

FIRST NATIONAL OF NEBRASKA INC
Form 10-Q
May 14, 2002

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington D.C. 20549

FORM 10-Q

ý **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the Quarterly Period Ended March 31, 2002, or

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____.

Commission file number 03502

First National of Nebraska, Inc.

(Exact name of registrant as specified in its charter)

Nebraska

(State or other jurisdiction of incorporation or organization)

47-0523079

(IRS Employer Identification No.)

1620 Dodge Street Omaha, NE

(Address of principal executive offices)

68197

(Zip Code)

Registrant's telephone number, including area code

(402) 341-0500

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No o

As of May 10, 2002, the number of outstanding shares of the registrant's common stock (\$5.00 par value) was 334,500.

Part I. FINANCIAL INFORMATION

Part I. Item 1. Financial Statements

**FIRST NATIONAL OF NEBRASKA, INC.
Consolidated Statements of Financial Condition**

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| | March 31, 2002 | December 31, 2001 |
|---|---------------------|----------------------|
| | (unaudited) | |
| (in thousands except share and per share data) | | |
| Assets | | |
| Cash and due from banks | \$ 376,881 | \$ 530,586 |
| Federal funds sold and other short-term investments | 210,483 | 221,107 |
| | <hr/> | <hr/> |
| Total cash and cash equivalents | 587,364 | 751,693 |
| Investment securities: | | |
| Available-for-sale (amortized cost \$391,326 and \$304,555) | 390,774 | 306,237 |
| Held-to-maturity (fair value \$1,352,154 and \$1,230,343) | 1,346,392 | 1,216,064 |
| Federal Home Loan Bank stock and other securities, at cost | 35,782 | 33,806 |
| | <hr/> | <hr/> |
| Total investment securities | 1,772,948 | 1,556,107 |
| Loans | | |
| Less: Allowance for loan losses | 7,091,021 | 6,977,104 |
| Unearned income | 122,972 | 118,526 |
| | <hr/> | <hr/> |
| Net loans | 23,496 | 23,575 |
| | <hr/> | <hr/> |
| Net loans | 6,944,553 | 6,835,003 |
| Premises and equipment, net | 218,286 | 184,647 |
| Goodwill, net | 129,127 | 94,840 |
| Other assets | 324,545 | 329,971 |
| | <hr/> | <hr/> |
| Total assets | \$ 9,976,823 | \$ 9,752,261 |
| Liabilities and Stockholders' Equity | | |
| Deposits: | | |
| Noninterest-bearing | \$ 1,105,276 | \$ 1,227,196 |
| Interest-bearing | 7,154,864 | 6,863,577 |
| | <hr/> | <hr/> |
| Total deposits | 8,260,140 | 8,090,773 |
| Federal funds purchased and securities sold under repurchase agreements | 189,817 | 157,767 |
| Federal Home Loan Bank advances | 321,873 | 300,930 |
| Other borrowings | 126,418 | 157,556 |
| Other liabilities | 153,425 | 135,264 |
| Capital notes | 85,621 | 92,915 |
| | <hr/> | <hr/> |
| Total liabilities | 9,137,294 | 8,935,205 |
| 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 | 835,726 | 811,805 |
| Accumulated other comprehensive income (loss) | (381) | 1,067 |
| | <hr/> | <hr/> |
| Total stockholders' equity | 839,529 | 817,056 |

| | March 31, 2002 | December 31, 2001 |
|---|-----------------------------|-----------------------------|
| | <u> </u> | <u> </u> |
| Total liabilities and stockholders' equity | \$ 9,976,823 | \$ 9,752,261 |
| | <u> </u> | <u> </u> |

See Notes to Consolidated Financial Statements.

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FIRST NATIONAL OF NEBRASKA, INC.
Consolidated Statements of Income
(unaudited)

| | Three Months Ended March 31, | |
|---|------------------------------|-----------------------------|
| | 2002 | 2001 |
| | <u> </u> | <u> </u> |
| (in thousand except share and per share data) | | |
| Interest income: | | |
| Interest and fees on loans and lease financing | \$ 174,616 | \$ 188,999 |
| Interest on securities: | | |
| Taxable interest income | 14,544 | 14,385 |
| Nontaxable interest income | 666 | 448 |
| Interest on federal funds sold and other short-term investments | 1,334 | 3,794 |
| | <u> </u> | <u> </u> |
| Total interest income | 191,160 | 207,626 |
| | <u> </u> | <u> </u> |
| Interest expense: | | |
| Interest on deposits | 57,214 | 93,181 |
| Interest on federal funds purchased and securities sold under repurchase agreements | 778 | 1,533 |
| Interest on Federal Home Loan Bank advances | 3,865 | 2,669 |
| Interest on other borrowings | 874 | 1,651 |
| Interest on capital notes | 1,762 | 1,769 |
| | <u> </u> | <u> </u> |
| Total interest expense | 64,493 | 100,803 |
| | <u> </u> | <u> </u> |
| Net interest income | 126,667 | 106,823 |
| Provision for loan losses | 35,325 | 29,447 |
| | <u> </u> | <u> </u> |
| Net interest income after provision for loan losses | 91,342 | 77,376 |
| Noninterest income: | | |
| Processing services | 57,854 | 55,736 |
| Credit card securitization income | 27,189 | 15,329 |
| Deposit services | 9,851 | 8,216 |
| Trust and investment services | 6,433 | 5,738 |
| Gain on sale of mortgage loans | 6,120 | 3,239 |
| Miscellaneous | 12,806 | 13,478 |
| | <u> </u> | <u> </u> |
| Total noninterest income | 120,253 | 101,736 |
| | <u> </u> | <u> </u> |

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| | Three Months Ended March 31, | |
|---|-------------------------------------|------------------|
| | | |
| Noninterest expense: | | |
| Salaries and employee benefits | 79,162 | 69,702 |
| Marketing, communications and supplies | 23,043 | 22,084 |
| Professional services | 15,993 | 13,583 |
| Equipment rentals, depreciation and maintenance | 14,330 | 13,023 |
| Net occupancy expense of premises | 10,997 | 12,275 |
| Processing expense | 8,001 | 7,900 |
| Amortization of intangibles | 2,979 | 5,327 |
| Loan servicing expense | 6,210 | 2,508 |
| Miscellaneous | 6,392 | 6,341 |
| | 167,107 | 152,743 |
| Income before income taxes | 44,488 | 26,369 |
| Income tax expense: | | |
| Current | 14,684 | 9,416 |
| Deferred | 2,204 | 584 |
| | 16,888 | 10,000 |
| Net income | \$ 27,600 | \$ 16,369 |
| Basic earnings per common share | \$ 83.50 | \$ 49.45 |
| Diluted earnings per common share | \$ 82.51 | \$ 48.94 |
| Basic common shares outstanding | 330,532 | 331,034 |
| Diluted common shares outstanding | 334,500 | 334,500 |
| Cash dividends declared per common share | \$ 11.00 | \$ 17.09 |

See Notes to Consolidated Financial Statements.

