

***First National Capital
Markets, Inc.***
***(A Wholly-Owned Subsidiary of
First National of Nebraska, Inc.)***

*Statements of Financial Condition
as of December 31, 2004 and 2003
and Independent Auditors' Report*



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholder of
First National Capital Markets, Inc.
Omaha, Nebraska

We have audited the accompanying statements of financial condition of First National Capital Markets, Inc. (the "Company"), a wholly-owned subsidiary of First National of Nebraska, Inc., as of December 31, 2004 and 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2004 and 2003, in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

February 14, 2005

FIRST NATIONAL CAPITAL MARKETS, INC.

STATEMENTS OF FINANCIAL CONDITION DECEMBER 31, 2004 AND 2003

ASSETS	2004	2003
Cash and cash equivalents	\$ 1,708,481	\$ 1,576,700
Receivables:		
Commissions	120,225	119,505
Affiliate (Note D)	80,263	110,629
Interest	26,625	-
Other	16,466	23,258
Total Receivables	<u>243,579</u>	<u>253,392</u>
Prepaid expenses and other assets	43,068	378,272
Property and equipment, net (Note C)	49,226	81,889
Investment in partnership	<u>500,000</u>	<u>150,000</u>
Total Assets	<u>\$2,544,354</u>	<u>\$ 2,440,253</u>
LIABILITIES AND STOCKHOLDER'S EQUITY		
LIABILITIES:		
Accrued expenses and other liabilities	\$ 123,039	\$ 117,714
Affiliate accounts payable (Note D)	94,892	90,021
Note payable (Note F)	-	350,000
Income taxes payable	<u>16,034</u>	<u>125,724</u>
Total Liabilities	<u>233,965</u>	<u>683,459</u>
COMMITMENTS AND CONTINGENCIES (Note G)		
STOCKHOLDER'S EQUITY:		
Common stock, \$1.00 par value; 10,000 shares authorized, issued and outstanding	10,000	10,000
Additional paid-in capital	640,000	640,000
Retained earnings	<u>1,660,389</u>	<u>1,106,794</u>
Total Stockholder's Equity	<u>2,310,389</u>	<u>1,756,794</u>
Total Liabilities and Stockholder's Equity	<u>\$2,544,354</u>	<u>\$ 2,440,253</u>

The accompanying notes are an integral part of these statements of financial condition.

FIRST NATIONAL CAPITAL MARKETS, INC.

NOTES TO STATEMENTS OF FINANCIAL CONDITION DECEMBER 31, 2004 and 2003

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

First National Capital Markets, Inc. (the “Company”) is a wholly-owned subsidiary of First National of Nebraska, Inc. (the “Parent Company”). The Company is engaged in the purchase and sale of an array of financial products including fixed income and money market securities primarily to institutional clientele. In addition, the Company offers services including bond accounting, portfolio analysis, financial reporting, and safekeeping. Service fees result from amounts collected from independent contract brokers for processing securities trades and from amounts collected for administrative and compliance services. The Company executes and clears trades through the First National Bank of Omaha, a majority-owned subsidiary of the Parent Company.

The Company operates as a separate entity as a registered member of the National Association of Securities Dealers (“NASD”).

The Company is exempt (under paragraph (k)(2)(ii)) from the provisions of Rule 15c3-3 under the Securities Exchange Act of 1934.

Use of Estimates – The preparation of statement of financial condition in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the statement of financial condition. Actual results could differ from those estimates.

Cash and Cash Equivalents – The Company considers all highly liquid investments with a maturity of three months or less when acquired to be cash equivalents.

Securities Transactions – Securities transactions are recorded on a trade-date basis.

Income Taxes – The Company is included in the consolidated income tax return of the Parent Company. Under the liability method used to calculate income taxes, the Parent Company provides deferred taxes for differences between the financial statement carrying amounts and tax bases of existing assets and liabilities by applying currently enacted statutory rates which are applicable to future periods.

Deferred taxes relate to employee benefits, depreciation and amortization. Deferred taxes are reflected in other assets on the statement of financial condition.

Reclassifications – Certain reclassifications have been made to prior year statement of financial condition to conform to current year presentation.

