

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, 2024



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)	(IRS 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))

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
Class A Common Stock, Par Value \$0.01 per Share	NNI	New York Stock Exchange

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. ☐

Item 2.02 Results of Operations and Financial Condition.

On February 27, 2024, Nelnet, Inc. (the “Company”) issued a press release with respect to its financial results for the quarter ended December 31, 2023. 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, 2023, which was made available on the Company's website at www.nelnetinvestors.com on February 27, 2024 in connection with the press release, is furnished as Exhibit 99.2 to this report. A copy of the 2023 letter to the Company's shareholders from the Chief Executive Officer of the Company is also furnished 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, 2023 filed with the SEC on February 27, 2024. 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.

Item 9.01 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, 2024 - "Nelnet Reports Fourth Quarter 2023 Results"
99.2	Supplemental Financial Information for the Quarter Ended December 31, 2023
99.3	2023 Letter to Shareholders from the Chief Executive Officer
104	Cover Page Interactive Data File (formatted as Inline XBRL and included as Exhibit 101).

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, 2024

NELNET, INC.

By: /s/ JAMES D. KRUGER

Name: James D. Kruger

Title: Chief Financial Officer

Nelnet Reports Fourth Quarter 2023 Results

LINCOLN, Neb., February 27, 2024 - Nelnet (NYSE: NNI) today reported a GAAP net loss of \$8.6 million, or \$0.23 per share, for the fourth quarter of 2023, compared with GAAP net income of \$30.8 million, or \$0.83 per share, for the same period a year ago.

Excluding derivative market value adjustments¹, the company's net loss was \$1.3 million, or \$0.04 per share, for the fourth quarter of 2023, compared with net income of \$36.4 million, or \$0.98 per share, for the same period in 2022.

During the fourth quarter of 2023, the company recognized a net loss after taxes and noncontrolling interest from its Nelnet Renewable Energy division of \$40.3 million (or \$1.08 per share) that included operating losses and impairment charges related to its solar construction business and investment losses on tax equity investments.

"Our commitment has always been dedicated to the creation of long-term value and making strategic decisions aimed at maximizing long-term cash flow," said Jeff Noordhoek, chief executive officer of Nelnet. "Our solar engineering and construction company, acquired in the summer of 2022, has experienced several challenges resulting in costly lessons that are included in this quarter's results. While we realign our solar construction business for success, I'm pleased to report that our core fee-based businesses performed exceptionally well in 2023 and are well-positioned for a promising future along with our asset generation strategy within Nelnet Financial Services."

Operating Segments

Nelnet has four reportable operating segments, earning interest income on loans in its Asset Generation and Management (AGM) and Nelnet Bank segments, both part of the company's Nelnet Financial Services division, and fee-based revenue in its Loan Servicing and Systems and Education Technology Services and Payments segments.

Asset Generation and Management

The AGM operating segment reported net interest income of \$35.6 million during the fourth quarter of 2023, compared with \$58.5 million for the same period a year ago. The decrease in 2023 was due to the expected runoff of the loan portfolio and a decrease in loan spread². The average balance of loans outstanding decreased from \$14.8 billion for the fourth quarter of 2022 to \$12.5 billion for the same period in 2023.

AGM recognized a provision for loan losses in the fourth quarter of 2023 of \$8.3 million (\$6.3 million after tax), compared with \$27.4 million (\$20.8 million after tax) in the fourth quarter of 2022. Provision for loan losses is primarily impacted by loans acquired during the period. The company acquired \$196.4 million in loans in the fourth quarter of 2023, compared with \$926.3 million for the same period in 2022.

AGM recognized net income after tax of \$17.2 million for the three months ended December 31, 2023, compared with \$22.9 million for the same period in 2022.

Nelnet Bank

As of December 31, 2023, Nelnet Bank had a \$432.9 million loan portfolio and total deposits, including intercompany deposits, of \$847.6 million. Nelnet Bank recognized a net loss after tax for the quarter ended December 31, 2023 of \$3.3 million, compared with net income of \$1.4 million for the same period in 2022.

Loan Servicing and Systems

Revenue from the Loan Servicing and Systems segment was \$128.8 million for the fourth quarter of 2023, compared with \$140.0 million for the same period in 2022.

As of December 31, 2023, the company was servicing \$532.6 billion in government-owned, FFEL Program, private education, and consumer loans for 16.1 million borrowers, compared with \$587.5 billion in servicing volume for 17.6 million borrowers as of December 31, 2022.

The Loan Servicing and Systems segment reported net income after tax of \$8.4 million for the three months ended December 31, 2023, compared with \$12.9 million for the same period in 2022.

¹ Net income, excluding derivative market value adjustments, is a non-GAAP measure. See "Non-GAAP Performance Measures" at the end of this press release and the "Non-GAAP Disclosures" section below for explanatory information and reconciliations of GAAP to non-GAAP financial information.

² Loan spread represents the spread between the yield earned on loan assets and the costs of the liabilities and derivative instruments used to fund the assets.

Education Technology Services and Payments

For the fourth quarter of 2023, revenue from the Education Technology Services and Payments operating segment was \$106.1 million, an increase from \$98.3 million for the same period in 2022. Revenue less direct costs to provide services for the fourth quarter of 2023 was \$66.7 million, compared with \$59.0 million for the same period in 2022.

Net income after tax for the Education Technology Services and Payments segment was \$10.1 million for the three months ended December 31, 2023, compared with \$5.8 million for the same period in 2022.

Corporate Activities

Included in corporate activities is the operating results of the Nelnet Renewable Energy (NRE) division. NRE recognized operating losses in the fourth quarter of 2023 related to its solar construction business (excluding impairments) of \$17.9 million (\$11.7 million or \$0.31 per share after taxes and noncontrolling interest) and an impairment charge on goodwill and intangible assets of \$20.6 million (\$12.5 million or \$0.34 per share after taxes and noncontrolling interest). In addition, NRE recognized losses of \$36.1 million (\$16.1 million or \$0.43 per share after taxes and noncontrolling interest) in the fourth quarter of 2023 on solar tax equity investments. For NRE's solar tax equity investments, the company recognizes losses in the initial year of the investment, however it expects to recognize a positive return over the life of the investment. NRE funded almost \$70 million in solar tax equity investments during the fourth quarter of 2023.

Also included in corporate activities is the operating results of the company's 45 percent voting membership interest in ALLO Holdings LLC, a holding company for ALLO Communications LLC (ALLO). During the fourth quarter of 2023, the company recognized a loss of \$15.6 million (\$11.9 million or \$0.32 per share after tax), compared with a loss of \$20.3 million (\$15.4 million or \$0.41 per share after tax) for the same period in 2022.

Year-End Results

GAAP net income for the year ended December 31, 2023 was \$91.5 million, or \$2.45 per share, compared with GAAP net income of \$407.3 million, or \$10.83 per share, for 2022. Net income in 2023, excluding derivative market value adjustments¹, was \$123.3 million, or \$3.29 per share, compared with \$231.3 million, or \$6.15 per share, for 2022.

Forward-Looking and Cautionary Statements

This press release contains forward-looking statements within the meaning of federal securities laws. 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. These statements are based on management's current expectations as of the date of this release and 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. Such risks and uncertainties include, but are not limited to: risks related to the ability to successfully maintain and increase allocated volumes of student loans serviced by the company under existing and future servicing contracts with the Department, including the company's level of service as the result of the unprecedented event of all borrowers returning to repayment in October 2023 which has generated extraordinary call volume and web traffic, and risks related to the company's ability to comply with agreements with third-party customers for the servicing of Federal Direct Loan Program, FFEL Program, private education, and consumer loans; loan portfolio risks, such as credit risk, interest rate basis and repricing risk, risks related to the use of derivatives to manage exposure to interest rate fluctuations, uncertainties regarding the expected benefits from purchased securitized and unsecuritized FFEL Program, private education, consumer, and other loans, or investment interests therein, and initiatives to purchase additional FFEL Program, private education, consumer, and other loans, and risks from changes in levels of loan prepayment or default rates; financing and liquidity risks, including risks of changes in the interest rate environment; risks from changes in the terms of education loans and in the educational credit and services markets resulting from changes in applicable laws, regulations, and government programs and budgets; 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 disclosure of confidential or personal information and/or damage to 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 operations of Nelnet Bank, including the ability to successfully conduct banking operations and achieve expected market penetration; risks related to the expected benefits to the company from its continuing investment in ALLO and Hudl, and risks related to investments in solar projects, including risks of not being able to realize tax credits which remain subject to recapture by taxing authorities and rising construction costs; risks and uncertainties related to other initiatives to pursue additional strategic investments (and anticipated income therefrom), acquisitions, and other activities, including activities that are intended to diversify the company both within and outside of its historical core education-related businesses; risks and uncertainties associated with climate change; risks from changes in economic conditions and consumer behavior; risks

related to the company's ability to adapt to technological change, including artificial intelligence; risks related to the company's reinsurance business; risks related to the exclusive forum provisions in the company's articles of incorporation; risks related to the company's executive chairman's ability to control matters related to the company through voting rights; risks related to related party transactions; risks related to natural disasters, terrorist activities, or international hostilities; and risks and uncertainties associated with litigation matters and with maintaining compliance with the extensive regulatory requirements applicable to the company's businesses.

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. 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 law.

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. Reconciliations of GAAP to non-GAAP financial information, and a discussion of why the company believes providing this additional information is useful to investors, is provided in the "Non-GAAP Disclosures" section below.

Consolidated Statements of Operations

(Dollars in thousands, except share data)

(unaudited)

	Three months ended			Year ended	
	December 31, 2023	September 30, 2023	December 31, 2022	December 31, 2023	December 31, 2022
Interest income:					
Loan interest	\$ 227,234	236,423	228,878	931,945	651,205
Investment interest	48,019	48,128	34,012	177,855	91,601
Total interest income	275,253	284,551	262,890	1,109,800	742,806
Interest expense on bonds and notes payable and bank deposits	205,335	207,159	181,790	845,091	430,137
Net interest income	69,918	77,392	81,100	264,709	312,669
Less provision for loan losses	10,924	10,659	27,801	65,450	46,441
Net interest income after provision for loan losses	58,994	66,733	53,299	199,259	266,228
Other income (expense):					
Loan servicing and systems revenue	128,816	127,892	140,021	517,954	535,459
Education technology services and payments revenue	106,052	113,796	98,332	463,311	408,543
Solar construction revenue	11,982	6,301	15,186	31,669	24,543
Other, net	(27,493)	(211)	735	(48,787)	25,486
Gain (loss) on sale of loans, net	6,987	5,362	(2,713)	39,673	2,903
Impairment expense	(26,951)	(4,974)	(9,361)	(31,925)	(15,523)
Derivative market value adjustments and derivative settlements, net	(8,654)	3,957	13,424	(16,701)	264,634
Total other income (expense), net	190,739	252,123	255,624	955,194	1,246,045
Cost of services:					
Cost to provide education technology services and payments	39,379	43,694	39,330	171,183	148,403
Cost to provide solar construction services	23,371	7,783	14,004	48,576	19,971
Total cost of services	62,750	51,477	53,334	219,759	168,374
Operating expenses:					
Salaries and benefits	152,917	141,204	151,568	591,537	589,579
Depreciation and amortization	22,004	21,835	20,099	79,118	74,077
Other expenses	51,697	51,370	50,481	189,851	170,778
Total operating expenses	226,618	214,409	222,148	860,506	834,434
(Loss) income before income taxes	(39,635)	52,970	33,441	74,188	509,465
Income tax benefit (expense)	9,722	(10,734)	(5,459)	(19,753)	(113,224)
Net (loss) income	(29,913)	42,236	27,982	54,435	396,241
Net loss attributable to noncontrolling interests	21,359	3,096	2,791	37,097	11,106
Net (loss) income attributable to Nelnet, Inc.	\$ (8,554)	45,332	30,773	91,532	407,347
Earnings per common share:					
Net (loss) income attributable to Nelnet, Inc. shareholders - basic and diluted	\$ (0.23)	1.21	0.83	2.45	10.83
Weighted average common shares outstanding - basic and diluted	37,354,406	37,498,073	37,290,293	37,416,621	37,603,033

Condensed Consolidated Balance Sheets

(Dollars in thousands)

(unaudited)

	As of December 31, 2023	As of September 30, 2023	As of December 31, 2022
Assets:			
Loans and accrued interest receivable, net	\$ 13,108,204	13,867,557	15,243,889
Cash, cash equivalents, and investments	2,039,080	2,133,378	2,230,063
Restricted cash and investments	875,348	604,855	1,239,470
Goodwill and intangible assets, net	202,848	228,812	240,403
Other assets	511,165	388,080	420,219
Total assets	<u>\$ 16,736,645</u>	<u>17,222,682</u>	<u>19,374,044</u>
Liabilities:			
Bonds and notes payable	\$ 11,828,393	12,448,109	14,637,195
Bank deposits	743,599	718,053	691,322
Other liabilities	942,738	797,365	845,625
Total liabilities	<u>13,514,730</u>	<u>13,963,527</u>	<u>16,174,142</u>
Equity:			
Total Nelnet, Inc. shareholders' equity	3,262,621	3,294,981	3,198,959
Noncontrolling interests	(40,706)	(35,826)	943
Total equity	<u>3,221,915</u>	<u>3,259,155</u>	<u>3,199,902</u>
Total liabilities and equity	<u>\$ 16,736,645</u>	<u>17,222,682</u>	<u>19,374,044</u>

Contacts:

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

Non-GAAP Disclosures

(Dollars in thousands, except share data)
(unaudited)

Non-GAAP financial measures disclosed by management are meant to provide additional information and insight relative to business trends to investors and, in certain cases, to present financial information as measured by rating agencies and other users of financial information. These measures are not in accordance with, or a substitute for, GAAP and may be different from, or inconsistent with, non-GAAP financial measures used by other companies. 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.

