



# 2021 ANNUAL REPORT



## To Our Stockholders

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2021 was an extraordinary year for our company. While the COVID-19 pandemic continued to disrupt society in unexpected ways, our team remained focused on our vision and invested meaningfully in our strategic priorities. Despite the pandemic related challenges, we achieved record earnings for the fourth consecutive year of \$493 million while reaching record total assets and book value per share. Our return on equity of 17.3% placed us in the top quartile of our industry for the eleventh time in the past twelve years. As a result, we again paid record dividends to stockholders of \$380 per share.

NET INCOME	2021	\$493,400,000
	2020	\$296,100,000
	2019	\$292,900,000
	2018	\$280,100,000
	2017	\$135,600,000

There are several reasons for our unusually strong earnings in 2021, but first among those factors was credit quality. Our credit quality largely reflected the economy emerging from the worst of the pandemic. The United States government continued its significant support of both consumers and businesses, while unemployment dropped from 6.7% to 3.9%, representing a record 6.4 million jobs added. Consumer charge-offs in our credit card portfolio reached an all-time low and commercial loan losses were effectively zero. Also contributing to our improved credit performance is our work the past five years to improve our credit underwriting through investments in talent, technology, advanced use of data and partnerships. The effects of these improvements do not show up overnight; instead, their impact is cumulative and meaningful over time. We continue to improve our credit disciplines as we know the current credit environment is unusually good and we expect current conditions to change, not for the better.

### *The Franchise*

Revenue increased 1% in 2021, mostly due to investment gains and fees from the government's Paycheck Protection Program ("PPP"), neither of which we expect to repeat in 2022. In addition, persistently low interest rates once again drove compression of our net interest margin from 5.19% in 2020 to 4.66% in 2021, representing the third consecutive year our margin has declined. We do not predict interest rates even months from now, so our strategy to grow revenue will not rely on the prospect of rising interest rates, but rather on quality customer growth from improving the customer experience.

Total loans grew just under 1% for the full year, yet because certain loan categories grew or shrank at such different rates, it is important to look at what happened in those categories. Most notably, our portfolio of PPP loans fell by \$588 million, or 92%, as the federal government forgave most of our borrowers' loans, consistent with the terms of the PPP program. Absent the PPP runoff, all other "core" loans grew 5% or \$726 million. Our core loan growth also overcame a decline in mortgage loans of \$323 million, or 16%, as mortgage industry loan originations slowed from the record volumes of 2020. Conversely, credit card and unsecured consumer loans grew by 9% or \$625 million, while

commercial real estate loans grew 8%, or \$280 million and agricultural loans grew 2%. As the year progressed, we saw increased spending on our customers' credit cards, as well as slightly higher commercial loan borrowing. Our customers' willingness to spend and borrow reflects increased confidence in the economy as they adjust to the challenges of the pandemic.

Deposits grew a remarkable 10%, which represented \$2.2 billion of growth, our second highest annual increase behind only the year 2020. We attribute this deposit growth to higher savings rates by companies and individuals during times of uncertainty, as well as massive government responses to the pandemic, namely the PPP loan program, direct relief payments to consumers and bond purchases by the Federal Reserve. Our world is awash with liquidity, which brings with it certain benefits but also challenges, namely the recently concerning rate of inflation, which we view as a risk to the economy.

	<b>GROSS LOANS</b>	<b>DEPOSITS</b>
<b>2021</b>	<b>\$16,759,116,000</b>	<b>\$22,913,629,000</b>
<b>2020</b>	<b>\$16,620,671,000</b>	<b>\$20,762,462,000</b>
<b>2019</b>	<b>\$16,346,024,000</b>	<b>\$17,940,025,000</b>
<b>2018</b>	<b>\$15,950,419,000</b>	<b>\$17,452,109,000</b>
<b>2017</b>	<b>\$15,093,148,000</b>	<b>\$16,715,852,000</b>

Non-interest income grew significantly by 21% or \$93 million for the full year 2021. Our largest fee income source, net interchange fees from credit cards, increased by \$31 million, or 24%, reflecting our new customer growth as well as increased consumer spending. Rising stock market valuations increased our wealth management fees and allowed us to realize other investment gains of \$71 million. While we cannot predict the stock market, we certainly do not expect such robust gains in the future. A modest increase in long-term interest rates meant we wrote up the value of our Mortgage Servicing Rights ("MSR") by \$19 million and that write up flows through fee income. Conversely, our mortgage gain-on-sale fees fell by \$33 million, or 34%, reflecting falling volumes and margins.

Expenses increased 14%, or \$130 million, from \$929 million in 2020 to \$1.06 billion in 2021, but that does not tell the whole story. We chose to invest significantly more in the future of our franchise in 2021, funding initiatives that have been years in the making by our team. These investments took many forms but were largely concentrated in our customer experience, our employee experience, technology, innovation, marketing, and facilities. Our stated goal is to be a top performing bank and we believe to achieve such performance we must always invest for the long term. As such, we are proud of our team for investing so much back into the business in 2021 that will benefit us for years to come.

One of the investments we announced in November of 2021 was the acquisition of Western States Bank, based in Laramie, Wyoming with locations in Cheyenne as well as communities in Northern Colorado and Western Nebraska. Western States Bank had \$550 million in assets and 100 employees whom we have proudly welcomed into the FNBO family. This acquisition closed on February 14, 2022 and we are actively working at integrating former Western States Bank customers into the FNBO customer experience. Our rationale for this acquisition was simple: the bank had great customers and great employees in attractive markets. The acquisition adds to our already meaningful market share

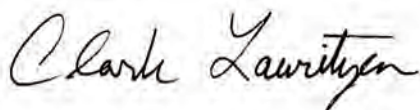
in Colorado and Nebraska, while bringing us into the Wyoming market where we plan to invest and grow in the years ahead.

## ***Our Focus***

Three years ago, we established our intent to commit to a long-term focus on being **customer led, innovative and efficient**. To that end, we first worked hard to become a flatter organization, with management closer to the customer and decisions made primarily to improve the customer experience through innovation. We also focused on knowing our customers well, using data to deliver personalized experiences and offer advice and guidance to our customers. We have not changed these priorities because we believe in them now more than ever. Our goal, or as we like call it, our “north star,” is to improve our customers’ financial well-being. We believe we must commit to the disciplines required to achieve this goal, particularly in a rapidly changing world where the threats from disruptive competitors are greater than ever.

We also continue to focus on **our vision of being a top performing bank for our customers, employees, stockholders and communities**. To achieve this, we know that we must have a strong balance sheet, with more than ample liquidity, capital and reserves so that we can operate from a position of strength to be there for our customers. Being there for customers and communities means those people, businesses and communities can rely on us to be steadfast in our support. In 2021 we were proud not just of our investments in our business, but also in our wide-ranging investments directly into our communities in ways that will have lasting impacts. These investments reflect the essence of who we are.

As we look back on 2021, we are struck by how improbable our company’s 164-year history has been over now six generations of family ownership. Since our founding near the banks of the Missouri River in 1857, our headquarters has moved just a few short blocks down the same street! Our enduring history owes itself to thousands of employees who have carried out our mission so well. Those employees made our communities stronger, made our customers’ lives better and supported each other in good times and bad. If the COVID-19 pandemic has taught us anything, it is the importance of a team working together. As stockholders we hope that you, like us, are as appreciative as ever for our employees and what they have accomplished as a team in 2021.



