

FIRST NATIONAL OF NEBRASKA INC  
Form 10-Q  
May 14, 2001

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**FORM 10-Q**

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**SECURITIES AND EXCHANGE COMMISSION**

Washington D.C. 20549

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**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)**

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**OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Quarterly Period Ended March 31, 2001, or

**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**  
(I.R.S. 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  No

As of May 6, 2001, the number of outstanding shares of the registrant's common stock (\$5.00 par value) was 334,500.

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**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, 2001	December 31, 2000
	(unaudited)	
<b>(in thousands except share and per share data)</b>		
<b>ASSETS</b>		
Cash and due from banks	\$ 388,098	\$ 430,091
Federal funds sold and other short-term investments	308,700	385,360
	<hr/>	<hr/>
Total cash and cash equivalents	696,798	815,451
Investment securities:		
Available-for-sale (amortized cost \$626,359 and \$814,458)	630,586	813,398
Held-to-maturity (fair value \$438,741 and \$203,127)	434,777	201,253
Federal Home Loan Bank stock and other securities, at cost	30,810	24,843
	<hr/>	<hr/>
Total investment securities	1,096,173	1,039,494
Loans	7,199,890	6,926,199
Less: Allowance for loan losses	103,198	105,304
Unearned income	21,739	20,591
	<hr/>	<hr/>
Net loans	7,074,953	6,800,304
Premises and equipment, net	166,760	164,410
Other assets	454,708	463,655
	<hr/>	<hr/>
Total assets	\$9,489,392	\$9,283,314
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See Notes to Consolidated Financial Statements.

**FIRST NATIONAL OF NEBRASKA, INC.**

**CONSOLIDATED STATEMENTS OF INCOME**  
(unaudited)

	Three Months Ended March 31,	
	2001	2000
<b>(in thousands except share and per share data)</b>		
Interest income:		
Interest and fees on loans and lease financing	\$188,453	\$178,169
Interest on securities:		
Taxable interest income	14,385	16,463
Nontaxable interest income	448	485
Interest on federal funds sold and other short-term investments	3,794	3,746
	<hr/>	<hr/>
Total interest income	207,080	198,863
	<hr/>	<hr/>
Interest expense:		
Interest on deposits	93,181	76,913
Interest on federal funds purchased and securities sold under repurchase agreements	1,533	2,578
Interest on Federal Home Loan Bank advances	2,669	3,177
Interest on other borrowings	1,651	335
Interest on capital notes	1,769	1,796
	<hr/>	<hr/>
Total interest expense	100,803	84,799

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	Three Months Ended March 31,	
	_____	_____
Net interest income	106,277	114,064
Provision for loan losses	29,447	28,072
	_____	_____
Net interest income after provision for loan losses	76,830	85,992
Noninterest income:		
Processing services	55,725	40,900
Credit card securitization income	15,329	10,567
Deposit services	8,216	7,417
Trust and investment services	5,738	5,580
Miscellaneous	17,274	18,629
	_____	_____
Total noninterest income	102,282	83,093
	_____	_____
Noninterest expense:		
Salaries and employee benefits	69,702	63,877
Communications and supplies	22,084	14,059
Professional services	13,589	6,401
Equipment rentals, depreciation and maintenance	13,018	12,771
Net occupancy expense of premises	12,275	10,112
Processing expense	7,900	7,760
Goodwill and other intangibles amortization	5,327	5,053
Loan servicing expense	2,508	5,456
Miscellaneous	6,340	5,182
	_____	_____
Total noninterest expense	152,743	130,671
	_____	_____
Income before income taxes	26,369	38,414
Income tax expense (benefit):		
Current	9,416	14,439
Deferred	584	(19)
	_____	_____
Total income tax expense	10,000	14,420
	_____	_____
Net income	\$ 16,369	\$ 23,994
	_____	_____
Basic earnings per common share	\$ 49.45	\$ 71.73
	_____	_____
Diluted earnings per common share	\$ 48.94	\$ 71.73
	_____	_____
Basic common shares outstanding	331,034	334,500
	_____	_____
Diluted common shares outstanding	334,500	334,500
	_____	_____
Cash dividends declared per common share	\$ 17.09	\$ 16.47
	_____	_____

See Notes to Consolidated Financial Statements.

