UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported)
February 27, 2019

NELNET, INC.
(Exact name of registrant as specified in its charter)

Nebraska	001-31924	84-0748903
(State or other jurisdiction of incorporation)	(Commission File Number)	(I.R.S. Employer Identification No.)

121 South 13th Street, Suite 100 Lincoln, Nebraska	68508
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code **(402) 458-2370**

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

[ ] Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

[ ] Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

[ ] Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

[ ] Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company [ ]

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. [ ]

02 Results of Operations and Financial Condition.

On February 27, 2019 , Nelnet, Inc. (the "Company") issued a press release with respect to its financial results for the quarter ended December 31, 2018 . A copy of the press release is furnished as Exhibit 99.1 to this report. In addition, a copy of the supplemental financial information for the quarter ended December 31, 2018 , which was made available on the Company's website at www.nelnetinvestors.com on February 27, 2019 in connection with the press release, is furnished as Exhibit 99.2 to this report. A copy of the 2018 letter to the Company' s shareholders from the Ch ief Executive Officer of the Company is also fur nished as Exhibit 99.3 to this report.

The above information and Exhibits 99.1 , 99.2 , and 99.3 shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934 (the "Exchange Act"), nor shall such information and Exhibits be deemed incorporated by reference in any filing under the Securities Act of 1933 or the Exchange Act, except as shall be expressly set forth by specific reference in such a filing. In addition, information on the Company's website is not incorporated by reference into this report and should not be considered part of this report.

Certain statements contained in the exhibits furnished with this report may be considered forward looking in nature and are subject to various risks, uncertainties, and assumptions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, the Company's actual results may vary materially from those anticipated, estimated, or expected. Among the key risks and uncertainties that may have a direct bearing on the Company's future operating results, performance, or financial condition expressed or implied by the forward-looking statements are the matters discussed in the Risk Factors section of the Company's Annual Report on Form 10-K for the year ended December 31, 2018 filed with the SEC on February 27, 2019 . Although the Company may from time to time voluntarily update its prior forward-looking statements, it disclaims any commitment to do so except as required by securities laws.

01 Financial Statements and Exhibits.

(d) Exhibits. The following exhibits are furnished as part of this report:

Exhibit No.	Description
99.1	Press Release dated February 27, 201 9 - "Nelnet Reports Fourth Quarter 201 8 Results"
99.2	Supplemental Financial Information for the Quarter Ended December 31, 2018
99.3	2018 Letter to Shareholders from the Chief Executive Officer

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Dated: February 27, 2019

NELNET, INC.

By: /s/ JAMES D. KRUGER
Name: James D. Kruger
Title: Chief Financial Officer

Nelnet Reports Fourth Quarter 2018 Results

LINCOLN, Neb., February 27, 2019 - Nelnet (NYSE: NNI) today reported GAAP net income of $21.6 million , or $0.53 per share, for the fourth quarter of 2018, compared with GAAP net income of $48.1 million , or $1.17 per share, for the same period a year ago.

T he decrease in GAAP net income for the three months ended December 31, 2018, compared with the same period in 2017, was due primar il y to losses recognized in 2018 from changes in the fair values of derivative instruments that do not qualify for hedge accounting . Net income, excluding derivative market value and foreign currency transaction adjustments, was $58.8 million , or $1.44 per share, for the fourth quarter of 2018, compared with $45.6 million , or $1.11 per share, for the same period in 2017. For additional information on these non-GAAP metrics, including reconciliations to GAAP net income, see "Non-GAAP Performance Measures" below.

During the fourth quarter of 2018 , the company obtained clarity regarding certain tax positions , r esulting in a decrease to income tax expense of $ 8 .2 milli on, or $0 .2 0 per shar e . T he com pany expects it s f uture effective tax rate will ran ge between 23 and 24 percent.

"We are pleased with our financial performance for the fourth quarter and year," said Jeff Noordhoek, chief executive officer of Nelnet. “Throughout 2018, we invested significant capital into the long-term success of each of our businesses and increased our customer bases in each of the three core fee-based businesses. Importantly, we ended the year with strong momentum and many opportunities going into 2019 ."

Nelnet operates four primary business segments, earning interest income on loans in its Asset Generation and Management segment, and fee-based revenue in its Loan Servicing and Systems ; Education Technology, Services, and Payment Processing ; and Communications segments.

Asset Generation and Management

For the fourth quarter of 2018, Nelnet reported net interest income of $69.5 million , compared with $73.2 million for the same period a year ago. The company maintains an overall risk management strategy that incorporates the use of derivative instruments to reduce the economic effect of interest rate volatility. Derivative settlements for each applicable period should be evaluated with the company's net interest income. The company recognized income from derivative settlements of $19.1 million during the fourth quarter of 2018, compared with $3.0 million for the same period in 2017.

Durin g 2018, t he company purchased $3.9 billion of loans, including $692 million in the fo urth quarter of 2018. With these acquisitions, t he company's average balance of loans in the fourth quarter of 2018, $22.6 billi o n, remained relatively consistent with the average balance of loans in the fourth quarter of 2017 of $22.4 billion . Core loan spread increased to 1.39 percent for the quarter ended December 31, 2018 , compared with 1.26 percent for the same period in 2017.

Loan Servicing and Systems

On February 7, 2018, the company acquired Great Lakes Educational Loan Services, Inc. (Great Lakes) . T he operating results of Great Lakes are included in the company's Loan Servicing and Systems segment from the date of acquisition.

Revenue from the Loan Servicing and Systems segment was $112.8 million for the fourth quarter of 2018 , compared with $55.9 million for the same period in 2017.

As of December 31, 2018 , the company (including Great Lakes) was servicing $464. 6 billion in government-owned, Federal Family Education Loan (FFEL) Program, private education, and consumer loans, as compared with $2 11.4 billion of loans serviced by the company as of December 31, 2017 .

Nelnet Servicing, LLC (Nelnet Servicing) and Great Lakes are two companies that have student loan servicing contracts awarded by the U.S. Department of Education 's Office of Federal Student A id (the Department) in June 2009 to provide servicing for loans owned by the Department. As of December 31, 2018 , Nelnet Servicing was servicing $179. 5 billion of student loans for 5.8 million borrowers under its contract, and Great Lakes was servicing $232.7 billion of student loans for 7.5 million borrowers under its contract . The servicing contracts with the Department are currently scheduled to expire on June 16, 2019.

The Department has a new federal student loan servicing contract procurement process in progress. Nelnet is part of team s that currently in tend to respon d to the three ongoing components of the procurement .

The company will incur additional costs in 2019 to integrate its two core processing systems for government- owned loans , be responsive to the Department's procurement , and develop new priva te e ducation and consumer loan origination and servicing s yst ems , a multi -year project.

Education Technology, Services, and Payment Processing

For the fourth quarter of 2018, revenue from the Education Technology, Services, and Payment Processing segment was $54.6 million , an increase of $11.3 million , or 26 percent , from the same period in 2017. Prior period revenues were restated, without any impact on prior period net income, in connection with the implementation of a new revenue recognition accounting standard effective January 1, 2018. The increase in revenue was primarily driven by growth in managed tuition payment plans, campus commerce customer transactions and payments volume, and an increase in the number of customers using the operating segment's education and technology services.

On Oct ober 16, 2018, the company terminated its investment in a proprietary payment processing platform due to price decreases and technology advancements made by incumbent processors. As a result of this decision, the company recorded a $7.8 million (pre-tax) , or $5.9 million after tax ($0.15 per share), impairment charge for hardware and external software development costs. The decision will not impact the company's existing payment processing revenue or customers .

Additionally, on November 7, 2018, the company acquired 100 percent of the membership interests of Tuition Management Systems (TMS), a services company that offers tuition payment plans, billing services, payment technology solutions, and refund management to educational institutions. The TMS acquisition added 380 higher education institutions and 170 K-12 schools to the company 's customer base , further enhancing the company's market share leading position with private faith-based K - 12 schools and advancing to a market leading position in higher education.

Communications

Revenue from ALLO Communications was $13.3 million for the fourth quarter of 2018, compared with $ 8.1 million for the same period in 2017. The number of households served as of December 31, 2018 , was 37,351 , an increase of 16,923, or 83 percent , from the number of households served as of December 31, 2017 .

For the fourth quarter of 2018, ALLO recognized a net loss of $5.9 million , compared with a net loss of $5.4 million for the same period in 2017. The company anticipates this operating segment will be dilutive to consolidated earnings as it continues to build its network in Lincoln, Nebraska and other communities, due to large upfront capital expenditures and associated depreciation and upfront customer acquisition costs. ALLO's management uses earnings (loss) before interest, income taxes, depreciation, and amortization (EBITDA) to eliminate certain non-cash and non-operating items in order to consistently measure performance from period to period. For the fourth quarter of 2018, ALLO had negative EBITDA of $0.9 million , compared with negative EBITDA of $2.8 million for the same period in 2017. For additional information on this non-GAAP metric, including a reconciliation to ALLO's GAAP net loss, see "Non-GAAP Performance Measures" below.

ALLO began providing services in Lincoln , Nebraska in September 2016, as part of a multi -year project to pass substantially all commercial and residential properties in the community. The company currently anticipates the Lincoln build-out will be substantially complete during the first quarter of 2019. In 2018, ALLO began to provide its services in Fort Morgan, Colorado, and Hastings, Nebraska, increasing households in current markets to 152,840 , of which 122,396 a re passed by ALLO's existing dis tribution system . ALLO plans to continue to increase market share and revenue in its existing markets and is currently evaluating opportunities to expand to other communities.

ALLO incurred capital expenditures of $87.5 million during the year ended December 31, 2018 , including $20.7 million during the fourth quarter of 2018. The company currently anticipates total network expenditures of approximately $50 million for 2019 ; however, the amount of capital expenditures could change based on customer demand for ALLO's services.

Liquidity and Capital Activities

For the year ended December 31, 2018, the company generated $270.9 million in net cash from operating activities. In addition, as of December 31, 2018 , the company had a total of $121.3 million in cash and cash equivalents and $53.0 million in available-for-sale investments, consisting primarily of student loan asset-backed securities. The company also has a $382.5 million unsecured line of credit. As of December 31, 2018 , $310.0 million was outstanding on the line of credit and $72.5 million was available for future use.

During the fourth quarter of 2018, the company repurchased 549,056 shares of Class A common stock for $28.8 million, or $ 52.4 8 per share . In addition, t he company paid cash dividends of $ 7.3 million , or $0.1 8 per share, during the fourth quarter of 2018.

The company intends to use its liquidity position to capitalize on market opportunities, including: FFEL Program, private education, and consumer loan acquisitions; strategic acquisitions and investments; expansion of ALLO's communications network; and capital management initiatives, including stock repurchases, debt repurchases, and dividend distributions. The timing and size of these opportunities will vary and will have a direct impact on the company's cash and investment balances.

Year-End Results

GAAP net income for the year en ded December 31, 2018 was $227.9 million or $5.57 per share, compared with GAAP net income of $173.2 million , or $4.14 per share for 2017. Net income in 2018 , excluding derivative market value and foreign currency adjustments, was $227.1 million , or $5.55 per share, compared with $185.1 million , or $4.43 per share for 2017. For additional information on these non-GAAP metrics, including reconciliations to GAAP net income, see " N on-GAAP Perf ormance Me a s u res" below.

Non-GAAP Performance Measures

The company prepares its financial statements and presents its financial results in accordance with U.S. GAAP. However, it also provides additional non-GAAP financial information related to specific items management believes to be important in the evaluation of its operating results and performance. A reconciliation of the company's GAAP net income to net income, excluding derivative market value and foreign currency transaction adjustments, and a discussion of why the company believes providing this additional information is useful to investors, is provided below.

	Three months ended December 31,		Year ended December 31,	
	2018	2017	2018	2017
	(dollars in thousands, except share data)			
GAAP net income attributable to Nelnet, Inc.	$ 21,626	48,100	227,913	173,166
Realized and unrealized derivative market value adjustments	48,895	(3,997)	(1,014)	(26,379)
Unrealized foreign currency transaction adjustments	—	(35)	—	45,600
Net tax effect	(11,735)	1,532	243	(7,304)
Net income attributable to Nelnet, Inc., excluding derivative market value and foreign currency transaction adjustments	$ 58,786	45,600	227,142	185,083
Earnings per share:				
GAAP net income attributable to Nelnet, Inc.	$ 0.53	1.17	5.57	4.14
Realized and unrealized derivative market value adjustments	1.20	(0.10)	(0.02)	(0.63)
Unrealized foreign currency transaction adjustments	—	—	—	1.09
Net tax effect	(0.29)	0.04	—	(0.17)
Net income attributable to Nelnet, Inc., excluding derivative market value and foreign currency transaction adjustments	$ 1.44	1.11	5.55	4.43

"Derivative market value and foreign currency transaction adjustments" include (i) both the realized portion of gains and losses (corresponding to variation margin received or paid on derivative instruments that are settled daily at a central clearinghouse) and the unrealized portion of gains and losses that are caused by changes in fair values of derivatives that do not qualify for "hedge treatment" under GAAP; and (ii) the unrealized foreign currency transaction gains or losses caused by the re-measurement of the company's previously Euro-denominated bonds to U.S. dollars. In October 2017, the company remarketed its Euro-denominated bonds to denominate those bonds in U.S. dollars. "Derivative market value and foreign currency transaction adjustments" does not include "derivative settlements" that represent the cash paid or received during the current period to settle with derivative instrument counterparties the economic effect of the company's derivative instruments based on their contractual terms. The tax effects in the preceding table are calculated by multiplying the realized and unrealized derivative market value adjustments and unrealized foreign currency transaction adjustments by the applicable statutory income tax rate.

The company believes these point-in-time estimates of asset and liability values related to its derivative instruments and previously Euro-denominated bonds that are or were subject to interest and currency rate fluctuations are or were subject to volatility, primarily due to timing and market factors beyond the control of management, and affect the period-to-period comparability of the results of operations. Accordingly, the company’s management utilizes operating results excluding these items for comparability purposes when making decisions regarding the company’s performance and in presentations with credit rating agencies, lenders, and investors. Consequently, the company reports this non-GAAP information because the company believes that it provides additional information regarding operational and performance indicators that are closely assessed by management. There is no comprehensive, authoritative guidance for the presentation of such non-GAAP information, which is only meant to supplement GAAP results by providing additional information that management utilizes to assess performance.