Clark D. Lauritzen

*Chairman and President*

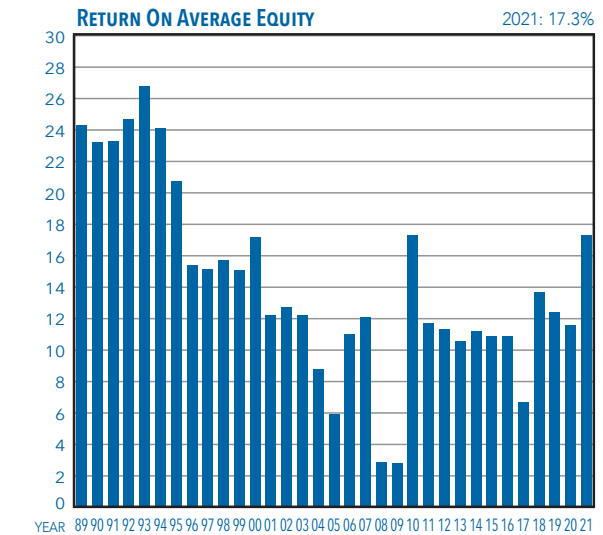
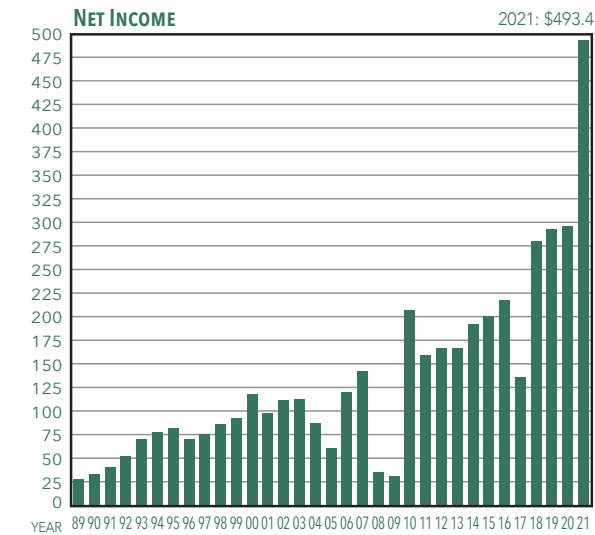
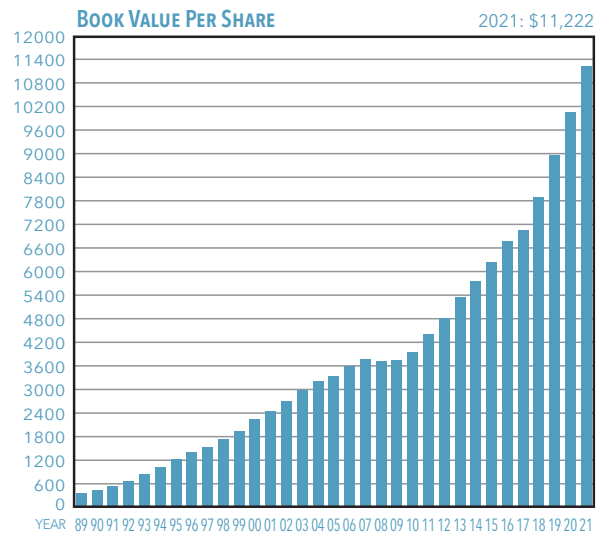
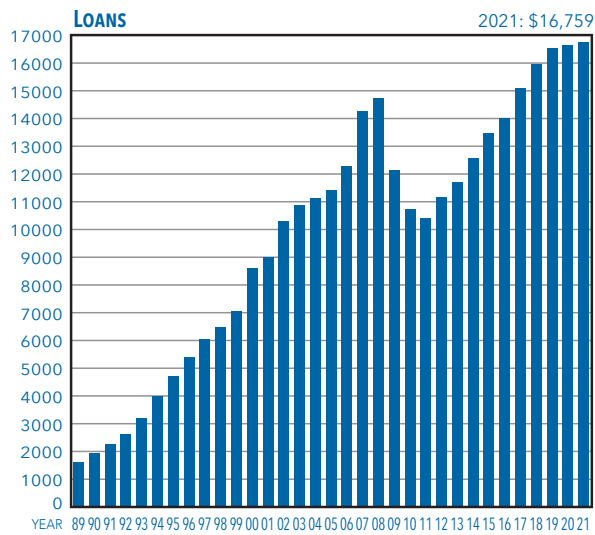
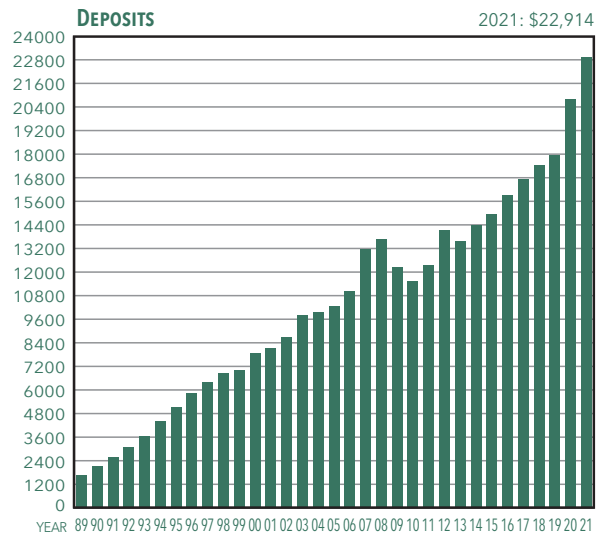
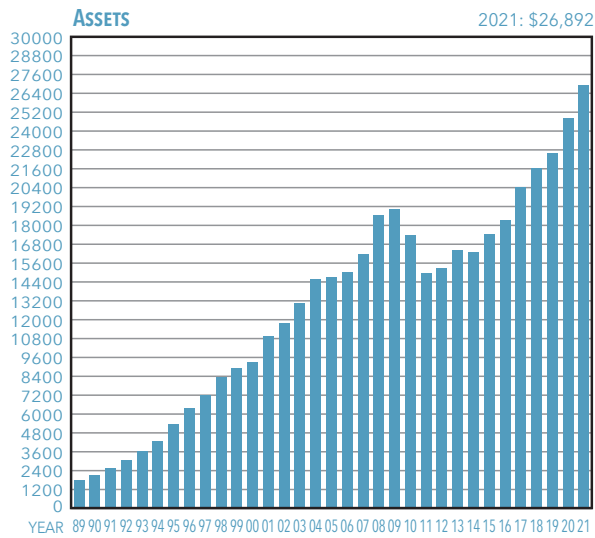


Bruce R. Lauritzen

*Chairman Emeritus*

# First National of Nebraska and Subsidiaries Performance Trends

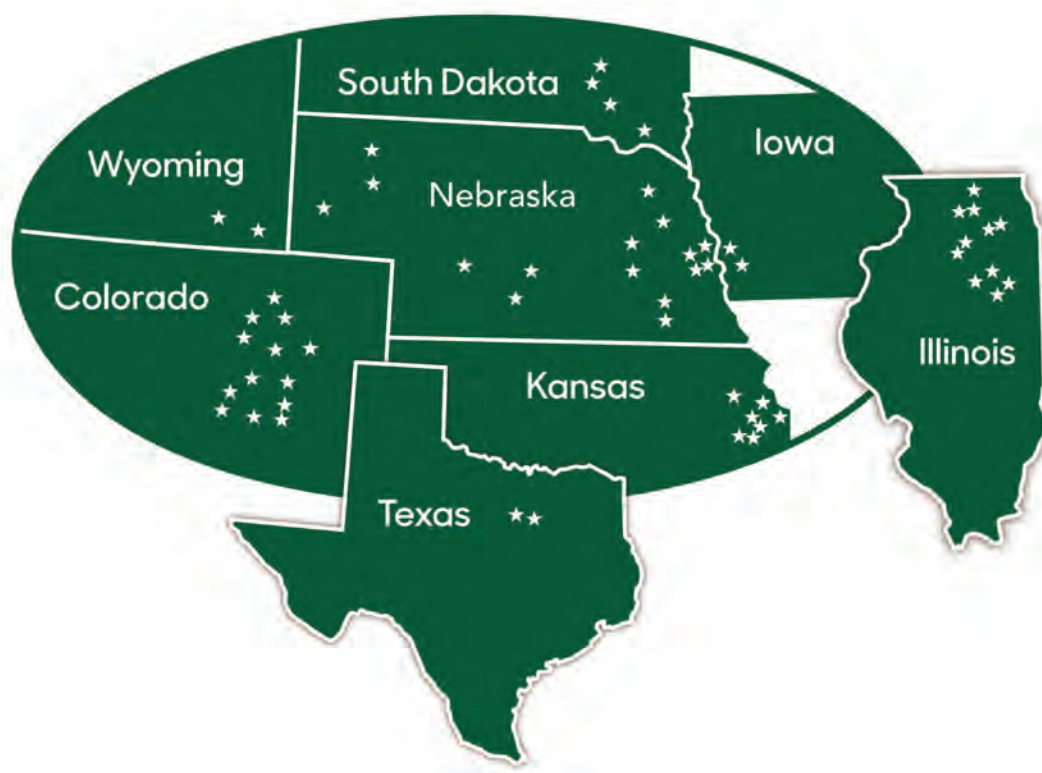
(\$ in millions except per share data)



