



**DISCLOSURE OF RESULTS OF STRESS TESTS  
UNDER THE DODD-FRANK WALL STREET REFORM AND CONSUMER PROTECTION ACT**

*Covering the period from January 1, 2017 through March 31, 2019 under a hypothetical,  
severely adverse economic scenario*

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*For the purposes of this document, “FNNI” refers collectively to our holding company, First National of Nebraska Inc., along with its subsidiaries. “FNBO” refers to First National Bank of Omaha and its subsidiaries. FNBO is FNNI’s only banking subsidiary.*

## **1. About First National**

FNNI is a multi-state bank holding company headquartered in Omaha, Nebraska with approximately \$19 billion in total assets as of December 31, 2016. FNBO is the only banking subsidiary, and constitutes over 99% of the total assets of the consolidated company. When it opened in 1857, FNBO was a local bank that served Omaha and the surrounding communities. Today, FNNI is the largest closely held banking company in the United States, with approximately 100 retail locations throughout Nebraska, Colorado, Kansas, Texas, South Dakota, Iowa and Illinois. Our key lines of business include full-service commercial lending, small business and consumer banking (including credit cards), mortgage services, wealth management and investment services, and treasury services.

The primary regulator for FNNI is the Federal Reserve System (Federal Reserve); while FNBO is regulated by the Office of the Comptroller of the Currency (OCC). Additionally, the Consumer Financial Protection Bureau also regulates FNBO under its responsibility for supervision and enforcement with respect to laws over providers of consumer financial products and services.

## **2. Stress Testing under the Dodd-Frank Act (DFAST)**

In accordance with regulations of the Board of Governors of the Federal Reserve System and the OCC, under the Dodd-Frank Wall Street Reform and Consumer Protection Act, covered financial institutions with total consolidated assets between \$10 and \$50 billion are required to conduct company-run stress tests based on hypothetical economic scenarios supplied by the Federal Reserve. These tests are designed to help assess whether financial institutions have sufficient capital to absorb losses and support operations during hypothetical, stressed economic conditions. The results of these tests are required to be reported to our regulators before July 31 each year.

Accordingly, separate stress tests were conducted for FNNI and FNBO, for the nine quarters from January 2017 through March 2019 (“stress test period”), using the actual position information as of December 31, 2016 as the starting point. The stress tests utilize methodologies developed internally and reflect the impact of the hypothetical economic conditions stipulated by the Federal Reserve and the OCC. This disclosure covers the forecast of revenue, losses, and capital levels under the severely adverse economic scenario that was released by the Federal Reserve and the OCC in February 2017.

FNNI incorporates stress testing into its capital management framework. This structure includes an assessment of the adequacy of capital with respect to the amount of inherent and latent risk taken by the bank as well as the ability of the bank to absorb increased losses and decreased revenues from a hypothetical severely adverse stress scenario.

## **3. About Public Disclosure and Non-comparability of DFAST results**

The results presented in this disclosure cover certain forecasted financial measures for the stress period defined above. These results are based on models, methodologies and assumptions developed and in use at FNNI, which incorporate the impact of business drivers and economic conditions that may be local and specific to FNNI’s business. Consequently, the results of FNNI’s stress tests may not be directly comparable to those pertaining to other financial institutions.

Further, these results may not be comparable to other stress test exercises conducted by FNNI due to a number of reasons, including but not limited to, differences in economic scenarios, starting financial position, asset composition, market conditions, modeling assumptions, and methodologies.

The results presented in this disclosure should not be interpreted as expected or likely outcomes, but rather as a possible result under the hypothetical, severely adverse scenario prescribed by the Federal Reserve and

the OCC for this year's DFAST exercise. Further, DFAST results are based on certain assumptions around capital actions as prescribed by the DFAST rules. In the event of an actual economic crisis, capital actions taken by FNNI, not limited to reducing or eliminating dividends, could be different from the assumptions reflected in these forecasts.

