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 28, 2023

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

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

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

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

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

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

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

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

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

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 28, 2023, Nelnet, Inc. (the "Company") issued a press release with respect to its financial results for the quarter ended December 31, 2022. 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, 2022, which was made available on the Company's website at www.nelnetinvestors.com on February 28, 2023 in connection with the press release, is furnished as Exhibit 99.2 to this report. A copy of the 2022 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, 2022 filed with the SEC on February 28, 2023. 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 28, 2023 - "Nelnet Reports Fourth Quarter 2022 Results"
99.2	Supplemental Financial Information for the Quarter Ended December 31, 2022
99.3	2022 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 28, 2023

NELNET, INC.

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

Nelnet Reports Fourth Quarter 2022 Results

LINCOLN, Neb., February 28, 2023 - Nelnet (NYSE: NNI) today reported GAAP net income of $30.8 million, or $0.83 per share, for the fourth quarter of 2022, compared with GAAP net income of $132.7 million, or $3.46 per share, for the same period a year ago.

Net income, excluding derivative market value adjustments[1], was $36.4 million, or $0.98 per share, for the fourth quarter of 2022, compared with $95.9 million, or $2.50 per share, for the same period in 2021.

"Our core businesses, including servicing, payments and education technology, and financial services performed very well in 2022," said Jeff Noordhoek, chief executive officer of Nelnet. "While we believe the future is bright for our fee-based businesses and investments, we expect our quarterly earnings to be choppy as our FFEL Program loans run off and our other investments increase. Consistent with our long-term focus, we laid a tremendous foundation for long-term value creation in 2022 that we believe will be evident in future years."

Operating Segments

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

Asset Generation and Management

The AGM operating segment reported net interest income of $58.5 million during the fourth quarter of 2022, compared with $70.1 million for the same period a year ago. The company maintains an overall risk management strategy that incorporates the use of derivative instruments to reduce the economic effect of interest rate volatility. The company recognized income from derivative settlements of $20.8 million during the fourth quarter of 2022, compared with an expense of $5.8 million for the same period in 2021. Derivative settlements for each applicable period should be evaluated with the company's net interest income. Net interest income net of derivative settlements increased to $79.3 million in the fourth quarter of 2022, compared with $64.3 million for the same period in 2021. The increase in 2022 was due to an increase in core loan spread and was partially offset by the expected runoff of the loan portfolio. The average balance of loans outstanding decreased from $18.1 billion for the fourth quarter of 2021 to $14.8 billion for the same period in 2022.

Core loan spread[2], which includes the impact of derivative settlements, increased to 1.77 percent for the quarter ended December 31, 2022, compared with 1.36 percent for the same period in 2021. In an increasing interest rate environment, student loan spread 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.

Net income after tax for the AGM segment was $22.9 million for the three months ended December 31, 2022, compared with $108.7 million for the same period in 2021.

AGM recognized a provision for loan losses in the fourth quarter of 2022 of $27.4 million ($20.8 million after tax), compared with a negative provision of $2.0 million ($1.5 million after tax) in the fourth quarter of 2021. Provision for loan losses in the fourth quarter of 2022 was impacted by loans acquired during the quarter. In addition, in the fourth quarter of 2022, AGM recognized $7.4 million ($5.6 million after tax) in expense related to changes in the fair value of derivative instruments that do not qualify for hedge accounting, compared with income of $48.4 million ($36.8 million after tax) for the same period in 2021.

Nelnet Bank

As of December 31, 2022, Nelnet Bank had a $419.8 million loan portfolio and had $789.6 million of deposits. Nelnet Bank's net income after tax for the quarter ended December 31, 2022 was $1.4 million, as compared to a net loss of $0.1 million for the same period in 2021.

Loan Servicing and Systems

Revenue from the Loan Servicing and Systems segment was $140.0 million for the fourth quarter of 2022, compared with $150.4 million for the same period in 2021. During the fourth quarter of 2021, the company earned additional revenue from the

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[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] Core loan spread 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.

Department of Education (Department) based on incremental work performed to support the Department's borrowers coming out of the CARES Act forbearance. The Department subsequently extended the forbearance period.

As of December 31, 2022, the company was servicing $587.5 billion in government-owned, FFEL Program, private education, and consumer loans for 17.6 million borrowers, as compared to $529.0 billion in servicing volume for 16.4 million borrowers as of December 31, 2021.

The Loan Servicing and Systems segment reported net income after tax of $12.9 million for the three months ended December 31, 2022, compared with $25.8 million for the same period in 2021. During the fourth quarter of 2022, the Loan Servicing and Systems segment recognized $5.5 million ($4.2 million after tax) of non-cash impairment charges on certain facility and other assets.

Education Technology, Services, and Payment Processing

For the fourth quarter of 2022, revenue from the Education Technology, Services, and Payment Processing operating segment was $98.3 million, an increase from $81.0 million for the same period in 2021. Revenue less direct costs to provide services for the fourth quarter of 2022 was $59.0 million, compared with $52.4 million for the same period in 2021.

Net income after tax for the Education Technology, Services, and Payment Processing segment was $5.8 million for the three months ended December 31, 2022, compared with $8.0 million for the same period in 2021. During the fourth quarter of 2022, the Education Technology, Services, and Payment Processing segment recognized $2.2 million ($1.7 million after tax) of non-cash impairment charges on previously acquired software assets.

Included in net income for the three months ended December 31, 2022 and 2021 was $4.5 million ($3.4 million after tax) and $0.3 million ($0.2 million after tax) of interest income, respectively. The company earns interest income on tuition funds held in custody for schools. The increase in interest income was due to an increase in interest rates in 2022 as compared to 2021.

Year-End Results

GAAP net income for the year ended December 31, 2022 was $407.3 million, or $10.83 per share, compared with GAAP net income of $393.3 million, or $10.20 per share, for 2021. Net income in 2022, excluding derivative market value adjustments[1], was $231.3 million, or $6.15 per share, compared with $322.7 million, or $8.37 per share, for 2021.

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 and uncertainties related to the duration, ultimate severity, and continuing impacts of the COVID-19 pandemic; risks related to the ability to successfully maintain and increase allocated volumes of student loans serviced by the company under existing and any future servicing contracts with the Department and risks related to the company's ability to comply with agreements with third-party customers for the servicing of loans; risks related to the company's loan portfolio, such as interest rate basis and repricing risk and changes in levels of loan prepayment or default rates; the use of derivatives to manage exposure to interest rate fluctuations; uncertainties regarding the expected benefits from purchased FFEL Program, private education, and consumer loans, or investment interests therein, and initiatives to purchase additional FFEL Program, private education, and consumer 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 and uncertainties of the expected benefits from Nelnet Bank's operations; risks related to our renewable energy business, including availability of federal incentives, regulatory uncertainty, climate change risk, supply change risk, and rising debt and construction costs; our reliance on third parties to provide certain services; 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 from changes in economic conditions and consumer behavior; our ability to adapt to technological change; risks related to the exclusive forum provisions in our articles of incorporation; risks related to our executive chairman’s ability to control matters related to the company through voting rights; risks related to related party transactions; risks related to climate change; concerns about the downgrade of the U.S. credit rating; risks related to natural disasters, terrorist activities, or international

hostilities; and cybersecurity risks, including disruptions to systems, disclosure of confidential or personal information, and/or damage to reputation resulting from cyber-breaches.

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

	Three months ended			Year ended	
	December 31, 2022	September 30, 2022	December 31, 2021	December 31, 2022	December 31, 2021
Interest income:					
Loan interest	$ 228,878	176,244	112,118	651,205	482,337
Investment interest	34,012	26,889	12,376	91,601	41,498
Total interest income	262,890	203,133	124,494	742,806	523,835
Interest expense on bonds and notes payable and bank deposits	181,790	126,625	48,294	430,137	176,233
Net interest income	81,100	76,508	76,200	312,669	347,602
Less provision (negative provision) for loan losses	27,801	9,665	(1,578)	46,441	(12,426)
Net interest income after provision for loan losses	53,299	66,843	77,778	266,228	360,028
Other income (expense):					
Loan servicing and systems revenue	140,021	134,197	150,402	535,459	486,363
Education technology, services, and payment processing revenue	98,332	106,894	80,950	408,543	338,234
Solar construction revenue	15,186	9,358	—	24,543	—
Other, net	735	2,225	48,497	25,486	78,681
(Loss) gain on sale of loans, net	(2,713)	2,627	—	2,903	18,715
Impairment expense and provision for beneficial interests, net	(9,361)	121	(4,137)	(15,523)	(16,360)
Derivative market value adjustments and derivative settlements, net	13,424	63,262	42,579	264,634	71,446
Total other income (expense)	255,624	318,684	318,291	1,246,045	977,079
Cost of services:					
Cost to provide education technology, services, and payment processing services	39,330	42,676	28,597	148,403	108,660
Cost to provide solar construction services	14,004	5,968	—	19,971	—
Total cost of services	53,334	48,644	28,597	168,374	108,660
Operating expenses:					
Salaries and benefits	151,568	147,198	143,781	589,579	507,132
Depreciation and amortization	20,099	18,772	17,612	74,077	73,741
Other expenses	50,481	43,858	37,857	170,778	145,469
Total operating expenses	222,148	209,828	199,250	834,434	726,342
Income before income taxes	33,441	127,055	168,222	509,465	502,105
Income tax expense	(5,459)	(26,586)	(39,075)	(113,224)	(115,822)
Net income	27,982	100,469	129,147	396,241	386,283
Net loss attributable to noncontrolling interests	2,791	4,329	3,536	11,106	7,003
Net income attributable to Nelnet, Inc.	$ 30,773	104,798	132,683	407,347	393,286
Earnings per common share:					
Net income attributable to Nelnet, Inc. shareholders - basic and diluted	$ 0.83	2.80	3.46	10.83	10.20
Weighted average common shares outstanding - basic and diluted	37,290,293	37,380,493	38,352,942	37,603,033	38,572,801

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

	As of December 31, 2022	As of September 30, 2022	As of December 31, 2021
Assets:			
Loans and accrued interest receivable, net	$ 15,243,889	15,876,251	18,335,197
Cash, cash equivalents, and investments	2,230,063	2,126,712	1,714,482
Restricted cash	1,239,470	980,131	1,068,626
Goodwill and intangible assets, net	240,403	242,401	194,121
Other assets	420,219	338,038	365,615
Total assets	$ 19,374,044	19,563,533	21,678,041
Liabilities:			
Bonds and notes payable	$ 14,637,195	15,042,595	17,631,089
Bank deposits	691,322	580,825	344,315
Other liabilities	845,625	773,754	749,799
Total liabilities	16,174,142	16,397,174	18,725,203
Equity:			
Total Nelnet, Inc. shareholders' equity	3,198,959	3,180,614	2,951,206
Noncontrolling interests	943	(14,255)	1,632
Total equity	3,199,902	3,166,359	2,952,838
Total liabilities and equity	$ 19,374,044	19,563,533	21,678,041

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,	
	2022	2021	2022	2021
GAAP net income attributable to Nelnet, Inc.	$ 30,773	132,683	407,347	393,286
Realized and unrealized derivative market value adjustments (a)	7,434	(48,359)	(231,691)	(92,813)
Tax effect (b)	(1,784)	11,606	55,606	22,275
Non-GAAP net income attributable to Nelnet, Inc., excluding derivative market value adjustments	$ 36,423	95,930	231,262	322,748
Earnings per share:				
GAAP net income attributable to Nelnet, Inc.	$ 0.83	3.46	10.83	10.20
Realized and unrealized derivative market value adjustments (a)	0.20	(1.26)	(6.16)	(2.41)
Tax effect (b)	(0.05)	0.30	1.48	0.58
Non-GAAP net income attributable to Nelnet, Inc., excluding derivative market value adjustments	$ 0.98	2.50	6.15	8.37

(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. 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.