## First National of Nebraska and Subsidiaries Financial Highlights

	Years ended December 31,				
	2021	2020	2019	2018	2017
<small>(in thousands except per share data)</small>					
Total assets	\$ 26,892,234	\$ 24,817,423	\$ 22,623,708	\$ 21,647,511	\$ 20,434,754
Total interest income and noninterest income	\$ 1,735,560	\$ 1,733,813	\$ 1,860,392	\$ 1,756,463	\$ 1,606,039
Net income	\$ 493,388	\$ 296,123	\$ 292,939	\$ 280,106	\$ 135,644
Stockholders' equity	\$ 2,932,141	\$ 2,698,539	\$ 2,402,361	\$ 2,165,274	\$ 1,963,157
Allowance for loan losses	\$ 284,129	\$ 440,341	\$ 376,823	\$ 402,621	\$ 392,692
Per share data:					
Diluted earnings	\$ 1,870	\$ 1,104	\$ 1,071	\$ 1,011	\$ 469
Dividends	\$ 380	\$ 210	\$ 210	\$ 200	\$ 100
Stockholders' equity	\$ 11,221	\$ 10,060	\$ 8,957	\$ 7,889	\$ 7,051
Dividend payout ratio	20.2%	19.0%	19.6%	19.7%	21.3%
Profit ratios:					
Return on average equity	17.3%	11.6%	12.4%	13.7%	6.7%
Return on average assets	1.9%	1.3%	1.4%	1.4%	0.7%

First National of Nebraska and subsidiaries had 97 full-service branches throughout seven states as of December 31, 2021. Subsequent to year-end, the Company completed the acquisition of Western States Bank which added ten branches spanning Northeastern Colorado, Western Nebraska, and Southeastern Wyoming.



# First National of Nebraska and Subsidiaries

## Consolidated Statements of Financial Condition

	December 31,	
	2021	2020
(in thousands except share data)		
<b>Assets</b>		
Cash and due from banks	\$ 3,867,815	\$ 2,882,349
Federal funds sold and other short-term investments	150	4,215
Total cash and cash equivalents	3,867,965	2,886,564
Interest-bearing time deposits due from banks	30,672	30,670
Investment securities:		
Available-for-sale debt securities (amortized cost \$4,551,316 and \$4,037,271)	4,591,091	4,196,310
Held-to-maturity debt securities (fair value \$149,458 and \$169,159)	147,429	163,643
Other securities, at cost (includes equity securities \$32,354 and \$23,915 carried at fair value)	84,894	77,164
Total investment securities	4,823,414	4,437,117
Loans and leases (1)	16,759,116	16,620,671
Less: Allowance for loan losses	284,129	440,341
Net loans and leases	16,474,987	16,180,330
Premises, equipment and software, net	480,921	484,503
Other assets	999,637	601,797
Goodwill	165,329	165,329
Intangible assets	49,309	31,113
Total assets	<b>\$ 26,892,234</b>	<b>\$ 24,817,423</b>
<b>Liabilities and Stockholders' Equity</b>		
Deposits:		
Noninterest-bearing	\$ 8,388,855	\$ 7,163,439
Interest-bearing	14,524,774	13,599,023
Total deposits	22,913,629	20,762,462
Short-term fundings	57,129	157,588
Net other borrowings (1)	4,688	305,054
Accrued expenses and other liabilities	686,223	595,591
Net capital notes and trust preferred securities	298,424	298,189
Total liabilities	23,960,093	22,118,884
Contingencies and commitments (Note M)		
Stockholders' equity:		
Common stock, \$5 par value, 370,000 shares authorized; 315,000 shares issued; 261,278 and 268,251 outstanding	1,575	1,575
Additional paid-in capital	11,177	8,987
Retained earnings	3,412,160	3,018,257
Treasury stock of 53,722 and 46,749 shares, at cost	(432,388)	(343,529)
Accumulated other comprehensive gain (loss)	(60,383)	13,249
Total stockholders' equity	2,932,141	2,698,539
Total liabilities and stockholders' equity	<b>\$ 26,892,234</b>	<b>\$ 24,817,423</b>

(1) Balances at December 31, 2021 and 2020 include assets and liabilities of a consolidated securitization trust, which includes loans of \$2.4 billion and \$2.6 billion, and other borrowings of \$0.0 million and \$299.6 million, respectively.

See Notes to Consolidated Financial Statements



# First National of Nebraska and Subsidiaries

## Consolidated Statements of Income

	Years ended December 31,		
	2021	2020	2019
(in thousands except share and per share data)			
Interest income:			
Interest and fees on loans and lease financing	\$ 1,106,798	\$ 1,191,144	\$ 1,358,028
Interest on investment securities	89,460	97,651	97,998
Interest on federal funds sold and other short-term investments	3,728	2,836	8,077
Total interest income	1,199,986	1,291,631	1,464,103
Interest expense:			
Interest on deposits	24,001	69,284	143,038
Interest on short-term fundings	109	552	1,009
Interest on Federal Home Loan Bank advances	—	1,879	4,018
Interest on other borrowings	1,866	7,188	21,026
Interest on capital notes and trust preferred securities	10,116	14,292	16,878
Total interest expense	36,092	93,195	185,969
Net interest income	1,163,894	1,198,436	1,278,134
Provision for loan losses	6,903	331,472	291,160
Net interest income after provision for loan losses	1,156,991	866,964	986,974
Noninterest income:			
Processing services	208,219	134,576	166,645
Deposit services	38,540	33,942	33,575
Trust and investment services	69,958	66,988	65,832
Gain on sale of mortgage loans	55,330	105,348	38,482
Managed services	33,520	45,045	43,587
Other	130,007	56,283	48,168
Total noninterest income	535,574	442,182	396,289
Noninterest expense:			
Salaries and employee benefits	515,492	483,203	533,371
Net occupancy expense of premises	60,055	60,194	55,761
Equipment rentals, depreciation and maintenance	123,244	104,668	95,198
Marketing, communications and supplies	103,346	76,812	90,764
Processing expense	42,605	50,197	49,965
Loan servicing expense	67,052	58,286	60,500
Professional services	44,286	39,234	39,966
Contingent litigation	24,017	—	6,843
Other	78,806	56,249	68,416
Total noninterest expense	1,058,903	928,843	1,000,784
Income before income taxes	633,662	380,303	382,479
Income tax expense (benefit):			
Current	110,292	122,892	104,036
Deferred	29,982	(38,712)	(14,496)
Total income tax expense	140,274	84,180	89,540
Net income	\$ 493,388	\$ 296,123	\$ 292,939
Basic and diluted earnings per common share	\$ 1,870	\$ 1,104	\$ 1,071
Average basic and diluted common shares outstanding	263,859	268,211	273,450

See Notes to Consolidated Financial Statements

## First National of Nebraska and Subsidiaries

### Consolidated Statements of Comprehensive Income

	Years ended December 31,		
	2021	2020	2019
(in thousands)			
Net income	\$ 493,388	\$ 296,123	\$ 292,939
Other comprehensive income (loss), before tax:			
Net unrealized gain (loss) on available-for-sale securities	(119,255)	110,444	96,759
Net unrealized gain on qualifying cash flow hedges	—	1,612	709
Net unrealized gain (loss) on employee benefit plans	22,907	(28,899)	(7,786)
Net unrealized gain on transfer of securities from available-for-sale to held-to-maturity	94	139	162
Less: Reclassification adjustment for net gain realized in net income	—	10,004	21
Other comprehensive gain (loss), before tax	(96,254)	73,292	89,823
Less: Income tax expense (benefit) for other comprehensive gain (loss)	(22,622)	17,226	21,111
Other comprehensive gain (loss), net of tax	(73,632)	56,066	68,712
Comprehensive income	\$ 419,756	\$ 352,189	\$ 361,651

See Notes to Consolidated Financial Statements

# First National of Nebraska and Subsidiaries

## Consolidated Statements of Stockholders' Equity

For the years ended December 31, 2021, 2020, and 2019

	Common Stock (\$5 par value)	Additional Paid-in Capital	Retained Earnings	Treasury Stock (at cost)	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
(in thousands except share and share data)						
Balance, January 1, 2019	\$ 1,575	\$ 6,171	\$ 2,542,844	\$ (273,787)	\$ (111,529)	\$ 2,165,274
Net income	—	—	292,939	—	—	292,939
Other comprehensive gain, net of tax	—	—	—	—	68,712	68,712
Purchases of treasury stock - 6,454 shares	—	—	—	(69,349)	—	(69,349)
Sales of treasury stock - 221 shares	—	1,303	—	801	—	2,104
Dividends declared - \$210 per share	—	—	(57,319)	—	—	(57,319)
Balance, December 31, 2019	1,575	7,474	2,778,464	(342,335)	(42,817)	2,402,361
Net income	—	—	296,123	—	—	296,123
Other comprehensive gain, net of tax	—	—	—	—	56,066	56,066
Purchases of treasury stock - 176 shares	—	—	—	(1,951)	—	(1,951)
Sales of treasury stock - 205 shares	—	1,513	—	757	—	2,270
Dividends declared - \$210 per share	—	—	(56,330)	—	—	(56,330)
Balance, December 31, 2020	1,575	8,987	3,018,257	(343,529)	13,249	2,698,539
Net income	—	—	493,388	—	—	493,388
Other comprehensive loss, net of tax	—	—	—	—	(73,632)	(73,632)
Purchases of treasury stock - 7,241 shares	—	—	—	(89,958)	—	(89,958)
Sales of treasury stock - 268 shares	—	2,190	—	1,099	—	3,289
Dividends declared - \$380 per share	—	—	(99,485)	—	—	(99,485)
Balance, December 31, 2021	\$ 1,575	\$ 11,177	\$ 3,412,160	\$ (432,388)	\$ (60,383)	\$ 2,932,141

