.00%** | 5.00% | **--** | -- |

Pension plan assets consist primarily of equity securities, corporate bonds and government and agency securities. The pension plan owned parent company common stock with an original cost of $270,000 and a fair value of $23.3 million and $26.6 million at December 31, 2000 and 1999, respectively.

Net periodic benefit cost (income) included the following components:

| | Pension Benefits | | | Postretirement Benefits | | |
|---|---|---|---|---|---|---|
| | **2000** | **1999** | **1998** | **2000** | **1999** | **1998** |
| (in thousands) | | | | | | |
| Service cost | **$5,529** | $4,940 | $4,605 | **$ 689** | $ 614 | $ 526 |
| Interest cost | **4,374** | 3,524 | 3,329 | **536** | 443 | 382 |
| Amortization of prior service costs | **63** | 63 | 63 | **--** | -- | -- |
| Expected return on plan assets | **(5,145)** | (6,231) | (6,262) | **--** | -- | -- |
| Recognized net actuarial gain | **--** | (991) | (1,427) | **(46)** | (36) | (72) |
| Amortization of transition amounts | **(333)** | (394) | (394) | **217** | 217 | 217 |
| Net periodic benefit cost (income) | **$4,488** | $ 911 | $ (86) | **$1,396** | $1,238 | $1,053 |

The assumed healthcare cost trend rate used to measure the expected cost of benefits covered by the postretirement benefit plan was 5%. The healthcare cost trend rate assumption could have a significant effect on the amounts reported. A one percentage point change in the assumed healthcare cost trend rates would have the following effects:

| | One Percentage Point Increase | One Percentage Point Decrease |
|---|---|---|
| (in thousands) | | |
| Effect on total of service and interest cost components of net periodic postretirement healthcare cost | $ 68 | $ (65) |
| Effect on postretirement benefit obligation | 314 | (300) |

In addition to the pension and postretirement benefit plans, the Company also has 401(k) savings plans which cover substantially all employees. Total cost for these plans, included within noninterest expense, for the years ended December 31, 2000, 1999 and 1998 was $3.8 million, $3.1 million and $1.7 million, respectively.

In December 2000, the Company established and funded two executive deferred compensation plans, replacing an existing executive deferred compensation plan. For the years ended December 31, 2000, 1999 and 1998, expense attributable to these plans was $1.1 million, $1.1 million and $1.3 million, respectively.

Also in December 2000, the Company established and funded an employee stock trust. The employee stock trust was established to provide funding for obligations of employee benefit plans. The employee stock trust is a non-qualified grantor trust and is consolidated with the Company s financial statements. Shares held by the employee stock trust are treated for accounting purposes like treasury stock, as a reduction of

stockholders equity. The obligation under this employee stock trust is also classified as a component of equity. As of December 31, 2000, the employee stock trust held 1,531 shares of parent company stock. None of these shares were committed to fund employee benefit obligations at December 31, 2000.

**L. CONTINGENCIES AND COMMITMENTS**

In the normal course of business, there are various outstanding commitments to extend credit in the form of unused loan commitments and standby letters of credit that are not reflected in the consolidated financial statements. Since commitments may expire without being exercised, these amounts do not necessarily represent future funding requirements. The Company uses the same credit and collateral policies in making commitments as those described in Note C.

At December 31, 2000 and 1999, the Company had unused loan commitments, excluding consumer credit card lines, of $2.2 billion and $1.9 billion, respectively. Additionally, standby letters of credit of $105.4 million and $138 million had been issued at December 31, 2000 and 1999, respectively. The majority of these commitments are collateralized by various assets. No material losses are anticipated as a result of these transactions.

The Company had unused consumer credit card lines of $24.9 billion and $21.5 billion at December 31, 2000 and 1999, respectively. The Company has the contractual right to change the conditions of the credit card members' benefits or terminate the unused line at any time without prior notice. Since many unused credit card lines are never actually drawn upon, the unfunded amounts do not necessarily represent future funding requirements.

The Company has operating leases for office space with terms ranging from one to ten years, which may include renewal options. Certain leases also include residual value guarantees up to $130.5 million, or alternatively, the Company may elect to exercise purchase options totaling $150.8 million. Operating leases on equipment and office space require future minimum annual rental payments as follows: 2001-$23.2 million; 2002-$21.2 million; 2003-$12.2 million; 2004-$9.4 million; 2005-$6.6 million; and $19.6 million thereafter through the year 2026. Net rental expense on leases for the years ending December 31, 2000, 1999 and 1998 was approximately $25.9 million, $18.6 million and $17.5 million, respectively.

The Company also has a commitment to lease a 40-story tower in Omaha, Nebraska that is currently under construction. Future annual lease payments are estimated to be $16 million and are expected to begin when the tower is completed in 2002. This lease is expected to include estimated residual value guarantees up to $165.8 million, or alternatively, the Company may elect to exercise a purchase option for approximately $195 million. The Company has short-term leases for other locations in Omaha which it has the ability to terminate upon completion of the tower s construction.

**M. REGULATORY MATTERS**

The Company is governed by various regulatory agencies. Financial holding companies and their nonbanking subsidiaries are regulated by the Federal Reserve Board. National banks are primarily regulated by the Office of the Comptroller of the Currency (OCC). All federally-insured banks are also regulated by the Federal Deposit Insurance Corporation (FDIC). The Company's banking subsidiaries include eight national banks, two state-chartered banks, all of which are insured by the FDIC. The state-chartered banks are also regulated by state banking authorities. The Company also owns two trust companies that are primarily regulated by the OCC.

Various requirements and restrictions under federal and state laws regulate the operations of the Company. These laws, among other things, require the maintenance of reserves against deposits, impose certain restrictions on the nature and terms of loans, restrict investments and other activities, and regulate mergers and the establishment of branches and related operations. The ability of the parent company to pay cash dividends to its shareholders and service debt may be dependent upon cash dividends from its subsidiary banks. Subsidiary banks are subject to limitations under federal law in the amount of dividends they may declare. At December 31, 2000, approximately $124 million of subsidiary banks' retained earnings was available for dividend declaration without prior regulatory approval.

On April 6, 2000, the parent company became a financial holding company under the Gramm-Leach-Bliley Act. As a financial holding company, the Company is permitted to engage in and to acquire companies engaged in financial in nature activities. These activities could include, among other things, securities and insurance activities and investment banking (through appropriate entities). Engaging in these activities could subject the parent company and its subsidiaries to regulation by additional functional regulators. The parent company is required to satisfy certain conditions in order to retain its rights as a financial holding company. One such condition is that all of the depository institutions controlled by the Company must be and remain well capitalized and well managed. Failure to satisfy this condition could result in regulatory action against the Company, including forced divestiture of its depository institution subsidiaries.

Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and its banking subsidiaries must meet specific capital guidelines that involve quantitative measures of assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. These quantitative measures require the Company and its banking subsidiaries to maintain minimum amounts and ratios (set forth in the following table) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). The Company and its banking subsidiaries' capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

As of December 31, 2000, the most recent notification from the bank regulators categorized the Company's banking subsidiaries as well capitalized under the regulatory framework for prompt corrective action. There are no

conditions or events since that notification that management believes have changed these categories. To be categorized as well capitalized, the Company's banking subsidiaries must maintain minimum total risk-based capital of 10%, Tier I risk-based capital of 6%, and Tier I leverage capital of 5%.

