2023 ANNUAL REPORT

First National of Nebraska

To Our Stockholders

2023 was a challenging year for our industry and for our company. During a tumultuous three-month period from March through May, we witnessed three of the four largest bank failures in U.S. history. These failures caused significant market turmoil, regulatory scrutiny, and liquidity pressures on our industry. In the face of these challenges our team responded remarkably well with a reassuring message to our customers that our strong financial position, stable deposit base, excellent liquidity, and private ownership make us the enduring franchise we have been for 166 years. Indeed, banking is about endurance, not immediate gratification. Over the long term, we expect that our talented employees and committed ownership will be able to compound capital well. That capital will in turn allow us to weather storms, serve our customers, and grow our franchise.

The Regional Banking Crisis

The bank failures of 2023 were commonly referred to as the Regional Banking Crisis, which started in March with the failure of Silicon Valley Bank ($209 billion in assets) and Signature Bank ($110 billion in assets) and culminated in May with the failure of First Republic Bank ($232 billion in assets). To put those failures in perspective, those three banks' total assets, adjusted for inflation, exceeded in size the next 10 bank failures in the history of the United States combined. What happened? All three banks shared similar characteristics: they grew incredibly quickly in very concentrated customer segments, with deposits that were mostly uninsured and prone to flight, and they invested those deposits in long term bonds or loans that could not easily be liquidated without major losses. By comparison, FNBO has grown at a measured pace since 1857, with a highly diversified customer base of granular, mostly insured and very stable deposits. We largely invest those deposits into shorter-term loans, bonds, or cash, and we manage our bonds very conservatively, such that they can be sold more readily without incurring a loss.

An important lesson of those bank failures: unexpected events are more common than we think, and in today's day and age, they can occur much faster. We run the bank to expect those events, embracing the disciplines required to endure such challenges, such as measured asset growth, efficiency, diversification, high capital levels, strong liquidity, asset liability matching, and sound credit underwriting. We have always been focused on these disciplines. In so doing, we consistently strengthen the bank with both the rigor and humility so valuable in banking. Because money moves so easily in digital channels today, the speed of financial crises has greatly accelerated even since the Great Financial Crisis of 2008. The velocity of those events matter because banks are now required to book reserve charges for all future expected credit losses while providing instant liquidity for customers who demand it. We believe those are prudent standards to be held to, so we run regular stress tests on ourselves using high velocity, severely adverse scenarios that could impact our capital, earnings, and liquidity.

It is logical to ask: why didn't the reforms put in place after the 2008 crisis prevent this crisis? Reasonable people could debate the answer to that question, but all that we can prudently conclude is that society cannot eliminate financial crises. Risk has a way of working into our world in new ways that we cannot predict or address in time to prevent a crisis. Twice in the last few years we were stunned by unexpected events early in the calendar year: the COVID-19 pandemic in 2020 and the Regional Banking Crisis of 2023. Rather than breathing a sigh of relief that these crises are behind us, we must instead assume that similar crises lie ahead, just as they always have.

Fortunately, during the tumultuous spring months of 2023, our private ownership was a true advantage. When customers of a public bank observe their bank's stock price fluctuating wildly, they will naturally ask why. Problems occur when the people answering those questions are not well informed or perhaps not well intentioned. Those people can create noise and misinformation in the public market that can accentuate a bank's liquidity problems. Being private, we experienced less noise than many public banks endured, which allowed us to clearly communicate to our customers, employees, communities, and shareholders a message of calm stability rooted in sound principles.

Despite the challenges we faced in 2023, the truth is we will be better for this year's experiences. Our industry will be held to higher standards of safety and while those standards will have a cost, we will overcome those costs just as we always have. We take the long-term view, which is that our business can safely grow over time, owing to our strong culture and the strength of our franchise. Our ability to learn after times of adversity means we can continuously improve, which compounds our organizational capabilities just as much as our capital. Consequently, our shareholders' enduring commitment is an advantage that ultimately accrues to the shareholders' benefit in the form of a company that can consistently adjust to generate desired returns. It is our job to ensure those benefits are realized and we are grateful for that opportunity.

Financial Performance

Our earnings of $227 million in 2023 represented a return on average equity of 8.4%, which did not meet our expectations. As a result, we did not pay a special year-end dividend to shareholders, nor did we pay employee bonuses. The largest contributor to our earnings shortfall was provision for current and future expected loan losses, which grew from $323 million in 2022 to $649 million in 2023. These provisions were the result of higher-than-expected consumer credit losses, higher-than-expected loan growth, and additional reserves for future loan losses. We faced further headwinds in the form of a few large, unplanned expenses, including an $11 million FDIC charge to pay for the 2023 bank failures, a $14 million Visa litigation charge, and a $13 million restructuring charge associated with employee severance to improve our efficiency.

NET INCOME		
	2023	**$227,444,000**
	2022	**$322,527,000**
	2021	**$493,388,000**
	2020	**$296,123,000**
	2019	**$292,939,000**

You will notice in our recent earnings history an unusual trend, which we describe as pandemic era economics. By that we mean that consumer losses fell abnormally fast in 2021 while they rose just as quickly in 2023, creating large differences in losses and reserves that drove very different earnings performance during those two years. Consider that our net charge off rate for credit cards in 2023 was 4.3%, which is in line with our long-term average and just below our pre-pandemic, 2019 full year loss rate of 4.5%. However, our 4.3% loss rate in 2023 represented a significant increase from just 2.5% in 2022. The speed of this increase is what hurts so acutely because our revenue cannot increase at a commensurate rate to compensate for added losses and reserves. The industry has referred to these increased credit card losses as "normalization" from the COVID-19 era of abnormally low consumer losses.

Yet in the fourth quarter 2023, losses in our credit card portfolio reached 4.9%, exceeding "normal" pre-pandemic loss rates. We attribute this most recent trend to a dynamic we call delayed charge offs, representing consumers who typically would have charged off in 2021 or 2022, but were spared that fate by government financial support. In fact, the bulk of our excess charge offs today are from customers we brought on in 2021 and 2022, commonly referred to as "vintages." We are taking meaningful actions to reduce our consumer losses, but we are still working through the 2021 and 2022 vintages.

On the balance sheet in 2023 we again reached record total assets, deposits, and loans, all of which contributed to record revenue of $2.2 billion, up 17% over 2022. Our loan growth was $2.9 billion, or 14%, compared to banking industry loan growth of just one percent. Our loan growth was broad based: commercial real estate and mortgage loans grew 20%, while commercial and industrial loans grew 10%. Credit card loans grew only 3% as we tightened credit standards to reduce losses, yet home improvement loans grew $885 million. Home improvement lending is a new category for us and the result of our AmeriFirst acquisition in 2022. We are slowing growth in home improvement lending so as not to take on too much, too fast, but the opportunities in that segment are promising for us long term. Our business loans again showed strong credit quality during 2023, although future loan maturities renewing at higher rates pose risk to this segment.

Despite the liquidity crisis resulting from the regional bank failures in 2023, we were able to maintain our core deposits at an essentially flat level, reflecting our quality deposit franchise. Many banks saw deposits decline in 2023. Our deposits in 2023 grew 6%, or $1.5 billion, which funded just over half of our loan growth, while wholesale sources funded the rest. We use wholesale funding strategically to better fund the seasonal nature of our lending businesses and to give us more options to manage funding costs.

	GROSS LOANS	DEPOSITS
2023	**$22,791,718,000**	**$25,836,724,000**
2022	**$19,930,774,000**	**$24,343,242,000**
2021	**$16,759,116,000**	**$22,913,629,000**
2020	**$16,620,671,000**	**$20,762,462,000**
2019	**$16,346,024,000**	**$17,940,025,000**

Our balance sheet growth fueled our net interest margin, which was entirely responsible for our record revenue. Net interest margin increased $324 million, or 22% year-over-year. Approximately 75% of this margin growth was due to loan growth and the other 25% was the result of net interest margin widening from 5.65% in 2022 to 6.15% in 2023. While this was a welcome trend, it did not last long: our net interest margin peaked at 6.5% in the second quarter and declined to 5.9% in the fourth quarter as interest expense increased significantly. For the year, interest expense totaled $569 million, up from $91 million the year before. Just a few short years ago, the Federal Reserve dropped interest rates to zero and the federal government injected trillions of dollars into the economy. With few places to find attractive yields, much of that stimulus money went into the banking system at the lowest possible cost to banks. Today is just the opposite: short term interest rates exceeded 5% in 2023 and there was plenty of competition for deposit dollars, including treasury bills and money market funds. This margin pressure will likely continue in 2024.

Non-interest income of $427 million in 2023 was up slightly from $423 million in 2022. Our largest fee income source, net interchange fees from spending on credit cards, was down from $158 million in 2022 to $147 million in 2023, due to increasing rebates and rewards we pay our co-branded credit card partners and consumers. We also had an $11 million reduction in the value of our mortgage servicing rights portfolio ("MSR"), which flows through our fee income for accounting purposes. In addition, we face a litany of market and regulatory pressures on our fee income, particularly in our consumer businesses. This is a key reason why in May of 2023 we closed on the acquisition of Northland Securities, which generates $75 million of fee income annually. Strategically, we are focused on growing several businesses that generate fee income, which diversifies our revenue sources and improves our return on equity. Corporate cash management, wealth management, technology managed services, and insurance are all examples of fee income sources we are prioritizing.

Expenses in 2023 increased $127 million, or 11%, to $1.27 billion. However, the charges we took for FDIC assessments, Visa litigation, and employee severance added $38 million to our expenses, as did operating expenses at Northland Securities of $30 million. Adjusting for those items, we managed to hold core expense growth well below revenue growth, generating solid core operating leverage for the bank. We did this by reducing our headcount and real estate footprint, while suspending certain business initiatives that were not meeting our return targets. We will maintain this focus on efficiency in 2024 and for some time to come as we firmly believe that we must become more efficient to earn our desired returns and reduce risk in our business. Efficiency is not usually associated with lower risk, but it should be because a more efficient bank can take less risk to generate its earnings and it can better weather the impact of loan losses on earnings.

Our allowance for credit losses ("ACL") increased significantly from $416 million in 2022 to $990 million in 2023. Of this $574 million increase, $395 million was the result of a new reserve accounting standard known as the current expected credit loss ("CECL") model. CECL requires banks to reserve for expected loan losses over the remaining life of all loans. The other $179 million of reserve build in 2023, however, was due not to an accounting change but the result of rising delinquencies in our consumer loans. Unlike the initial CECL accounting reserve build on January 1, 2023 which did not flow through earnings, this $179 million reserve build did, and it was a major factor in our earnings underperformance during 2023. We are working hard to bend the curve on consumer delinquencies, which would reduce the need for such reserve build, but until we bend that curve we will likely continue to book or hold elevated levels of reserves.

Our Focus

We continue to be focused strategically on being **customer led, innovative and efficient**. We also continue to focus on **our vision of being a top performing bank for our customers, employees, shareholders and communities.** Despite significant challenges in the economy, interest rates, accounting changes, and bank failures, our team kept their heads down and worked hard in 2023 to improve most all aspects of our business.

We improved our customer facing technology capabilities in a myriad of ways, including a new mortgage servicing platform, improvements to our mobile app, the launch of new digital products, and a modernized customer service platform for our call centers. We also greatly improved our office and meeting facilities for a better employee and customer experience. If you visit our headquarters today, it is more open, more collaborative, and equipped with modern technology to attract and retain top talent for the future. Similarly, we consolidated and simplified our organizational structure, making us nimbler, more efficient, and better able serve our customers.

Our focus on customers led us to extend our core business into exciting new channels. We rolled out new products, including the Universal Destinations and Experiences co-branded credit card, our largest new card program in our history. This program will allow us to reach out to millions of potential new customers and offer great value to them at Universal resorts across the country. In November of 2023 we signed a definitive agreement to acquire Diversified Financial Services ("DFS"), an agricultural equipment finance company that will extend our already strong franchise in the world of agriculture. We expect to close on DFS acquisition in the second quarter of 2024.

None of this would have been possible without the hard work of nearly 5,000 employees who care about FNBO. They also care deeply about our customers and communities, which they served passionately throughout 2023 despite carrying a heavy workload. Our employees' effort is inspiring, and it reminds us of our founders' statement in 1857 that our bank would be one of "enduring character." In 2023, a year of historic bank failures, we paused to appreciate the meaning of "enduring character." In one sense, it means that our bank will endure cycles and challenges for generations, just as we have. In another, more personal sense, it means that our employees will embrace a culture and a set of core values that are enduring, and which embody the true meaning of character in great people. How fortunate we are to work with such people every day.

Clark D. Lauritzen

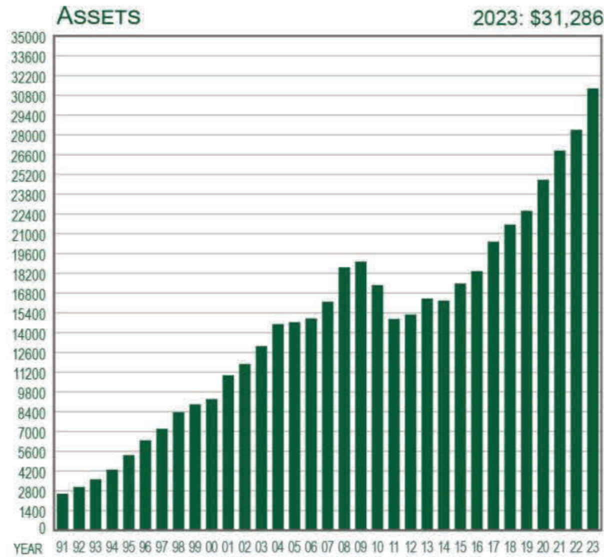
Chairman and President

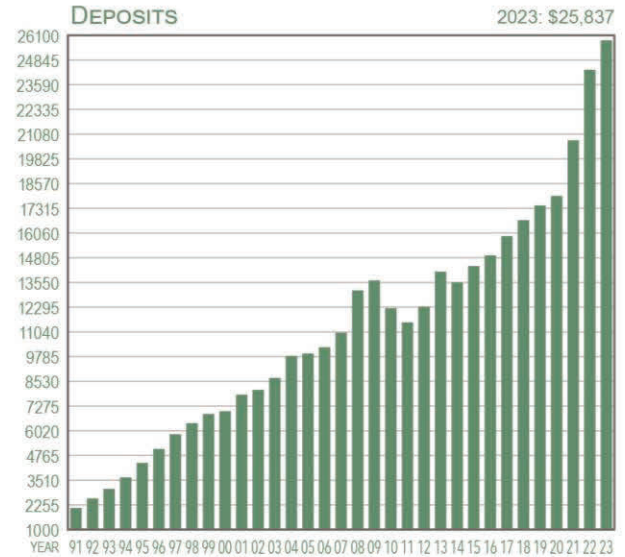
Postscript

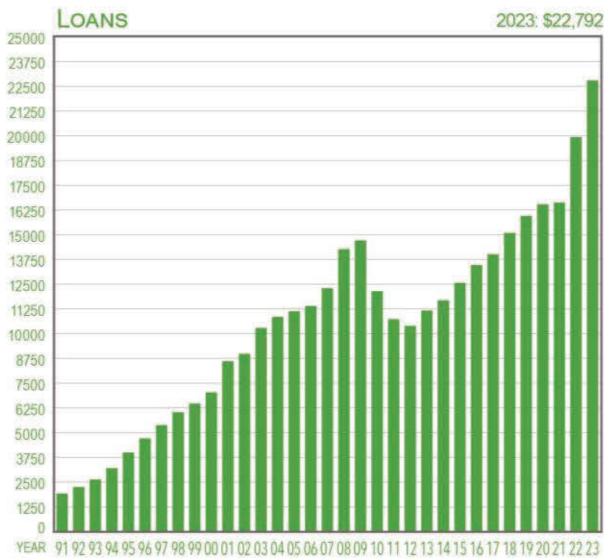
On February 21, 2024, my father, Bruce Lauritzen, passed away at the age of 80. Bruce was an incredible businessman and inspiring leader. His career at FNBO spanned more than 55 years and his contribution to FNBO's 166-year history was immense. Under Bruce's leadership, the bank experienced tremendous growth, expansion of our footprint to six new states and construction of the FNBO Business Park and the First National Tower. Bruce ensured that FNBO would remain privately-owned during many difficult times in the banking industry and gracefully transitioned FNBO to the sixth generation of family leadership. His optimism in people and in the future will continue to shape FNBO's culture for years to come. Bruce leaves a tremendous legacy as a leader at FNBO, but also as a compassionate man with a great deal of respect and love for his family and commitment to his community.