See Notes to Consolidated Financial Statements

# First National of Nebraska and Subsidiaries

## Consolidated Statements of Cash Flows

	Years ended December 31,		
	2021	2020	2019
(in thousands)			
<b>OPERATING ACTIVITIES</b>			
Net Income	\$ 493,388	\$ 296,123	\$ 292,939
Adjustments to reconcile net income to net cash flows from (used in) operating activities:			
Provision for loan losses	6,903	331,472	291,160
Depreciation, amortization and accretion	76,856	77,019	75,445
Benefit (provision) for deferred taxes	29,982	(38,712)	(14,496)
Origination of mortgage loans for resale	(1,923,469)	(1,983,971)	(1,269,330)
Proceeds from the sale of mortgage loans originated for resale	2,070,332	1,819,699	1,248,489
Trading securities, net	(3,783)	—	—
Contingent litigation payments	(6,049)	(6,453)	(12,725)
Gain on sale of credit card loans	(1,975)	—	—
Other asset and liability activity, net	95,162	66,695	42,976
Net cash flows from operating activities	837,347	561,872	654,458
<b>INVESTING ACTIVITIES</b>			
Maturities of securities available-for-sale	1,073,842	751,910	550,187
Sales of securities available-for-sale	38,550	180,323	113,227
Purchases of securities available-for-sale	(1,649,117)	(1,313,078)	(1,052,282)
Maturities of securities held-to-maturity	47,097	59,203	41,052
Purchases of securities held-to-maturity	(32,469)	(34,245)	(22,796)
Redemptions of FHLB stock and other securities	3,239	35,197	20,592
Purchases of FHLB stock and other securities	(6,306)	(5,290)	(43,753)
Maturities of interest-bearing time deposits	31,341	31,587	30,000
Purchases of interest-bearing time deposits	(31,343)	(31,338)	(30,015)
Net change in loans and leases	(484,498)	(351,419)	(882,043)
Sale of credit card loan portfolios	37,027	158,329	—
Purchases of bank owned life insurance	(375,000)	—	—
Purchases of premises, equipment and software	(40,057)	(25,087)	(36,092)
Other, net	(12,027)	2,214	2,745
Net cash flows used in investing activities	(1,399,721)	(541,694)	(1,309,178)
<b>FINANCING ACTIVITIES</b>			
Net change in deposits	2,151,167	2,822,437	487,916
Net change in short term fundings	(100,459)	(34,199)	170,165
Net change in FHLB advances	—	(450,000)	150,000
Issuance of other borrowings	1,000	—	129,700
Principal repayments on other borrowings	(1,360)	(100,327)	(30,195)
Principal repayments on other borrowings of securitization trusts	(300,000)	(300,000)	(300,000)
Principal repayments on capital notes	—	(50,000)	—
Cash dividends paid	(99,485)	(56,330)	(57,319)
Net change in treasury stock	(86,669)	319	(67,245)
Net cash flows from financing activities	1,564,194	1,831,900	483,022
Net change in cash, cash equivalents and restricted cash	1,001,820	1,852,078	(171,698)
Cash, cash equivalents and restricted cash at beginning of year	2,940,653	1,088,575	1,260,273
Cash, cash equivalents and restricted cash at end of year	\$ 3,942,473	\$ 2,940,653	\$ 1,088,575
Cash paid during the year for:			
Interest	\$ 38,498	\$ 96,447	\$ 186,965
Income taxes	\$ 102,507	\$ 109,326	\$ 103,740

The Company transferred \$1.0 million, \$3.1 million and \$2.0 million from loans to other real estate owned during the years ended December 31, 2021, 2020 and 2019, respectively. The Company transferred \$35.0 million from loans to credit card loans held for sale during the year ended December 31, 2021. These loans were sold in November 2021.

See Notes to Consolidated Financial Statements

# First National of Nebraska and Subsidiaries

## Notes to Consolidated Financial Statements

### Years Ended December 31, 2021, 2020 and 2019

#### A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of Presentation and Consolidation** – The consolidated financial statements of First National of Nebraska, Inc. (the Parent Company) and subsidiaries (collectively, the Company) include the accounts of the Parent Company; its 99.99% owned subsidiary, First National Bank of Omaha and subsidiaries (the Bank); its nonbanking subsidiaries; and its variable interest entities (VIEs) in which it is the primary beneficiary. All intercompany transactions and balances have been eliminated in consolidation. Subsequent events are analyzed through February 25, 2022, the date the report is available to be issued.

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

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

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

**Cash and Cash Equivalents** – Cash and cash equivalents include cash and due from banks, federal funds sold and other short-term investments with original maturities of three months or less. Restricted cash predominately relates to cash maintained for ATM operations, cash held as collateral, and cash held at a consolidated VIE. As of December 31, 2021 and 2020, restricted cash was \$74.5 million and \$54.1 million, respectively, and is included in other assets.

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

Held-to-maturity debt securities are limited to securities for which the Company has the intent and ability to hold to maturity. These securities are reported at amortized cost.

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

The Company regularly evaluates debt securities whose values have declined below amortized cost to assess whether the decline in fair value represents an other-than-temporary impairment (OTTI). Amortized cost reflects historical cost adjusted for amortization of premiums, accretion of discounts and any previously recorded impairments.

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

Loans are considered impaired when, based on current information and events, it is probable the Company will be unable to collect all amounts due in accordance with the original contractual terms of the loan agreement. Impairment is evaluated in total for smaller-balance loans and on an individual basis for other loans.

Accrual of interest is discontinued on a loan when management believes collection of interest is doubtful after considering economic and business conditions, collection efforts and the financial condition of the borrower. All interest accrued but not collected for loans that are charged off or placed on non-accrual, is reversed against interest income. All cash payments received while the loans are placed on non-accrual, including impaired loans placed on non-accrual, are applied to principal until all principal is received or the loan is removed from non-accrual status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured. Credit card loans continue to accrue interest up to 90 days contractually past due. The credit card loans are then put on non-accrual status for an additional 90 days. After 180 days, the credit card loan balance plus accrued interest is charged off, with the exception of credit card loans modified in troubled debt restructurings which charge off after 120 days. All other banking loans are charged off when identified as losses by management.

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

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

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

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

**Allowance for Loan Losses** – The Company's allowance for loan losses represents management's estimate of probable losses inherent in the loan portfolio. Additions to the allowance are recorded in the provision for loan losses. Credit losses are charged and recoveries are credited to the allowance for loan losses.

The Company's allowance for loan losses consists of specific valuation allowances established for probable losses on specific loans and general valuation allowances calculated based on historical and inherent losses for similar loans with similar characteristics adjusted to reflect the impact of current conditions.

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

**Foreclosed Assets** – Assets acquired through loan foreclosures are held for sale and initially recorded at the lower of cost or fair value less estimated selling costs when acquired, establishing a new cost basis. If the fair value of the assets decline, a write-down is recorded through expense. The valuation of foreclosed assets is subjective in nature and may be adjusted in the future because of changes in economic conditions. Foreclosed assets are included in other assets on the Consolidated Statements of Financial Condition and totaled \$0.1 million and \$0.6 million at December 31, 2021 and 2020, respectively.

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

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

Under the qualitative assessment, various events and circumstances that would affect the estimated fair value of a reporting unit (e.g., macroeconomic conditions, industry and market conditions, cost factors, overall financial performance and other relevant entity-specific events) are identified and assessed. The Company's policy requires the completion of a quantitative assessment for its reporting unit every three years unless circumstances indicate that such assessment should be performed more frequently. The Company completed its periodic quantitative assessment for the 2020 annual review of goodwill. The Company used a weighted average of two generally accepted approaches, the market approach and the income approach, in determining the fair value of goodwill. Under the market approach, the fair value of the asset reflects the price at which comparable assets are purchased under similar circumstances. The income approach is based on value of future cash flows that an asset will generate in its economic life.