The Company's and First National Bank of Omaha's actual capital amounts and ratios are presented in the following table.

| | **Actual** | | **For Minimum Capital Adequacy Purposes** | | **To Be Well Capitalized Under Prompt Corrective Action Provisions** | |
|---|---|---|---|---|---|---|
| (in thousands) | **Amount** | **Ratio** | **Amount** | **Ratio** | **Amount** | **Ratio** |
| **As of December 31, 2000** | | | | | | |
| Total Capital to Risk Weighted Assets | | | | | | |
| Consolidated | **$ 828,406** | **10.4%** | **$ 639,999** | **8.0%** | **N/A** | |
| First National Bank of Omaha | **$ 436,651** | **10.5%** | **$ 332,436** | **8.0%** | **$ 415,545** | **10.0%** |
| Tier I Capital to Risk Weighted Assets | | | | | | |
| Consolidated | **$ 643,431** | **8.0%** | **$ 319,999** | **4.0%** | **N/A** | |
| First National Bank of Omaha | **$ 312,868** | **7.5%** | **$ 166,218** | **4.0%** | **$ 249,327** | **6.0%** |
| Tier I Capital to Average Assets | | | | | | |
| Consolidated | **$ 643,431** | **7.2%** | **$ 357,993** | **4.0%** | **N/A** | |
| First National Bank of Omaha | **$ 312,868** | **6.9%** | **$ 180,863** | **4.0%** | **$ 226,078** | **5.0%** |
| **As of December 31, 1999** | | | | | | |
| Total Capital to Risk Weighted Assets | | | | | | |
| Consolidated | $ 751,810 | 10.8% | $ 554,935 | 8.0% | N/A | |
| First National Bank of Omaha | $ 363,314 | 10.5% | $ 276,853 | 8.0% | $ 346,066 | 10.0% |
| Tier I Capital to Risk Weighted Assets | | | | | | |
| Consolidated | $ 577,331 | 8.3% | $ 277,467 | 4.0% | N/A | |
| First National Bank of Omaha | $ 245,578 | 7.1% | $ 138,426 | 4.0% | $ 207,640 | 6.0% |
| Tier I Capital to Average Assets | | | | | | |
| Consolidated | $ 577,331 | 7.1% | $ 323,176 | 4.0% | N/A | |
| First National Bank of Omaha | $ 245,578 | 6.0% | $ 163,710 | 4.0% | $ 204,637 | 5.0% |

The banking industry is also affected by the monetary and fiscal policies of regulatory authorities, including the Federal Reserve Board. Through open market securities transactions, variations in the discount rate, the establishment of reserve requirements and the regulation of certain interest rates payable by member banks, the Federal Reserve Board exerts considerable influence over the cost and availability of funds obtained for lending and investing. Changes in interest rates, deposit levels and loan demand are influenced by the changing conditions in the national economy and in the money markets, as well as the effect of actions by monetary and fiscal authorities. Pursuant to Federal Reserve Bank reserve requirements, the Company's banking subsidiaries were required to maintain certain cash reserve balances with the Federal Reserve system of approximately $32.2 million and $21.7 million at December 31, 2000 and 1999, respectively.

**N. FAIR VALUES OF FINANCIAL INSTRUMENTS**

The fair value of a financial instrument is the current amount that would be exchanged between willing parties. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. Statement No. 107, "Disclosures About Fair Value of Financial Instruments," excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Company
.

The following table presents the carrying amounts and fair values of the specified assets and liabilities held by the Company at December 31, 2000 and 1999. The information presented is based on pertinent information available to management as of December 31, 2000 and 1999. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued since that time, and the current estimated fair value of these financial instruments may have changed since that point in time.

| | **December 31, 2000** | | **December 31, 1999** | |
|---|---|---|---|---|
| | **Carrying Amount** | **Estimated Fair Value** | **Carrying Amount** | **Estimated Fair Value** |
| (in thousands) | | | | |
| **Financial assets:** | | | | |
| Cash and cash equivalents | **$ 815,451** | **$ 815,451** | $ 654,732 | $ 654,732 |
| Investment securities | **1,039,494** | **1,041,368** | 1,193,070 | 1,191,852 |
| Net loans and lease financing | **6,800,304** | **6,920,819** | 6,191,819 | 6,393,141 |
| Accrued interest receivable | **94,906** | **94,906** | 77,063 | 77,063 |
| **Financial liabilities:** | | | | |
| Deposits | **$ 7,847,949** | **$ 7,889,612** | $ 7,008,712 | $ 6,996,408 |
| Federal funds purchased and securities sold under repurchase agreements | **156,805** | **156,805** | 341,485 | 341,485 |
| Federal Home Loan Bank advances | **189,325** | **192,077** | 372,077 | 370,963 |
| Other borrowings | **91,098** | **91,098** | 3,758 | 3,758 |
| Accrued interest payable | **50,626** | **50,626** | 34,025 | 34,025 |
| Capital notes | **93,594** | **97,372** | 94,389 | 89,159 |

The following methods and assumptions were used in estimating fair value disclosures for the Company's financial instruments:

**Cash and Cash Equivalents** - The carrying amounts of cash and due from banks, federal funds sold and other short-term investments approximate the fair values.

**Investment Securities** - The fair values of the Company's securities, excluding Federal Home Loan Bank stock and other securities, are based on the quoted market prices at December 31, 2000 and 1999. Available-for-sale securities are carried at their aggregate fair values. The carrying value of the Federal Home Loan Bank stock approximates fair value based on the redemption provisions of the Federal Home Loan Bank.

**Net Loans and Lease Financing** - The fair values of the Company's loans and lease financing have been estimated using two methods: 1) the carrying amounts of short-term and variable rate loans approximate fair values excluding certain credit card loans which are tied to an index floor; and 2) for all other loans, discounting of projected future cash flows. When using the discounting method, loans are pooled in homogeneous groups with similar terms and conditions and discounted at a target rate at which similar loans would be made to borrowers at year end. In addition, when computing the estimated fair values for all loans, the allowance for loan losses is subtracted from the calculated fair values for consideration of credit issues.

**Accrued Interest Receivable** - The carrying amount of accrued interest receivable approximates the fair value.

**Deposits** - The methodologies used to estimate the fair values of deposits are similar to the two methods used to estimate the fair values of loans. Deposits are pooled in homogeneous groups and the future cash flows of these groups are discounted using current market rates offered for similar products at year end.

**Federal Funds Purchased and Securities Sold Under Repurchase Agreements** - The carrying amounts of federal funds purchased and securities sold under repurchase agreements approximate the fair values.

**Federal Home Loan Bank Advances** - The fair values of Federal Home Loan Bank advances are estimated by discounting future cash flows using current market rates for similar types of borrowing arrangements.

**Other Borrowings** - The carrying amounts for other borrowings approximates fair value since these borrowings are primarily variable rate instruments.

**Accrued Interest Payable** - The carrying amount of accrued interest payable approximates the fair value.

**Capital Notes** - The fair values of capital notes are estimated by discounting future cash flows using current market rates for similar types of borrowing arrangements.

**Off-Balance Sheet Financial Instruments** - The estimated fair value of loan commitments and standby letters of credit approximate carrying value because the fees currently charged for these arrangements and the underlying interest rates approximate market.

**O. ACQUISITIONS**

In February 2000, the Bank acquired Cornerstone Mortgage Company in a transaction accounted for as a purchase. Cornerstone Mortgage Company is a full service mortgage banking company headquartered in Houston, Texas with assets of approximately $20 million at acquisition.

In July 2000, the parent company acquired InfiCorp Holdings, Inc., parent of InfiStar Corporation, InfiLink Corporation and InfiBank, a limited purpose state chartered credit card bank, in a transaction accounted for as a purchase. InfiCorp Holdings, Inc., located in Atlanta, Georgia, provides comprehensive credit card portfolio management services and had consolidated assets of approximately $49 million at the time of acquisition.

In November 1999, a subsidiary of the parent company, First National Bank South Dakota, acquired Commercial Banshares, Inc., parent of Commercial Trust and Savings Bank, in a transaction accounted for as a purchase. Commercial Banshares, Inc. had consolidated assets of approximately $161 million. At acquisition, Commercial Trust and Savings Bank was renamed to Commercial Bank, a division of First National Bank South Dakota. Commercial Bank has branches in Mitchell, Huron and Woonsocket, South Dakota.