A reconciliation of ALLO's GAAP net loss to earnings (loss) before net interest expense, income taxes, depreciation, and amortization (EBITDA), is provided below.

	Three months ended December 31,	
	2018	2017
	(dollars in thousands)	
Net loss	$ (5,876)	(5,449)
Net interest (income) expense	(2)	2,058
Income tax benefit	(1,856)	(3,341)
Depreciation and amortization	6,792	3,955
Earnings (loss) before interest, income taxes, depreciation, and amortization (EBITDA)	$ (942)	(2,777)

EBITDA is a supplemental non-GAAP performance measure that is frequently used in capital-intensive industries such as telecommunications. ALLO's management uses EBITDA to compare ALLO's performance to that of its competitors and to eliminate certain non-cash and non-operating items in order to consistently measure performance from period to period. EBITDA excludes interest and income taxes because these items are associated with a company's particular capitalization and tax structures. EBITDA also excludes depreciation and amortization expense because these non-cash expenses primarily reflect the impact of historical capital investments, as opposed to the cash impacts of capital expenditures made in recent periods, which may be evaluated through cash flow measures. The company reports EBITDA for ALLO because the company believes that it provides useful additional information for investors regarding a key metric used by management to assess ALLO's performance. There are limitations to using EBITDA as a performance measure, including the difficulty associated with comparing companies that use similar performance measures whose calculations may differ from ALLO's calculations. In addition, EBITDA should not be considered a substitute for other measures of financial performance, such as net income or any other performance measures derived in accordance with GAAP.

Forward-Looking and Cautionary Statements

This press release contains forward-looking statements within the meaning of federal securities laws. The words "anticipate," "continue," "expect," "future," "intend," "plan," "scheduled," "will," and similar expressions, as well as statements in future tense, are intended to identify forward-looking statements. These statements are based on management's current expectations as of the date of this release and are subject to known and unknown risks and uncertainties that may cause actual results or performance to differ materially from those expressed or implied by the forward-looking statements. Such risks include, but are not limited to: risks related to the company's loan portfolio, such as interest rate basis and repricing risk and changes in levels of student loan repayment or default rates; the use of derivatives to manage exposure to interest rate fluctuations; the uncertain nature of the expected benefits from the acquisition of Great Lakes on February 7, 2018, and the ability to successfully integrate technology, shared services, and other activities and successfully maintain and increase allocated volumes of student loans serviced under existing and any future servicing contracts with the Department; risks to the company related to the Department's initiative s to procure new contracts for federal student loan servicing, including the risk that company te a ms may not be successful in obtaining contract s ; risks related to the development by the company and Great Lakes of a new student loan servicing platform, including risks as to whether the expected benefits from the new platform will be realized; the uncertain nature of expected benefits from FFEL Program, private education, and consumer loan purchases and initiatives to purchase additional FFEL Program, private education, and consumer loans; financing and liquidity risks, including risks of changes in the securitization and other financing markets for student loans; risks and uncertainties from changes in the educational credit and services marketplace resulting from changes in applicable laws, regulations, and government programs and budgets, such as the expected decline over time in FFEL Program loan interest income and fee-based revenues due to the discontinuation of FFEL Program loan originations in 2010 and the resulting initiatives by the company to adjust to a post-FFEL Program environment; risks and uncertainties related to t he ability of ALLO to successfully expand its fiber network and market share in existing service areas and additional communities and manage related construction risks; risks and uncertainties related to initiatives to pursue additional strategic investments and acquisitions, including investments and acquisitions that are intended to diversify the company both within and outside of its historical core education-related businesses; cybersecurity risks, including potential disruptions to systems, disclosure of confidential information, and/or damage to reputation resulting from cyber-breaches; and changes in general economic and credit market conditions, including the availability of any relevant money-market index rate such as LIBOR or the relationship between t he relevant money-market ind ex rate a nd the rate at which the company's assets and liabil i ties are price d.

For more information, see the "Risk Factors" sections and other cautionary discussions of risks and uncertainties included in documents filed or furnished by the company with the Securities and Exchange Commission, including the cautionary information about forward-looking statements contained in the company's supplemental financial information for the fourth quarter ended December 31, 2018 . All forward-looking statements in this release are as of the date of this release. Although the company may voluntarily update or revise its forward-looking statements from time to time to reflect actual results or changes in the company's expectations, the company disclaims any commitment to do so except as required by securities laws.

Consolidated Statements of Income
(Dollars in thousands, except share data)
(unaudited)

	Three months ended			Year ended	
	December 31, 2018	September 30, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Interest income:					
Loan interest	$ 244,252	232,320	193,556	897,666	757,731
Investment interest	8,019	7,628	3,080	26,600	12,695
Total interest income	252,271	239,948	196,636	924,266	770,426
Interest expense:					
Interest on bonds and notes payable	182,732	180,175	123,401	669,906	465,188
Net interest income	69,539	59,773	73,235	254,360	305,238
Less provision for loan losses	5,000	10,500	3,750	23,000	14,450
Net interest income after provision for loan losses	64,539	49,273	69,485	231,360	290,788
Other income:					
Loan servicing and systems revenue	112,761	112,579	55,921	440,027	223,000
Education technology, services, and payment processing revenue	54,589	58,409	43,326	221,962	193,188
Communications revenue	13,326	11,818	8,122	44,653	25,700
Other income	9,998	16,673	7,952	54,446	52,826
Gain (loss) from debt repurchases , net	—	—	(2,635)	359	2,902
Derivative market value and foreign currency transaction adjustments and derivative settlements, net	(29,843)	17,098	7,014	71,085	(18,554)
Total other income	160,831	216,577	119,700	832,532	479,062
Cost of services:					
Cost to provide education technology, services, and payment processing services	15,479	19,087	11,223	59,566	48,678
Cost to provide communications services	5,033	4,310	3,160	16,926	9,950
Total cost of services	20,512	23,397	14,383	76,492	58,628
Operating expenses:					
Salaries and benefits	114,247	114,172	81,201	436,179	301,885
Depreciation and amortization	23,953	22,992	11,854	86,896	39,541
Loan servicing fees to third parties	2,631	3,087	3,064	12,059	22,734
Other expenses	46,952	45,194	38,455	165,972	120,378
Total operating expenses	187,783	185,445	134,574	701,106	484,538
Income before income taxes	17,075	57,008	40,228	286,294	226,684
Income tax benefit (expense)	4,599	(13,882)	5,486	(58,770)	(64,863)
Net income	21,674	43,126	45,714	227,524	161,821
Net (income) loss attributable to noncontrolling interests	(48)	(199)	2,386	389	11,345
Net income attributable to Nelnet, Inc.	$ 21,626	42,927	48,100	227,913	173,166
Earnings per common share:					
Net income attributable to Nelnet, Inc. shareholders - basic and diluted	$ 0.53	1.05	1.17	5.57	4.14
Weighted average common shares outstanding - basic and diluted	40,810,636	40,988,965	41,012,731	40,909,022	41,791,941

Condensed Consolidated Balance Sheets
(Dollars in thousands)
(unaudited)

	As of December 31, 2018	As of September 30, 2018	As of December 31, 2017
Assets:			
Loans receivable, net	$ 22,377,142	22,528,362	21,814,507
Cash, cash equivalents, investments, and notes receivable	370,717	330,352	307,290
Restricted cash	1,071,044	911,929	875,314
Goodwill and intangible assets, net	271,202	249,462	177,186
Other assets	1,130,863	1,084,820	790,138
Total assets	$ 25,220,968	25,104,925	23,964,435
Liabilities:			
Bonds and notes payable	$ 22,218,740	22,251,433	21,356,573
Other liabilities	687,449	526,364	442,475
Total liabilities	22,906,189	22,777,797	21,799,048
Equity:			
Total Nelnet, Inc. shareholders' equity	2,304,464	2,316,864	2,149,529
Noncontrolling interests	10,315	10,264	15,858
Total equity	2,314,779	2,327,128	2,165,387
Total liabilities and equity	$ 25,220,968	25,104,925	23,964,435

Contacts:

Media, Ben Kiser, 402.458.3024, or Investors, Phil Morgan, 402.458.3038, both of Nelnet, Inc .

For Release: February 27, 2019
Investor Contact: Phil Morgan, 402.458.3038
Nelnet, Inc. supplemental financial information for the fourth quarter 2018
(All dollars are in thousands, except per share amounts, unless otherwise noted)

The following information should be read in connection with Nelnet, Inc.'s (the “Company's”) press release for fourth quarter 2018 earnings, dated February 27, 2019 , and the Company's Annual Report on Form 10-K for the year ended December 31, 2018 .

Forward-looking and cautionary statements

This report contains forward-looking statements and information that are based on management's current expectations as of the date of this document. Statements that are not historical facts, including statements about the Company's plans and expectations for future financial condition, results of operations or economic performance, or that address management's plans and objectives for future operations, and statements that assume or are dependent upon future events, are forward-looking statements. The words “anticipate,” “assume,” “believe,” “continue,” “could,” “estimate,” “expect,” “forecast,” “future,” “intend,” “may,” “plan,” “potential,” “predict,” “scheduled,” “should,” “will,” “would,” and similar expressions, as well as statements in future tense, are intended to identify forward-looking statements.

The forward-looking statements are based on assumptions and analyses made by management in light of management's experience and its perception of historical trends, current conditions, expected future developments, and other factors that management believes are appropriate under the circumstances. These statements are subject to known and unknown risks, uncertainties, assumptions, and other factors that may cause the actual results and performance to be materially different from any future results or performance expressed or implied by such forward-looking statements. These factors include, among others, the risks and uncertainties set forth in the “Risk Factors” section of the Company' s Annual Report on Form 10-K for the year ended December 31 , 201 8 (the "2018 Annual Report "), and include such risks and uncertainties as:

- loan portfolio risks such as interest rate basis and repricing risk resulting from the fact that the interest rate characteristics of the student loan assets do not match the interest rate characteristics of the funding for those assets, the risk of loss of floor income on certain student loans originated under the Federal Family Education Loan Program (the "FFEL Program" or "FFELP"), risks related to the use of derivatives to manage exposure to interest rate fluctuations, uncertainties regarding the expected benefits from purchased securitized and unsecuritized FFELP, private education, and consumer loans and initiatives to purchase additional FFELP, private education, and consumer loans, and risks from changes in levels of loan prepayment or default rates;
- financing and liquidity risks, including risks of changes in the general interest rate environment, including the availability of any relevant money market index rate such as LIBOR or the relationship between the relevant money market index rate and the rate at which the Company's assets and liabilities are priced, and in the securitization and other financing markets for loans, including adverse changes resulting from unanticipated repayment trends on student loans in FFELP securitization trusts that could accelerate or delay repayment of the associated bonds, which may increase the costs or limit the availability of financings necessary to purchase, refinance, or continue to hold student loans;
- risks from changes in the educational credit and services markets resulting from changes in applicable laws, regulations, and government programs and budgets, such as the expected decline over time in FFELP loan interest income and fee-based revenues due to the discontinuation of new FFELP loan originations in 2010 and potential government initiatives or legislative proposals to consolidate existing FFELP loans to the Federal Direct Loan Program or otherwise allow FFELP loans to be refinanced with Federal Direct Loan Program loans;
- the uncertain nature of the expected benefits from the acquisition of Great Lakes Educational Loan Services, Inc. ("Great Lakes") on February 7, 2018 and the ability to successfully integrate technology and other activities and successfully maintain and increase allocated volumes of student loans serviced under existing and any future servicing contracts with the U.S. Department of Education (the "Department"), which current contracts accounted for 30 percent of the Company's revenue in 2018, risks to the Company related to the Department's initiatives to procure new contracts for federal student loan servicing, including the risk that Company teams may not be successful in obtaining contracts, risks related to the development by the Company and Great Lakes of a new student loan servicing platform, including risks as to whether the expected benefits from the new platform will be realized, and risks related to the Company's ability to comply with agreements with third-party customers for the servicing of Federal Direct Loan Program, FFELP, and private education and consumer loans;
- risks related to a breach of or failure in the Company's operational or information systems or infrastructure, or those of third-party vendors, including cybersecurity risks related to the potential disclosure of confidential student loan borrower and other customer information, the potential disruption of the Company's systems or those of third-party vendors or customers, and/or the potential damage to the Company's reputation resulting from cyber-breaches;
- uncertainties inherent in forecasting future cash flows from student loan assets and related asset-backed securitizations;
- risks and uncertainties related to the ability of ALLO Communications LLC to successfully expand its fiber network and market share in existing service areas and additional communities and manage related construction risks;
- risks and uncertainties related to initiatives to pursue additional strategic investments and acquisitions, including investments and acquisitions that are intended to diversify the Company both within and outside of its historical core education-related businesses; and
- risks and uncertainties associated with litigation matters and with maintaining compliance with the extensive regulatory requirements applicable to the Company's businesses, reputational and other risks, including the risk of increased regulatory costs, resulting from the politicization of student loan servicing, and uncertainties inherent in the estimates and assumptions about future events that management is required to make in the preparation of the Company's consolidated financial statements.

All forward-looking statements contained in this report are qualified by these cautionary statements and are made only as of the date of this document. Although the Company may from time to time voluntarily update or revise its prior forward-looking statements to reflect actual results or changes in the Company's expectations, the Company disclaims any commitment to do so except as required by securities laws.