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

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

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

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

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

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

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

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

**Subsequent Events** – On February 14, 2022, the Company completed the acquisition of Western States Bank for \$65 million. Western States Bank was a community bank with ten branches spanning Northeastern Colorado, Western Nebraska, and Southeastern Wyoming.

## B. INVESTMENT SECURITIES

### *Available-for-Sale Debt Securities*

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<i>(in thousands)</i>				
<b>2021</b>				
U.S. government obligations	\$ 502,413	\$ 4,121	\$ (3,967)	\$ 502,567
Obligations of states and political subdivisions	68,834	940	(465)	69,309
Agency mortgage-backed securities	3,961,344	69,889	(29,508)	4,001,725
Other securities	18,725	—	(1,235)	17,490
<b>Total debt securities available-for-sale</b>	<b>\$ 4,551,316</b>	<b>\$ 74,950</b>	<b>\$ (35,175)</b>	<b>\$ 4,591,091</b>
<b>2020</b>				
U.S. government obligations	\$ 425,711	\$ 10,933	\$ —	\$ 436,644
Obligations of states and political subdivisions	52,832	825	(192)	53,465
Agency mortgage-backed securities	3,545,003	150,295	(1,587)	3,693,711
Other securities	13,725	—	(1,235)	12,490
<b>Total debt securities available-for-sale</b>	<b>\$ 4,037,271</b>	<b>\$ 162,053</b>	<b>\$ (3,014)</b>	<b>\$ 4,196,310</b>

There were no gross realized gains on sales for available-for-sale debt securities in 2021, \$10 million realized gains on sales in 2020 and no gross realized gains on sales in 2019. The gross realized gains on sales of available-for-sale debt securities are recorded in other noninterest income on the Consolidated Statements of Income. The proceeds from sales of available-for-sale debt securities were \$38.6 million, \$180.3 million and \$113.2 million for 2021, 2020 and 2019, respectively.



### Held-to-Maturity Debt Securities

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(in thousands)				
<b>2021</b>				
U.S. government obligations	\$ 12,856	\$ 318	\$ —	\$ 13,174
Obligations of states and political subdivisions	45,867	868	(55)	46,680
Agency mortgage-backed securities	88,706	1,783	(885)	89,604
<b>Total debt securities held-to-maturity</b>	<b>\$ 147,429</b>	<b>\$ 2,969</b>	<b>\$ (940)</b>	<b>\$ 149,458</b>
<b>2020</b>				
U.S. government obligations	\$ 19,002	\$ 742	\$ —	\$ 19,744
Obligations of states and political subdivisions	39,509	1,523	—	41,032
Agency mortgage-backed securities	105,132	3,312	(61)	108,383
<b>Total debt securities held-to-maturity</b>	<b>\$ 163,643</b>	<b>\$ 5,577</b>	<b>\$ (61)</b>	<b>\$ 169,159</b>

The following table presents the amortized cost and fair value by the contractual maturity of available-for-sale and held-to-maturity debt securities held on December 31, 2021:

	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
(in thousands)				
<b>Debt securities</b>				
Due in one year or less	\$ 81,852	\$ 82,340	\$ 2,287	\$ 2,296
Due after one year through five years	187,990	191,134	26,236	26,782
Due after five years through ten years	252,856	249,983	20,372	20,845
Due after ten years	48,549	48,419	9,828	9,931
Agency mortgage-backed securities (weighted average life of 4.2 years)	3,961,344	4,001,725	88,706	89,604
<b>Total</b>	<b>\$ 4,532,591</b>	<b>\$ 4,573,601</b>	<b>\$ 147,429</b>	<b>\$ 149,458</b>

The following table shows the fair value and gross unrealized losses of the Company's investments, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2021 and 2020:

	Less than 12 months		12 months or greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
(in thousands)						
<b>2021</b>						
U.S. government obligations	\$ 206,759	\$ (3,463)	\$ 15,780	\$ (504)	\$ 222,539	\$ (3,967)
Obligations of states and political subdivisions	14,825	(133)	15,627	(387)	30,452	(520)
Agency mortgage-backed securities	1,280,190	(19,118)	555,519	(11,275)	1,835,709	(30,393)
Other securities	—	—	12,490	(1,235)	12,490	(1,235)
Total temporarily impaired securities	\$ 1,501,774	\$ (22,714)	\$ 599,416	\$ (13,401)	\$ 2,101,190	\$ (36,115)
<b>2020</b>						
Obligations of states and political subdivisions	\$ 3,765	\$ (30)	\$ 7,924	\$ (162)	\$ 11,689	\$ (192)
Agency mortgage-backed securities	343,090	(1,463)	42,305	(185)	385,395	(1,648)
Other securities	—	—	12,490	(1,235)	12,490	(1,235)
Total temporarily impaired securities	\$ 346,855	\$ (1,493)	\$ 62,719	\$ (1,582)	\$ 409,574	\$ (3,075)

The Company conducts periodic reviews of impaired investments to determine if the unrealized losses are other than temporary. The Company has determined the unrealized losses in these investments to be temporary in nature. The primary factor in making that determination is management's intent and ability to hold each investment for a period of time sufficient to allow for an anticipated recovery in fair value. Additionally, for each debt security with an unrealized loss, the Company considered its intent to hold the securities, the likelihood that it will be required to sell the securities before recovery of its amortized cost basis and the likelihood of recovery of the securities' entire amortized cost basis. If the decline in fair value is determined to be other than temporary, the cost basis of the securities is written down to fair value and such impairments would be recorded in earnings. Management did not have the intent to sell any of the above securities at December 31, 2021, nor is it more likely than not that the Company will have to sell any security before a recovery of the cost.

Securities totaling \$3.5 billion and \$3.3 billion at December 31, 2021 and 2020, respectively, were pledged to secure public deposits, repurchase agreements and for other purposes as required or permitted by law.

The Company had \$3.8 million of trading securities at December 31, 2021. The Company did not have trading securities in 2020. The portion of trading gains and losses that related to trading securities held at December 31, 2021 was \$2.5 million for December 31, 2021. There were no gains or losses in 2020 and 2019.

## C. LOANS AND ALLOWANCE FOR LOAN LOSSES

### *Loans and Leases*

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

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

	2021	2020
(in thousands)		
Credit card	\$ 6,595,716	\$ 6,205,850
Real estate – commercial	3,917,340	3,638,836
Real estate – residential (1)	1,678,379	2,001,827
Commercial	1,496,488	2,010,459
Agricultural	1,909,153	1,869,737
Other	1,139,997	904,647
Gross loans	16,737,073	16,631,356
Deferred loan fees (costs), net	22,043	(10,685)
Total loans and leases	16,759,116	16,620,671
Less:		
Allowance for loan losses	284,129	440,341
Net loans and leases	\$ 16,474,987	\$ 16,180,330

(1) Includes mortgage loans held for sale of \$95.0 million and \$276.9 million at December 31, 2021 and 2020, respectively.

#### *Related Party Loans*

Loan participations sold to banks owned by controlling stockholders of the Company were \$12.0 million and \$23.6 million at December 31, 2021 and 2020, respectively. Loan participations of \$80.9 million and \$78.2 million were also purchased from companies owned by controlling stockholders at December 31, 2021 and 2020, respectively. Loans and commitments to Company directors and their associated entities were made in the ordinary course of business and were approximately \$225.3 million and \$3.4 million at December 31, 2021 and 2020, respectively.

#### *Allowance for Loan Losses*

The allowance for loan losses is intended to cover losses inherent in the Company's loan portfolio as of the reporting date. The Company evaluates its allowance for loan losses based upon a review of collateral values, delinquencies, non-accruals, payment histories and various other analytical and subjective measures relating to the various loan portfolios within the Company.