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FIRST NATIONAL OF NEBRASKA, INC.
Consolidated Statements of Cash Flows
(unaudited)

| | Three Months Ended March 31, | |
|--|-------------------------------------|-------------|
| | 2002 | 2001 |
| (in thousands) | | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net Income | \$ 27,600 | \$ 16,369 |
| Adjustments to reconcile net income to net cash flows from operating activities: | | |
| Provision for loan losses | 35,325 | 29,447 |

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| | Three Months Ended March 31, | |
|---|-------------------------------------|------------------|
| | | |
| Depreciation and amortization | 10,254 | 12,786 |
| Provision for deferred taxes | 2,204 | 584 |
| Origination of mortgage loans for resale | (461,772) | (259,058) |
| Proceeds from the sale of mortgage loans for resale | 552,356 | 213,031 |
| Other asset and liability activity, net | 22,274 | (10,811) |
| | <u>188,241</u> | <u>2,348</u> |
| Net cash flows from operating activities | 188,241 | 2,348 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Acquisitions, net of cash received(1) | (59,392) | (891) |
| Maturities of securities available-for-sale | 225,948 | 187,575 |
| Sales of securities available-for-sale | 25,624 | |
| Purchases of securities available-for-sale | (200,000) | (120) |
| Maturities of securities held-to-maturity | 148,106 | 50,249 |
| Purchases of securities held-to-maturity | (276,045) | (280,485) |
| Redemption of FHLB stock and other securities | 813 | |
| Purchases of FHLB stock and other securities | (335) | (5,848) |
| Net change in loans | 185,380 | (170,610) |
| Credit card securitization activities, net | (14,000) | (43,505) |
| Purchases of loan portfolios | (7,776) | (48,598) |
| Purchases of premises and equipment | (32,139) | (13,738) |
| Other, net | 1,144 | 1,381 |
| | <u>(2,672)</u> | <u>(324,590)</u> |
| Net cash flows from investing activities | (2,672) | (324,590) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Net change in deposits | (338,180) | 106,872 |
| Net change in federal funds purchased and securities sold under repurchase agreements | 25,950 | (58,344) |
| Issuance of FHLB advances | 9,256 | 192,000 |
| Principal repayments on FHLB advances | (4,813) | (87,319) |
| Issuance of other borrowings | 291,121 | 214,560 |
| Principal repayments on other borrowings | (322,259) | (158,066) |
| Principal repayments on capital notes | (7,294) | (397) |
| Cash dividends paid | (3,679) | (5,717) |
| | <u>(349,898)</u> | <u>203,589</u> |
| Net cash flows from financing activities | (349,898) | 203,589 |
| Net change in cash and cash equivalents | (164,329) | (118,653) |
| Cash and cash equivalents at beginning of period | 751,693 | 815,451 |
| | <u>587,364</u> | <u>696,798</u> |
| Cash and cash equivalents at end of period | \$ 587,364 | \$ 696,798 |
| Cash paid during the period for: | | |
| Interest | \$ 67,806 | \$ 101,939 |
| Income taxes | 2,399 | 18,360 |

(1)

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In acquisitions during 2002, the Company acquired non-cash assets of \$560.1 million and assumed liabilities of \$535.0 million.

See Notes to Consolidated Financial Statements.

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FIRST NATIONAL OF NEBRASKA, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) March 31, 2002

Note A: Basis of Presentation

The accompanying unaudited consolidated financial statements of First National of Nebraska, Inc. and subsidiaries (the Company) have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete consolidated financial statements. For purposes of comparability, certain prior period amounts have been reclassified.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the financial statements have been included. Operating results for the three months ended March 31, 2002 are not necessarily indicative of the results that may be expected for the year ending December 31, 2002. The notes to the consolidated financial statements contained in the Annual Report on Form 10-K for the year ended December 31, 2001 should be read in conjunction with these consolidated financial statements.

Note B: Earnings per Common Share

The following table provides the information used in the calculation of basic and diluted earnings per share:

| | Three Months Ended March 31, | |
|--|---|-------------|
| | 2002 | 2001 |
| (in thousands except share data) | | |
| Net Income | \$ 27,600 | \$ 16,369 |
| Average common shares outstanding | 334,500 | 334,500 |
| Less: Average shares held for executive deferred compensation plan | 2,223 | 1,932 |
| Average shares held in employee stock trust | 1,745 | 1,534 |
| | 330,532 | 331,034 |
| Add: Dilutive effect of shares held for deferred compensation plans | 3,968 | 3,466 |
| | 334,500 | 334,500 |
| Average common shares outstanding used in diluted earnings per share | | |

Note C: Comprehensive Income

Comprehensive income is defined as the period's change in the equity of a business enterprise from transactions and other events or circumstances from nonowner sources. Comprehensive income consists of net income and the change in unrealized appreciation or depreciation of available-for-sale

securities. The following table reflects consolidated statements of comprehensive income for the three months ended March 31, 2002 and 2001.

| | Three Months Ended March 31, | |
|--|---------------------------------|-----------|
| | 2002 | 2001 |
| (in thousands except share data) | | |
| Net Income | \$ 27,600 | \$ 16,369 |
| Other comprehensive income (loss), before tax | | |
| Net unrealized holding gains (losses) on available-for-sale securities | (1,808) | 5,340 |
| Less: Reclassification adjustment for net gains realized in net income | 426 | 49 |
| Other comprehensive gain (loss), before tax | (2,234) | 5,291 |
| Less: Income tax expense (benefit) for other comprehensive gain (loss) | (786) | 1,902 |
| Other comprehensive gain (loss), net of tax | (1,448) | 3,389 |
| Comprehensive income | \$ 26,152 | \$ 19,758 |

Note 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 loans, 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 and receives annual servicing fees, which are classified in processing services income. The average servicing fee is approximately two percent of the outstanding balances of the credit card loans securitized. The Company also retains rights to future cash flows arising after investors have received the return for which they are entitled. These retained interests are known as interest-only strips ("IO strips") and are subordinate to investor's interests. The value of the IO strips are subject to credit, prepayment and interest rate risks on the underlying credit card loans sold. The investors 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.

During the revolving period of a credit card securitization, additional gains are recognized as additional credit card loans are sold. During the three months ended March 31, 2002 and 2001, the Company recognized pretax gains of \$23.3 million and \$10.8 million, respectively, on securitizations of credit card receivables. As of March 31, 2002, the fair value of interest-only strips was \$35.6 million compared to \$34.5 million at December 31, 2001.

