

**FIRST NATIONAL OF NEBRASKA, INC.
&
FIRST NATIONAL BANK OF OMAHA**

**DISCLOSURE OF RESULTS OF CAPITAL STRESS TESTS
UNDER DODD-FRANK ACT**

*Covering the period from October 1, 2014 through December 31, 2016 under a hypothetical,
severely adverse economic scenario*

1. About First National	2
2. Stress Testing under the Dodd-Frank Act (DFAST).....	2
3. About Public Disclosure and Non-comparability of DFAST results	2
4. Supervisory Macroeconomic Scenarios	3
5. Stress Testing and Relevant Risks	3
6. Stress Testing Methodologies.....	4
7. Summary Results for the Hypothetical Severely Adverse Scenario.....	6
8. Final Observations.....	8
9. Next Steps	8

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 \$17 billion in total assets. FNBO is the only banking subsidiary, and constitutes approximately 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 5.3 million customers and 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.

Accordingly, separate stress tests were conducted for FNNI and FNBO, for the nine quarters from October 2014 through December 2016 (“stress test period”), starting with the actual balance sheet as of September 2014. These tests utilized methodologies developed internally and reflect the impact of the hypothetical economic conditions stipulated by the Federal Reserve and the OCC. The results of these tests were submitted to our regulators by March 31, 2015.

This disclosure reflects 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 October 2014. During the stress test period, final rules implementing the Basel III regulatory capital reforms and certain changes required by the Dodd-Frank Act go into effect. The results presented in this disclosure are inclusive of the Basel III rule changes, which include transitional periods established under the rule.

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, 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.

The requirements of calculating capital ratios under the Basel III rules result in lower capital ratios relative to Basel I. Under Basel III, capital levels are subject to additional disallowances, and risk weighted assets (RWA) increase as a result of changes in the risk weights for certain assets. This impact is partially offset by a decline in total assets and a shift in asset mix to lower risk-weighted assets. The guidelines for computing RWA using the standardized approach under Basel III have been incorporated into the results presented in this statement.

Additionally, DFAST results are based on certain assumptions around capital actions as prescribed by the DFAST rules. Specifically, for the holding company, dividends are forecast at the same rate as the average of the four quarters prior to the stress test period. 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 guidance from the Federal Reserve for the purposes of DFAST.

4. Supervisory Macroeconomic Scenarios

The Federal Reserve releases three sets of hypothetical macroeconomic scenarios for each DFAST cycle. These scenarios are detailed through forward-looking, nine quarter forecasts of 28 key macro economic variables, 16 domestic and 12 international. For the supervisory scenarios pertaining to the 2015 DFAST, the **base scenario** tracks the average projections from surveys of economic forecasters and results in a sustained, moderate expansion in economic activity. The **adverse scenario** predicts a mild recession characterized by a global weakening in economic activity and an increase in US inflationary pressures that bring about a rapid rise in short- and long-term rates. The **severely adverse scenario** features a deep, prolonged recession characterized by a substantial weakening in economic activity and oil price shocks. This scenario includes large reductions in asset prices, a severe increase in the unemployment rate, and a drop in Gross Domestic Product (GDP), among other factors. Spreads widen on corporate borrowing and investment grade corporate bonds. Treasury yields remain low throughout the severely adverse scenario.

The severely adverse scenario for the 2015 DFAST includes an increase in the unemployment rate to 10.1%. The severely adverse scenario also hypothesizes declines in the real GDP of approximately 4.6%, house prices by approximately 25%, commercial real estate prices by approximately 35% and equity prices by about approximately 60%. 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 variables that are relevant to its specific business exposures. These variables are either sourced from Moody's Analytics, an industry-accepted source for forecasts of macroeconomic variables or forecast internally, and are consistent with the scenarios released by the Federal Reserve.

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 incorporates 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 the stress test period. Separate stress test exercises focused on liquidity are conducted outside of the DFAST process.

As previously mentioned, DFAST results are based on the guidelines from the Federal Reserve, which require that dividends paid out by the holding company be forecast at the same rate as the average of the four quarters prior to the planning horizon. In an actual crisis period, capital actions taken by FNNI may be different.

- **Market Risk:** Market risk consists of risk of loss from changes in market variables such as interest rates, equity prices or commodity prices. Interest rate movements impact net interest margins, as well as credit losses and the provision levels for portfolios using bottom-up methodology for forecasting losses. For certain portfolios, commodity prices are a market variable impacting net charge-off and provision levels. Equity prices impact the projections of trust 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, stress testing is governed by the Capital Planning Oversight Committee (CPOC), which reports to the Finance Committee. The Finance Committee is tasked by the Board with implementation and oversight of capital strategies and capital planning activities as approved by the Board. CPOC is responsible for managing

adequate capital levels, parent company cash, stress testing activities, and recommending dividends. CPOC has directed a sub-committee, the Stress Test Sub Committee (STSC), to design and implement the more comprehensive DFAST infrastructure.

At a broad level, the stress tests were conducted by forecasting components of the income statement (revenue, expenses, provisions and losses), balance sheet (loans, 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 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, macro economic 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:* 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.
- *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, time series, regression analysis or key driver approach is used. 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 as well as 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 for FNNI and FNBO.

9 Quarter Cumulative Revenue, Loss and Net Income (Loss) (\$ millions)		
	FNNI	FNBO
PPNR	756	741
Provisions	(943)	(942)
Net Income (Loss) Before Tax	(187)	(201)
Net Income (Loss) After Tax	(253)	(262)

The following table shows credit losses forecast for the severely adverse scenario, for FNNI and FNBO, by loan type.