Net income, excluding derivative market value adjustments

	Three months ended December 31,		Year ended December 31,	
	2023	2022	2023	2022
GAAP net (loss) income attributable to Nelnet, Inc.	\$ (8,554)	30,773	91,532	407,347
Realized and unrealized derivative market value adjustments (a)	9,507	7,434	41,773	(231,691)
Tax effect (b)	(2,282)	(1,784)	(10,026)	55,606
Non-GAAP net (loss) income attributable to Nelnet, Inc., excluding derivative market value adjustments	\$ (1,329)	36,423	123,279	231,262
Earnings per share:				
GAAP net (loss) income attributable to Nelnet, Inc.	\$ (0.23)	0.83	2.45	10.83
Realized and unrealized derivative market value adjustments (a)	0.25	0.20	1.12	(6.16)
Tax effect (b)	(0.06)	(0.05)	(0.28)	1.48
Non-GAAP net (loss) income attributable to Nelnet, Inc., excluding derivative market value adjustments	\$ (0.04)	0.98	3.29	6.15

- (a) "Derivative market value adjustments" includes 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. "Derivative market value 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 in the consolidated financial statements. 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.

The company believes these point-in-time estimates of asset and liability values related to its derivative instruments that are subject to interest rate fluctuations are 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.

- (b) The tax effects are calculated by multiplying the realized and unrealized derivative market value adjustments by the applicable statutory income tax rate.

For Release: February 27, 2024

Investor Contact: Phil Morgan, 402.458.3038

Nelnet, Inc. supplemental financial information for the fourth quarter 2023

(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 2023 earnings, dated February 27, 2024, and the Company's Annual Report on Form 10-K for the year ended December 31, 2023.

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," "ensure," "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, 2023 (the "2023 Annual Report"), and include such risks and uncertainties as:

- risks related to the ability to successfully maintain and increase allocated volumes of student loans serviced by the Company under existing and future servicing contracts with the U.S. Department of Education (the "Department"), risks related to unfavorable contract modifications or interpretations, and risks related to the Company's ability to comply with agreements with third-party customers for the servicing of Federal Direct Loan Program, Federal Family Education Loan Program (the "FFEL Program" or FFELP), private education, and consumer loans;
- loan portfolio risks such as prepayment risk, credit risk, interest rate basis and repricing risk, 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, consumer, and other loans, or investment interests therein, and initiatives to purchase additional FFELP, private education, consumer, and other loans;
- financing and liquidity risks, including risks of changes in the interest rate environment;
- risks from changes in the terms of education loans and in the educational credit and services markets resulting from changes in applicable laws, regulations, and government programs and budgets;
- risks related to a breach of or failure in the Company's operational or information systems or infrastructure, or those of third-party vendors;
- risks related to use of artificial intelligence;
- uncertainties inherent in forecasting future cash flows from student loan assets and related asset-backed securitizations;
- risks related to the ability of Nelnet Bank to achieve its business objectives and effectively deploy loan and deposit strategies and achieve expected market penetration;
- risks related to the expected benefits to the Company from its continuing investment in ALLO Holdings, LLC (referred to collectively with its subsidiary ALLO Communications LLC as "ALLO"), and risks related to investments in solar projects, including risks of not being able to realize tax credits which remain subject to recapture by taxing authorities and rising construction costs;
- risks and uncertainties related to other initiatives to pursue additional strategic investments (and anticipated income therefrom) including venture capital and real estate investments, acquisitions, and other activities (including risks associated with errors that occasionally occur in converting loan servicing portfolios to a new servicing platform), including activities that are intended to diversify the Company both within and outside of its historical core education-related businesses;
- risks and uncertainties associated with climate change; and
- risks and uncertainties associated with litigation matters and maintaining compliance with the extensive regulatory requirements applicable to the Company's businesses, 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 law.

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

	Three months ended			Year ended	
	December 31, 2023	September 30, 2023	December 31, 2022	December 31, 2023	December 31, 2022
Interest income:					
Loan interest	\$ 227,234	236,423	228,878	931,945	651,205
Investment interest	48,019	48,128	34,012	177,855	91,601
Total interest income	275,253	284,551	262,890	1,109,800	742,806
Interest expense on bonds and notes payable and bank deposits	205,335	207,159	181,790	845,091	430,137
Net interest income	69,918	77,392	81,100	264,709	312,669
Less provision for loan losses	10,924	10,659	27,801	65,450	46,441
Net interest income after provision for loan losses	58,994	66,733	53,299	199,259	266,228
Other income (expense):					
Loan servicing and systems revenue	128,816	127,892	140,021	517,954	535,459
Education technology services and payments revenue	106,052	113,796	98,332	463,311	408,543
Solar construction revenue	11,982	6,301	15,186	31,669	24,543
Other, net	(27,493)	(211)	735	(48,787)	25,486
Gain (loss) on sale of loans, net	6,987	5,362	(2,713)	39,673	2,903
Impairment expense	(26,951)	(4,974)	(9,361)	(31,925)	(15,523)
Derivative settlements, net	853	817	20,858	25,072	32,943
Derivative market value adjustments, net	(9,507)	3,140	(7,434)	(41,773)	231,691
Total other income (expense), net	190,739	252,123	255,624	955,194	1,246,045
Cost of services:					
Cost to provide education technology services and payments	39,379	43,694	39,330	171,183	148,403
Cost to provide solar construction services	23,371	7,783	14,004	48,576	19,971
Total cost of services	62,750	51,477	53,334	219,759	168,374
Operating expenses:					
Salaries and benefits	152,917	141,204	151,568	591,537	589,579
Depreciation and amortization	22,004	21,835	20,099	79,118	74,077
Other expenses	51,697	51,370	50,481	189,851	170,778
Total operating expenses	226,618	214,409	222,148	860,506	834,434
(Loss) income before income taxes	(39,635)	52,970	33,441	74,188	509,465
Income tax benefit (expense)	9,722	(10,734)	(5,459)	(19,753)	(113,224)
Net (loss) income	(29,913)	42,236	27,982	54,435	396,241
Net loss attributable to noncontrolling interests	21,359	3,096	2,791	37,097	11,106
Net (loss) income attributable to Nelnet, Inc.	\$ (8,554)	45,332	30,773	91,532	407,347
Earnings per common share:					
Net (loss) income attributable to Nelnet, Inc. shareholders - basic and diluted	\$ (0.23)	1.21	0.83	2.45	10.83
Weighted average common shares outstanding - basic and diluted	37,354,406	37,498,073	37,290,293	37,416,621	37,603,033

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

	As of December 31, 2023	As of September 30, 2023	As of December 31, 2022
Assets:			
Loans and accrued interest receivable, net	\$ 13,108,204	13,867,557	15,243,889
Cash, cash equivalents, and investments	2,039,080	2,133,378	2,230,063
Restricted cash and investments	875,348	604,855	1,239,470
Goodwill and intangible assets, net	202,848	228,812	240,403
Other assets	511,165	388,080	420,219
Total assets	<u>\$ 16,736,645</u>	<u>17,222,682</u>	<u>19,374,044</u>
Liabilities:			
Bonds and notes payable	\$ 11,828,393	12,448,109	14,637,195
Bank deposits	743,599	718,053	691,322
Other liabilities	942,738	797,365	845,625
Total liabilities	<u>13,514,730</u>	<u>13,963,527</u>	<u>16,174,142</u>
Equity:			
Total Nelnet, Inc. shareholders' equity	3,262,621	3,294,981	3,198,959
Noncontrolling interests	(40,706)	(35,826)	943
Total equity	<u>3,221,915</u>	<u>3,259,155</u>	<u>3,199,902</u>
Total liabilities and equity	<u>\$ 16,736,645</u>	<u>17,222,682</u>	<u>19,374,044</u>

Overview

The Company is a diverse, innovative company with a purpose to serve others and a vision to make dreams possible. The largest operating businesses engage in loan servicing and education technology services and payments. 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 both within and outside of its historical core education-related businesses including, but not limited to, investments in a fiber communications company (ALLO), early-stage and emerging growth companies (venture capital investments), real estate, and renewable energy (solar).

The Company was formed as a Nebraska corporation in 1978 to service federal student loans for two local banks. The Company built on this initial foundation as a servicer to become a leading originator, holder, and servicer of federal student loans, principally consisting of loans originated under the FFEL Program.

The Health Care and Education Reconciliation Act of 2010 discontinued new loan originations under the FFEL Program in 2010, and requires all new federal student loan originations be made directly by the Department through the Federal Direct Loan Program. Subsequent to the Reconciliation Act of 2010, the Company no longer originates FFELP loans. However, a significant portion of the Company's income continues to be derived from its existing FFELP student loan portfolio. Interest income on the Company's existing FFELP loan portfolio will decline over time as the portfolio is paid down. To reduce its reliance on interest income from FFELP loans, the Company has expanded its services and products. This expansion has been accomplished through internal growth and innovation as well as business and certain investment acquisitions. The Company is also actively expanding its private education, consumer, and other loan portfolios, or investment interests therein, and as part of this strategy launched Nelnet Bank in 2020. In addition, the Company has been servicing federally owned student loans for the Department since 2009.

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

The Company prepares its financial statements and presents its financial results in accordance with 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 Non-GAAP net income, excluding derivative market value 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, 2023	September 30, 2023	December 31, 2022	December 31, 2023	December 31, 2022
GAAP net (loss) income attributable to Nelnet, Inc.	\$ (8,554)	45,332	30,773	91,532	407,347
Realized and unrealized derivative market value adjustments	9,507	(3,140)	7,434	41,773	(231,691)
Tax effect (a)	(2,282)	754	(1,784)	(10,026)	55,606
Non-GAAP net (loss) income attributable to Nelnet, Inc., excluding derivative market value adjustments (b)	\$ (1,329)	42,946	36,423	123,279	231,262
Earnings per share:					
GAAP net (loss) income attributable to Nelnet, Inc.	\$ (0.23)	1.21	0.83	2.45	10.83
Realized and unrealized derivative market value adjustments	0.25	(0.08)	0.20	1.12	(6.16)
Tax effect (a)	(0.06)	0.02	(0.05)	(0.28)	1.48
Non-GAAP net (loss) income attributable to Nelnet, Inc., excluding derivative market value adjustments (b)	\$ (0.04)	1.15	0.98	3.29	6.15

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

(b) "Derivative market value adjustments" includes 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. "Derivative market value 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 in the consolidated financial statements. 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.

The Company believes these point-in-time estimates of asset and liability values related to its derivative instruments that are subject to interest rate fluctuations are 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.

Operating Segments

A description of the Company's reportable operating segments is included in note 1 of the notes to consolidated financial statements included in the Company's 2023 Annual Report. The Company's reportable operating segments include:

- Loan Servicing and Systems (LSS) - referred to as Nelnet Diversified Services (NDS)
- Education Technology Services and Payments (ETSP) - referred to as Nelnet Business Services (NBS)
- Asset Generation and Management (AGM), part of the Nelnet Financial Services (NFS) division
- Nelnet Bank, part of the NFS division

The Company earns fee-based revenue through its NDS and NBS reportable operating segments. The Company earns net interest income on its loan portfolio, consisting primarily of FFELP loans, in its AGM reportable operating segment. This segment is expected to generate significant amounts of cash as the FFELP portfolio amortizes. The Company actively works to maximize the amount and timing of cash flows generated from its FFELP portfolio and seeks to acquire additional loan assets to leverage its servicing scale and expertise to generate incremental earnings and cash flow. Nelnet Bank operates as an internet industrial bank franchise focused on the private education and unsecured consumer loan markets, with a home office in Salt Lake City, Utah.

The Company formally established the Nelnet Financial Services division in 2023 intended to focus on the Company's key objective to maximize the amount and timing of cash flows generated from its FFELP portfolio and reposition itself for the post-FFELP environment by expanding its private education, consumer, and other loan portfolios.