Note E: Acquisitions

The Company completed its acquisition of 100% of the outstanding stock of Castle BancGroup, Inc. on January 31, 2002. Castle BancGroup Inc., which was renamed to First National of Illinois, Inc. ("FNII") upon acquisition, is the parent company and 100 percent owner of Castle Bank, N.A. The acquisition will allow the Company to expand its presence in the Midwest since Castle Bank, N.A. currently serves customers through 10 banking offices west of suburban Chicago, Illinois. The consolidated results of FNII's operations have been included in the Company's consolidated financial statements since January 1, 2002, the effective date of the acquisition.

The aggregate purchase price was \$81.7 million. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition. The Company is in the process of valuing certain intangible assets, thus the allocation of the purchase price is subject to

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refinement. Currently, all intangibles are included in the goodwill amount below and will be separately identified prior to December 31, 2002.

| | January 1, 2002 |
|---|----------------------------|
| | _____ |
| (in thousands) | |
| Cash and due from banks | \$ 22,270 |
| Investment securities | 140,108 |
| Loans | 399,943 |
| Goodwill | 34,287 |
| Other assets | 20,056 |
| | _____ |
| Total assets acquired | 616,664 |
| Deposits | 507,547 |
| Federal funds purchased and securities sold under repurchase agreements | 6,100 |
| Federal Home Loan Bank advances | 16,500 |
| Other liabilities | 4,856 |
| | _____ |
| Total liabilities assumed | 535,003 |
| | _____ |
| Net assets acquired | \$ 81,661 |
| | _____ |

Proforma results of operations for the three months ended March 31, 2001 (as if the acquisition of Castle BancGroup, Inc. had been completed as of January 1, 2001) would not materially impact the Company's reported results of operations for that period.

Note F: Goodwill and Intangible Assets

The Company has recognized goodwill and other intangibles as a result of various acquisitions. Goodwill represents the excess of the purchase price over the estimated fair value of the identifiable net assets associated with merger and acquisition transactions. Historically, the Company has amortized goodwill on a straight-line basis over periods up to 25 years whether or not the asset value was declining. At January 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" which requires that goodwill and other intangible assets with indefinite useful lives no longer be amortized but reviewed for impairment at least annually. In accordance with Statement No. 142, the Company discontinued the amortization of goodwill effective January 1, 2002. During the quarter ended March 31, 2002, the Company completed its initial assessment of the goodwill impairment test using the requirements of Statement No. 142. The results indicate that the fair value exceeded the recorded value at January 1, 2002, and therefore, no write-down of goodwill was recognized during the quarter ended March 31, 2002. On an ongoing basis, absent any impairment indicators, the Company expects to perform the goodwill impairment test during the fourth quarter, in connection with the annual budgeting process.

As mentioned above, the Company has recorded other identifiable intangible assets as a result of past transactions. These intangibles will continue to be amortized over their expected lives using straight-line and accelerated methods as appropriate. The following tables reflect the components of the Company's intangible assets, the estimated amortization expense for the next five years, as well as proforma consolidated results for the quarter ended March 31, 2002.

The table below reflects the components of intangible assets subject to amortization:

| March 31, 2002 | | December 31, 2001 | |
|---------------------------|-------------------------------------|---------------------------|-------------------------------------|
| _____ | | _____ | |
| Gross Carrying | Accumulated Amortization | Gross Carrying | Accumulated Amortization |

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| | March 31, 2002 | | December 31, 2001 | |
|-------------------------------------|----------------|-----------|-------------------|-----------|
| | Amount | | Amount | |
| (in thousands) | | | | |
| Purchased credit card relationships | \$ 97,923 | \$ 56,406 | \$ 96,941 | \$ 53,796 |
| Core deposit intangibles | 15,195 | 8,649 | 15,195 | 8,316 |
| Other intangibles | 740 | 225 | 700 | 188 |
| Total | \$ 113,858 | \$ 65,280 | \$ 112,836 | \$ 62,300 |

The current estimated amortization expense for each of the five succeeding years ending December 31 is as follows:

| (in thousands) | |
|-----------------------|-----------|
| 2002 | \$ 11,223 |
| 2003 | 8,845 |
| 2004 | 7,030 |
| 2005 | 5,336 |
| 2006 | 4,228 |

The following table reflects proforma consolidated results adjusted as though the adoption of Statement No. 142 occurred January 1, 2001:

| | Three Months Ended March 31, | |
|---|---------------------------------|-----------|
| | 2002 | 2001 |
| (in thousands except per share data) | | |
| Net Income as reported | \$ 27,600 | \$ 16,369 |
| Add: goodwill amortization, net of tax | | 1,418 |
| Adjusted net income | \$ 27,600 | \$ 17,787 |
| Basic earnings per common share as reported | \$ 83.50 | \$ 49.45 |
| Add: goodwill amortization, net of tax | | 4.28 |
| Adjusted basic earnings per common share | \$ 83.50 | \$ 53.73 |
| Diluted earnings per common share as reported | \$ 82.51 | \$ 48.94 |
| Add: goodwill amortization, net of tax | | 4.24 |
| Adjusted diluted earnings per common share | \$ 82.51 | \$ 53.18 |

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

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 financial results. The statements are based on many assumptions and factors, including economic conditions, performance of financial markets, adequacy of allowance for loan losses, competition, rapid fluctuations in interest rates, and changes in the legislative and regulatory environment. Many of these factors are beyond the Company's ability to control or predict, and any changes in such assumptions or factors could produce future results which may differ from those indicated in this report.

Unless otherwise noted, all financial information is presented on a reported loan basis and is derived from the accompanying consolidated financial statements. References to managed loans includes securitized credit card loans and credit card loans serviced for related parties which have been removed from the reported balance sheet in accordance with generally accepted accounting principles. The Company's most significant accounting policies that involve the use of estimates and assumptions are related to the allowance for loan losses and credit card securitizations. The policy for the allowance for loan losses is described in the later section titled "Asset Quality" and the accounting policy for credit card securitizations is described in the later section titled "Loan Portfolio-Credit Card". The judgments and uncertainties affecting these policies could result in materially different amounts under different conditions or using different assumptions.

Results of Operations

Overview

Net income for the quarter ended March 31, 2002 was \$27.6 million, an increase of \$11.2 million, or 68.6%, from \$16.4 million reported for the same period in 2001. Diluted earnings per common share increased to \$82.51 for the quarter ended March 31, 2002 from \$48.94 per diluted common share for the same period last year. Net income for the quarter ended March 31, 2002 was positively impacted by growth in the Company's net interest margin primarily as a result of the Company's credit card loans reaching their contractual interest rate floors during 2001, the downward repricing of interest-bearing liabilities, and the acquisition of Castle BancGroup, Inc. in January 2002.

Net interest income

Net interest income 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 relative performance of net interest income is frequently measured by net interest margin, which is calculated by dividing tax-equivalent net interest income by average interest-earning assets.