Consolidated Statements of Income
(Dollars in thousands, except share data)
(unaudited)

	Three months ended			Year ended	
	December 31, 2018	September 30, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Interest income:					
Loan interest	$ 244,252	232,320	193,556	897,666	757,731
Investment interest	8,019	7,628	3,080	26,600	12,695
Total interest income	252,271	239,948	196,636	924,266	770,426
Interest expense:					
Interest on bonds and notes payable	182,732	180,175	123,401	669,906	465,188
Net interest income	69,539	59,773	73,235	254,360	305,238
Less provision for loan losses	5,000	10,500	3,750	23,000	14,450
Net interest income after provision for loan losses	64,539	49,273	69,485	231,360	290,788
Other income:					
Loan servicing and systems revenue	112,761	112,579	55,921	440,027	223,000
Education technology, services, and payment processing revenue	54,589	58,409	43,326	221,962	193,188
Communications revenue	13,326	11,818	8,122	44,653	25,700
Other income	9,998	16,673	7,952	54,446	52,826
Gain (loss) from debt repurchases , net	—	—	(2,635)	359	2,902
Derivative settlements, net	19,052	22,324	2,982	70,071	667
Derivative market value and foreign currency transaction adjustments	(48,895)	(5,226)	4,032	1,014	(19,221)
Total other income	160,831	216,577	119,700	832,532	479,062
Cost of services:					
Cost to provide education technology, services, and payment processing services	15,479	19,087	11,223	59,566	48,678
Cost to provide communications services	5,033	4,310	3,160	16,926	9,950
Total cost of services	20,512	23,397	14,383	76,492	58,628
Operating expenses:					
Salaries and benefits	114,247	114,172	81,201	436,179	301,885
Depreciation and amortization	23,953	22,992	11,854	86,896	39,541
Loan servicing fees to third parties	2,631	3,087	3,064	12,059	22,734
Other expenses	46,952	45,194	38,455	165,972	120,378
Total operating expenses	187,783	185,445	134,574	701,106	484,538
Income before income taxes	17,075	57,008	40,228	286,294	226,684
Income tax benefit (expense)	4,599	(13,882)	5,486	(58,770)	(64,863)
Net income	21,674	43,126	45,714	227,524	161,821
Net (income) loss attributable to noncontrolling interests	(48)	(199)	2,386	389	11,345
Net income attributable to Nelnet, Inc.	$ 21,626	42,927	48,100	227,913	173,166
Earnings per common share:					
Net income attributable to Nelnet, Inc. shareholders - basic and diluted	$ 0.53	1.05	1.17	5.57	4.14
Weighted average common shares outstanding - basic and diluted	40,810,636	40,988,965	41,012,731	40,909,022	41,791,941

Condensed Consolidated Balance Sheets
(Dollars in thousands)
(unaudited)

	As of December 31, 2018	As of September 30, 2018	As of December 31, 2017
Assets:			
Loans receivable, net	$ 22,377,142	22,528,362	21,814,507
Cash, cash equivalents, investments, and notes receivable	370,717	330,352	307,290
Restricted cash	1,071,044	911,929	875,314
Goodwill and intangible assets, net	271,202	249,462	177,186
Other assets	1,130,863	1,084,820	790,138
Total assets	$ 25,220,968	25,104,925	23,964,435
Liabilities:			
Bonds and notes payable	$ 22,218,740	22,251,433	21,356,573
Other liabilities	687,449	526,364	442,475
Total liabilities	22,906,189	22,777,797	21,799,048
Equity:			
Total Nelnet, Inc. shareholders' equity	2,304,464	2,316,864	2,149,529
Noncontrolling interests	10,315	10,264	15,858
Total equity	2,314,779	2,327,128	2,165,387
Total liabilities and equity	$ 25,220,968	25,104,925	23,964,435

Overview

The Company is a diverse company with a focus on delivering education-related products and services and student loan asset management. The largest operating businesses engage in student loan servicing; education technology, services, and payment processing; and communications. A significant portion of the Company's revenue is net interest income earned on a portfolio of federally insured student loans. The Company also makes investments to further diversify the Company both within and outside of its historical core education-related businesses, including, but not limited to, investments in real estate and early -stage and emerging growth companies.

GAAP Net Income and Non-GAAP Net Income, Excluding Adjustments

The Company prepares its financial statements and presents its financial results in accordance with U.S. GAAP. However, it also provides additional non-GAAP financial information related to specific items management believes to be important in the evaluation of its operating results and performance. A reconciliation of the Company's GAAP net income to net income, excluding derivative market value and foreign currency transaction adjustments, and a discussion of why the Company believes providing this additional information is useful to investors, is provided below.

	Three months ended			Year ended	
	December 31, 2018	September 30, 2018	December 31, 2017	December 31, 2018	December 31, 2017
GAAP net income attributable to Nelnet, Inc.	$ 21,626	42,927	48,100	227,913	173,166
Realized and unrealized derivative market value adjustments	48,895	5,226	(3,997)	(1,014)	(26,379)
Unrealized foreign currency transaction adjustments	—	—	(35)	—	45,600
Net tax effect (a)	(11,735)	(1,254)	1,532	243	(7,304)
Net income attributable to Nelnet, Inc., excluding derivative market value and foreign currency transaction adjustments (b)	$ 58,786	46,899	45,600	227,142	185,083
Earnings per share:					
GAAP net income attributable to Nelnet, Inc.	$ 0.53	1.05	1.17	5.57	4.14
Realized and unrealized derivative market value adjustments	1.20	0.12	(0.10)	(0.02)	(0.63)
Unrealized foreign currency transaction adjustments	—	—	—	—	1.09
Net tax effect (a)	(0.29)	(0.03)	0.04	—	(0.17)
Net income attributable to Nelnet, Inc., excluding derivative market value and foreign currency transaction adjustments (b)	$ 1.44	1.14	1.11	5.55	4.43

(a) The tax effects are calculated by multiplying the realized and unrealized derivative market value adjustments and unrealized foreign currency transaction adjustments by the applicable statutory income tax rate.

(b) "Derivative market value and foreign currency transaction adjustments" include (i) both the realized portion of gains and losses (corresponding to variation margin received or paid on derivative instruments that are settled daily at a central clearinghouse) and the unrealized portion of gains and losses that are caused by changes in fair values of derivatives which do not qualify for "hedge treatment" under GAAP; and (ii) the unrealized foreign currency transaction gains or losses caused by the re-measurement of the Company's previously Euro-denominated bonds to U.S. dollars. "Derivative market value and foreign currency transaction adjustments" does not include "derivative settlements" that represent the cash paid or received during the current period to settle with derivative instrument counterparties the economic effect of the Company's derivative instruments based on their contractual terms.

The accounting for derivatives requires that changes in the fair value of derivative instruments be recognized currently in earnings, with no fair value adjustment of the hedged item, unless specific hedge accounting criteria is met. Management has structured all of the Company’s derivative transactions with the intent that each is economically effective; however, the Company’s derivative instruments do not qualify for hedge accounting. As a result, the change in fair value of derivative instruments is reported in current period earnings with no consideration for the corresponding change in fair value of the hedged item. Under GAAP, the cumulative net realized and unrealized gain or loss caused by changes in fair values of derivatives in which the Company plans to hold to maturity will equal zero over the life of the contract. However, the net realized and unrealized gain or loss during any given reporting period fluctuates significantly from period to period. In addition, the Company incurred unrealized foreign currency transaction adjustments in 2017 for periodic fluctuations in currency exchange rates between the U.S. dollar and Euro in connection with its student loan asset-backed bonds that were previously denominated in E uros with an interest rate based on a spread to the EURIBOR index. The principal and accrued interest on these bonds were remeasured at each reporting period and recorded in the Company's consolidated balance sheet in U.S. dollars based on the foreign currency exchange rate on that date.

The Company believes these point-in-time estimates of asset and liability values related to its derivative instruments and previously Euro- denominated bonds that are or were subject to interest and currency rate fluctuations are or were subject to volatility mostly due to timing and market factors beyond the control of management, and affect the period-to-period comparability of the results of operations. Accordingly, the Company’s management utilizes operating results excluding these items for comparability purposes when making decisions regarding the Company’s performance and in presentations with credit rating agencies, lenders, and investors. Consequently, the Company reports this non-GAAP information because the Company believes that it provides additional information regarding operational and performance indicators that are closely assessed by management. There is no comprehensive, authoritative guidance for the presentation of such non-GAAP information, which is only meant to supplement GAAP results by providing additional information that management utilizes to assess performance.

On October 25, 2017, the Company completed a remarketing of the Company’s bonds that were prior to that date denominated in Euros, to denominate those bonds in U.S. dollars and reset the interest rate to be based on the three -month LIBOR index. The Company also terminated a cross-currency interest rate swap associated with those bonds. As a result, there are no foreign currency transaction adjustments with respect to those bonds after October 25, 2017.

Operating Results

The Company earns net interest income on its loan portfolio, consisting primarily of FFELP loans, in its Asset Generation and Management ("AGM") operating segment. This segment is expected to generate a stable net interest margin and significant amounts of cash as the FFELP portfolio amortizes. As of December 31, 2018 , the Company had a $22.4 billion loan portfolio that management anticipates will amortize over the next approximately 20 years and has a weighted average remaining life of 8.7 years. The Company actively works to maximize the amount and timing of cash flows generated by its FFELP portfolio and seeks to acquire additional loan assets to leverage its servicing scale and expertise to generate incremental earnings and cash flow. However, due to the continued amortization of the Company’s FFELP loan portfolio, over time, the Company's net income generated by the AGM segment will continue to decrease. The Company currently believes that in the short-term it will most likely not be able to invest the excess cash generated from the FFELP loan portfolio into assets that immediately generate the rates of return historically realized from that portfolio.

In addition, the Company earns fee-based revenue through the following reportable operating segments:

- Lo an Servicing and Systems ("LSS") - referred to as Nelnet Diversified Solutions ("NDS")
- Education Technology, Services, and Payment Processing ("ETS&PP") - referred to as Nelnet Business Solutions ("NBS")
- Communications - referred to as ALLO Communications ("ALLO")

Other business activities and operating segments that are not reportable are combined and included in Corporate and Other Activities ("Corporate"). Corporate and Other Activities also includes income earned on certain investments and interest expense incurred on unsecured debt transactions.

The information below provides the operating results for each reportable operating segment and Corporate and Other Activities for the year ended December 31, 2018 , 2017 and 201 6 (dollars in millions).

(a) Revenue includes intersegment revenue earned by LSS as a result of servicing loans for AGM.

(b) Total revenue includes "net interest income" and "total other income" from the Company's segment statements of income, excluding the impact from changes in fair values of derivatives and foreign currency transaction adjustments. Net income excludes changes in fair values of derivatives and foreign currency transaction adjustments, net of tax. For information regarding the exclusion of the impact from changes in fair values of derivatives and foreign currency transaction adjustments, see "GAAP Net Income and Non-GAAP Net Income, Excluding Adjustments" above.

Certain events and transactions from 2018, which have impacted or will impact the operating results of the Company and its operating segments, are discussed below.

Impact from the Tax Cuts and Jobs Act

- The Tax Cuts and Jobs Act (the "Act"), signed into law on December 22, 2017, and effective January 1, 2018, reduced the corporate statutory federal tax rate from 35 percent to 21 percent. The Company's effective tax rate in 2018 was 20.5 percent. During 2018, the Company obtained clarity regarding certain tax positions that resulted in a reduction to income tax expense. The Company currently anticipates its effective tax rate will range between 23 to 24 percent in future periods.

Loan Servicing and Systems

- On February 7, 2018, the Company paid $150.0 million in cash to acquire Great Lakes. The operating results of Great Lakes are reported in the Company's consolidated financial statements from the date of acquisition.

  Nelnet Servicing and Great Lakes are two companies that have student loan servicing contracts awarded by the Department to provide servicing for loans owned by the Department. In addition to servicing loans for the Department, Great Lakes serviced FFELP and private education loans.

  From the date of acquisition and going forward , Great Lakes and Nelnet Servicing have continued , and will continue , to service their respective government-owned portfolios on behalf of the Department, while maintaining their distinct brands, independent servicing operations, and teams. Likewise, each entity continues to compete for new student loan volume under its respective existing contract with the Department. The Company has integrated , and will continue to integrate , technology as well as shared services and other activities to become more efficient and effective in meeting borrower needs. During 2018, the Company converted Great Lakes' FFELP and private education loan servicing volume to Nelnet Servicing 's servicing platform to leverage the efficiencies of supporting more volume on fewer systems.

  As of December 31, 2018, Nelnet Servicing was servicing $179. 5 billion of student loans for 5.8 million borrowers under its contract with the Department, and Great Lakes was servicing $232.7 billion of student loans for 7.5 million borrowers under its contract. These contracts are currently scheduled to expire on June 16, 2019.

  On February 20, 2018, the Department's Office of Federal Student Aid ("FSA") released information regarding a contract procurement process entitled Next Generation Financial Services Environment ("NextGen") for the servicing of all student loans owned by the Department. On August 24, August 27, and September 24, 2018, FSA made announcements that included canceling certain components of the NextGen process and issuing a solicitation for a separate new procurement process for certain of those NextGen components that were canceled.

  On January 15, 2019, FSA released an amendment canceling all components of NextGen except the Enterprise-Wide Digital and Customer Care Platforms and Services component and issued new solicitations for three new NextGen components:

  - NextGen Enhanced Processing Solution
  - NextGen Business Process Operations
  - NextGen Optimal Processing Solution

  On February 20, 2019, FSA awarded the Enterprise-Wide Digital and Customer Care Platforms and Services component to Accenture Federal Services. The Company is part of teams that currently intend to respond to the solicitations for each of the three ongoing NextGen components. The Company cannot predict the timing, nature, or outcome of these solicitations.

- The Company will incur additional costs in 2019 to integrate two core processing systems for government-owned loans, be responsive to the Department's procurement, and develop new private education and consumer loan origination and servicing systems, a multi-year project , which the Company currently expects will decrease operating margin from recent historical results.

Education Technology, Services, and Payment Processing

- In 2018, the Company changed the name of its Tuition Payment Processing and Campus Commerce operating segment to Education Technology, Services, and Payment Processing to better describe the evolution of services this operating segment provides.

- Effective January 1, 2018, the Company adopted the FASB's new revenue recognition standard using the full retrospective method, which required it to restate each prior reporting period presented. The most significant impact of the standard relates to identifying this segment as the principal in its payment services transactions. As a result of this change, the Company presents the payment services revenue gross, with the direct costs to provide these services presented separately.

- On October 16, 2018, the Company terminated its investment in a proprietary payment processing platform. This decision was made as a result of decreases in price and advancements of technology by established processors in the industry. As a result of this decision, the Company recorded an impairment charge of $7.8 million (pre-tax) in 2018. The charge represents computer equipment and external software development costs related to the payment processing platform. The decision will not impact the Company's existing payment processing revenue or customers.