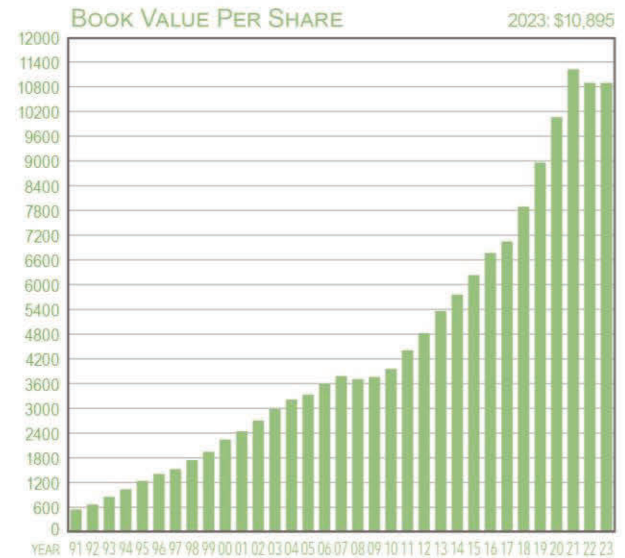
First National of Nebraska and Subsidiaries
Performance Trends

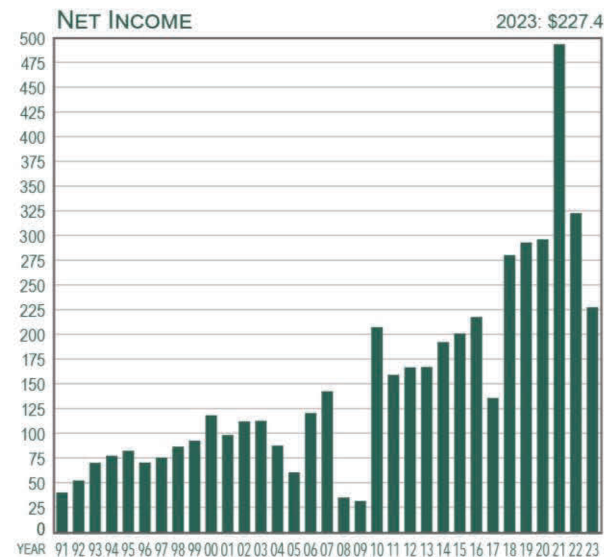
($ in millions except per share data)

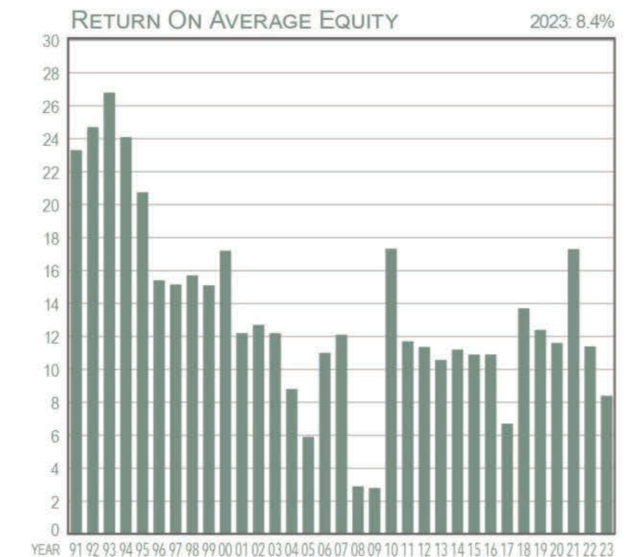








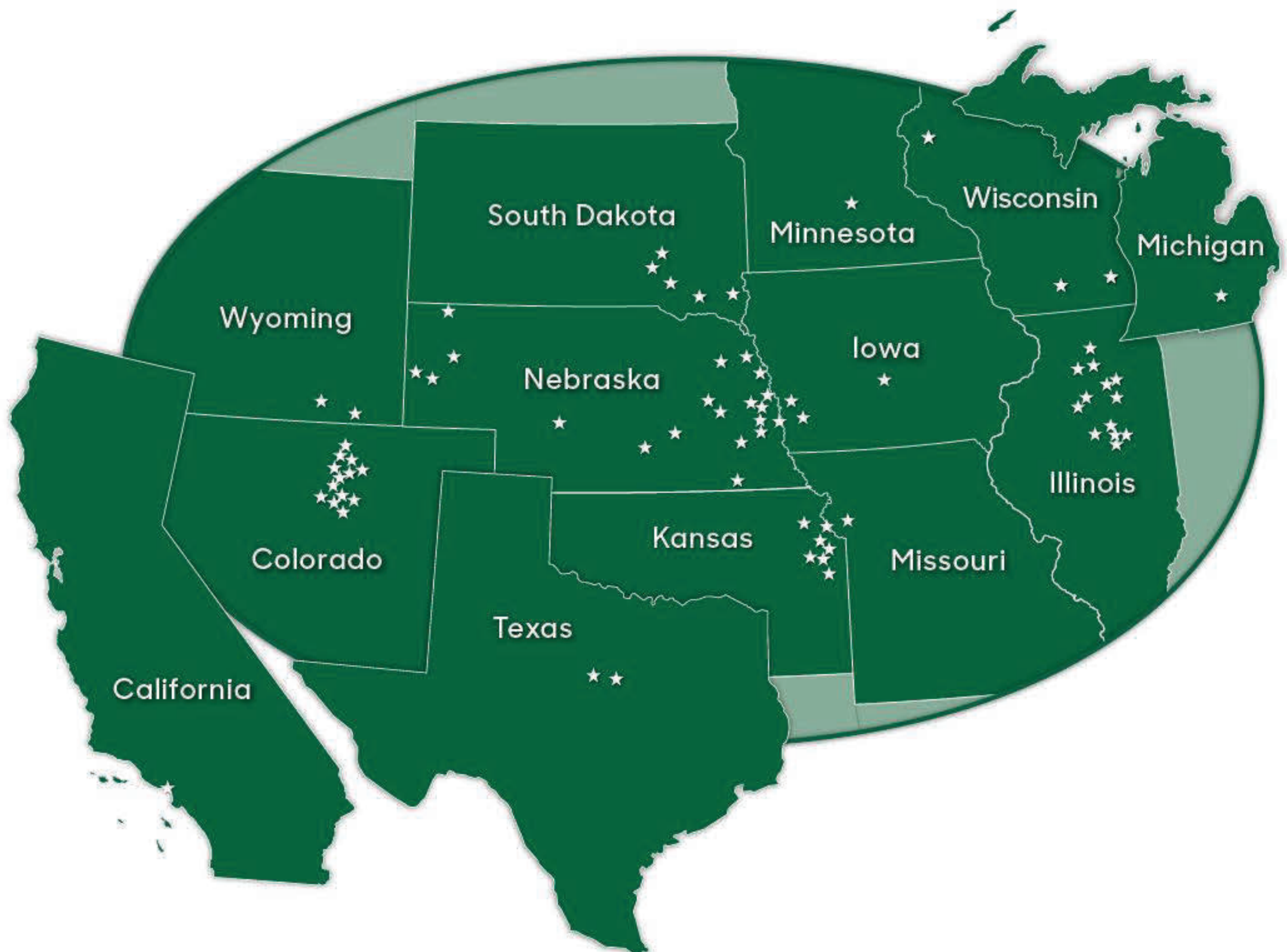




First National of Nebraska and Subsidiaries
Financial Highlights

(in thousands except per share data)	Years ended December 31, 2023	2022	2021	2020	2019
Total assets	**$ 31,285,883**	$ 28,351,203	$ 26,892,234	$ 24,817,423	$ 22,623,708
Total revenue	**$ 2,775,659**	$ 1,970,427	$ 1,735,560	$ 1,733,813	$ 1,860,392
Net income	**$ 227,444**	$ 322,527	$ 493,388	$ 296,123	$ 292,939
Stockholders' equity	**$ 2,823,280**	$ 2,845,573	$ 2,932,141	$ 2,698,539	$ 2,402,361
Allowance for loan losses	**$ 990,025**	$ 416,329	$ 284,129	$ 440,341	$ 376,823
Per share data:					
Diluted earnings	**$ 874**	$ 1,235	$ 1,870	$ 1,104	$ 1,071
Dividends	**$ 120**	$ 260	$ 380	$ 210	$ 210
Stockholders' equity	**$ 10,895**	$ 10,894	$ 11,221	$ 10,060	$ 8,957
Dividend payout ratio	**13.7%**	21.1%	20.2%	19.0%	19.6%
Profit ratios:					
Return on average equity	**8.4%**	11.4%	17.3%	11.6%	12.4%
Return on average assets	**0.8%**	1.2%	1.9%	1.3%	1.4%

First National of Nebraska and subsidiaries have over 100 full-service branches located in eight states at December 31, 2023. There are also offices in an additional five states for a total of thirteen states.



First National of Nebraska and Subsidiaries
Consolidated Statements of Financial Condition

(in thousands except share data)	December 31, 2023	2022
Assets		
Cash and cash equivalents	**$ 1,475,398**	$ 1,268,411
Investment securities:		
Available-for-sale debt securities (amortized cost $5,518,253 and $5,433,966)	**5,143,116**	4,987,567
Held-to-maturity debt securities (fair value $137,780 and $147,028)	**153,073**	164,829
Trading, fair value	**16,551**	—
Other securities, at cost (includes equity securities $19,415 and $27,119 carried at fair value)	**105,176**	95,735
Total investment securities	**5,417,916**	5,248,131
Loans and leases (1)	**22,791,718**	19,930,774
Less: Allowance for credit losses	**990,025**	416,329
Net loans and leases	**21,801,693**	19,514,445
Premises, equipment, and software, net	**492,202**	502,655
Bank owned life insurance	**608,735**	591,442
Deferred tax asset, net	**382,828**	232,457
Other assets	**703,195**	603,920
Goodwill	**281,091**	251,270
Intangible assets	**122,825**	138,472
Total assets	**$ 31,285,883**	$ 28,351,203
Liabilities and Stockholders' Equity		
Deposits:		
Noninterest-bearing	**$ 6,100,330**	$ 7,883,128
Interest-bearing	**19,736,394**	16,460,114
Total deposits	**25,836,724**	24,343,242
Short-term fundings	**3,883**	151,000
Federal Home Loan Bank advances	**450,000**	—
Net other borrowings (1)	**1,048,911**	3,552
Accrued expenses and other liabilities	**824,191**	709,177
Net capital notes and trust preferred securities	**298,894**	298,659
Total liabilities	**28,462,603**	25,505,630
Contingencies and commitments (Note M)		
Stockholders' equity:		
Common stock, $5 par value, 370,000 shares authorized; 315,000 shares issued; 259,135 and 261,211 outstanding	**1,575**	1,575
Additional paid-in capital	**55,096**	13,102
Retained earnings	**3,568,836**	3,666,782
Treasury stock of 55,865 and 53,789 shares, at cost	**(464,420)**	(435,256)
Accumulated other comprehensive loss	**(337,807)**	(400,630)
Total stockholders' equity	**2,823,280**	2,845,573
Total liabilities and stockholders' equity	**$ 31,285,883**	$ 28,351,203

(1) Balances at December 31, 2023 and 2022 include assets and liabilities of a consolidated securitization trust, which includes loans of $3.2 billion and $2.4 billion and other borrowings of $846.6 million and $0.0 million, respectively.

See Notes to Consolidated Financial Statements

First National of Nebraska and Subsidiaries
Consolidated Statements of Income

	Years ended December 31,		
	2023	**2022**	**2021**
(in thousands except share and per share data)			
Interest income:			
Interest and fees on loans and lease	**$ 2,140,499**	$ 1,416,808	$ 1,106,798
Interest on investment securities	**163,016**	120,617	89,460
Interest on federal funds sold and other short-term investments	**45,571**	10,039	3,728
Total interest income	**2,349,086**	1,547,464	1,199,986
Interest expense:			
Interest on deposits	**493,156**	69,825	24,001
Interest on short-term fundings	**495**	806	109
Interest on Federal Home Loan Bank advances	**22,851**	6,486	—
Interest on other borrowings	**31,686**	1,521	1,866
Interest on capital notes and trust preferred securities	**21,018**	12,658	10,116
Total interest expense	**569,206**	91,296	36,092
Net interest income	**1,779,880**	1,456,168	1,163,894
Provision for loan losses	**649,357**	322,969	6,903
Net interest income after provision for loan losses	**1,130,523**	1,133,199	1,156,991
Noninterest income:			
Processing services	**183,097**	226,970	208,219
Deposit services	**23,953**	33,195	38,540
Trust, investment and underwriting services	**93,354**	63,985	69,958
Gain on sale of mortgage loans	**13,615**	4,488	55,330
Managed services	**47,097**	32,952	33,520
Other	**65,457**	61,373	130,007
Total noninterest income	**426,573**	422,963	535,574
Noninterest expense:			
Salaries and employee benefits	**600,169**	544,275	515,492
Net occupancy expense of premises	**58,777**	52,335	60,055
Equipment rentals, depreciation, and maintenance	**154,229**	141,751	123,244
Marketing, communications, and supplies	**110,106**	122,900	103,346
Processing expense	**62,761**	53,748	42,605
Loan servicing expense	**80,510**	77,180	67,052
Professional services	**48,995**	59,982	44,286
Contingent litigation	**13,958**	20,371	24,017
Other	**136,533**	66,534	78,806
Total noninterest expense	**1,266,038**	1,139,076	1,058,903
Income before income taxes	**291,058**	417,086	633,662
Income tax expense (benefit):			
Current	**140,448**	126,520	110,292
Deferred	**(76,834)**	(31,961)	29,982
Total income tax expense	**63,614**	94,559	140,274
Net income	**$ 227,444**	$ 322,527	$ 493,388
Basic and diluted earnings per common share	**$ 874**	$ 1,235	$ 1,870
Average basic and diluted common shares outstanding	**260,228**	261,170	263,859

See Notes to Consolidated Financial Statements

First National of Nebraska and Subsidiaries
Consolidated Statements of Comprehensive Income (Loss)

	Years ended December 31,		
	2023	**2022**	**2021**
(in thousands)			
Net income	**$ 227,444**	$ 322,527	$ 493,388
Other comprehensive income (loss), before tax:			
Net unrealized gain (loss) on available-for-sale securities	**73,582**	(486,129)	(119,255)
Net unrealized gain on employee benefit plans	**8,840**	39,571	22,907
Net unrealized gain on transfer of securities from available-for-sale to held-to-maturity	**45**	67	94
Less: Reclassification adjustment for net loss realized in net income	**(4)**	(3)	—
Other comprehensive gain (loss), before tax	**82,471**	(446,488)	(96,254)
Less: Income tax expense (benefit) for other comprehensive gain (loss)	**19,648**	(106,241)	(22,622)
Other comprehensive gain (loss), net of tax	**62,823**	(340,247)	(73,632)
Comprehensive income (loss)	**$ 290,267**	$ (17,720)	$ 419,756

See Notes to Consolidated Financial Statements

First National of Nebraska and Subsidiaries
Consolidated Statements of Stockholders' Equity

For the years ended December 31, 2023, 2022, and 2021

(in thousands except share and share data)	Common Stock ($5 par value)	Additional Paid-in Capital	Retained Earnings	Treasury Stock (at cost)	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance, January 1, 2021	$ 1,575	$ 8,987	$ 3,018,257	$ (343,529)	$ 13,249	$ 2,698,539
Net income	—	—	493,388	—	—	493,388
Other comprehensive gain, net of tax	—	—	—	—	(73,632)	(73,632)
Purchases of treasury stock - 7,241 shares	—	—	—	(89,958)	—	(89,958)
Sales of treasury stock - 268 shares	—	2,190	—	1,099	—	3,289
Dividends declared - $380 per share	—	—	(99,485)	—	—	(99,485)
Balance, December 31, 2021	1,575	11,177	3,412,160	(432,388)	(60,383)	2,932,141
Net income	—	—	322,527	—	—	322,527
Other comprehensive loss, net of tax	—	—	—	—	(340,247)	(340,247)
Purchases of treasury stock - 262 shares	—	—	—	(3,669)	—	(3,669)
Sales of treasury stock - 195 shares	—	1,925	—	801	—	2,726
Dividends declared - $260 per share	—	—	(67,905)	—	—	(67,905)
Balance, December 31, 2022	1,575	13,102	3,666,782	(435,256)	(400,630)	2,845,573
Effect of CECL adoption	**—**	**—**	**(294,137)**	**—**	**—**	**(294,137)**
Net income	**—**	**—**	**227,444**	**—**	**—**	**227,444**
Other comprehensive gain, net of tax	**—**	**—**	**—**	**—**	**62,823**	**62,823**
Purchases of treasury stock - 2,473 shares	**—**	**—**	**—**	**(31,033)**	**—**	**(31,033)**
Sales of treasury stock - 397 shares	**—**	**3,512**	**—**	**1,869**	**—**	**5,381**
Equity plan transfer	**—**	**38,482**	**—**	**—**	**—**	**38,482**
Dividends declared - $120 per share	**—**	**—**	**(31,253)**	**—**	**—**	**(31,253)**
Balance, December 31, 2023	**$ 1,575**	**$ 55,096**	**$ 3,568,836**	**$ (464,420)**	**$ (337,807)**	**$ 2,823,280**

See Notes to Consolidated Financial Statements

First National of Nebraska and Subsidiaries
Consolidated Statements of Cash Flows

	Years ended December 31,		
(in thousands)	**2023**	**2022**	**2021**
OPERATING ACTIVITIES			
Net Income	**$ 227,444**	$ 322,527	$ 493,388
Adjustments to reconcile net income to net cash flows from operating activities:			
Provision for loan losses	**649,357**	322,969	6,903
Depreciation, amortization and accretion	**66,718**	73,069	76,856
Benefit (provision) for deferred taxes	**(76,834)**	(31,961)	29,982
Origination of mortgage loans for resale	**(526,176)**	(570,703)	(1,923,469)
Proceeds from the sale of mortgage loans originated for resale	**502,061**	649,047	2,070,332
Trading securities, net	**(5,250)**	3,783	(3,783)
Contingent litigation payments	**(27,515)**	(24,622)	(6,049)
Gain on sale of credit card loans	**—**	—	(1,975)
Increase in bank owned life insurance	**(17,293)**	(12,790)	—
Other asset and liability activity, net	**19,002**	18,395	95,162
Net cash flows from operating activities	**811,514**	749,714	837,347
INVESTING ACTIVITIES			
Maturities of securities available-for-sale	**551,550**	781,376	1,073,842
Sales of securities available-for-sale	**33,329**	100,786	38,550
Purchases of securities available-for-sale	**(665,181)**	(1,684,170)	(1,649,117)
Maturities of securities held-to-maturity	**15,979**	20,627	47,097
Purchases of securities held-to-maturity	**(4,823)**	(38,742)	(32,469)
Redemptions of FHLB stock and other securities	**81,417**	34,163	3,239
Purchases of FHLB stock and other securities	**(88,885)**	(48,989)	(6,306)
Maturities of interest-bearing time deposits	**33,334**	36,560	31,341
Purchases of interest-bearing time deposits	**(1,494)**	(38,546)	(31,343)
Net change in loans and leases	**(3,161,543)**	(2,415,086)	(484,498)
Sale of credit card loan portfolios	**—**	—	37,027
Purchases of credit card loan portfolios	**(46,943)**	(682,517)	—
Purchases of bank owned life insurance	**—**	(192,266)	(375,000)
Acquisitions, net of cash and cash equivalents received	**(47,935)**	(111,713)	—
Purchases of premises, equipment and software	**(46,942)**	(67,976)	(40,057)
Other, net	**(83,540)**	(13,625)	(12,027)
Net cash flows used in investing activities	**(3,431,677)**	(4,320,118)	(1,399,721)
FINANCING ACTIVITIES			
Net change in deposits	**1,493,077**	940,351	2,151,167
Net change in short term fundings	**(147,117)**	93,871	(100,459)
Net change in FHLB advances	**450,000**	—	—
Issuance of other borrowings	**535,229**	102,000	1,000
Principal repayments on other borrowings	**(335,546)**	(102,366)	(1,360)
Proceeds from new securitizations	**850,721**	—	—
Principal repayments on other borrowings of securitization trusts	**(4,239)**	—	(300,000)
Principal repayments on capital notes	**—**	(9,279)	—
Cash dividends paid	**(31,253)**	(67,905)	(99,485)
Net change in treasury stock	**12,830**	(943)	(86,669)
Net cash flows from financing activities	**2,823,702**	955,729	1,564,194
Net change in cash, cash equivalents, and restricted cash	**203,539**	(2,614,675)	1,001,820
Cash, cash equivalents, and restricted cash at beginning of year	**1,327,798**	3,942,473	2,940,653
Cash, cash equivalents, and restricted cash at end of year	**$ 1,531,337**	$ 1,327,798	$ 3,942,473
Cash paid during the year for:			
Interest	**$ 489,048**	$ 79,824	$ 38,498
Income taxes	**$ 105,461**	$ 107,486	$ 102,507

The Company transferred $2.2 million, $5.0 million and $1.0 million from loans and bank premises to other real estate owned during the years ended December 31, 2023, 2022 and 2021, respectively. The Company transferred $35.0 million from loans to credit card loans held for sale during the year ended December 31, 2021. These loans were sold in November 2021.