Core loan spread

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. The spread amounts included in the following table are calculated by using the notional dollar values found in the "Net interest income, net of settlements on derivatives" table on the following page, divided by the average balance of loans or debt outstanding.

	Three months ended December 31,	
	2022	2021
Variable loan yield, gross	6.52 %	2.62 %
Consolidation rebate fees	(0.82)	(0.85)
Discount accretion, net of premium and deferred origination costs amortization (a)	0.06	0.02
Variable loan yield, net	5.76	1.79
Loan cost of funds - interest expense	(4.64)	(1.06)
Loan cost of funds - derivative settlements (b) (c)	(0.01)	(0.02)
Variable loan spread	1.11	0.71
Fixed rate floor income, gross	0.07	0.76
Fixed rate floor income - derivative settlements (b) (d)	0.59	(0.11)
Fixed rate floor income, net of settlements on derivatives	0.66	0.65
Core loan spread	1.77 %	1.36 %
Average balance of AGM's loans	$ 14,764,466	18,063,787
Average balance of AGM's debt outstanding	14,352,548	17,777,230

(a) During each of the fourth quarters of 2022 and 2021, 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 and a $6.2 million decrease, respectively, to interest income. The impact of these adjustments was excluded from the table above.

(b) 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.

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 December 31,	
	2022	2021
Core loan spread	1.77 %	1.36 %
Derivative settlements (1:3 basis swaps)	0.01	0.02
Derivative settlements (fixed rate floor income)	(0.59)	0.11
Loan spread	1.19 %	1.49 %

(c) Derivative settlements consist of net settlements paid related to the company's 1:3 basis swaps.

(d) Derivative settlements consist of net settlements received (paid) related to the company's floor income interest rate swaps.

Net interest income, net of settlements on derivatives

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

	Three months ended December 31,	
	2022	**2021**
Variable interest income, gross	$ 242,241	119,994
Consolidation rebate fees	(30,243)	(38,566)
Discount accretion, net of premium and deferred origination costs amortization	10,341	(5,123)
Variable interest income, net	222,339	76,305
Interest on bonds and notes payable	(167,846)	(47,459)
Derivative settlements (basis swaps), net (a)	(448)	(699)
Variable loan interest margin, net of settlements on derivatives (a)	54,045	28,147
Fixed rate floor income, gross	2,510	34,577
Derivative settlements (interest rate swaps), net (a)	21,306	(5,081)
Fixed rate floor income, net of settlements on derivatives (a)	23,816	29,496
Core loan interest income (a)	77,861	57,643
Investment interest	9,782	7,871
Intercompany interest	(8,334)	(1,177)
Net interest income (net of settlements on derivatives) (a)	$ 79,309	64,337

(a) Core loan interest income and net interest income (net of settlements on derivatives) are non-GAAP financial measures. For an explanation of GAAP accounting for derivative settlements and the reasons why the company reports these non-GAAP measures, see footnote (b) to the table immediately under the caption "Core loan spread" above.

A reconciliation of net interest income (net of settlements on derivatives) to net interest income for the company's AGM segment follows.

	Three months ended December 31,	
	2022	**2021**
Net interest income (net of settlements on derivatives)	$ 79,309	64,337
Derivative settlements (1:3 basis swaps)	448	699
Derivative settlements (fixed rate floor income)	(21,306)	5,081
Net interest income	$ 58,451	70,117

For Release: February 28, 2023
Investor Contact: Phil Morgan, 402.458.3038
Nelnet, Inc. supplemental financial information for the fourth quarter 2022
(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 2022 earnings, dated February 28, 2023, and the Company's Annual Report on Form 10-K for the year ended December 31, 2022.

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, 2022 (the "2022 Annual Report"), and include such risks and uncertainties as:

- risks and uncertainties related to the duration, ultimate severity, and continuing impacts of the coronavirus disease 2019 ("COVID-19") pandemic;
- risks related to the ability to successfully maintain and increase allocated volumes of student loans serviced by the Company under existing and any future servicing contracts with the U.S. Department of Education (the "Department") 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 interest rate basis and repricing risk, the risk of loss of floor income on certain student loans originated under the FFEL Program, 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, 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;
- uncertainties inherent in forecasting future cash flows from student loan assets and related asset-backed securitizations;
- risks and uncertainties of the expected benefits from the November 2020 launch of Nelnet Bank operations, 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 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;
- 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; and
- risks and uncertainties associated with litigation matters and with maintaining compliance with the extensive regulatory requirements applicable to the Company's businesses.

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

	Three months ended			Year ended	
	December 31, 2022	September 30, 2022	December 31, 2021	December 31, 2022	December 31, 2021
Interest income:					
Loan interest	$ 228,878	176,244	112,118	651,205	482,337
Investment interest	34,012	26,889	12,376	91,601	41,498
Total interest income	262,890	203,133	124,494	742,806	523,835
Interest expense on bonds and notes payable and bank deposits	181,790	126,625	48,294	430,137	176,233
Net interest income	81,100	76,508	76,200	312,669	347,602
Less provision (negative provision) for loan losses	27,801	9,665	(1,578)	46,441	(12,426)
Net interest income after provision for loan losses	53,299	66,843	77,778	266,228	360,028
Other income (expense):					
Loan servicing and systems revenue	140,021	134,197	150,402	535,459	486,363
Education technology, services, and payment processing revenue	98,332	106,894	80,950	408,543	338,234
Solar construction revenue	15,186	9,358	—	24,543	—
Other, net	735	2,225	48,497	25,486	78,681
(Loss) gain on sale of loans, net	(2,713)	2,627	—	2,903	18,715
Impairment expense and provision for beneficial interests, net	(9,361)	121	(4,137)	(15,523)	(16,360)
Derivative settlements, net	20,858	10,271	(5,780)	32,943	(21,367)
Derivative market value adjustments, net	(7,434)	52,991	48,359	231,691	92,813
Total other income (expense)	255,624	318,684	318,291	1,246,045	977,079
Cost of services:					
Cost to provide education technology, services, and payment processing services	39,330	42,676	28,597	148,403	108,660
Cost to provide solar construction services	14,004	5,968	—	19,971	—
Total cost of services	53,334	48,644	28,597	168,374	108,660
Operating expenses:					
Salaries and benefits	151,568	147,198	143,781	589,579	507,132
Depreciation and amortization	20,099	18,772	17,612	74,077	73,741
Other expenses	50,481	43,858	37,857	170,778	145,469
Total operating expenses	222,148	209,828	199,250	834,434	726,342
Income before income taxes	33,441	127,055	168,222	509,465	502,105
Income tax expense	(5,459)	(26,586)	(39,075)	(113,224)	(115,822)
Net income	27,982	100,469	129,147	396,241	386,283
Net loss attributable to noncontrolling interests	2,791	4,329	3,536	11,106	7,003
Net income attributable to Nelnet, Inc.	$ 30,773	104,798	132,683	407,347	393,286
Earnings per common share:					
Net income attributable to Nelnet, Inc. shareholders - basic and diluted	$ 0.83	2.80	3.46	10.83	10.20
Weighted average common shares outstanding - basic and diluted	37,290,293	37,380,493	38,352,942	37,603,033	38,572,801

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

	As of December 31, 2022	As of September 30, 2022	As of December 31, 2021
Assets:			
Loans and accrued interest receivable, net	$ 15,243,889	15,876,251	18,335,197
Cash, cash equivalents, and investments	2,230,063	2,126,712	1,714,482
Restricted cash	1,239,470	980,131	1,068,626
Goodwill and intangible assets, net	240,403	242,401	194,121
Other assets	420,219	338,038	365,615
Total assets	$ 19,374,044	19,563,533	21,678,041
Liabilities:			
Bonds and notes payable	$ 14,637,195	15,042,595	17,631,089
Bank deposits	691,322	580,825	344,315
Other liabilities	845,625	773,754	749,799
Total liabilities	16,174,142	16,397,174	18,725,203
Equity:			
Total Nelnet, Inc. shareholders' equity	3,198,959	3,180,614	2,951,206
Noncontrolling interests	943	(14,255)	1,632
Total equity	3,199,902	3,166,359	2,952,838
Total liabilities and equity	$ 19,374,044	19,563,533	21,678,041

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 payment processing, and the Company also has a significant investment in communications. A significant portion of the Company's revenue is net interest income earned on a portfolio of federally insured student loans. The Company also makes investments to further diversify both within and outside of its historical core education-related businesses including, but not limited to, investments in early-stage and emerging growth companies, 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, effective July 1, 2010, and requires all new federal student loan originations be made directly by the Department through the Federal Direct Loan Program. As a result, 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. Since all FFELP loans will eventually run off, a key objective of the Company is to maximize the amount and timing of cash flow generated from its FFELP portfolio and reposition itself for the post-FFELP environment.

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, and in November 2020 launched Nelnet Bank. 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, 2022	**September 30, 2022**	**December 31, 2021**	**December 31, 2022**	**December 31, 2021**
GAAP net income attributable to Nelnet, Inc.	$ 30,773	104,798	132,683	407,347	393,286
Realized and unrealized derivative market value adjustments	7,434	(52,991)	(48,359)	(231,691)	(92,813)
Tax effect (a)	(1,784)	12,718	11,606	55,606	22,275
Non-GAAP net income attributable to Nelnet, Inc., excluding derivative market value adjustments (b)	$ 36,423	64,525	95,930	231,262	322,748
Earnings per share:					
GAAP net income attributable to Nelnet, Inc.	$ 0.83	2.80	3.46	10.83	10.20
Realized and unrealized derivative market value adjustments	0.20	(1.42)	(1.26)	(6.16)	(2.41)
Tax effect (a)	(0.05)	0.35	0.30	1.48	0.58
Non-GAAP net income attributable to Nelnet, Inc., excluding derivative market value adjustments (b)	$ 0.98	1.73	2.50	6.15	8.37

(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. 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 2022 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 Payment Processing (ETS&PP) - referred to as Nelnet Business Services (NBS)
- Asset Generation and Management (AGM)
- Nelnet Bank

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.

On November 2, 2020, the Company obtained final approval for federal deposit insurance from the Federal Deposit Insurance Corporation (FDIC) and for a bank charter from the Utah Department of Financial Institutions (UDFI) in connection with the establishment of Nelnet Bank, and Nelnet Bank launched operations. 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.

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

- The operating results of Whitetail Rock Capital Management, LLC, the Company's U.S. Securities and Exchange Commission-registered investment advisor subsidiary
- 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 development
- The results of the majority of the Company’s investment activities, including early-stage and emerging growth companies and real estate
- Interest income earned on cash and investment debt securities (primarily student loan and other asset-backed securities)
- Interest expense incurred on unsecured and certain other corporate related debt transactions
- Other product and service offerings that are not considered reportable operating segments

Corporate also includes certain 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 also includes corporate costs and overhead functions not allocated to operating segments, including executive management, investments in innovation, and other holding company organizational costs.

The information below provides the operating results (net income (loss) before taxes) for each reportable operating segment and Corporate and Other Activities for the years ended December 31, 2022 and 2021.