A second acquisition occurred in November 1999 and it was also accounted for as a purchase. A bank holding company subsidiary acquired FNBJ Company, a parent of First National Bank of Johnstown, Colorado. FNBJ Company, the holding company of First National Bank of Johnstown, had consolidated assets of approximately $30 million. At acquisition, First National Bank of Johnstown merged into Union Colony Bank and was renamed Union Colony - Johnstown Branch.

**P. RECENT ACCOUNTING PRONOUNCEMENTS**

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities. Statement No. 133 establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at its fair value. The Statement requires that changes in the derivative instrument s fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Statement No. 133, as amended, is effective for fiscal years beginning after June 15, 2000. The Company adopted Statement No. 133 as of January 1, 2001. The adoption of Statement No. 133 will not have a material impact on the financial position or results of operations of the Company.

In September 2000, the FASB issued Statement No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. This new Statement replaces Statement No. 125, issued in June 1996. Statement No. 140 resolves certain implementation and other issues that have arisen since the initial adoption of Statement No. 125, but it carries over most of Statement No. 125 s provisions without change.

Statement No. 140 is effective for transfers occurring after March 31, 2001 and for disclosures relating to securitization transactions and collateral for fiscal years ending after December 15, 2000. Management does not expect the full adoption of Statement No. 140 to have a significant impact on the financial position or results of operations of the Company.

## Q. CONDENSED FINANCIAL INFORMATION OF FIRST NATIONAL OF NEBRASKA

**First National of Nebraska** (parent company only)
**Condensed Statements of Financial Condition**

| | **December 31,** | |
|---|---|---|
| | **2000** | **1999** |
| (in thousands) | | |
| **Assets** | | |
| Cash and due from banks | **$ 315** | $ 411 |
| Other short-term investments | **4,100** | 6,100 |
| Total cash and cash equivalents | **4,415** | 6,511 |
| Other securities | **406** | 406 |
| Loans to subsidiaries | **23,783** | 8,294 |
| Investment in subsidiaries: | | |
| First National Bank of Omaha | **312,659** | 239,979 |
| Other banking subsidiaries | **428,033** | 403,412 |
| Nonbanking subsidiaries | **28,393** | 11,401 |
| Total investment in subsidiaries | **769,085** | 654,792 |
| Other assets | **7,526** | 4,976 |
| **Total assets** | **$ 805,215** | $ 674,979 |
| **Liabilities and Stockholders' Equity** | | |
| Other liabilities | **$ 6,777** | $ 2,873 |
| Deferred gain on sale of buildings | **3,960** | 4,562 |
| Other borrowings | **28,000** | -- |
| Capital notes | **16,275** | 17,070 |
| Total liabilities | **55,012** | 24,505 |
| Stockholders' equity: | | |
| Common stock | **1,673** | 1,673 |
| Additional paid-in capital | **2,511** | 2,511 |
| Retained earnings | **746,718** | 656,786 |
| Accumulated other comprehensive income (loss) | **(699)** | (10,496) |
| Total stockholders' equity | **750,203** | 650,474 |
| **Total liabilities and stockholders' equity** | **$ 805,215** | $ 674,979 |

**First National of Nebraska** (parent company only)
**Condensed Statements of Operations**

| | For the years ended December 31, 2000 | 1999 | 1998 |
|---|---|---|---|
| (in thousands except share and per share data) | | | |
| Revenues: | | | |
| Income from subsidiaries: | | | |
| Dividends from First National Bank of Omaha | **$ 39,752** | $ 27,066 | $ 14,988 |
| Dividends from other banking subsidiaries | **35,000** | 31,000 | 23,575 |
| Interest income on short-term investments | **453** | 38 | 159 |
| Recognized gain on sale of buildings | **602** | 602 | 602 |
| Investment interest and other income | **4,026** | 1,599 | 462 |
| Total revenues | **79,833** | 60,305 | 39,786 |
| Expenses: | | | |
| Interest | **3,750** | 1,656 | 2,749 |
| Other | **10,825** | 6,094 | 3,358 |
| Total expenses | **14,575** | 7,750 | 6,107 |
| Income before income taxes and equity in undistributed earnings of subsidiaries | **65,258** | 52,555 | 33,679 |
| Income tax expense (benefit) | **(1,028)** | (5,507) | 641 |
| Total income before equity in undistributed earnings of subsidiaries | **66,286** | 58,062 | 33,038 |
| Equity in undistributed earnings (losses) of subsidiaries: | | | |
| First National Bank of Omaha | **27,703** | 13,589 | 30,688 |
| Other banking subsidiaries | **13,685** | 18,473 | 22,530 |
| Nonbanking subsidiaries | **(2,197)** | 2,237 | 236 |
| Total equity in undistributed earnings of subsidiaries | **39,191** | 34,299 | 53,454 |
| **Net income** | **$ 105,477** | $ 92,361 | $ 86,492 |
| Average number of shares outstanding | **334,500** | 334,622 | 335,000 |
| Net income per share | **$ 315.33** | $ 276.02 | $ 258.19 |

**First National of Nebraska** (parent company only)
**Condensed Statements of Cash Flows**

| | For the years ended December 31, 2000 | 1999 | 1998 |
|---|---|---|---|
| (in thousands) | | | |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |

| | | | |
|---|---|---|---|
| Net Income | **$105,477** | $ 92,361 | $ 86,492 |
| Adjustments to reconcile net income to net cash flows from operating activities: | | | |
| Equity in undistributed earnings of subsidiaries | **(39,191)** | (34,299) | (53,454) |
| Recognized gain on sale of buildings | **(602)** | (602) | (602) |
| Gain on sale of investment securities | **(2,039)** | -- | -- |
| Other, net | **2,992** | (2,678) | 2,913 |
| Net cash flows from operating activities | **66,637** | 54,782 | 35,349 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Sales of securities available-for-sale | **17,957** | -- | -- |
| Purchases of securities available-for-sale | **(15,918)** | -- | -- |
| Change in investment in subsidiaries and other assets | **(77,376)** | (36,168) | (2,090) |
| Net cash flows from investing activities | **(75,337)** | (36,168) | (2,090) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Issuance of other borrowings | **112,000** | 10,000 | 14,000 |
| Principal repayments of other borrowings | **(89,056)** | (10,056) | (33,070) |
| Principal repayments of capital notes | **(795)** | (794) | (1,188) |
| Repurchase of common stock | **--** | (1,574) | -- |
| Cash dividends paid | **(15,545)** | (12,958) | (11,725) |
| Net cash flows from financing activities | **6,604** | (15,382) | (31,983) |
| Net change in cash and cash equivalents | **(2,096)** | 3,232 | 1,276 |
| Cash and cash equivalents at beginning of year | **6,511** | 3,279 | 2,003 |
| Cash and cash equivalents at end of year | **$ 4,415** | $ 6,511 | $ 3,279 |
| Cash paid during the year for: | | | |
| Interest | **$ 3,296** | $ 1,701 | $ 2,833 |
| Income taxes | **$ 50,933** | $52,632 | $53,387 |
| Cash received from affiliates for income taxes | **$ 45,129** | $49,271 | $51,895 |
| Noncash investing and financing activities: | | | |
| Noncash consideration for business acquisition | **$ 5,000** | $ -- | $ -- |

**Independent Auditors' Report**

Board of Directors and Stockholders
First National of Nebraska, Inc.
Omaha, Nebraska

We have audited the accompanying consolidated statements of financial condition of First National of Nebraska, Inc. and subsidiaries as of December 31, 2000 and 1999, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of First National of Nebraska, Inc. and subsidiaries as of December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States of America.