See Notes to Consolidated Financial Statements

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Consolidation – The consolidated financial statements of First National of Nebraska, Inc. (the Parent Company) and subsidiaries (collectively, the Company) include the accounts of the Parent Company; its 99.99% owned subsidiary, First National Bank of Omaha and subsidiaries (the Bank); its nonbanking subsidiaries; and its variable interest entities (VIEs) in which it is the primary beneficiary. All intercompany transactions and balances have been eliminated in consolidation. Subsequent events are analyzed through March 6, 2024, the date the report is available to be issued.

Nature of Business – The Company is a Nebraska based interstate financial holding company with headquarters located in Omaha, Nebraska whose primary operations is its banking subsidiary. Additionally, the Company has nonbanking subsidiaries that are engaged in various businesses including technology hosting and related activities, among other things.

The Bank's primary objective is to enhance the financial well-being of its customers through a customer-centric business model focused on providing financial advice and guidance and relevant financial solutions. The Bank supports its business customers with real estate, commercial, and agriculture loans as well as cash and wealth management solutions. It supports its individual customers with consumer lending alternatives (including mortgage loans) and cash and wealth management solutions, and it supports its strategic credit card partners by issuing credit cards and unsecured consumer loans to that partner's individual and business customers.

Use of Estimates – In preparing the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents – Cash and cash equivalents include cash and due from banks, federal funds sold, and other short-term investments with original maturities of three months or less. Federal funds sold and other short-term investments were $2.3 million and $50.9 million as of December 31, 2023 and 2022, respectively. Restricted cash predominately relates to cash maintained for ATM operations, cash held as collateral, and cash held at a consolidated VIE. As of December 31, 2023 and 2022, restricted cash was $55.9 million and $59.4 million, respectively, and is included in other assets.

Investment Securities – Debt securities not classified as trading or held-to-maturity are classified as available-for-sale and recorded at fair value, with unrealized gains and losses on a net-of-tax basis excluded from earnings and reported in other comprehensive income. Equity securities with readily determinable fair values are classified as other securities and recorded at fair value, with unrealized gains and losses reported through net income. Other securities also include federal bank stock securities, and these securities are reported at cost.

Held-to-maturity debt securities are limited to securities for which the Company has the intent and ability to hold to maturity. These securities are reported at amortized cost. Held-to-maturity securities are subject to ASC 326. The assessment of expected credit losses is performed on a collective basis when similar risk characteristics exist and expected credit losses are recognized at the time of purchase. Accrued interest receivable on held to maturity debt securities is excluded from the estimate of credit losses, as the Company already has a policy in place to reverse or write-off accrued interest, through interest income, for debt securities in nonaccrual status in a timely manner.

Trading securities are reported at fair value with unrealized gains and losses reported in other noninterest income.

Purchase premiums and discounts are recognized in interest income using the effective interest method over the period to maturity. Gains and losses on the sale of securities are determined using the specific-identification method.

For available for sale securities whose values have declined below amortized cost, if the Company intends to sell the security or if it is more likely than not the Company will be required to sell the security before the fair value increases to at least the amortized cost, the Company will write down the amortized cost to its fair value. For

available for sale securities that are not intended to be sold or securities the Company does not believe will be required to be sold before the fair value recovers, qualitative and quantitative criteria are used to determine if full recover of the security will be achieved. If full recovery will not be achieved due to a credit loss, an allowance for credit losses is recorded, with a related charge to earnings by the amount that the fair value is less than the amortized cost basis. Accrued interest receivable on available for sales securities is excluded from the estimate of credit losses, as the Company already has a policy in place to reverse or write-off accrued interest, through interest income, for securities in nonaccrual status in a timely manner.

Loans and Leases – Net loans are reported at their outstanding principal balance adjusted for charge-offs, the allowance for credit losses, and any deferred fees or costs on originated loans. Loan fees and certain direct loan origination costs are deferred and recognized as an adjustment to the yield of the related loan over the estimated average life of the loan. The par value of credit card loans represents outstanding principal amounts plus unpaid billed fees and finance charges less charge-offs and is reduced for the net unearned revenue related to loan origination which is amortized over 12 months.

Accrual of interest is discontinued on a loan when management believes collection of interest is doubtful after considering economic and business conditions, collection efforts, and the financial condition of the borrower. All interest accrued but not collected for loans that are charged off or placed on non-accrual, is reversed against interest income. All cash payments received while the loans are placed on non-accrual are applied to principal until all principal is received or the loan is removed from non-accrual status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured. Credit card loans continue to accrue interest up to 90 days contractually past due. The credit card loans are then put on non-accrual status for an additional 90 days. After 180 days, the credit card loan balance plus accrued interest is charged off. All other banking loans are charged off when identified as losses by management.

Interest on loans and securities is recognized based on rate times the principal amount outstanding. This includes the impact of amortization of premiums and discounts. Other noninterest income is recognized as services are performed or revenue generating transactions are executed.

Mortgage Loans Held for Sale – Mortgage loans held for sale (MHFS) include commercial and residential mortgages originated for sale and securitization in the secondary market, which is our principal market, or for sale as whole loans. The Company measures MHFS originated by the Bank at fair value.

Net unrealized losses, if any, are recognized through a valuation allowance by charges to income. Loan origination fees and loan origination costs are deferred and included in the carrying amount of the loans. When loans are sold with the servicing released, gains or losses are recognized on sales as the difference between the cash proceeds, which includes a service release premium, and the carrying amount of the loans. The revenue generated on the sale, including the service release premium, is included in noninterest income as a gain on sale of mortgage loans. When loans are sold with the servicing retained, the gain or loss is recognized as the difference between the cash proceeds and the carrying value of the loans and a mortgage servicing right asset is recorded.

Loan Securitizations – The Company sells credit card loans to securitization trusts whereby securities are issued and sold to investors, a process referred to as securitization. The securitization trusts are consolidated in the Company's financial statements; therefore, the credit card loans sold to the trusts are reported within net loans and leases and the cash received from investors is reported as other borrowings. The assets of the securitization trusts are restricted to the settlement of the debt and other liabilities of the trusts and the holders of the debt do not have recourse to the general assets of the Company. The Company's credit card securitizations are accounted for as secured borrowings and the trusts are treated as consolidated subsidiaries of the Company.

Allowance for Credit Losses – Losses on loan receivables are estimated and recognized based on current expected credit losses (CECL) for the life of the loan balance as of the period end date. Expected credit loss estimates involve modeling loss projections attributable to existing loan balances, considering historical experience, current conditions, estimated prepayments, and reasonable and supportable macroeconomic factors. The Company utilizes multiple macroeconomic forecasts with probability weighted scenarios based on management's judgment. We also perform a qualitative assessment in addition to model estimates and apply qualitative adjustments as necessary. The reasonable and supportable forecast period is determined primarily based upon an assessment of the current economic outlook, and our ability to use available data to accurately forecast losses over time. For loan pools that extend beyond the reasonable and supportable forecast period, losses are assumed to revert to a historical average.

We segment our loan receivable population into pools of loans with similar risk characteristics. We periodically review segmentation to determine whether the segmentation pools remain relevant as risk characteristics change.

Credit Card Loan Segmentation – The highest level of credit card segmentation is segmented by consumer and business cards. Within these portfolios, there are two different modeling methods applied, which vary by whether they include macroeconomic indicators as independent variables within the model.

Top-down model segments only use loan characteristics as the independent variables in predicting loan charge-offs. The Top-down modeling approach uses a vintage-based approach to forecast losses. In this approach, cumulative charge off rate multiplied with the initial loan amount and Loss Given Default (LGD) are used to forecast losses.

Bottom-up model segments use both loan characteristics and macroeconomic indicators as independent variables for predicting loan charge-offs. The bottom-up models forecast loss amounts using Probability of Default (PD), LGD, and Exposure at Details (EAD) methodology. Recovery curves are calculated using historical credit card recovery data.

The life of a credit card loan receivable is dependent upon the allocation of payments received, as well as a variety of other factors, including the principal balance, promotional terms, interest charges and fees, and overall consumer credit profile and usage pattern. We determine the expected credit losses for credit card loan receivables as of the measurement date by using a combination of account-level and segment-level models statistically calibrated based on our historical data.

No liability for expected credit losses is established for unused lines of credit on credit card loans because those loans are unconditionally cancellable. A liability is recorded for expected losses for unfunded commitments on all other loans where the terms are not unconditionally cancellable. This liability is reflected in other liabilities in the consolidated statements of financial condition.

Other Loan Segmentation – For all other loans, a combination of approaches are used to determine appropriate reserve levels. These approaches involve the application of the Weighted Average Remaining Maturity Method (WARM), PD, LGD and EAD methodologies. Unsecured consumer loans, other than credit card loans, which include unsecured term loans, Buy Now Pay Later, home improvement loans, and other point of sale loans estimate losses using a PD, LGD, and EAD methodology. All remaining loans are assigned to loan pools that utilize WARM for estimating credit losses. Annual net loss rates for each pool are calculated for each calendar year of the migrating look-back period as the year's net losses divided by average loan balances. The look-back period for loss and recovery history is ten years, if the data is available, or when less than ten years is available, the longest reliable history that is available is utilized.

Additional Qualitative Adjustments increase or decrease baseline reserves based on evolving conditions relating to delinquencies, credit losses, loan volumes, risk dispersion, policy changes, loan management, economic conditions, industry conditions, concentrations of credit, and other factors as warranted. A decrease to the baseline reserve rate could occur when a loss event occurs due to factors that are uniquely isolated to the specific borrower rather than systemic risk factors within the loan pool.

Prior to the adoption of ASC 326 on January 1, 2023, credit losses were estimated using the incurred loss model. As required by the ASC, financial statement results and balances prior to January 1, 2023, were not retrospectively adjusted to reflect the amendments in ASC 326. Therefore, current period results and balances are not comparable to prior period amounts related to provision and allowance for credit losses. Reasonable and supportable forecast adjustments are also applied to the model allowance.

Premises, Equipment, and Software, net – Premises, furniture, equipment, software, and leasehold improvements are carried at cost, less accumulated depreciation, and amortization. The Company primarily uses the straight-line method of depreciation and amortization. Estimated useful lives range up to 50 years for buildings and up to 15 years for software and equipment. Leasehold improvements are amortized over the shorter of the estimated useful life or lease term. Land is carried at cost.

Foreclosed Assets and Former Bank Premises – Assets acquired through loan foreclosures and former bank premises are held for sale and initially recorded at the lower of cost or fair value less estimated selling costs when acquired, establishing a new cost basis. If the fair value of the assets decline, a write-down is recorded through expense. The valuation of foreclosed assets is subjective in nature and may be adjusted in the future because of changes in economic conditions. Foreclosed assets and former bank premises are included in other assets on

the Consolidated Statements of Financial Condition and totaled $3.3 million and $1.6 million at December 31, 2023 and 2022, respectively.

Goodwill – Goodwill represents the excess of the purchase price over the estimated fair value of identifiable net assets associated with merger and acquisition transactions. Goodwill is not amortized, but instead, reviewed for impairment at least annually or whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

The accounting guidance allows the Company to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not (more than 50%) that the estimated fair value of a reporting unit is less than its carrying amount. If the Company elects to perform a qualitative assessment and determines that an impairment is more likely than not, the Company is then required to perform a quantitative impairment test, otherwise, no further analysis is required. The Company may also elect not to perform the qualitative assessment and, instead, proceed directly to the quantitative impairment test.

Under the qualitative assessment, various events and circumstances that would affect the estimated fair value of a reporting unit (e.g., macroeconomic conditions, industry and market conditions, cost factors, overall financial performance and other relevant entity-specific events) are identified and assessed. The Company's policy requires the completion of a quantitative assessment every three years unless circumstances indicate that such assessment should be performed more frequently. The Company completed its periodic quantitative assessment for the 2023 annual review of goodwill. The Company used a weighted average of two generally accepted approaches, the market approach and the income approach, in determining the fair value of goodwill. Under the market approach, the fair value of the asset reflects the price at which comparable assets are purchased under similar circumstances. The income approach is based on value of future cash flows that an asset will generate in its economic life.

Mortgage Servicing Rights – The Company measures mortgage servicing rights (MSRs) at fair value. The fair value of MSRs is determined using present value of estimated future cash flow methods, incorporating assumptions that market participants would use in their estimates of fair value. Fees received for servicing mortgage loans owned by investors are based on a percentage of the outstanding monthly principal balance of such loans and are recognized in income as services are provided. Costs of servicing mortgage loans are charged to expense as incurred. The Company's MSRs are classified in intangible assets.

Securities Sold Under Repurchase Agreements – Securities sold under agreements to repurchase, which are classified as secured borrowings and included in short-term fundings, generally mature within one day from the transaction date. Securities sold under agreements to repurchase are reflected at the amount of cash received in connection with the transaction. The Company may be required to provide additional collateral based on the fair value of the underlying securities.

Derivative Financial Instruments – The Company's Board of Directors has established derivative usage policies. The Company's derivative activities are monitored by management with oversight by the Board of Directors. The Company assesses interest rate cash flow risk by monitoring changes in interest rate exposures and by evaluating hedging opportunities. The Company's policies permit the use of various derivative financial instruments to manage interest rate risk or to hedge specific assets. The Company uses derivatives on a limited basis mainly to hedge against interest rate risk and to meet the needs of its customers.

All derivatives are recorded at fair value in the Company's financial statements. Changes in fair value on derivatives that are designated and qualify as a cash flow hedge are recorded as a component of other comprehensive income. All other gains and losses on the Company's derivative instruments are recorded in earnings. To qualify for hedge accounting, derivatives must be highly effective at reducing the risk associated with the exposure being hedged and must be designated as a hedge at inception. The Company formally documents the relationship between hedging instruments and hedged items, as well as the risk management objective and strategy for undertaking various hedge transactions. The Company measures the effectiveness of its hedging relationships both at the hedge inception and on an ongoing basis in accordance with its risk management policy.

Income Taxes – The Company files consolidated federal and state tax returns. Taxes of the subsidiaries are computed on a separate-return basis, modified to utilize subsidiary net operating losses and capital losses when those losses are realized by the consolidated group. Taxes are remitted to 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 tax rates which are applicable to future periods. The Company recognizes tax benefits only for tax positions that are more likely than not to be sustained upon examination by tax authorities. The amount recognized is measured as the largest amount of benefit that is greater than 50 percent likely to be realized upon settlement. A liability for unrecognized tax benefits is recorded for any tax benefits claimed in tax returns that do not meet these recognition and measurement standards. The Company recognizes both interest and penalties (if applicable) as a component of income tax expense.

Fair Values of Financial Instruments – The fair values of financial instruments that are not actively traded are based on market prices of similar instruments and/or valuation techniques using market assumptions. Although management uses its best judgment in estimating the fair value of these financial instruments, there are inherent limitations in any estimation technique, including the discount rate and estimates of future cash flows. The carrying amount of cash and short-term financial instruments, including federal funds sold, accrued interest receivable, short-term fundings, and accrued interest payable best approximates their fair values.

Trust Assets – Property (other than cash deposits) held by the banking subsidiary in fiduciary or agency capacities for its customers is not included in the accompanying Consolidated Statements of Financial Condition since such items are not assets of the Company.

Earnings Per Share – Basic and diluted earnings per common share (EPS) is computed using the weighted average number of shares of common stock outstanding during the period.

B. INVESTMENT SECURITIES

Available-for-Sale Debt Securities

The amortized cost of available-for-sale debt securities and their approximate fair values at December 31 were as follows:

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2023				
U.S. government obligations	**$ 672,027**	**$ 227**	**$ (45,794)**	**$ 626,460**
Obligations of states and political subdivisions	**135,117**	**406**	**(11,844)**	**123,679**
Agency mortgage-backed securities	**4,693,884**	**12,949**	**(330,225)**	**4,376,608**
Other securities	**17,225**	**—**	**(856)**	**16,369**
Total debt securities available-for-sale	**$ 5,518,253**	**$ 13,582**	**$ (388,719)**	**$ 5,143,116**
2022				
U.S. government obligations	$ 675,649	$ 128	$ (58,733)	$ 617,044
Obligations of states and political subdivisions	121,420	359	(12,122)	109,657
Agency mortgage-backed securities	4,618,171	3,851	(377,960)	4,244,062
Other securities	18,726	—	(1,922)	16,804
Total debt securities available-for-sale	$ 5,433,966	$ 4,338	$ (450,737)	$ 4,987,567

There were no gross realized gains on sales for available-for-sale debt securities in 2023, 2022 or 2021. The gross realized gains on sales of available-for-sale debt securities are recorded in other noninterest income on the Consolidated Statements of Income. The proceeds from sales of available-for-sale debt securities were $33.3 million, $100.8 million and $38.6 million for 2023, 2022, and 2021, respectively.