	Year ended December 31,		Certain Items Impacting Comparability (All dollar amounts below are pre-tax)
	2022	2021	
NDS	$ 64,456	62,445	• The recognition of $5.5 million of non-cash impairment charges in 2022 compared with $13.2 million in 2021, due primarily to continued evaluation of office space needs as employees continue to work from home due to COVID-19. • Decrease in operating margin in 2022 compared with 2021 due to increased operating expenses in 2022, primarily salaries and benefits, as the Company hired employees in preparation for the resumption of federal student loan payments once the CARES Act suspension was to expire. The expiration of the CARES Act was extended multiple times throughout 2022.
NBS	74,105	72,713	• The recognition of $9.4 million of interest income in 2022 compared with $1.1 million in 2021 due to higher interest rates. • The recognition of a $2.2 million non-cash impairment charge in 2022 related to previously acquired computer software. • Decrease in operating margin in 2022 compared with 2021 due to additional investments during 2022 in the development of new services and technologies; and superior customer experiences to grow, retain, and diversify revenue.
AGM	454,725	423,616	• A net gain of $231.7 million related to changes in the fair value of derivative instruments that do not qualify for hedge accounting in 2022 compared with a gain of $92.8 million in 2021. • A decrease of $46.3 million in net interest income due to the decrease in the average balance of loans in 2022 compared with 2021. • An increase of $27.1 million in net interest income due to an increase in core loan spread in 2022 compared with 2021. • A decrease of $23.8 million in interest expense in 2021 as a result of the Company reversing a historical accrued interest liability on certain bonds, which liability the Company determined is no longer probable of being required to be paid. • An increase of $8.4 million in interest income in 2022 compared with a $6.2 million decrease to interest income in 2021, as a result of increasing the constant prepayment rate used to amortize/accrete federally insured loan premium/discounts for loans. • The recognition of $44.6 million in provision for loan losses in 2022 compared with a negative provision of $13.2 million in 2021. • The recognition of a $32.9 million gain in 2021 related to the Company's joint venture to acquire a private education student loan portfolio previously owned by Wells Fargo. • The recognition of $10.8 million in borrower late fees in 2022 compared with $3.4 million in 2021. • The recognition of $9.9 million in interest income on restricted cash in 2022 compared with $0.1 million in 2021 due to an increase in the balance of restricted cash and interest rates. • The recognition of $7.9 million in administration and sponsor fee income in 2022 compared with $3.7 million in 2021. • The recognition of $2.9 million in gains from the sale of loans in 2022 compared with $18.7 million in 2021. • The recognition of a $1.2 million gain in 2022 from the repurchase of debt compared with a loss of $6.8 million in 2021.
Nelnet Bank	4,357	(792)	• Increase in 2022 compared with 2021 was due to an increase in loans and investments, offset by increased operating expenses to support the bank's growth.
Corporate	(88,180)	(55,875)	• The recognition of a net loss of $68.0 million in 2022 related to the Company's investment in ALLO compared with a net loss of $42.1 million in 2021. • The recognition of $12.9 million of non-cash impairment and contingency charges in 2022 compared with $5.6 million in 2021. Impairment charges were due to certain venture capital investments.
Net income before taxes	509,465	502,105	
Income tax expense	(113,224)	(115,822)	
Net loss attributable to noncontrolling interests	11,106	7,003	
Net income	$ 407,347	393,286	

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, 2022						
	Loan Servicing and Systems	Education Technology, Services, and Payment Processing	Asset Generation and Management	Nelnet Bank	Corporate and Other Activities	Eliminations	Total
Total interest income	$ 1,578	4,457	234,631	10,181	21,489	(9,446)	262,890
Interest expense	—	—	176,180	5,263	9,793	(9,446)	181,790
Net interest income	1,578	4,457	58,451	4,918	11,696	—	81,100
Less provision (negative 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	11,696	—	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 payment processing revenue	—	98,332	—	—	—	—	98,332
Solar construction revenue	—	—	—	—	15,186	—	15,186
Other, net	597	—	4,898	402	(5,161)	—	735
(Loss) gain on sale of loans, net	—	—	(2,712)	—	—	—	(2,713)
Impairment expense and provision for beneficial interests, net	(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)	143,135	96,157	15,610	188	8,628	(8,092)	255,624
Cost of services:							
Cost to provide education technology, services, and payment processing services	—	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	26,415	—	151,568
Depreciation and amortization	8,199	2,639	—	4	9,258	—	20,099
Other expenses	13,299	10,555	6,910	916	18,802	—	50,481
Intersegment expenses, net	18,703	5,367	8,985	73	(25,036)	(8,092)	—
Total operating expenses	127,751	53,633	16,561	2,859	29,439	(8,092)	222,148
Income (loss) before income taxes	16,962	7,651	30,077	1,869	(23,118)	—	33,441
Income tax (expense) benefit	(4,071)	(1,838)	(7,219)	(439)	8,108	—	(5,459)
Net income (loss)	12,891	5,813	22,858	1,430	(15,010)	—	27,982
Net (income) loss attributable to noncontrolling interests	—	5	—	—	2,786	—	2,791
Net income (loss) attributable to Nelnet, Inc.	$ 12,891	5,818	22,858	1,430	(12,224)	—	30,773

	Three months ended September 30, 2022						
	Loan Servicing and Systems	Education Technology, Services, and Payment Processing	Asset Generation and Management	Nelnet Bank	Corporate and Other Activities	Eliminations	Total
Total interest income	$ 831	3,707	182,932	7,551	10,860	(2,748)	203,133
Interest expense	—	—	120,009	3,298	6,067	(2,748)	126,625
Net interest income	831	3,707	62,923	4,253	4,793	—	76,508
Less provision (negative provision) for loan losses	—	—	9,215	450	—	—	9,665
Net interest income after provision for loan losses	831	3,707	53,708	3,803	4,793	—	66,843
Other income (expense):							
Loan servicing and systems revenue	134,197	—	—	—	—	—	134,197
Intersegment revenue	8,281	8	—	—	—	(8,289)	—
Education technology, services, and payment processing revenue	—	106,894	—	—	—	—	106,894
Solar construction revenue	—	—	—	—	9,358	—	9,358
Other, net	596	—	4,627	566	(3,564)	—	2,225
(Loss) gain on sale of loans, net	—	—	2,627	—	—	—	2,627
Impairment expense and provision for beneficial interests, net	—	—	—	—	121	—	121
Derivative settlements, net	—	—	10,271	—	—	—	10,271
Derivative market value adjustments, net	—	—	52,991	—	—	—	52,991
Total other income (expense)	143,074	106,902	70,516	566	5,915	(8,289)	318,684
Cost of services:							
Cost to provide education technology, services, and payment processing services	—	42,676	—	—	—	—	42,676
Cost to provide solar construction services	—	—	—	—	5,968	—	5,968
Total cost of services	—	42,676	—	—	5,968	—	48,644
Operating expenses:							
Salaries and benefits	82,067	34,950	653	1,814	27,713	—	147,198
Depreciation and amortization	5,784	2,532	—	4	10,452	—	18,772
Other expenses	16,654	7,034	3,349	1,427	15,395	—	43,858
Intersegment expenses, net	17,486	4,762	8,350	69	(22,378)	(8,289)	—
Total operating expenses	121,991	49,278	12,352	3,314	31,182	(8,289)	209,828
Income (loss) before income taxes	21,914	18,655	111,872	1,055	(26,442)	—	127,055
Income tax (expense) benefit	(5,259)	(4,475)	(26,849)	(246)	10,244	—	(26,586)
Net income (loss)	16,655	14,180	85,023	809	(16,198)	—	100,469
Net (income) loss attributable to noncontrolling interests	—	(61)	—	—	4,390	—	4,329
Net income (loss) attributable to Nelnet, Inc.	$ 16,655	14,119	85,023	809	(11,808)	—	104,798

	Three months ended December 31, 2021						
	Loan Servicing and Systems	Education Technology, Services, and Payment Processing	Asset Generation and Management	Nelnet Bank	Corporate and Other Activities	Eliminations	Total
Total interest income	$ 42	258	118,753	2,242	4,423	(1,222)	124,494
Interest expense	24	—	48,636	499	358	(1,222)	48,294
Net interest income	18	258	70,117	1,743	4,065	—	76,200
Less provision (negative provision) for loan losses	—	—	(1,994)	416	—	—	(1,578)
Net interest income after provision for loan losses	18	258	72,111	1,327	4,065	—	77,778
Other income (expense):							
Loan servicing and systems revenue	150,402	—	—	—	—	—	150,402
Intersegment revenue	8,587	3	—	—	—	(8,590)	—
Education technology, services, and payment processing revenue	—	80,950	—	—	—	—	80,950
Solar construction revenue	—	—	—	—	—	—	—
Other, net	765	(14)	38,820	237	8,689	—	48,497
(Loss) gain on sale of loans, net	—	—	—	—	—	—	—
Impairment expense and provision for beneficial interests, net	—	—	—	—	(4,137)	—	(4,137)
Derivative settlements, net	—	—	(5,780)	—	—	—	(5,780)
Derivative market value adjustments, net	—	—	48,359	—	—	—	48,359
Total other income (expense)	159,754	80,939	81,399	237	4,552	(8,590)	318,291
Cost of services:							
Cost to provide education technology, services, and payment processing services	—	28,597	—	—	—	—	28,597
Cost to provide solar construction services	—	—	—	—	—	—	—
Total cost of services	—	28,597	—	—	—	—	28,597
Operating expenses:							
Salaries and benefits	87,255	29,892	542	1,086	25,006	—	143,781
Depreciation and amortization	5,239	2,615	—	—	9,755	—	17,612
Other expenses	13,424	5,254	724	549	17,910	—	37,857
Intersegment expenses, net	19,964	4,324	9,241	35	(24,974)	(8,590)	—
Total operating expenses	125,882	42,085	10,507	1,670	27,697	(8,590)	199,250
Income (loss) before income taxes	33,890	10,515	143,003	(106)	(19,080)	—	168,222
Income tax (expense) benefit	(8,134)	(2,523)	(34,321)	24	5,879	—	(39,075)
Net income (loss)	25,756	7,992	108,682	(82)	(13,201)	—	129,147
Net (income) loss attributable to noncontrolling interests	—	—	—	—	3,536	—	3,536
Net income (loss) attributable to Nelnet, Inc.	$ 25,756	7,992	108,682	(82)	(9,665)	—	132,683

	Year ended December 31, 2022						
	Loan Servicing and Systems	Education Technology, Services, and Payment Processing	Asset Generation and Management	Nelnet Bank	Corporate and Other Activities	Eliminations	Total
Total interest income	$ 2,722	9,377	676,557	25,973	42,576	(14,399)	742,806
Interest expense	44	—	411,900	11,055	21,538	(14,399)	430,137
Net interest income	2,678	9,377	264,657	14,918	21,038	—	312,669
Less provision (negative 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	21,038	—	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 payment processing revenue	—	408,543	—	—	—	—	408,543
Solar construction revenue	—	—	—	—	24,543	—	24,543
Other, net	2,543	—	21,170	2,625	(853)	—	25,486
(Loss) gain on sale of loans, net	—	—	2,903	—	—	—	2,903
Impairment expense and provision for beneficial interests, net	(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)	565,661	406,385	288,707	2,411	16,131	(33,251)	1,246,045
Cost of services:							
Cost to provide education technology, services, and payment processing services	—	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	101,870	—	589,579
Depreciation and amortization	24,255	10,184	—	15	39,623	—	74,077
Other expenses	59,674	30,104	16,835	3,925	60,240	—	170,778
Intersegment expenses, net	75,145	19,538	34,679	244	(96,355)	(33,251)	—
Total operating expenses	503,883	193,254	54,038	11,132	105,378	(33,251)	834,434
Income (loss) before income taxes	64,456	74,105	454,725	4,357	(88,180)	—	509,465
Income tax (expense) benefit	(15,470)	(17,785)	(109,134)	(1,013)	30,178	—	(113,224)
Net income (loss)	48,986	56,320	345,591	3,344	(58,002)	—	396,241
Net (income) loss attributable to noncontrolling interests	—	(3)	—	—	11,109	—	11,106
Net income (loss) attributable to Nelnet, Inc.	$ 48,986	56,317	345,591	3,344	(46,893)	—	407,347