- On November 7, 2018, the Company paid $27.0 million in cash to acquir e Tuition Management Systems ("TMS"), a services company that offers tuition payment plans, billing services, payment technology solutions, and refund management to educational institutions. The TMS acquisition added 380 higher education schools and 170 K-12 schools to the Company's customer base, further enhancing NBS' market share leading position with private faith-based K-12 schools and advancing to a market leading position in higher education.

Communications

- In 2018, ALLO increased its residential households served from 20,428 as of December 31, 2017 to 37,351 as of December 31, 2018 and increased revenue from $25.7 million in 2017 to $44.7 million in 2018. In 2018, ALLO also began to provide its services in Fort Morgan, Colorado, and Hastings, Nebraska, increasing households in its current markets to 152,840 from 137,500 . ALLO plans to continue to increase market share and revenue in its existing markets and is currently evaluating opportunities to expand to additional communities.

- In 2018, ALLO's capital expenditures were $87.5 million and the Company currently anticipates total expenditures of approximately $ 50 million in 2019. ALLO began providing services in Lincoln, Nebraska in September 2016, as part of a multi-year project to pass substantially all commercial and residential properties in the community. The Company currently anticipates the Lincoln build-out will be substantially complete during the first quarter of 2019.

- The Company currently anticipates ALLO's operating results will be dilutive to the Company's consolidated earnings as it finishes its network build-out in Lincoln, Nebraska, and continues to build its network in other communities, due to large upfront capital expenditures and associated depreciation and upfront customer acquisition costs.

Asset Generation and Management

- During 2018, the Company purchased $3.9 billion in loans. The vast majority of these loans are federally insured student loans.

- The Company's average balance of loans decreased to $22.6 billion in 2018, compared with $23.6 billion in 2017. Core loan spread increased to 1.32 percent in 2018, compared with 1.23 percent in 2017.

  The Company began to purchase consumer loans in the second quarter of 2017. Consumer loans are currently funded by the Company using operating cash, until they can be funded in a secured financing transaction. As such, consumer loans do not have a cost of funds (debt) associated with them. Core loan spread, excluding consumer loans, would have been 1.27 percent and 1.21 percent in 2018 and 2017, respectively.

  In 2018, the Company recognized $121.7 million in fixed rate floor income (which includes $64.9 million of settlement payments received on derivatives used to hedge student loans earning fixed rate floor income). Fixed rate floor income contributed 55 basis points of core loan spread in 2018.

Liquidity and Capital Resources

- As of December 31, 2018, the Company had cash and cash equivalents of $121.3 million. In addition, the Company had a portfolio of available-for-sale investments, consisting primarily of student loan asset-backed securities, with a fair value of $53.0 million as of December 31, 2018 .

- The Company has historically generated positive cash flow from operations. For the year ended December 31, 2018 , the Company's net cash provided by operating activities was $ 270.9 million .

- On June 22, 2018, the Company amended its unsecured line of credit to, among other things, extend the maturity date of the facility from December 12, 2021 to June 22, 2023. On December 14, 2018, the Company increased the aggregate amount it can borrow under this facility from $350.0 million to $382.5 million. As of December 31, 2018, the unsecured line of credit had $310.0 million outstanding and $72.5 million was available for future use.

- The majority of the Company's portfolio of student loans is funded in asset-backed securitizations that will generate significant earnings and cash flow over the life of these transactions. As of December 31, 2018 , the Company currently expects future undiscounted cash flows from its securitization portfolio to be approximately $2.1 billion , of which approximately $1.3 billion will be generated over the next five years.

- During 2018, the Company repurchased a total of 868,147 shares of Class A common stock for $45.3 million ($52.22 per share) , including the repurchase of 549,056 shares of Class A common stock during the fourth quarter of 2018 for $28.8 million ($52.48 per s hare).

- During 2018, the Company paid quarterly cash dividends totaling $26.8 million ($0.66 per share) , including $7.3 million , or $0.18 per share, during the fourth quarter o f 2018.

- The Company intends to use its liquidity position to capitalize on market opportunities, including FFELP, private education, and consumer loan acquisitions; strategic acquisitions and investments; expansion of ALLO's telecommunications network; and capital management initiatives, including stock repurchases, debt repurchases, and dividend distributions. The timing and size of these opportunities will vary and will have a direct impact on the Company's cash and investment balances.

Segment Reporting

The following tables include the results of each of the Company's reportable operating segments reconciled to the consolidated financial statements.

	Three months ended December 31, 2018						
	Loan Servicing and Systems	Education Technology, Services, and Payment Processing	Communications	Asset Generation and Management	Corporate and Other Activities	Eliminations	Total
Total interest income	$ 421	1,526	2	248,620	2,271	(569)	252,271
Interest expense	—	5	—	181,632	1,664	(569)	182,732
Net interest income	421	1,521	2	66,988	607	—	69,539
Less provision for loan losses	—	—	—	5,000	—	—	5,000
Net interest income (loss) after provision for loan losses	421	1,521	2	61,988	607	—	64,539
Other income:							
Loan servicing and systems revenue	112,761	—	—	—	—	—	112,761
Intersegment servicing revenue	12,412	—	—	—	—	(12,412)	—
Education technology, services, and payment processing revenue	—	54,589	—	—	—	—	54,589
Communications revenue	—	—	13,326	—	—	—	13,326
Other income	2,088	—	125	3,333	4,451	—	9,998
Derivative settlements, net	—	—	—	19,050	2	—	19,052
Derivative market value and foreign currency transaction adjustments, net	—	—	—	(49,229)	334	—	(48,895)
Total other income	127,261	54,589	13,451	(26,846)	4,787	(12,412)	160,831
Cost of services:							
Cost to provide education technology, services, and payment processing services	—	15,479	—	—	—	—	15,479
Cost to provide communications services	—	—	5,033	—	—	—	5,033
Total cost of services	—	15,479	5,033	—	—	—	20,512
Operating expenses:							
Salaries and benefits	69,046	22,528	5,495	343	16,834	—	114,247
Depreciation and amortization	8,837	3,422	6,792	—	4,902	—	23,953
Loan servicing fees to third parties	—	—	—	2,631	—	—	2,631
Other expenses	15,746	13,188	3,089	920	14,010	—	46,952
Intersegment expenses, net	15,074	3,051	776	12,927	(19,416)	(12,412)	—
Total operating expenses	108,703	42,189	16,152	16,821	16,330	(12,412)	187,783
Income (loss) before income taxes	18,979	(1,558)	(7,732)	18,321	(10,936)	—	17,075
Income tax (expense) benefit (a)	(4,555)	374	1,856	(4,397)	11,321	—	4,599
Net income (loss)	14,424	(1,184)	(5,876)	13,924	385	—	21,674
Net income attributable to noncontrolling interests	—	—	—	—	(48)	—	(48)
Net income (loss) attributable to Nelnet, Inc.	$ 14,424	(1,184)	(5,876)	13,924	337	—	21,626

(a) As a result of the Tax Cuts and Jobs Act, beginning January 1, 2018, income taxes are allocated based on 24% of income before taxes for each individual operating segment. Prior to the effective dat e of the Tax Cuts and Jobs Act, income taxes were allocated based on 38% of income before taxes for each individual operating segment. The difference between the consolidated income tax expense and the sum of the taxes calculated for each operating segment, if any, is included in income taxes in Corporate and Other Activities.

	Three months ended September 30, 2018						
	Loan Servicing and Systems	Education Technology, Services, and Payment Processing	Communications	Asset Generation and Management	Corporate and Other Activities	Eliminations	Total
Total interest income	$ 381	1,513	1	236,039	6,860	(4,846)	239,948
Interest expense	—	3	4,174	176,874	3,968	(4,846)	180,175
Net interest income	381	1,510	(4,173)	59,165	2,892	—	59,773
Less provision for loan losses	—	—	—	10,500	—	—	10,500
Net interest income (loss) after provision for loan losses	381	1,510	(4,173)	48,665	2,892	—	49,273
Other income:							
Loan servicing and systems revenue	112,579	—	—	—	—	—	112,579
Intersegment servicing revenue	12,290	—	—	—	—	(12,290)	—
Education technology, services, and payment processing revenue	—	58,409	—	—	—	—	58,409
Communications revenue	—	—	11,818	—	—	—	11,818
Other income	1,948	—	950	3,267	10,508	—	16,673
Derivative settlements, net	—	—	—	22,448	(124)	—	22,324
Derivative market value and foreign currency transaction adjustments, net	—	—	—	(6,056)	830	—	(5,226)
Total other income	126,817	58,409	12,768	19,659	11,214	(12,290)	216,577
Cost of services:							
Cost to provide education technology, services, and payment processing services	—	19,087	—	—	—	—	19,087
Cost to provide communications services	—	—	4,310	—	—	—	4,310
Total cost of services	—	19,087	4,310	—	—	—	23,397
Operating expenses:							
Salaries and benefits	70,440	19,972	4,554	424	18,782	—	114,172
Depreciation and amortization	8,957	3,435	6,167	—	4,433	—	22,992
Loan servicing fees to third parties	—	—	—	3,087	—	—	3,087
Other expenses	19,638	4,943	3,151	845	16,616	—	45,194
Intersegment expenses, net	15,029	2,494	598	12,378	(18,208)	(12,290)	—
Total operating expenses	114,064	30,844	14,470	16,734	21,623	(12,290)	185,445
Income (loss) before income taxes	13,134	9,988	(10,185)	51,590	(7,517)	—	57,008
Income tax (expense) benefit (a)	(3,152)	(2,397)	2,444	(12,381)	1,604	—	(13,882)
Net income (loss)	9,982	7,591	(7,741)	39,209	(5,913)	—	43,126
Net income attributable to noncontrolling interests	—	—	—	—	(199)	—	(199)
Net income (loss) attributable to Nelnet, Inc.	$ 9,982	7,591	(7,741)	39,209	(6,112)	—	42,927

(a) As a result of the Tax Cuts and Jobs Act, beginning January 1, 2018, income taxes are allocated based on 24% of income before taxes for each individual operating segment. Prior to the effective date of the Tax Cuts and Jobs Act, income taxes were allocated based on 38% of income before taxes for each individual operating segment. The difference between the consolidated income tax expense and the sum of the taxes calculated for each operating segment, if any, is included in income taxes in Corporate and Other Activities.

	Three months ended December 31, 2017						
	Loan Servicing and Systems	Education Technology, Services, and Payment Processing	Communications	Asset Generation and Management	Corporate and Other Activities	Eliminations	Total
Total interest income	$ 152	8	1	195,560	3,617	(2,702)	196,636
Interest expense	3	—	2,059	123,358	683	(2,702)	123,401
Net interest income	149	8	(2,058)	72,202	2,934	—	73,235
Less provision for loan losses	—	—	—	3,750	—	—	3,750
Net interest income (loss) after provision for loan losses	149	8	(2,058)	68,452	2,934	—	69,485
Other income:							
Loan servicing and systems revenue	55,921	—	—	—	—	—	55,921
Intersegment servicing revenue	10,835	—	—	—	—	(10,835)	—
Education technology, services, and payment processing revenue	—	43,326	—	—	—	—	43,326
Communications revenue	—	—	8,122	—	—	—	8,122
Other income	—	—	—	4,273	3,680	—	7,952
Gain (lo ss) from debt repurchases , net	—	—	—	(2,664)	29	—	(2,635)
Derivative settlements, net	—	—	—	3,169	(188)	—	2,982
Derivative market value and foreign currency transaction adjustments, net	—	—	—	3,763	269	—	4,032
Total other income	66,756	43,326	8,122	8,541	3,790	(10,835)	119,700
Cost of services:							
Cost to provide education technology, services, and payment processing services	—	11,223	—	—	—	—	11,223
Cost to provide communications services	—	—	3,160	—	—	—	3,160
Total cost of services	—	11,223	3,160	—	—	—	14,383
Operating expenses:							
Salaries and benefits	39,324	18,515	4,458	393	18,512	—	81,201
Depreciation and amortization	1,220	2,371	3,955	—	4,309	—	11,854
Loan servicing fees to third parties	—	—	—	3,064	—	—	3,064
Other expenses	10,793	4,712	2,652	1,412	18,884	—	38,455
Intersegment expenses, net	8,374	2,650	629	11,716	(12,535)	(10,835)	—
Total operating expenses	59,711	28,248	11,694	16,585	29,170	(10,835)	134,574
Income (loss) before income taxes	7,194	3,863	(8,790)	60,408	(22,446)	—	40,228
Income tax (expense) benefit	(3,718)	(1,468)	3,341	(22,955)	30,287	—	5,486
Net income (loss)	3,476	2,395	(5,449)	37,453	7,841	—	45,714
Net loss (income) attributable to noncontrolling interests	2,591	—	—	—	(205)	—	2,386
Net income (loss) attributable to Nelnet, Inc.	$ 6,067	2,395	(5,449)	37,453	7,636	—	48,100

	Year ended December 31, 2018						
	Loan Servicing and Systems	Education Technology, Services, and Payment Processing	Communications	Asset Generation and Management	Corporate and Other Activities	Eliminations	Total
Total interest income	$ 1,351	4,453	4	911,502	19,944	(12,989)	924,266
Interest expense	—	9	9,987	662,360	10,540	(12,989)	669,906
Net interest income	1,351	4,444	(9,983)	249,142	9,404	—	254,360
Less provision for loan losses	—	—	—	23,000	—	—	23,000
Net interest income (loss) after provision for loan losses	1,351	4,444	(9,983)	226,142	9,404	—	231,360
Other income:							
Loan servicing and systems revenue	440,027	—	—	—	—	—	440,027
Intersegment servicing revenue	47,082	—	—	—	—	(47,082)	—
Education technology, services, and payment processing revenue	—	221,962	—	—	—	—	221,962
Communications revenue	—	—	44,653	—	—	—	44,653
Other income	7,284	—	1,075	12,364	33,724	—	54,446
Gain from debt repurchases	—	—	—	359	—	—	359
Derivative settlements, net	—	—	—	70,478	(407)	—	70,071
Derivative market value and foreign currency transaction adjustments, net	—	—	—	(2,159)	3,173	—	1,014
Total other income	494,393	221,962	45,728	81,042	36,490	(47,082)	832,532
Cost of services:							
Cost to provide education technology, services, and payment processing services	—	59,566	—	—	—	—	59,566
Cost to provide communications services	—	—	16,926	—	—	—	16,926
Total cost of services	—	59,566	16,926	—	—	—	76,492
Operating expenses:							
Salaries and benefits	267,458	81,080	18,779	1,526	67,336	—	436,179
Depreciation and amortization	32,074	13,484	23,377	—	17,960	—	86,896
Loan servicing fees to third parties	—	—	—	12,059	—	—	12,059
Other expenses	67,336	28,137	11,900	3,902	54,697	—	165,972
Intersegment expenses, net	59,042	10,681	2,578	47,870	(73,088)	(47,082)	—
Total operating expenses	425,910	133,382	56,634	65,357	66,905	(47,082)	701,106
Income (loss) before income taxes	69,834	33,458	(37,815)	241,827	(21,011)	—	286,294
Income tax (expense) benefit (a)	(16,954)	(8,030)	9,075	(58,038)	15,177	—	(58,770)
Net income (loss)	52,880	25,428	(28,740)	183,789	(5,834)	—	227,524
Net loss (income) attributable to noncontrolling interests	808	—	—	—	(419)	—	389
Net income (loss) attributable to Nelnet, Inc.	$ 53,688	25,428	(28,740)	183,789	(6,253)	—	227,913

(a) As a result of the Tax Cuts and Jobs Act, beginning January 1, 2018, income taxes are allocated based on 24% of income before taxes for each individual operating segment. Prior to the effective date of the Tax Cuts and Jobs Act, income taxes were allocated based on 38% of income before taxes for each individual operating segment. The difference between the consolidated income tax expense and the sum of the taxes calculated for each operating segment, if any, is included in income taxes in Corporate and Other Activities.