/s/ Deloitte & Touche LLP

Omaha, Nebraska
January 31, 2001

**Management's Discussion and Analysis of**
**Financial Condition and Results of Operations**

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**The Company**

The Company consists of the parent company, which is a Nebraska-based interstate financial holding company, and its consolidated subsidiaries which trace their origins back to 1857. Its principal subsidiaries include First National Bank of Omaha and its subsidiaries; First National Bank and Trust Company of Columbus; First National Bank, North Platte; Platte Valley State Bank and Trust Company, Kearney; The Fremont National Bank and Trust Company and its wholly-owned subsidiary: Nebraska Trust Company, N.A.; First National Bank of Kansas, Overland Park, Kansas; First National Bank South Dakota, Yankton, South Dakota; and First National of Colorado, Inc., and its wholly-owned Colorado subsidiaries which primarily include: First National Bank, Fort Collins; Union Colony Bank, Greeley; First National Bank of Colorado, Boulder; and FNC Trust Group, N.A. The Company also has nonbanking subsidiaries, which in the aggregate are not material. The Company had 6,433 employees as of December 31, 2000.

The Company is governed by various regulatory agencies. Financial holding companies and their nonbanking subsidiaries are regulated by the Federal Reserve Board. National banks are primarily regulated by the OCC. All federally-insured banks are also regulated by the FDIC. The Company's banking subsidiaries include eight national banks and two state-chartered banks, all of which are insured by the FDIC. The state-chartered banks are also regulated by state banking authorities. The Company also owns two trust companies that are primarily regulated by the OCC.

The Company has 48 years of experience providing credit card services and was one of the originators of the bank credit card industry. Through a banking subsidiary, the Company conducts a significant consumer credit card service under license arrangements with VISA USA and MasterCard International, Inc. The Company's credit card customers are located throughout the United States, but primarily in the central part of the country. In 2000, the Company was ranked the ninth largest bank issuer of credit cards and the fifteenth largest overall issuer based on the amount of managed credit card loans outstanding. The Company performs credit card servicing activities on behalf of its affiliate banks including data processing, payment processing, statement rendering, marketing, customer service, credit administration and card embossing. The Company primarily funds its credit card loans through the core deposits of its affiliate banks.

The Company continues to make substantial investments in data processing technology for its own data processing needs and to provide various data processing services for unaffiliated parties. The services provided include automated clearinghouse transactions, merchant credit card processing and check processing. In 2000, the Company was ranked the eleventh largest merchant credit card processor in the United States with over $24.4 billion in transactions processed in 2000 and $20.5 billion in transactions processed in 1999. It was also ranked among the top twenty largest automated clearinghouse processors in the country and one of the largest check processors in its market area. The Company provides data processing services to 42 non-affiliated banks located in nine states. The Company continues to closely monitor the risks and competitive conditions as they relate to pricing and technological issues associated with these processing services.

Competitors of the Company include commercial banks, savings and loan associations, consumer and commercial finance companies, credit unions and other financial services companies. The Company's credit card operation competes with other issuers of credit cards ranging from other national issuers of bank cards to local retailers which provide their own credit cards. As a result of this intense nation-wide competition, a number of companies are exiting the credit card industry.

Management s discussion and analysis contains forward-looking statements which reflect management s current views and estimates of future economic circumstances, industry conditions, company performance and the financial results. The statements are based on many assumptions and factors, including general economic conditions, consumer behavior, competitive environment and related market conditions, operating efficiencies and actions of governments. Any changes in such assumptions or factors could produce different results.

**Results of Operations**

**Overview**

The Company earned a record net income for 2000 of $105.5 million, an increase of $13.1 million, or 14.2%, from 1999. In 1999, net income was $92.4 million, an increase of $5.9 million, or 6.8%, from 1998. Net income for 2000 includes a gain before taxes of $59.4 million recognized on the sale of an 80.13% interest in a subsidiary, Retriever Payment Systems (Retriever), which is primarily involved in merchant processing sales. Net income for 1998 reflects proceeds received by the Company related to the settlement of litigation. In 2000, net income per share was $315.33 compared to $276.02 and $258.19, respectively, for 1999 and 1998. Return on average stockholders' equity for 2000 was 15.4% compared to 15.1% for 1999 and 15.7% for 1998. Return on average assets was 1.2% for 2000, 1999 and 1998, respectively.

Net interest income has remained relatively flat over the last three years. Increased pressure on deposit generation and a shift in the mix of loans in the Company's portfolio to lower-yielding non-credit card loans have contributed to the tightening of net interest income. In spite of significant overall loan growth, the Company's reported credit card loans, which are higher-yielding, have declined. Reported credit card loans comprised 32.1%, 38.9% and 48.5% of the total loan portfolio in 2000, 1999 and 1998, respectively. Although managed credit card loans increased $526.6 million, or 17%, in 2000, the Company also increased the volume of credit card loans securitized in 2000 resulting in lower reported credit card loans. This increased securitization volume has caused a shift in net revenues recognized from net interest income to credit card securitization income which is included in noninterest income.

The Company has experienced improvements in the asset quality of its credit card portfolio, and as a result, the provision for loan losses has declined over the past three years. Declining delinquency and charge-off rates for credit card loans and reduced outstanding balances for reported credit card loans have contributed to the reductions in the provision for loan losses.

Excluding the $59.4 million gain on the sale of Retriever, noninterest income increased $73.4 million, or 29.5%, in 2000 compared to 1999, while noninterest expense increased $115.7 million, or 24.1%, in 2000 compared to 1999. These increases are primarily due to the Company's growth initiatives which have resulted in expansion into new markets, acquisitions and new product sales. Additionally, the average credit card securitization volume increased 39.9% in 2000 resulting in a $32.2 million, or 50.1%, increase in credit card securitization income.

The Company intends to increase its internal sales force to replace merchant processing sales attributable to Retriever. The Company's merchant processing volumes and related revenues may experience fluctuations over the next few years as the volume from new customers builds to replace those volumes associated with Retriever.

**Net interest income**

The Company's primary source of income is net interest income which is defined as the difference between interest income and fees derived from earning assets and interest expense on interest-bearing liabilities. Interest income and expense are affected by changes in the volume and mix of interest-earning assets and interest-bearing liabilities, in addition to changes in interest rates. The following table presents a summary of net interest income on a tax-equivalent basis, related average earning assets and net interest margin:

| (in thousands) | 2000 | 1999 | 1998 |
|---|---|---|---|
| Net interest income on a tax equivalent basis | $ 511,179 | $ 518,734 | $ 512,944 |
| Average earning assets | 7,918,068 | 7,117,622 | 6,801,408 |
| Net interest margin | 6.46% | 7.29% | 7.54% |

The decreases in net interest margins relate to changes in the asset mix of the Company resulting from a reduction in higher yielding credit card balances and increases in lower yielding non-credit card balances. Net interest margin decreases also relate to an increase in the cost of interest-bearing liabilities which is primarily the result of rising market interest rates and competitive pressures.

**Provision for loan losses**

On a monthly basis, the Company evaluates its allowance for loan losses based upon a review of collateral values, delinquencies, nonaccruals, payment histories and various other analytical and subjective measures relating to the various loan portfolios within the Company. The provision for loan losses decreased $13.5 million, or 9.3%, to $131.1 million for 2000 compared to $144.6 million for 1999. In 1999, the provision for loan losses decreased $28.7 million, or 16.6%, to $144.6 million compared to $173.3 million for 1998. The reductions in the provision for loan losses for 2000 and 1999 are primarily due to improved delinquency and charge-off rates and reductions in the outstanding balances of higher risk credit card loans relative to the entire portfolio. These improvements in delinquency and charge-off rates and reduced credit card balances also contributed to the decreased level in the allowance for loan losses as of December 31, 2000 compared to December 31, 1999.

**Noninterest income**

Total noninterest income was $381.4 million in 2000, an increase of $132.8 million, or 53.4%, from 1999. In 1999, noninterest income was $248.6 million, a decrease of $10.1 million, or 3.9%, from 1998. A significant portion of the 2000 increase in noninterest income compared to 1999 was due to a gain of $59.4 million recognized on the sale of Retriever which was sold for strategic reasons. The 1999 decrease in noninterest income compared to 1998 is mainly attributable to miscellaneous income recognized in the first quarter of 1998 from proceeds received in the settlement of litigation.