	Year ended December 31, 2021						
	Loan Servicing and Systems	Education Technology, Services, and Payment Processing	Asset Generation and Management	Nelnet Bank	Corporate and Other Activities	Eliminations	Total
Total interest income	$ 137	1,075	506,901	7,721	9,801	(1,800)	523,835
Interest expense	94	—	172,918	1,507	3,515	(1,800)	176,233
Net interest income	43	1,075	333,983	6,214	6,286	—	347,602
Less provision (negative provision) for loan losses	—	—	(13,220)	794	—	—	(12,426)
Net interest income after provision for loan losses	43	1,075	347,203	5,420	6,286	—	360,028
Other income (expense):							
Loan servicing and systems revenue	486,363	—	—	—	—	—	486,363
Intersegment revenue	33,956	12	—	—	—	(33,968)	—
Education technology, services, and payment processing revenue	—	338,234	—	—	—	—	338,234
Solar construction revenue	—	—	—	—	—	—	—
Other, net	3,307	—	34,306	713	40,356	—	78,681
(Loss) gain on sale of loans, net	—	—	18,715	—	—	—	18,715
Impairment expense and provision for beneficial interests, net	(13,243)	—	2,436	—	(5,553)	—	(16,360)
Derivative settlements, net	—	—	(21,367)	—	—	—	(21,367)
Derivative market value adjustments, net	—	—	92,813	—	—	—	92,813
Total other income (expense)	510,383	338,246	126,903	713	34,803	(33,968)	977,079
Cost of services:							
Cost to provide education technology, services, and payment processing services	—	108,660	—	—	—	—	108,660
Cost to provide solar construction services	—	—	—	—	—	—	—
Total cost of services	—	108,660	—	—	—	—	108,660
Operating expenses:							
Salaries and benefits	297,406	112,046	2,135	5,042	90,502	—	507,132
Depreciation and amortization	25,649	11,404	—	—	36,682	—	73,741
Other expenses	52,720	19,318	13,487	1,776	58,173	—	145,469
Intersegment expenses, net	72,206	15,180	34,868	107	(88,393)	(33,968)	—
Total operating expenses	447,981	157,948	50,490	6,925	96,964	(33,968)	726,342
Income (loss) before income taxes	62,445	72,713	423,616	(792)	(55,875)	—	502,105
Income tax (expense) benefit	(14,987)	(17,451)	(101,668)	175	18,109	—	(115,822)
Net income (loss)	47,458	55,262	321,948	(617)	(37,766)	—	386,283
Net (income) loss attributable to noncontrolling interests	—	—	—	—	7,003	—	7,003
Net income (loss) attributable to Nelnet, Inc.	$ 47,458	55,262	321,948	(617)	(30,763)	—	393,286

Loan Servicing and Systems Revenue

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

	Three months ended			Year ended	
	December 31, 2022	September 30, 2022	December 31, 2021	December 31, 2022	December 31, 2021
Government loan servicing	$ 110,698	104,428	119,296	423,066	360,793
Private education and consumer loan servicing	12,016	12,198	12,739	49,210	47,302
FFELP loan servicing	3,630	4,127	4,351	16,016	18,281
Software services	9,873	8,229	11,821	33,409	34,600
Outsourced services	3,804	5,215	2,195	13,758	25,387
Loan servicing and systems revenue	$ 140,021	134,197	150,402	535,459	486,363

Loan Servicing Volumes

	As of								
	December 31, 2020	March 31, 2021	June 30, 2021	September 30, 2021	December 31, 2021	March 31, 2022	June 30, 2022	September 30, 2022	December 31, 2022
Servicing volume (dollars in millions):									
Government	$ 443,248	453,681	452,450	461,054	478,402	507,653	542,398	545,546	545,373
FFELP	30,763	30,084	29,361	28,244	26,916	25,646	24,224	22,412	20,226
Private and consumer	16,226	21,397	24,758	24,229	23,702	23,433	22,838	22,461	21,866
Total	$ 490,237	505,162	506,569	513,527	529,020	556,732	589,460	590,419	587,465
Number of servicing borrowers:									
Government	13,251,930	13,301,364	13,253,051	13,570,056	14,196,520	14,727,860	15,426,607	15,657,942	15,777,328
FFELP	1,300,677	1,233,461	1,198,863	1,150,214	1,092,066	1,034,913	977,785	910,188	829,939
Private and consumer	636,136	882,477	1,039,537	1,097,252	1,065,439	1,030,863	998,454	979,816	951,866
Total	15,188,743	15,417,302	15,491,451	15,817,522	16,354,025	16,793,636	17,402,846	17,547,946	17,559,133
Number of remote hosted borrowers:	6,555,841	4,307,342	4,338,570	4,548,541	4,799,368	5,487,943	5,738,381	6,025,377	6,135,760

Education Technology, Services, and Payment Processing

The following table provides disaggregated revenue by servicing offering for the Education Technology, Services, and Payment Processing operating segment.

	Three months ended			Year ended	
	December 31, 2022	September 30, 2022	December 31, 2021	December 31, 2022	December 31, 2021
Tuition payment plan services	$ 26,671	25,779	24,264	110,802	103,970
Payment processing	34,216	47,957	29,182	148,212	127,080
Education technology and services	35,924	32,548	27,033	146,679	105,975
Other	1,521	610	471	2,850	1,209
Education technology, services, and payment processing revenue	$ 98,332	106,894	80,950	408,543	338,234

Other Income/Expense

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

	Three months ended			Year ended	
	December 31, 2022	September 30, 2022	December 31, 2021	December 31, 2022	December 31, 2021
Income/gains from investments, net	$ 10,866	10,701	51,451	51,552	91,593
Borrower late fee income	3,116	2,824	1,745	10,809	3,444
ALLO preferred return	2,164	2,164	2,043	8,584	8,427
Administration/sponsor fee income	1,844	1,920	1,986	7,898	3,656
Investment advisory services	1,651	1,612	1,531	6,026	7,773
Management fee revenue	597	596	765	2,543	3,307
Loss from ALLO voting membership interest investment	(20,332)	(17,562)	(10,528)	(67,966)	(42,148)
Loss from solar investments	(2,379)	(4,216)	(2,757)	(9,479)	(10,132)
Other	3,208	4,186	2,261	15,519	12,761
Other, net	$ 735	2,225	48,497	25,486	78,681

Derivative Settlements

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

	Three months ended			Year ended	
	December 31, 2022	September 30, 2022	December 31, 2021	December 31, 2022	December 31, 2021
1:3 basis swaps	$ (448)	(1,085)	(699)	(206)	(1,638)
Interest rate swaps - floor income hedges	21,306	11,356	(5,081)	33,149	(19,729)
Total derivative settlements - income (expense)	$ 20,858	10,271	(5,780)	32,943	(21,367)

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, 2022	As of September 30, 2022	As of December 31, 2021
Non-Nelnet Bank:			
Federally insured loans:			
Stafford and other	$ 3,389,178	3,298,138	3,904,000
Consolidation	10,177,295	11,002,253	13,187,047
Total	13,566,473	14,300,391	17,091,047
Private education loans	252,383	262,183	299,442
Consumer and other loans	350,915	231,441	51,301
Non-Nelnet Bank loans	14,169,771	14,794,015	17,441,790
Nelnet Bank:			
Federally insured loans	65,913	72,905	88,011
Private education loans	353,882	356,571	169,890
Nelnet Bank loans	419,795	429,476	257,901
Accrued interest receivable	816,864	793,838	788,552
Loan discount, net of unamortized loan premiums and deferred origination costs	(30,714)	(22,021)	(25,933)
Allowance for loan losses:			
Non-Nelnet Bank:			
Federally insured loans	(83,593)	(87,778)	(103,381)
Private education loans	(15,411)	(15,577)	(16,143)
Consumer and other loans	(30,263)	(13,290)	(6,481)
Non-Nelnet Bank allowance for loan losses	(129,267)	(116,645)	(126,005)
Nelnet Bank:			
Federally insured loans	(170)	(164)	(268)
Private education loans	(2,390)	(2,248)	(840)
Nelnet Bank allowance for loan losses	(2,560)	(2,412)	(1,108)
	$ 15,243,889	15,876,251	18,335,197

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, 2022	As of September 30, 2022	As of December 31, 2021
Non-Nelnet Bank:			
Federally insured loans (a)	0.62 %	0.61 %	0.60 %
Private education loans	6.11 %	5.94 %	5.39 %
Consumer and other loans (b)	8.62 %	5.74 %	12.63 %
Nelnet Bank:			
Federally insured loans (a)	0.26 %	0.22 %	0.30 %
Private education loans	0.68 %	0.63 %	0.49 %

(a) As of December 31, 2022 September 30, 2022, and December 31, 2021, 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 22.4%, 22.3%, and 22.2%, respectively, and for Nelnet Bank was 10.3%, 8.9%, and 12.1%, respectively.

(b) During 2022, the Company purchased home equity loans that generally have lower default rates than unsecured consumer loans. As such, the allowance for loan losses as a percentage of the ending loan balance has decreased in 2022 compared with December 31, 2021.

Loan Activity

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

	Three months ended			Year ended	
	December 31, 2022	September 30, 2022	December 31, 2021	December 31, 2022	December 31, 2021
Non-Nelnet Bank:					
Beginning balance	$ 14,794,015	15,855,137	18,437,694	17,441,790	19,559,108
Loan acquisitions:					
Federally insured student loans	667,008	896	70,775	721,853	904,088
Private education loans	67	667	1,177	8,244	89,308
Consumer and other loans	259,217	120,465	20,604	516,215	81,923
Total loan acquisitions	926,292	122,028	92,556	1,246,312	1,075,319
Repayments, claims, capitalized interest, participations, and other, net	(383,829)	(385,312)	(711,459)	(1,694,742)	(2,126,708)
Loans lost to external parties	(1,046,911)	(768,923)	(376,981)	(2,656,639)	(964,822)
Loans sold	(119,796)	(28,915)	(20)	(166,950)	(101,107)
Ending balance	$ 14,169,771	14,794,015	17,441,790	14,169,771	17,441,790
Nelnet Bank:					
Beginning balance	$ 429,476	423,553	192,325	257,901	17,543
Loan acquisitions and originations:					
Federally insured student loan acquisitions		—	—	—	99,973
Private education loan acquisitions	—	6,856	—	6,856	—
Private education loan originations	8,426	14,311	80,588	228,283	179,749
Total loan acquisitions and originations	8,426	21,167	80,588	235,139	279,722
Repayments	(18,011)	(15,244)	(14,318)	(69,022)	(36,181)
Sales to AGM	(96)	—	(694)	(4,223)	(3,183)
Ending balance	$ 419,795	429,476	257,901	419,795	257,901

The Company has also purchased partial ownership in certain federally insured student, private education, and consumer and other 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, 2022, the Company’s ownership correlates to approximately $390 million, $620 million, and $310 million of federally insured student, private education, and consumer and other loans, respectively, included in these securitizations. The loans held in these securitizations are not included in the above table.