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

	2021	2020	2019
(in thousands)			
Balance, beginning of year	\$ 440,341	\$ 376,823	\$ 402,621
Provision for loan losses	6,903	331,472	291,160
Transfer of loans to held for sale	—	—	(11,215)
Loans charged off	(233,737)	(338,861)	(392,030)
Loans recovered	70,622	70,907	86,287
Total net charge-offs	(163,115)	(267,954)	(305,743)
Balance, end of year	\$ 284,129	\$ 440,341	\$ 376,823

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

<b>Credit Card</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>
(in thousands)			
Balance, beginning of year	\$ 309,759	\$ 274,966	\$ 289,107
Provision for loan losses	12,446	287,836	294,784
Transfer of loans to held for sale	—	—	(11,215)
Loans charged off	(214,016)	(309,024)	(357,222)
Loans recovered	55,720	55,981	59,512
<b>Total net charge-offs</b>	<b>(158,296)</b>	<b>(253,043)</b>	<b>(297,710)</b>
<b>Balance, end of year</b>	<b>\$ 163,909</b>	<b>\$ 309,759</b>	<b>\$ 274,966</b>

<b>Other Bank Loans</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>
(in thousands)			
Balance, beginning of year	\$ 130,582	\$ 101,857	\$ 113,514
Provision for loan losses	(5,543)	43,636	(3,624)
Loans charged off	(19,721)	(29,837)	(34,808)
Loans recovered	14,902	14,926	26,775
<b>Total net charge-offs</b>	<b>(4,819)</b>	<b>(14,911)</b>	<b>(8,033)</b>
<b>Balance, end of year</b>	<b>\$ 120,220</b>	<b>\$ 130,582</b>	<b>\$ 101,857</b>

The Company's allowance for loan losses consists of various methodologies to determine impairment: (a) loans individually evaluated for impairment are evaluated based on probable losses on specific loans, and (b) loans collectively evaluated for impairment are evaluated based on historical loan loss experience for similar loans with similar characteristics, adjusted to reflect the impact of current conditions.

Additionally, the Company's total allowance for loan losses includes general valuation allowances based on economic conditions and other qualitative risk factors. Such valuation allowances are determined by evaluating, among other things: (a) changes in asset quality, (b) composition and concentrations of credit risk and (c) the impact of economic risks on the portfolio including unemployment rates and bankruptcy trends.

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

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

Credit card and other consumer loans are predominately unsecured, and the allowance for potential losses associated with these loans has been established accordingly. All other loans are generally secured by underlying real estate, business assets, personal property and personal guarantees. The amount of collateral obtained is based upon management's evaluation of the borrower.

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

The following table provides an allocation of the year end recorded investment which includes deferred loan costs, and the allowance for loan losses by loan type; however, allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories:

	Recorded Investment in Loans Individually Evaluated for Impairment	Ending Allowance: Individually Evaluated for Impairment	Recorded Investment in Loans Collectively Evaluated for Impairment	Ending Allowance: Collectively Evaluated for Impairment
(in thousands)				
<b>2021</b>				
Credit card	\$ 34,014	\$ 10,762	\$ 6,575,156	\$ 153,147
Real estate – commercial	4,313	—	3,903,757	47,386
Real estate – residential	32,667	1,212	1,647,703	9,970
Commercial	4,599	240	1,490,496	14,674
Agricultural	29,929	4,698	1,880,032	20,971
Other	1,431	—	1,155,018	21,069
<b>Total</b>	<b>\$ 106,953</b>	<b>\$ 16,912</b>	<b>\$ 16,652,162</b>	<b>\$ 267,217</b>
<b>2020</b>				
Credit card	\$ 47,495	\$ 14,451	\$ 6,165,214	\$ 295,308
Real estate – commercial	6,214	15	3,623,400	45,098
Real estate – residential	21,943	1,118	1,982,084	12,102
Commercial	6,820	417	1,989,596	18,864
Agricultural	31,050	—	1,839,503	24,309
Other	1,247	—	906,105	28,659
<b>Total</b>	<b>\$ 114,769</b>	<b>\$ 16,001</b>	<b>\$ 16,505,902</b>	<b>\$ 424,340</b>

#### *Impaired Loans*

Loans individually evaluated for impairment are evaluated based on probable losses on specific loans. A loan is considered impaired when it is probable that all principal and interest amounts due will not be collected in accordance with the loan's contractual terms. Additionally, all loans modified in a troubled debt restructuring are classified as impaired loans. For credit card receivables, only loans that have been modified in a troubled debt restructuring are considered impaired loans. For all other banking loans, the Company uses internal credit ratings to determine which subset of loans should be individually evaluated for impairment.

The allowance established for probable losses on specific loans is based on a periodic analysis and evaluation of classified loans. Specific reserves for impaired loans are measured and recognized to the extent that the recorded investment of an impaired loan exceeds its value based on either the fair value of the loan's underlying collateral less costs to sell or the calculated present value of projected cash flows discounted at the contractual effective interest rate.

The following table summarizes the Company's impaired loans at December 31, 2021 and 2020. The unpaid contractual principal balance represents the Company's gross investment in the loan without deferred loan costs.

	<b>Unpaid Contractual Principal Balance</b>	<b>Recorded Investment With No Allowance</b>	<b>Recorded Investment With Allowance</b>	<b>Total Recorded Investment</b>	<b>Related Allowance</b>
(in thousands)					
<b>2021</b>					
Credit card	\$ 33,945	\$ —	\$ 34,014	\$ 34,014	\$ 10,762
Real estate – commercial	4,310	4,313	—	4,313	—
Real estate – residential	32,640	27,516	5,151	32,667	1,212
Commercial	4,596	3,925	674	4,599	240
Agricultural	29,904	14,275	15,654	29,929	4,698
Other	1,430	1,431	—	1,431	—
<b>Total</b>	<b>\$ 106,825</b>	<b>\$ 51,460</b>	<b>\$ 55,493</b>	<b>\$ 106,953</b>	<b>\$ 16,912</b>
<b>2020</b>					
Credit card	\$ 47,443	\$ —	\$ 47,495	\$ 47,495	\$ 14,451
Real estate – commercial	6,224	5,504	710	6,214	15
Real estate – residential	21,981	17,247	4,696	21,943	1,118
Commercial	6,832	5,229	1,591	6,820	417
Agricultural	31,103	31,050	—	31,050	—
Other	1,249	1,116	131	1,247	—
<b>Total</b>	<b>\$ 114,832</b>	<b>\$ 60,146</b>	<b>\$ 54,623</b>	<b>\$ 114,769</b>	<b>\$ 16,001</b>

The following table summarizes the Company's average balance of impaired loans during 2021 and 2020 and interest income recognized during 2021 and 2020 on impaired loans subsequent to their classification as impaired:

	<b>Average Balance</b>	<b>Recognized Interest Income</b>
(in thousands)		
<b>2021</b>		
Credit card	\$ 40,560	\$ 2,077
Real estate – commercial	5,519	223
Real estate – residential	21,435	642
Commercial	5,209	239
Agricultural	37,380	308
Other	1,357	7
<b>Total</b>	<b>\$ 111,460</b>	<b>\$ 3,496</b>
<b>2020</b>		
Credit card	\$ 53,738	\$ 2,742
Real estate – commercial	6,995	386
Real estate – residential	22,823	865
Commercial	7,034	328
Agricultural	25,725	166
Other	1,161	9
<b>Total</b>	<b>\$ 117,476</b>	<b>\$ 4,496</b>

### *Restructurings*

Included in impaired loans are troubled debt restructurings (TDR). Troubled debt restructurings occur when concessions are granted to borrowers experiencing financial difficulties. These concessions could include a

reduction in the interest rate on the loan, payment extensions, forgiveness of principal, forbearance or other action intended to maximize collection. These loans are measured for impairment based on either the fair value of the underlying collateral or based on the present value of expected future cash flows discounted at the effective interest rate of the original loan contract with any shortfall recorded as a part of the allowance for loan losses. Some loans modified through the loan restructurings may not be accruing interest at the time of the modification. The Company returns modified loans to accrual status once the borrower demonstrates performance according to the terms of the restructuring agreement for a period of at least six months. A loan modified as a troubled debt restructuring is reported as a troubled debt restructuring for a minimum of one year. A loan will no longer be included in the balance of troubled debt restructurings in the calendar year following a modification if the loan was modified to yield a market rate for loans of similar credit risk at the time of restructuring and the loan is not impaired based on the terms of the restructuring agreement.

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

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

	Number of loans modified	Recorded investment in loans classified as a TDR
(\$ in thousands)		
<b>2021</b>		
Credit card	3,336	\$ 33,945
Real estate – commercial	1	4,310
Real estate – residential	20	17,511
Commercial	2	4,184
Agricultural	5	10,051
Other	3	1,430
<b>Total modifications</b>	<b>3,367</b>	<b>\$ 71,431</b>
<b>2020</b>		
Credit card	5,836	\$ 47,443
Real estate – commercial	2	5,546
Real estate – residential	24	21,874
Commercial	3	6,270
Agricultural	2	4,861
Other	1	1,249
<b>Total modifications</b>	<b>5,868</b>	<b>\$ 87,243</b>

At December 31, 2021 and 2020, respectively, \$3.3 million and \$5.2 million of credit card restructured loans were not in compliance with their modified terms. Modifications on credit card loans typically include a reduction in the interest rate charged on the loan and a conversion of the revolving loan into a term loan paying principal and interest; therefore, based on the methodology used to determine allowance on troubled debt restructurings, the Company increased the allowance recorded on these loans by \$1.9 million and \$2.8 million upon classification in 2021 and 2020, respectively. The Company recorded an allowance for loan loss equal to \$10.7 million and \$14.5 million on all credit card troubled debt restructurings in 2021 and 2020, respectively.