Processing services income increased $24.6 million, or 29.5%, in 2000 compared to 1999 due to increased credit card and merchant processing volumes for new and existing customers. In 2000, credit card securitization income increased $32.2 million, or 50.1%, to $96.6 million when compared to $64.4 million for 1999. The increase in credit card securitization income for 2000 when compared to 1999 resulted from a $1.5 million, or 2.9%, increase in net servicing income to $53.2

million from $51.7 million and a $30.7 million, or 241.7%, increase in securitization gains to $43.4 million from $12.7 million. In 1999, credit card securitization income increased $3.4 million, or 5.6%, to $64.4 million when compared to $61 million for 1998. The increase in credit card securitization income for 1999 when compared to 1998 resulted from the net impact of a $3.9 million, or 8.2%, increase in net servicing income to $51.7 million from $47.8 million net of a $500,000, or 3.8%, decrease in securitization gains to $12.7 million from $13.2 million. Deposit services income increased $4.7 million, or 16.9%, in 2000 compared to 1999 and $2.9 million, or 11.7%, in 1999 compared to 1998 generally as a result of growth in the Company s customer base and overall transaction volume. Miscellaneous income increased $12.7 million, or 25.3%, in 2000 compared to 1999 primarily due to an $8.5 million increase in gains recognized on the sale of mortgage loans resulting from the Company s acquisition of Cornerstone Mortgage Company in February 2000. This increase was also due to growth in investment sales activities and timing differences in the recognition of insurance commissions compared to the same period in 1999.

**Noninterest expense**

Noninterest expense was $595.5 million in 2000, an increase of $115.7 million, or 24.1%, from 1999. Noninterest expense in 1999 was $479.8 million, an increase of $24.1 million, or 5.3%, from 1998. A significant portion of these increases relates to salaries and employee benefits which increased $48.2 million, or 22.3%, in 2000 compared to 1999 and $33.4 million, or 18.3%, in 1999 compared to 1998 resulting from an increase in the Company s employee base as the Company has expanded into new markets and increased its customer base.

Communications and supplies expense increased $17.9 million, or 30.6%, in 2000 compared to 1999 largely due to increased credit card promotion activity. Equipment rentals, depreciation and maintenance expense increased $4.7 million, or 9.4%, in 2000 compared to 1999 and $4.8 million, or 10.5%, in 1999 compared to 1998 and net occupancy expense increased $12.7 million, or 41.7%, in 2000 compared to 1999. These equipment and occupancy-related expenses increased primarily from the Company s expansion into new markets, growth in the Company s customer base and processing volumes and continued investments in technology. Processing expense increased $7.6 million, or 27.5%, in 2000 compared to 1999. This increase largely relates to the acquisition of credit card portfolios and increased merchant processing volumes. Professional services was $33.3 million in 2000, an increase of $7.8 million, or 30.5%, from 1999 while professional services was $25.5 million in 1999, a $18.6 million, or 42.2%, decrease from 1998. The increase in 2000 compared to 1999 relates to higher costs incurred to acquire additional merchant processing customers and increased professional fees incurred related to company growth. The decrease in 1999 compared to 1998 is principally due to decreased fees paid to a third party merchant sales organization. Loan servicing expense increased $3.9 million, or 14.8%, in 1999 compared to 1998. This increase resulted primarily from the Company s increased collection efforts during 1999 as well as increased costs for credit reports and costs related to acquiring additional agent bank relationships. Goodwill and other intangibles amortization increased $5.4 million, or 25.3%, in 2000 compared to 1999 and $2.8 million, or 15.3%, in 1999 compared to 1998 largely due to increased amortization of premiums paid for credit card portfolio acquisitions. Miscellaneous expense increased $11.5 million, or 59.7%, in 2000 compared to 1999 primarily due to an increase in the Company s contributions to community projects and initiatives.

**Loans**

**Credit Card**

The Company securitizes credit card loans on a revolving basis as a funding vehicle to supplement its use of core deposits as its primary source of funding. The securitizations result in differences in the amount of reported loans versus managed loans. Reported loans reflect the removal of these securitized loans from the balance sheet in accordance with generally accepted accounting principles while managed loans include both securitized loans and reported loans. The following table reflects the reconciliation between reported and managed loans for the total loan portfolio and credit card loans, net of unearned income, at December 31, 2000 and December 31, 1999.

| | December 31, 2000 | | | December 31, 1999 | | |
|---|---|---|---|---|---|---|
| | Reported | Securitized | Managed | Reported | Securitized | Managed |
| (in thousands) | | | | | | |
| Managed Loan Data | | | | | | |
| As of Year End: | | | | | | |
| Total loans outstanding | $6,905,608 | $1,412,038 | $8,317,646 | $6,298,303 | $651,044 | $6,949,347 |
| Total credit card loans outstanding | $2,214,474 | $1,412,038 | $3,626,512 | $2,448,910 | $651,044 | $3,099,954 |
| Annual Average: | | | | | | |
| Total loans outstanding | $6,505,669 | $ 913,006 | $7,418,675 | $5,741,204 | $652,599 | $6,393,803 |
| Total credit card loans outstanding | $2,253,450 | $ 913,006 | $3,166,456 | $2,445,615 | $652,599 | $3,098,214 |

The decrease in reported credit card loans outstanding at December 31, 2000 is primarily attributable to a net increase in securitization volume of $761 million during 2000. In addition to credit card securitization activities, the Company acquired 14 credit card loan portfolios totaling $154 million throughout 2000.

**Real Estate**

The Company has been successful in expanding its real estate lending activities. Total real estate loans outstanding were $2.1 billion and $1.5 billion at December 31, 2000 and 1999, respectively. The Company is diversified in its real estate lending by providing construction, permanent and land development financing to a variety of borrowers throughout the Company's operating regions in Nebraska, Colorado, Kansas, South Dakota, Iowa and Texas. These real estate loans are generally secured by the underlying property being financed. The Company regularly monitors concentrations of its real estate loans based on geography, loan type and borrower.

**Asset Quality**

The Company's loan delinquency rates and net charge-off activity reflect, among other factors, general economic conditions, the quality of the loans, the average seasoning of the loans and the success of the Company's collection efforts. The Company's objective in managing its loan portfolio is to balance and optimize the profitability of the loans within the context of acceptable risk characteristics. The Company continually monitors the risks embedded in the credit card loan portfolio with the use of statistically-based simulation models which incorporate historical net charge-off trends on past due accounts and net charge-off trends related to bankruptcies, deceased credit card holders and account settlements.

The level of loan delinquencies and net charge-offs has improved compared to 1999 levels. Delinquencies have now declined to a more acceptable range of 4% to 5% for the Company s national credit card portfolio. Charge-offs are still slightly above desired levels, but are following delinquencies down to a reasonable rate.

The following table reflects the delinquency rates for the Company's overall loan portfolio and the credit card portfolio. An account is contractually delinquent if the minimum payment is not received by the specified due date. The overall delinquency rate as a percentage of total loans improved to a level of 2.53% at December 31, 2000 compared with 2.86% at December 31, 1999. The delinquency rate as a percentage of total credit card loans was 4.67% at December 31, 2000 down from 5.06% at December 31, 1999.