Since late 2021, the Company has experienced accelerated run-off of its FFELP portfolio due to FFELP borrowers consolidating their loans into Federal Direct Loan Program loans as a result of the continued extension of the CARES Act payment pause on Department held loans and the initiatives offered by the Department for FFELP borrowers to consolidate their loans to qualify for loan forgiveness under the Public Service Loan Forgiveness and other programs.

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, 2022	September 30, 2022	December 31, 2021	December 31, 2022	December 31, 2021
Variable loan yield, gross	6.52 %	5.05 %	2.62 %	4.39 %	2.64 %
Consolidation rebate fees	(0.82)	(0.84)	(0.85)	(0.84)	(0.85)
Discount accretion, net of premium and deferred origination costs amortization (a)	0.06	0.02	0.02	0.04	0.02
Variable loan yield, net	5.76	4.23	1.79	3.59	1.81
Loan cost of funds - interest expense (b) (c)	(4.64)	(3.11)	(1.06)	(2.58)	(1.04)
Loan cost of funds - derivative settlements (d) (e)	(0.01)	(0.03)	(0.02)	(0.00)	(0.01)
Variable loan spread	1.11	1.09	0.71	1.01	0.76
Fixed rate floor income, gross	0.07	0.19	0.76	0.36	0.76
Fixed rate floor income - derivative settlements (d) (f)	0.59	0.30	(0.11)	0.21	(0.11)
Fixed rate floor income, net of settlements on derivatives	0.66	0.49	0.65	0.57	0.65
Core loan spread	1.77 %	1.58 %	1.36 %	1.58 %	1.41 %
Average balance of AGM's loans	$ 14,764,466	15,466,505	18,063,787	15,969,435	18,900,038
Average balance of AGM's debt outstanding	14,352,548	15,060,823	17,777,230	15,513,824	18,610,144

(a) During each of the fourth quarters of 2022 and 2021, 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 and a $6.2 million decrease, respectively, to interest income. The impact of these adjustments was excluded from the table above.

(b) In the first quarter of 2021, the Company reversed a historical accrued interest liability of $23.8 million on certain bonds, which liability the Company determined is no longer probable of being required to be paid. The liability was initially recorded when certain asset-backed securitizations were acquired in 2011 and 2013. The reduction of this liability is reflected in (a reduction of) "interest expense on bonds and notes payable and bank deposits" in the consolidated statements of income and the impact of this reduction to interest expense was excluded from the table above.

(c) In the third quarter of 2021, the Company redeemed certain asset-backed debt securities prior to their legal maturity, resulting in the recognition of $1.5 million in interest expense from the write-off of all remaining debt issuance costs related to the initial issuance of such bonds. This expense was excluded from the table above.

(d) 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.

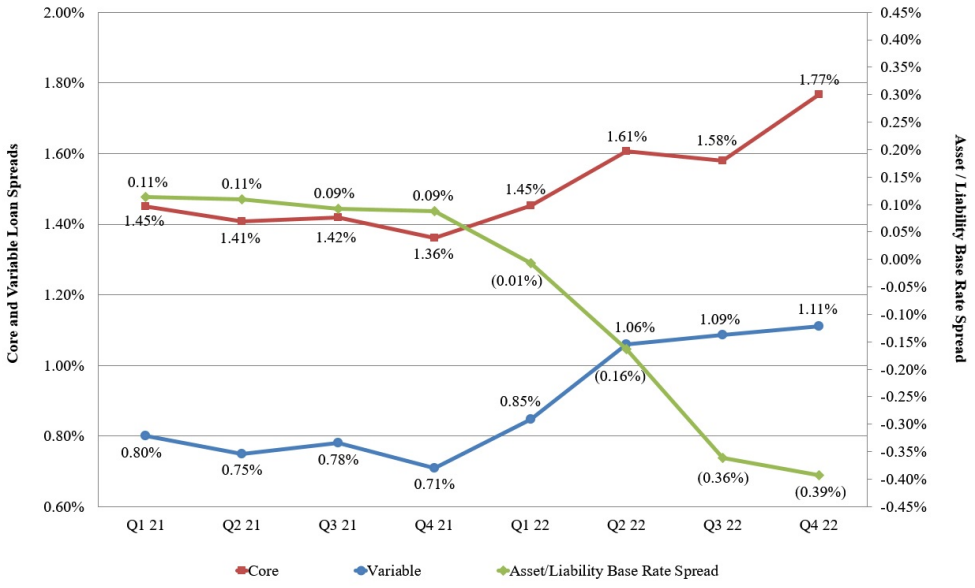
A reconciliation of core loan spread, which includes the impact of derivative settlements on loan spread, to loan spread without derivative settlements follows.

	Three months ended			Year ended	
	December 31, 2022	September 30, 2022	December 31, 2021	December 31, 2022	December 31, 2021
Core loan spread	1.77 %	1.58 %	1.36 %	1.58 %	1.41 %
Derivative settlements (1:3 basis swaps)	0.01	0.03	0.02	0.00	0.01
Derivative settlements (fixed rate floor income)	(0.59)	(0.30)	0.11	(0.21)	0.11
Loan spread	1.19 %	1.31 %	1.49 %	1.37 %	1.53 %

(e) Derivative settlements consist of net settlements paid related to the Company's 1:3 basis swaps.

(f) Derivative settlements consist of net settlements received (paid) related to the Company's floor income interest rate swaps.

A trend analysis of AGM's core and variable loan spreads by calendar year quarter is summarized below.



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

Variable loan spread increased during 2022 compared with 2021 due to a significant increase in short-term interest rates throughout 2022. In an increasing interest rate environment, student loan spread increases due to the timing of interest rate resets on the Company's assets occurring daily in contrast to the timing of the interest resets on the Company's debt that occurs either monthly or quarterly.

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, 2022	September 30, 2022	December 31, 2021	December 31, 2022	December 31, 2021
Fixed rate floor income, gross	$ 2,510	7,585	34,577	57,380	142,606
Derivative settlements (a)	21,306	11,356	(5,081)	33,149	(19,729)
Fixed rate floor income, net	$ 23,816	18,941	29,496	90,529	122,877
Fixed rate floor income contribution to spread, net	0.66 %	0.49 %	0.65 %	0.57 %	0.65 %

(a) Derivative settlements consist of net settlements received (paid) 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, 2022.

Fixed interest rate range	Borrower/lender weighted average yield	Estimated variable conversion rate (a)	Loan balance
6.5 - 6.99%	6.77%	4.13%	$ 135,031
7.0 - 7.49%	7.18%	4.54%	69,205
7.5 - 7.99%	7.72%	5.08%	158,317
8.0 - 8.99%	8.18%	5.54%	363,579
> 9.0%	9.05%	6.41%	139,081
			$ 865,213

(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, 2022, the weighted average estimated variable conversion rate was 5.30% and the short-term interest rate was 397 basis points.

The following table summarizes the outstanding derivative instruments as of December 31, 2022 used by AGM to economically hedge loans earning fixed rate floor income.

Maturity	Notional amount	Weighted average fixed rate paid by the Company (a)
2024	$ 2,000,000	0.35 %
2026	500,000	1.02
2031	100,000	1.53
2032 (b)	200,000	2.92
	$ 2,800,000	0.70 %

(a) For the interest rate derivatives maturing in 2032, the Company receives payments based on Secured Overnight Financing Rate (SOFR) that resets quarterly. For all other interest rate derivatives, the Company receives payments based on three-month LIBOR that resets quarterly.

(b) These derivatives have forward effective start dates in November 2024.

February 28, 2023

Dear Shareholder,

Nelnet produced significant long-term value for all our constituents in 2022 including our customers, our associates, our community, and our shareholders.

The year ended up being quite a ride, as we predicted it would be in last year's letter to our shareholders. The uncertainty caused by an election year, economic turbulence, continued supply chain disruptions, and a major world power launching an invasion of a sovereign nation—resulting in an increase in global energy costs—made a lot of business decisions very fluid. Some decisions were strategic, some were opportunistic, and some were reactive to ever-changing circumstances.

In last year's letter, Executive Chairman Mike Dunlap made some strong predictions about the economy and how certain aspects would play out including: the effect of unprecedented government stimulus and the impact of the substantial excess cash infused into the economy on the valuation of growth stocks, meme stocks, special purpose acquisition companies (SPACs), cryptocurrencies, and real estate prices. He also was concerned with overall hyper-inflated equity valuations, especially "growth-at-all-costs-focused" fintechs and their sustainability in a rising-rate environment. His skepticism was due to some nascent companies' reliance upon credit loss models that had not been tested in a rising-rate environment or a period of unstable capital markets—not to mention the inevitable equity and credit markets' reaction to the Federal Reserve increasing interest rates to tame rapid inflation and to slow down overblown asset valuations across the board. These predictions were based upon a lifetime of battle scars we acquired the hard way by learning ourselves.

As the year progressed and the markets experienced increased volatility, we listened to business news pundits and finance company executives start to talk about how the market was no longer valuing growth for growth's sake and how investors were now valuing positive net income and positive cash flow. It was great to hear market participants start to validate what we have always valued as a leadership team and have attempted to achieve in all our businesses, which is growing after-tax cash flow over a long-time horizon.

In 2022, our corporate objectives were to enhance customer experiences across all our divisions, grow our core business segments, diversify our products and services, energize our associates, exceed our financial targets, and continue to reposition the company for the long-term considering our shrinking Federal Family Education Loan Program (FFELP) portfolio. We made significant progress toward all those objectives.

All our core businesses including servicing, payments and education technology, and financial services performed very well in 2022, especially amid the external storms that were brewing.

We made some great large business decisions as evidenced in our generally accepted accounting principles (GAAP) earnings, which are inflated by the current market value of the derivatives we put on with near-perfect timing as a protection against rising interest rates and are deflated by some GAAP accounting rules, which we will share in detail. The excellent news is this: 2022 logs our 26th straight year of positive net income, and we maintained our streak of never recording a net loss. Overall, we had a very solid year creating $407 million, or $10.83 per share, in GAAP net income, $231 million, or $6.15 per share, in net income, excluding derivative market value adjustments[1], and generated $684 million in cash from operating activities. We increased our book value by $8.33 per share, bringing our year-end book value to $86.16 per share. We have maintained limited amounts of "soft" assets on our balance sheet (e.g. limited goodwill, intangibles, and capitalized software). Our book value per share has grown at an almost 17% annual rate since we went public in December 2003. We believe those numbers provide a basic back-of-the-envelope report card highlighting the value we created for our shareholders throughout 2022—as well as year after year.

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
CAGR/Total	**16.6%**	**10.2%**	**10.8%**	**$2,788**

However, even though those returns are quite good, we do not believe those numbers come close to reflecting a true picture of the value we are creating due to our financial statements providing a purely GAAP accounting view, which does not reflect the actual overall value of Nelnet.

[1]We prepare our financial statements and present our financial results in accordance with GAAP. However, we also provide additional non-GAAP financial information related to specific items management believes to be important in the evaluation of our operating results and performance. A reconciliation of our GAAP net income to net income, excluding derivative market value 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, 2022, filed with the Securities and Exchange Commission on February 28, 2023.