B. NET CAPITAL REQUIREMENTS

Pursuant to the net capital provisions of Rule 15c3-1 of the Securities Exchange Act of 1934, the Company is required to maintain minimum net capital, as defined under such provisions. Although nonclearing broker-dealers generally have a minimum net capital requirement of \$100,000, the NASD has informed the Company that it must maintain minimum net capital of \$250,000 due to the Company's close relationship with its clearing agent (see Note A). Net capital, net capital requirement, and net capital ratio may fluctuate on a daily basis. At December 31, 2004, the Company had net capital of \$1,480,182 and a net capital requirement of \$250,000. The Company's ratio of aggregate indebtedness to net capital was 0.16 to 1. At December 31, 2003, the Company had net capital of \$982,704 and a net capital requirement of \$250,000. The Company's ratio of aggregate indebtedness to net capital was 0.70 to 1.

C. PROPERTY AND EQUIPMENT

The Company's property and equipment consisted of the following as of December 31, 2004 and 2003:

	2004	2003
Furniture and equipment	\$ 10,891	\$ 5,906
Computer equipment	54,226	53,999
Software	351,932	351,932
	<u>417,049</u>	<u>411,837</u>
Accumulated depreciation and amortization	<u>(367,823)</u>	<u>(329,948)</u>
Net property and equipment	<u>\$ 49,226</u>	<u>\$ 81,889</u>

D. RELATED PARTY TRANSACTIONS

The Company provides services to other affiliates of the Parent Company, including First National Bank of Omaha ("FNBO"). These services include federal funds transfers, bond accounting, portfolio trades, repurchase agreements and negotiable certificates of deposit dealer services, and commercial paper management. At December 31, 2004 and 2003, approximately \$80,000 and \$111,000, respectively, was due to the Company from affiliates for services provided.

In addition, the Company has a service agreement with the Parent Company and FNBO in which FNBO provides the Company with certain services including trade execution and clearing, purchasing, personnel, general ledger, website development, financial services, executive support, financial, operational and information systems audit services, compliance audit and consulting services, branding/trademark modifications and miscellaneous other corporate services. The Company is billed for such services based on various allocation methods. At December 31, 2004 and 2003, the Company owed its affiliates approximately \$95,000 and \$90,000, respectively, for services provided.

Transaction terms with related parties are not necessarily indicative of the terms that would be present if the parties were unrelated.

E. EMPLOYEE BENEFIT PLANS

Employees of the Company participate in employee benefit plans sponsored by the Parent Company. Among them is a noncontributory defined benefit pension plan. The Company is allocated its share of the cost of this plan. As of December 31, 2004 and 2003, the Company had remitted all amounts related to its share of the benefit obligation to the Parent Company; therefore, no liability existed.

In addition to providing pension benefits, the Parent Company also sponsors postretirement medical and death benefits to retired employees meeting certain eligibility requirements. The medical plan is contributory, whereby the retired employee pays a portion of the health insurance premium, and contains other cost-sharing features such as deductibles and coinsurance. The Company is allocated its share of costs for the postretirement benefit plan. At December 31, 2004 and 2003, the Company's share of the benefit obligation was approximately \$2,400 and \$4,600, respectively, which is recorded as a liability on the statements of financial condition.

In addition to the pension and postretirement benefit plans, the Parent Company also has a contributory defined contribution plan which covers substantially all employees. The Company is allocated its share of costs for the defined contribution plan.

F. NOTE PAYABLE

During the year ended December 31, 2003, the Company committed to purchase a limited partnership interest for \$500,000. The Company's initial capital contribution of \$150,000 was paid during 2003. In addition to the initial capital contributions, the Company signed a promissory note to make subsequent capital contributions in the aggregate amount of \$350,000. These subsequent capital contributions were paid during 2004. The Company's partnership interest is less than 3% of the partnership's total capital.

G. COMMITMENTS AND CONTINGENCIES

The Company may be involved in various legal matters in the normal course of its business. At December 31, 2004, and 2003, management does not believe that any such matters, either individually or in the aggregate, will materially affect the Company's financial position.