On a reported loan basis, the Company continues to experience a reduction in credit card loans as a percentage of total loans primarily as a result of its credit card securitization activities since March 31, 2001. For an enhanced understanding of the trends impacting net interest income, it is also helpful to analyze performance on a managed loan basis by adding data related to securitized loans to reported loans. See the later section titled "Credit Card Securitizations" for an expanded comparative presentation of financial information on a reported and a managed loan basis.

The following table presents a summary of net interest income on a tax-equivalent basis related to average earning assets and net interest margin on both a reported and a managed loan basis. Managed

loan financial information includes credit card loans that have been securitized and credit card loans that are serviced for related parties.

| | Three Months Ended March 31, | |
|---|---|-------------|
| | 2002 | 2001 |
| (\$ in thousands) | | |
| Reported: | | |
| Net interest income on a tax-equivalent basis | \$ 127,026 | \$ 107,064 |
| Average earning assets | 9,063,687 | 8,363,941 |
| Net interest margin (annualized) | 5.68% | 5.19% |

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Three Months Ended
March 31,

Managed:

| | | | | |
|---|----|------------|----|-----------|
| Net interest income on a tax-equivalent basis | \$ | 185,091 | \$ | 144,234 |
| Average earning assets | | 10,894,476 | | 9,833,075 |
| Net interest margin (annualized) | | 6.89% | | 5.95% |

Under GAAP, the Company no longer reports net interest income on securitized and sold credit card loans. If these loans had not been accounted for as a sale, net interest income and provision for loan losses would have been greater and noninterest income would have been reduced by a net corresponding amount. Net interest income would have been greater by \$58.1 million and \$37.1 million for the three months ended March 31, 2002 and March 31, 2001, respectively. Correspondingly, for the same periods, the provision for loan losses would have been greater by \$23.4 million and \$16.0 million and noninterest income would have been reduced by \$34.7 million and \$21.1 million, as disclosed later in the section titled "Credit Card Securitizations".

As discussed below, the Company's net interest income was positively impacted by downward repricing of interest-bearing liabilities versus the stabilized repricing of the Company's loan portfolio. The Company's floating rate liabilities were affected by the decreases occurring in the level of interest rates nationally, while the Company's variable rate credit card loans reached their contractual interest rate floors in 2001. The decline in average gross yield on interest-earning assets was offset by a significant reduction in the average cost of interest-bearing liabilities, from 5.5% for the three months ended March 31, 2001 to 3.3% for the three months ended March 31, 2002.

The following table presents the quarterly yield and net interest margin trends for 2001 and 2002:

Quarter Ended

| March 31, 2001 | June 30, 2001 | September 30, 2001 | December 31, 2001 | March 31, 2002 |
|-------------------|------------------|-----------------------|----------------------|-------------------|
|-------------------|------------------|-----------------------|----------------------|-------------------|

(Annualized and on a tax-equivalent basis)

Reported:

| | | | | | |
|------------------------------|--------|-------|-------|-------|-------|
| Interest-earning assets | 10.08% | 9.21% | 9.15% | 9.06% | 8.57% |
| Interest-bearing liabilities | 5.49% | 5.02% | 4.53% | 3.83% | 3.32% |
| Net interest margin | 5.19% | 4.74% | 5.13% | 5.70% | 5.68% |

The Federal Reserve's reductions of the targeted Federal Funds rates from 6.50% at December 31, 2000 to 1.75% at March 31, 2002 caused a downward repricing of the Company's variable rate loans. Nearly all of the Company's variable rate credit card loans had reached their contractual interest rate floors as of June 30, 2001. Therefore the impact of later rate reductions on interest-earning assets was lessened since these variable rate loans act as fixed rate loans when they reach their contractual interest rate floors.

The Company primarily funds its loans with certificates of deposit, money market deposit accounts and floating rate wholesale funds. These interest-bearing liabilities have also repriced downward consistent with the Federal Reserve rate reductions, and as a result of stabilized yields on interest-earning assets since June 2001, the Company has recognized an improved net interest margin.

Provision for loan losses

The provision for loan losses is charged against earnings to cover both current period net loan charge-offs and to maintain the allowance for loan losses at an acceptable level to cover losses inherent in the portfolio as of the reporting date. For the three months ended March 31, 2002, the provision for loan losses increased \$5.9 million, or 20.0%, to \$35.3 million compared to \$29.4 million for the same period in 2001. This increase in the provision for loan losses is reflective of the increase in credit card loan delinquencies and net loan charge-offs that have occurred due to a weakening economy. Management's estimates of losses inherent in the portfolio has resulted in a need for additional allowances for loan losses at March 31, 2002 compared to March 31, 2001. For further discussion related to allowance for loan losses, see the section titled "Asset Quality".

Noninterest income and expense

Increases in noninterest income and expense as reflected in the following tables primarily relate to the Company's growth initiatives which have taken place since March 31, 2001. The Company has expanded into new markets in Dallas, Texas, Denver, Colorado, and Lincoln, Nebraska. Additionally, the Company expanded into Illinois, west of suburban Chicago, through the acquisition of Castle BancGroup, Inc. in January 2002.

| | Three Months Ended March 31, | | % Increase (Decrease) |
|-----------------------------------|---------------------------------|-------------------|-----------------------------|
| | 2002 | 2001 | |
| (\$ in thousands) | | | |
| Noninterest income: | | | |
| Processing services | \$ 57,854 | \$ 55,736 | 3.8 % |
| Credit card securitization income | 27,189 | 15,329 | 77.4% |
| Deposit services | 9,851 | 8,216 | 19.9% |
| Trust and investment services | 6,433 | 5,738 | 12.1% |
| Gain on sale of mortgage loans | 6,120 | 3,239 | 88.9% |
| Miscellaneous | 12,806 | 13,478 | (5.0)% |
| | <u> </u> | <u> </u> | <u> </u> |
| Total noninterest income | \$ 120,253 | \$ 101,736 | 18.2% |

| | Three Months Ended March 31, | | % Increase (Decrease) |
|---|---------------------------------|-------------------|-----------------------------|
| | 2002 | 2001 | |
| (\$ in thousands) | | | |
| Noninterest expense: | | | |
| Salaries and employee benefits | \$ 79,162 | \$ 69,702 | 13.6% |
| Marketing, communication and supplies | 23,043 | 22,084 | 4.3% |
| Professional services | 15,993 | 13,583 | 17.7% |
| Equipment rentals, depreciation and maintenance | 14,330 | 13,023 | 10.0% |
| Net occupancy expense of premises | 10,997 | 12,275 | (10.4)% |
| Processing expense | 8,001 | 7,900 | 1.3% |
| Amortization of intangibles | 2,979 | 5,327 | (44.1)% |
| Loan servicing expense | 6,210 | 2,508 | 147.6% |
| Miscellaneous | 6,392 | 6,341 | .8% |
| | <u> </u> | <u> </u> | <u> </u> |
| Total noninterest expense | \$ 167,107 | \$ 152,743 | 9.4% |

Processing services income includes fees related to processing credit card products issued by the Company, fees collected from merchants for credit card transaction processing, and servicing income related to securitized loans. The increase in processing services for the quarter ended March 31, 2002 was due to increased servicing fees related to securitized credit card loans as a result of the greater volume of loans securitized during 2002 as compared to the same period in 2001. These increases in securitization volumes also resulted in increases in securitization gains of \$12.5 million, which is included in credit card securitization income. The increase in gains on sales of mortgage loans in 2002 was primarily due to increased mortgage loan originations as a result of the interest rate environment and the addition of new mortgage offices since March 31,

2001.