[2]We 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 $4.0 billion in cumulative net income and, of that amount, has reinvested $2.8 billion – or 70% of our earnings over time – back into the business.

The purpose of this letter is to provide you with an overview of the various ways we are creating value throughout the organization, which may not be apparent as they are not yet fully reflected in our balance sheet or income statement. It's no secret that Nelnet is complex as we continue to diversify. Our financials reflect short-term "book" gains and losses, and we think and operate using a long-term horizon. Because of this strategy, many areas of value do not appear in today's financials—but we are confident they will down the road as we continue to play the long game. Examples include our continued investment in ALLO, Hudl, Nelnet Renewable Energy, and the growing consumer loan portfolio and real estate acquisitions we have made in our Nelnet Financial Services division. Although, in certain circumstances, the accounting rules require that we book upfront losses on these investments, we know we're creating real long-term value. This can adversely impact near-term GAAP earnings and create choppiness in our year-to-year earnings, but we are bullish and excited about the prospects of all these businesses.

Here's a great example. When we raised capital at ALLO in December 2020, we structured the transaction to maximize overall cash flow to Nelnet—primarily by making the structure tax efficient. That resulted in our recognizing the remaining equity investment under the Hypothetical Liquidation at Book Value (HLBV) method of accounting. Applying the HLBV method of accounting, through December 31, 2022, Nelnet has recognized $114 million of losses from ALLO since December 2020, and Nelnet's carrying value of its 45% investment in ALLO as of December 31, 2022, is $68 million. Although we are recognizing book losses on our ALLO investment, we believe the market value of ALLO continues to grow. Applying a value to each of ALLO's 131,000 lines (and growing) is an interesting exercise. If ALLO would do a transaction to monetize its value, we expect Nelnet would recognize a significant gain on our 45% ownership investment. It is a simple math exercise along with a couple assumptions.

Let's review our current investment in Hudl, which was $134 million as of December 31, 2022. Hudl's most recent equity raise in May 2020 was considered an observable market transaction for accounting purposes; and as such, we increased our carrying value in Hudl resulting in a $51 million gain. We purchased additional shares of Hudl from existing shareholders for total consideration of $32 million in February 2023. The purchase of these shares was not an observable market transaction. However, since the transaction in May 2020, we are confident the fair value of Hudl has increased and we believe our carrying value is substantially less than its market value. If Hudl were to complete an observable market transaction, we believe Nelnet would recognize a significant gain on this investment.

Another example of hidden value within Nelnet is our investment in renewable energy tax equity credits and solar generation. We began making investments in community solar projects in 2018 and as of December 31, 2022, Nelnet manages $278 million of tax equity, with $103 million being syndicated to co-investors and the remainder being held on Nelnet's balance sheet. We generate returns through federal income tax credits, operating cash flows, and tax deductions from operating losses of the investments over five to six years. Through December 31, 2022, we have recognized cumulative losses of $35 million on these investments, and our carrying value as of December 31, 2022, is negative $55 million. The tax laws require us to reduce carrying value by tax credits earned when the solar project is placed into service, and like ALLO, these investments also use the HLBV method of accounting. This in turn creates accelerated losses in the initial years of investment. We expect our current investments to generate $38 million in excess of our initial investment and approximately $73 million in GAAP income over the remaining years of the investment. It should be noted, we think this is a great use of capital; thus, we currently plan to make additional investments in solar in 2023 and beyond.

As we add new loan assets to our balance sheet, we are required by Current Expected Credit Loss (CECL) accounting rules to book the estimated credit losses for the life of each portfolio in the income statement in the period in which we originated or acquired the loans. As an example, in 2022, we acquired or originated $722 million in FFELP loans, $289 million in consumer loans, $243 million in private education loans, and $227 million in home equity line of credit (HELOC) loans. We financed these loans with operating cash, warehouse lines of credit, term securitizations, and deposits at Nelnet Bank. We believe these to be high-quality loan assets that will create positive cash flow and earnings over multiple years into the future. However, due to the CECL rules, we are required to book a day-one life of loan loss provision. As a result, we recorded a provision for loan losses in 2022 of $46 million, or $0.94 per share. Once again, we believe there is substantial value created to be realized over multiple years but not apparent in our financial statements in the year we created it. For example, as of December 31, 2022, our portfolio of loans funded in asset-backed security transactions is forecasted to generate $1.46 billion of future cash flows.

We have also been making investments in commercial real estate, primarily multi-dwelling units and storage facilities (to be clear, not Class A office space in major cities, which we believe is ripe for a long-term correction). Our strategy is to purchase under-valued assets and to realize gains on their appreciation. We buy underperforming assets in which we make capital improvements, often recognizing book losses even though we are increasing the value of the property. Once stabilized, we generally sell, usually at significant gains. Over the last two years, we have recognized $45 million in gains from the sale of real estate. Our current carrying value of real estate is $80 million; however, we believe if we were to monetize this portfolio, we would recognize additional gains.

These are just a few substantial examples of how we are creating significant tangible value that has not yet been reflected in our valuation.

Capital Deployment by Year (in millions)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	10-Year Total
FFELP loan/residual acquisitions, net of financing	$38	$127	$140	-	-	$105	$71	$141	$39	$49	$710
Private and consumer loan/residual acquisitions, net of financing	$68	$17	$173	$61	$75	$188	$61	$71	$143	$269	$1,126
Business acquisitions	-	$47	-	-	-	$153	-	$30	-	$34	$264
ALLO acquisition and capital expenditures	-	-	$47	$39	$115	$87	$45	$48	-	-	$381
Other capital expenditures (non-ALLO)	$17	$26	$17	$29	$41	$38	$48	$65	$59	$59	$399
Nelnet Bank	-	-	-	-	-	-	-	$100	-	$30	$130
Hudl investment	-	$1	$41	-	$10	-	-	$26	$5	-	$83
ALLO investment	-	-	-	-	-	-	-	-	-	$48	$48
Other investments (including capital/real estate/solar)	$20	$45	$53	$22	$19	$67	$103	$396	$726	$667	$2,118
Debt repurchases	$79	$47	$42	$77	$181	$13	-	$26	$407	$67	$939
Stock repurchases	$13	$16	$96	$69	$69	$45	$40	$73	$58	$98	$577
Dividends	$19	$19	$19	$21	$24	$27	$29	$32	$34	$37	$261
	$254	**$345**	**$628**	**$318**	**$534**	**$723**	**$397**	**$1,008**	**$1,471**	**$1,358**	**$7,036**

// Nelnet Business Services

The Nelnet Business Services (NBS) division provides technology, services, and payment processing primarily to our clients in the K–12 and higher education industries within the United States (U.S.) and globally. In addition, we provide learning and engagement Software as a Service (SaaS) products to community-minded organizations and corporations. The unique value to our customers is based on our superior customer service models and reliable and secure technology products. This division operates under five different businesses: FACTS, Nelnet Campus Commerce, Nelnet Payment Services, Nelnet International, and Nelnet Community Engagement. Below is a brief overview of the performance of each business.

// FACTS

The FACTS brand holds a strong reputation of service, support, and client satisfaction since its launch in 1986. Today, our business serves over 4 million students for almost 11,000 schools. We continue to diversify and offer more products and services to meet the needs of our customers. Our success can be attributed to providing a suite of solutions that supports the school and their families from the time of application and enrollment through the student's graduation by processing payments and supporting the school and student information along the way. Ease of use for families and schools is imperative as well as ensuring the security of family and school data.

We also provide direct resources to students in the classroom through Title I federal funding and professional development opportunities to teachers through Title II federal funding. Due to the increases in federal pandemic-related funds supporting K–12 education, we have witnessed a spike in schools asking for services in these areas. Our business now employs over 2,000 teachers and supports enhanced learning opportunities for tens of thousands of students through these programs. We continue to grow this service offering organically as well as through acquisition. We added market share in New York City and Puerto Rico through recent acquisitions.

FACTS continues to create consistent cash flow for the division while investing in new products and associates to further enhance the value we provide to our school customers. We strive to elevate the education experience for our schools, teachers, students, and families. Our customer retention rate has consistently been over 98%, illustrating our service commitment to our customers.

// Nelnet Campus Commerce

The higher education industry has been under stress with many colleges and universities experiencing declining enrollment and high school students questioning the value of traditional degree programs. Despite the declining enrollment trend, Nelnet Campus Commerce serves more than 1,100 higher education institutions and over 8 million students and families across the U.S. with an integrated e-commerce solution suite for student payments across all areas of campus. These products include tuition payment plans, electronic billing and payments, refunds, shopping cart experiences, and mobile payments. We have introduced new products to the market while prioritizing the modernization and security of our overall user experience. Nelnet Campus Commerce continues to grow revenue through adding new products to existing customer relationships and acquiring new customers. Meeting the needs of our customers through superior service and technology has resulted in retention rates over 98%.

// Nelnet Payment Services

Nelnet Payment Services is an Independent Sales Organization (ISO), providing end-to-end payment processing technology for our education and community-based customers and processing payments for Nelnet and other non-education businesses. In 2022, we processed almost $44 billion in total payments. One of the highest priorities of this business is the security of our payment information and ensuring compliance with all regulatory requirements.

// Nelnet International

Our international business, based in Melbourne, Australia, has been negatively impacted the most in our NBS division due to the pandemic restrictions over the past few years. This business focuses on both K–12 and higher education markets in Australia and a number of other countries, while also serving local governments and healthcare markets. Nelnet International's suite of products includes an e-commerce payment platform, student management system, payment plans, and other incidental payment processing. We currently have a strong market share in the higher education industry in Australia with a focus on expansion into the Asia-Pacific region. We also provide products and services to private K–12 schools in Australia and New Zealand, and our student information system is used in more than 55 countries around the globe through our network of education-minded resellers.

// Nelnet Community Engagement

Nelnet Community Engagement is our newest business and provides engagement and learning management platforms to faith-based and community-minded organizations. We offer website development and a customizable mobile app that enables leaders and members to virtually communicate and interact with each other within one platform. Our business also focuses on providing content management with a robust learning management platform used by more than 3,500 parishes and churches in the U.S. We also offer this platform for the training needs of our for-profit customers in a variety of industries. Nelnet Community Engagement is closely aligned with FACTS to create an expanded value proposition for our shared customer-base.

// Nelnet Communication Services/ALLO

In 2022, ALLO's fiber business continued its expansion in Nebraska, Colorado, and Arizona. Several tailwinds existed throughout the year—high demand for broadband primarily from work/learn from home and maintaining a high Net Promoter Score from the customer experience team. The headwinds were mostly temporary with permitting and local bureaucracy hurdles being the most significant.

At the beginning of 2022, the "great resignation" and open positions were the key concern. By August, ALLO's recruiting department had mitigated our concerns, and hiring rates improved for the balance of the year. Additionally, technological improvements were successfully implemented across the network, construction capabilities were expanded, and supply chain issues were successfully alleviated.

Mature market shares and cash flow continue to exceed our initial underwriting expectations. The demand is accelerating for communication and entertainment solutions across business, governmental, and consumer channels. As such, new market investments to increase regional density remain an on-going focus. ALLO's construction teams are actively developing markets and working around permitting delays.

Unmet customer demand for high-quality fiber service bodes well for ALLO's future customer growth. Additionally, new work, gaming, and other entertainment needs are driving existing customers to increase bandwidth and services. Low latency and fast upload speeds are vital to the customer experience now more than ever.