#### 4. Supervisory Macroeconomic Scenarios

The Federal Reserve and the OCC release three sets of hypothetical macroeconomic scenarios (*base, adverse and severely adverse*) for each DFAST cycle. These scenarios are detailed through forward-looking, nine-quarter forecasts of 28 key macroeconomic variables, 16 domestic and 12 international. The scenario forecasts for each DFAST cycle have different characteristics and levels of economic decline, contributing to different levels of losses and stress factors forecast from one cycle to the next. For the supervisory **severely adverse scenario** pertaining to the 2017 DFAST, the prescribed macroeconomic variables feature a deep global recession, characterized by a substantial weakening in economic activity and heightened corporate financial stress. Among other factors, this scenario includes a severe increase in the unemployment rate, reductions in asset prices, and short-term Treasury rates that fall and remain near zero through most of the forecast period.

In the severely adverse scenario for the 2017 DFAST, the unemployment rate increases by slightly more than 5% from the starting point of the forecast period to reach a peak of 10.1%. The severely adverse scenario also hypothesizes declines in the real GDP of approximately 7.5%, house prices by approximately 25%, commercial real estate prices by approximately 35% and equity prices by approximately 50%. A full list of macroeconomic variables projected by the Fed, along with detailed descriptions of the different economic scenarios, can be found on the Federal Reserve's website.

In addition to the variables forecast by the Federal Reserve, and in accordance with the regulatory guidance around DFAST, FNNI utilizes certain additional scenario-consistent variables that are relevant to its specific business exposures.

#### 5. Stress Testing and Relevant Risks

DFAST is meant primarily to capture the impacts to FNNI's balance sheet, income statement and capital positions from credit-related economic events. Risks that are considered or are inherent in certain components of the DFAST results are described below, in no particular order. Depending on the nature of these risks, the impact to financial statements and capital ratios is calibrated through either quantitative or qualitative methods, or a combination thereof.

- **Capital Risk:** Capital risk is the risk that FNNI has insufficient capital to support business activities and associated risks during periods of economic stress. Capital is impacted by pre-provision net revenues (PPNR), provisions and balance sheet dynamics, which in turn are forecast by considering other risks relevant at the line of business level.
- **Compliance Risk:** Compliance risk is the risk of financial damage through fines or sanctions or failure to meet regulatory expectations. The forecast for PPNR through the stress test period captures the impact of additional operating expenses and the potential for additional fines.
- **Credit Risk:** Credit risk is the risk of loss arising from the default of a customer. The forecast for credit losses are built on FNNI's historical experience and the macroeconomic variables provided by the regulators for each DFAST cycle. This risk receives the largest focus in the DFAST exercise.
- **Legal Risk:** Legal risk arises through the imposition of damages, fines, penalties or failure to comply with contractual obligations. The forecast for PPNR through the stress test period captures the impact of additional operating expenses, and incorporates the potential for additional fines.

- **Liquidity Risk:** Liquidity risk is the risk that FNNI will not have the appropriate amount of funding and liquidity through periods of economic stress. DFAST is primarily a credit-driven stress test; however, liquidity levels are considered in the forecast of the balance sheet through each scenario of the stress test period. Liquidity-focused stress test exercises are conducted outside of the DFAST process.
- **Market Risk:** Market risk consists of risk of loss from changes in market variables such as interest rates, equity prices or commodity prices. Changes in these variables impact several components of the DFAST forecast, including net interest margins, provision levels, and fee income.
- **Model Risk:** Model risk comes from incorrect or misused model outputs, and the adverse consequences of decisions based on bad information. This risk is more qualitative in nature. FNNI continues to assess and strengthen model risk management practices, including model validation, as they relate to DFAST and Business As Usual models throughout the bank.
- **Operational Risk:** Operational risk is the risk of loss resulting from inadequate or failed bank processes or systems. The forecast for non-interest expense through the stress test period captures the impact of additional operating expenses.
- **Reputation Risk:** Reputation risk occurs when an event or an action results in diminished trust in FNNI's integrity or competence from the perspective of stakeholders, including customers, employees, counterparties and regulators. This risk is a qualitative risk. FNNI continually monitors governance practices, risk culture, business processes and adherence to our Operating Philosophy to mitigate and manage the potential of such events.