The creation of NFS resulted in financial results grouped and reported differently to the Company's chief operating decision maker. In addition to AGM and Nelnet Bank being part of the NFS division, NFS's other operating segments that are not reportable (that were previously included in Corporate and Other Activities) include:

- The operating results of Whitetail Rock Capital Management, LLC (WRCM), the Company's U.S. Securities and Exchange Commission (SEC)-registered investment advisor subsidiary
- The operating results of Nelnet Insurance Services, which primarily includes multiple reinsurance treaties on property and casualty policies
- The operating results of the Company's investment activities in real estate
- The operating results of the Company's investment debt securities (primarily student loan and other asset-backed securities) and interest expense incurred on debt used to finance such investments

Other business activities and operating segments that are not reportable and not part of the NFS division are combined and included in Corporate and Other Activities ("Corporate"). Corporate includes the following items:

- Shared service activities related to internal audit, human resources, accounting, legal, enterprise risk management, information technology, occupancy, and marketing. These costs are allocated to each operating segment based on estimated use of such activities and services
- Corporate costs and overhead functions not allocated to operating segments, including executive management, investments in innovation, and other holding company organizational costs
- The operating results of Nelnet Renewable Energy, which include solar tax equity investments made by the Company, administrative and management services provided by the Company on tax equity investments made by third parties, and solar construction and development
- The operating results of certain of the Company's investment activities, including its investment in ALLO and early-stage and emerging growth companies (venture capital investments)
- Interest income earned on cash balances held at the corporate level and interest expense incurred on unsecured corporate related debt transactions
- Other product and service offerings that are not considered reportable operating segments

The following table presents the operating results (net income (loss) before taxes) for each of the Company's reportable and certain other operating segments reconciled to the consolidated financial statements.

	Three months ended			Year ended	
	December 31, 2023	September 30, 2023	December 31, 2022	December 31, 2023	December 31, 2022
NDS	\$ 10,999	24,469	16,962	77,714	64,456
NBS	13,297	22,123	7,651	91,101	74,105
Nelnet Financial Services division:					
AGM	22,591	40,562	30,077	80,636	454,725
Nelnet Bank	(4,319)	2,299	1,869	(368)	4,357
NFS Other Operating Segments:					
WRCM	1,733	1,503	1,509	6,203	5,448
Nelnet Insurance Services	2,770	74	2,147	4,115	6,136
Real estate investments	(316)	(31)	8,481	(8)	24,301
Investment securities	15,365	7,674	9,251	40,562	15,617
Corporate:					
Unallocated corporate costs	(15,190)	(20,915)	(18,817)	(63,223)	(72,183)
Nelnet Renewable Energy	(74,651)	(10,736)	(2,104)	(108,991)	(11,639)
ALLO investment	(13,444)	(15,559)	(23,624)	(57,972)	(65,245)
Venture capital investments	(2,845)	(900)	(1,985)	(6,008)	12,449
Other corporate activities	4,372	2,408	2,025	10,428	(3,065)
Net (loss) income before taxes	(39,635)	52,970	33,441	74,188	509,465
Income tax benefit (expense)	9,722	(10,734)	(5,459)	(19,753)	(113,224)
Net loss attributable to noncontrolling interests (a)	21,359	3,096	2,791	37,097	11,106
Net (loss) income	<u>\$ (8,554)</u>	<u>45,332</u>	<u>30,773</u>	<u>91,532</u>	<u>407,347</u>

(a) For the periods presented, the majority of noncontrolling interests represents losses attributed to minority membership interests in the Company's Nelnet Renewable Energy operating segment, which were \$21.5 million, \$3.3 million, and \$2.9 million for the three months ended December 31, 2023, September 30, 2023, and December 31, 2022, respectively, and \$37.6 million and \$11.6 million for the years ended December 31, 2023 and 2022, respectively.

2023 Operating and Liquidity Highlights

See below for a summary of (i) certain highlights of the Company's 2023 operating results; (ii) a description of significant and/or unusual events and transactions in 2023 that impacted and may potentially impact the Company's operating results; and (iii) a summary of the Company's current liquidity, including certain items that impacted the Company's liquidity in 2023.

Loan Servicing and Systems

Effective April 1, 2023, the Department modified the loan servicing contract between the Department and Nelnet Servicing to reduce the monthly fee under the servicing contract by \$0.19 per borrower. In addition, beginning in the second quarter of 2023, the Department transferred one million of the Company's existing Department servicing borrowers to another third-party servicer. These items negatively impacted LSS's government servicing revenue in 2023.

In the first quarter of 2023, the Company reduced staff to manage expenses due to (i) the delays in the government's student debt relief and return to repayment programs under the CARES Act, (ii) the April 2023 monthly fee reduction on the government contract, and (iii) the transfer of government borrowers from the Company to another servicer. The staff reductions resulted in salaries and benefits expense being reduced in 2023 as compared with 2022. In 2022, the Company was fully staffed in preparation of the expiration of the student loan payment pause under the CARES Act. In August 2023, the Company began to hire additional associates to support borrowers returning to repayment on September 1, 2023.

In April 2023, the Company and four other third-party servicers were awarded servicing contracts to provide continued servicing for the Department under a new Unified Servicing and Data Solutions (USDS) contract which will replace the existing Department student loans servicing contracts. The Company's new contract has a five year base period, with 5 years of possible extensions. The new USDS servicing contracts have multiple revenue components with tiered pricing based on borrower volume, while revenue earned under the legacy servicing contract is primarily based on borrower status. Assuming borrower volume remains consistent

under the USDS servicing contract, the Company expects revenue earned on a per borrower blended basis will decrease under the USDS contract versus the current legacy contract.

Education Technology Services and Payments

Education technology services and payments revenue grew to \$463.3 million in 2023. The growth was from existing and new customers. Operating margin decreased from recent historical periods as a result of continued investments in the development of new services and technologies and superior customer service. Due to an increase in interest rates, the Company recognized \$27.0 million in interest income on tuition funds held in custody for schools, an increase from \$9.4 million in 2022.

Asset Generation and Management

Net interest income was negatively impacted in 2023 due to the expected continued amortization of the Company's FFELP student loan portfolio. The average balance of student loans decreased \$2.7 billion from \$16.0 billion in 2022 to \$13.3 billion in 2023. Since late 2021, the Company has experienced accelerated run-off of its FFELP portfolio due to initiatives offered by the Department for FFELP borrowers to consolidate their loans to qualify for loan forgiveness, income-driven repayment plans, and other programs. Interest income was also negatively impacted by an increase in interest rates. As a result of an increase in interest rates, gross fixed rate floor income recognized by the Company was only \$2.2 million in 2023 compared with \$57.4 million in 2022. Based on current interest rates, the Company does not anticipate earning a significant amount of fixed rate floor income in the foreseeable future.

In the second quarter of 2023, the Company redeemed certain asset-backed debt securities prior to their maturity, resulting in the recognition of \$25.9 million in interest expense from the write-off of the remaining unamortized debt discount associated with these bonds at the time of redemption.

Nelnet Renewable Energy

Nelnet Renewable Energy includes solar tax equity investments made by the Company, administrative and management services provided by the Company on tax equity investments made by third parties, and solar construction and development. During 2023, the Company invested a total of \$185.1 million (which included \$94.5 million syndicated to third-party investors) in solar tax equity investments. Due to the management and control of each of these investment partnerships, such partnerships that invest in tax equity investments are consolidated on the Company's consolidated financial statements, with the co-investor's portion being presented as noncontrolling interests. Included in the Company's operating results is the Company's share of income or loss from solar investments accounted for under the Hypothetical Liquidation at Book Value (HLBV) method of accounting. For the majority of the Company's solar investments, the HLBV method of accounting results in accelerated losses in the initial years of investment. Nelnet Renewable Energy recognized pre-tax losses on its tax equity investments of \$46.7 million in 2023, which includes \$26.4 million attributable to noncontrolling interests.

In periods in which the Company makes significant investments in solar tax equity investments, operating results are negatively impacted due to the accelerated losses recognized in the initial years of investment. However, given the timing and amount of cash flows expected to be generated over the life of these investments, the Company considers these investments a good use of capital. Through December 31, 2023, the Company has recognized cumulative pre-tax losses (excluding noncontrolling interests) of approximately \$56 million on its tax equity investments. The Company expects its current investments (assuming no additional investments are made subsequent to December 31, 2023) to generate approximately \$78 million of pre-tax earnings (excluding noncontrolling interests) over the life of the investments. Accordingly, the Company expects to recognize approximately \$134 million in pre-tax income (excluding noncontrolling interests) over the remaining years of its current investments.

In addition to solar tax equity investments, the Company has a strategy to own solar energy project assets. Accordingly, the Company has begun to execute a multi-faceted approach to construct, finance, own, and operate these assets. As part of this strategy, on July 1, 2022, the Company acquired 80% of GRNE Solar, a solar construction company that provides full-service engineering, procurement, and construction (EPC) services to residential homes and commercial entities. Since the acquisition of GRNE, it has incurred low and, in some cases, negative margins on certain projects. In addition, higher interest rates reduced residential demand and made community solar projects more costly. GRNE Solar recognized a net loss of \$34.2 million in 2023. In the fourth quarter of 2023, the Company recognized an impairment charge of \$20.6 million related to goodwill and certain intangible assets initially recognized from the GRNE Solar acquisition. Due to the complexity and long-term nature of GRNE's existing construction contracts, GRNE may continue to incur low and/or negative margins to complete projects currently under contract.

Investments - ALLO and Hudl

The Company has a 45% voting membership interests in ALLO. The Company accounts for its ALLO voting membership interests investment under the HLBV method of accounting that resulted in the recognition of a net loss of \$65.3 million during the year

ended December 31, 2023. As of December 31, 2023, the carrying amount of the Company's investment in ALLO was \$10.7 million. The Company expects to fully expense the remaining investment balance of ALLO during the first quarter of 2024.

The Company has an investment in Agile Sports Technologies, Inc. (doing business as "Hudl.") During the first quarter of 2023, the Company acquired additional ownership interests in Hudl for \$31.5 million from existing Hudl investors. This transaction was not considered an observable market transaction (not orderly) because it was not subject to customary marketing activities. Accordingly, the Company did not adjust its carrying value of its Hudl investment to the transaction value. As of December 31, 2023, the carrying amount of the Company's investment in Hudl is \$165.5 million.

Certain investments, including solar tax equity, ALLO, and Hudl, may be recorded at a carrying value that is less than its market value due to HLBV (solar investments and ALLO) and the measurement alternative (Hudl) method of accounting. Future operating results of solar and ALLO or an observable transaction of Hudl could impact the valuation on our financial statements or our investments in them and may result in significant fluctuations of the Company's earnings.

Liquidity

The Company had a significant portfolio of derivative instruments, in which the Company paid a fixed rate and received a floating rate to economically hedge loans earning fixed rate floor income. On March 15, 2023, to minimize the Company's exposure to market volatility and increase liquidity, the Company terminated its entire derivative portfolio hedging loans earning fixed rate floor income and retained the \$183.2 million of cash (representing the termination date fair value of the derivatives) from its clearinghouse.

As of December 31, 2023, the Company had \$740.0 million of unencumbered cash and investments. In addition, the Company has a \$495.0 million unsecured line of credit that matures in September 2026. No amounts were outstanding on the line of credit as of December 31, 2023. In addition, as of December 31, 2023, the Company expects to generate future undiscounted cash flows from its AGM loan portfolio of approximately \$1.30 billion, including approximately \$850.0 million in the next five years.

The Company intends to use its liquidity position to capitalize on market opportunities, including FFELP, private education, consumer, and other loan acquisitions (or investment interests therein); strategic acquisitions and investments; 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, 2023								
Nelnet Financial Services								
	Loan Servicing and Systems	Education Technology Services and Payments	Asset Generation and Management	Nelnet Bank	NFS Other Operating Segments	Corporate and Other Activities	Eliminations	Total
Total interest income	\$ 1,651	6,725	239,798	16,767	20,376	3,315	(13,379)	275,253
Interest expense	—	—	204,179	9,863	4,887	(216)	(13,379)	205,335
Net interest income	1,651	6,725	35,619	6,904	15,489	3,531	—	69,918
Less provision for loan losses	—	—	8,286	2,638	—	—	—	10,924
Net interest income after provision for loan losses	1,651	6,725	27,333	4,266	15,489	3,531	—	58,994
Other income (expense):								
Loan servicing and systems revenue	128,816	—	—	—	—	—	—	128,816
Intersegment revenue	6,931	55	—	—	—	—	(6,986)	—
Education technology services and payments revenue	—	106,052	—	—	—	—	—	106,052
Solar construction revenue	—	—	—	—	—	11,982	—	11,982
Other, net	688	—	4,329	(298)	11,561	(43,774)	—	(27,493)
Gain (loss) on sale of loans, net	—	—	6,987	—	—	—	—	6,987
Impairment expense	—	(4,310)	—	—	—	(22,641)	—	(26,951)
Derivative settlements, net	—	—	648	205	—	—	—	853
Derivative market value adjustments, net	—	—	(4,927)	(4,580)	—	—	—	(9,507)
Total other income (expense), net	136,435	101,797	7,037	(4,673)	11,561	(54,433)	(6,986)	190,739
Cost of services:								
Cost to provide education technology services and payments	—	39,379	—	—	—	—	—	39,379
Cost to provide solar construction services	—	—	—	—	—	23,371	—	23,371
Total cost of services	—	39,379	—	—	—	23,371	—	62,750
Operating expenses:								
Salaries and benefits	83,874	39,256	1,099	2,194	413	26,844	(763)	152,917
Depreciation and amortization	4,858	2,895	—	259	—	13,993	—	22,004
Other expenses	17,757	8,070	2,645	1,298	6,949	14,980	—	51,697
Intersegment expenses, net	20,598	5,625	8,035	161	136	(28,332)	(6,223)	—
Total operating expenses	127,087	55,846	11,779	3,912	7,498	27,485	(6,986)	226,618
Income (loss) before income taxes	10,999	13,297	22,591	(4,319)	19,552	(101,758)	—	(39,635)
Income tax (expense) benefit	(2,640)	(3,190)	(5,422)	1,066	(4,656)	24,565	—	9,722
Net income (loss)	8,359	10,107	17,169	(3,253)	14,896	(77,193)	—	(29,913)
Net (income) loss attributable to noncontrolling interests	—	(4)	—	—	(151)	21,514	—	21,359
Net income (loss) attributable to Nelnet, Inc.	\$ 8,359	10,103	17,169	(3,253)	14,745	(55,679)	—	(8,554)