	Year ended December 31, 2017						
	Loan Servicing and Systems	Education Technology, Services, and Payment Processing	Communications	Asset Generation and Management	Corporate and Other Activities	Eliminations	Total
Total interest income	$ 513	17	3	764,225	13,643	(7,976)	770,426
Interest expense	3	—	5,427	464,256	3,477	(7,976)	465,188
Net interest income	510	17	(5,424)	299,969	10,166	—	305,238
Less provision for loan losses	—	—	—	14,450	—	—	14,450
Net interest income (loss) after provision for loan losses	510	17	(5,424)	285,519	10,166	—	290,788
Other income:							
Loan servicing and systems revenue	223,000	—	—	—	—	—	223,000
Intersegment servicing revenue	41,674	—	—	—	—	(41,674)	—
Education technology, services, and payment processing revenue	—	193,188	—	—	—	—	193,188
Communications revenue	—	—	25,700	—	—	—	25,700
Other income	—	—	—	13,424	39,402	—	52,826
Gain (loss) from debt repurchases , net	—	—	—	(1,567)	4,469	—	2,902
Derivative settlements, net	—	—	—	1,448	(781)	—	667
Derivative market value and foreign currency transaction adjustments, net	—	—	—	(19,357)	136	—	(19,221)
Total other income	264,674	193,188	25,700	(6,052)	43,226	(41,674)	479,062
Cost of services:							
Cost to provide education technology, services, and payment processing services	—	48,678	—	—	—	—	48,678
Cost to provide communications services	—	—	9,950	—	—	—	9,950
Total cost of services	—	48,678	9,950	—	—	—	58,628
Operating expenses:							
Salaries and benefits	156,256	69,500	14,947	1,548	59,633	—	301,885
Depreciation and amortization	2,864	9,424	11,835	—	15,418	—	39,541
Loan servicing fees to third parties	—	—	—	22,734	—	—	22,734
Other expenses	39,126	17,897	8,074	3,900	51,381	—	120,378
Intersegment expenses, net	31,871	9,079	2,101	42,830	(44,208)	(41,674)	—
Total operating expenses	230,117	105,900	36,957	71,012	82,224	(41,674)	484,538
Income (loss) before income taxes	35,067	38,627	(26,631)	208,455	(28,832)	—	226,684
Income tax (expense) benefit	(18,128)	(14,678)	10,120	(79,213)	37,036	—	(64,863)
Net income (loss)	16,939	23,949	(16,511)	129,242	8,204	—	161,821
Net loss (income) attributable to noncontrolling interests	12,640	—	—	—	(1,295)	—	11,345
Net income (loss) attributable to Nelnet, Inc.	$ 29,579	23,949	(16,511)	129,242	6,909	—	173,166

Net Interest Income, Net of Settlements on Derivatives

The following table summarizes the components of "net interest income" and "derivative settlements, net."

Derivative settlements represent the cash paid or received during the current period to settle with derivative instrument counterparties the economic effect of the Company's derivative instruments based on their contractual terms. Derivative accounting requires that net settlements with respect to derivatives that do not qualify for "hedge treatment" under GAAP be recorded in a separate income statement line item below net interest income. The Company maintains an overall risk management strategy that incorporates the use of derivative instruments to reduce the economic effect of interest rate volatility. As such, management believes derivative settlements for each applicable period should be evaluated with the Company's net interest income as presented in the table below. Net interest income (net of settlements on derivatives) is a non-GAAP financial measure, and the Company reports this non-GAAP information because the Company believes that it provides additional information regarding operational and performance indicators that are closely assessed by management. There is no comprehensive, authoritative guidance for the presentation of such non-GAAP information, which is only meant to supplement GAAP results by providing additional information that management utilizes to assess performance. See "Derivative Settlements" included in this supplement for the net settlement activity recognized by the Company for each type of derivative for the periods presented in the table below.

	Three months ended			Year ended December 31,	
	December 31, 2018	**September 30, 2018**	**December 31, 2017**	**December 31, 2018**	**December 31, 2017**
Variable loan interest margin	$ 51,732	42,455	48,788	181,488	189,594
Settlements on associated derivatives (a)	901	3,361	(1,791)	5,577	(9,390)
Variable loan interest margin, net of settlements on derivatives	52,633	45,816	46,997	187,065	180,204
Fixed rate floor income	11,452	13,659	22,053	56,811	106,434
Settlements on associated derivatives (b)	18,148	19,087	4,961	64,901	10,838
Fixed rate floor income, net of settlements on derivatives	29,600	32,746	27,014	121,712	117,272
Investment interest	8,019	7,628	3,080	26,600	12,695
Corporate debt interest expense	(1,664)	(3,969)	(686)	(10,539)	(3,485)
Non-portfolio related derivative settlements (c)	3	(124)	(188)	(407)	(781)
Net interest income (net of settlements on derivatives)	$ 88,591	82,097	76,217	324,431	305,905

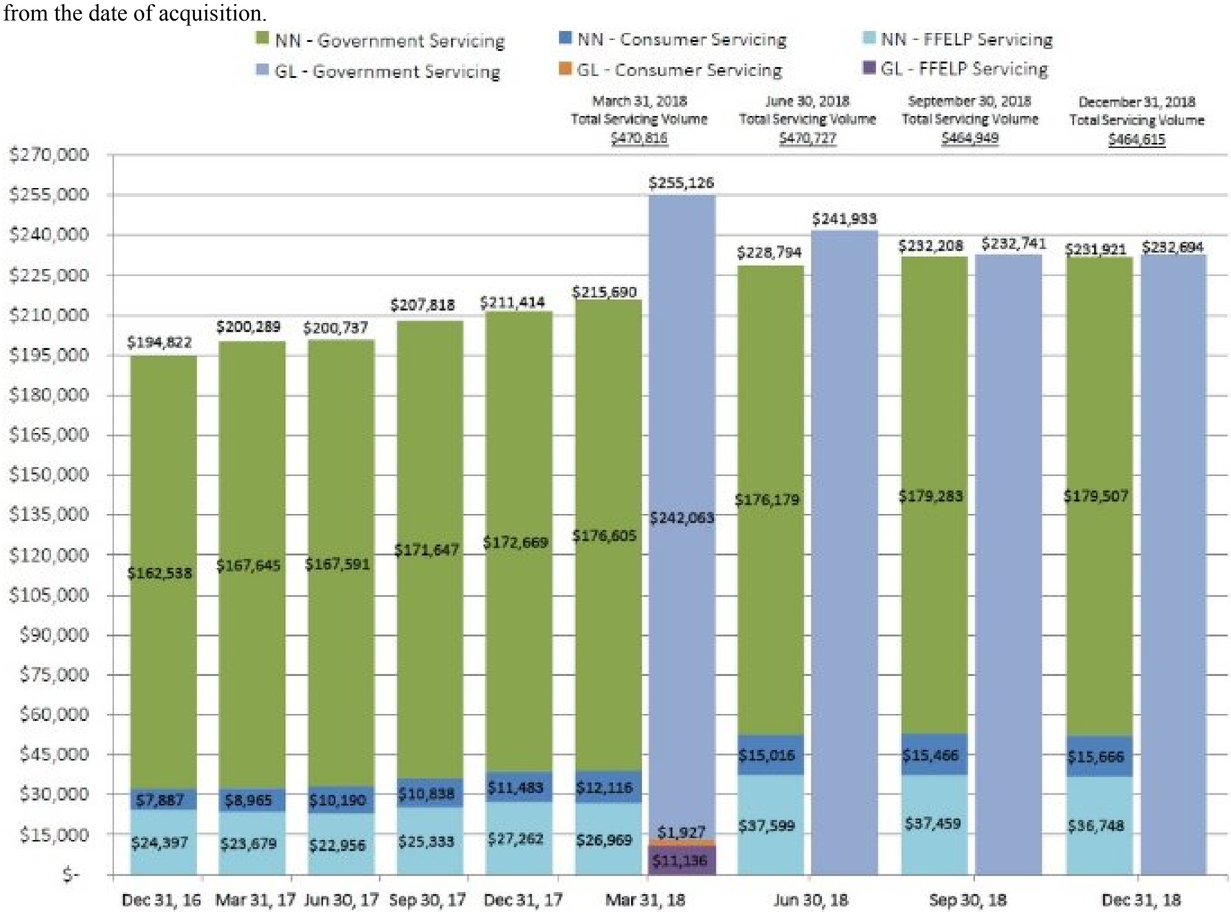
(a) Includes the net settlements received (paid) related to the Company's 1:3 basis swaps, and the cross-currency interest rate swap in place prior to the October 2017 remarketing of previously Euro-denominated bonds.

(b) Includes the net settlements received (paid) related to the Company's floor income interest rate swaps.

(c) Includes the net settlements received (paid) related to the Company's hybrid debt hedges.

Loan Servicing Volumes (dollars in millions)

The Company purchased Great Lakes on February 7, 2018. The results of Great Lakes' operations are reported in the Company's consolidated financial statements from the date of acquisition.



	Dec 31, 16	Mar 31, 17	Jun 30, 17	Sep 30, 17	Dec 31, 17	Mar 31, 18	Jun 30, 18	Sep 30, 18	Dec 31, 18
Company owned	$16,962	$16,352	$15,789	$18,403	$17,827	$17,866	$19,113	$19,206	$19,123
% of total	8.7%	8.2%	7.9%	8.9%	8.4%	3.8%	4.1%	4.1%	4.1%
Number of servicing borrowers:									
Government servicing - Nelnet	5,972,619	5,924,099	5,849,283	5,906,404	5,877,414	5,819,286	5,745,181	5,805,307	5,771,923
Government servicing - Great Lakes	—	—	—	—	—	7,456,830	7,378,875	7,486,311	7,458,684
FFELP servicing - Nelnet	1,312,192	1,263,785	1,218,706	1,317,552	1,420,311	1,399,280	1,787,419	1,754,247	1,709,853
FFELP servicing - Great Lakes	—	—	—	—	—	461,553	—	—	—
Private education and consumer loan servicing - Nelnet	355,096	389,010	454,182	478,150	502,114	508,750	672,520	692,763	696,933
Private education and consumer loan servicing - Great Lakes	—	—	—	—	—	118,609	3,987	—	—
Total:	7,639,907	7,576,894	7,522,171	7,702,106	7,799,839	15,764,308	15,587,982	15,738,628	15,637,393
Number of remote hosted borrowers	2,230,019	2,305,991	2,317,151	2,714,588	2,812,713	6,207,747	6,145,981	6,406,923	6,393,151

Comm unications Financial and Operating Data

Certain financial and operating data for ALLO is summarized in the tables below.

	Three months ended			Year ended December 31,	
	December 31, 2018	September 30, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Residential revenue	$ 10,067	8,896	5,844	33,434	17,696
Business revenue	3,197	2,861	2,219	10,976	7,744
Other	62	61	59	243	260
Communications revenue	$ 13,326	11,818	8,122	44,653	25,700
Net (loss) income	$ (5,876)	(7,741)	(5,449)	(28,740)	(16,511)
EBITDA (a)	(942)	155	(2,777)	(4,455)	(9,372)
Capital expenditures	20,650	21,728	36,672	87,466	115,102
Revenue contribution:					
Internet	56.5 %	54.6 %	48.4 %	53.9 %	46.6 %
Television	27.6	28.6	30.8	29.0	31.2
Telephone	15.7	16.6	19.3	16.9	21.8
Other	0.2	0.2	1.5	0.2	0.4
	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %

	As of December 31, 2018	As of September 30, 2018	As of June 30, 2018	As of March 31, 2018	As of December 31, 2017	As of September 30, 2017	As of June 30, 2017	As of March 31, 2017	As of December 31, 2016
Residential customer information:									
Households served	37,351	32,529	27,643	23,541	20,428	16,394	12,460	10,524	9,814
Households passed (b)	122,396	110,687	98,538	84,475	71,426	54,815	45,880	34,925	30,962
Total households in current markets (c)	152,840	142,602	137,500	137,500	137,500	137,500	137,500	137,500	137,500

(a) Earnings (loss) before interest, income taxes, depreciation, and amortization ("EBITDA") is a supplemental non-GAAP performance measure that is frequently used in capital-intensive industries such as telecommunications. ALLO's management uses EBITDA to compare ALLO's performance to that of its competitors and to eliminate certain non-cash and non-operating items in order to consistently measure performance from period to period. EBITDA excludes interest and income taxes because these items are associated with a company's particular capitalization and tax structures. EBITDA also excludes depreciation and amortization expense because these non-cash expenses primarily reflect the impact of historical capital investments, as opposed to the cash impacts of capital expenditures made in recent periods, which may be evaluated through cash flow measures. The Company reports EBITDA for ALLO because the Company believes that it provides useful additional information for investors regarding a key metric used by management to assess ALLO's performance. There are limitations to using EBITDA as a performance measure, including the difficulty associated with comparing companies that use similar performance measures whose calculations may differ from ALLO's calculations. In addition, EBITDA should not be considered a substitute for other measures of financial performance, such as net income or any other performance measures derived in accordance with GAAP. A reconciliation of EBITDA from ALLO's net loss under GAAP is presented below:

	Three months ended			Year ended	
	December 31, 2018	September 30, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Net loss	$ (5,876)	(7,741)	(5,449)	(28,740)	(16,511)
Net interest (income) expense	(2)	4,173	2,058	9,983	5,424
Income tax benefit	(1,856)	(2,444)	(3,341)	(9,075)	(10,120)
Depreciation and amortization	6,792	6,167	3,955	23,377	11,835
Earnings (loss) before interest, income taxes, depreciation, and amortization (EBITDA)	$ (942)	155	(2,777)	(4,455)	(9,372)

(b) Represents the number of single residence homes, apartments, and condominiums that ALLO already serves and those in which ALLO has the capacity to connect to its network distribution system without further material extensions to the transmission lines, but have not been connected.