## 6. Stress Testing Methodologies

At FNNI, the Finance Committee has the ultimate responsibility for the stress testing process and results. The Finance Committee is a management committee, established by the Board of Directors to implement and oversee appropriate strategies around balance sheet and capital management. The Stress Testing Strategic Group (STSG), which reports to the Finance Committee, governs DFAST and provides guidance and effective challenge through the forecasting process. The Capital Planning Working Group (CPWG), which also reports to the Finance Committee, is responsible for overseeing capital adequacy and dividend payout ability; and is updated as to the DFAST results throughout the process. This ensures that the functions of the CPWG remain anchored with the results of the annual DFAST cycle.

At a broad level, the stress tests were conducted by forecasting components of the income statement (revenue, expenses, provisions and losses), balance sheet (loans, cash, investments, liabilities) and capital ratios under the three scenarios previously described. A series of models and methodologies were employed for forecasting each of these components, which incorporated the assumptions and scenarios provided by the regulators, and management judgement. In cases where the regulators did not provide the macroeconomic variables utilized by FNNI in generating these forecasts, FNNI ensured that additional variables used were consistent with supervisory scenarios.

Stress testing methodologies are subject to uncertainties and modeling limitations, including the extent to which relationships between macroeconomic factors and business outcomes will continue to follow historical trends. FNNI evaluates these uncertainties and limitations when evaluating and utilizing the results of the stress test. The results of the stress tests are reviewed at different stages by various levels of management, including business experts and Board members.

- **Credit Losses:** FNNI's loan book is segmented broadly in terms of commercial, consumer and credit card loans. Depending on the nature of loans in the portfolio segments, either the Bottom-Up Transition Matrix approach or the Top-Down Vintage Loss approach is used to forecast net charge-off levels. These approaches are described below:

With the Bottom-Up Transition Matrix approach, credit risk migrations are forecast at the granular, borrower level. These micro-level results are aggregated to produce the risk migration forecast for the entire portfolio. Consequent credit losses for the entire portfolio are then forecast based on historical information.

With the Top-Down Vintage Loss approach, econometric models are used to establish the relationships between historical losses, macroeconomic factors and internal bank factors. These relationships are established for homogenous loan pools defined in the portfolio in terms of vintage and/or sub-products. Losses for each pool are forecast, applying the prescribed projections of relevant macroeconomic factors, and the results are then consolidated to produce an overall portfolio forecast for each scenario.

- *Allowance for Loan and Lease Losses (ALLL)*: The DFAST forecast for ALLL utilizes the key driver-based approach, specific to broad loan portfolios. Reserve levels are calculated in accordance with US Generally Accepted Accounting Principles (GAAP), regulatory guidelines and FNNI's internal accounting policies around computing ALLL.
- *Pre-Provision Net Revenue (PPNR)*: Elements of PPNR, such as net interest income, fee revenue and non-interest expenses, are forecast at a component level using the approach that is best suited to the respective component. For instance, the forecast of net interest income and fee revenue is driven by the underlying forecast for loan balances and customer activity. Depending on the stream of fee revenue, the forecast technique uses time series, regression analysis or the key driver approach. The forecast for non-interest expense is based on limited historical data and incorporates management judgment.
- *Taxes*: The income tax expense is calculated using pre-tax GAAP income forecasts and the federal and state tax rates. Deferred tax assets (DTA) are created when the GAAP and tax bases for certain assets and liabilities differ. A key driver for the DTA is the ALLL, which is expensed under GAAP when it is reserved, and deducted for tax purposes only when the loans are charged off.

Further, GAAP requires a valuation allowance analysis to be performed to determine whether the DTAs will more likely than not be realized in the future. This analysis considers certain key factors, including cumulative three year GAAP income, GAAP and taxable income through the nine-quarter forecast period, and tax carryback availability. If the analysis concludes that the DTAs are *not* more likely than not to be realized, a valuation allowance is calculated and recorded as a contra asset against the DTA to represent that portion of the value of the DTA that is not expected to be realized.