Three months ended September 30, 2023

Nelnet Financial Services								
	Loan Servicing and Systems	Education Technology Services and Payments	Asset Generation and Management	Nelnet Bank	NFS Other Operating Segments	Corporate and Other Activities	Eliminations	Total
Total interest income	\$ 1,098	8,934	248,878	15,171	13,021	3,232	(5,783)	284,551
Interest expense	—	—	197,393	9,456	5,661	431	(5,783)	207,159
Net interest income	1,098	8,934	51,485	5,715	7,360	2,801	—	77,392
Less provision for loan losses	—	—	8,732	1,927	—	—	—	10,659
Net interest income after provision for loan losses	1,098	8,934	42,753	3,788	7,360	2,801	—	66,733
Other income (expense):								
Loan servicing and systems revenue	127,892	—	—	—	—	—	—	127,892
Intersegment revenue	6,944	77	—	—	—	—	(7,021)	—
Education technology services and payments revenue	—	113,796	—	—	—	—	—	113,796
Solar construction revenue	—	—	—	—	—	6,301	—	6,301
Other, net	687	—	2,776	565	9,861	(14,099)	—	(211)
Gain (loss) on sale of loans, net	—	—	5,362	—	—	—	—	5,362
Impairment expense	(296)	—	—	—	—	(4,678)	—	(4,974)
Derivative settlements, net	—	—	621	196	—	—	—	817
Derivative market value adjustments, net	—	—	1,192	1,948	—	—	—	3,140
Total other income (expense), net	135,227	113,873	9,951	2,709	9,861	(12,476)	(7,021)	252,123
Cost of services:								
Cost to provide education technology services and payments	—	43,694	—	—	—	—	—	43,694
Cost to provide solar construction services	—	—	—	—	—	7,783	—	7,783
Total cost of services	—	43,694	—	—	—	7,783	—	51,477
Operating expenses:								
Salaries and benefits	73,310	39,776	1,242	2,520	288	24,731	(663)	141,204
Depreciation and amortization	5,023	3,030	—	259	—	13,522	—	21,835
Other expenses	15,629	8,309	2,952	1,290	7,522	15,670	—	51,370
Intersegment expenses, net	17,894	5,875	7,948	129	191	(25,679)	(6,358)	—
Total operating expenses	111,856	56,990	12,142	4,198	8,001	28,244	(7,021)	214,409
Income (loss) before income taxes	24,469	22,123	40,562	2,299	9,220	(45,702)	—	52,970
Income tax (expense) benefit	(5,872)	(5,307)	(9,735)	(552)	(2,177)	12,909	—	(10,734)
Net income (loss)	18,597	16,816	30,827	1,747	7,043	(32,793)	—	42,236
Net (income) loss attributable to noncontrolling interests	—	(6)	—	—	(149)	3,251	—	3,096
Net income (loss) attributable to Nelnet, Inc.	\$ 18,597	16,810	30,827	1,747	6,894	(29,542)	—	45,332

Three months ended December 31, 2022

	Nelnet Financial Services							
	Loan Servicing and Systems	Education Technology Services and Payments	Asset Generation and Management	Nelnet Bank	NFS Other Operating Segments	Corporate and Other Activities	Eliminations	Total
Total interest income	\$ 1,578	4,457	234,631	10,181	19,946	1,543	(9,446)	262,890
Interest expense	—	—	176,180	5,263	11,637	(1,845)	(9,446)	181,790
Net interest income	1,578	4,457	58,451	4,918	8,309	3,388	—	81,100
Less provision for loan losses	—	—	27,423	378	—	—	—	27,801
Net interest income after provision for loan losses	1,578	4,457	31,028	4,540	8,309	3,388	—	53,299
Other income (expense):								
Loan servicing and systems revenue	140,021	—	—	—	—	—	—	140,021
Intersegment revenue	8,028	64	—	—	—	—	(8,092)	—
Education technology services and payments revenue	—	98,332	—	—	—	—	—	98,332
Solar construction revenue	—	—	—	—	—	15,186	—	15,186
Other, net	597	—	4,898	402	11,953	(17,114)	—	735
Gain (loss) on sale of loans, net	—	—	(2,712)	—	—	—	—	(2,713)
Impairment expense	(5,511)	(2,239)	—	(214)	—	(1,397)	—	(9,361)
Derivative settlements, net	—	—	20,858	—	—	—	—	20,858
Derivative market value adjustments, net	—	—	(7,434)	—	—	—	—	(7,434)
Total other income (expense), net	143,135	96,157	15,610	188	11,953	(3,325)	(8,092)	255,624
Cost of services:								
Cost to provide education technology services and payments	—	39,330	—	—	—	—	—	39,330
Cost to provide solar construction services	—	—	—	—	—	14,003	—	14,004
Total cost of services	—	39,330	—	—	—	14,003	—	53,334
Operating expenses:								
Salaries and benefits	87,550	35,072	666	1,866	222	26,193	—	151,568
Depreciation and amortization	8,199	2,639	—	4	—	9,258	—	20,099
Other expenses	13,299	10,555	6,910	916	424	18,378	—	50,481
Intersegment expenses, net	18,703	5,367	8,985	73	(1,772)	(23,264)	(8,092)	—
Total operating expenses	127,751	53,633	16,561	2,859	(1,126)	30,565	(8,092)	222,148
Income (loss) before income taxes	16,962	7,651	30,077	1,869	21,388	(44,505)	—	33,441
Income tax (expense) benefit	(4,071)	(1,838)	(7,219)	(439)	(5,100)	13,207	—	(5,459)
Net income (loss)	12,891	5,813	22,858	1,430	16,288	(31,298)	—	27,982
Net (income) loss attributable to noncontrolling interests	—	5	—	—	(138)	2,924	—	2,791
Net income (loss) attributable to Nelnet, Inc.	\$ 12,891	5,818	22,858	1,430	16,150	(28,374)	—	30,773

Year ended December 31, 2023

Nelnet Financial Services								
	Loan Servicing and Systems	Education Technology Services and Payments	Asset Generation and Management	Nelnet Bank	NFS Other Operating Segments	Corporate and Other Activities	Eliminations	Total
Total interest income	\$ 4,845	26,962	977,158	57,859	74,857	12,141	(44,021)	1,109,800
Interest expense	—	—	823,084	34,704	29,747	1,578	(44,021)	845,091
Net interest income	4,845	26,962	154,074	23,155	45,110	10,563	—	264,709
Less provision for loan losses	—	—	56,975	8,475	—	—	—	65,450
Net interest income after provision for loan losses	4,845	26,962	97,099	14,680	45,110	10,563	—	199,259
Other income (expense):								
Loan servicing and systems revenue	517,954	—	—	—	—	—	—	517,954
Intersegment revenue	28,911	253	—	—	—	—	(29,164)	—
Education technology services and payments revenue	—	463,311	—	—	—	—	—	463,311
Solar construction revenue	—	—	—	—	—	31,669	—	31,669
Other, net	2,587	—	11,269	1,095	26,648	(90,385)	—	(48,787)
Gain (loss) on sale of loans, net	—	—	39,673	—	—	—	—	39,673
Impairment expense	(296)	(4,310)	—	—	—	(27,319)	—	(31,925)
Derivative settlements, net	—	—	24,588	484	—	—	—	25,072
Derivative market value adjustments, net	—	—	(40,250)	(1,523)	—	—	—	(41,773)
Total other income (expense), net	549,156	459,254	35,280	56	26,648	(86,035)	(29,164)	955,194
Cost of services:								
Cost to provide education technology services and payments	—	171,183	—	—	—	—	—	171,183
Cost to provide solar construction services	—	—	—	—	—	48,576	—	48,576
Total cost of services	—	171,183	—	—	—	48,576	—	219,759
Operating expenses:								
Salaries and benefits	317,885	155,296	4,191	9,074	1,130	105,531	(1,571)	591,537
Depreciation and amortization	19,257	11,319	—	574	—	47,969	—	79,118
Other expenses	60,517	34,133	14,728	4,994	19,172	56,307	—	189,851
Intersegment expenses, net	78,628	23,184	32,824	462	584	(108,089)	(27,593)	—
Total operating expenses	476,287	223,932	51,743	15,104	20,886	101,718	(29,164)	860,506
Income (loss) before income taxes	77,714	91,101	80,636	(368)	50,872	(225,766)	—	74,188
Income tax (expense) benefit	(18,651)	(21,891)	(19,353)	153	(12,073)	52,061	—	(19,753)
Net income (loss)	59,063	69,210	61,283	(215)	38,799	(173,705)	—	54,435
Net (income) loss attributable to noncontrolling interests	—	109	—	—	(568)	37,556	—	37,097
Net income (loss) attributable to Nelnet, Inc.	\$ 59,063	69,319	61,283	(215)	38,231	(136,149)	—	91,532

Year ended December 31, 2022

Nelnet Financial Services

	Loan Servicing and Systems	Education Technology Services and Payments	Asset Generation and Management	Nelnet Bank	NFS Other Operating Segments	Corporate and Other Activities	Eliminations	Total
Total interest income	\$ 2,722	9,377	676,557	25,973	40,377	2,199	(14,399)	742,806
Interest expense	44	—	411,900	11,055	21,974	(436)	(14,399)	430,137
Net interest income	2,678	9,377	264,657	14,918	18,403	2,635	—	312,669
Less provision for loan losses	—	—	44,601	1,840	—	—	—	46,441
Net interest income after provision for loan losses	2,678	9,377	220,056	13,078	18,403	2,635	—	266,228
Other income (expense):								
Loan servicing and systems revenue	535,459	—	—	—	—	—	—	535,459
Intersegment revenue	33,170	81	—	—	—	—	(33,251)	—
Education technology services and payments revenue	—	408,543	—	—	—	—	—	408,543
Solar construction revenue	—	—	—	—	—	24,543	—	24,543
Other, net	2,543	—	21,170	2,625	35,259	(36,112)	—	25,486
Gain (loss) on sale of loans, net	—	—	2,903	—	—	—	—	2,903
Impairment expense	(5,511)	(2,239)	—	(214)	—	(7,559)	—	(15,523)
Derivative settlements, net	—	—	32,943	—	—	—	—	32,943
Derivative market value adjustments, net	—	—	231,691	—	—	—	—	231,691
Total other income (expense), net	565,661	406,385	288,707	2,411	35,259	(19,128)	(33,251)	1,246,045
Cost of services:								
Cost to provide education technology services and payments	—	148,403	—	—	—	—	—	148,403
Cost to provide solar construction services	—	—	—	—	—	19,971	—	19,971
Total cost of services	—	148,403	—	—	—	19,971	—	168,374
Operating expenses:								
Salaries and benefits	344,809	133,428	2,524	6,948	880	100,990	—	589,579
Depreciation and amortization	24,255	10,184	—	15	—	39,623	—	74,077
Other expenses	59,674	30,104	16,835	3,925	2,453	57,788	—	170,778
Intersegment expenses, net	75,145	19,538	34,679	244	(1,173)	(95,182)	(33,251)	—
Total operating expenses	503,883	193,254	54,038	11,132	2,160	103,219	(33,251)	834,434
Income (loss) before income taxes	64,456	74,105	454,725	4,357	51,502	(139,683)	—	509,465
Income tax (expense) benefit	(15,470)	(17,785)	(109,134)	(1,013)	(12,237)	42,415	—	(113,224)
Net income (loss)	48,986	56,320	345,591	3,344	39,265	(97,268)	—	396,241
Net (income) loss attributable to noncontrolling interests	—	(3)	—	—	(516)	11,625	—	11,106
Net income (loss) attributable to Nelnet, Inc.	\$ 48,986	56,317	345,591	3,344	38,749	(85,643)	—	407,347

Loan Servicing and Systems Revenue

The following table presents disaggregated revenue by service offering for the Loan Servicing and Systems operating segment.