Held-to-Maturity Debt Securities

The amortized cost of held-to-maturity debt securities and their approximate fair values at December 31 were as follows:

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2023				
U.S. government obligations	**$ 5,125**	**$ —**	**$ (116)**	**$ 5,008**
Obligations of states and political subdivisions	**39,018**	**—**	**(2,287)**	**36,731**
Agency mortgage-backed securities	**108,930**	**—**	**(12,889)**	**96,041**
Total debt securities held-to-maturity	**$ 153,073**	**$ —**	**$ (15,292)**	**$ 137,780**
2022				
U.S. government obligations	$ 9,146	$ —	$ (306)	$ 8,840
Obligations of states and political subdivisions	40,641	—	(3,249)	37,392
Agency mortgage-backed securities	115,042	—	(14,246)	100,796
Total debt securities held-to-maturity	$ 164,829	$ —	$ (17,801)	$ 147,028

The following table presents the amortized cost and fair value by the contractual maturity of available-for-sale (AFS) and held-to-maturity (HTM) debt securities held on December 31, 2023:

	Available-for-Sale		Held-to-Maturity	
(in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Debt securities				
Due in one year or less	**$ 71,176**	**$ 70,334**	**$ 3,473**	**$ 3,426**
Due after one year through five years	**500,876**	**462,911**	**22,747**	**21,742**
Due after five years through ten years	**182,684**	**170,388**	**10,317**	**9,761**
Due after ten years	**52,408**	**46,506**	**7,606**	**6,810**
Agency mortgage-backed securities (weighted average life of 4.5 years for AFS and 8.0 years for HTM)	**4,693,884**	**4,376,608**	**108,930**	**96,041**
Total	**$ 5,501,028**	**$ 5,126,747**	**$ 153,073**	**$ 137,780**

The following table shows the fair value and gross unrealized losses of the Company's investments, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2023 and 2022:

	Less than 12 months		12 months or greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
(in thousands)						
2023						
U.S. government obligations	**$ 37,263**	**$ (545)**	**$ 542,480**	**$ (45,365)**	**$ 579,743**	**$ (45,910)**
Obligations of states and political subdivisions	**35,543**	**(2,568)**	**86,043**	**(11,563)**	**121,586**	**(14,131)**
Agency mortgage-backed securities	**1,278,751**	**(111,698)**	**2,577,696**	**(231,416)**	**3,856,447**	**(343,114)**
Other securities	**—**	**—**	**11,369**	**(856)**	**11,369**	**(856)**
Total	**$ 1,351,557**	**$ (114,811)**	**$ 3,217,588**	**$ (289,200)**	**$ 4,569,145**	**$ (404,011)**
2022						
U.S. government obligations	$ 572,737	$ (56,356)	$ 33,100	$ (2,683)	$ 605,837	$ (59,039)
Obligations of states and political subdivisions	81,462	(10,268)	44,405	(5,103)	125,867	(15,371)
Agency mortgage-backed securities	3,223,651	(302,539)	812,803	(89,667)	4,036,454	(392,206)
Other securities	—	—	11,804	(1,922)	11,804	(1,922)
Total	$ 3,877,850	$ (369,163)	$ 902,112	$ (99,375)	$ 4,779,962	$ (468,538)

The adoption of CECL did not have a material impact on the Company's accounting for investments. The Company conducts periodic reviews of securities to determine if the unrealized losses indicate impairment from credit loss using both quantitative and qualitative criteria. The assessment of expected credit losses is performed on a collective basis when similar risk characteristics exist and expected credit losses are recognized at the time of purchase. Based on this assessment, no impairments for credit losses were recognized during the period.

Securities totaling $4.3 billion and $3.9 billion at December 31, 2023 and 2022, respectively, were pledged to secure public deposits, repurchase agreements and for other purposes as required or permitted by law.

The Company had $16.6 million of trading securities at December 31, 2023 and no trading securities at December 31, 2022. The portion of trading gains (losses) that related to trading securities was $4.1 million, ($3.2) million and ($2.5) million for the years ended December 31, 2023, 2022 and 2021, respectively.

C. LOANS AND ALLOWANCE FOR CREDIT LOSSES

Loans and Leases

The Company originates individual consumer, commercial, agricultural, and real estate loans to its customers. It is diversified in its lending by providing financing to a variety of borrowers generally throughout Colorado, Illinois, Indiana, Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, Ohio, Oklahoma, South Dakota, Texas, Utah, Wisconsin and Wyoming. Additionally, its credit card loan portfolio includes affinity, co-branded, and national portfolios which include borrowers from across the country.

The following table reflects the diversification of the lending activities for loans and leases at December 31:

(in thousands)	2023	2022
Credit card	**$ 8,765,977**	$ 8,512,478
Real estate – commercial	**4,777,573**	4,088,516
Real estate – residential (1)	**2,452,477**	1,885,786
Commercial	**1,790,468**	1,645,611
Agricultural	**2,571,536**	2,144,928
Other	**2,410,104**	1,630,356
Gross loans	**22,768,135**	19,907,675
Deferred loan fees (costs), net	**23,583**	23,099
Total loans and leases	**22,791,718**	19,930,774
Less:		
Allowance for loan losses	**990,025**	416,329
Net loans and leases	**$ 21,801,693**	$ 19,514,445

(1) Includes mortgage loans held for sale of $46.4 million and $15.2 million at December 31, 2023 and 2022, respectively.

Related Party Loans

Loan participations sold to banks owned by controlling stockholders of the Company were $7.4 million and $9.4 million at December 31, 2023 and 2022, respectively. Loan participations of $124.6 million and $57.2 million were also purchased from companies owned by controlling stockholders at December 31, 2023 and 2022, respectively. Loans and commitments to Company directors and their associated entities were made in the ordinary course of business and were approximately $368.8 million and $185.0 million at December 31, 2023 and 2022, respectively.

Allowance for Credit Losses and Allowance for Loan Losses

The allowance for credit losses at December 31, 2023 reflects our estimate of expected credit losses for the life of the loan receivables on our consolidated statement of position at December 31, 2023. The estimate of expected credit losses considers current and expected macroeconomic conditions in existence at that date.

The allowance for loan losses is presented as of December 31, 2022 and December 31, 2021 and is presented in accordance with the applicable accounting standards in effect prior to the adoption of ASC 326. It is intended to represent incurred losses inherent in the Company's loan portfolio as of the reporting date.

The Company evaluates its allowance for loan losses based upon a review of collateral values, delinquencies, non-accruals, payment histories and various other analytical and subjective measures relating to the various loan portfolios within the Company.

Changes in the allowance for credit losses for the years ended December 31 were as follows:

(in thousands)	2023	2022	2021
Balance, beginning of year	**$ 416,329**	$ 284,129	$ 440,341
Impact of adopting ASC 326 (CECL)	**394,871**	—	—
Adjusted balance, beginning of year	**811,200**	284,129	440,341
Provision for loan losses	**639,687**	322,969	6,903
Loans charged off	**(541,028)**	(265,352)	(233,737)
Loans recovered	**80,166**	74,583	70,622
Total net charge-offs	**(460,862)**	(190,769)	(163,115)
Balance, end of year	**$ 990,025**	$ 416,329	$ 284,129

Changes in the allowance for credit losses for the year ended December 31 by portfolio segment were as follows:

Credit Card (in thousands)	2023	2022	2021
Balance, beginning of year	**$ 269,736**	$ 163,909	$ 309,759
Impact of adopting ASC 326 (CECL)	**342,763**	—	—
Adjusted balance, beginning of year	**612,499**	163,909	309,759
Provision for loan losses	**520,291**	271,578	12,446
Loans charged off	**(453,766)**	(230,825)	(214,016)
Loans recovered	**66,558**	65,074	55,720
Total net charge-offs	**(387,208)**	(165,751)	(158,296)
Balance, end of year	**$ 745,582**	$ 269,736	$ 163,909

Other Bank Loans (in thousands)	2023	2022	2021
Balance, beginning of year	**$ 146,593**	$ 120,220	$ 130,582
Impact of adopting ASC 326 (CECL)	**52,108**	—	—
Adjusted balance, beginning of year	**198,701**	120,220	130,582
Provision for loan losses	**119,396**	51,391	(5,543)
Loans charged off	**(87,262)**	(34,527)	(19,721)
Loans recovered	**13,608**	9,509	14,902
Total net charge-offs	**(73,654)**	(25,018)	(4,819)
Balance, end of year	**$ 244,443**	$ 146,593	$ 120,220

In determining the Company’s allowance for credit losses, management considers factors such as economic and business conditions affecting key lending areas, credit concentrations, and credit quality trends. Since the evaluation of the inherent loss with respect to these factors is subject to a higher degree of uncertainty, the measurement of the overall allowance is subject to estimation risk and the amount of actual losses can vary significantly from the estimated amounts.

For credit card receivables, our estimation process includes analysis of historical data, and there is a significant amount of judgment applied in selecting inputs and analyzing the results produced by the models to determine the allowance for credit losses. We use an account-level model and migration analysis to estimate the likelihood that a loan will progress through the various stages of delinquency. The model and analysis consider uncollectible principal, interest and fees reflected in the loan receivables, segmented by credit and business parameters. We use other account-level and segment-level models to estimate expected losses on non-delinquent accounts, which include past performance, bankruptcy activity such as filings, policy changes and loan volumes and amounts. Holistically, for assessing the portfolio credit loss content, we also evaluate portfolio risk management techniques applied to various accounts, historical behavior of different account vintages, account seasoning, economic conditions, recent trends in delinquencies, account collection management, forecasting uncertainties, expectations about the future and a qualitative assessment of the adequacy of the allowance for credit losses. Key factors that impact the accuracy of our historical loss forecast estimates include the models and methodology

utilized, credit strategy and trends, and consideration of material changes in our loan portfolio such as changes in growth and portfolio mix.

For credit card loans, prior to 2023, management estimated losses inherent in the portfolio based on models which track historical loss experience on current and delinquent accounts and charge-offs, net of estimated recoveries, due to bankruptcies, deceased cardholders, and account settlements. The result was then used to derive the reserve balance. Management estimated losses inherent in the portfolio based on historical loss experience on current and delinquent accounts, the economic environment, and the risk profile of the portfolio.

Credit card loans are predominantly unsecured, and the allowance for potential losses associated with these loans has been established accordingly. Consumer term loans, included in Other Bank Loans above, are also predominantly unsecured, and the related allowance for potential loans has been established accordingly. All other loans are generally secured by underlying real estate, business assets, personal property, and personal guarantees. The amount of collateral obtained is based upon management's evaluation of the borrower.

Methods for measuring the appropriate level of the allowance for other banking loans evaluated collectively for impairment include the application of estimated loss factors to outstanding loans based on migration analysis of actual losses and subjective adjustments that incorporate the risk attributes of various loans with economic conditions, industry situations, and other internal/external factors that may impact potential loss factors. Adjustments are made to the baseline rates to properly reflect management's judgment with respect to evolving conditions influencing loss recognition.

Nonperforming and Past-Due Loans

The Company places loans on nonaccrual when management believes collection of principal and interest is doubtful after considering economic and business conditions, collection efforts and the financial condition of the borrower.

The following summarizes loan balances by type and performance status as of December 31:

(in thousands)	**30 – 89 Days Past Due**	**90 or More Days Past Due**	**Total Past Due**	**Not Past Due**	**Total Gross Loans**
2023					
Credit card	**$ 131,743**	**$ 143,390**	**$ 275,133**	**$ 8,490,844**	**$ 8,765,977**
Real estate – commercial	**2,350**	**—**	**2,350**	**4,775,223**	**4,777,573**
Real estate – residential	**5,214**	**1,662**	**6,876**	**2,445,601**	**2,452,477**
Commercial	**3,161**	**507**	**3,668**	**1,786,800**	**1,790,468**
Agricultural	**464**	**—**	**464**	**2,571,072**	**2,571,536**
Other	**26,026**	**5,454**	**31,480**	**2,378,624**	**2,410,104**
Total	**$ 168,958**	**$ 151,013**	**$ 319,971**	**$ 22,448,164**	**$ 22,768,135**

(in thousands)	**30 – 89 Days Past Due**	**90 or More Days Past Due**	**Total Past Due**	**Loans Not Past Due**	**Total Gross Loans**
2022					
Credit card	$ 96,220	$ 91,234	$ 187,454	$ 8,325,024	$ 8,512,478
Real estate – commercial	16,414	27	16,441	4,072,075	4,088,516
Real estate – residential	4,015	3,307	7,322	1,878,464	1,885,786
Commercial	8,724	1,009	9,733	1,635,878	1,645,611
Agricultural	2,345	3	2,348	2,142,580	2,144,928
Other	17,223	3,279	20,502	1,609,854	1,630,356
Total	$ 144,941	$ 98,859	$ 243,800	$ 19,663,875	$ 19,907,675

The following table presents the amortized cost of loans on nonaccrual status:

	December 31, 2023			December 31, 2022		
	Nonaccrual Loans with No Related Allowance	Nonaccrual Loans with Related Allowance	Total Nonaccrual Loans	Nonaccrual Loans with No Related Allowance	Nonaccrual Loans with Related Allowance	Total Nonaccrual Loans
(in thousands)						
Credit card	**$ 135,903**	**$ —**	**$ 135,903**	$ 74,772	$ 12,156	$ 86,928
Real estate – commercial	**3,773**	**—**	**3,773**	1,996	—	1,996
Real estate – residential	**6,608**	**—**	**6,608**	4,559	807	5,366
Commercial	**4,185**	**6,008**	**10,193**	1,792	87	1,879
Agricultural	**7,856**	**—**	**7,856**	17,900	1,046	18,946
Other	**4,268**	**—**	**4,268**	1,738	—	1,738
Total	**$ 162,593**	**$ 6,008**	**$ 168,601**	$ 102,757	$ 14,096	$ 116,853

Interest income recognized on nonaccrual loans was insignificant for the years ended December 31, 2023, 2022, and 2021. Accrued interest reversed when the loans transferred to nonaccrual status was insignificant during the years ended December 31, 2023, 2022, and 2021.

Loan Modifications for Borrowers Experiencing Financial Difficulty

The Company adopted ASU 2022-02, "Financial Instruments - Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures" (ASU 2022-02) effective January 1, 2023. The amendments in ASU 2022-02 eliminated the recognition and measurement of TDRs and enhanced the disclosures for loan modifications to borrowers experiencing financial difficulty. A borrower is considered to be experiencing financial difficulty when there is a significant doubt about the borrower's ability to make the required principal and interest payments on the loan or to get an equivalent financing from another creditor at a market rate for a similar loan.
When borrowers are experiencing financial difficulty, the Company may make certain loan modifications as part of loss mitigation strategies to maximize expected payment. To be classified as a modification made to a borrower experiencing financial difficulty, the modification must be in the form of principal forgiveness, interest rate reduction, payment delays or term extensions. The following table summarizes modifications by loan type and modification category during the year ended December 31, 2023:

	Interest Rate Reduction and Term Modification	Interest Rate Reduction	Total Modifications
(in thousands)			
Credit card	**$ 37,964**	**$ —**	**$ 37,964**
Other	**—**	**1,366**	**1,366**
Total	**$ 37,964**	**$ 1,366**	**$ 39,330**

The following table provides information on the performance of loans modified to borrowers experiencing difficulty which have been modified subsequent to January 1, 2023 and remain in a modified program at December 31, 2023:

	Amortized cost basis			
	Current	30-89 days delinquent	90 + days delinquent	Total Past Due
(in thousands)				
Credit card	**$ 28,583**	**$ 5,243**	**$ 4,138**	**$ 9,381**
Other	**1,013**	**—**	**353**	**353**
Total	**$ 29,596**	**$ 5,243**	**$ 4,491**	**$ 9,734**

Troubled Debt Restructurings
Prior to the adoption of ASU 2022-02, troubled debt restructurings (TDR) occurred when concessions were granted to borrowers experiencing financial difficulties. These concessions could include a reduction in the interest rate on the loan, payment extensions, forgiveness of principal, forbearance, or other action intended to maximize collection. These loans were measured for impairment based on either the fair value of the underlying collateral or based on the present value of expected future cash flows discounted at the effective interest rate of the original loan contract with any shortfall recorded as a part of the allowance for loan losses. Some loans modified through the loan restructurings may not be accruing interest at the time of the modification. The Company returns modified loans to accrual status once the borrower demonstrates performance according to the terms of the restructuring agreement for a period of at least six months. A loan modified as a troubled debt restructuring is reported as a troubled debt restructuring for a minimum of one year. A loan will no longer be included in the balance of troubled debt restructurings in the calendar year following a modification if the loan was modified to yield a market rate for loans of similar credit risk at the time of restructuring and the borrower has demonstrated financial stability based on the terms of the restructuring agreement.

Consumers with outstanding credit card loans that are experiencing financial difficulties are restructured through loan restructuring programs. Once a credit card loan is restructured, the Company no longer has a commitment to provide additional funding on the loan.

The following table represents a summary of the loans modified as a troubled debt restructuring by the Company during the year ended December 31 and the ending balance of all troubled debt restructured loans at December 31:

($ in thousands)	Number of loans modified	Recorded investment in loans classified as a TDR
2022		
Credit card	4,299	$ 35,047
Real estate – commercial	1	4,142
Real estate – residential	28	17,722
Commercial	1	4,198
Agricultural	7	14,402
Other	1	1,927
Total modifications	4,337	$ 77,438

At December 31, 2022, $6.1 million of credit card restructured loans were not in compliance with their modified terms. Modifications on credit card loans typically included a reduction in the interest rate charged on the loan and a conversion of the revolving loan into a term loan paying principal and interest. Based on the methodology used to determine allowance on troubled debt restructurings, the Company increased the allowance recorded on these loans by $2.9 million upon classification and recorded an allowance for loan loss equal to $12.2 million on all credit card troubled debt restructurings in 2022.

At December 31, 2022, other banking loans modified as troubled debt restructurings of $14.3 million were not in compliance with their modified terms. There were no significant commitments for additional funding on any of the community banking loans that were troubled debt restructurings at December 31, 2022.

Credit Quality Indicators
The credit card portfolio is largely comprised of unsecured consumer revolving loans. As part of the credit risk management activities, on an ongoing basis, the Company assesses overall credit quality by reviewing information related to the performance of customer accounts, including delinquency information, as well as information from credit bureaus related to the customer's broader credit performance. The Company utilizes Experian credit scores to assist in the assessment of credit quality. Credit scores are obtained at origination of the account and are refreshed monthly. The Company categorize these credit scores into the following four credit score categories: (1) 780 or higher, which are considered the strongest credits; (2) 720 to 779, considered moderately strong credits; (3) 680 to 719, considered moderate credit risk; and (4) 680 or less, which are considered weaker credits.

The following table provides credit card loan portfolio balances based on credit scores at December 31:

	780 or Higher	720 to 779	680 to 719	679 or Less	Total
(in thousands)					
2023					
Credit card:					
Consumer	**$ 2,086,918**	**$ 1,905,832**	**$ 1,797,992**	**$ 2,779,286**	**$ 8,570,028**
Large commercial (1)					**195,949**
Total	**$ 2,086,918**	**$ 1,905,832**	**$ 1,797,992**	**$ 2,779,286**	**$ 8,765,977**
2022					
Credit card:					
Consumer	$ 2,017,473	$ 1,984,692	$ 1,820,244	$ 2,495,144	$ 8,317,553
Large commercial (1)					194,925
Total	$ 2,017,473	$ 1,984,692	$ 1,820,244	$ 2,495,144	$ 8,512,478

(1) Large commercial credit card loans are monitored based on other credit quality indicators.

The Company uses an internal credit rating system to monitor the credit risk within its other banking loan portfolio. The internal credit ratings system assigns credit risk ratings based on the strength of the primary repayment source for the loan outstanding. The assigned risk rating is based on the likelihood that the borrower will be able to service its obligations under the terms of the agreement. In assigning a rating, the Company assesses the strength of the borrower's repayment capacity and the probability of default, where default is the failure to make a required payment in full and on time. The Company first assesses the paying capacity of the borrower; then, it analyzes any pledged collateral or guarantees. As the primary repayment source weakens and default probability increases, collateral and other protective structural elements have a bearing on the risk rating.