(c) During the third quarter of 2018, ALLO began provid ing service in Fort Morgan, Colorado. During the fourth quarter of 2018, ALLO began providing service in Hastings, Nebraska.

Other Income

The following table summarizes the components of "other income."

	Three months ended			Year ended	
	December 31, 2018	September 30, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Borrower late fee income	$ 3,308	3,253	2,506	12,302	11,604
Gain on investments and notes receivable, net of losses	(1,926)	2,499	(3,648)	9,579	939
Management fee revenue	1,824	1,756	—	6,497	—
Investment advisory fees	1,840	1,183	1,061	6,009	12,723
Peterson's revenue	—	—	3,290	—	12,572
Other	4,952	7,982	4,743	20,059	14,988
Other income	$ 9,998	16,673	7,952	54,446	52,826

Derivative Settlements

The following table summarizes the components of "derivative settlements, net" included in the attached consolidated statements of income.

	Three months ended			Year ended	
	December 31, 2018	September 30, 2018	December 31, 2017	December 31, 2018	December 31, 2017
1:3 basis swaps	$ 901	3,361	(1,233)	5,577	(3,069)
Interest rate swaps - floor income hedges	18,148	19,087	4,961	64,901	10,838
Interest rate swaps - hybrid debt hedges	3	(124)	(188)	(407)	(781)
Cross-currency interest rate swap	—	—	(558)	—	(6,321)
Total derivative settlements - income (expense)	$ 19,052	22,324	2,982	70,071	667

Derivative Market Value and Foreign Currency Transaction Adjustments

"Derivative market value and foreign currency transaction adjustments" include (i) the realized and unrealized gains and losses that are caused by changes in fair values of derivatives which do not qualify for "hedge treatment" under GAAP; and (ii) the unrealized foreign currency transaction gains or losses caused by the re-measurement of the Company's previously Euro-denominated bonds to U.S. dollars. On October 25, 2017, the Company completed a remarketing of the Company's bonds that were prior to that date denominated in Euros, to denominate those bonds in U.S. dollars and reset the interest rate to be based on the three - month LIBOR index. The Company also terminated a cross-currency interest rate swap associated with those bonds. As a result, foreign currency transaction adjustments will not be incurred with respect to those bonds after October 25, 2017.

The following table summarizes the components of "derivative market value and foreign currency transaction adjustments" included in the attached consolidated statements of income.

	Three months ended			Year ended	
	December 31, 2018	September 30, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Change in fair value of derivatives - income (expense)	$ (48,895)	(5,226)	3,997	1,014	26,379
Foreign currency transaction adjustment - income (expense)	—	—	35	—	(45,600)
Derivative market value and foreign currency transaction adjustments - income (expense)	$ (48,895)	(5,226)	4,032	1,014	(19,221)

Loans Receivable

Loans receivable consisted of the following:

	As of December 31, 2018	As of September 30, 2018	As of December 31, 2017
Federally insured student loans:			
Stafford and other	$ 4,969,667	4,956,324	4,418,881
Consolidation	17,186,229	17,434,419	17,302,725
Total	22,155,896	22,390,743	21,721,606
Private education loans	225,975	169,467	212,160
Consumer loans	138,627	112,547	62,111
	22,520,498	22,672,757	21,995,877
Loan discount, net of unamortized loan premiums and deferred origination costs	(53,572)	(63,566)	(113,695)
Non-accretable discount	(29,396)	(20,612)	(13,085)
Allowance for loan losses:			
Federally insured loans	(42,310)	(43,053)	(38,706)
Private education loans	(10,838)	(11,253)	(12,629)
Consumer loans	(7,240)	(5,911)	(3,255)
	$ 22,377,142	22,528,362	21,814,507

Loan Activity

The following table sets forth the activity of loans:

	Three months ended December 31,		Year ended December 31,	
	2018	2017	2018	2017
Beginning balance	$ 22,672,757	22,713,913	21,995,877	25,103,643
Loan acquisitions:				
Federally insured student loans	584,034	113,052	3,708,188	254,740
Private education loans	68,143	3,087	68,337	3,785
Consumer loans	40,097	26,456	120,482	71,726
Total loan acquisitions	692,274	142,595	3,897,007	330,251
Repayments, claims, capitalized interest, and other	(567,811)	(569,131)	(2,282,631)	(2,257,450)
Consolidation loans lost to external parties	(276,722)	(238,297)	(1,066,043)	(1,127,364)
Loans sold	—	(53,203)	(23,712)	(53,203)
Ending balance	$ 22,520,498	21,995,877	22,520,498	21,995,877

Loan Spread Analysis

The following table analyzes the loan spread on the Company's portfolio of loans, which represents the spread between the yield earned on loan assets and the costs of the liabilities and derivative instruments used to fund the assets.

	Three months ended			Year ended	
	December 31, 2018	September 30, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Variable loan yield, gross	4.89 %	4.57 %	3.80 %	4.52 %	3.53 %
Consolidation rebate fees	(0.84)	(0.83)	(0.85)	(0.84)	(0.84)
Discount accretion, net of premium and deferred origination costs amortization	0.03	0.03	0.07	0.04	0.07
Variable loan yield, net	4.08	3.77	3.02	3.72	2.76
Loan cost of funds - interest expense	(3.24)	(3.10)	(2.21)	(2.98)	(1.99)
Loan cost of funds - derivative settlements (a) (b)	0.02	0.06	(0.03)	0.03	(0.04)
Variable loan spread	0.86	0.73	0.78	0.77	0.73
Fixed rate floor income, gross	0.21	0.23	0.39	0.25	0.45
Fixed rate floor income - derivative settlements (a) (c)	0.32	0.34	0.09	0.30	0.05
Fixed rate floor income, net of settlements on derivatives	0.53	0.57	0.48	0.55	0.50
Core loan spread (d)	1.39 %	1.30 %	1.26 %	1.32 %	1.23 %
Average balance of loans	$ 22,583,222	22,971,361	22,397,323	22,596,436	23,560,412
Average balance of debt outstanding	22,232,428	22,557,437	21,952,133	22,181,932	23,250,268

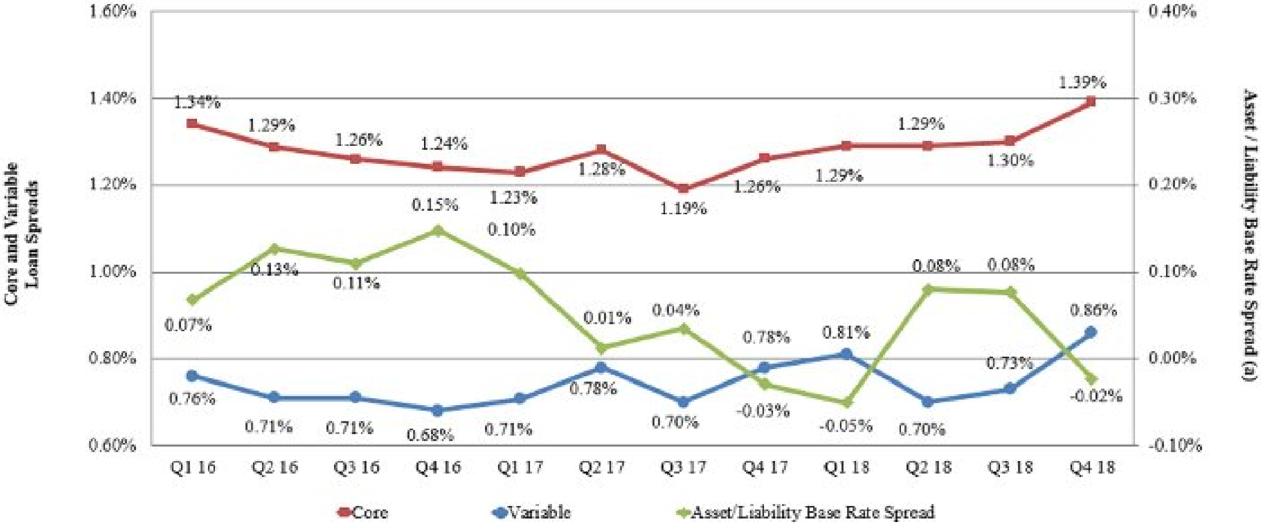
(a) Derivative settlements represent the cash paid or received during the current period to settle with derivative instrument counterparties the economic effect of the Company's derivative instruments based on their contractual terms. Derivative accounting requires that net settlements with respect to derivatives that do not qualify for "hedge treatment" under GAAP be recorded in a separate income statement line item below net interest income. The Company maintains an overall risk management strategy that incorporates the use of derivative instruments to reduce the economic effect of interest rate volatility. As such, management believes derivative settlements for each applicable period should be evaluated with the Company's net interest income (loan spread) as presented in this table. The Company reports this non-GAAP information because it believes that it provides additional information regarding operational and performance indicators that are closely assessed by management. There is no comprehensive, authoritative guidance for the presentation of such non-GAAP information, which is only meant to supplement GAAP results by providing additional information that management utilizes to assess performance. See " Derivative Settlements" included in this supplement for the net settlement activity recognized by the Company for each type of derivative for the periods presented in th is table .

(b) Derivative settlements include the net settlements received (paid) related to the Company's 1:3 basis swaps and previous cross- currency interest rate swap.

(c) Derivative settlements include the net settlements received (paid) related to the Company's floor income interest rate swaps.

(d) The Company began to purchase consumer loans in the second quarter of 2017. Consumer loans are currently funded by the Company using operating cash, until they can be funded in a secured financing transaction. As such, consumer loans do not have a cost of funds (debt) associated with them. Core loan spread, excluding c onsumer loans, would have been 1.33% , 1.25% , and 1.23% for the three months ended December 31, 2018 , September 30 , 2018, and December 31, 2017 , respectively, and 1.27% and 1.21% for the year ended December 31, 2018 and 2017, respectively.

A trend analysis of the Company's core and variable student loan spreads is summarized below.



(a) The interest earned on a large portion of the Company's FFELP student loan assets is indexed to the one-month LIBOR rate. The Company funds a portion of its assets with three-month LIBOR indexed floating rate securities. The relationship between the indices in which the Company earns interest on its loans and fu nds such loans has a significant impact on loan spread. This table (the right axis) shows the difference between the Company's liability base rate and the one-month LIBOR rate by quarter.

The primary difference between variable loan spre ad and core loan spread is fixed rate floor income. A summary of fixed rate floor income and its contribution to core loan spread follows:

	Three months ended			Year ended	
	December 31, 2018	**September 30, 2018**	**December 31, 2017**	**December 31, 2018**	**December 31, 2017**
Fixed rate floor income, gross	$ 11,452	13,659	22,053	56,811	106,434
Derivative settlements (a)	18,148	19,087	4,961	64,901	10,838
Fixed rate floor income, net	$ 29,600	32,746	27,014	121,712	117,272
Fixed rate floor income contribution to spread, net	0.53 %	0.57 %	0.48 %	0.55 %	0.50 %

(a) Includes settlement payments on derivatives used to hedge student loans earning fixed rate floor income.

Fixed Rate Floor Income

The following table shows the Company's federally insured student loan assets that were earning fixed rate floor income as of December 31, 2018 .

Fixed interest rate range	Borrower/lender weighted average yield	Estimated variable conversion rate (a)	Loan balance
5.0 - 5.49%	5.30%	2.66%	$ 367,077
5.5 - 5.99%	5.67%	3.03%	357,259
6.0 - 6.49%	6.19%	3.55%	392,253
6.5 - 6.99%	6.70%	4.06%	382,285
7.0 - 7.49%	7.17%	4.53%	134,034
7.5 - 7.99%	7.71%	5.07%	229,966
8.0 - 8.99%	8.18%	5.54%	532,171
> 9.0%	9.05%	6.41%	198,597
			$ 2,593,642

(a) The estimated variable conversion rate is the estimated short-term interest rate at which loans would convert to a variable rate. As of December 31, 2018 , the weighted average estimated variable conversion rate was 4.24% and the short-term interest rate was 240 basis points.

The following table summarizes the outstanding derivative instruments as of December 31, 2018 used by the Company to economically hedge loans earning fixed rate floor income.

Maturity	Notional amount	Weighted average fixed rate paid by the Company (a)
2019	$ 3,250,000	0.97 %
2020	1,500,000	1.01
2021	100,000	2.95
2023	400,000	2.24
2024	300,000	2.28
2027	25,000	2.35
	$ 5,575,000	1.18 %

(a) For all interest rate derivatives, the Company receives discrete three-month LIBOR.

nelnet

February 27, 2019

Dear Shareholders:

Last year was one that brought about many mixed emotions. From a financial performance standpoint, 2018 was an excellent year for Nelnet that produced a significant amount of momentum going into 2019. However, the year was clouded with the unexpected passing of our dear friend, co-founder, long-time co-CEO, and then-vice chairman, Steve Butterfield. Steve – or "Butter," as all who knew him affectionately refer to him – made a permanent impact on the culture of our company. His passion for all associates who keep Nelnet operating and the customers we serve is woven into the fabric of who we are and how we operate as a company. He was the consummate salesman and an eternal optimist, especially when it came to Nelnet. He always acted as a mentor to Mike Dunlap, me, and many others inside and outside of the company.