Delinquent Loans:

| | December 31, 2000 | | December 31, 1999 | |
|---|---|---|---|---|
| (in thousands) | | | | |
| Total Loans | | % of Loans | | % of Loans |

| | | | | |
|---|---|---|---|---|
| Loans outstanding | $6,905,608 | | $6,298,303 | |
| Loans delinquent: | | | | |
| 30 - 89 days | $ 124,069 | 1.80% | $ 121,465 | 1.93% |
| 90 days or more & still accruing | 50,081 | 0.73% | 58,809 | 0.93% |
| Total delinquent loans | $ 174,150 | 2.53% | $ 180,274 | 2.86% |
| Nonaccrual loans | $ 14,839 | .21% | $ 11,766 | .19% |

| Credit Card Loans | | | | |
|---|---|---|---|---|
| Loans outstanding | $2,214,474 | | $2,448,910 | |
| Loans delinquent: | | | | |
| 30 - 89 days | $ 61,323 | 2.77% | $ 72,603 | 2.96% |
| 90 days or more & still accruing | 41,976 | 1.90% | 51,512 | 2.10% |
| Total delinquent loans | $ 103,299 | 4.67% | $ 124,115 | 5.06% |
| Nonaccrual loans | -- | -- | -- | -- |

The Company's policy is to charge off credit card loans and consumer lines of credit when they become 180 days contractually past due. Generally, other consumer loans are charged off when they become 120 days contractually past due. Net charge-offs include the principal amount of losses resulting from borrowers unwillingness or inability to pay, in addition to bankruptcies, deceased borrowers and account settlements less current period recoveries of previously charged off loans. The allowance for loan losses is intended to cover losses inherent in the Company's loan portfolio as of the reporting date. The provision for loan losses is charged against earnings to cover both current period net charge-offs and to maintain the allowance at an acceptable level to cover losses inherent in the portfolio as of the reporting date. Net charge-offs for the Company s overall portfolio were $123.6 million for the year ended December 31, 2000 compared to $163 million for the same period in 1999. Net charge-offs as a percentage of average loans were 1.9% for 2000 compared to 2.84% for 1999. The allowance as a percentage of loans was 1.52% as of December 31, 2000 compared to 1.69% as of December 31, 1999.

The following table presents the activity in the Company's allowance for loan losses with a breakdown of charge-off and recovery activity related to credit card loans.

Allowance for Loan Losses:

| | For the Years Ended December 31, | |
|---|---|---|
| | 2000 | 1999 |
| (in thousands) | | |
| Balance at January 1 | $ 106,484 | $ 121,877 |
| Provision for loan losses | 131,073 | 144,573 |
| Addition due to acquisitions of loans | 3,518 | 3,054 |
| Reduction due to sales of loans | (12,210) | |
| Loans charged off: | | |
| Credit card loans | (135,046) | (179,794) |
| All other loans | (11,260) | (11,463) |
| Loans recovered: | | |
| Credit card loans | 19,584 | 24,619 |
| All other loans | 3,161 | 3,618 |
| Total net charge-offs | (123,561) | (163,020) |
| Balance at December 31 | $ 105,304 | $ 106,484 |

| | | |
|---|---|---|
| Allowance as a percentage of loans | 1.52% | 1.69% |
| Total net charge-offs as a percentage of average loans | 1.90% | 2.84% |

**Capital Resources**

The Company s primary source of capital is its retained earnings. The Company has historically retained approximately 85% of net income in capital to fund growth of future operations and to maintain minimum capital standards.

As described in Note M, the Company and its banking subsidiaries are required to maintain minimum capital in accordance with regulatory guidelines. At December 31, 2000, the Bank and all other banking subsidiaries of the Company exceeded the minimum requirements for the "well capitalized" category as established by supervisory agencies. The Company intends to maintain sufficient capital in each of its banking subsidiaries for them to remain in the "well capitalized" category.

The Company monitors its capital on a regular basis and performs necessary forecasts of capital needs based upon anticipated growth in loans and earnings. The Company and its banking subsidiaries have potential under current capital rules to increase their capital by the issuance of debt instruments including trust preferred securities and subordinate debt.

In 1995, the Bank issued $75 million in 15 year subordinated capital notes. During 1999, First National Bank South Dakota, another banking subsidiary of the Company, issued $2.3 million in capital notes related to the acquisition and merger of a bank. These capital notes, along with the parent company s $16.3 million in capital notes outstanding as of December 31, 2000 issued in connection with the Company s previous acquisitions, count towards meeting the required capital standards, subject to certain limitations.

**Liquidity Management**

Adequate liquidity levels are necessary to ensure that sufficient funds are available for loan growth and deposit withdrawals. These funding needs are offset by funds generated from loan repayments, investment maturities, and core deposit growth. The Company's Asset and Liability Committee is responsible for monitoring the current and forecasted balance sheet structure to ensure anticipated funding needs can be met at a reasonable cost. Contingency plans are in place to meet unanticipated funding needs or loss of funding sources. The parent company's cash flows are dependent upon the receipt of dividends from its banking subsidiaries which are subject to regulatory restrictions.

The Company continues to place a priority on obtaining retail consumer deposits as its primary source of funding. This strategy is being supported by our entry into the Dallas, Texas, and Denver, Colorado market places. The Company also has access to a variety of other funding sources to augment the total funding needs of the Company. These other sources

include securities sold under repurchase agreements, federal funds purchased, credit card-backed securitizations, Federal Home Loan Bank advances, other debt agreements and subordinated capital notes.

The Company utilizes credit card-backed securitization vehicles to assist in its management of liquidity, interest rate risk and capital. At December 31, 2000 and 1999, $1.4 billion and $651 million, respectively, of the Company's managed credit card portfolio was securitized with an additional $130 million and $255 million, respectively, in unused securitization lines available. Additionally, the Company had Federal Home Loan Bank advances of $189.3 million as of December 31, 2000 and $372.1 million as of December 31, 1999. At December 31, 2000, the parent company had $23 million outstanding under a $125 million syndicated revolving credit facility.

**Market Risk**

The Company's primary component of market risk is interest rate volatility. It is the goal of the Company to maximize profits while effectively managing rather than eliminating interest rate risk. Two primary measures are used to measure and manage interest rate risk: Net Interest Income Simulation Modeling and Interest Rate Sensitivity Gap Analysis.

**Net Interest Income Simulation**

The Company uses a simulation model to analyze net interest income sensitivity to movements in interest rates. The simulation model projects

net interest income based on both upward and downward interest rate shifts over a twelve month period. Alternative scenarios are simulated by applying immediate shifts in interest rates (rate shocks) and gradual shifts in interest rates (rate ramps). These interest rate shifts are applied to a projected balance sheet for the Company for the twelve month simulation period. Based on the information and assumptions in effect at December 31, 2000, management believes that a 200 basis point rate shock or rate ramp over a twelve month period, up or down, would not significantly affect the Company's annualized net interest income.

The Company has established guidelines that limit the acceptable potential change in net interest margin and net income under these interest rate and balance sheet scenarios. The Company intends to use interest rate swap agreements on a limited basis in the future to change the characteristics of selected fixed rate exposures as an element of its risk management policy.

**Interest Rate Sensitivity Gap Analysis**

The Company uses interest rate sensitivity gap analysis to monitor the relationship between the maturity and repricing of its interest-earning assets and interest-bearing liabilities, while maintaining an acceptable interest rate spread. Interest rate sensitivity gap is defined as the difference between the amount of interest-earning assets maturing or repricing within a specific time period and the amount of interest-bearing liabilities maturing or repricing within that time period. A gap is considered positive when the amount of interest-rate-sensitive assets exceeds the amount of interest-rate-sensitive liabilities, and is considered negative when the amount of interest-rate-sensitive liabilities exceeds the amount of interest-rate-sensitive assets. Generally, during a period of rising interest rates, a negative gap would adversely affect net interest income, while a positive gap would result in an increase in net interest income. Conversely, during a period of falling interest rates, a negative gap would result in an increase in net interest income, while a positive gap would negatively affect net interest income. Management's goal is to maintain a reasonable balance between exposure to interest rate fluctuations and earnings.