The Company's internal rating scale aligns with the regulatory agency's risk rating scale used to identify problem credits and identifies three varying degrees of credit worthiness: (a) pass, (b) special mention, and (c) substandard. Pass loans exceed the Company's minimum level of acceptable credit risk and servicing requirements; all loans not rated special mention or substandard are considered pass loans. A special mention loan has potential weaknesses that if left uncorrected may result in deterioration of the repayment prospects for the asset or in the borrower's credit position at some future date. A substandard loan is inadequately protected by the current worth and paying capacity of the obligor or of the collateral pledged, if any. Loans classified as substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt, and if these deficiencies are not corrected, it is possible that the Company will sustain some loss. The Company reviews and updates the risk rating on its loans as circumstances change or at least quarterly.

The Company's loan portfolio was evaluated based on the following credit quality indicators as of December 31:

	Real Estate - Commercial	Real Estate - Residential	Commercial	Agricultural	Other	Total
(in thousands)						
2023						
Internally assigned grade:						
Pass	**$ 4,539,884**	**$ 2,434,882**	**$ 1,758,567**	**$ 2,497,971**	**$ 2,400,323**	**$ 13,631,627**
Special mention	**100,994**	**8,812**	**6,515**	**44,752**	**—**	**161,073**
Substandard	**136,695**	**8,783**	**25,386**	**28,813**	**9,781**	**209,458**
Total	**$ 4,777,573**	**$ 2,452,477**	**$ 1,790,468**	**$ 2,571,536**	**$ 2,410,104**	**$ 14,002,158**

The following table provides other banking loans portfolio balances based on internally assigned grade based on year of origination as of December 31:

	By origination year				
	2023	2022	2021	Prior	Total
(in thousands)					
2023					
Internally assigned grade:					
Pass	**$ 3,358,116**	**$ 3,166,892**	**$ 1,629,048**	**$ 5,477,571**	**$ 13,631,627**
Special mention	**4,503**	**7,931**	**28,736**	**119,903**	**161,073**
Substandard	**14,700**	**15,887**	**12,553**	**166,318**	**209,458**
Total	**$ 3,377,319**	**$ 3,190,710**	**$ 1,670,337**	**$ 5,763,792**	**$ 14,002,158**

D. VARIABLE INTEREST ENTITIES

Certain legal entities are considered variable interest entities (VIEs). VIEs are legal entities that lack sufficient equity to finance their activities, or the equity investors of the entities, as a group, lack any of the characteristics of a controlling interest. A Company is required to consolidate a VIE when it determines it is the primary beneficiary. The primary beneficiary of a VIE is the enterprise that has both the power to direct the activities most significant to the economic performance of the VIE and the obligation to absorb losses or receive benefits that could potentially be significant to the VIE. The Company evaluates its transfers and transactions with entities to determine if it holds a variable interest in these entities. Variable interests are typically in the form of a security representing retained interests in the transferred assets or servicing rights or management fees. If the Company holds a variable interest, it evaluates whether the Company is the primary beneficiary and should consolidate the entity based on the variable interests it held both at inception and when there is a change in circumstance that requires reconsideration. If the Company is determined to be the primary beneficiary of a VIE, it must account for the VIE as a consolidated subsidiary. If the Company is determined not to be the primary beneficiary of a VIE but holds a variable interest in the entity, such variable interests are accounted for under the equity method of accounting or other accounting standards as appropriate.

Credit Card Securitizations
The Company sells credit card receivables to a securitization trust. These transactions isolate the related loans through the use of a VIE. The VIE is funded through asset-backed securities issued with varying levels of credit subordination and payment priority, and residual interests. The Company retains residual interests in these entities and, therefore, has an obligation to absorb losses and a right to receive benefits from the VIE that could potentially be significant to the VIE. In addition, the Company retains servicing rights for the underlying loans and, therefore, holds the power to direct the activities of the VIE that most significantly impact the economic performance of the VIE. As a result, the Company determined it is the primary beneficiary of the VIE and the trust has been consolidated in the Company's financial statements. The assets of the VIE are restricted to the settlement of the debt and other liabilities of the VIE. Third-party holders of this debt do not have recourse to the general assets of the Company. Upon transfer of credit card loan receivables to the trust, the receivables and certain cash flows derived from them become restricted for use in meeting obligations to the trust's creditors. The trust has ownership of cash balances that also have restrictions, the amounts of which are reported in other assets. Investment of trust cash balances is limited to investments that are permitted under the governing documents of the trust and which have maturities no later than the related date on which funds must be made available for distribution to trust investors. With the exception of the seller's interest in trust receivables, the Company's interests in trust assets are generally subordinate to the interests of third-party investors and, as such, may not be realized by the Company if needed to absorb deficiencies in cash flows that are allocated to the investors in the trust's debt.

The carrying values of these restricted assets, which are presented in the Company's Consolidated Statements of Financial Condition as relating to securitization activities, are shown in the table below at December 31:

(in thousands)	**2023**	2022
Credit card loans	**$ 3,174,951**	$ 2,351,134
Allowance for loan losses allocated to securitized loans	**(270,043)**	(74,501)
Total net loans	**$ 2,904,908**	$ 2,276,633
Borrowings owed to securitization investors, net of discount	**$ 849,907**	$ —
Unamortized debt issuance costs	**(3,425)**	—
Total net other borrowings	**$ 846,482**	$ —

The economic performance of the VIE is most significantly impacted by the performance of the underlying loans. The principal risks to which the entities are exposed are credit, prepayment, and interest rate. Credit risk is managed through credit enhancement in the form of cash collateral accounts, excess interest on the loans, and the subordination of certain classes of asset-backed securities to other classes.

To protect investors, the securitization structures also include certain features that could result in earlier-than-expected repayment of the securities. Specifically, insufficient cash flows would trigger the early repayment of the securities. The Company is required to maintain a contractual minimum level of receivables in the trusts in

excess of the face value of outstanding investors' interests. This excess is referred to as the minimum seller's interest. The required minimum seller's interest in the pool of trust receivables, which is included in loans, is set at 4% of principal receivables of the trust. If the levels of receivables in the trust were to fall below the required minimum, the Company would be required to add receivables from the unrestricted pool of receivables, which would increase the amount of credit card loan receivables restricted for securitization investors, or the Company could elect to contribute cash to meet the requirements. A decline in the amount of the seller's interest could occur if balance repayments and charge-offs exceeded new lending on the securitized accounts or as a result of changes in total outstanding investors' interests. If the Company could not add enough receivables or cash to satisfy the requirement, an early amortization (or repayment) of investors' interests would be triggered.

The Company continues to own and service the accounts that generate the loan receivables held by the trust. The Company receives servicing fees from the trust based on a percentage of the monthly investor principal balance outstanding. Although the fee income offsets the fee expense to the trust and thus is eliminated in consolidation, failure to service the transferred loan receivables in accordance with contractual requirements could lead to a termination of the servicing rights and the loss of future servicing income.

Residential Mortgage Loans
The Company typically transfers first lien residential mortgage loans in conjunction with Government National Mortgage Association (Ginnie Mae) and Federal National Mortgage Association (Fannie Mae) securitization transactions whereby the loans are exchanged for cash or securities that are readily redeemed for cash proceeds and servicing rights. The securities issued through these transactions are guaranteed by the issuer and, as such, under seller/servicer agreements, the Company is required to service the loans in accordance with the issuers' servicing guidelines and standards. As seller, the Company has made certain representations and warranties with respect to the originally transferred loans under Ginnie Mae and Fannie Mae programs.

The Company evaluated these securitization transactions for consolidation under the accounting guidance. As servicer of the underlying loans, the Company is generally deemed to have power over the securitization. However, the Company does not hold any retained interests in these transactions; therefore, does not have the obligation to absorb losses or the right to receive benefits that could potentially be significant to the securitization. As a result, the Company determined that it was not the primary beneficiary of, and thus did not consolidate, any of these securitization transactions.

E. PREMISES, EQUIPMENT AND SOFTWARE

Premises, equipment, and software at December 31 were comprised of the following:

(in thousands)		2023		2022
Land	**$**	**85,025**	$	87,606
Buildings		**592,966**		605,612
Leasehold improvements		**56,436**		52,570
Software and equipment		**448,321**		432,144
Total premises, equipment, and software		**1,182,748**		1,177,932
Less accumulated depreciation		**690,546**		675,277
Net premises, equipment, and software	**$**	**492,202**	$	502,655

Depreciation expense included in net occupancy expense of premises and equipment rentals, depreciation and maintenance on the Consolidated Statements of Income totaled $48.7 million, $44.8 million and $44.1 million for 2023, 2022 and 2021, respectively.

F. GOODWILL AND INTANGIBLE ASSETS

The Company has recognized goodwill and other intangibles as a result of various acquisitions. Goodwill represents the excess of the purchase price over the estimated fair value of the identifiable net assets associated with merger and acquisition transactions. During 2023, the Company completed the acquisition of Northland Capital Holdings, Inc., including its subsidiary Northland Securities, Inc., a full-service securities broker-dealer headquartered in Minneapolis, Minnesota. The acquisition added approximately $36.8 million in assets and created an additional $29.8 million in goodwill. During the fourth quarter of 2023, the Company completed its qualitative assessment of goodwill and did not recognize an impairment for the year ended December 31, 2023. Absent any impairment indicators and the scheduled quantitative assessments, the Company will perform the goodwill qualitative assessment annually.

The carrying amount of goodwill was $281.1 million and $251.3 million as of December 31, 2023 and 2022, respectively.

The Company has recorded other identifiable intangible assets as a result of past transactions. These intangibles will continue to be amortized over their expected lives using straight-line and accelerated methods, as appropriate. During 2023, the Company acquired a credit card portfolio of $45.0 million. The purchase amount assigned to credit card relationship intangibles was $1.6 million. There were no impairment charges recorded in the Consolidated Statements of Income in 2023, 2022, or 2021.

The table below reflects the components of intangible assets subject to amortization at December 31:

	2023		2022	
(in thousands)	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Purchased credit card relationships	**$ 71,360**	**$ 35,889**	$ 69,794	$ 27,320
Core deposit intangibles	**15,475**	**2,966**	15,475	1,419
Total	**$ 86,835**	**$ 38,855**	$ 85,269	$ 28,739

The amortization expense for the year ended December 31, 2023 was $10.2 million, and the estimated amortization expense for each of the five succeeding years ending December 31 is approximately $9.2 million for 2024, $8.1 million for 2025, $7.2 million for 2026, $6.3 million for 2027 and $5.4 million for 2028.

Mortgage Servicing Rights

The right to service mortgage loans for others, or MSRs, are recognized when mortgage loans are sold and the rights to service these loans are retained. Mortgage loans serviced for others totaled $5.2 billion and $5.2 billion at December 31, 2023 and 2022, respectively. In exchange for servicing these loans, the Company receives servicing fees. Servicing fees related to MSRs were $14.4 million, $14.7 million, and $14.7 million for the years ended December 31, 2023, 2022, and 2021, respectively, and are recognized in processing services on the Company's Consolidated Statements of Income. The Company records the fair value of MSRs on its Consolidated Statements of Financial Condition. The Company determines the fair value of MSRs based on valuations obtained from an independent valuation specialist. The valuation model calculates the present value of estimated future net servicing income based on assumptions including estimates of prepayment speeds, discount rates, delinquency rates, late fees, other ancillary income, and costs to service. The fair value of the MSR asset was $72.0 million and $77.7 million as of December 31, 2023 and 2022, respectively, and is included in intangible assets. Changes in the fair value of MSRs are recorded in current period earnings in processing services on the Company's Consolidated Statements of Income.

G. INVESTMENT IN BANK OWNED LIFE INSURANCE

The Company holds investments in bank owned life insurance (BOLI) of $608.7 million and $591.4 million as of December 31, 2023 and 2022. The Company recorded noninterest income associated with the BOLI policies of $17.3 million and $12.8 million for the years ended December 31, 2023 and 2022, respectively. BOLI involves the purchasing of life insurance by the Company on a select group of employees where the Company is the owner and beneficiary of the policies. BOLI is recorded at its cash surrender value. Increases in the cash surrender value of these policies are recorded in noninterest income and not subject to income tax, as long as they are held for the life of the covered parties.

H. DEPOSITS

At December 31, 2023, the scheduled maturities of total certificates of deposit were as follows:

(in thousands)	
2024	$ **4,539,264**
2025	**1,113,936**
2026	**24,302**
2027	**13,490**
2028	**6,323**
2029 and thereafter	**284**
Total certificates of deposit	$ **5,697,599**

The aggregate amount of certificates of deposit, each with a minimum denomination of $250,000, was approximately $736.8 million and $195.4 million at December 31, 2023 and 2022, respectively.

The amount of deposits reclassified to overdraft loans were $108.5 million and $34.1 million at December 31, 2023 and 2022, respectively.

I. DEBT OBLIGATIONS

Other borrowings and capital notes and trust preferred securities of the Company as of December 31, 2023, were as follows:

(in thousands)	**Other Borrowing - Securitized Debt**	**Other Borrowing - FNN Ag Funding**	**Other Borrowings**	**Capital Notes and Trust Preferred Securities**
Scheduled maturities and payments due on obligations:				
Due in one year or less	**$ —**	**$ 200,000**	**$ 873**	**$ —**
Due after one year through two years	**—**	**—**	**895**	**—**
Due after two years through three years	**850,000**	**—**	**660**	**—**
Due after three years through four years	**—**	**—**	**1**	**—**
Due after four years through five years	**—**	**—**	**—**	**150,000**
Due after five years	**—**	**—**	**—**	**150,000**
Total debt obligations	**$ 850,000**	**$ 200,000**	**$ 2,429**	**$ 300,000**

FHLB Advances

The company had line of credit advances of $450.0 million outstanding as of December 31, 2023, carrying a variable interest rate that changes daily based on the FHLB. There were no line of credit advances outstanding as of December 31, 2022. At December 31, 2023 and 2022, FHLB approved borrowing capacity available for outstanding advances based on pledged real estate loans totaled $2.6 and $2.2 billion, respectively, and mortgage-backed securities totaled $878.7 and $615.1 million, respectively. Additionally, the Company held FHLB stock totaling $23.7 million and $14.1 million at December 31, 2023 and 2022.

Other Borrowings
The Company had other borrowings at December 31 as follows:

(in thousands)	2023	2022
Borrowings owed to securitization investors	$ 850,000	$ —
FNN Ag Funding	200,000	—
Other borrowings	2,429	3,552
Total other borrowings	1,052,429	3,552
Less unamortized debt issuance costs	(3,518)	—
Other borrowings, net	$ 1,048,911	$ 3,552

The Company's securitization trust is used to assist the Company in its management of liquidity and interest rate risk. Under this method of financing, the Company utilizes the trust for the purpose of securitizing loans and issuing beneficial interests to investors. The Company typically uses a mix of conduit and term securitization structures to facilitate management's liquidity strategies which consider a number of competing factors. Term securitization structures are for a fixed amount and a fixed term. In a conduit securitization, the Company's loans are securitized and beneficial interests may be sold to commercial paper issuers who pool the securities with those of other issuers. The amount securitized in a conduit structure is allowed to fluctuate within the terms of the facility which may provide greater flexibility for liquidity needs. The Company may renew or replace the outstanding conduit securitization facilities before the date they begin to amortize which is considered the maturity date. The terms of each agreement provide for a commitment fee to be paid on the unused capacity, and include various affirmative and negative covenants, including performance metrics and legal requirements similar to those required in a term securitization transaction.

In December 2009, FNN Ag Funding LLC, a subsidiary of the Company, entered into a secured revolving credit facility which bears a variable rate of interest. FNN Ag Funding LLC pledges participation interests in agriculture loans to secure this facility. The credit facility has a commitment of $250.0 million. As of December 31, 2023 the Company had an outstanding balance of $200.0 million carrying a variable interest rate that changed monthly as determined by Agribank lending rate. The Company had no outstanding balance as of December 31, 2022. As of December 31, 2023, FNN Ag Funding, LLC had total assets of $478.9 million, total liabilities of $203.2 million, and equity of $275.7 million.

Capital Notes and Trust Preferred Securities
The Company had capital notes and trust preferred securities at December 31 as follows:

(in thousands)	2023	2022
Subordinated capital notes, due 2028	$ 150,000	$ 150,000
Cumulative trust preferred securities, due 2033	25,000	25,000
Cumulative trust preferred securities, due 2037	100,000	100,000
Cumulative trust preferred securities, due 2037	25,000	25,000
Total capital notes and trust preferred securities	300,000	300,000
Less unamortized debt issuance costs	(1,106)	(1,341)
Capital notes and trust preferred securities, net	$ 298,894	$ 298,659

In March 2018, the Company issued $150.0 million in subordinated capital notes which are due to mature March 2028. These capital notes require the payment of a floating rate of interest equal to the then current three-month LIBOR plus 160 basis points. These capital notes are unsecured and subordinated to the claims of depositors and general creditors of the Company.

In March 2003, First National of Nebraska Statutory Trust I, a special-purpose wholly-owned trust company of the Parent Company, issued $25.0 million of floating-rate cumulative trust preferred securities due March 2033. In June 2007, First National of Colorado Statutory Trust II, a special-purpose wholly-owned trust subsidiary of the Parent Company, issued $25.0 million of floating-rate cumulative trust preferred securities due September 2037. Another special-purpose wholly-owned trust company of the Parent Company, First National of Nebraska Statutory Trust II, issued $100.0 million of floating-rate cumulative trust preferred securities in March 2007 which

are due March 2037. The weighted average interest rate of trust preferred securities was 7.65% at December 31, 2023. After five years from the respective issuance dates, the Company may elect to redeem these cumulative trust preferred securities prior to their scheduled maturity.

The Company has provided no sinking fund for subordinated capital notes and cumulative trust preferred securities.