- *Balance Sheet*: Components of FNNI's balance sheet, including loans, investments, deposits, and wholesale funding, are forecast at an individual level, considering the impact of specific drivers on each component. Historical experiences and management judgment are incorporated into the component forecast, as well. As previously stated in this disclosure, liquidity is considered while forecasting the balance sheet.

FNBO accounts for over 99% of FNNI's assets; as such, the methodologies and framework used to compile forecasts at the bank level are leveraged to produce consolidated estimates.

## 7. Summary Results for the Hypothetical Severely Adverse Scenario

As described previously, the results in this section reflect the hypothetical severely adverse macroeconomic conditions prescribed by the Federal Reserve for the stress period under consideration.

### Income Statement Impacts

The following table shows the cumulative revenue, losses and net income (loss) for the forecast period.

9 Quarter Cumulative Revenue, Loss and Net Income (Loss) (\$ millions)		
	FNNI	FNBO
PPNR	978	960
Provisions	(1,677)	(1,677)
Net Income (Loss) Before Tax	(699)	(717)
Net Income (Loss) After Tax	(725)	(745)

The following table shows credit losses forecast for the severely adverse scenario.

FNNI & FNBO 9 Quarter Cumulative Losses and Annualized Loss Rates <sup>1</sup> by Loan Type (\$ millions)		
Credit Cards <sup>2</sup>	1,116	8.54%
Commercial & industrial	33	0.92%
Commercial real estate	67	1.12%
Other commercial loans	79	2.43%
Other consumer loans <sup>3</sup>	10	0.36%
Total	1,306	4.55%

<sup>1</sup> calculated using average balance over nine quarters.

<sup>2</sup> includes consumer and corporate cards and unsecured closed end loans.

<sup>3</sup> includes mortgage loans, home equity lines of credit, etc.

#### Capital Ratio Impacts

The following table shows capital ratios at the start and end of the forecast and the minimum level throughout the forecast period. These results are based on the assumption that no dividend payments will be made through the forecast period. As previously described in this disclosure, in an actual crisis period, capital actions taken by FNNI could be different.