Salaries and employee benefits increased primarily due to the Company's growth initiatives since March 31, 2001. The 10.4% decrease in net occupancy expense is a result of lower rent expense for office space occupied under the Company's synthetic leases. The rent expense under these leases is based on a floating interest rate, which has decreased consistent with interest rates nationally. Amortization of intangibles has decreased due to the discontinuation of goodwill amortization as a

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result of the adoption of Statement No. 142. The increase in loan servicing expense for the three months ended March 31, 2002 resulted primarily from the recognition of a rebate from a credit card association during the first quarter of 2001.

Loan Portfolio

The Company is diversified in its lending by providing financing to a variety of borrowers throughout the Company's operating regions in Nebraska, Colorado, Kansas, South Dakota, Iowa, Texas and Illinois. Non-credit card loans are generally secured by underlying real estate, business assets, personal property and personal guarantees. The following table reflects the diversification of the Company's lending activities:

| | <u>March 31, 2002</u> | <u>December 31, 2001</u> |
|--|-----------------------|--------------------------|
| (in thousands) | | |
| Credit card | \$ 1,816,288 | \$ 1,992,199 |
| Commercial and financial | 1,203,918 | 1,134,257 |
| Real estate commercial | 887,552 | 762,043 |
| Individual consumer | 770,254 | 747,421 |
| Real estate residential | 784,850 | 802,769 |
| Real estate construction and land development(1) | 703,243 | 649,786 |
| Agricultural | 711,957 | 682,600 |
| Real estate agriculture | 120,944 | 109,167 |
| Lease financing | 72,738 | 80,389 |
| Other | 19,277 | 16,473 |
| | <u>7,091,021</u> | <u>6,977,104</u> |
| Gross loans | | |
| Less: | | |
| Allowance for loan losses | 122,972 | 118,526 |
| Unearned income | 23,496 | 23,575 |
| | <u>6,944,553</u> | <u>6,835,003</u> |
| Net loans | | |

(1) Real estate construction and land development at March 31, 2002 and December 31, 2001 was comprised of the following:

| | <u>March 31, 2002</u> | <u>December 31, 2001</u> |
|-------------------------|-----------------------|--------------------------|
| (in thousands) | | |
| Commercial construction | \$ 256,523 | \$ 255,522 |

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| | March 31, 2002 | December 31, 2001 |
|---|-------------------|----------------------|
| Residential land development | 136,012 | 124,218 |
| Multi-family construction | 94,060 | 83,375 |
| Residential construction | 103,688 | 86,335 |
| Commercial land development | 112,960 | 100,336 |
| Real estate construction and land development | \$ 703,243 | \$ 649,786 |

The Company acquired credit card loan portfolios totaling \$7.2 million during the three months ended March 31, 2002.

Credit Card Securitizations

As described in Note D, 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. In credit card securitizations, designated pools of credit card loans, 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

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Company retains servicing responsibilities and receives annual servicing fees, which are classified in processing services income. The Company also retains rights to future cash flows arising after investors have received the return for which they are entitled. These retained interests are known as interest-only strips ("IO strips"). At the time the Company enters into a securitization, an IO strip is recognized and the resulting gain on sale is recorded in noninterest income as a component of credit card securitization income. During the revolving period of a credit card securitization, additional gains are recognized as credit card loans are sold. The notional amounts of the IO strips are reduced as payments are received on the securitized credit card loans.

Because IO strips are carried at fair value, certain estimates are used in determining the fair value of IO strips, including net revenues, prepayment speeds, weighted-average loan lives and the discount rate. The components of net revenues, which are estimated, include finance charge and a portion of fee revenue 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 loans 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 IO strips.

For the three months ended March 31, 2002, credit card securitization income includes gains on securitized credit card loans of \$23.3 million, interest income on IO strips of \$1.9 million, and the effects of changes in the fair value of the IO strips of \$2.0 million.

The following tables provide supplemental financial information on both a reported loan and a managed loan basis to augment the understanding of the impact credit card loan securitizations have on the financial results of the Company. The reported financial information is presented in accordance with GAAP whereas the managed financial information is presented for comparative analytical and discussion purposes only, and does not represent GAAP accounting treatment.

| | March 31, 2002 | | | December 31, 2001 | | |
|--|----------------|---|--------------|-------------------|---|--------------|
| | Reported | Securitized and serviced for related Parties | Managed | Reported | Securitized and serviced for related parties | Managed |
| (\$ in thousands) | | | | | | |
| As of Period End: | | | | | | |
| Total loans outstanding | \$ 7,067,525 | \$ 1,824,022 | \$ 8,891,547 | \$ 6,953,529 | \$ 1,838,022 | \$ 8,791,551 |
| Total credit card loans outstanding | \$ 1,816,288 | \$ 1,824,022 | \$ 3,640,310 | \$ 1,992,199 | \$ 1,838,022 | \$ 3,830,221 |
| Credit card loans as a percentage of total loans | 25.7% | | 40.9% | 28.7% | | 43.6% |

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| | March 31, 2002 | | | December 31, 2001 | | |
|--|----------------|--------------|--------------|-------------------|--------------|--------------|
| Year-to-Date Average: | | | | | | |
| Total loans outstanding | \$ 7,120,632 | \$ 1,830,789 | \$ 8,951,421 | \$ 6,973,521 | \$ 1,612,470 | \$ 8,585,991 |
| Total credit card loans outstanding | \$ 1,880,547 | \$ 1,830,789 | \$ 3,711,336 | \$ 2,130,788 | \$ 1,612,470 | \$ 3,743,258 |
| Credit card loans as a percentage of total loans | 26.4% | | 41.5% | 30.6% | | 43.6% |

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| | Three Months Ended March 31, 2002 | | | Three Months Ended March 31, 2001 | | |
|--|-----------------------------------|-----------------------------|---------------|-----------------------------------|-----------------------------|--------------|
| | Reported | Credit Card Securitizations | Managed | Reported | Credit Card Securitizations | Managed |
| (\$ in thousands) | | | | | | |
| Net interest income on a tax-equivalent basis: | \$ 127,026 | \$ 58,065 | \$ 185,091 | \$ 107,064 | \$ 37,170 | \$ 144,234 |
| Provision for loan losses | 35,325 | 23,381 | 58,706 | 29,447 | 16,048 | 45,495 |
| Noninterest income | 120,253 | (34,684) | 85,569 | 101,736 | (21,122) | 80,614 |
| Average Earning Assets: | \$ 9,063,687 | | \$ 10,894,476 | \$ 8,363,941 | | \$ 9,833,075 |
| Net interest margin (annualized) | 5.68% | | 6.89% | 5.19% | | 5.95% |