FNNI & FNBO 9 Quarter Cumulative Losses and Annualized Loss Rates ¹ by Loan Type (\$ millions)		
Credit Cards ²	646	5.74%
Commercial & industrial	74	2.15%
Commercial real estate	55	1.24%
Other commercial loans	24	0.67%
Other consumer loans ³	25	1.04%
Total	824	3.29%

¹ calculated using average balance over nine quarters.

² includes consumer and corporate cards and unsecured closed end loans.

³ includes mortgage loans, home equity lines of credit, etc.

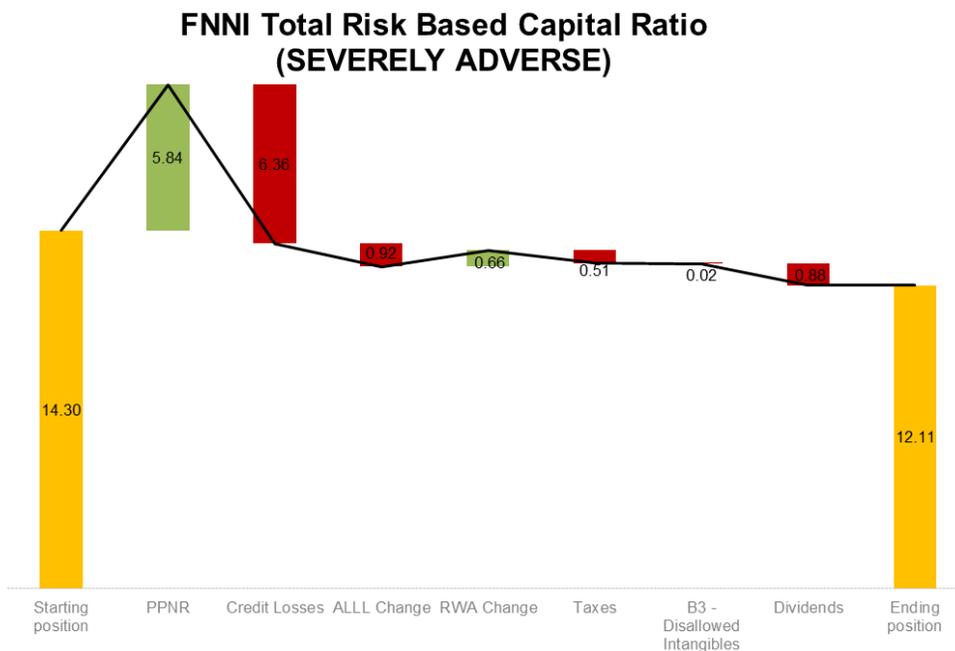
Capital Ratio Impacts

The following table shows the various capital ratios at the start and end of the forecast and the minimum level throughout the forecast period. The impacts of Basel III have been incorporated into the stressed forecasts for the following ratios. As previously described in this disclosure, the results below comply with the regulatory requirement of projecting the holding company’s dividends at the same rate as the average of

the four quarters prior to the planning horizon. In an actual crisis period, capital actions taken by FNNI could be different.

	Actual 9/30/14	Forecast for severely adverse scenario	
		12/31/2016	Lowest level forecast
First National Nebraska Inc.			
Tier1 Common Equity (CET1)	11.61%	9.62%	9.62%
Tier 1 Risk Based	12.68%	10.78%	10.78%
Total Risk Based	14.30%	12.11%	12.11%
Tier 1 Leverage	10.52%	8.50%	8.50%
First National Bank of Omaha			
Tier1 Common Equity (CET1)	11.59%	10.13%	10.08%
Tier 1 Risk Based	11.59%	10.13%	10.08%
Total Risk Based	13.21%	11.56%	11.56%
Tier 1 Leverage	9.61%	7.99%	7.99%

The following waterfall graphs decompose the movements in the most constraining ratio, which is the capital measure showing the largest decline from the actual 9/30/14 level to the lowest level in the forecast. For FNNI as well as FNBO, the total Risk Based Capital ratio is the most constraining 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 5.84% to FNNI's capital (5.76% for FNBO). Credit Losses consume capital by 6.36% (6.40% for FNBO). Credit losses are forecast to be at elevated levels for the severely adverse scenario, given the prescribed economic conditions and FNBO's credit card portfolios. Worsening credit conditions also result in increased levels of ALLL, consuming capital by 92 bps for both FNNI and FNBO. Further, driven by loan attrition, the level of RWA declines and frees up capital by 66 bps (70 bps for FNBO). In the severely adverse scenario, 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 51 bps. (47 bps for FNBO).

8. Final Observations

For each of the hypothetical macroeconomic scenarios provided by the Federal Reserve and the OCC, all regulatory capital ratios at FNNI and FNBO remain above the regulatory-defined "well-capitalized" level and the levels mandated by FNNI's and FNBO's internal, more conservative policy requirements. The holding company continues to be a source of strength to its subsidiaries through the prescribed severely adverse scenario, despite the expected declines in its cash levels through stressed economic conditions.

9. Next Steps

The current DFAST exercise is the second such stress test required under the Dodd Frank Act for midsize banks. The stress testing process is expected to evolve over the course of time. Following regulatory changes to the timing of stress tests beginning with the next cycle, the next DFAST cycle for midsize banks will cover the nine quarters from January 2016 through March 2018, with actual balance sheet information as of December 31, 2015. The results of these tests are required to be submitted to the regulators by July 31, 2016 and publicly disclosed by October 31, 2016.