Butter had a saying for every situation; some very appropriate, others that should not be put in print, and occasionally a few that would make one truly laugh out loud. Just a few of Butter's classic one-liners were: "**Can I get a 20-second time out?**"; "**That ain't gonna' feed the bulldog.**"; "**Give us the check, and kick us out politely.**"; "**You know I'm living on a fixed income now.**"; "**Give me a honk on the pipes.**"; "**You're a good egg.**"; "**We're going to Sizzler.**"; "**I was slightly over-served.**"; "**Whoa, Nelly!**"; "**Tied up tighter than a tie ball game**"; "**Honey bee**"; "**See your future. Be your future.**"; and the favorite one among those who knew him best, "**Give me a final, final.**"

Butter loved people. He had a way of making them feel at ease, and he could bring levity to most any situation. He loved to talk about the financials of the company, the metrics of success of each division, and how we compared to the competition. Like many, he viewed the financial performance and cash we generate as a scorecard in a permanently evolving contest. As a major shareholder, and specifically after he retired as co-CEO 12 years ago, he loved to talk about the Nelnet dividend. Every quarterly meeting where the board voted on the dividend, Butter made the motion to approve the dividend.

Let there be no doubt that we miss Butter every day. We are running this company on the principles he helped instill in us and with a continual eye to make him proud and to continue his legacy.

"Can I Get a 20-Second Time Out?"

In every one of our annual letters to shareholders, we talk about our view on value creation and the fair valuation of our stock price. This year will be no exception. On Jan. 1, 2018, our total market value was $2.236 billion and on Dec. 31, 2018, our market value was $2.107 billion. Let's take a 20-second time out to think about that perplexing statistic in light of the following facts.

In 2018, our total revenue from our three fee-for-services divisions (servicing, payments, and telecommunications) increased to $707 million, up from $442 million in 2017. Corporate-wide during the year, we created GAAP net income of $228 million, adjusted net income of $227 million,[1] and we generated $271 million in cash from operating activities. We acquired Great Lakes, one of the most respected companies in the student loan servicing business. We acquired almost $4 billion in Federal Family Education Loan (FFEL) Program loans, private education loans, and consumer loan assets. We acquired Tuition Management Systems (TMS), a significant player in the higher education and K-12 payment plan space. We increased our fiber business by almost 17,000 residential lines. The number of servicing borrowers increased from 7.8 million to 15.6 million. The number of students served in our payments business in K-12 and higher education increased from 10.2 million to 11.5 million. Our loan portfolio increased to $22.4 billion, when most thought it would run off by more than $3 billion during the year. We bought back almost 870,000 shares of stock at an average price of $52.22 per share, and we increased our book value per share from $52.67 on Jan. 1, 2018, to $57.24 on Dec. 31, 2018. And to address Butter's favorite topic, we increased our quarterly dividends from a total of $0.58 per share in 2017 to a total of $0.66 per share in 2018.

A couple years back, we would frequently get the question of what we planned to do with the cash we generated. I think the answer to this question is a great way to highlight what we believe is the best use of our capital and our thoughts on capital allocation, as well as to explain what we are focusing on as a management team. Last year, we deployed $723 million in capital, which brings our six-year total to $2.8 billion in capital deployed (including dividends, stock repurchases, and debt repurchases).

Capital Deployment By Year (in millions)

	2013	2014	2015	2016	2017	2018	6-Year Total
FFELP loan/residual acquisitions, net of financing	$38	$127	$140	-	-	$105	$410
Private and consumer loan acquisitions	$68	$17	$173	$61	$75	$188	$582
Business acquisitions	-	$47	-	-	-	$153	$200
ALLO acquisition and capital expenditures	-	-	$47	$39	$115	$87	$288
Other capital expenditures (non-ALLO)	$17	$26	$17	$29	$41	$38	$168
HUDL investment	-	$1	$41	-	$10	-	$52
Other investments (venture capital/real estate/solar)	$20	$45	$53	$22	$19	$67	$226
Debt repurchases	$79	$47	$42	$77	$181	$13	$439
Stock repurchases	$13	$16	$96	$69	$69	$45	$308
Dividends	$19	$19	$19	$21	$24	$27	$129
	$254	**$345**	**$628**	**$318**	**$534**	**$723**	**$2,802**

In light of these successes in virtually all of our business lines and overall corporate financial performance, it begs the question, did the equity markets truly believe we decreased the value of our company in 2018? Was the company over-valued at the beginning of the year? Or were there technical market issues outside of our control at play? It is hard to pinpoint the exact answer, and toward the end of the letter we will reiterate our fair value approach, but our goal for 2019 is to keep the momentum rolling.

[1]We prepare our financial statements and present our financial results in accordance with GAAP. However, we also provide additional non-GAAP financial information related to specific items management believes to be important in the evaluation of our operating results and performance. A reconciliation of our GAAP net income to net income, excluding derivative market value and foreign currency transaction adjustments, and a discussion of why we believe providing this additional information is useful to investors can be found in our Annual Report on Form 10-K for the year ended Dec. 31, 2018, filed with the Securities and Exchange Commission on Feb. 27, 2019.

Loan Servicing:
"I was Slightly Over-Served."

Butter frequently used this quote as commentary about a fun event the previous evening. However, in our Loan Servicing business, it is our explicit aim to over-serve our customers – to in fact give them amazing service and exceptional experiences.

Our Loan Servicing division started out the year with a bang with the acquisition of Great Lakes, the largest addition of people and operations in our corporate history. Over 1,600 associates joined the Nelnet family. We spent the year integrating shared services (e.g., human resources, accounting, legal, marketing, technology, etc.). Overall, we believe the integration has gone very well. That belief is based on the fact that the two companies remain first and second in government surveys of customer service.

In Loan Servicing, we typically get paid on a per-borrower account basis. Throughout the year, we increased our servicing volume for all loan types – FFEL Program, private, federal Direct, and consumer loans. Our customers are the federal government, state agencies, banks, and FinTech companies. At the end of 2018, we serviced $465 billion of loans for 15.6 million borrower customers. Our revenue increased from $223 million in 2017 to $440 million in 2018 due to a significant expansion in the number of accounts serviced.

The big unknown in the business is what the federal government will do in 2019 with its procurement for a new loan system and service providers to operate that system. Here is what we know from publicly available information. Our current contracts with the government provide that they will expire on June 16, 2019. The government cancelled the previously outstanding procurement on Jan. 15, 2019, and issued a new one. The procurement is now separated into three large ongoing components, and we are part of teams that intend to respond to each of the three components. These components include the single NextGen Enhanced Processing Solution in its current state, and the future state NextGen Optimal Processing Solution, in addition to the loan processing and customer service work that will accompany the systems under the current and future states. It currently looks like the core servicing platform and servicers on that platform could be performing additional collection work under the new procurements versus the collection agencies the government hired under the existing contracts.

The main impact on our loan servicing division in 2019 will be from the uncertainty around the procurement and the ongoing integration of the two core processing systems we now own. We are maintaining a delicate balance of systems integration work in light of the unknowns that come with the government procurement. In the meantime, rest assured that we will focus on the one thing we can control: our number one core value of providing superior customer experiences. This includes being the best partner for the borrowers we have the privilege of serving, our lender customers, and the federal government.

We continue to see increasing opportunity with our FinTech offerings. In 2018, we began offering services for many FinTech originators, such as Prosper, QuarterSpot, Affirm, and others. In addition, we launched NelnetFinTech.com to bring additional awareness of our offerings to the growing FinTech industry. In support of our FinTech strategy, we are in the process of a complete re-architecting of our private education and consumer loan origination and repayment servicing systems. This is a large, multi-year technology build and spend for these systems. When we go live with the systems, we believe they will be the most advanced, rapidly customizable systems within the private education and consumer loan servicing industry. We are encouraged by the building momentum of our FinTech services and are confident it will continue throughout 2019 and beyond.

In today's highly polarized and politicized nation, student loan servicing often gets caught in the crossfire of the critically important public debate around college cost and student debt levels. The government and private programs in place to help finance education can be extremely complex and difficult to understand. As student debt continues to rise for most Americans, our mission and purpose of helping borrowers navigate the myriad of education loan programs is critical. The negative impact of delinquency or defaulting on loans can be life-altering, and we know that every borrower's circumstance is unique. Our approach is to empower borrowers through caring guidance and by providing the information they need to navigate the vast array of repayment options available. We remain deeply passionate about helping our borrower customers achieve financial success, and are actively engaged with several states that are seeking to protect and educate their borrowers. What we do benefits the lives of millions of people each day and we take that obligation very seriously.

Education Technology, Services, and Payment Processing:
"We're Going to Sizzler."

Nelnet Business Solutions (NBS) is our education technology, services, and payment processing division with core drivers of revenue in payment processing and SAAS revenue from software products and services. NBS had another record year in 2018, earning gross revenue of $222 million, a 15 percent increase from $193 million in 2017, and continuing the year over year increase from $176 million in 2016.

I know what Butter would say about NBS this year: "Pack up the car, dear. We're going to Sizzler." Think about this statistic. It took NBS 25 years to pass $100 million in annual net revenue, and three years later, in 2018, we are at $162 million in annual net revenue. It is a classic example of recurring revenue streams coupled with the flywheel of momentum.

We characterize the business as a value-added payment processor and services company. We did have one setback in the division financials, as NBS earned $33 million in income before taxes in 2018, down from $39 million in 2017. This was a result of an impairment we took with the discontinuance of investment in a backend payment processing technology, which I will discuss in more detail below.

In November 2018, NBS acquired TMS, a services company offering tuition payment plans, billing services, payment technology solutions, and refund management to educational institutions. TMS is highly regarded in our industry due to its commitment to customer service, product innovation, and client retention. The TMS acquisition added 380 higher education schools and 170 K-12 schools to the NBS customer base, further distancing us from our competitors in terms of market share in private, faith-based K-12 schools and advancing us to a market-leading position in higher education.

In addition to the TMS acquisition, we continued organic momentum by expanding clients and services to 11,500 private, faith-based K-12 schools by integrating our products and services into a complete school management solution. FACTS Management is a leading brand in the private, faith-based K-12 market, and in 2018 we completed a significant rebranding effort, bringing RenWeb School Management Solutions under the FACTS brand. Our leading products and services for schools include tuition management and billing services, financial needs assessment and scholarship administration, student information systems and learning management, enrollment management, emergency notification, donation, and parent portal reporting.

In 2018, we advanced FACTS Education Solutions, a subsidiary of NBS offering professional development for teachers and remedial education for students in need of additional help in reading and math. FACTS Education Solutions is innovative in its use of technology-advancing products that aid in both teacher and student evaluation.

Nelnet Campus Commerce is our higher education brand in the United States. With the addition of TMS, we now serve 1,400 colleges and universities with payment processing, billing and tuition management products, and commerce services. Our products help students and families afford higher education by stretching payments over semesters and the academic year, rather than taking on burdensome education-related debt. A key component of this business' competitive advantage is the deep integration with enterprise resource planning (ERP) partners on campus. Today, Nelnet Campus Commerce is a preferred partner of all major ERPs on campus. In 2019, we will beta test our CampusKey product, modernizing the mobile experience on campus by replacing the traditional campus ID card with a mobile experience.

As mentioned above, we made the difficult decision in 2018 to discontinue our investment in a backend payment processing technology. This resulted in a pre-tax charge to earnings of almost $8 million in the fourth quarter of 2018. Backend payment processing is clearly a scale business and one in which the window of competitive advantage quickly closes. When we started the deployment of a payment processing system utilized by some of the largest banks in Europe, the Middle East, and Africa, we believed the technology would have a competitive advantage in the United States. The bottom line was a hard lesson learned in the adaptability of existing competitors to scale and leverage investment in core systems. In the end, regardless of the strength of the technology, it could not be deployed in a profitable manner and the investment was terminated. The decision to discontinue this investment does not impact our existing payment processing revenue or customers, and we believe we can continue to grow this business.

UniLink, NBS' operating subsidiary in Australia, is a payment and commerce services provider to higher education, serving over 70 percent of all higher education institutions Down Under. Australia presents a growth opportunity in K-12 education as well. In 2018, we completed the acquisition of PCSchool, a student information system serving nearly 150 private and faith-based schools in Australia and New Zealand. We also saw strong growth in the deployment of the FACTS payment plan service in Australia, and we expect a fully integrated solution with PCSchools will enhance FACTS' growth in the market.

We began building momentum in the church and not-for-profit spaces in January 2018 with the acquisition of 80 percent of the outstanding membership interests of Aware3, a mobile-first technology company focused on these spaces. Aware3's product provides a solution that increases engagement, online giving, and communication with church members. In addition, Aware3 is integrated with FACTS Giving, our donor management tool allowing schools and not-for-profits to manage donor relationships and modernize fundraising in a mobile-first way.

We are pleased with our revenue growth and momentum in NBS. With the termination of spend on backend payment processing technology, we expect our earnings growth to recover to historical levels that are consistent with topline revenue growth.

Telecommunications:

"Give Me a Honk on the Pipes."

In virtually any industry, a high-quality product coupled with superior customer service will create demand. In the telecommunications industry, specifically as it relates to fiber optic service delivery, this really means: Speed + Connectivity + Network Quality = DEMAND. We have seen this translate into tremendous growth for ALLO Communications in 2018.

Nelnet acquired ALLO on Dec. 31, 2015. ALLO stands out from other telecommunications providers because of its superior network and technology and hassle-free customer service. In 2004, ALLO began creating GIG communities (offering internet speeds of one gigabit per second or more) by overbuilding rural Nebraska communities with an all-fiber optic network. These fiber networks provide communities with the fastest internet speeds, unmatched broadband, and superior video and telephone services to meet the bandwidth demands of residents and businesses. Nelnet's investment in ALLO is both good for business and good for the underserved communities in which it operates, as it helps provide critical connectivity infrastructure.