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 charge-offs as of March 31, 2002 has increased from the March 31, 2001 levels due to the decline in the economy since early 2001, which was intensified by the events of September 11, 2001. Delinquencies in non-credit card loans remain at lower levels which improves the overall delinquency rate for the Company. Although the level of nonaccrual loans has increased for non-credit card loans, management believes it has provided sufficient loan loss allowances for these loans. The forecast for bankruptcy losses and their resulting impact on the credit quality of credit card loans has become difficult to determine due to ongoing efforts in Congress to amend current bankruptcy laws. During the first quarter of 2002, credit card charge-offs related to bankruptcies constituted approximately 36% of year-to-date principal credit card charge-offs. In addition, the recovery rate related to bankruptcy charge-offs is considerably less than other credit card charge-offs. At the present time, management cannot predict the outcome of the proposed bankruptcy legislative changes and the effects on future credit card charge-off rates related to bankruptcies. Continued economic uncertainty may result in a need for additional allowances for loan losses during the remainder of 2002.

The following table reflects the delinquency rates for the Company's total loan portfolio, credit card portfolio and non-credit card portfolio. An account is contractually delinquent if the minimum payment of principal or interest is not received by the specified due date. The overall delinquency rate as a percentage of total loans was 2.63% at March 31, 2002 compared with 2.60% at December 31, 2001.

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Delinquent Loans:

March 31, 2002

December 31, 2001

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| | <u>% of Loans</u> | | <u>% of Loans</u> | |
|-------------------------------------|-------------------|-----------|-------------------|------------------|
| (\$ In thousands) | | | | |
| <u>Total Loans</u> | | | | |
| Loans outstanding | \$ | 7,067,525 | \$ | 6,953,529 |
| Loans delinquent: | | | | |
| 30 89 days | \$ | 124,852 | 1.77% | \$ 117,876 1.69% |
| 90 days or more & still accruing | | 60,934 | .86% | 63,053 0.91% |
| <hr/> | | | | |
| Total delinquent loans | \$ | 185,786 | 2.63% | \$ 180,929 2.60% |
| <hr/> | | | | |
| Nonaccrual loans | \$ | 30,112 | .43% | \$ 23,710 .34% |
| <hr/> | | | | |
| <u>Credit Cards Loans</u> | | | | |
| Loans outstanding | \$ | 1,816,288 | \$ | 1,992,199 |
| Loans delinquent: | | | | |
| 30 89 days | \$ | 57,894 | 3.19% | \$ 68,685 3.45% |
| 90 days or more & still accruing | | 53,917 | 2.97% | 53,607 2.69% |
| <hr/> | | | | |
| Total delinquent loans | \$ | 111,811 | 6.16% | \$ 122,292 6.14% |
| <hr/> | | | | |
| Nonaccrual loans | | | | |
| <hr/> | | | | |
| <u>Non-Credit Card Loans</u> | | | | |
| Loans outstanding | \$ | 5,251,237 | \$ | 4,961,330 |
| Loans delinquent: | | | | |
| 30 89 days | \$ | 66,958 | 1.28% | \$ 49,191 .99% |
| 90 days or more & still accruing | | 7,017 | .13% | 9,446 .19% |
| <hr/> | | | | |
| Total delinquent loans | \$ | 73,975 | 1.41% | \$ 58,637 1.18% |
| <hr/> | | | | |
| Nonaccrual loans | \$ | 30,112 | .57% | \$ 23,710 .48% |
| <hr/> | | | | |

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 non-revolving consumer loans are charged off when they become 120 days contractually past due. Net loan 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 amounts reflected as delinquent loans in the table above include loan principal amounts related to loans for which interest, principal or both are past due. On a managed loan basis, the total credit card delinquency rate was 5.22% at March 31, 2002 compared to 5.11% at December 31, 2001.

The allowance for loan losses is intended to cover losses inherent in the Company's loan portfolio as of the reporting date. 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. Net charge-offs for the Company's overall portfolio were \$36.0 million for the three months ended March 31, 2002 compared to \$32.3 million for the same period in 2001. Net charge-offs as a percentage of average loans were .51% for the three months ended March 31, 2002 compared to 0.46% for the same period last year. The allowance as a percentage of loans was 1.74% as of March 31, 2002 compared to 1.44% as of March 31, 2001.

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 Three Months Ended March 31, | |
|--|---|-------------------|
| | 2002 | 2001 |
| (\$ in thousands) | | |
| Balance at January 1 | \$ 118,526 | \$ 105,304 |
| Provision for loan losses | 35,325 | 29,447 |
| Addition due to acquisitions of loans | 5,150(1) | 745 |
| Loans charged off: | | |
| Credit card loans | (38,691) | (32,289) |
| All other loans | (2,772) | (5,480) |
| Loans recovered: | | |
| Credit card loans | 4,366 | 4,559 |
| All other loans | 1,068 | 912 |
| Total net charge-offs | (36,029) | (32,298) |
| Balance at March 31 | \$ 122,972 | \$ 103,198 |
| Allowance as a percentage of loans | 1.74% | 1.44% |
| Total net charge-offs as a percentage of average loans | .51% | 0.46% |

(1) Includes allowance for loan losses associated with the acquisition of Castle BancGroup, Inc. in January 2002.

Capital Resources and Liquidity Including "Off-Balance Sheet" Arrangements**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 capital standards. The parent company receives dividends from its banking subsidiaries which are subject to regulatory restrictions.

The Company and its banking subsidiaries are required to maintain capital in accordance with regulatory guidelines. Total capital of the Company and its banking subsidiaries are divided into two tiers:

Core ("Tier 1") capital, which includes common equity, minority interests in consolidated subsidiaries, less goodwill and certain identifiable intangibles

Supplementary ("Tier 2") capital, which includes hybrid capital instruments, subordinated debt, capital notes, and the allowance for loan losses subject to certain limitations. Tier 2 is further limited to the total of the Tier 1 capital.

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Assets and certain off-balance sheet commitments of the Company and its banking subsidiaries are assigned to four risk-weighted categories based on the level of credit risk ascribed to such assets or commitments.

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 as calculated under regulatory accounting practices. These quantitative measures require the Company and its banking subsidiaries to maintain minimum amounts and ratios of Tier 1 and total capital (sum of Tier 1 and Tier 2 capital) to risk-weighted assets, and of Tier I capital to average assets. The Company and its banking subsidiaries' capital amounts and classifications are also subject to qualitative judgements by the regulators about components, risk weightings and other factors.