The following table represents management's estimate of projected maturity or repricing of the Company's interest-earning assets and interest-bearing liabilities at December 31, 2000. Management believes that the table will approximate actual experience; however, it should be noted that the gap analysis is a point in time measurement that does not capture all aspects of interest rate risk.

| As of December 31, 2000 | Three Months or Less | Greater Than Three Months Less Than One Year | One Year Through Five Years | Over Five Years | Total |
|---|---|---|---|---|---|
| (in thousands) | | | | | |
| Earning assets: | | | | | |
| Investment activities | $ 411,594 | $ 356,465 | $ 593,590 | $ 63,205 | $1,424,854 |
| Lending activities | 3,388,236 | 808,130 | 2,146,387 | 562,855 | 6,905,608 |
| Earning assets | 3,799,830 | 1,164,595 | 2,739,977 | 626,060 | 8,330,462 |
| Interest-bearing liabilities | 3,601,474 | 2,263,804 | 1,371,194 | 187,634 | 7,424,106 |
| Interest sensitive gap | 198,356 | (1,099,209) | 1,368,783 | 438,426 | 906,356 |
| Gap as a percent of earning assets | 2.38% | (13.20)% | 16.43% | 5.26% | 10.88% |
| Cumulative interest sensitive gap | 198,356 | (900,853) | 467,930 | 906,356 | |
| Cumulative gap as a percent of earning assets | 2.38% | (10.81)% | 5.62% | 10.88% | |

**First National of Nebraska and Subsidiaries**
**Selected Quarterly Financial Information**

| | For the quarters ended | | | |
|---|---|---|---|---|
| | **December 31,** | **September 30,** | **June 30,** | **March 31,** |
| (in thousands except per share data) | | | | |
| **2000** | | | | |
| Total interest income | **$ 237,801** | **$ 230,382** | **$ 214,334** | **$ 211,513** |

| | | | | |
|---|---|---|---|---|
| Net interest income | **132,514** | **127,762** | **123,159** | **126,714** |
| Net income | **42,560** | **20,057** | **18,866** | **23,994** |
| Net income per common share | **127.24** | **59.96** | **56.40** | **71.73** |
| **1999** | | | | |
| Total interest income | $ 213,723 | $ 207,973 | $ 201,349 | $ 202,583 |
| Net interest income | 132,050 | 131,479 | 126,988 | 127,578 |
| Net income | 26,195 | 22,926 | 23,771 | 19,469 |
| Net income per common share | 78.30 | 68.54 | 71.06 | 58.12 |

**First National of Nebraska and Subsidiaries**
**Selected Financial Data**

| | Years ended December 31, | | | | |
|---|---|---|---|---|---|
| | **2000** | **1999** | **1998** | **1997** | **1996** |
| (in thousands except per share data) | | | | | |
| Total interest income and noninterest income | **$ 1,275,455** | $1,074,245 | $1,094,319 | $1,032,285 | $ 926,022 |
| Provision for loan losses | **131,073** | 144,573 | 173,311 | 201,494 | 180,059 |
| Net income | **105,477** | 92,361 | 86,492 | 75,187 | 70,232 |
| Net income per share | **315.33** | 276.02 | 258.19 | 220.68 | 202.53 |
| Cash dividends per share | **46.47** | 38.72 | 35.00 | 33.76 | 37.22 |
| Dividend payout ratio | **14.7%** | 14.0% | 13.6% | 15.3% | 18.4% |
| Total assets | **9,283,314** | 8,560,444 | 8,187,815 | 7,332,021 | 6,912,057 |
| Managed assets (1) | **10,695,352** | 9,211,488 | 8,840,837 | 8,282,021 | 7,112,057 |
| Average equity to average assets ratio | **7.9%** | 7.8% | 7.4% | 7.0% | 7.4% |
| Other borrowings | **91,098** | 3,758 | 4,504 | 24,489 | 6,520 |
| Capital notes | **93,594** | 94,389 | 92,864 | 94,052 | 96,616 |
| Federal Home Loan Bank advances | **189,325** | 372,077 | 28,535 | 3,957 | 740 |

**The Company's stock is traded over-the-counter.**
**Bid price quotes per share, high and low, by quarter** (2)

| | 2000 | | 1999 | |
|---|---|---|---|---|
| | **High** | **Low** | **High** | **Low** |
| 1st quarter | $ **2,985** | **$ 1,875** | $ 3,390 | $ 2,900 |
| 2nd quarter | **2,150** | **1,950** | 3,000 | 2,950 |
| 3rd quarter | **2,275** | **2,080** | 2,985 | 2,725 |
| 4th quarter | **2,153** | **1,800** | 2,725 | 2,400 |

**Dividends per share**

| | **2000** | **1999** |
|---|---|---|
| 1st quarter | **$16.47** | $12.47 |
| 2nd quarter | **20.00** | 17.50 |
| 3rd quarter | **10.00** | 8.75 |

**Number of stockholders**

As of January 29, 2001, there were 334,500 shares of common stock issued and outstanding which were held by 313 shareholders of record. The shareholders of record number does not reflect the persons or entities who hold their stock in nominee or "street" name.

(1) Reported assets plus securitized credit card loans

(2) Source: Kirkpatrick Pettis Inc., Omaha, Nebraska
Such over-the-counter market quotations reflect interdealer prices, without retail mark-up, mark-down or commission and may not necessarily represent actual transactions. The Company's common stock experiences limited trading.

**First National of Nebraska**
**Officers and Directors***

Bruce R. Lauritzen*
Chairman

J. William Henry*
President

Elias J. Eliopoulos*
Executive Vice President

Dennis A. O'Neal*
Executive Vice President

Daniel K. O'Neill*
Senior Vice President
Executive Vice President, Lauritzen Corporation

F. Phillips Giltner*
Chairman Emeritus

Margaret Lauritzen Dodge*
Finance Officer
First National Bank of Omaha

Timothy D. Hart
Secretary & Treasurer

Steven K. Ritzman
Senior Vice President

**First National Bank Of Omaha**
**Senior Officers and Directors**

**Omaha, Nebraska**

Bruce R. Lauritzen, Chairman

Elias J.Eliopoulos

J. William Henry
Dennis A. O Neal

President, Consumer Banking

Executive Vice President
President, Corporate Banking

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Nicholas W. Baxter
Senior Vice President, First of Omaha Merchant Processing
Richard A. Frandeen
Senior Vice President, Real Estate Lending
Charles H. Fries, Jr
Senior Vice President, Corporate & Financial Institutions
Thomas R. Haller
Senior Vice President, Retail Banking
Timothy D. Hart
Senior Vice President, Corporate Administration
Frances A. Marshall
Senior Vice President, Human Resources
Craig V. McGarry
Senior Vice President, Trust
Russell K. Oatman
Senior Vice President, First Financial Services
James C.C. Schmidt
Senior Vice President, Technology Services

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Margaret L. Dodge
Finance Officer
James L. Doody

F. Phillips Giltner
Chairman Emeritus Robert W. Tritsch

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**First National Bank Frisco Office (A Branch of First National Bank of Omaha)**

**Frisco, Texas**

---

R. Chris Tompkins, President

---

**First National Loan Production Office**

**Lincoln, Nebraska**

---

Richard L. Herink, President

---

**First National Bank of Colorado Boulder - Longmont - Louisville - Broomfield - Denver, Colorado**

---

David M. Gilman, Chairman & President

---

Directors Richard L. ByynyLarry F. Frey
Richard E. Geesaman, M.D.
David M. Gilman Dorothy A Horrell, Ph.D Caroline J. Hoyt Earl McLaughlinDennis A. O'NealThomas C. Stokes

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**First National Bank**

**Fort Collins - Loveland, Colorado**

Thomas J.Gleason, Chairman

Mark P. Driscoll, President

Directors

Mark P. Driscoll John A. Duffey Dwight L. Ghent Thomas J. Gleason

Roger G. Gunlikson Lucia A. Liley Douglas E. Markley Dennis A. O'Neal

Merlin G. Otteman, M.D. Stephen J. Schrader Wayne K. Schrader David L. Wood

Mark J. Soukup, Director Emeritus

**First National Bank and Trust Company of Columbus** **Columbus - Norfolk, Nebraska**

John M. Peck, Chairman & President James R. Mangels, President - Norfolk

Directors

| | | | |
|---|---|---|---|
| James M. Bator | Donald N. Dworak | Randal J. Emrich | Clark D. Lehr |
| John F. Lohr | Robert P. Loshbaugh | James R. Mangels | Larry D. Marik |
| John M. Peck | Steven K. Ritzman | Richard A. Robinson | Noyes W. Rogers |
| Donald M. Schupbach | Dwayne G. Smith | | |