	Three months ended			Year ended	
	December 31, 2023	September 30, 2023	December 31, 2022	December 31, 2023	December 31, 2022
Government loan servicing	\$ 107,709	100,154	110,698	412,478	423,066
Private education and consumer loan servicing	12,428	12,330	12,016	48,984	49,210
FFELP loan servicing	3,478	3,304	3,630	13,704	16,016
Software services	4,132	9,416	9,873	29,208	33,409
Outsourced services	1,069	2,688	3,804	13,580	13,758
Loan servicing and systems revenue	<u>\$ 128,816</u>	<u>127,892</u>	<u>140,021</u>	<u>517,954</u>	<u>535,459</u>

Loan Servicing Volumes

	As of								
	December 31, 2023	September 30, 2023	June 30, 2023	March 31, 2023	December 31, 2022	September 30, 2022	June 30, 2022	March 31, 2022	December 31, 2021
Servicing volume (dollars in millions):									
Government	\$ 494,691	500,554	519,308	537,291	545,373	545,546	542,398	507,653	478,402
FFELP	17,462	18,400	19,021	19,815	20,226	22,412	24,224	25,646	26,916
Private and consumer	20,493	20,394	20,805	21,484	21,866	22,461	22,838	23,433	23,702
Total	<u>\$ 532,646</u>	<u>539,348</u>	<u>559,134</u>	<u>578,590</u>	<u>587,465</u>	<u>590,419</u>	<u>589,460</u>	<u>556,732</u>	<u>529,020</u>
Number of servicing borrowers:									
Government	14,503,057	14,543,382	14,898,901	15,518,751	15,777,328	15,657,942	15,426,607	14,727,860	14,196,520
FFELP	725,866	764,660	788,686	819,791	829,939	910,188	977,785	1,034,913	1,092,066
Private and consumer	894,703	896,613	899,095	925,861	951,866	979,816	998,454	1,030,863	1,065,439
Total	<u>16,123,626</u>	<u>16,204,655</u>	<u>16,586,682</u>	<u>17,264,403</u>	<u>17,559,133</u>	<u>17,547,946</u>	<u>17,402,846</u>	<u>16,793,636</u>	<u>16,354,025</u>
Number of remote hosted borrowers:	<u>70,580</u>	<u>103,396</u>	<u>716,908</u>	<u>5,048,324</u>	<u>6,135,760</u>	<u>6,025,377</u>	<u>5,738,381</u>	<u>5,487,943</u>	<u>4,799,368</u>

Education Technology Services and Payments Revenue

The following table presents disaggregated revenue by servicing offering for the Education Technology Services and Payments operating segment.

	Three months ended			Year ended	
	December 31, 2023	September 30, 2023	December 31, 2022	December 31, 2023	December 31, 2022
Tuition payment plan services	\$ 30,091	30,223	26,671	125,326	110,802
Payment processing	37,143	50,848	34,216	163,859	148,212
Education technology services	37,957	31,793	35,924	170,754	146,679
Other	861	932	1,521	3,372	2,850
Education technology services and payments revenue	<u>\$ 106,052</u>	<u>113,796</u>	<u>98,332</u>	<u>463,311</u>	<u>408,543</u>

Other Income/Expense

The following table presents the components of "other, net" in "other income (expense)" on the consolidated statements of operations.

	Three months ended			Year ended	
	December 31, 2023	September 30, 2023	December 31, 2022	December 31, 2023	December 31, 2022
Reinsurance premiums	\$ 9,428	6,287	157	20,067	157
ALLO preferred return	2,299	2,299	2,164	9,120	8,584
Borrower late fee income	2,363	2,220	3,116	8,997	10,809
Administration/sponsor fee income	1,613	1,712	1,844	6,793	7,898
Investment advisory services (WRCM)	1,876	1,633	1,651	6,760	6,026
Management fee revenue	688	687	597	2,587	2,543
Loss from ALLO voting membership interest investment	(15,601)	(17,293)	(20,332)	(65,277)	(67,966)
Loss from solar investments	(33,221)	(3,605)	(2,379)	(46,702)	(9,479)
Investment activity, net	(419)	(1,016)	10,866	(8,586)	51,493
Other	3,481	6,865	3,051	17,454	15,421
Other, net	<u>\$ (27,493)</u>	<u>(211)</u>	<u>735</u>	<u>(48,787)</u>	<u>25,486</u>

Derivative Settlements

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

	Three months ended			Year ended	
	December 31, 2023	September 30, 2023	December 31, 2022	December 31, 2023	December 31, 2022
1:3 basis swaps	\$ 364	386	(448)	1,544	(206)
Interest rate swaps - floor income hedges (a)	284	235	21,306	23,044	33,149
Interest rate swaps - Nelnet Bank	205	196	—	484	—
Total derivative settlements - income	<u>\$ 853</u>	<u>817</u>	<u>20,858</u>	<u>25,072</u>	<u>32,943</u>

- (a) On March 15, 2023, to minimize the Company's exposure to market volatility and increase liquidity, the Company terminated its entire derivative portfolio hedging loans earning fixed rate floor income (\$2.8 billion in notional amount of derivatives) prior to their maturity. Through March 15, 2023, the Company had received cash or had a receivable from the clearinghouse related to variation margin equal to the fair value of the \$2.8 billion notional amount of fixed rate floor derivatives as of March 15, 2023 of \$183.2 million, which included \$19.1 million related to current period settlements.

Loans and Accrued Interest Receivable and Allowance for Loan Losses

Loans and accrued interest receivable and allowance for loan losses consisted of the following:

	As of December 31, 2023	As of September 30, 2023	As of December 31, 2022
Non-Nelnet Bank:			
Federally insured loans:			
Stafford and other	\$ 2,936,174	3,104,569	3,389,178
Consolidation	8,750,033	9,194,415	10,177,295
Total	11,686,207	12,298,984	13,566,473
Private education loans	277,320	293,004	252,383
Consumer and other loans	85,935	143,633	350,915
Non-Nelnet Bank loans	12,049,462	12,735,621	14,169,771
Nelnet Bank:			
Federally insured loans (a)	—	59,261	65,913
Private education loans	360,520	359,941	353,882
Consumer and other loans	72,352	49,611	—
Nelnet Bank loans	432,872	468,813	419,795
Accrued interest receivable	764,385	806,854	816,864
Loan discount, net of unamortized loan premiums and deferred origination costs	(33,872)	(33,638)	(30,714)
Allowance for loan losses:			
Non-Nelnet Bank:			
Federally insured loans	(68,453)	(72,043)	(83,593)
Private education loans	(15,750)	(16,944)	(15,411)
Consumer and other loans	(11,742)	(14,022)	(30,263)
Non-Nelnet Bank allowance for loan losses	(95,945)	(103,009)	(129,267)
Nelnet Bank:			
Federally insured loans (a)	—	(148)	(170)
Private education loans	(3,347)	(3,083)	(2,390)
Consumer and other loans	(5,351)	(3,853)	—
Nelnet Bank allowance for loan losses	(8,698)	(7,084)	(2,560)
	<u>\$ 13,108,204</u>	<u>13,867,557</u>	<u>15,243,889</u>

(a) During 2023, Nelnet Bank sold its federally insured loan portfolio to the Company's AGM (non-Nelnet Bank) operating segment.

The following table summarizes the allowance for loan losses as a percentage of the ending loan balance for each of the Company's loan portfolios.

	As of December 31, 2023	As of September 30, 2023	As of December 31, 2022
Non-Nelnet Bank:			
Federally insured loans (a)	0.59 %	0.59 %	0.62 %
Private education loans	5.68 %	5.78 %	6.11 %
Consumer and other loans	13.66 %	9.76 %	8.62 %
Nelnet Bank:			
Federally insured loans (a)	—	0.25 %	0.26 %
Private education loans	0.93 %	0.86 %	0.68 %
Consumer and other loans	7.40 %	7.77	—

(a) As of December 31, 2023, September 30, 2023, and December 31, 2022, the allowance for loan losses as a percent of the risk sharing component of federally insured loans not covered by the federal guaranty for non-Nelnet Bank was 21.8%, 21.9%, and 22.4%, respectively, and for Nelnet Bank was 10.0% and 10.3% as of September 30, 2023 and December 31, 2022, respectively.

Loan Activity

The following table sets forth the activity of the Company's loan portfolios:

	Three months ended			Year ended	
	December 31, 2023	September 30, 2023	December 31, 2022	December 31, 2023	December 31, 2022
Non-Nelnet Bank:					
Beginning balance	\$ 12,735,621	13,239,125	14,794,015	14,169,771	17,441,790
Loan acquisitions:					
Federally insured student loans	57,753	2,880	667,008	576,224	721,853
Private education loans	36	77,365	67	77,401	8,244
Consumer and other loans	138,575	29,413	259,217	478,666	516,215
Total loan acquisitions	196,364	109,658	926,292	1,132,291	1,246,312
Repayments, claims, capitalized interest, participations, and other, net	(286,483)	(322,013)	(383,829)	(1,461,803)	(1,694,742)
Loans lost to external parties	(349,890)	(229,342)	(1,046,911)	(1,062,662)	(2,656,639)
Loans sold	(246,150)	(61,807)	(119,796)	(728,135)	(166,950)
Ending balance	<u>\$ 12,049,462</u>	<u>12,735,621</u>	<u>14,169,771</u>	<u>12,049,462</u>	<u>14,169,771</u>
Nelnet Bank:					
Beginning balance	\$ 468,813	444,488	429,476	419,795	257,901
Loan acquisitions and originations:					
Private education loans	11,945	19,756	—	53,286	235,139
Consumer and other loans	30,201	22,966	8,426	85,967	—
Total loan acquisitions and originations	42,146	42,722	8,426	139,253	235,139
Repayments	(20,518)	(18,382)	(18,011)	(68,475)	(69,022)
Loans sold to AGM	(57,569)	(15)	(96)	(57,701)	(4,223)
Ending balance	<u>\$ 432,872</u>	<u>468,813</u>	<u>419,795</u>	<u>432,872</u>	<u>419,795</u>

The Company has partial ownership in certain consumer, private education, and federally insured student loan securitizations that are accounted for as held-to-maturity beneficial interest investments and included in "investments and notes receivable" in the Company's consolidated financial statements. As of the latest remittance reports filed by the various trusts prior to or as of December 31, 2023, the Company's ownership correlates to approximately \$1.76 billion of loans included in these securitizations. The loans held in these securitizations are not included in the above table.

Loan Spread Analysis

The following table analyzes the loan spread on AGM'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, 2023	September 30, 2023	December 31, 2022	December 31, 2023	December 31, 2022
Variable loan yield, gross	7.75 %	7.70 %	6.52 %	7.56 %	4.39 %
Consolidation rebate fees	(0.80)	(0.80)	(0.82)	(0.80)	(0.84)
Discount accretion, net of premium and deferred origination costs amortization (a)	0.06	0.06	0.06	0.06	0.04
Variable loan yield, net	7.01	6.96	5.76	6.82	3.59
Loan cost of funds - interest expense (b)	(6.40)	(6.14)	(4.64)	(5.99)	(2.58)
Loan cost of funds - derivative settlements (c) (d)	0.01	0.01	(0.01)	0.01	(0.00)
Variable loan spread	0.62	0.83	1.11	0.84	1.01
Fixed rate floor income, gross	0.00	0.01	0.07	0.02	0.36
Fixed rate floor income - derivative settlements (c) (e)	0.01	0.01	0.59	0.18	0.21
Fixed rate floor income, net of settlements on derivatives	0.01	0.02	0.66	0.20	0.57
Core loan spread	0.63 %	0.85 %	1.77 %	1.04 %	1.58 %
Average balance of AGM's loans	\$ 12,500,817	13,157,152	14,764,466	13,316,525	15,969,435
Average balance of AGM's debt outstanding	11,993,699	12,527,771	14,352,548	12,720,097	15,513,824

- (a) During the fourth quarter of 2022, the Company changed its estimate of the constant prepayment rate used to amortize/accrete federally insured loan premium/discounts for its loans which resulted in a \$8.4 million increase to interest income. The impact of this adjustment was excluded from the table above.
- (b) In the second quarter of 2023, the Company redeemed certain asset-backed debt securities prior to their maturity, resulting in the recognition of \$25.9 million in interest expense from the write-off of the remaining unamortized debt discount associated with these bonds at the time of redemption. This expense was excluded from the table above.
- (c) 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 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.

A reconciliation of core loan spread, which includes the impact of derivative settlements on loan spread, to loan spread without derivative settlements follows.

	Three months ended			Year ended	
	December 31, 2023	September 30, 2023	December 31, 2022	December 31, 2023	December 31, 2022
Core loan spread	0.63 %	0.85 %	1.77 %	1.04 %	1.58 %
Derivative settlements (1:3 basis swaps)	(0.01)	(0.01)	0.01	(0.01)	0.00
Derivative settlements (fixed rate floor income)	(0.01)	(0.01)	(0.59)	(0.18)	(0.21)
Loan spread	0.61 %	0.83 %	1.19 %	0.85 %	1.37 %

- (d) Derivative settlements consist of net settlements received (paid) related to the Company's 1:3 basis swaps.
- (e) Derivative settlements consist of net settlements received related to the Company's floor income interest rate swaps.

The relationship between the indices in which AGM earns interest on its loans and funds such loans has a significant impact on loan spread. In an increasing interest rate environment, student loan spread on FFELP loans increases in the short term because of the timing of interest rate resets on the Company's assets occurring daily in contrast to the timing of the interest rate resets on the Company's debt that occurs either monthly or quarterly.

Variable loan spread decreased during 2023 compared with 2022 due to a significant increase in short-term rates during 2022 compared with the increase in rates for 2023.

The difference between variable loan spread and core loan spread is fixed rate floor income earned on a portion of AGM's federally insured student loan portfolio. A summary of fixed rate floor income and its contribution to core loan spread follows:

	Three months ended			Year ended	
	December 31, 2023	September 30, 2023	December 31, 2022	December 31, 2023	December 31, 2022
Fixed rate floor income, gross	\$ 153	450	2,510	2,169	57,380
Derivative settlements (a)	284	235	21,306	23,044	33,149
Fixed rate floor income, net	\$ 437	685	23,816	25,213	90,529
Fixed rate floor income contribution to spread, net	0.01 %	0.02 %	0.66 %	0.20 %	0.57 %

(a) Derivative settlements consist of net settlements received related to the Company's derivatives used to hedge student loans earning fixed rate floor income.