Customer growth is expected to accelerate in upcoming years with revenue per customer also on an upward trajectory as ALLO realizes the benefits from the construction efforts. Meanwhile, the benefits of scale are keeping the cost to connect and support ALLO's customer base efficient.

2023 marks ALLO's 20th year of serving customers and the opportunities continue to be vast. With 131,000 lines in place and growing, we continue to be bullish on fiber optic telecommunications.

// Nelnet Diversified Services

Nelnet Diversified Services (NDS) provides outsourced business services, licensed technology solutions, back-up servicing, and life of loan payment servicing for private student loans, consumer loans, FFELP loans, and direct loans for banks, finance companies, and state and federal government entities.

Within the Nelnet business lines, the NDS division felt the most volatility last year as it is home to our Direct Loan Servicing contract. As most everyone knows, all Direct Loan student loan payments were paused under the Coronavirus Aid, Relief, and Economic Security (CARES) Act, starting in March 2020. The pause was extended multiple times under the Trump and then Biden administrations including extensions throughout 2022 and was set to finally expire with borrowers to "return to repayment" in January 2023.

We were told in late 2022 by the Federal Government that we needed to be fully staffed and ready for the January 1, 2023, return to repayment of all borrowers whose payments were initially paused under the CARES Act. This was a massive undertaking that took significant lead time and capital investment to provide a great customer experience for borrowers. It requires months of additional hiring, obtaining federal security clearances for the new hires, detailed training and supervision, and planning for the forecasted call volume, payment volume, auto debits, statements, electronic and print mail services, and more for the 15.8 million Direct Loan borrowers we service.

After we invested significant time, resources, capital, and people, on November 22, 2022, the Department announced repayment would be delayed yet again. Repayment won't start until October 2023 or 60 days following the resolution of the Supreme Court case on the President's Loan Forgiveness Program.

Ultimately, this led to NDS being significantly overstaffed by nearly 1,000 people, with little to no work for people servicing loans that won't have payments due until October 2023. This required us to announce layoffs in January 2023. These are hard decisions to make, but we found ourselves between a rock and a hard place given the demands of the business and the fluidity of the government decisions around the payment pause and proposed loan forgiveness plan.

During this fluidity, our NDS team did an amazing job finding outsourcing work for a lot of our associates, modernizing and combining system platforms, being very open and honest in communications with our associates, managing the bottom line, and treating our impacted associates with dignity and respect.

People have sometimes asked us why we want to remain in this business. Our response is that regardless of what happens with the payment pause, there is nearly $1.6 trillion in student debt owed by 44 million Americans. Over its nearly 30-year life, the Direct Loan program has become the most complex consumer lending program on the planet. Nothing compares to it. The variability of payment options, loan types, forgiveness initiatives for public service, military service, deferments, forbearances, income-contingent payment options, disability benefits, and interest rates and terms require trained experts like our teams, with state-of-the-art systems and infrastructure like ours to administer them. The public's need for our services is immense. And even if the Supreme Court approves the White House's loan forgiveness program, it does nothing to solve the underlying need for student loan debt. By most projections, $160 billion in new student debt will be borrowed in each 2023 and 2024—and presumably every year we can see into the future. As long as there are colleges and universities and students who need to borrow money to attend them, the need to help people navigate the myriad of options and pay off their debt is tremendous, and we are here to make sure people have the best resources and help available to improve their lives and make their dreams possible.

// Nelnet Financial Services (NFS)

NFS is our division in which we fund all our student and consumer loan asset acquisitions, hedging, and capital markets activity that occur outside of Nelnet Bank.

We fund loan assets through warehouse lines of credit until the portfolios are large enough to be securitized in term-funded Asset Backed Securities, which requires us to be closely aligned with the credit markets. 2022 was a volatile year for the fixed-income market in general and for our FFELP loan portfolio in particular. Specifically, as mentioned in the NDS overview, student lending seemed to be in the headlines nearly every day with loan forgiveness, payment pauses, program changes, and loan originators and servicing companies exiting the business.

Through all the volatility, we're pleased to share our FFELP portfolio continues to perform well, generating a significant amount of cash but it is shrinking rapidly. While in 2022 we were able to purchase one of the largest remaining FFELP loan portfolios at a significant discount, our overall portfolio paid down at the fastest rate we can recall. It was less than $14 billion at year-end, compared to over $17 billion one year earlier. We were largely protected from the rise in interest rates thanks to our portfolio of interest rate derivatives, which provided a full hedge against the dramatic increase in rates as the Federal Reserve acted to fight inflation. Without that protection, our student loan spread would have compressed with rising rates.

As we look to 2023, our focus will continue to be on diversifying our loan portfolio away from student lending and into diverse types of loan assets. We expect our FFELP loan portfolio to continue to amortize and that elevated interest rates will render private loan refinance opportunities unattractive to most borrowers. We expect to expand our participation in the unsecured consumer loan market and to grow our portfolio of HELOCs and other loans. While these assets certainly have more credit risk than FFELP loans, we do like their risk-adjusted returns and liquidity as well as our ability to get leverage on them through the asset-backed markets and through Nelnet Bank.

// Nelnet Bank

Nelnet Bank had a remarkable second year of its de novo in 2022, reaching profitability, launching its private in-school student loan product, expanding deposit capabilities, reaching early and significant refinance volume prior to interest rates rising, maintaining low credit losses, and controlling operating expenses. The bank grew significantly in 2022 and had over $900 million in assets at year-end while continuing to maintain adequate levels of capital and liquidity. We believe the bank's risk management and compliance programs are commensurate with the size and complexity of the bank.

The private student loan product launched in time for peak school season. It was a good first year with learnings that will help us continue to grow the product by enhancing our customer experience and improving our marketing efforts. We were able to increase our presence on school lender lists by 36% and now support 569 institutions that serve over 4.6 million students. The private student loan product is important to Nelnet Bank and will continue to be a focus in future years.

The year was also a foundational one in our efforts to prepare for consumer loan products. We have selected strategic partners and prepared systems and operational processes that will allow us to enter the consumer loan market early in 2023.

The bank is also happy to share that it received an outstanding rating from the Federal Deposit Insurance Corporation (FDIC) for its Community Reinvestment Act program in the first two years of operation.

// Nelnet Real Estate Services

For Nelnet's real estate investment portfolio, 2022 was another productive year. The team was able to selectively deploy capital in a rising rate environment while also selectively selling assets into a strong market. We approved 15 separate acquisitions and committed $63 million in capital to new projects including office, storage, and industrial space. All projects were conservatively underwritten, and our exit cap rates ranged from 5.5% to 6%. We also sold seven projects and generated gains of nearly $23 million. We opportunistically sold a couple projects earlier in their lifecycle than we had originally forecast but do not see as much short-term upside in the 2023 sales market.

The first half of the year was strong; however, capital markets began to shift, causing a noticeable decrease in commercial real estate investment activity toward the end of the year. We expect this slowdown to continue into early 2023 followed by an uptick in transactions in the back half of the year. The market is forecasting lower interest rate volatility, which would provide a more stable environment for project financing. While our focus will remain on traditional limited partnership (LP) equity placement, we expect structured deal flow to be more active due to market dislocations that are beginning to appear. Our investment targets are a 15% internal rate of return and a 2.0x multiple on LP equity and 12%+ on any structured investment.

// Nelnet Renewable Energy

Nelnet Renewable Energy continues to drive value within our company by providing a diversified cash flow stream. Nelnet continued to support the global transition to clean energy throughout the year as we committed to or funded a total of $634 million of tax equity to support the construction and operation of solar projects worth approximately $2.45 billion. We estimate these investments power nearly 118,000 homes and will replace more than 24 million tons of carbon emissions during their lifecycle. In addition to the environmental attributes, these investments create jobs, generate cost savings for energy consumers, strengthen energy resilience, and provide expected financial returns that fit well within our capital deployment strategy. Though these investments do create volatility within our earnings due to the unique accounting treatment, we continue to prefer the early-phase and life-to-term cash flows. In addition to utilizing Nelnet's balance sheet to make these investments, we continued to provide significant future cash flow and value to our co-investors during the year as we now have more than 22 investors on our platform with committed dollars exceeding $194 million.

Though the industry experienced some challenges during the year that delayed project completion and generation of tax credits, we are bullish on the industry and our ability to execute within it. The enactment of the Inflation Reduction Act and global ambitions to create cleaner and more resilient energy sources allows us to create a positive impact for our customers, associates, communities, and shareholders. During the year, we continued to diversify the business by investing in cleantech-related start-up companies and started a new business to assist K–12 and postsecondary educational institutions achieve their carbon-neutral goals. This service provides the consultation, design, management, and capital funding associated with these activities.

Lastly, we are excited about our mid-year acquisition of 80% of GRNE Solar, a full service, engineering, procurement, and construction company providing solar services to residential homes and commercial entities. The acquisition and integration of this company allows us to be vertically integrated and positions us uniquely in the distributed power generation market. We can now efficiently originate, finance, own, and manage all aspects of these renewable assets for the long-term. We believe the business model will allow us to grow and diversify cash flows as we continue to construct assets to sell to customers, develop solar photovoltaic systems that we own and sell the electricity, and syndicate the associated tax equity fundings. This acquisition provided technical know-how, customer relationships, a talented workforce, and revenue streams. When coupled with our financial acumen, access to capital, and asset management experience, we are extremely optimistic about the continued growth and performance of our renewable energy business. We believe this vertical integration, continued commitment to high-quality customer service, and lower transaction costs, will be a differentiator in this market.

// Hudl

It may not be so hidden to many of you with children or grandchildren playing high school sports, but Hudl works with more than 95% of all U.S. high schools that play sports competitively and more than 200,000 teams globally. These are incredibly valuable relationships when you focus solely on Hudl's historical lines of business, but it's even more exciting when you look at Hudl's latest acquisitions and new product offerings.

Hudl completed three acquisitions in 2022: Blueframe Technology (based in Lexington, KY), Realtrack Systems (based in Almeria, Spain), and Instat (based in Limerick, Ireland). Each acquisition brought impressive talent to the Hudl team as well as impressive product extensions and expansion opportunities.

Hudl's focus on listening to its customers and adapting to their needs drove each of these acquisitions:

- For the past couple years, we've talked about Hudl's smart camera solution—Hudl Focus. Hudl now has more than 14,000 Hudl Focus units deployed in the market, with many customers taking advantage of the ability to easily livestream their games and matches to family, friends, and fans. Teams loved this offering, but a growing number were looking for the option to monetize those streams. Enter Blueframe—founded in in 2015, the company built an incredible set of production tools enabling teams to enhance their livestreams with broadcast-level graphics. Teams could also choose to charge on a subscription or pay-per-view basis.

- Professional and college sports are increasingly emphasizing human performance, specifically load management and injury prevention. For years, teams have been equipping their athletes with global positioning system (GPS) sensors to track information around speed, acceleration, and distance run. More recently, teams have focused on marrying this performance data with video to add important context and get more value out of the data. Enter Realtrack's solution, WIMU, developed in association with FC Barcelona's Barça Innovation Hub. The product tracks up to 20,000 data points per second and monitors more than 250 variables for each individual athlete, with applications for real-time monitoring, post-session in-depth analysis, and cloud-based customizable dashboards.

- A couple years ago, we discussed Hudl's acquisition of Wyscout, the scouting platform that powers global football (or soccer) recruitment all around the world. In December, Hudl added Instat, expanding its video and data coverage to more countries and more levels in global football as well as adding a powerful scouting platform for basketball and ice hockey.