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The Company monitors its capital on a regular basis. As of March 31, 2002, the Company and its banking subsidiaries are classified as well capitalized, the most favorable rating under the regulatory framework for prompt corrective action. There are no conditions or events since March 31, 2002, that management believes have changed these categories. To be categorized as well capitalized, the Company 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 intends to maintain sufficient capital in each of its banking subsidiaries for them to remain in the "well capitalized" category.

In 1995, First National Bank of Omaha issued \$75 million in 15 year subordinated capital notes. In 1999, another banking subsidiary of the Company issued \$2.3 million in capital notes related to the acquisition and merger of a bank. A portion of these capital notes, along with a portion of the parent company's \$8.3 million in capital notes outstanding as of March 31, 2002 issued in connection with the Company's previous acquisitions, count towards meeting the required capital standards, subject to certain limitations.

Liquidity and Off-Balance Sheet Arrangements

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, core deposit growth and wholesale funding. The Company's Asset/Liability Management Committee is responsible for managing the liquidity of the Company and monitoring the current and forecasted balance sheet structures 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 Company continues to place a priority on obtaining retail consumer deposits as its primary source of funding. The Company holds the largest market share for total bank deposits in many of the Nebraska communities which it serves including Omaha, Fremont, Columbus, Kearney, David City, North Platte, Alliance and Chadron. It also holds the largest bank market share in Fort Collins, Colorado, Overland Park, Kansas and Yankton, Mitchell and Woonsocket, South Dakota. The Company places in the top three for market share for deposit volume generated in Greeley, Colorado and Bellevue, Beatrice, Norfolk and Scottsbluff, Nebraska. Continuing the Company's philosophy of community banking and funding through core deposits, the Company completed its acquisition of Castle BancGroup, Inc. in DeKalb, Illinois on January 31, 2002. Castle Bank, N.A. holds the largest bank market share for total deposits in DeKalb, Illinois.

The Company has access to a variety of other funding sources to augment the total funding needs of the Company. Management evaluates the availability of its other funding sources on a regular basis. These other sources include credit card-backed securitizations, Federal Home Loan Bank advances, synthetic lease financing arrangements, securities sold under repurchase agreements, federal funds purchased, other debt agreements, and subordinated capital notes. Furthermore, the Company's investment portfolio is primarily comprised of U.S. Treasury and U.S. Agency securities. In accordance with the Company's investment strategy and policy, purchases of U.S. Government obligations during the first quarter of 2002 have been classified as held-to-maturity. This classification does not impact the Company's liquidity needs since the Company's held-to-maturity and available-for-sale securities are short-term and highly marketable, and also represent a source of collateral for additional liquidity needs.

Certain funding sources, such as Federal Home Loan Bank advances, are more readily accessible through collateralized borrowing arrangements and provide greater flexibility in funding opportunities. The Company had outstanding Federal Home Loan Bank advances of \$321.9 million as of March 31, 2002 and \$300.9 million as of December 31, 2001 with an additional borrowing capacity of \$575.1 million at March 31, 2002.

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The Company has a \$125 million syndicated revolving credit facility for which there was \$5 million outstanding at March 31, 2002 and no balance outstanding at December 31, 2001. As of March 31, 2002 and December 31, 2001, there was no balance outstanding under a \$10.0 million, short-term line of credit that the Company entered into in June 2001. The Company funded the \$81.7 million acquisition of Castle BancGroup, Inc. referred to above with a new \$50.0 million three-year loan originated in January 2002, and funds from existing credit facilities and cash on hand.

The Company uses two distinct forms of off-balance sheet financing in the ordinary course of business. These forms of financing have been used since 1995. The first form is the utilization of synthetic leases to finance company-occupied buildings. The second form of off-balance sheet financing relates to the securitization of credit card loans originated and serviced by the Company.

Under the synthetic lease program, the Company has three different leases. One lease primarily covers a completed office building in First National Business Park that is occupied by the Company. Another lease primarily covers the Company's Technology Center. The last lease is for an office Tower under construction, for which the Company will be the primary occupant. The properties covered by these synthetic leases are owned by trusts that receive lease payments from the Company to service interest expense on floating rate debt and provide a return to the equity holders in the trusts. At March 31, 2002 and December 31, 2001, the cost of the buildings financed through the leases totaled \$292.6 million and \$294.2 million, respectively. The decrease was principally attributable to repurchasing certain assets from the trust under the Company's repurchase option. The Tower is expected to be substantially completed in 2002, and upon completion, the total cost of the buildings financed through all synthetic leases is estimated to be \$339.0 million.

The Company uses these synthetic financing arrangements in order to obtain more favorable interest rates than a typical mortgage financing arrangement. The Company is obligated to occupy the space for the term of the lease. At the expiration of the lease the Company has three options. The Company can negotiate an extension of the lease terms in accordance with the terms of the synthetic lease, elect to purchase the property for an amount equal to the outstanding debt plus all other amounts due under the synthetic lease (which approximates the original cost plus any unpaid operating expenses), or elect to sell the property under the terms of the synthetic lease with a corresponding obligation to satisfy any outstanding amounts due under the lease up to the maximum residual guarantee amount contained in the corresponding lease.

The second form of off-balance sheet financing used by the Company to assist in its management of liquidity, interest rate risk and capital is referred to as "securitization". Under this method of financing, credit card loans are converted into securities which are sold to investors on a revolving basis. The Company's securitizations were treated as sales. This off-balance sheet sale treatment reduces the Company's required regulatory capital levels. At March 31, 2002 and December 31, 2001, the Company had \$1.7 billion and \$1.8 billion, respectively, of credit card loans which were originated and sold, with servicing retained by the Company. Of the \$1.7 billion outstanding as of March 31, 2002, \$850 million was issued in two term securitization facilities, and \$914.5 million was outstanding through five conduit securitization facilities. In a conduit securitization, the Company's credit card loans are converted into securities and sold to commercial paper issuers which pool the securities with those of other issuers. The amount securitized in a conduit structure is allowed to fluctuate within the terms of the facility which may provide greater flexibility for liquidity needs. Term securitization structures are for a fixed amount and a fixed term. The Company's mixed use of conduit and term securitization structures facilitates management's liquidity and capital management strategies which consider a number of competing factors. The securitization facilities had \$138.5 million in unused lines available for liquidity management purposes at March 31, 2002 compared to \$124.5 million in unused lines available at December 31, 2001. The Company intends to renew or replace the outstanding conduit securitization facilities before the date they begin to amortize which is referred to in the table below as