ALLO plans to complete all major construction in Lincoln, Neb. in the first quarter of 2019, after three years of building out its complete fiber network. This is a large milestone for the company and we're proud to be able to offer these services to all residents and businesses in the community.

Fiber sets ALLO apart from the competition. As cloud computing, streaming services, and the internet of things have become conventional, the need for internet speed and bandwidth is almost insatiable. The fiber light signal moves faster, carries more data, maintains speed over long distances, and is less susceptible to interference from things such as power lines.

These capabilities dramatically improve how a community's businesses, schools, medical offices, and government operate, as well as how people live and communicate, impacting a community's growth and ability to be economically vibrant. Every customer in our service area has an opportunity to get one-GIG speeds up and down. We have transformed our service areas from lagging in comparison to other communities in their respective states to top eight rankings nationally for upload and download speeds.

City speeds based on average speeds for all results. ISP speed based on Speed Score.

City	Download (Mbps)	Upload (Mbps)	Fastest ISP	ISP's Speed Score
Kansas City, MI	159.19	127.03	Google Fiber	228.36
Austin, TX	143.66	70.65	Google Fiber	197.44
Lubbock, TX	141.48	26.98	Sudenlink	136.82
Raleigh, NC	137.70	75.62	Google Fiber	197.19
San Antonio, TX	133.86	49.86	Grande Communications	150.30
Lincoln, NE	**132.89**	**105.29**	**Allo**	**173.34**
Henderson, NV	131.63	23.48	Cox	123.06
San Francisco, CA	131.56	69.28	Sonic	253.96

*According to the 2018 Speedtest U.S. Fixed Broadband Performance Report by Ookla

What has this meant in 2018? – Greater than 80 percent growth in households served and more than 70 percent growth in revenue. We like the trajectory and the opportunity we see with ALLO and the communities we serve. We're excited to see where this momentum takes ALLO in 2019.

Revenue from ALLO was nearly $45 million in 2018, compared with $26 million in 2017. Households passed increased almost 51,000, to 122,396 at the end of 2018, and households served increased from 20,428 to nearly 37,400. Our fiber optic network includes more than 240,000 miles of fiber cabling.

ALLO's management uses earnings (loss) before interest, income taxes, depreciation, and amortization (EBITDA) to eliminate certain non-cash and non-operating items in order to consistently measure performance from period to period. In 2018, ALLO had negative EBITDA of $4 million, compared with negative EBITDA of $9 million for 2017.[2]

We have developed the infrastructure and service delivery model to continue to grow. In the fourth quarter of 2017, ALLO announced plans to develop Hastings, Neb. and Fort Morgan, Colo., which will increase our households passed to almost 153,000 by the end of 2019. ALLO plans to continue to increase market share and revenue in its existing markets and we are currently evaluating opportunities to expand to additional communities.

[2]Earnings (loss) before interest, income taxes, depreciation, and amortization (EBITDA) is a supplemental non-GAAP performance measure that is frequently used in capital-intensive industries such as telecommunications. EBITDA excludes interest and income taxes because these items are associated with a company's particular capitalization and tax structures. EBITDA also excludes depreciation and amortization expense because these non-cash expenses primarily reflect the impact of historical capital investments, as opposed to the cash impacts of capital expenditures made in recent periods, which may be evaluated through cash flow measures. We report EBITDA for ALLO because we believe that it provides useful additional information for investors regarding a key metric we use to assess ALLO's performance. There are limitations to using EBITDA as a performance measure, including the difficulty associated with comparing companies that use similar performance measures whose calculations may differ from ALLO's calculations. In addition, EBITDA should not be considered a substitute for other measures of financial performance, such as net income or any other performance measures derived in accordance with GAAP. A reconciliation of EBITDA from ALLO's net loss under GAAP can be found in our Annual Report on Form 10-K for the year ended Dec. 31, 2018, filed with the Securities and Exchange Commission on Feb. 27, 2019.

Asset Generation and Management:

"You Know I'm Living on a Fixed Income Now."

The primary function of our Asset Generation and Management Division is to originate or purchase loan assets and finance them by issuing bonds secured by the loans. Bonds are often equated with being fixed-income securities, which are generally excellent investments for fixed-income funds, banks, and insurance companies.

We had an unexpected and amazing year in this division, with $3.7 billion in FFEL Program loan purchases from over 600 distinct sellers. The portfolio purchases ranged in size from $1,000 to over $1 billion. This was an unanticipated side benefit of the Great Lakes transaction. As we prepared to consolidate all of the Great Lakes serviced FFEL Program and private education loans onto Nelnet's platform, we approached the loan holders with an offer to purchase their portfolios. Hundreds accepted our offer.

With all of the loan acquisition activity came financing activity. We executed on five different term securitizations totaling $3 billion, our most active year securitizing since 2013. Despite a year marked by periods of extreme macroeconomic volatility, we managed to achieve relatively consistent pricing across our five transactions. Our strong investor partnerships allow us to outperform other issuers when markets are especially challenging.

We made significant portfolio investments outside of government guaranteed student loans. We purchased unsecured consumer loans from three different originators totaling $120 million. We also made our first significant purchase of private education loans since 2016, totaling $68 million.

In the fall, we relaunched our U-fi consumer loan origination platform with significant customer experience improvements. We are sticking our toe back into the online lending business, and are proud to have originated our first loan in October 2018. We plan on taking the origination of new loans slowly as market conditions warrant. The bottom line is we have all the systems, people, and processes up and running and stand ready to capitalize on market opportunities, credit cycles, and our customers' needs. This is particularly important if we are successful in launching Nelnet Bank.

In June, we filed an application for an Industrial Bank Charter with the Federal Deposit Insurance Corporation (FDIC) and the Utah Department of Financial Institutions for Nelnet Bank. We feel that insured deposits are the most stable source of funding for student loans during any credit cycle, especially while the students are in school. After consulting with the FDIC, we felt that we were not quite ready to proceed and withdrew the application. We believe that near the end of 2019 we will be fully ready to proceed, and if all of the stars line up we intend on filing our application again in the fourth quarter.

We are cautiously and methodically preparing for the right market opportunities in our Asset Generation and Management division and stand ready to capitalize on the momentum we created in 2018.

Hudl:
"Whoa, Nelly!"

Talk about momentum. Since 2010, Nelnet has invested significantly in Hudl, a sports software company revolutionizing how teams around the world analyze game and practice film. In 2010, we invested $100,000; in 2014, we invested $726,000; in 2015, we invested $40.6 million; and in 2017, we invested $10.4 million. Our investments in Hudl total $51.8 million to date.

Hudl continued to experience solid growth in 2018 by elevating its technology offerings to address the needs of the entire athletic department and broadening its offerings to elite clubs around the globe. In early 2018, the company acquired Netherlands-based Incatec, a startup focused on delivering "intelligent cameras" to elite soccer clubs in Europe. These cameras use multiple sensors on a single unit to capture panoramic video of an entire soccer pitch, stitch the video feeds together, and then generate an automated broadcast-like view of the action in real time. Hudl refocused the team on delivering that same functionality for high school basketball and volleyball teams in the United States, addressing one of the biggest challenges for these teams – reliably capturing high-quality video. The new product, aptly named Hudl Focus, had an impressive beta in 2018 and will be released broadly in 2019.

Recently, the company announced the relaunch and rebranding of one of its core products, Hudl Sportscode, the global standard for video analysis at the elite level. Globally, more than 3,000 teams spanning top collegiate and professional organizations use the product, including all 20 English Premier League teams, 29 NBA teams, and more than 70 percent of NCAA Division I men's and women's basketball teams.

The company remains headquartered in Lincoln, Neb., and has grown its Lincoln presence to more than 450 "Hudlies." In total, the company has grown to more than 1,300 associates across 20 countries.

As Hudl continues to grow and opportunities arise, there is a potential that Hudl will raise additional capital. If the capital raise is in the form of equity, it will be the first observable price change of Hudl since accounting rules have changed, resulting in us having to record our Hudl investment at the new observable price. The difference between our cost basis and the fair value established from the equity raise offering price would run through our income statement.

The momentum that Hudl is experiencing remains awesome in our opinion. Time will tell if we are right.

"See Your Future. Be Your Future."

In 2018, we added a new independent director, Preeta Bansal, to our board of directors. Preeta brings a wealth of experience and knowledge from her work in federal and state government, including regulatory agencies, private law practice, and global banking. With her accomplishments, it is a privilege to have her join our company. As a Lincoln, Neb. native, we are grateful to have her back in our community and look forward to the guidance and wisdom she will bring to our board.

Each year, we believe it is important to share Nelnet's "fair value approach" with our shareholders. We feel it is a fundamental component to existing and potential shareholders' understanding of how we lead our company and where we intend to go in the future.

It is our goal for each Nelnet shareholder to record a gain or loss in market value proportional to the gain or loss in per-share fundamental value recorded by the company. To achieve this goal, we strive to maintain a one-to-one relationship between the company's fundamental value and the market price. As that implies, we would rather see Nelnet's stock price at a fair level than at an artificial level. Our fair value approach may not be preferred by all investors, but we believe it aligns with Nelnet's long-term approach to both our business model and market value.

Nelnet's Corporate Performance (Annual Percentage Change)			
	Nelnet Per Share Book Value With Dividends Included	Nelnet Per Share Market Value With Dividends Included	S&P 500 With Dividends Included
2004	49.2%	20.2%	10.9%
2005	41.5%	51.1%	4.9%
2006	6.3%	(32.7%)	15.8%
2007	(1.6%)	(52.5%)	5.5%
2008	6.6%	13.3%	(37.0%)
2009	21.0%	20.7%	26.5%
2010	23.7%	41.6%	15.1%
2011	22.6%	4.9%	2.1%
2012	16.7%	27.5%	16.0%
2013	26.1%	42.8%	32.4%
2014	21.1%	10.9%	13.7%
2015	16.0%	(26.6%)	1.4%
2016	15.4%	52.7%	12.0%
2017	8.8%	9.1%	21.8%
2018	9.9%	(3.2%)	(4.4%)
CAGR	**18.2%**	**7.1%**	**7.8%**

We are very proud of the work that is being done by all of our talented associates and want to welcome all of the new associates who joined the Nelnet family of companies in 2018, including those from Great Lakes, TMS, Aware3, and PCSchools. As our friend Butter taught us, our people are our most valuable resource, and continuing to foster an environment where they can succeed remains our priority. We recognize that financial success comes from living out our core values and we strive to keep these values in front of our associates each day.

Nelnet's Core Values:

- Provide superior customer experiences
- Create an awesome work environment
- Pursue opportunities for diversification and growth
- Communicate openly and honestly
- Give back to the communities in which we live and work

Mike's dad, Jay Dunlap, always said in any business there needs to be a balance among the company's customers, associates, shareholders, and the community. This wisdom formed the basis of Nelnet's core values. In honor of our dear friend, this year I want to call out Butter's favorite core value: Create an awesome work environment. We will.

Thank you for your continued investment in our company.

Dream, Learn, Grow.

Sincerely,

Jeffrey Noordhoek, Chief Executive Officer

Forward-Looking and Cautionary Statements

This letter to shareholders contains forward-looking statements within the meaning of federal securities laws. Statements about the company's plans and expectations for future financial condition, results of operations or economic performance, or that address management's plans and objectives for future operations, and statements that assume or are dependent upon future events, are forward-looking statements. The words "anticipate," "believe," "continue," "could," "expect," "forecast," "future," "intend," "may," "plan," "potential," "should," "would," "will," and similar expressions, as well as statements in future tense, are intended to identify forward-looking statements. These statements are based on management's current expectations as of the date of this letter and are subject to known and unknown risks and uncertainties that may cause actual results or performance to differ materially from those expressed or implied by the forward-looking statements. Such risks include, but are not limited to: risks related to the company's loan portfolio, such as interest rate basis and repricing risk and changes in levels of student loan repayment or default rates; the use of derivatives to manage exposure to interest rate fluctuations; the uncertain nature of expected benefits from FFEL Program, private education, and consumer loan purchases and initiatives to purchase additional FFEL Program, private education, and consumer loans; financing and liquidity risks, including risks of changes in the securitization and other financing markets for student loans; the uncertain nature of the expected benefits from the acquisition of Great Lakes and the ability to successfully integrate technology, shared services, and other activities and successfully maintain and increase allocated volumes of student loans serviced under existing and any future servicing contracts with the Department; risks to the company related to the Department's initiatives to procure new contracts for federal student loan servicing, including the risk that company teams may not be successful in obtaining contracts; risks related to the development by the company and Great Lakes of a new student loan servicing platform, including risks as to whether the expected benefits from the new platform will be realized; risks and uncertainties from changes in the educational credit and services marketplace resulting from changes in applicable laws, regulations, and government programs and budgets, such as the expected decline over time in FFEL Program loan interest income and fee-based revenues due to the discontinuation of FFEL Program loan originations in 2010 and the resulting initiatives by the company to adjust to a post-FFEL Program environment; risks and uncertainties related to the ability of ALLO to successfully expand its fiber network and market share in existing service areas and additional communities and manage related construction risks; risks and uncertainties related to initiatives to pursue additional strategic investments and acquisitions, including investments and acquisitions that are intended to diversify the company both within and outside of its historical core education-related businesses; cybersecurity risks, including potential disruptions to systems, disclosure of confidential information, and/or damage to reputation resulting from cyber breaches; the risk that an application for an industrial bank charter to launch Nelnet Bank may not result in the grant of a charter; and changes in general economic and credit market conditions, including the availability of any relevant money-market index rate such as LIBOR or the relationship between the relevant money-market index rate and the rate at which the company's assets and liabilities are priced. For more information, see the "Risk Factors" sections and other cautionary discussions of risks and uncertainties included in documents filed or furnished by the company with the Securities and Exchange Commission (SEC), including the most recent Form 10-K filed by the company with the SEC. All forward-looking statements in this letter are as of the date of this letter. Although the company may voluntarily update or revise its forward-looking statements from time to time to reflect actual results or changes in the company's expectations, the company disclaims any commitment to do so except as required by securities laws.