J. INCOME TAXES

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities (net deferred tax assets) at December 31 were as follows:

(in thousands)	2023	2022
Deferred tax assets:		
Allowance for loan losses	**$ 235,621**	$ 99,071
Credit card rewards	**23,309**	20,796
Reserve for unfunded commitments	**6,021**	5,826
Employee benefits	**54,803**	47,883
Purchased credit card relationships	**4,619**	4,030
Net operating loss carryforwards (1)	**834**	588
Accrual for contingent litigation and regulatory matters	**3,424**	6,641
Market adjustment on available-for-sale securities	**88,739**	106,257
Other	**29,547**	8,503
Gross deferred tax assets	**446,917**	299,595
Less: Valuation allowance	**(526)**	(558)
Total deferred tax assets	**446,391**	299,037
Deferred tax liabilities:		
Credit card loan fee deferral	**6,748**	13,497
Depreciation and amortization	**28,182**	26,114
Mortgage servicing rights	**17,146**	18,483
Other	**11,487**	8,486
Total deferred tax liabilities	**63,563**	66,580
Net deferred tax assets	**$ 382,828**	$ 232,457

(1) Expire from 2024 to 2043

The following is a comparative analysis of the provision for federal and state taxes for the years ended December 31:

(in thousands)	2023	2022	2021
Current federal	**$ 118,944**	$ 106,969	$ 94,905
Current state	**21,503**	19,551	15,387
Total current taxes	**140,447**	126,520	110,292
Deferred federal	**(67,449)**	(26,247)	25,738
Deferred state	**(9,384)**	(5,714)	4,244
Total deferred taxes	**(76,833)**	(31,961)	29,982
Total provision for income taxes	**$ 63,614**	$ 94,559	$ 140,274

The effective rates of total tax expense for the years ended December 31, 2023, 2022 and 2021, were different than the statutory federal tax rate. The reasons for the differences were as follows:

	2023	2022	2021
(percent of pretax income)			
Statutory federal tax rate	**21.0 %**	21.0 %	21.0 %
Additions (reductions) in taxes resulting from:			
Tax-exempt interest income	**(0.3)**	(0.3)	(0.2)
State taxes	**2.6**	2.3	2.4
Income tax credits	**(2.5)**	(0.3)	(0.1)
Bank-owned life insurance	**(1.2)**	(0.7)	(0.1)
Other items, net	**1.1**	0.7	(0.9)
Change in unrecognized tax benefits	**1.2**	—	—
Valuation allowances	**—**	—	—
Effective tax rate	**21.9 %**	22.7 %	22.1 %

At December 31, 2023, the total amount of unrecognized tax benefits was $3.4 million. There were no interest or penalties in 2023. At December 31, 2022 and 2021, there were no unrecognized tax benefits, interest or penalties recorded.

The Company believes that it is reasonably possible the total amount of unrecognized tax benefits will increase in the range of zero to $2.0 million in the next 12 months related to federal and state exposures.

The Company is subject to U.S. federal income tax as well as income tax in numerous state and local jurisdictions. The statute of limitations related to the consolidated federal income tax return is closed for all tax years up to and including 2019. The expiration of the statute of limitations related to the various state income tax returns that the Company and subsidiaries file varies by state. There are no state income tax examinations in progress.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	2023	2022	2021
(in thousands)			
Balance, beginning of year	**$ —**	$ —	$ —
Increases related to current year tax positions	**—**	—	—
Increases related to prior year tax positions	**3,397**	—	—
Decreases related to prior year tax positions	**—**	—	—
Balance, end of year	**$ 3,397**	$ —	$ —

K. EMPLOYEE BENEFIT PLANS

The Company provides a noncontributory defined benefit pension plan to eligible employees. Pension benefits are based on years of service and the employee's highest average compensation using 60 consecutive months out of the last 120 months of employment. Effective December 31, 2007, the defined benefit pension plan was frozen. Effective as of the freeze date, no future years of service for benefit accrual purposes are earned and no new entrants to the plan are allowed. Individuals with at least 5 years of service and age plus service to the Company equal to or greater than 50 years on the freeze date have their average compensation computed at the time they leave the Company, not as of the freeze date.

The pension benefits are funded under a self-administered pension trust with the Company's trust department acting as trustee. The Company's policy is to fund the pension plan with sufficient assets necessary to meet benefit obligations as determined on an actuarial basis.

Using a measurement date of December 31, the following tables provide a reconciliation of the benefit obligations, plan assets, and funded status of the pension:

(in thousands)	2023	2022
Change in benefit obligation:		
Benefit obligation at January 1	**$ 302,185**	$ 415,994
Interest cost	**15,646**	11,518
Actuarial (gain) loss	**8,067**	(110,818)
Benefits paid (1)	**(14,989)**	(14,509)
Benefit obligation at December 31	**$ 310,909**	$ 302,185
Change in plan assets:		
Fair value of plan assets at January 1	**$ 277,681**	$ 349,831
Actual return on plan assets	**31,122**	(57,641)
Benefits paid	**(14,989)**	(14,509)
Fair value of plan assets at December 31	**$ 293,814**	$ 277,681
Funded status at December 31	**$ (17,095)**	$ (24,504)

(1) In 2023, the Company made lump sum benefit payments of zero and monthly annuity payments of $15.0 million. In 2022, the Company made lump sum benefit payments of zero and monthly annuity payments of $14.5 million.

The funded status is included in the Consolidated Statements of Financial Condition as a component of accrued expenses and other liabilities. For the year ended December 31, 2023, the actuarial loss is primarily due to the decrease in the discount rate.

The accumulated benefit obligation for the defined benefit pension plan was $304.2 million and $294.8 million at December 31, 2023 and 2022, respectively.

For the years ended December 31, amounts recognized in other comprehensive income, net of tax, consisted of the following:

(in thousands)	2023	2022	2021
Net income	**$ 6,786**	$ 29,818	$ 17,601
Other comprehensive income	**$ 6,786**	$ 29,818	$ 17,601

As of December 31, amounts recognized in accumulated other comprehensive loss, net of tax, consisted of the following:

(in thousands)	2023	2022
Net loss	**$ (53,729)**	$ (60,515)
Accumulated other comprehensive loss	**$ (53,729)**	$ (60,515)

Net periodic benefit cost reflected in the Consolidated Statements of Income included the following components:

(in thousands)	2023	2022	2021
Service cost	**$ —**	$ —	$ —
Interest cost	**15,645**	11,518	10,769
Expected return on plan assets	**(16,211)**	(22,270)	(22,457)
Amortization of loss	**2,078**	3,023	4,246
Net periodic benefit cost (benefit)	**$ 1,512**	$ (7,729)	$ (7,442)

The following table includes the weighted average assumptions used to determine benefit obligations at December 31:

(weighted averages)	2023	2022
Discount rate	**5.0 %**	5.3 %
Rate of compensation increase	**4.0 %**	4.0 %

The weighted average assumptions used to determine net periodic benefit cost for years ended December 31, were as follows:

(weighted averages)	2023	2022	2021
Discount rate	**5.3 %**	2.8 %	2.5 %
Expected return on plan assets	**6.0 %**	6.5 %	7.0 %
Rate of compensation increase	**4.0 %**	4.0 %	4.0 %

The Company has set the long-term rate of return on plan assets assumption as of December 31, 2023 at 6.0%. This assumption will be used to calculate the net periodic benefit cost in 2024. It is estimated based on historical returns. Over long periods of time, equity securities have provided a return of approximately 8.0%, while debt securities have provided a return of approximately 4.0%.

The major categories of assets in the Company's pension plan as of December 31, 2023 and 2022 are presented in the following table. Assets are segregated by the level of valuation inputs within the fair value hierarchy, see Note T.

(in thousands)	Level 1	Level 2	Level 3	Total
2023				
Money market funds	**$ 8,154**	**$ —**	**$ —**	**$ 8,154**
U.S. government securities and agencies	**69,829**	**5,385**	**—**	**75,214**
Obligations of states and political subdivisions	**—**	**448**	**—**	**448**
Corporate bonds	**—**	**24,512**	**—**	**24,512**
Mutual funds	**149,015**	**16,579**	**—**	**165,594**
Common stocks	**19,892**	**—**	**—**	**19,892**
Total fair value	**$ 246,890**	**$ 46,924**	**$ —**	**$ 293,814**
2022				
Money market funds	$ 12,002	$ —	$ —	$ 12,002
U.S. government securities and agencies	10,595	13,914	—	24,509
Obligations of states and political subdivisions	—	1,012	—	1,012
Corporate bonds	—	32,087	—	32,087
Mutual funds	177,769	6,018	—	183,787
Common stocks	24,247	37	—	24,284
Total fair value	$ 224,613	$ 53,068	$ —	$ 277,681

The fair values of investments classified within Level 1 are based on quoted market prices. The fair values of investments classified within Level 2, including common stock of the Parent Company, are based on quoted market prices in markets that are not active. The investments in common stock held by the pension plan include investments in the following sectors: industrial materials, consumer goods, financial services, healthcare, hardware, and others.

The following table reflects the Company's pension plan asset allocation at December 31:

(percent of plan assets)	2023	2022
Asset category:		
Equity securities	**63.1 %**	74.8 %
Debt securities	**34.1 %**	20.8 %
Cash and cash equivalents	**2.8 %**	4.4 %
Total	**100.0 %**	100.0 %

The primary investment objective of the Company's pension plan is to provide long-term asset growth with income. To accomplish this objective, the Company has adopted a moderate risk tolerance to achieve an annual rate of return that meets or exceeds the returns of an index composed of 60% S&P 500 and 40% Barclays Capital Aggregate. In accordance with the Company's moderate risk tolerance, rate of return expectations, and appropriate cash levels needed to fund short-term expected benefit distributions, the target ranges of the asset-mix are as follows: equity securities (50% - 75%) and liability hedging securities (25% - 50%). Each of the major categories of asset classes is adequately diversified among economic sectors of the market. Investments are made in accordance with permitted and prohibited investments identified in the plan's Investment Policy Statement.

The Company made no contributions during the 2023 and 2022 plan year, and the Company does not expect to make further contributions to the pension plan in 2024.

At December 31, 2023, estimated benefit payments which reflect expected future service, as appropriate, are expected to be paid as follows:

(in thousands)	Pension
2024	$ **15,757**
2025	**16,735**
2026	**17,301**
2027	**17,878**
2028	**18,799**
2029 - 2033	**104,381**

In addition to the pension and postretirement benefit plans, the Company also has contributory 401(k) savings plan which covers substantially all employees. Total cost for this plan, included within noninterest expense on the Consolidated Statements of Income, for the years ended December 31, 2023, 2022, and 2021, was $28.4 million, $25.8 million, and $22.5 million, respectively.

The Company has established an executive long-term incentive plan (LTIP). For the years ended December 31, 2023, 2022, and 2021, expense attributable to the LTIP was $7.2 million, $7.6 million, and $9.9 million, respectively. The LTIP provides eligible participants Parent Company stock (for some or all participants, at the discretion of the Executive Committee). The shares of Parent Company stock are held in a qualifying Grantor Trust which is consolidated into the Company's financial statements. Accordingly, these shares are reflected as treasury stock on the Company's Consolidated Statements of Stockholders' Equity. Shares of the Parent Company held in the LTIP were 14,103 and 12,064 as of December 31, 2023 and 2022, respectively.

Prior to 2023, the plan was considered to be a Plan D in accordance with ASC 710 "Compensation – General". In 2023, the Company restructured the plan into two types of plans. The majority of participants continue to be in a Plan D type plan. Plan D's require the deferred compensation obligation to be measured as a liability. Any increase or decrease in the value of the investments is recognized as a component of compensation expense which, for the years ended December 31, 2023, 2022, and 2021, was $13.4 million, $10.8 million, and $24.9 million. Certain individuals were transferred into a Plan A during 2023. Plan A deferred compensation obligations are classified in equity. The equity plan transfer in 2023 was $38.5 million and is reflected in the Consolidated Statements of Stockholders' Equity.

L. CARD ASSOCIATION TRANSACTIONS

On October 3, 2007, the global VISA organization completed a series of restructuring transactions that resulted in the creation of VISA, Inc. (VISA). As part of this restructuring, there was a revision of bylaws to provide indemnity to VISA for potential damages related to litigation against VISA USA and some of its member banks as part of litigation defined below (covered litigation). As a result of these restructuring transactions, the Company received shares of restricted Class B stock in VISA and recorded its proportionate and estimated obligations arising from the covered litigation, all based on its prior membership interest in VISA USA. The Class B stock is convertible into Class A stock at a variable conversion rate (the conversion rate). The liability, recorded as accrued expenses and other liabilities in the Consolidated Statements of Financial Condition, is an estimate made by management based on information from VISA and others about the covered litigation. The contingent litigation liability has been and will continue to be reduced by contributions to an escrow account (VISA Escrow), as described below. This liability is subject to significant estimation risk and may materially change.

Under VISA's initial public offering (IPO) which occurred in March 2008, a portion of the Company's Class B ownership in VISA was redeemed for cash and a portion of the proceeds were deposited into the VISA Escrow. The VISA Escrow was established by VISA. It is funded by VISA USA member banks, including the Company, to support resolution of the covered litigation. Additional funding may be required depending upon the ultimate resolution of the covered litigation. Upon each additional funding of the VISA Escrow, the conversion rate declines resulting in fewer Class A shares to be received upon conversion of Class B shares.

Since VISA's IPO, VISA has periodically funded the escrow account. These fundings result in a reversal of a portion of the Company's contingent liability, if estimated and accrued, or are recorded as a noninterest expense, based on a formula that primarily represents a reduction in the Company's potential exposure related to the indemnification that is now funded by the VISA Escrow.

Through a series of transactions that occurred in September and December 2009, the Company sold all of its approximately 5.3 million shares of Class B VISA stock for cash. The Company recorded a gain upon sale of its VISA stock of $195.2 million. As a part of the sales, the Company retained a conversion swap agreement that requires the Company to reimburse the purchaser for any reduction of the conversion rate below the rate of 0.5824, which was the conversion rate as of the closing of the VISA stock sale, and requires the Company to make certain periodic payments (which began in 2011) until the escrow account is terminated. The Company has posted collateral of agency collateralized mortgage obligations and agency bonds in the amount of $274.5 million to secure this reimbursement obligation. The conversion rate is based on VISA's funding of the escrow account, and reflects a 4-1 stock split. During 2023 and 2022, VISA made additional contributions to the escrow account, thereby reducing the conversion rate to 1.5875. As a result, the Company made reimbursement payments to the purchaser in the amount of $22.4 million and $18.7 million during the years ended December 31, 2023 and 2022. No reimbursement payments were made during 2021.

The Company continues to retain a contingent litigation liability because the Company continues to be liable for obligations arising from its prior membership interests. At December 31, 2023 and 2022, the Company's contingent litigation liability was estimated to be $14.4 million and $27.9 million, respectively, and is recorded in accrued expenses and other liabilities on the Consolidated Statements of Financial Condition. To the extent that the Company's proportionate share of any settlement exceeds the recorded contingent litigation liability, the Company's financial results will be impacted.

M. CONTINGENCIES AND COMMITMENTS

Commitments

In the normal course of business, there are various outstanding commitments to extend credit in the form of unused loan commitments and standby letters of credit that are not reflected in the consolidated financial statements. Since commitments may expire without being exercised, these amounts do not necessarily represent future funding requirements. The Company uses the same credit and collateral policies in making commitments as making loans and leases.

The Company had unused credit card lines of $41.7 billion and $39.0 billion at December 31, 2023 and 2022, respectively. The Company has the contractual right to reduce the unused line at any time without prior notice. Since many unused credit card lines are never actually drawn upon, the unfunded amounts do not necessarily represent future funding requirements.

The Company assesses the credit risk of these commitments using a similar analysis and methodology as is used for determining loss exposures on funded loans and records a liability for expected credit losses associated with these commitments. The Company assesses the credit risk of these commitments collectively and records a liability at a fraction of the funded reserve factor based upon portfolio risk.

At December 31, 2023 and 2022, the Company had commercial letters of credit and unused loan commitments, excluding credit card lines, of $7.1 billion and $6.6 billion, respectively. Additionally, standby letters of credit of $235.9 million and $173.4 million had been issued at December 31, 2023 and 2022, respectively. No material future payments or losses are anticipated as a result of these transactions and the fair value of these guarantees is estimated to be immaterial, the Company has not recorded a liability for these contingencies in the Consolidated Statements of Financial Condition.

Covered Litigation

In re: Payment Card Fee and Merchant Discount Antitrust Litigation

Beginning in June 2005, several retail merchants filed lawsuits in federal courts, claiming to represent a class of similarly situated merchants, and alleging that MasterCard and VISA USA, together with their members, conspired to charge retailers excessive interchange in violation of federal antitrust laws. In October 2005, these suits were consolidated in re: Payment Card Fee and Merchant Discount Antitrust Litigation. The plaintiffs seek treble damages, injunctive relief, attorneys' fees and costs.

On April 24, 2006, plaintiffs filed a first consolidated and amended complaint, naming the Parent Company, the Bank and others as defendants. The plaintiffs realleged the claims in their original complaints and further claimed that defendants violated federal and California antitrust laws by combining to impose certain fees and to adopt rules and practices of VISA USA and MasterCard that the plaintiffs contend constitute unlawful restraints of trade. In July 2007, the Parent Company and the Bank entered into judgment and loss sharing agreements (the sharing agreements) with VISA USA and certain financial institutions to apportion financial responsibilities arising from any potential adverse judgment or settlement. In 2010, the Bank entered into additional contracts among the defendants relating to the apportionment of financial responsibilities which may arise from any potential adverse judgment or settlement. In 2015, the Bank and other defendants signed amendments to the above-referenced agreements to clarify and further define the scope of coverage for potential adverse judgments or settlements.

On October 19, 2012, the parties entered into a settlement agreement to resolve these claims. The court granted preliminary approval of the settlement agreement on November 9, 2012. The court entered the formal Class Settlement Order and Final Judgment on January 14, 2014 (the "Order"). A series of appeals were filed in response to the Order and on June 30, 2016, the U.S. Court of Appeals for the Second Circuit reversed the Order, vacated the lower court's certification of the merchant class and remanded the case to the lower court for further proceedings not inconsistent with the Second Circuit's order. On November 23, 2016, Class Plaintiffs filed a Petition for Writ of Certiorari with the U.S. Supreme Court seeking a review of the Second Circuit's decision. On March 27, 2017, the U.S. Supreme Court issued an Order denying Class Plaintiffs' Petition for Writ of Certiorari.

In furtherance of the Second Circuit's reversal and remand order, the district court in MDL 1720 appointed separate interim co-lead counsel for a Rule 23(b)(2) Putative Injunctive Relief Class and a Rule 23(b)(3) Putative Damages Class, and the parties resumed litigation activities. On September 17, 2018, certain of the parties entered into the Superseding and Amended Definitive Class Settlement Agreement of the Rule 23(b)(3) Class Plaintiffs and the Defendants (Amended Settlement Agreement). The terms of the Amended Settlement Agreement include: (a) a comprehensive release from the Rule 23(b)(3) Damages Class members ("Damages Class") for liability arising out of the claims asserted in the litigation; (b) certain settlement payments to the Damages Class; and (c) distribution to the Damages Class merchants of a portion of interchange across all credit rate categories for a prior period of eight consecutive months. On September 10, 2018, the Rule 23(b)(3) Class Plaintiffs filed a Motion for Preliminary Approval of the Amended Settlement Agreement. The Court granted Preliminary Approval of the Amended Settlement Agreement on January 24, 2019. The hearing for final approval of the Amended Settlement Agreement was held on November 7, 2019. The Court issued its order granting final approval of the Amended Settlement Agreement on December 13, 2019 (Final Approval Order). As part of the Final Approval Order, the District Court made clear its intent to appoint a Special Master to resolve franchisor/franchisee disputes regarding who may claim settlement funds. A limited number of appeals have been filed with the U.S. Court of Appeals for the Second Circuit in response to the Final Approval Order. The parties have concluded briefing and the Second Circuit held oral arguments on March 16, 2022.