At December 31, 2021 and 2020, other banking loans modified as troubled debt restructurings of \$15.6 million and \$8.6 million, respectively, were not in compliance with their modified terms. There were no significant commitments for additional funding on any of the community banking loans that were troubled debt restructurings at December 31, 2021 or December 31, 2020.

#### *Troubled Debt Restructuring and Other Relief Related to COVID-19*

On March 25, 2020, the U.S. Senate approved the Coronavirus, Aid, Relief, and Economic Security Act (the CARES Act) providing optional, temporary relief from accounting for certain loan modifications as troubled debt restructurings (TDRs). Under the CARES Act, TDR relief is available to banks for loan modifications related to the adverse effects of Coronavirus Disease 2019 (COVID-19) (COVID-related modifications) granted to borrowers that are current as of December 31, 2019. TDR relief applies to COVID-related modifications made from March 1, 2020, until the earlier of January 1, 2022, or 60 days following the termination of the national emergency declared by the President of the United States. In first quarter 2020, we elected to apply the TDR relief provided by the CARES Act.

On April 7, 2020, federal banking regulators issued the Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus (Revised) (the Interagency Statement). The guidance in the Interagency Statement provides additional TDR relief as it clarifies that it is not necessary to consider the impact of the COVID-19 pandemic on the financial condition of a borrower in connection with a short-term (e.g., six months or less) COVID-related modification provided the borrower is current at the date the modification program is implemented.

For COVID-related modifications in the form of payment deferrals, delinquency status will not advance and loans that were accruing at the time the relief is provided will generally not be placed on nonaccrual status during the deferral period. COVID-related modifications that do not meet the provisions of the CARES Act or the Interagency Statement will be assessed for TDR classification.

#### *Credit Risk*

For the credit card portfolio, delinquencies are an indicator of credit quality at any point in time. Loan balances are considered delinquent when contractual payments on the loan become 30 days past due. All loans that are current on their payments are considered performing loans. All loans that are 90 days past due are considered nonperforming.

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

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



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

	Real Estate - Commercial	Real Estate - Residential	Commercial	Agricultural	Other	Total
(in thousands)						
<b>2021</b>						
Internally assigned grade:						
Pass	\$ 3,551,965	\$ 1,654,184	\$ 1,475,177	\$ 1,830,356	\$ 1,138,495	\$ 9,650,177
Special mention	96,412	630	6,801	20	—	103,863
Substandard	268,963	23,565	14,510	78,777	1,502	387,317
Total	\$ 3,917,340	\$ 1,678,379	\$ 1,496,488	\$ 1,909,153	\$ 1,139,997	\$ 10,141,357

	Credit Card
Based on payment activity:	
Performing	\$ 6,501,627
Nonperforming	94,089
Total	\$ 6,595,716

<b>2020</b>						
Internally assigned grade:						
Pass	\$ 3,552,130	\$ 1,978,804	\$ 1,972,541	\$ 1,746,188	\$ 902,323	\$ 10,151,986
Special mention	10,234	389	3,430	289	—	14,342
Substandard	76,472	22,634	34,488	123,260	2,324	259,178
Total	\$ 3,638,836	\$ 2,001,827	\$ 2,010,459	\$ 1,869,737	\$ 904,647	\$ 10,425,506

	Credit Card
Based on payment activity:	
Performing	\$ 6,092,539
Nonperforming	113,311
Total	\$ 6,205,850

#### *Nonperforming and Past-Due Loans*

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

The following is an aging analysis of the contractually past due loans and schedule of nonaccrual status as of December 31:

	30 – 89 Days Past Due	90 or More Days Past Due	Total Past Due	Nonaccrual Loans	Greater than 90 Days Past Due and Accruing
(in thousands)					
<b>2021</b>					
Credit card	\$ 48,825	\$ 45,264	\$ 94,089	\$ 43,368	\$ —
Real estate – commercial	4,204	595	4,799	395	595
Real estate – residential	6,847	2,464	9,311	20,211	2,464
Commercial	5,086	363	5,449	966	363
Agricultural	888	8,250	9,138	22,356	8,250
Other	4,303	128	4,431	1,168	128
Total	\$ 70,153	\$ 57,064	\$ 127,217	\$ 88,464	\$ 11,800

	30 – 89 Days Past Due	90 or More Days Past Due	Total Past Due	Nonaccrual Loans	Greater than 90 Days Past Due and Accruing
(in thousands)					
<b>2020</b>					
Credit card	\$ 53,524	\$ 59,787	\$ 113,311	\$ 57,235	\$ 90
Real estate – commercial	35,380	31,185	66,565	1,231	31,185
Real estate – residential	15,596	1,911	17,507	5,639	1,911
Commercial	4,284	1,807	6,091	1,796	1,807
Agricultural	8,202	22	8,224	29,693	22
Other	5,057	337	5,394	1,765	337
<b>Total</b>	<b>\$ 122,043</b>	<b>\$ 95,049</b>	<b>\$ 217,092</b>	<b>\$ 97,359</b>	<b>\$ 35,352</b>

## D. VARIABLE INTEREST ENTITIES

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

### *Credit Card Securitizations*

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

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

	2021	2020
(in thousands)		
Credit card loans	\$ 2,354,295	\$ 2,606,387
Allowance for loan losses allocated to securitized loans	(58,506)	(130,096)
<b>Total net loans</b>	<b>\$ 2,295,789</b>	<b>\$ 2,476,291</b>
Borrowings owed to securitization investors	\$ —	\$ 300,000
Unamortized debt issuance costs	—	(422)
<b>Total net other borrowings</b>	<b>\$ —</b>	<b>\$ 299,578</b>

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

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

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

#### *Residential Mortgage Loans*

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

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

## E. PREMISES, EQUIPMENT AND SOFTWARE

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

	2021	2020
(in thousands)		
Land	\$ 90,524	\$ 90,551
Buildings	586,293	591,382
Leasehold improvements	53,877	49,790
Software and equipment	418,244	429,193
Total premises, equipment and software	1,148,938	1,160,916
Less accumulated depreciation	668,017	676,413
Net premises, equipment and software	\$ 480,921	\$ 484,503

Depreciation expense included in net occupancy expense of premises and equipment rentals, depreciation and maintenance on the Consolidated Statements of Income totaled \$44.1 million, \$46.7 million and \$48.1 million for 2021, 2020 and 2019, respectively.

## F. GOODWILL AND INTANGIBLE ASSETS

The Company has recognized goodwill as a result of various acquisitions. Goodwill represents the excess of the purchase price over the estimated fair value of the identifiable net assets associated with merger and acquisition transactions. During the fourth quarter of 2021, the Company completed its qualitative assessment of goodwill and did not recognize an impairment for the year ended December 31, 2021. Absent any impairment indicators and the scheduled quantitative assessments, the Company will perform the goodwill qualitative assessment annually.

The carrying amount of goodwill was \$165.3 million at December 31, 2021 and 2020.

### *Mortgage Servicing Rights*

The right to service mortgage loans for others, or MSR, are recognized when mortgage loans are sold and the rights to service these loans are retained. Mortgage loans serviced for others totaled \$5.3 billion and \$5.1 billion at December 31, 2021 and 2020, respectively. In exchange for servicing these loans, the Company receives servicing fees. Servicing fees related to MSR were \$14.7 million, \$14.5 million and \$14.2 million for the years ended December 31, 2021, 2020 and 2019, respectively, and are recognized in processing services on the Company's Consolidated Statements of Income. The Company records the fair value of MSR on its Consolidated Statements of Financial Condition. The Company determines the fair value of MSR based on valuations obtained from an independent valuation specialist. The valuation model calculates the present value of estimated future net servicing income based on assumptions including estimates of prepayment speeds, discount rates, delinquency rates, late fees, other ancillary income and costs to service. The fair value of the MSR asset was \$47.4 million and \$27.6 million as of December 31, 2021 and 2020, respectively, and is included in intangible assets. Changes in the fair value of MSR are recorded in current period earnings in processing services on the Company's Consolidated Statements of Income.