Fixed Rate Floor Income

The following table shows AGM's federally insured student loan assets that were earning fixed rate floor income as of December 31, 2023.

Fixed interest rate range	Borrower/lender weighted average yield	Estimated variable conversion rate (a)	Loan balance
8.0 - 8.99%	8.25%	5.61%	\$ 185,062
> 9.0%	9.05%	6.41%	122,649
			\$ 307,711

(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, 2023, the weighted average estimated variable conversion rate was 8.57% and the short-term interest rate was 554 basis points.



Our goal is for each Nelnet shareholder to record a gain or loss in market value proportional to the gain or loss in per-share fundamental (intrinsic) 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 market. 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. However, from time to time Ms./Mr. Market can be irrational and will materially overvalue or undervalue the investments they currently love or hate. Short term Ms./Mr. Market is a voting machine, long term the market is a weighing machine." - Mike Dunlap



February 27, 2024

Dear Shareholder,

Last year (2023) was a pivotal year for our company, for the country, and for the world. An increase of over 500 basis points in interest rates in the United States (U.S.) in a 14-month period. A run on and subsequent collapse of a major banking institution. Unprecedented volatility and changes to the federal student loan programs. Two ongoing wars. Not to mention Taylor Swift dating Travis Kelce. Who could have planned for or predicted such a situation even 12 months ago? We live in a rapidly changing world that requires constant vigilance and innovation.

In the midst of all these events, we honor the passing of one of the legends we have always admired. One of the greatest investors of all time and, of course, a hero to us Nebraskans: Charlie Munger. He had many legendary quotes, and one of our favorites has always been:

"A great business at a fair price is superior to a fair business at a great price." -Charlie Munger

For Nelnet, 2023 represented a critical turning point. We would describe it as a significant transitional year for our company. It was transitional in the context that it was the first time in our corporate history that the majority of our net income came from our fee-based businesses and not the net interest income on our loan portfolio. It may finally be a good time for the market to stop thinking of Nelnet strictly as a "student loan company." Our multi-decade strategy to diversify into a technology, servicing, payments, and financial services company with a core strength in education is clearly evident in our 2023 performance.

Even though the world is constantly changing, the five core values we have as a company remain the same and carry over to each of our businesses:

1. Provide superior customer experiences.
2. Create an awesome work environment.
3. Pursue opportunities for diversification and growth.
4. Communicate openly and honestly.
5. Give back to the communities in which we live and work.

Our focus on diversification over many years is what has allowed us to reach this point, where our fee-based businesses are now contributing the majority of the bottom line.

Our GAAP earnings for 2023 were \$92 million, or \$2.45 per share, and our non-GAAP net income, excluding derivative market value adjustments¹, was \$123 million, or \$3.29 per share. Even though our total earnings were down due to the amortization of our loan portfolio and our solar business (as mentioned further below), we had many bright spots including record earnings in our education technology services and payments division, processing almost \$46 billion in payment volume in 2023.

We weathered an unexpected storm in the finance and hedging of our loan portfolio in March, when the markets became highly volatile due to the Silicon Valley Bank (SVB) failure. At that time, we felt it was prudent to unwind our derivatives and take the cash onto our balance sheet to shore it up due to the market's volatility.

In addition, we had a heck of a year-long roller coaster ride in our loan servicing business in conjunction with the volatile political environment surrounding student loans. The leaders in this business, Nelnet Diversified Services (NDS), did a great job adjusting quickly to the ups and downs and also benefited from their ongoing diversification to have a solid year. ALLO executed its first-ever securitization of fiber-optic subscriptions. We officially launched our Nelnet Financial Services division. You will see this presented in our financial statements. This new division combines our asset generation and management business (our loan acquisition and on-balance sheet loan portfolio) with Nelnet Bank, Nelnet Insurance Services, Nelnet real-estate management, Whitetail Rock Capital Management, and the management of a portfolio of investment securities into one division. Think of it as all our traditional financial services operating businesses now under one umbrella and one management team. We believe this simplifies the management of the business and consolidates the reporting of our story into three distinct divisions and separates and aggregates the reporting of our other investment activity into a corporate treasury function.

Inside the Corporate and Other Activities section of our financial statements, we now have included shared services, Nelnet Renewable Energy, our current minority investment in ALLO, and our venture capital investments, which are dominated by our large investment in Hudl. We will cover these in more detail as well.

We sincerely did not believe the Federal Reserve could increase interest rates by 500 basis points in approximately one year's time and not crater the U.S. economy. We did not believe a "soft landing" was possible. Yet here we are, and that is what has happened so far. The rise in interest rates increased our cost of capital on anything we were financing with debt including residuals in loan portfolios, slowed down our investments in real estate and solar development, and increased the cost of capital for ALLO. The good news for us is that we have a somewhat natural hedge embedded in our business against rising rates with the additional earnings they provide us on the float in our Nelnet Business Services (NBS) division.

We have always been focused on creating long-term free cash flow. Sometimes this is not captured well by (GAAP) earnings. Other companies use other measures to judge their performance; our feelings are more in line with Munger's.

"I think that every time you see the word EBITDA, you should substitute the words **bullshit earnings**." -Charlie Munger

Our overall earnings for the year are down because of the expected runoff of the Federal Family Education Loan Program (FFELP) portfolio and losses in our solar business. In addition, we are down from what we expected as a result of the impact of the unwinding of our derivatives in March, which we did to create liquidity when we saw the run on SVB. Even though our earnings were down, we created a significant amount of cash flow generated by operations to the tune of \$433 million, which gives us a lot of arrows in the quiver to deploy cash for opportunistic acquisitions, investments into our products and services, stock buybacks, and dividends to our shareholders.

¹We 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 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, 2023, filed with the Securities and Exchange Commission on February 27, 2024.

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	Net Income Reinvested ² (in millions)
2004	49.2%	20.2%	10.9%	\$149
2005	41.5%	51.1%	4.9%	\$181
2006	6.3%	(32.7%)	15.8%	\$6
2007	(1.6%)	(52.5%)	5.5%	(\$63)
2008	6.6%	13.3%	(37.0%)	\$24
2009	21.0%	20.7%	26.5%	\$135
2010	23.7%	41.6%	15.1%	\$115
2011	22.6%	4.9%	2.1%	\$160
2012	16.7%	27.5%	16.0%	\$89
2013	26.1%	42.8%	32.4%	\$271
2014	21.1%	10.9%	13.7%	\$273
2015	16.0%	(26.6%)	1.4%	\$153
2016	15.4%	52.7%	12.0%	\$166
2017	8.8%	9.1%	21.8%	\$80
2018	9.9%	(3.2%)	(4.4%)	\$156
2019	6.2%	12.7%	31.5%	\$72
2020	15.6%	23.7%	18.4%	\$247
2021	14.7%	38.4%	28.7%	\$301
2022	11.9%	(6.1%)	(18.1%)	\$273
2023	3.4%	(1.6%)	26.3%	\$24
CAGR/Total	16.2%	8.4%	9.7%	\$2,812

We feel like we did a decent but not a great job in 2023 as managers of our businesses and allocators of our capital given all the insanity of domestic and global events occurring during the year. This will be reflected in our executive team's compensation this year. We eat our own cooking.

It is important to note, we believe we maintain significant competitive advantages in our major business units and remain opportunistic and optimistic for the future. We do not act like most publicly traded companies, and we think that gives us a big advantage as we think long-term when making decisions.

"Mimicking the herd invites regression to the mean." -Charlie Munger

Next, I will give you an update of our three largest divisions along with our two largest minority investments in ALLO and Hudl.

²We believe well-managed companies do not distribute to the shareholders all their earnings. Instead, they retain a part of their earnings and reinvest the capital to grow the business. Since going public in late 2003, the company has recognized \$4.1 billion in cumulative net income and, of that amount, has reinvested \$2.8 billion – or 69% of our earnings over time – back into the business.

// Nelnet Diversified Services

Over the last year, NDS may have had the wildest roller coaster ride of its 45-year existence. We could not have imagined it could have been wilder than the previous few years, but decisions impacting the Federal Student Loan Program continue to be driven by a volatile political climate in this country. As an entity trying to serve borrowers the best we can, we are not blaming either side of the political divide, just highlighting the politically challenging and unpredictable nature of the current federal servicing environment.

At our core in loan servicing, we are a business-to-business-to-consumer company. Lenders hire us to service their borrower customers' accounts. They pay us an amount based upon the level of service they require. We have many clients within the division: banks, finance companies, fintechs, state agencies, and of course the largest consumer lender: the Federal Government. We have had some amazing growth in the business including large transactions associated with the Wells Fargo portfolio and the recently announced Discover Financial Services portfolio. The approximately \$10 billion Discover portfolio with approximately 500,000 borrowers will be a significant addition to our consumer loan servicing business when it is converted to our system.

In addition to consumer loan servicing, we service \$495 billion in Direct Loans for 14.5 million borrowers on behalf of the Federal Government.

When the pandemic hit, every federally held loan was put into a non-interest-bearing non-payment status, first using executive authority and then under the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The CARES Act forbearance was extended by President Trump through the 2020 election and then extended multiple times by President Biden. The Biden administration also announced the President's forgiveness plan utilizing executive authority based upon a unique interpretation of the Health and Economic Recovery Omnibus Emergency Solutions (HEROES) Act passed back in 2003, which they argued gave the President emergency authority to forgive loans in the absence of Congressional student loan forgiveness legislation. Predictably, certain state attorneys general believed this was outside the executive branch's authority under the HEROES Act and challenged the Biden forgiveness program in court. As we all know, the Supreme Court ultimately ruled in favor of the states and kept broad loan forgiveness from moving forward, holding that the Biden administration exceeded its statutory authority in promulgating the program. This background is very important for what happened in the loan servicing contract in 2023.

Throughout the 3.5-year CARES Act forbearance period—which included multiple promises of return to repayment (R2R), followed instead by extension after extension of the forbearance—we were instructed by the U.S. Department of Education (the Department) to maintain appropriate staffing levels in preparation for the inevitable and seemingly imminent R2R. We were frequently asked by Congress for our plans for R2R practically each time a repayment date was announced. We were repeatedly promised, "This time is it, we are definitely going back into repayment," and asked for staffing plans. We ramped up hiring and stayed ready to provide high-quality service in an unprecedented time period, only to be told forbearance would be extended for all 40 million U.S. student loan borrowers.

At the same time, due to a significant underfunding of the Office of Federal Student Aid (FSA) in the Fiscal Year 2023 Omnibus Appropriations Act, the Department announced cuts to the fees paid to the student loan servicers in March of 2023. Following terse contract negotiations, we begrudgingly accepted the cut to compensation in exchange for relief on required service levels to the Government's borrowers. We argued vehemently against this strategy as there are two major cost drivers in servicing: systems and people. We made clear to FSA that the cut to servicer compensation would negatively impact federal borrowers if they returned to repayment in the fall.

The systems for borrowers to access their accounts are required to run 24/7/365, so there was no ability to reduce costs there. This meant the only possible outcome was a reduction in staff. This was extremely bad timing and right before staff would be needed, given the agreed upon October R2R if the forgiveness plan were to be stopped by the Supreme Court. It takes many months to hire and train as well as obtain security clearance for thousands of people to support borrowers. The cuts to our fees saved millions of dollars for the Federal Government temporarily but most likely cost the taxpayers tens of billions over the years to come by reducing servicing activity necessary to support the Federal Government as a lender to collect on its loans.

"The iron rule of nature is: you get what you reward for. If you want ants to come, you put sugar on the floor." -Charlie Munger

Finally, as expected, in 2023, Congress ended up striking a deal to keep the Federal Government from defaulting on its debt, within which was included a provision mandating an end to the CARES Act forbearance, with repayment set to begin on October 1, 2023.

Starting October 1, 2023, 40 million people were required to start paying back their loans. The Biden administration then announced, in rapid succession, multiple new repayment plans including the Saving on Valuable Education (SAVE) Plan, on-ramp programs (all delinquent loans past 90 days brought current), and a litany of new forgiveness initiatives based upon new calculators of time in repayment to various categories of borrowers. All these constant program changes, little lead time or communication about program requirements, and new announcements have created borrower confusion, leading to unprecedented activity in our call centers and processing areas. This bluntly means that for months we experienced the predictable long hold times and delayed processing times. It is not where anyone would like to be, but it is the hand that was dealt us.

Going into calendar year 2024, FSA's budget issues persist, and the Department continues to look for ways to reduce fees and costs in servicing. Almost all these reductions come at the expense of what anyone would deem as acceptable service. The Department also continues its quest toward broad student loan forgiveness, having begun Negotiated Rulemaking on a provision of the Higher Education Act in the wake of the Supreme Court's ruling on the President's first forgiveness attempt.