**First National Bank of Kansas** **Overland Park - Fairway - Olathe - Shawnee, Kansas**

Stuart C. Lang, President

Directors

| | | | |
|---|---|---|---|
| Linda A. Acker | Ben T. Embry | Blair L. Gogel | J. William Henry |
| Mary Kay Horner | Stuart C. Lang | James A. Polsinelli | Marilyn Scafe |

**First National Bank** **North Platte - Alliance - Chadron - Gering - Scottsbluff, Nebraska**

L.H. "Rick" Kolkman, President William J. Pfister, President - Scottsbluff

Directors

| | | | |
|---|---|---|---|
| Gary L. Conell, M.D. | Orville A. Kaschke | James D. Keenan | L. H. Rick Kolkman |
| Daniel K. O Neill | William J. Pfister | William C. Snodgrass | Gary M. Trego |
| Ralph M. Tysdal | | | |

**The Fremont National Bank and Trust Company** **Fremont, Nebraska**

Thomas J. Milliken, Chairman David N. Simmons, President

Directors

| | | | |
|---|---|---|---|
| Kenneth D. Beebe | Jim A. Hoshor | Rodney K. Koerber, M.D. | Helen J. Krause |
| Thomas J. Milliken | Bart E. Qualsett | David N. Simmons | Neil A. Stanley |

**Platte Valley State Bank & Trust Company** **Kearney, Nebraska**

Wayne R. McKinney, Chairman | Mark A. Sutko, President

Directors

| | | | |
|---|---|---|---|
| Jeff G. Beattie | Gerald L. Dulitz | Byron D. Hansen | Peter G. Kotsiopulos |
| Robin W. Marshall | Wayne R. McKinney | Daniel K. O Neill | John H. Schulte, M.D. |
| Mark A. Sutko | Gerald J. Tomka | Robert P. Sahling, Honorary | Carl C. Spelts, Honorary |

**First National Bank South Dakota** — **Yankton - Mitchell - Huron - Woonsocket, South Dakota**

Randall A. Johnson, President | Michael D. Rieck, President - Mitchell

Directors

| | | |
|---|---|---|
| Joseph W. Barry | Mark R. Buche | J. William Henry |
| Randall A. Johnson | Joleen M. Smith | Jerry Thomsen |

**Union Colony Bank** — **Greeley - Windsor - Johnstown - Brighton, Colorado**

Lawrence W. Menefee, Chairman | Thomas J. Flanagan, Jr., President

Directors

| | | | |
|---|---|---|---|
| Victor J. Campbell | George W. Doering | Harold G. Evans | Thomas J. Flanagan, Jr. |
| Kay Kosmicki | James R. Listen | Lawrence W. Menefee | Dennis A. O'Neal |
| Robert A. Ruyle | Masoud S. Shirazi | Michael V. Shoop | F. Scott Thomas |
| John M. Todd | John C. Todd, Director Emeritus | | |

**Cornerstone Mortgage Company**

**Houston - Austin - Beaumont - Bryan - Dallas**
**San Antonio - Temple - Waco, Texas**
**Scottsdale - Tucson - Sierra Vista, Arizona**
**Boulder - Greeley - Ft. Collins, Colorado**

Marc N. Laird, President | Judith A. Belanger, Executive Vice President

**Data Management Products** — **Omaha, Nebraska**

James A. Mills, President

Michael J Reynolds, Senior Vice President | Darren L. Snodgrass, Vice President

**Nevis, West Indies**

**First Affinity Reinsurance Company, Ltd.**
**First Agent Reinsurance Company, Ltd.**
**First Premium Reinsurance Company, Ltd.**
**First Standard Reinsurance Company, Ltd.**
**First State Reinsurance Company, Ltd.**

Michael P. Feimer, President | Jean L. Koenck, Vice President and Treasurer

**First Integrated Systems** — **Omaha, Nebraska**

James A. Mills, President | William G. Pierce, National Sales Manager

**First National Information Solutions** — **Omaha - Des Moines - Denver - Kansas City St. Paul - Minneapolis - Washington D.C.**

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Christopher P.Candela, President, Mountain States Imaging
Kurtis H. Shedenhelm, President, Path Technology Group

**First National Services Corporation** — **Omaha, Nebraska**

R. Ray Lockhart, Director of Risk Management
Paul J. Brinker, Director of Compliance
David E. Harris, Director of Risk Consulting
Donald A. Fees, Director of Loan Review
Robert J. Wuggazer, Director of Audit
Bernard K. Williams, Operations Officer

**First of Omaha Merchant Processing** — **Omaha, Nebraska**

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Christa M. Titus, Vice President & Chief Financial Officer
Matt T. Minchow, Vice President of Business Development & Sales Operations
Brian D. Ridder, Vice President of Customer Service
Colleen M. Haack, Vice President of Operations
Michael J. Dunnetts, Vice President of Product Development

**First Technology Solutions** — **Omaha, Nebraska**

James C.C. Schmidt, President
Charles M. Huetter, Vice President
Kimberly M. Whittaker, Regional Sales Manager

**FNC Trust Group** — **Fort Collins - Boulder - Greeley - Loveland, Colorado**

Craig V. McGarry, Chairman & President

| | |
|---|---|
| Sean P. Shelley, Senior Vice President | Brian M. Thurston, Vice President - Denver/Boulder |
| Cheryl M. Jarchow, Vice President | Barbara L. Meneely, Vice President - Boulder |
| David C. Jordon, Vice President & Investment Manager | Mark K. Ritter, Vice President - Greeley |
| Cathy L.Schott, Vice President - Fort Collins | Gaylen R. Williams, Vice President - Loveland |

**Gregory s Insurance, Inc.** **Alliance, Nebraska**

| | |
|---|---|
| Daniel S. Contonis, Vice President of Sales | Gary L. Tomlin, Vice President of Sales |

**InfiCorp Holdings, Inc.** **Atlanta, Georgia**

**InfiBank**

**InfiLink Corporation**

**InfiStar Corporation**

| | |
|---|---|
| Matthew W. Lawver, Chairman | Jerry D. Craft, President |

Clay G. Battle, Chief Financial Officer
D. Andrew Mathieson, Managing Director, Credit Card Management

Ray S. Costner, Managing Director, Systems & Operations
Keith J. Floen, Managing Director, Credit Union Business Development
David L. Strider, Managing Director, InfiLink

| **Nebraska Trust Company** | **Fremont - Columbus - Kearney - North Platte, Nebraska** |
| --- | --- |
| Craig V. McGarry, Chairman | David N. Simmons, President |
| Stephen C. Wade, Chief Operating Officer - Fremont | Leanne K. Anderson, Vice President - North Platte |
| Jeffery S. Arnold, Secretary & Cashier - Fremont | John R. Scott, Vice President - Columbus |
| Mark L. Andrews, Trust Officer - Fremont | Bruce T. Lear, Vice President - Kearney |

| **Platinum Recovery Solutions** | **Omaha, Nebraska** |
| --- | --- |
| | Joseph W. Barry, President |
| John A. Ostrowski, Managing Director | James W. Shanahan, Vice President |

| **Whitetail Finance Company** | **North Platte - Scottsbluff - Fremont - Lexington, Nebraska**<br>**Gillette, Wyoming**<br>**Sterling, Colorado** |
| --- | --- |
| | William J. Pfister, Treasurer |

DiAnn
Kolkman,
President