**FIRST NATIONAL OF NEBRASKA, INC.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(unaudited)

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	Three Months Ended March 31,	
	2001	2000
<b>(in thousands)</b>		
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Income	\$ 16,369	\$ 23,994
Adjustments to reconcile net income to net cash flows from operating activities:		
Provision for loan losses	29,447	28,072
Depreciation and amortization	12,786	15,780
Provision for deferred taxes	584	(19)
Origination of mortgage loans for resale	(259,058)	(115,214)
Proceeds from the sale of mortgage loans for resale	213,031	103,859
Other asset and liability activity, net	(10,811)	19,590
Net cash flows from operating activities	2,348	76,062
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisitions, net of cash received	(891)	(13,002)
Maturities of securities available-for-sale	187,575	30,290
Sales of securities available-for-sale		16,155
Purchases of securities available-for-sale	(120)	(32,918)
Maturities of securities held-to-maturity	50,249	3,624
Purchases of securities held-to-maturity	(280,485)	(26,569)
Redemption of FHLB stock and other securities		7,887
Purchases of FHLB stock and other securities	(5,848)	(247)
Net change in loans	(170,610)	(67,943)
Credit card securitization activities	(43,505)	204,057
Purchases of loan portfolios	(48,598)	(9,340)
Purchases of premises and equipment	(13,738)	(10,293)
Other, net	1,381	576
Net cash flows from investing activities	(324,590)	102,277
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net change in deposits	106,872	241,930
Net change in federal funds purchased and securities sold under repurchase agreements	(58,344)	(225,186)
Issuance of FHLB advances	192,000	112,576
Principal repayments on FHLB advances	(87,319)	(347,272)
Issuance of other borrowings	214,560	95,630
Principal repayments on other borrowings	(158,066)	(84,392)
Principal repayments on capital notes	(397)	(397)
Cash dividends paid	(5,717)	(5,509)
Net cash flows from financing activities	203,589	(212,620)
Net change in cash and cash equivalents	(118,653)	(34,281)
Cash and cash equivalents at beginning of period	815,451	654,732
Cash and cash equivalents at end of period	\$ 696,798	\$ 620,451
Cash paid during the period for:		
Interest	\$ 101,939	\$ 81,440
Income taxes	18,360	5,449

See Notes to Consolidated Financial Statements.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited)

**March 31, 2001**

**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 standards generally accepted in the United States of America 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 accounting standards generally accepted in the United States of America for complete consolidated financial statements. For purposes of comparability, certain prior period amounts have been reclassified.

The preparation of financial statements in conformity with accounting standards generally accepted in the United States of America 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, 2001 are not necessarily indicative of the results that may be expected for the year ending December 31, 2001. The notes to the consolidated financial statements contained in the Annual Report on Form 10-K for the year ended December 31, 2000 should be read in conjunction with these consolidated financial statements.

**Note B: Earnings per Common Share**

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

	Three Months Ended March 31,	
	2001	2000
<b>(in thousands except share data)</b>		
Net Income	\$ 16,369	\$ 23,994
Common shares outstanding	334,500	334,500
Less: Shares held for executive deferred compensation plan	1,932	
Shares held in employee stock trust	1,534	
	331,034	334,500
Common shares outstanding used in basic earnings per share		
Add: Contingently issuable shares considered outstanding for diluted earnings per share	3,466	
	334,500	334,500
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, 2001 and 2000.

	Three Months Ended March 31,	
	2001	2000
<b>(in thousands)</b>		

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	<b>Three Months Ended March 31,</b>	
Net Income	\$16,369	\$23,994
Other comprehensive income (loss), before tax		
Net unrealized holding gains (losses) on available-for-sale securities	5,340	(1,764)
Less: Reclassification adjustment for net gains realized in net income	49	2,040
	5,291	(3,804)
Other comprehensive gain (loss), before tax		
Less: Income tax expense (benefit) for other comprehensive gain (loss)	1,902	(1,344)
	3,389	(2,460)
Other comprehensive gain (loss), net of tax		
Comprehensive income	\$19,758	\$21,534

### **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 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, which are classified in processing services income, approximating two percent of the outstanding balances of the credit card loans securitized. The Company also 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 known as interest-only strips and are subordinate to investor's interests. The value of the interest-only strips 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.

During the revolving period of a credit card securitization, an additional gain is recognized as additional credit card receivables are sold. During the first quarter of 2001, the Company recognized pretax gains of \$10.8 million on securitizations of credit card receivables. As of March 31, 2001, the fair value of interest-only strips was \$18.4 million compared to \$18.2 million at December 31, 2000.

### **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.

#### **Results of Operations**

##### **Overview**

Net income was \$16.4 million for the three months ended March 31, 2001, down \$7.6 million, or 31.8%, from \$24 million for the same period in 2000. Diluted earnings per common share decreased to \$48.94 for the three months ended March 31, 2001 from \$71.73 per diluted common share for the same period in 2000. The Company's earnings were impacted by reduced net interest margins caused primarily by the sensitivity of its loan portfolio to interest rate changes and a shift in the mix of loans, and increases in credit card marketing and promotional expenses related to the Company's growth initiative.