On July 8, 2022, the Second Circuit remanded the case to the District Court to consider whether, in the event the District Court's disposition of the franchisor/franchisee disputes is deemed not a final judgment, there is no just reason for delay in ruling on all other issues on appeal. On July 18, 2022, the District Court issued its ruling and confirmed that there is no just reason for delay in the appeal of all other issues and certified its prior Final Approval Order as a partial final judgment. On March 15, 2023, the Second Circuit affirmed the District Court's prior Final Approval Order as a partial final judgment, leaving open only the possibility of subsequent challenges to the Special Master's allocation of damages as referenced above or the release of future claims.

Litigation relating specifically to the injunctive relief claims raised by the Rule 23(b)(2) Putative Injunctive Relief Class in MDL 1720 is ongoing. The 23(b)(2) class filed its motion for class certification on December 18, 2020. On September 27, 2021, the Court granted Plaintiffs' motion for class certification and certified a Rule 23(b)(2) mandatory, non-opt-out Equitable Relief Class. The parties continue to maintain an open and ongoing dialogue to explore potential grounds for settlement and are presently engaged in mediation to facilitate such efforts.

The consolidated financial statements include management's estimate of the Company's proportionate obligation associated with the ultimate disposition of this litigation. This liability is subject to significant estimation risk and may materially change. Furthermore, management cannot predict with any degree of certainty how the final outcome of this litigation may impact the broader credit card industry, and in this regard, the Company.

Other Covered Litigation
Other antitrust lawsuits have been filed against VISA and MasterCard from time to time, including cases filed by merchants who elected to be excluded from/opt out of the initial 2012 settlement agreement referenced above and/or the Amended Settlement Agreement. Neither the Parent Company nor the Bank has been a named party to any material suits; however, the Parent Company and the Bank are members of the MasterCard and VISA USA associations and these suits have been covered in the sharing agreements referred to above. While a number of these suits are ongoing, in each of these matters that has been settled to date, the VISA portion of the settlement payments have been made from the escrow created by VISA's stock offerings. The MasterCard portion has been paid in accordance with the MasterCard sharing agreements referenced above. In addition, ongoing settlement discussions and mediation activities continue with a number of opt-out Plaintiffs and opt-out Plaintiff groups.

Patent Infringement and Other Litigation
The Company has been a party to various legal proceedings, including various proceedings alleging that the Company has infringed upon patents owned by third parties. As of the present date, all such proceedings have been dismissed either voluntarily, by court order, or based on the entry of a license arrangement for a modest fee and on terms favorable to the Company. In addition, from time to time the Company receives patent infringement demands or license inquiries. As of the present date, the Company is not in the process of responding to any material demands or inquiries.

N. DERIVATIVE ASSETS AND LIABILITIES

The fair values of outstanding derivative positions are included in the Consolidated Statements of Financial Condition in other assets or accrued expenses and other liabilities.

Interest Rate Derivatives
The Company uses various interest rate derivatives to manage its interest rate risk. The Company uses interest rate swaps, caps, and floors to mitigate the exposure to interest rate risk and to facilitate the needs of its customers.

The Company has provided certain loan customers with interest rate swaps (customer swaps) that have the effect of converting all or a portion of the customer's variable-rate loan to a fixed rate loan. To hedge the risk related to customer swaps, the Company simultaneously enters into offsetting swap agreements with independent, third-party banks (counter customer swaps). In connection with each swap transaction, the Company agrees to pay interest to the customer on a notional amount at a variable interest rate and receive interest from the customer on that same notional amount at a fixed interest rate. Simultaneously, the Company agrees to pay another financial institution the same fixed interest rate on the same notional amount and receive the same variable interest rate on the same notional amount. Because the Company acts as an intermediary for its customer, changes in the fair value of the underlying derivative contracts offset each other and do not impact the Company's results of operations. The related contracts are structured so that the notional amounts reduce over time to generally match the expected amortization of the underlying loan. The customer swaps and counter customer swaps do not qualify for hedge accounting.

The Company has provided certain customers with foreign currency swaps (customer forwards) that have the effect of converting all or a portion of the customer's variability in foreign currency to a fixed rate. To hedge the risk related to customer swaps, the Company simultaneously enters into offsetting swap agreements with independent, third-party banks (counter customer forwards). The customer forwards and counter customer forwards do not qualify for hedge accounting.

There is counterparty risk related to the aforementioned derivatives. Counterparties include independent, third-party banks and customers. Risks associated with these counterparties are evaluated upon execution of the related agreement and are continually reevaluated. Under certain circumstances, the Company is required to provide counterparties with collateral to support the counter customer swaps. Such collateral generally includes U.S. Government or agency-backed securities. The Company also requires collateral, under certain circumstances, from counterparties to support customer swaps. Failure of these counterparties to perform could have a significant adverse impact on the Company's ability to effectively hedge interest rate and foreign currency risk, the fair value assigned to these agreements and the Company's financial condition. These risks were considered in determining the fair value of these instruments.

Derivative instruments include interest rate locks on commitments to originate loans for the held for sale portfolio and forward commitments on contracts to deliver mortgage-backed securities and loans. The Company has entered into forward commitments for the sale of mortgage loans principally to protect against the risk of adverse interest rate movements on net income. The Company recognizes the fair value of the contracts when the characteristics of those contracts meet the definition of a derivative. These derivatives are not designated in a hedging relationship; therefore, gains and losses are recognized immediately in the Consolidated Statements of Income as other noninterest expense. In addition, the Company has entered into commitments to originate loans, which when funded, are classified as held for sale. Such commitments meet the definition of a derivative and are not designated in a hedging relationship; therefore, gains and losses are recognized immediately in the Consolidated Statements of Income as other noninterest expense.

The notional amounts and estimated fair values of interest rate and foreign currency derivative positions outstanding at December 31, 2023 and 2022, respectively, are presented in the following table.

	2023		**2022**	
(in thousands)	**Notional Amount**	**Fair Value Asset/ (Liability)**	**Notional Amount**	**Fair Value Asset/ (Liability)**
Non hedging interest rate derivatives:				
Customer swaps	**$ 221,227**	**$ (7,431)**	$ 131,324	$ 8,576
Counter customer swaps	**221,227**	**7,431**	131,324	(8,738)
Mortgage forwards	**66,500**	**(603)**	41,822	126
Mortgage written options	**77,708**	**811**	43,392	(1)
Foreign currency derivatives:				
Customer forwards	**$ 101,773**	**$ (1,909)**	$ 157,668	$ (306)
Counter customer forwards	**104,828**	**1,965**	157,619	388

O. REGULATORY AND CAPITAL RELATED MATTERS

The Company is governed by various regulatory agencies. The Parent Company is a “financial holding company” under the Gramm-Leach-Bliley Act. Financial holding companies and their nonbanking subsidiaries are regulated by the Federal Reserve Board (FRB). National banks are primarily regulated by the Office of the Comptroller of the Currency (OCC). All federally-insured banks are also regulated by the Federal Deposit Insurance Corporation (FDIC). The Company’s banking subsidiary is also subject to supervision by the Consumer Financial Protection Bureau (CFPB). Regulators have the authority, among other things, to: (i) examine and supervise the Company; (ii) identify matters requiring attention by the Company; and (iii) take certain formal or informal actions against the Company.

Various federal and state laws regulate the operations of the Company. These laws, among other things, require the maintenance of reserves against deposits, impose certain restrictions on the nature and terms of loans, restrict investments and other activities, and regulate mergers and the establishment of branches and related operations. Furthermore, the Company, on a consolidated basis, is subject to the regulatory capital requirements administered by the FRB, while the Company’s banking subsidiary is individually subject to the regulatory capital requirements administered by the OCC, FDIC and state regulatory agencies.

Total capital of the Company and its banking subsidiary is divided into three tiers:

- Common Equity Tier I capital, which includes common equity, noncontrolling interests in consolidated depository institution subsidiaries, less goodwill, intangibles, mortgage servicing assets, and purchased credit card relationships.

- Tier I capital, which includes Common Equity Tier I capital.

- Tier II capital, which includes Tier I capital, subordinated capital notes, trust preferred securities, and portions of the allowance for loan losses.

In addition, for risk-based capital computations, the assets and certain off-balance sheet commitments of the Company and its banking subsidiary are assigned to risk-weighted categories based on the level of credit risk ascribed to such assets or commitments.

As of December 31, 2023 and 2022, the Company's banking subsidiary was well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized under the framework for prompt corrective action, the Company's banking subsidiary must maintain minimum Common Equity Tier I capital of 6.5%, Tier I risk-based capital of 8%, total risk-based capital of 10%, and Tier I leverage capital (Tier I capital to average assets) of 5%. Regulators are also permitted to establish individual minimum capital ratios for the Company's banking subsidiary that may be higher than those necessary to be considered well capitalized under the regulatory framework for prompt and corrective action.

The Company's and the Bank's actual capital amounts and ratios are presented in the following table:

	Actual, as of December 31, 2023		**Actual, as of December 31, 2022**	
	Amount	**Ratio**	**Amount**	**Ratio**
($ in thousands)				
Common Equity Tier I Capital to Risk Weighted Assets				
Consolidated Company	**$ 3,053,587**	**10.89 %**	$ 2,937,313	11.79 %
First National Bank of Omaha	**2,923,400**	**10.49 %**	2,792,996	11.26 %
Total Capital to Risk Weighted Assets				
Consolidated Company	**$ 3,677,740**	**13.11 %**	$ 3,549,040	14.24 %
First National Bank of Omaha	**3,276,379**	**11.76 %**	3,104,717	12.51 %
Tier I Capital to Risk Weighted Assets				
Consolidated Company	**$ 3,053,587**	**10.89 %**	$ 2,937,313	11.79 %
First National Bank of Omaha	**2,923,400**	**10.49 %**	2,792,996	11.26 %
Tier I Capital to Average Assets				
Consolidated Company	**$ 3,053,587**	**9.86 %**	$ 2,937,313	10.67 %
First National Bank of Omaha	**2,923,400**	**9.49 %**	2,792,996	10.17 %

The ability of the Parent Company to meet its financial obligations, including debt service, and pay cash dividends to its stockholders is dependent upon cash dividends from its subsidiary bank. Subsidiary banks are subject to various legal limitations on the amount of dividends they may declare. These limitations include the maintenance of minimum capital levels, the generation of net income to support proposed cash dividends, compliance with the aforementioned regulatory agreements and other limitations as defined by regulatory authorities.

On July 21, 2010, financial regulatory reform legislation entitled the "Dodd-Frank Wall Street Reform and Consumer Protection Act" (Dodd-Frank Act) was signed into law. The Dodd-Frank Act was generally effective the day after it was signed into law, however different effective dates applied to specific provisions of the Dodd-Frank Act. As of the date of writing, all the material components of the Dodd-Frank Act that impact the Company have been implemented.

In July 2013, the Federal Reserve approved a final rule to implement in the United States the Basel III regulatory capital reforms from the Basel Committee on Banking Supervision and certain changes required by the Dodd-Frank Act. The final rule increases minimum requirements for both the quantity and quality of capital held by banking organizations. The rule includes a new minimum ratio of Common Equity Tier 1 capital to risk-weighted assets of 4.5% and a Common Equity Tier 1 capital conservation buffer of 2.5% of risk-weighted assets. The new minimum was phased in through 2019. The final rule also adjusted the methodology for calculating risk-weighted assets to enhance risk sensitivity. As part of Basel III, the Company's cumulative trust preferred securities were grandfathered and qualify as Tier 1 capital. In 2022, the Company acquired Western States Bank. Because of the acquisition, the clause in Basel III that kept the trust preferred securities qualified as Tier I capital was forfeited and the instruments are classified as Tier II capital.

Under the terms of an agreement with related party stockholders, the Company and certain related parties have the option to purchase up to 30,811 shares of Company common stock at fair market value. Fair market value will be negotiated by the parties and may or may not require independent appraisals. Exercise of the option is subject to a number of factors including the sufficiency of capital, availability of cash or borrowing capacity, regulatory approval and approval by the Company's Board of Directors, if the Company is the purchaser.

P. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Changes in each component of accumulated other comprehensive income (loss) were as follows:

(in thousands)	Available for Sale Securities	Employee Benefit Plans	Total
Balance, January 1, 2021	$ 121,496	$ (108,247)	$ 13,249
Net change in unrealized gains (losses)	(119,255)	22,907	(96,348)
Net unrealized gains on transfer of securities from available-for sale to held-to-maturity	94	—	94
Income tax (expense) benefit	28,005	(5,383)	22,622
Balance, December 31, 2021	30,340	(90,723)	(60,383)
Net change in unrealized gains (losses)	(486,129)	39,571	(446,558)
Net unrealized gains on transfer of securities from available-for sale to held-to-maturity	67	—	67
Reclassification adjustment for net losses realized in net income	3	—	3
Income tax (expense) benefit	115,574	(9,333)	106,241
Balance, December 31, 2022	(340,145)	(60,485)	(400,630)
Net change in unrealized gains (losses)	**73,582**	**8,840**	**82,422**
Net unrealized gains on transfer of securities from available-for sale to held-to-maturity	**45**	**—**	**45**
Reclassification adjustment for net losses realized in net income	**4**	**—**	**4**
Income tax (expense) benefit	**(17,544)**	**(2,104)**	**(19,648)**
Balance, December 31, 2023	**$ (284,058)**	**$ (53,749)**	**$ (337,807)**

See the Consolidated Statements of Comprehensive Income and Note B for additional discussion of reclassification adjustments realized in net income.

Q. RECENT ACCOUNTING PRONOUNCEMENTS

ASU 2016-13, “Financial Instruments - Credit Losses (Topic 326): Assets Measured at Amortized Cost,” was issued to revise guidance for impairments on financial instruments. The guidance requires an impairment model (known as the CECL model) that is based on expected rather than incurred losses. Subsequently, the FASB has issued additional ASUs which further clarify this guidance. The CECL model is applicable to loans held for investment, securities held to maturity, lease receivables, financial guarantee contracts, and certain unconditional loan commitments. The CECL model will replace current accounting for purchased credit-impaired and impaired loans. The guidance also amends the debt securities other-than-temporary impairments model. The effective date for the revised standard is for fiscal years beginning after December 15, 2022. The Company adopted ASU 2016-13 as of January 1, 2023 and applied the modified retrospective transition method. The impact of adoption increased the Allowance for Credit Losses by $386.0 million resulting in after-tax charge to Retained Earnings of $294.1 million. The regulatory impact of this change to capital will be phased in over the next three years.

ASU 2022-02, “Financial Instruments – Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures” eliminates the recognition and measurement accounting for TDRs by creditors, while enhancing disclosure requirements for certain loan refinancings and restructurings by creditors when a borrower is experiencing financial difficulty. Consistent with ASU 2016-13, the Company adopted ASU 2022-02 as of January 1, 2023 and applied the modified retrospective method. The Company did not isolate the impact to Retained Earnings as the effect was immaterial. The impact of adoption is included with the ASU 2016-13 amounts disclosed above.

ASU 2023-09, Income Taxes (Topic 740): “Improvements to Income Tax Disclosures”. This ASU requires disclosure of specific categories in the rate reconciliation, as well as additional qualitative information about the reconciliation, and additional disaggregated information about income taxes paid. The effective date of the standard is for the fiscal year beginning after December 15, 2024, but early adoption is permitted. The Company is currently evaluating the impact that this guidance will have on it consolidated financial statement disclosures.

R. REVENUE FROM CONTRACTS WITH CUSTOMERS

The Company’s interest income is derived from loans and leases, securities, and other short-term investments. The Company recognizes interest income in accordance with generally accepted accounting principles for these assets. Refer to the Loans and Leases section in Note A for further information.

The following provides additional information about the components of non-interest income and describes the principal activities from which the Company generates revenue that are within the scope of ASC 606, “Revenue from Contracts with Customers.” The Company’s significant sources of non-interest income are presented on the face of the Consolidated Statements of Income, which include all income in the scope of ASC 606.

Processing services – As a card issuing bank, the Company earns interchange fee revenue from debit and credit card transactions. By offering card products, the Company maintains and administers card-related services such as credit card reward programs, account data and statement information, card activation, renewals, and card suspension, and blockage. Interchange fees are earned when cardholders make purchases and are presented net of credit card reward costs. All material performance obligations are satisfied as of the end of each accounting period.

Deposit services – Service charges on deposit accounts represent monthly and transaction fees recognized for the services related to customer deposit accounts, including account maintenance and depository transaction processing fees. Commercial banking depository accounts earn fees in accordance with the customer’s pricing schedule while consumer account holders are generally charged a flat service fee per month. The Company satisfies the performance obligation related to providing depository accounts monthly as transactions are processed and deposit service charge revenue is recorded monthly.

Trust, investment and underwriting services – Trust and investment services income consists of fees earned on personal and corporate trust accounts, trust investments and wealth management services, and mutual fund and alternative asset servicing. The performance obligations related to this revenue include items such as performing full bond trustee service administration, investment advisory services, custody and record-keeping services, and fund administrative and accounting services. These fees are part of long-term contractual agreements and the performance obligations are satisfied upon completion of service and fees are generally a fixed flat monthly rate or based on a percentage of the account’s market value per the contract with the customer.

Gain on sale of mortgage loans – In the regular course of business, the Company recognizes gains on the sale of mortgage loans. These gains are recognized in accordance with ASC 948, “Financial Services – Mortgage Banking,” and are outside of the scope of ASC 606.

Managed services – Managed services income is primarily related to the Company’s technology managed services business, First National Technology Solutions. The performance obligations related to this revenue stream include items such as providing computer power and maintenance to customers. This can also include ensuring the applications are patched, power is provided, and services for security, intrusion prevention, backup, and storage. Revenue is recognized monthly based on the current month’s usage.

Other income – The Company recognizes other miscellaneous income through a variety of other revenue streams including certain loan origination fees, gains on the sale of assets, and gains and losses on equity-method investments. These revenue streams are outside of the scope of ASC 606 and are recognized in accordance with the applicable generally accepted accounting principles. The remainder of other income is primarily earned through transactions with personal banking customers, including wire transfer service charges, safety deposit box rentals, and fees for items such as cashier’s checks. The performance obligations of these types of fees are satisfied as transactions are completed and revenue is recognized upon transaction execution according to established fee schedules with the customers.

The Company had no material contract assets, contract liabilities, or remaining performance obligations as of December 31, 2023. Total receivables from revenue recognized under the scope of ASC 606 were $25.2 million and $18.1 million as of December 31, 2023 and December 31, 2022, respectively. These receivables are included as part of the other assets line on the Consolidated Statements of Financial Condition.

S. LEASES

At December 31, 2023, operating lease right-of-use assets of $28.2 million and operating lease liabilities of $32.3 million were included in Other Assets, Accrued Expenses and Other Liabilities, respectively, on the Consolidated Statements of Financial Condition. The Company does not have any significant finance leases in which the Company is the lessee.