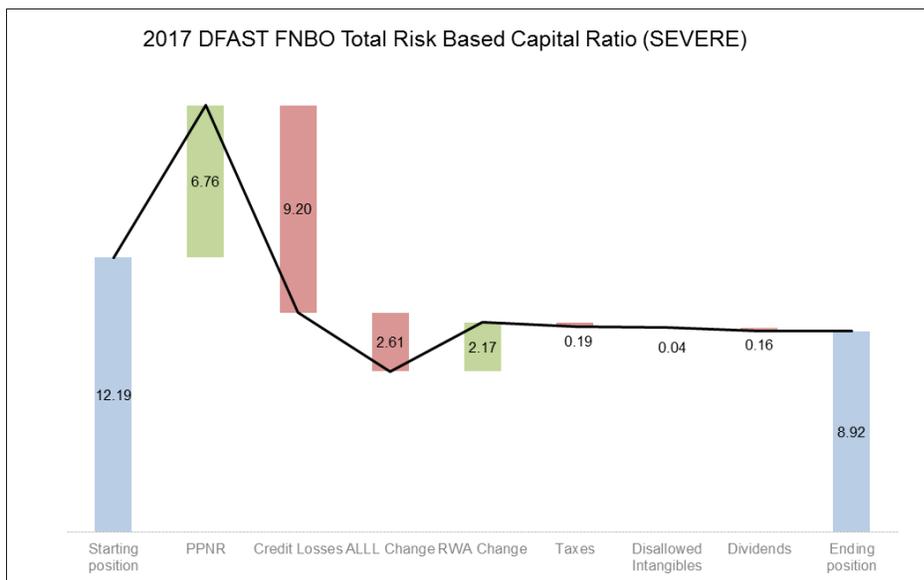
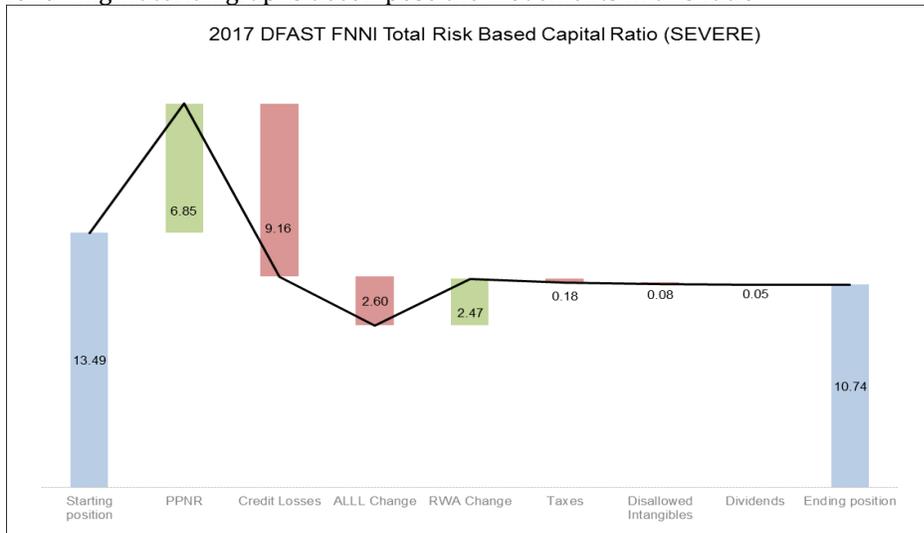
	Actual 12/31/16	Severely Adverse Scenario 03/31/2019 <sup>1</sup>
<b>First National Nebraska Inc.</b>		
Tier1 Common Equity (CET1)	11.26%	8.39%
Tier 1 Risk Based	12.13%	9.44%
Total Risk Based	13.49%	10.74%
Tier 1 Leverage	11.28%	7.44%
<b>First National Bank of Omaha</b>		
Tier1 Common Equity (CET1)	10.76%	7.55%
Tier 1 Risk Based	10.76%	7.55%
Total Risk Based	12.19%	8.92%
Tier 1 Leverage	10.04%	5.97%

<sup>1</sup> also the lowest point through the scenario.

For FNBO, relative to the “well-capitalized” thresholds established under Prompt Corrective Action (PCA) rules, the Tier 1 Risk Based Capital ratio and the Total Risk Based Capital ratio end the severe scenario with a shortfall of 45 bps and 108 bps respectively. If this hypothetical severe scenario were to materialize, cash at

the parent company would be utilized to realign FNBO with PCA well-capitalized thresholds. Throughout the severe scenario, levels of parent company cash are adequate to meet this potential need for additional capital.

In terms of capital cushion, calculated as the difference between the lowest point of capital through the forecast horizon and the applicable “well capitalized” threshold under PCA rules, the Total Risk Based Capital Ratio is the most constraining ratio for both FNBO and FNNI under this hypothetical severe scenario. The following waterfall graphs decompose the movements in this ratio.



The most significant elements of changes to the Total Risk Based Capital Ratio are PPNR, Credit Losses, and changes in the levels of ALLL and RWA. Over the stress period, PPNR is depressed and contributes 6.85% to FNNI’s capital (6.76% for FNBO). Credit losses are forecast to be at elevated levels given the prescribed economic conditions and FNBO’s credit card portfolios and consume capital by 9.16% (9.20% for FNBO). Worsening credit conditions also result in increased levels of ALLL, consuming capital by approximately 2.60% for both FNNI and FNBO. Driven by loan attrition, the level of RWA declines and frees up capital by 2.47% (2.17% for FNBO). A GAAP valuation allowance is booked against DTA, owing to net losses forecast in the stress period. The net effect of the valuation allowance and tax benefit consumes capital further by approximately 19 bps.