As with any acquisition, the real work (and value) comes in the integration. We're excited to see Hudl continue to strengthen its acquisition muscle and playbook as Instat marked the twelfth acquisition in Hudl's 16-year history.

// Closing

In December, we lost one of our dearest friends and long-time board member Bill Cintani. Bill was a driving factor in our success and gave us sage advice over many years of service to Nelnet. He is sorely missed already, and we want to thank his family for sharing their time with Bill, our friend and adviser.

We enter 2023 with a cautious view given all the macro-global events occurring including wars, spy balloons, budget crises, U.S. debt limit showdowns, and rising interest rates.

Even in light of all the unknowns in the greater global economy, we remain bullish on the prospects of every core division within Nelnet and all the major investments we hold on our balance sheet. We believe we have created substantial value for our shareholders that will be unlocked and realized in the coming years. We are maniacally focused on customer experience and customer service, bettering our communities, and making Nelnet an awesome place to work for our associates.

Dream. Learn. Grow.

Jeff Noordhoek
Chief Executive Officer

Nelnet Board of Directors


Michael S. Dunlap


Preeta Bansal


Matthew Dunlap


Kathleen A. Farrell Ph.D.


David Graff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Nelnet Bank Board of Directors


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Tim Tewes


Carine Strom Clark


Connie Edmond


Anthony Goins


Crawford Cragun


Jaime Pack


Andrea Moss

// Mike Dunlap's Thoughts about Investments

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 value. 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 Mrs./Mr. Market can be irrational and will materially overvalue or undervalue the investment style they currently love. Short-term, Mrs./Mr. market is a voting machine; long-term, the market is a weighing machine.

Over the last few years, Mr. Market created something from nothing (stock price bubbles, crypto, non-fungible tokens (NFTs), meme stocks, real estate prices that do not work in historically average interest rate environments) to fill the demand from bad government policy, speculation, short-term thinking, greed, over stimulus, leverage, and low interest rates. Many of these speculative investments are now down over 60%. Many real estate investments are going to be underwater when variable interest rate loans reset, potentially creating opportunities.

If you live in a hyper-inflationary environment (Argentina, Zimbabwe), Bitcoin may act as a store of value over short periods of time. There is enough friction in the Bitcoin/crypto protocols, which leads most people to buy, hold, and sell their crypto on an exchange versus holding their own crypto wallets with block-long passwords that cannot be recovered if lost. Over longer periods of time, it is a speculation on the capability of an algorithm to create mathematical scarcity and become stable enough in a decentralized, quasi non-regulatable environment to avoid the mess FTX, all of their clients, and Sam Bankman-Fried are experiencing. Where is the next potential fraud? One of the largest cryptocurrency trading exchanges, with millions of monthly users and billions in daily trading volume, regularly moves its operations from country to country and claims to be decentralized with no official headquarters. Auditors have halted all work for many crypto clients including at least one of the largest exchanges. There is no third-party review of their books, and they have insanely small numbers of staff for a business moving hundreds of billions of dollars and shifting headquarters, locations, and mailboxes. Let's add leverage (gas) and 1,000 other crypto coins (infinitely copied) to the fire and see what happens. What could go wrong in crypto? Do you want to speculate in crypto/NFTs and meme stocks or make solid, long-term investments in great companies with real assets?

I just finished reading the Benjamin Franklin autobiography by Walter Isaacson. Franklin believed in the common person and their collective ability to drive people toward the best possible outcomes versus one supremely smart, elite group of people. Today this concept has been referenced as the "wisdom of the crowd." The future of social media is here with ChatGPT-3; artificial intelligence has been all the rage these last few months. I am confident these tools will enhance our abilities and lead to many new ways to learn and do business. At the same time these new and older (Facebook, Tik Tok, Snapchat, Instagram, Twitter) algorithms are similar and prone to making things up to fill in the blanks. If we abdicate our responsibility to educate and inform ourselves and end up with a handful of elite algorithms informing us on everything under the sun, we are going to lose the wide diversity of thought, backgrounds, and perspectives that lead to optimal outcomes.

There are also some great quotes from Franklin that are timeless reminders of what made and make our country great. For example:

> "Ordaining of laws in favor of one part of the nation to the prejudice and oppression of another is certainly the most erroneous and mistaken policy...An equal dispensation of protection, rights, privileges, and advantages, is what every part is entitled to, and ought to enjoy."

Summarized from the end of the 2021 annual report, we live in the best country in the world. Let's hope as we wake up from our hangover, we don't make the same economic mistakes and create a nation where we have perfect equality because we are all broke. On the bright side, as these future disruptions occur in the economy, we will continue to try to position Nelnet to be opportunistic as we have been in the past.

Recently, I talked to our senior team about what makes Nelnet different from many other publicly traded companies. None of the characteristics are overly complicated or special, unique insights. A lot of our philosophy comes from our banking background and focus on the customer, associate, diversification, and community. In addition, when I was in graduate/law school in the 80s at University of Nebraska–Lincoln, I had the opportunity to read the Warren Buffet Partnership Letters and Berkshire Hathaway annual reports, which had a major impact on our business philosophies—many of which you will see below.

What is Nelnet's DNA?

- **Long-Term Perspective:** Focus on long-term potential versus short-term market fluctuations. Short term, the market is a voting machine; long term, a "weighing" machine. We are not focused on short-term moves in our stock price. We want to create value for decades to come. We do not give earnings guidance, and we do not do earnings calls. We think focusing our intellectual capital on our customers and associates will create real long-term value versus hyping our stock.

- **Moat**: Strong, sustainable competitive advantages, recurring revenue, profit margin, and cash flow. These are the attributes we look for in businesses we want to invest in, manage, and grow.

- **Discounted Cash Flow:** The value of bonds and stocks comes from "free" cash flow. Will our decisions create long-term cash flow? We don't want to make our short-term financials look better to the detriment of long-term cash flow—think capitalized software. Some companies play games by capitalizing everything they can possibly get their accountants to agree with; we do not play those games.

- **Opportunistic / Contrarian:** Look for businesses out of favor with the market versus current market "darlings." We're not looking for the "greater fool" to buy at a high price and then sell at a higher price to an even greater fool. We buy businesses to hold and grow over time.

- **Diversification:** Stability of a unicycle versus a bicycle versus a car versus an 18-wheeler (or a stool with one leg versus four legs). Inside of that diversification, we try to focus on our core competencies: servicing, software, payments, finance, and with a large focus on education.

- **Debt:** Debt is a double-edged sword. Leverage magnifies your gains, but it will also magnify your losses. When the tide goes out, you quickly learn who's been swimming naked. Use debt prudently.

How do our businesses hold up to our strategy?

- **NDS:** Large moat—we do not see many new competitors jumping into this government-run student loan program. We are on a constant pendulum ride, being swung from one extreme to the other.

- **NBS:** Significant momentum as we continue to grow our recuring revenue and net income over time at double-digit rates. The K–12 team has diversified its products from payment plans, to grant and aid, a student information system, and now FACTS Education Solutions, which provides professional development and instructional services. Campus Commerce now has over 1,100 higher ed institutions as customers and growing with diversified tuition management and integrated commerce solutions.

- **ALLO:** The four values of being local, honest, exceptional, and hassle-free have led to over 50% market share in ALLO's largest markets as they mature. The first-mover advantage, great customer service, and large infrastructure investment are widening our moat further each year, leading to long-term, growing recurring cash flow into the future with relatively low turnover.

- **Nelnet Financial Services / Nelnet Bank:** Opportunistic originations, acquisitions, and prudent leverage continue to create significant free cash flow. The Fed's transitory nonsense gave us the opportunistic ability to aggressively hedge our portfolio with pay-fixed swaps, which created over $5 in earnings in 2022 as the Feds played catch-up fighting inflation by raising rates significantly.

- **Nelnet Renewable Energy:** Opportunistically, we started with tax equity and then syndicated tax equity; we have purchased an engineering and construction firm GRNE Solar and started to develop our own projects. We believe this diversified group with the stimulus from the Inflation Reduction Act is set up to be a significant long-term cash flow generator for Nelnet. Like ALLO, the accounting treatment of this business doesn't provide an accurate picture of the value we are creating. GAAP accounting on many of these projects show losses in the early years and all the gains in the later years. As I stated earlier, we do not care if our short-term earnings don't look great if we know long term, we are creating value and true free cash flow.

» **Environmental, Social, and Governance (ESG) has been at Nelnet for a long time under different terminology / syntax.** I do not want to waste significant company resources rewording what we have always strived to do to appease a few investors who want to put us into an investment flavor-of-the-day box.

- **Priorities:** (1) Customers (2) Associates (3) Diversification (4) Open Communication (5) Give Back

- **Horizontal Flywheel:** Think of a horizontal wheel with four quadrants: Customer, Associate, Community, and Shareholder. All these constituencies need to be in balance. If they get out of alignment, the flywheel will fall off balance. Great, lasting companies balance their investment in these constituencies.

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 and uncertainties related to the severity, magnitude, and duration of the COVID-19 pandemic, including changes in the macroeconomic environment, consumer behavior, and government policy; risks related to the ability to successfully maintain and increase allocated volumes of student loans serviced by the company under existing and any future servicing contracts with the Department, which contracts accounted for 32% of the company's revenue in 2022; risks to the company related to the Department's initiatives to procure new contracts for federal student loan servicing, including the pending and uncertain nature of the Department's procurement process, risks that the company may not be successful in obtaining any of such potential new contracts, and risks related to the company's ability to comply with agreements with third-party customers for the servicing of loans; risks related to the company's loan portfolio, such as interest rate basis and repricing risk, changes in levels of loan repayment, default rates, and prepayment rates; the use of derivatives to manage exposure to interest rate fluctuations; the uncertain nature of expected benefits from FFEL Program, private education, and consumer loan purchases and initiatives to purchase additional FFEL Program, private education, and consumer loans or investment interests therein; financing and liquidity risks, including risks of changes in the securitization and other financing markets for loans; risks and uncertainties from changes in terms of education loans and in the educational credit and services marketplace resulting from changes in applicable laws, regulations, and government programs and budgets, such as changes resulting from the CARES Act and the expected decline over time in FFEL Program loan interest income due to the discontinuation of new FFEL Program loan originations in 2010 and the resulting initiatives by the company to adjust to a post-FFEL Program environment, as well as the possibility of new student loan forgiveness or broad debt cancellation programs by the government or other incentives to consolidate away from existing FFEL Program loans; our ability to maintain federal guarantees for certain government loans; risks and uncertainties of the expected benefits from Nelnet Bank's operations, including the ability to successfully conduct banking operations and achieve expected market penetration; risks related our renewable energy business, including availability of federal incentives, regulatory uncertainty, climate change risk, supply change risk, and rising debt and 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; our reliance on third parties to provide certain services; risks from changes in economic conditions and consumer behavior; cybersecurity risks, including disruptions to systems, disclosure of confidential or personal information, and/or damage to reputation resulting from cyber-breaches; our ability to adapt to technological change; changes in the general interest rate environment, including the transition away from LIBOR; risks related to the exclusive forum provisions in our articles of incorporation; risks related to our Executive Chairman's ability to control matters related to the company through voting rights; risk related to related party transactions; risks related to climate change; concerns about the downgrade of the U.S. credit rating; and risks related to natural disasters, terrorist activities, or international hostilities. 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.