Substantially all of the leases in which the Company is the lessee are comprised of real estate property for branches, ATM locations, and office space with terms extending through 2066. Sub-leases are not material to the financial statements and were not considered in the right-of-use asset or lease liability. The Company elected not to include short-term leases (i.e. leases with initial terms of twelve months or less) on the Consolidated Statements of Financial Condition.

The calculated amount of the ROU assets and lease liabilities are impacted by the length of the lease term and the discount rate used to present value the minimum lease payments. The Company's lease agreements often include one or more options to renew at the Company's discretion. If at lease inception, the Company considers exercising of a renewal option to be reasonably certain, the Company will include the extended term in the calculation of the ROU asset and lease liability. Regarding the discount rate, accounting guidance requires the use of the rate implicit in the lease whenever this rate is readily determinable. When this rate is not readily determinable, the Company utilizes its incremental borrowing rate at lease inception, on a collateralized basis, over a similar term.

The Company recognized $8.1 million and $4.6 million of right-of-use assets obtained in exchange lease liabilities during the years ended December 31, 2023 and 2022, respectively. Supplemental information related to leases as of December 31, 2023 and 2022 is as follows:

	2023	2022
(in thousands)		
Lease term and discount rate:		
Weighted-average remaining lease term (years)	**9.0**	9.9
Weighted average remaining discount rate	**3.4%**	3.3%
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	**$ 6,205**	$ 5,825

The following table represents the components of lease expense. The Company elected, for all classes of underlying assets, not to separate lease and non-lease components and instead to account for them as a single lease component.

	2023	2022
(in thousands)		
Lease Costs		
Operating lease cost	**$ 6,371**	$ 6,272
Other	**2,639**	2,392
Total lease cost	**$ 9,010**	$ 8,664

The remaining lease payments for operating leases with initial or remaining terms of one year or more as of December 31, 2023 were as follows: 2024 – $6.2 million; 2025 – $5.0 million; 2026 – $4.5 million; 2027 – $4.3 million; 2028 – $3.7 million and $21.5 million thereafter through the year 2066. Interest on lease payments is $12.9 million, with a present value of lease liabilities of $32.3 million at December 31, 2023.

The Company may lease owned properties or lease unoccupied office space. Income on these leases was $9.0 million and $11.2 million for the years ended December 31, 2023 and 2022, respectively.

T. FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. In cases where quoted market prices are not available, fair values are based on estimates using discounted cash flows or other valuation techniques. Inputs to valuation techniques are assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the Company's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available. The Company determines the fair values of its financial instruments based on the fair-value hierarchy established by generally accepted accounting principles which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value.

Financial instruments are considered Level 1 when valuation can be based on quoted prices in active markets for identical assets or liabilities. Level 2 financial instruments are valued using quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data of substantially the full term of the assets or liabilities. Financial instruments are considered Level 3 when their values are determined using pricing models, discounted cash flow methodologies, or similar techniques and at least one significant model input is unobservable. Level 3 is assigned when determination of the fair value requires significant management judgment or estimation. There were no transfers in or out of Level 3 during the years ended December 31, 2023, 2022, and 2021, respectively.

In general, fair value is based upon quoted market prices, where available. Inputs for quoted prices for similar assets or liabilities in active markets and inputs other than quoted prices that are observable for the asset or liability (including interest rates or credit risk) are also used to determine fair value. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. As necessary, these adjustments include amounts to reflect counterparty credit quality, the Company's creditworthiness, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time. While management believes the Company's valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

The Company elects to measure residential MHFS at fair value as an active secondary market and market prices for similar assets currently exist to support fair value models used for these loans. The Company believes the election for MHFS reduces certain timing differences and better matches changes in the value of these assets with changes in the value of derivatives used to protect against the risk of adverse interest rate movements.

The fair value of MHFS for which the Company elected the fair value option and the contractual aggregate unpaid principal balance, as of December 31, 2023, was $46.4 million and $45.2 million, respectively. The fair value of MHFS for which the Company elected the fair value option and the contractual aggregate unpaid principal balance, as of December 31, 2022, was $15.1 million and $15.1 million, respectively. Changes in the fair value of MHFS are recorded in gain on sale of mortgage loans on the Consolidated Statements of Income, and increased pretax net income by $1.2 million and $1.3 million in 2023 and 2022, respectively. At December 31, 2023 and 2022, there were no MHFS that were 90 days or more past due nor were any of the MHFS placed on nonaccrual status. No credit losses were recognized on MHFS for the year ended December 31, 2023 and 2022.

The following table summarizes financial assets and financial liabilities measured at fair value on a recurring basis as of December 31, 2023 and 2022, segregated by the level of the valuation inputs within the fair-value hierarchy utilized to measure fair value:

(in thousands)	Level 1	Level 2	Level 3	Total
2023				
Available-for-sale debt securities				
U.S. government obligations	**$ 598,058**	**$ 28,402**	**$ —**	**$ 626,460**
Obligations of states and political subdivisions	**—**	**123,679**	**—**	**123,679**
Agency mortgage-backed securities	**—**	**4,376,608**	**—**	**4,376,608**
Other securities	**—**	**11,369**	**5,000**	**16,369**
Total available-for-sale debt securities	**598,058**	**4,540,058**	**5,000**	**5,143,116**
Mortgage loans held for sale	**—**	**46,353**	**—**	**46,353**
Mortgage servicing rights	**—**	**—**	**72,041**	**72,041**
Derivative assets	**—**	**10,207**	**—**	**10,207**
Derivative liabilities	**—**	**(9,943)**	**—**	**(9,943)**
Marketable equity securities	**16,095**	**3,320**	**—**	**19,415**
Total fair value	**$ 614,153**	**$ 4,589,995**	**$ 77,041**	**$ 5,281,189**
2022				
Available-for-sale debt securities				
U.S. government obligations	$ 588,570	$ 28,474	$ —	$ 617,044
Obligations of states and political subdivisions	—	109,657	—	109,657
Agency mortgage-backed securities	—	4,244,062	—	4,244,062
Other securities	—	11,804	5,000	16,804
Total available-for-sale debt securities	588,570	4,393,997	5,000	4,987,567
Mortgage loans held for sale	—	15,123	—	15,123
Mortgage servicing rights	—	—	77,662	77,662
Derivative assets	—	9,090	—	9,090
Derivative liabilities	—	(9,045)	—	(9,045)
Marketable equity securities	25,155	1,964	—	27,119
Total fair value	$ 613,725	$ 4,411,129	$ 82,662	$ 5,107,516

Available-for-sale debt securities – The fair values of available-for-sale debt securities are generally based on quoted market prices or market prices for similar assets. Market price quotes may not be readily available for some positions, or positions within a market sector where trading activity has slowed significantly. Underlying assets are valued using external pricing services, where available, or matrix pricing based on the vintages and ratings. U.S. Treasuries held by the Company are reported at fair value utilizing Level 1 inputs. U.S. government agency obligations, obligations of states and political subdivisions, agency mortgaged-backed securities and other securities are reported at fair value utilizing Level 2 inputs.

Mortgage loans held for sale – The fair value of MHFS is based on quoted market prices of such loans sold in securitization transactions, including related unfunded loan commitments.

Mortgage servicing rights – The fair values of MSRs are determined using models which depend on estimates of prepayment rates, delinquency rates, late fees, other ancillary income and costs to service. MSRs are further explained at Note F to the Consolidated Financial Statements. Changes in the fair value of MSRs are reported in other noninterest expense in the Consolidated Statements of Income.

Derivative assets and liabilities – The majority of the derivatives entered into by the Company are generally fair valued using a valuation model based on a discounted cash flow approach that uses market based observable inputs for all significant assumptions and therefore, are classified within Level 2 of the fair-value hierarchy. Changes in the fair value of non-hedging derivatives are included in noninterest expense in the Consolidated Statements of Income.

Equity securities – The fair values of marketable equity securities are generally based on quoted market prices. Marketable equity securities held by the Company are primarily reported at fair value utilizing Level 1 inputs.

Non-financial assets and non-financial liabilities – The Company has no non-financial assets or non-financial liabilities measured at fair value on a recurring basis.

The Company classifies financial instruments in Level 3 of the fair-value hierarchy when there is reliance on at least one significant unobservable input to the valuation model. In addition to these unobservable inputs, the valuation models for Level 3 financial instruments typically also rely on a number of inputs that are readily observable either directly or indirectly. Thus, the gains and losses presented below include changes in the fair value related to both observable and unobservable inputs.

The following table presents the changes in the Level 3 fair value category related to assets measured at fair value on a recurring basis for the years ended December 31, 2023, 2022, and 2021:

(in thousands)	December 31, 2022	Total losses realized and unrealized in earnings	Purchases, issuances, transfers or settlements	Transfers in (out) of Level 3	December 31, 2023
Mortgage servicing rights	**$ 77,662**	**$ (11,444)**	**$ 5,823**	**$ —**	**$ 72,041**
Total fair value	**$ 77,662**	**$ (11,444)**	**$ 5,823**	**$ —**	**$ 72,041**

(in thousands)	December 31, 2021	Total gains realized and unrealized in earnings	Purchases, issuances, transfers or settlements	Transfers in (out) of Level 3	December 31, 2022
Mortgage servicing rights	$ 47,415	$ 23,678	$ 6,569	$ —	$ 77,662
Total fair value	$ 47,415	$ 23,678	$ 6,569	$ —	$ 77,662

(in thousands)	December 31, 2020	Total gains realized and unrealized in earnings	Purchases, issuances, transfers or settlements	Transfers in (out) of Level 3	December 31, 2021
Mortgage servicing rights	$ 27,588	$ 6,450	$ 13,377	$ —	$ 47,415
Total fair value	$ 27,588	$ 6,450	$ 13,377	$ —	$ 47,415

The following table presents a summary of quantitative information about recurring fair value measurements based on significant unobservable inputs (Level 3) as of December 31, 2023:

(in thousands)	Fair Value - December 31, 2023	Valuation Technique	Significant Unobservable Input	Range (Weighted Average)
Mortgage servicing rights	**$ 72,041**	Discounted cash flows	Prepayment rate	**6 - 24% (7.9%)**
			Discount rate	**10 - 14% (10.3%)**

The fair values of these assets (measured using significant unobservable inputs) are sensitive primarily to changes in prepayment and discount rates. At December 31, 2023, a 10% and 20% increase in the prepayment rates used to measure fair value would result in a decrease in the fair value of $2.0 million and $3.2 million, respectively. At December 31, 2023, a 10% and 20% increase in the discount rates used to measure fair value would result in a decrease in the fair value of $3.1 million and $6.0 million, respectively. These sensitivities are hypothetical. Changes in fair value based on variations in assumptions generally cannot be extrapolated because the relationship of the change in fair value may not be linear. Additionally, the effect of a variation in a particular assumption on the fair value of the MSRs is calculated without changing any other assumptions. Changes in one factor may result in changes in another, which could increase or decrease the magnitude of the sensitivities.

Certain financial and non-financial assets and liabilities are measured at fair value on a nonrecurring basis; that is, these items are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). These include foreclosed assets acquired to satisfy loans, impaired other long-lived assets, impaired indefinite-lived intangibles and/or goodwill, and pension plan assets. The following table summarizes carrying value of assets measured at fair value on a nonrecurring basis as of December 31, 2023 and 2022, segregated by the level of the valuation inputs within the fair-value hierarchy utilized to measure fair value.

(in thousands)	Level 1	Level 2	Level 3	Total
2023				
Foreclosed assets and former bank premises	**$ —**	**$ 3,301**	**$ —**	**$ 3,301**
Nonmarketable equity securities	**—**	**30,765**	**—**	**30,765**
Total fair value	**$ —**	**$ 34,066**	**$ —**	**$ 34,066**
2022				
Foreclosed assets and former bank premises	$ —	$ 1,605	$ —	$ 1,605
Nonmarketable equity securities	—	23,805	—	23,805
Total fair value	$ —	$ 25,410	$ —	$ 25,410

Foreclosed assets and former bank premises - The fair value of a foreclosed asset and former bank premise upon initial recognition is estimated using Level 2 inputs based on observable market data. The observable market data is obtained through unadjusted third-party appraisals. Foreclosed assets and former bank premises measured during the year ended at fair value upon initial recognition totaled $2.2 million and $5.0 million at December 31, 2023 and 2022, respectively. The Company had $0.1 million in losses related to the change in fair value of all foreclosed assets and former bank premises held during 2023. There were no losses related to the change in fair value of all foreclosed assets and former bank premises during 2022 and 2021.

Nonmarketable equity securities - The fair values of nonmarketable equity securities are accounted for substantially using the measurement alternative calculated as cost less impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or similar investment of the same issuer. Nonmarketable equity securities held by the Company are classified within Level 2 of the fair-value hierarchy.

The Company is required to disclose the fair value of financial assets and financial liabilities, including those financial assets and liabilities that are not measured and reported at fair value.

The following table presents the estimated fair values of financial assets and liabilities which are not measured and reported at fair value at December 31, 2023 and 2022, and the level of the valuation inputs within the fair-value hierarchy utilized to measure fair value at December 31, 2023 and 2022. Although management is not aware of any factors that would significantly affect the estimated fair value amounts after December 31, 2023, such amounts have not been comprehensively revalued, and the current estimated fair value of these financial instruments may have changed since that point in time.

	December 31, 2023				
(in thousands)	Carrying Amount	Estimated Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Interest-bearing time deposits due from banks	**$ 1,492**	**$ 1,492**	**$ —**	**$ 1,492**	**$ —**
Held-to-maturity securities	**153,073**	**137,780**	**—**	**137,780**	**—**
Federal Home Loan Bank stock and other securities, at cost	**85,761**	**85,761**	**—**	**85,761**	**—**
Net loans and leases	**21,755,340**	**20,247,393**	**—**	**—**	**20,247,393**
Financial liabilities:					
Deposits	**$ 25,838,668**	**$ 23,386,709**	**$ —**	**$ 23,386,709**	**$ —**
Other borrowings	**1,048,911**	**1,048,911**	**—**	**1,048,911**	**—**
Capital notes and trust preferred securities	**300,000**	**258,238**	**—**	**258,238**	**—**

	December 31, 2022				
(in thousands)	Carrying Amount	Estimated Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Interest-bearing time deposits due from banks	$ 32,658	$ 32,658	$ —	$ 32,658	$ —
Held-to-maturity securities	164,829	147,028	—	147,028	—
Federal Home Loan Bank stock and other securities, at cost	68,616	68,616	—	68,616	—
Net loans and leases	19,499,322	18,389,768	—	—	18,389,768
Financial liabilities:					
Deposits	$ 24,343,242	$ 20,144,871	$ —	$ 20,144,871	$ —
Other borrowings	3,552	3,552	—	3,552	—
Capital notes and trust preferred securities	300,000	268,575	—	268,575	—

U. CONDENSED FINANCIAL INFORMATION OF FIRST NATIONAL OF NEBRASKA

First National of Nebraska (Parent Company only)
Condensed Statements of Financial Condition

	December 31,	
(in thousands)	**2023**	**2022**
Assets		
Cash and due from banks	**$ 482,258**	$ 539,351
Investment securities available-for-sale	**5,124**	5,121
Investment in subsidiaries:		
First National Bank of Omaha	**2,658,807**	2,696,997
Nonbanking subsidiaries	**80,228**	55,800
Total investment in subsidiaries	**2,739,035**	2,752,797
Other assets	**83,511**	47,284
Total assets	**$ 3,309,928**	$ 3,344,553
Liabilities and Stockholders' Equity		
Accrued expenses and other liabilities	**$ 182,433**	$ 195,027
Subordinated notes and debentures	**149,125**	148,915
Due to subsidiaries	**155,090**	155,038
Total liabilities	**486,648**	498,980
Stockholders' equity:		
Common stock	**1,575**	1,575
Additional paid-in capital	**55,096**	13,102
Retained earnings	**3,568,836**	3,666,781
Treasury stock, at cost	**(464,420)**	(435,256)
Accumulated other comprehensive loss	**(337,807)**	(400,629)
Total stockholders' equity	**2,823,280**	2,845,573
Total liabilities and stockholders' equity	**$ 3,309,928**	$ 3,344,553

First National of Nebraska (Parent Company only)
Condensed Statements of Operations

(in thousands)	Years ended December 31, 2023	2022	2021
Revenues:			
Income from subsidiaries:			
Dividends from First National Bank of Omaha	**$ 45,004**	$ 175,001	$ 253,002
Management and service fees	**5,983**	5,298	4,753
Interest and investment income	**25,762**	7,611	5,187
Total revenues	**76,749**	187,910	262,942
Expenses:			
Other	**46,931**	39,627	48,067
Total expenses	**46,931**	39,627	48,067
Income before income taxes and equity in undistributed earnings of subsidiaries	**29,818**	148,283	214,875
Income tax benefit	**(3,233)**	(6,336)	(8,534)
Total income before equity in undistributed earnings of subsidiaries	**33,051**	154,619	223,409
Equity in undistributed losses of subsidiaries:			
First National Bank of Omaha	**193,068**	165,052	266,096
Nonbanking subsidiaries	**1,325**	2,855	3,883
Total equity in undistributed earnings of subsidiaries	**194,393**	167,907	269,979
Net income	**$ 227,444**	$ 322,526	$ 493,388

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholders of
First National of Nebraska, Inc.
Omaha, Nebraska

Opinion

We have audited the consolidated financial statements of First National of Nebraska, Inc. and subsidiaries (the "Company"), which comprise the consolidated statements of financial condition as of December 31, 2023 and 2022, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2023, and the related notes to the consolidated financial statements (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Notes C and Q to the consolidated financial statements, the Company changed its method for estimating the allowance for credit losses on January 1, 2023 due to the adoption of *Financial Instruments – Credit Losses (Topic 326).* Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Information Included in the Annual Report

Management is responsible for the other information included in the annual report. The other information comprises the information included in the annual report but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audits of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Deloitte & Touche LLP

Omaha, Nebraska
March 6, 2024

Board of Directors

Clarkson D. Lauritzen Chairman and President	Michael S. Foutch Executive Vice President	David E. Cota, Jr. Executive Vice President
Margaret Lauritzen Dodge	Patrick J. Duffy	Blair Lauritzen Gogel
Robert J. Mitchell	Bryan E. Slone	

Executive Officers

Clarkson D. Lauritzen – Chairman and President

Nicholas W. Baxter .... Executive Vice President, Chief Risk Officer & Secretary

David E. Cota, Jr .... Executive Vice President

Michael S. Foutch .... Executive Vice President, Chief Operating Officer

Mihaela Kobjerowski .... Executive Vice President, Chief Credit Officer

Jerry J. O'Flanagan .... Executive Vice President

Michael A. Summers .... Executive Vice President, Chief Financial Officer