The good news is we are confident this situation will pass, as is always the case. The roller coaster will eventually reach the flat part of the track. We are hopeful that smart, caring, practical people on both sides of the aisle will come to the right conclusion and set things back on a more reasonable track so that student borrowers receive adequate levels of service. In the meantime, rest assured we are doing everything in our power to support Direct Loan borrowers and the Department. We are very grateful for the strong fortitude and caring servant leadership of our team and teammates, who are on the front lines of this business every day, helping borrowers navigate this extremely complex and shifting program.

// Nelnet Business Services

As we stated in the introduction, NBS had a record year in 2023, earning \$91 million in pre-tax net income and processing almost \$46 billion in payments. It is our belief that on a stand-alone basis this business could arguably be valued nearly equal to the whole of Nelnet at its current market value. Munger would definitely be excited by this business as it creates a lot of cash flow, has dominant market share, a large moat, is not too difficult to understand, and has an industry leading management team. NBS concentrates on education technology, services, and payment processing for the K-12 and higher education markets in the U.S. and globally. This segment is divided into four distinct areas: FACTS, Nelnet Campus Commerce, Nelnet Payment Services, and Nelnet International.

// FACTS

FACTS is a partner to private and faith-based K-12 schools providing payment solutions to create an efficient customer experience for administrators, teachers, and families. We continue to add new products to the comprehensive suite of product solutions, ranging from financial management tools to make the costs of education more affordable, a robust school information system, and coaching and professional development opportunities for the teachers we serve. In support of our expanded product offering and similar client needs, we consolidated the brands under Nelnet Community Engagement into the FACTS family in 2023. This allows our value to extend beyond education to the for-profit and faith markets as a trusted partner focusing on the needs of educators and learners.

We continue to bring value to the students in the classrooms through Title I and Title II federal funding programs across the U.S. and Puerto Rico. The majority of pandemic-related funding for education will expire in 2024, and we continue to work with many schools to put those funds to work in closing any learning gaps resulting from the pandemic.

Our overall commitment to providing technology with superior customer experiences contributes to our consistent retention rate in excess of 98%. We are honored to support the nearly 12,000 schools we serve and the over 4.5 million students and their families.

// Nelnet Campus Commerce

Nelnet Campus Commerce has offered payment solutions designed to meet the unique mission and needs of higher education for over 25 years. We currently serve over 1,000 institutions in the U.S and over 8 million students with an integrated payment experience across the campus. We focus on providing intuitive and secure payment technologies ranging from tuition payment plans, refunds, online storefronts, in-person transactions, and a broad range of electronic payment products. In 2023, we continued to add new colleges and universities to our client base while maintaining strong retention rates of 98% with our existing institutions. New revenue opportunities are also achieved through adding additional product solutions to our current relationships. We serve a diverse base of clients ranging from a small community college to a large university system with multiple campuses. Our priorities include the security of our systems and modern, simple-to-use technologies.

// Nelnet Payment Services

Nelnet Payment Services is an independent sales organization (ISO), providing end-to-end payment processing technology for our education segment, other Nelnet entities, and other non-education businesses. In 2023, we processed almost \$46 billion in total payments while adding new payment options such as a two-transaction model with Apple Pay for our higher education market. We prioritize the security of our information throughout the processing cycle and focus on complying with the regulatory requirements in the payments industry.

// Nelnet International

Nelnet International is based in Melbourne, Australia, and focuses on serving the technology needs of the education market from primary school through the university experience. We focus on payment solutions through a variety of applications across the campuses in the Australian higher education industry, where we have 80% market share working with 32 of the 40 universities. In recent years, we have expanded our footprint to include several countries in the Asia Pacific region. We also provide payment plans, incidental payment processing, and a student management system in Australia and New Zealand in addition to serving students in 64 other countries through our school information system.

// Nelnet Financial Services

As we stated earlier, we have officially combined our loan asset generation and management business (FFELP, private education, and consumer loans) and Nelnet Bank along with our real estate management, insurance services business, and investment management business (Whitetail Rock) into the Nelnet Financial Services (NFS) division.

Our primary goal in NFS is to leverage our unique long-term time investment horizon along with our experience and expertise in credit and capital markets to originate assets that achieve acceptable risk-adjusted returns while managing liquidity and duration to support Nelnet's other investment opportunities.

We focus on investments that have predictable recurring cash flows. Additionally, we are continually evaluating asset classes that could be originated and funded at Nelnet Bank and serviced by NDS. We believe our investment philosophy, bank platform, servicing operation, and corporate structure allow us to see and create unique asset investment opportunities.

FFELP truly was a unique asset class that allowed us to achieve strong returns on equity with little credit risk. As we look beyond FFELP, we must take a view toward building on our core competencies (risks we understand well) and be opportunistic. When reviewing any asset opportunity, we consider whether the best funding source is the bank, our balance sheet, or the capital markets. We employ structured investments across the capital stack with a goal of optimizing risk-adjusted returns. We look to balance the size of our investments with diversification, conviction, expertise, and the synergies (bank, servicing) that may exist. An example of this is how we invested in the Wells Fargo private loan portfolio.

Nelnet Bank is an industrial loan company (ILC) fully owned by Nelnet, Inc. Nelnet Bank, which exited the de novo period in November 2023, is an incredibly valuable asset and a key component of Nelnet Financial Services' strategies. Our highly experienced capital markets team provides valuable insight and recommendations for product development, partnership opportunities, and expertise for Nelnet Bank. Today the bank has just over \$1 billion in assets and is focused on originating high-quality student and consumer loans while building out a strong deposit strategy.

// FFELP

As we have been emphasizing for the last decade, FFELP continues to be in a state of runoff and appears to be in the final stages of its life. As one of the largest and one of the few remaining purchasers in the space, we are still in position to act opportunistically; however, we expect these opportunities for FFELP portfolio purchases to be few and far between.

FFELP remains susceptible to government policy that can have a dramatic impact on prepayment rates. At the end of 2003, we had a portfolio of nearly \$12 billion supported by roughly \$1 billion of equity. We have financing facilities, supporting about \$1.5 billion of unsecuritized FFELP loans. Credit spreads widened out in 2022 and 2023 and have made financing through securitization less valuable during 2023. We will look to securitize once spreads tighten closer to our warehouse cost of funds, and it is trending that way at the time of this letter.

// Specialty Finance

As will be touched on in more detail at the end of the letter, our non-FFELP finance business began in earnest with the initial acquisition of consumer loans in 2017 and has gained significantly more scale over the last five years as we have developed key origination partnerships and completed diligence on new opportunities and sectors. We invest when and where we believe there are compelling long-term, resilient, risk-adjusted returns and are cognizant of credit and capital markets for new investments and portfolio management. The impact of rising rates, inflation, and erosion of stimulus funds in 2023, resulted in market pressures impacting financing costs, credit, and loan origination economics for many companies in the sector, while also contributing to rationalized partnership opportunities. We expect to continue to diversify and be conscious around asset classes, funding strategies, and third-party exposures.

// Real Estate

Nelnet's real estate ventures began in 2013 as a diversification and capital redeployment avenue as traditional student loan opportunities began to wane. We have taken a majority limited partner position in our investments, which means we have influence and protective rights over major items such as annual budget and buy/sell/refinance decisions. We partner with groups that have either an asset or geographical expertise and allow them to run day-to-day operations. We target properties with a total capitalization of \$10 to \$40 million, which frequently allows us to buy assets from local sellers, improve them, and sell them to larger national groups. We are targeting net returns in the mid-high teens on an annual percentage basis and typically hold the investments for three to seven years. However, we have no requirement to sell should the market or projected gain from a longer-term hold be more prudent.

The current portfolio has approximately 40 separate investments with a total equity at risk of approximately \$120 million. Given current interest rates and other dynamics in the market today, there is a noticeable gap between what buyers and sellers think a property is worth. Sellers saw a noticeable increase in comparable properties early during COVID and have anchored themselves to sales information from one to two years ago. Buyers today are more concerned with the future profitability of the property, which typically causes values to be below where they were a couple years ago. We believe commercial real estate is in for further correction, which could create buying opportunities for us at the right price.

// Insurance

Nelnet Insurance Services focuses on property and casualty reinsurance and also includes First National Life (FNL), a Nebraska-chartered life and health company, which reinsures a decreasing term life insurance product distributed by FACTS. Property and casualty reinsurance activities comprise of five treaties that reinsure risk on roughly 70 different insurance programs issued by four carriers. We have diversified into reinsurance based on a few key factors: 1) it is a “hard” property insurance market that benefits reinsurers; 2) this provides an uncorrelated return opportunity to Nelnet; 3) we have the necessary infrastructure due to our micro-captive that has built up a surplus of roughly \$20 million over the last decade; and, 4) we believe we can effectively invest the float in assets that we understand well (asset-backed securities [ABS]).

For the 2023 calendar year, we recognized \$20 million in reinsurance premiums (net of \$21 million retroceded to a third party). Claims incurred during the year were modest and less than expected. Our reinsurance risk is relatively evenly spread between general liability, commercial auto, and property coverages. During 2024, we expect general liability risk will decline, and property risk will increase as a percentage of our reinsurance portfolio. Catastrophic losses from property exposure are mitigated by per property and per event caps as well as exposed geography exclusions.

// Whitetail Rock Capital Management

Whitetail had \$3.3 billion in assets under management for third-party customers, consisting of student loan asset-backed securities (\$2.6 billion) and Nelnet stock (\$0.7 billion)—primarily shares of Class B common stock. Whitetail earns annual management fees of 10 to 25 basis points for asset-backed securities under management and a share of the gains from the sale of securities or securities being called prior to the full contractual maturity for which it provides advisory services. Whitetail earns annual management fees of five basis points for Nelnet stock under management. During 2023, Whitetail earned \$6.2 million in management fees and \$0.5 million in performance fees.

Whitetail is beginning the transition away from FFELP ABS to additional ABS asset classes (consumer ABS/collateralized loan obligations) that it can manage on behalf of its clients.

// ALLO

It’s been eight years since our initial investment in ALLO, and each year, including 2023, has seen significant growth in fiber footprint, customers, and importance to the communities served. By year’s end, ALLO was operational in 34 communities and in construction in another 11 communities across Tier II and III communities in Nebraska, Arizona, and Colorado. Our line count grew from 131,000 to 158,000 in 2023. Higher interest rates have reduced the number of markets we can build that hit our return targets, but at the same time the Federal Government is investing a lot of money through the Broadband Equity, Access, and Deployment (BEAD) program to incentivize the industry to build underserved communities.

We are currently carrying our voting equity investment in ALLO on our balance sheet at \$10 million and our preferred equity at \$155 million, and we expect the \$10 million voting equity investment to be written down to zero in the first quarter of 2024. We have structured the transaction to maximize tax benefits, which has resulted in us writing down the voting equity investment for accounting purposes using the Hypothetical Liquidation of Book Value methodology. Needless to say, we believe the unrealized market value of ALLO is significantly higher than the value reflected on our balance sheet.

Reflecting on eight years since we first made this investment draws our attention to Lincoln, Nebraska, ALLO's largest community, Nelnet's home, and the initial expansion of our investment. The journey to serve the nation's 70th largest city has been rapid and successful. Originally, the plan was to build fiber over a 5-year period that was shortened to a little over three years due to the demand from the residents, businesses, and governmental entities. The primary construction was completed in spring 2019. ALLO now has nearly 500 of its approximately 1,500 teammates based in Lincoln, serving the city as well as other communities.

In 2023, ALLO's Lincoln residential market share crossed 50% of census households with an annual increase of over 4% with even faster business and governmental growth. The market shares and market cash flows exceed our original expectations, and we expect both to continue to increase. Additionally, in the second quarter 2023, Lincoln was ranked by Speedtest by Ookla as the second-fastest download, second-fastest upload, and third-best latency of the 100 largest cities in the United States, making Lincoln the most connected city on a blended basis. Before the ALLO overbuild, Lincoln ranked 28th in internet speeds just in Nebraska.

ALLO's operating model ensures that all communities it serves receive the same customer service and quality as Lincoln. The brand is very strong across Nebraska communities and is developing in the Arizona and Colorado locations. In Arizona, the first customers activated in 2023 and early interest from all customer segments is very strong. ALLO selected Arizona for expansion due to significant deficiencies in internet and other communications services.

Several small communities in Colorado have been operating for years. ALLO's expansion in northeast Colorado is accelerating, and we expect another strong region that is contiguous with the Nebraska fiber footprint. Common geography, agriculture, and demographics make the region very attractive for ALLO's fiber products.

While there are many tailwinds in the fiber industry related to ever-increasing demands for bandwidth, efficient connections, and exceptional customer service, the industry also has challenges from construction permitting pace and inflationary costs. ALLO expects to meet the challenges, continue to maximize opportunities, and serve customers in their regions. During 2023, ALLO completed an inaugural securitization of more than \$600 million. Future securitizations and a construction debt facility combine to significantly mature the capital structure and reduce (but not eliminate) the need for future equity.

Opportunities related to new regions, acquisitions, and government-funded projects will be evaluated in the next few years as the nation substantially completes its fiber coverage. We expect ALLO to continue to take advantage of these opportunities given consistent product depth, customer demand, and competitive advantages.

