

First National Capital Markets, Inc.

Statement of Financial Condition
as of December 31, 2009 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 statement of financial condition of First National Capital Markets, Inc. (the "Company") as of December 31, 2009. This financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit 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 statement is 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 statement, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such statement of financial condition presents fairly, in all material respects, the financial position of First National Capital Markets, Inc. at December 31, 2009, in conformity with accounting principles generally accepted in the United States of America.

Deloitte + Touche LLP

February 23, 2010

FIRST NATIONAL CAPITAL MARKETS, INC.

STATEMENT OF FINANCIAL CONDITION AS OF DECEMBER 31, 2009

ASSETS

CASH AND CASH EQUIVALENTS	\$3,343,888
RECEIVABLES:	
Commissions	417,703
Affiliate (Note 4)	82,513
Federal income taxes	178,182
Other	<u>10,531</u>
Total receivables	688,929
PREPAID EXPENSES AND OTHER ASSETS	62,615
PROPERTY AND EQUIPMENT — Net (Note 3)	641
INVESTMENT IN PARTNERSHIP (Note 6)	<u>368,970</u>
TOTAL	<u>\$4,465,043</u>

LIABILITIES AND STOCKHOLDER'S EQUITY

LIABILITIES:	
Accrued expenses and other liabilities	\$ 243,233
Accrued compensation and benefits	138,616
Accounts payable to affiliates (Note 4)	143,337
State taxes payable	<u>71,730</u>
Total liabilities	<u>596,916</u>
COMMITMENTS AND CONTINGENCIES (Note 7)	
STOCKHOLDER'S EQUITY:	
Common stock, \$1.00 par value — authorized, issued, and outstanding 10,000 shares	10,000
Additional paid-in capital	640,000
Retained earnings	<u>3,218,127</u>
Total stockholder's equity	<u>3,868,127</u>
TOTAL	<u>\$4,465,043</u>

See notes to statement of financial condition.

FIRST NATIONAL CAPITAL MARKETS, INC.

NOTES TO STATEMENT OF FINANCIAL CONDITION AS OF DECEMBER 31, 2009

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

First National Capital Markets, Inc. (the “Company”) is a wholly-owned subsidiary of First National Investment Banking, Inc. (“FNIB”) which 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 an independent third party clearing firm.

The Company is registered with the Securities and Exchange Commission (the “SEC”) and operates as a separate entity as a registered member of the Financial Industry Regulatory Authority, Inc., (“FINRA”).

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

Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC” or “Codification”) — In June 2009, the FASB issued FASB Statement No. 168, *The FASB Accounting Standards Codification and The Hierarchy of Generally Accepted Accounting Principles*. The Codification became the source of authoritative generally accepted accounting principles (“GAAP”) recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. The Codification supersedes all existing non-SEC accounting and reporting standards. All other nongrandfathered non-SEC accounting literature not included in the Codification is nonauthoritative. GAAP is not intended to be changed as a result of this statement, but will change the way the guidance is organized and presented. FASB Statement No. 168 is effective for annual financial statements issued for periods ending after September 15, 2009, and references to GAAP in this report have been updated as a result. The adoption of FASB Statement No. 168 did not impact the Company’s financial condition.

Use of Estimates — The preparation of the 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 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, amortization, and the partnership investment. The Company had deferred tax assets of approximately \$17,000 and deferred tax liabilities of approximately \$44,000 at December 31, 2009. Net deferred taxes of approximately \$27,000 are reflected in other liabilities on the statement of financial condition.

The Company has no liability recorded as of December 31, 2009 for uncertainty in income taxes or for interest and penalty payments. The tax years 2004 through 2008 remain open to examination by the major taxing jurisdictions in which the Parent Company files the consolidated income tax return.

Subsequent events – As required by ASC 855-10, *Subsequent Events*, the Company evaluated subsequent events through February 23, 2010. The Company did not have any subsequent events that would require recognition or disclosure in the financial statements or footnotes as of and for the year ended December 31, 2009.

2. 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. Net capital, net capital requirement, and net capital ratio may fluctuate on a daily basis. As of December 31, 2009, the Company had net capital of \$2,797,936 and a net capital requirement of \$250,000. The Company's ratio of aggregate indebtedness to net capital was 0.20 to 1.

3. PROPERTY AND EQUIPMENT

The Company's property and equipment as of December 31, 2009, consisted of the following:

Furniture and equipment	\$ 12,757
Computer equipment	10,586
Software	<u>250,283</u>
	273,626
Accumulated depreciation and amortization	<u>(272,985)</u>
Net property and equipment	<u>\$ 641</u>

4. 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. As of December 31, 2009, \$82,513 was due to the Company from an affiliate 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 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. As of December 31, 2009, the Company owed its affiliates \$143,337 for services provided.

At December 31, 2009, the Company held cash of \$343,894 with FNBO. The Company had cash in excess of federally insured limits of \$93,894 at December 31, 2009. The Company has not experienced any losses on its deposits of cash.

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

5. 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, 2009, 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. As of December 31, 2009, 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 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. At December 31, 2009, the Company's share of the obligation was approximately \$66,000, which is recorded as a liability on the statement of financial condition.

6. INVESTMENT IN PARTNERSHIP

The Company has an interest in a limited partnership. This partnership fund holds investments in real estate ventures. The Company's partnership interest is less than 7% of the partnership's total capital and is accounted for at cost, \$368,970. The Company assesses this investment for impairment on an annual basis.

7. COMMITMENTS AND CONTINGENCIES

The Company may be involved in various legal matters in the normal course of its business. At December 31, 2009, management does not believe that any such matters, either individually or in the aggregate, will materially affect the Company's financial position.

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