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the maturity date. The total lines available and maturity dates for the credit card securitizations as of March 31, 2002 are as follows:

| Available Issue Amount | Outstanding Amount | Type | Maturity Date |
|---------------------------|-------------------------|---------|----------------------|
| \$ 148,351,648 | \$ 63,351,648 | Conduit | June 30, 2002 * |
| 329,670,330 | 311,670,330 | Conduit | January 1, 2003 * |
| 220,000,000 | 220,000,000 | Conduit | June 30, 2005 * |
| 165,000,000 | 165,000,000 | Conduit | September 30, 2005 * |
| 190,000,000 | 154,500,000 | Conduit | November 1, 2005 * |
| 450,000,000 | 450,000,000 | Term | November 17, 2003 |
| 400,000,000 | 400,000,000 | Term | June 15, 2004 |
| \$ 1,903,021,978 | \$ 1,764,521,978 | | |

*

subject to modification

The terms and conditions of securitizations have become more standardized over the years and include provisions requiring companies who sell loans in this manner to maintain a spread between the revenues received on the loans and expenses of the loans, including losses, interest paid to investors and loan servicing expenses. Failure to maintain adequate spreads may trigger the requirement to set aside cash flows generated from collections on the loans in a separate account which may then be used to pay off investors. The securitizations include covenants requiring the Company to maintain credit ratings at certain levels. Failure of the Company to maintain minimum credit ratings could also result in the requirement to set aside cash flows generated from collections on the loans in a separate account which may be used to pay off investors.

A significant risk associated with these off-balance sheet transactions is liquidity risk in the event of noncompliance with contractual provisions or maturity of these off-balance sheet financing arrangements or related liquidity lines. In the case of the leases, the liquidity risk would be managed by the issuance of a standard mortgage. The Company regularly reviews appraisals on the leased property to ensure a new mortgage could be issued to cover the Company's lease obligations. For the credit card securitization transactions, management has issued the outstanding securities via three distinct trusts, each with segregated assets. The creation of three trusts reduces the probability of a simultaneous event requiring the Company to obtain liquidity for new loan originations no longer sold into the securitization trusts.

The Financial Accounting Standards Board is developing an exposure draft to address when an entity should consolidate another entity, including properties owned by trusts in synthetic lease arrangements. Such proposed changes would not limit the use of synthetic leases or affect the liquidity of the Company, but may require the Company to record the property and debt of the trust on the Company's consolidated statement of financial condition.

Item 3. Market Risk

The Company's primary market risk is the exposure to loss resulting from changes in interest rates. The mix of financial assets and liabilities and changes in market interest rates can significantly impact the Company's pre-tax income. The objective of the Company's Asset/Liability Management Committee is to manage interest rate risk and achieve reasonable stability in managed net interest income during various interest rate environments. Interest rate risk management strategies include lengthening or shortening the interest rate repricing of loans, investments, deposits and wholesale funding, or the use of derivatives. The primary measure used to analyze and manage interest rate risk is net interest

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income simulation models. Using this primary tool, management attempts to optimize the asset/liability mix to lessen the impacts of significant rate movements within a broad range of interest rate scenarios.

Simulation models are used to determine the impact of several interest rate scenarios on the Company's pre-tax income for future periods. Management monitors interest rate risk on a managed loan basis. Management has set policy guidelines specifying acceptable limits within which managed net interest income can fluctuate under various rate change scenarios. The following table reflects the expected impact to the Company's pre-tax income for scenarios that apply immediate changes in interest rates to projected interest-earning assets and interest-bearing liabilities for the twelve-month period ending March 31, 2003.

| Scenario | \$ in millions | % of pre-tax income |
|-----------------------------|-------------------|------------------------|
| 200 basis points rising | (27.5) | (15.2)% |
| 100 basis points rising | (17.1) | (9.5)% |
| 50 basis points falling | 8.5 | 4.7 % |
| 100 basis points falling(1) | 8.3 | 4.6 % |

(1)

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Changes beyond 100 basis points falling are unrealistic in the current rate environment

The significant amounts of net interest income at risk shown under the scenarios above are generated by the level of interest rates which existed at quarter-end. The above table assumes that management would take no action to address such risks. Under the present low interest rate levels, the Company's credit card loans have reached their "floor" rate. Therefore, a sudden rise in rates would not generate additional interest income on these credit card loans until rates have risen sufficiently to return those loans to a floating rate. A significant portion of the Company's variable rate credit card loans will begin to float again after short-term interest rates increase 300 basis points.

In response to the current market conditions, the Company has improved its modeling techniques and strategic planning to consider expanded interest rate scenarios. Additionally, the asset-liability management process is being further enhanced to consider changes in pricing and other strategies used by management for the retention of loan and deposit customers in a volatile rate environment. Management has also taken actions to manage interest rate risk by adjusting the maturities of new and renewed certificates of deposit, wholesale funds and the Company's investment portfolio.

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Part II. OTHER INFORMATION

Items 1, 2, 3, 4 and 5:

Not applicable or negative response.

Item 6: Exhibits and Reports on Form 8-K

| | | |
|--------------|-------|---|
| (a) Exhibits | 3(i) | Amended and Restated Articles of Incorporation of the parent company, incorporated by reference to Exhibit 3(i) to the Company's Report on Form 10-Q for the fiscal quarter ended June 30, 1997 |
| | 3(ii) | Amended and Restated Bylaws of the parent company, incorporated by reference to Exhibit 3(ii) to the Company's Report on Form 10-Q for the fiscal quarter ended June 30, 1997 |
| | 4 | Fiscal and Paying Agency Agreement entered into in connection with the issuance of \$75 million of Subordinated Notes by First National Bank of Omaha (the "Bank") dated December 7, 1995 between the Bank as "Issuer" and the Bank as "Fiscal and Paying Agent" incorporated by reference to the Company's Report on Form 8-K, filed December 12, 1995. |
| | 10(a) | Deferred Compensation and Consultative Services Agreement between the Bank and F. Phillips Giltner and Amendment to Deferred Compensation and Consultative Services Agreement between the Bank and F. Phillips Giltner, incorporated by reference to Exhibit 10(b) of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1992. |
| | 10(b) | Management Incentive Plan, incorporated by reference to Exhibit 10(d) of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1992. |
| | 10(c) | Employment Contract between the parent company and Bruce R. Lauritzen, incorporated by reference to Exhibit 10(i) of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1992. |
| | 10(d) | First National Bank of Omaha Senior Management Stock Option Plan, incorporated by reference to Exhibit 10(d) of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2000. |
| | 10(e) | First National Bank of Omaha Senior Management Option Plan, incorporated by reference to |

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Exhibit 10(e) of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2000.

(b) Reports on Form 8-K

On February 1, 2002, the registrant filed a press release on report Form 8-K, Item 5, to announce the closing of the acquisition of Castle BancGroup, Inc. and releasing the earnings of and other information with respect to the Company.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

FIRST NATIONAL OF NEBRASKA, INC.

By: /s/ TIMOTHY D. HART

Date: May 10, 2002

Timothy D. Hart
Secretary and Treasurer,
Principal Accounting and Financial Officer

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SIGNATURES