// Hudl

Hudl continues to innovate in expanding its base and reaching new consumers. A particular focus over the last year was engaging a new customer—the fan. Long a household name for athletes and coaches, Hudl is now bringing parents, grandparents, classmates, community members, and others onto the platform more directly. Since April 2023, more than 41 million fans have visited the Hudl Fan Experience to buy tickets, watch highlights, find rosters, and view livestreams. Two new products spurred the growth in this area: Hudl Tickets and Hudl TV.

Hudl Tickets is the company's newest offering for this market and was officially launched in September 2023. Fans can search for events, purchase a ticket, and get a quick-response (QR) code to scan and enter the game—no more checking multiple apps, texting family to find game times, or keeping track of paper tickets. For the athletic director, it removes juggling cash boxes, emails to parents with game information, and updating game information across multiple platforms—all at no additional cost to the organization.

Hudl expanded into livestreaming by combining the power of Blueframe (acquired in 2022) and Focus cameras. Teams can now connect with fans through high-quality broadcasts streamed from Focus cameras through Hudl TV. This feeds Hudl's content engine by getting more games into their content library—more than 6,000 schools and clubs have streamed more than 227,000 broadcasts to fans on Hudl this season. These have been viewed by more than 2.4 million people, watching more than 11.5 million hours of their favorite teams and athletes.

Teams can earn revenue through pay-per-view streams and season passes, and Hudl can sell advertisements on the streams. Combining this with revenue from Hudl Tickets, schools and clubs have incredible opportunities to support their teams.

The content on the Hudl platform includes most of the top athletes in the nation. In 2023, more than 80% of players drafted into the NBA, 75% of athletes drafted into the WNBA, and 100% of athletes drafted to the NFL had video and highlights on Hudl. Broadening that out to the wider athlete base, Hudl has seen more than 4 million active athletes this season. These athletes created more than 7.3 million highlight reels with more than 220 million views.

Overall, Hudl has taken a big swing at a new market with exciting results so far. The team has its eye on bringing together Hudl's suite of software, hardware, and content to change the sports ecosystem and continue to help solve their customers' biggest challenges. We remain extremely optimistic about our investment in Hudl. We are currently carrying the value of this investment on our books of \$165 million, and we believe the actual market value of this investment is significantly higher than our carrying value.

// A message from Executive Chairman of the Board, Mike Dunlap

This month we lost another one of our dear friends and 17-year board member from our initial public offering date until 2020, Mike Reardon. Mike was genuinely one of the nicest, most kindhearted people you could ever meet. At his celebration of life, a seemingly endless line of people spoke about his contribution to their lives and to making the world a better place. Mike was a steady guiding voice in our lives and for our company in all times, good and bad. He is already sorely missed, and we are a significantly better company for his contribution to Nelnet's success.

Jeff covered a lot of things already and included summaries of what happened in most of our divisions, but I wanted to highlight a couple things specifically.

2023 was a year during which your chairman ate a lot of humble pie served cold with a return on equity (ROE) of 3.4%—not close to our long-term goals. The primary ingredients to my humble pie included a less-than-stellar acquisition and the impact of interest rates and banking industry disruption on our liquidity and investment positions.

As a reminder, in 2022 we acquired a solar construction business to leverage our tax credit and syndication business and expand our development capabilities. We had another good year in the tax credit and syndication business with expected strong returns. We will show an accounting loss because of GAAP accounting rules, but we are confident we have created significant value, which will be recognized in future years.

Our solar construction business, on the other hand, had a very rough year with escalating construction costs. Higher interest rates reduced residential demand and made solar projects more costly. Add in some mispriced projects along with us being (almost over our ski tips) outside our circle of competency, leading us to writing off \$21 million dollars in goodwill and intangibles along with an annual pre-tax operating loss of \$34 million. Our circle of competency over the years has been in software, servicing, payments, finance, and education. With solar we are deep into the construction industry. To be successful going forward, we are in the process of improving our competency and talent significantly in solar construction.

The year was also a painful transitional one for our asset-backed securities investment portfolio. In March, we had roughly \$2.0 billion in ABS investments and personal loans on our balance sheet with \$1.2 billion in short-term leverage. We also had a large derivative position of \$2.8 billion, which carried mark-to-market risk. We got caught with very loose pants when Silicon Valley Bank failed. We didn't have a lot of opportunistic liquidity as the tide went out, and our pants started to slip down our legs—so we created a lot of liquidity very quickly, which came at an immediate cost of around \$6 million to sell \$325 million in leveraged ABS and \$2 million to refinance one of our student loan securitizations. In total, this freed up almost \$500 million in cash. The refinancing of the student loan trust hit GAAP earnings for \$26 million (unamortized debt finance costs) but had no impact on long-term cash flow.

We also unwound our derivative portfolio, which led to a lost opportunity cost of tens of millions, given what rates did the rest of the year and where they are projected to be at the end of 2024 when \$2 billion out of the \$2.8 billion derivative portfolio would have fully matured. Recently, we have put \$400 million in new derivatives on our balance sheet, which hedge our fixed-rate loans and retained ABS portfolio. We have continued to deleverage our portfolio. In March, we had \$2.0 billion in ABS and personal loans on our balance sheet and \$1.2 billion in short-term leverage. Today (February 2024), we have approximately \$1 billion in ABS and personal loans with approximately \$170 million in short-term leverage.

Sources of Liquidity—Nelnet Financial Services (in millions)

Nelnet-owned Student Loan Asset-Backed Securities	\$285
Financed by a repurchase agreement	(\$115)
Third-party Asset-Backed Securities	\$575
Personal Loans	\$140
Financed by a warehouse facility	(\$55)
Total	\$830

Your chairman has been around too long and has paid tuition more than once to find ourselves where we did in March 2023 with a low supply of dry power. We quickly put the company back in an offensive opportunistic position.

So, where do we go from here? Matthew Dunlap took over as President of Nelnet Financial Services on April 1, 2023, and Matthew and the team have done an excellent job positioning the business to take advantage of future opportunities to diversify our investment portfolio and grow our finance business with stable long-term funding. At year end, we had roughly \$300 million of loans and equity invested in loan residuals, \$900 million in ABS, \$1.15 billion in special purpose corporation equity for old FFELP student loan deals, and \$125 million in real estate and insurance investments. NFS had a number of one-time costs along with the margin shrinking from higher rates (and almost no fixed rate floor income), which led to a return on equity between 5% and 6%. During 2023, we acquired more than \$200 million in loans at a discount and could acquire another \$750 million to \$1 billion over the next year with stable funding, which should increase yields and ROE going forward.

The other piece I want to highlight is we have a unique perspective when it comes to our balance sheet. Despite more than 60 acquisitions in the last 25 years, we only have approximately \$200 million in goodwill and intangibles, out of a total of \$3.26 billion

in accumulated equity. Our two primary fee-based businesses (NDS and NBS) require very little committed equity, generate significant cash flow, and as a result produce annual ROE well in excess of 50%. As Jeff alluded to earlier, our corporate equity investment portfolio (ALLO, Hudl, and other angel and venture investments) is carried on our balance sheet at values in accordance with GAAP but well below what we would consider an intrinsic market value. We also have investments in asset-backed securities combined with trapped equity and future interest earnings on our FFELP portfolio of approximately \$2.2 billion. We are financially strong, have opportunities for future value recognition, and a path to invest for the future.

Nelnet's equity is allocated as follows as of December 31, 2023 (in millions)	
Nelnet Financial Services, excluding Nelnet Bank	\$2,475
Nelnet Bank	\$140
Nelnet Business Services	\$130
Nelnet Diversified Services	\$110
Corporate (ALLO Voting and Preferred Equity \$165 + Hudl Equity \$165 + VC/Funds \$120 + Cash \$75)	\$525
Solar	(\$120)
Total	\$3,260

A couple of questions we get asked a lot are:

- "What do you think interest rates and the market are going to do?"
- "Where are you going to invest Nelnet's excess capital?"

The already increased rate environment and runoff of our fixed rate FFELP portfolio have significantly reduced the impact of a continued rise in rates. With all the political turmoil, the presidential election along with dozens of other countries elections, Ukraine, Israel, etc., I do not know if rates will go up or down—but I know they will change. We will work to put ourselves in the best position to be opportunistic.

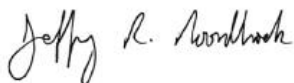
As for capital deployment, I would point you to our history of investments, and it should be a decent guide to the future. A significant amount of money will be invested in NFS as we grow Nelnet Bank and reinvest the paydown of FFELP loans in a diversified group of financial assets. We will continue to be opportunistic, focused more clearly within our circle of competence.

Capital Deployment by Year (in millions)											
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	10-Year Total
FFELP loan/residual acquisitions, net of financing	\$127	\$140	-	-	\$105	\$71	\$141	\$39	\$49	-	\$672
Private and consumer loan/residual acquisitions, net of financing	\$17	\$173	\$61	\$75	\$188	\$61	\$71	\$143	\$269	\$501	\$1,559
Business acquisitions	\$47	-	-	-	\$153	-	\$30	-	\$34	-	\$264
ALLO acquisition and capital expenditures	-	\$47	\$39	\$115	\$87	\$45	\$48	-	-	-	\$381
Other capital expenditures (non-ALLO)	\$26	\$17	\$29	\$41	\$38	\$48	\$65	\$59	\$59	\$74	\$456
Nelnet Bank	-	-	-	-	-	-	\$100	-	\$30	\$5	\$135
Hudl investment	\$1	\$41	-	\$10	-	-	\$26	\$5	-	\$32	\$115
ALLO investment	-	-	-	-	-	-	-	-	\$48	\$8	\$56
Other investments (including ABS/real estate/solar, net)	\$45	\$53	\$22	\$19	\$67	\$103	\$396	\$726	\$667	(\$171)	\$1,927
Debt repurchases	\$47	\$42	\$77	\$181	\$13	-	\$26	\$407	\$67	\$5	\$865
Stock repurchases	\$16	\$96	\$69	\$69	\$45	\$40	\$73	\$58	\$98	\$28	\$592
Dividends	\$19	\$19	\$21	\$24	\$27	\$29	\$32	\$34	\$37	\$39	\$281
	\$345	\$628	\$318	\$534	\$723	\$397	\$1,008	\$1,471	\$1,358	\$521	\$7,303

// Closing

If Munger were reviewing our company, we would tell him: We believe Nelnet is a great business at a great price with a large protective moat around many of our businesses, a talented management team, and we are uniquely positioned for long-term growth and profitability in our core businesses.

Dream. Learn. Grow.



Jeff Noordhoek
Chief Executive Officer

Nelnet Board of Directors



Michael
Dunlap



Preeta
Bansal



Matthew
Dunlap



Kathleen
Farrell



David
Graff



Thomas
Henning



Adam
Peterson



Kimberly
Rath



Jona
Van Deun

Nelnet Bank Board of Directors



Michael
Dunlap



Tim
Tewes



Carine Strom
Clark



Connie
Edmond



Anthony
Goins



Crawford
Cragun



Jaime
Pack



Andrea
Moss

Forward-Looking and Cautionary Statements

This letter to shareholders contains forward-looking statements within the meaning of federal securities laws. The words "anticipate," "believe," "continue," "could," "estimate," "expect," "future," "intend," "may," "plan," "potential," "predict," "should," "will," "would," 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, 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. Such risks and uncertainties include, but are not limited to: risks related to the ability to successfully maintain and increase allocated volumes of student loans serviced by the company under existing and future servicing contracts with the Department, including the company's level of service as the result of the unprecedented event of all borrowers returning to repayment in October 2023, which has generated extraordinary call volume and web traffic, and risks related to the company's ability to comply with agreements with third-party customers for the servicing of Federal Direct Loan Program, FFEL Program, private education, and consumer loans; loan portfolio risks, such as credit risk, interest rate basis and repricing risk, risks related to the use of derivatives to manage exposure to interest rate fluctuations, uncertainties regarding the expected benefits from purchased securitized and unsecuritized FFEL Program, private education, consumer, and other loans, or investment interests therein, and initiatives to purchase additional FFEL Program, private education, consumer, and other loans, and risks from changes in levels of loan prepayment or default rates; financing and liquidity risks, including risks of changes in the interest rate environment; risks from changes in the terms of education loans and in the educational credit and services markets resulting from changes in applicable laws, regulations, and government programs and budgets; 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 disclosure of confidential or personal information and/or damage to 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 operations of Nelnet Bank, including the ability to successfully conduct banking operations and achieve expected market penetration; risks related to the expected benefits to the company from its continuing investment in ALLO and Hudl, and risks related to investments in solar projects, including risks of not being able to realize tax credits which remain subject to recapture by taxing authorities and rising construction costs; risks and uncertainties related to other initiatives to pursue additional strategic investments (and anticipated income therefrom), acquisitions, and other activities, including activities that are intended to diversify the company both within and outside of its historical core education-related businesses; risks and uncertainties associated with climate change; risks from changes in economic conditions and consumer behavior; risks related to the company's ability to adapt to technological change, including artificial intelligence; risks related to the company's reinsurance business; risks related to the exclusive forum provisions in the company's articles of incorporation; risks related to the company's executive chairman's ability to control matters related to the company through voting rights; risks related to related party transactions; risks related to natural disasters, terrorist activities, or international hostilities; and risks and uncertainties associated with litigation matters and with maintaining compliance with the extensive regulatory requirements applicable to the company's businesses. 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 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 law.