## G. INVESTMENT IN BANK OWNED LIFE INSURANCE

During 2021, the Company entered into an investment in bank owned life insurance (BOLI) of \$375 million. The Company recorded noninterest income associated with the BOLI policies of \$3.6 million for the year ended December 31, 2021. BOLI involves the purchasing of life insurance by the Company on a select group of employees where the Company is the owner and beneficiary of the policies. BOLI is recorded in Other Assets at its cash surrender value. Increases in the cash surrender value of these policies are recorded in noninterest income and not subject to income tax, as long as they are held for the life of the covered parties.

## H. DEPOSITS

At December 31, 2021, the scheduled maturities of total certificates of deposit were as follows:

(in thousands)		
2022	\$	721,449
2023		177,691
2024		52,993
2025		36,121
2026		21,028
2027 and thereafter		101
Total certificates of deposit	\$	1,009,383

The aggregate amount of certificates of deposit, each with a minimum denomination of \$250,000, was approximately \$147.0 million and \$191.2 million at December 31, 2021 and 2020, respectively.

The amount of deposits reclassified to overdraft loans were \$21.5 million and \$3.1 million at December 31, 2021 and 2020, respectively.

## I. DEBT OBLIGATIONS

Other borrowings and capital notes and trust preferred securities of the Company as of December 31, 2021, were as follows:

	Other Borrowings	Capital Notes and Trust Preferred Securities
(in thousands)		
Scheduled maturities and payments due on obligations:		
Due in one year or less	\$ 1,119	\$ —
Due after one year through two years	1,121	—
Due after two years through three years	898	—
Due after three years through four years	893	—
Due after four years through five years	657	—
Due after five years	—	300,000
Total debt obligations	\$ 4,688	\$ 300,000

### *FHLB Advances*

There were no line of credit advances outstanding as of December 31, 2021 and 2020. At December 31, 2021 and 2020, FHLB approved borrowing capacity available for outstanding advances based on pledged real estate loans totaled \$1.9 and \$1.7 billion, respectively, and mortgage-backed securities totaled \$767.1 and \$904.8 million, respectively. Additionally, the Company held FHLB stock totaling \$0.7 million and \$1.4 million at December 31, 2021 and 2020.

### Other Borrowings

The Company had other borrowings at December 31 as follows:

	2021	2020
(in thousands)		
Borrowings owed to securitization investors	\$ —	\$ 300,000
Other borrowings	4,688	5,476
Total other borrowings	4,688	305,476
Less unamortized debt issuance costs	—	(422)
Other borrowings, net	\$ 4,688	\$ 305,054

The Company's securitization trust is used to assist the Company in its management of liquidity and interest rate risk. Under this method of financing, the Company utilizes the trust for the purpose of securitizing loans and issuing beneficial interests to investors. The \$300.0 million outstanding as of December 31, 2020, consisted of one publicly issued term securitization facility which matured in October 2021 and required the payment of interest at a variable rate tied to LIBOR plus 0.46% respectively. The Company typically uses a mix of conduit and term securitization structures to facilitate management's liquidity strategies which consider a number of competing factors. Term securitization structures are for a fixed amount and a fixed term. In a conduit securitization, the Company's loans are securitized and beneficial interests may be sold to commercial paper issuers who pool the securities with those of other issuers. The amount securitized in a conduit structure is allowed to fluctuate within the terms of the facility which may provide greater flexibility for liquidity needs. The Company may renew or replace the outstanding conduit securitization facilities before the date they begin to amortize which is considered the maturity date. The terms of each agreement provide for a commitment fee to be paid on the unused capacity, and include various affirmative and negative covenants, including performance metrics and legal requirements similar to those required in a term securitization transaction.

In December 2009, FNN Ag Funding LLC, a subsidiary of the Company, entered into a secured revolving credit facility which bears a variable rate of interest. FNN Ag Funding LLC pledges participation interests in agriculture loans to secure this facility. The credit facility has a commitment of \$200.0 million. The Company had no outstanding balance as of December 31, 2021 and 2020. As of December 31, 2021 FNN Ag Funding, LLC had total assets of \$248.7 million, total liabilities of \$85.0 million and equity of \$163.6 million.

### Capital Notes and Trust Preferred Securities

The Company had capital notes and trust preferred securities at December 31 as follows:

	2021	2020
(in thousands)		
Subordinated capital notes, due 2028	\$ 150,000	\$ 150,000
Cumulative trust preferred securities, due 2033	25,000	25,000
Cumulative trust preferred securities, due 2037	100,000	100,000
Cumulative trust preferred securities, due 2037	25,000	25,000
Total capital notes and trust preferred securities	300,000	300,000
Less unamortized debt issuance costs	(1,576)	(1,811)
Capital notes and trust preferred securities, net	\$ 298,424	\$ 298,189

In March 2018, the Company issued \$150.0 million in subordinated capital notes which are due to mature March 2028. These capital notes require the payment of a fixed rate of interest (interest rate of 4.38% at December 31, 2021) through March 2023, and then adjust to a floating rate of interest equal to the then current three-month LIBOR plus 160 basis points. These capital notes are unsecured and subordinated to the claims of depositors and general creditors of the Company.

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

Statutory Trust II, issued \$100.0 million of floating-rate cumulative trust preferred securities in March 2007 which are due March 2037. The weighted average interest rate of trust preferred securities was 2.22% at December 31, 2021. After five years from the respective issuance dates, the Company may elect to redeem these cumulative trust preferred securities prior to their scheduled maturity.

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

## J. INCOME TAXES

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities (net deferred tax assets is included in other assets on the Consolidated Statements of Financial Condition) at December 31 were as follows:

	2021	2020
(in thousands)		
Deferred tax assets:		
Allowance for loan losses	\$ 66,757	\$ 103,471
Credit card rewards	17,517	15,561
Reserve for unfunded commitments	5,192	7,154
Employee benefits	51,859	57,158
Purchased credit card relationships	3,865	4,549
Net operating loss carryforwards (1)	483	259
Accrual for contingent litigation and regulatory matters	7,557	3,334
Other	9,669	12,020
Gross deferred tax assets	162,899	203,506
Less: Valuation allowance	(483)	(259)
Total deferred tax assets	162,416	203,247
Deferred tax liabilities:		
Credit card loan fee deferral	19,990	26,654
Depreciation and amortization	20,476	24,178
Mortgage servicing rights	11,143	6,483
Market adjustment on available-for-sale securities	9,318	37,323
Other	6,944	6,704
Total deferred tax liabilities	67,871	101,342
Net deferred tax assets	\$ 94,545	\$ 101,905

(1) Expire from 2022 to 2041

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

	2021	2020	2019
(in thousands)			
Current federal	\$ 94,905	\$ 105,785	\$ 87,720
Current state	15,387	17,107	16,316
Total current taxes	110,292	122,892	104,036
Deferred federal	25,738	(33,622)	(11,810)
Deferred state	4,244	(5,090)	(2,686)
Total deferred taxes	29,982	(38,712)	(14,496)
Total provision for income taxes	\$ 140,274	\$ 84,180	\$ 89,540

The effective rates of total tax expense for the years ended December 31, 2021, 2020 and 2019, were different than the statutory federal tax rate. The reasons for the differences were as follows:

	2021	2020	2019
(percent of pretax income)			
Statutory federal tax rate	21.0 %	21.0 %	21.0 %
Additions (reductions) in taxes resulting from:			
Tax-exempt interest income	(0.2)	(0.4)	(0.4)
State taxes	2.4	2.6	2.7
Income tax credits	(0.1)	(0.2)	(0.5)
Other items, net	(1.0)	0.5	0.6
Change in unrecognized tax benefits	—	(0.1)	0.1
Valuation allowances	—	(1.3)	1.3
2017 Tax Cuts and Jobs Act impact due to carrybacks & amended returns (1)	—	—	(1.4)
<b>Effective tax rate</b>	<b>22.1 %</b>	<b>22.1 %</b>	<b>23.4 %</b>

(1) The Company filed income tax refund claims for tax years prior to the Tax Cuts and Jobs Act (The Act) when the Federal tax rate was 35%. Because the enacted rate after The Act is 21%, these claims resulted in an effective tax rate benefit in 2019 of 1.4%.

At December 31, 2021 and 2020, there were no unrecognized tax benefits, interest, or penalties recorded. At December 31, 2019, the total amount of unrecognized tax benefits was \$4.1 million. There were no interest or penalties recorded in 2019.

The Company believes that it is reasonably possible the total amount of unrecognized tax benefits will increase in the range of \$0 million to \$1.0 million in the next 12 months related to federal and state exposures.

The Company is subject to U.S. federal income tax as well as income tax in numerous state and local jurisdictions. The statute of limitations related to the consolidated federal income tax return is closed for all tax years up to and including 2017. The expiration of the statute of limitations related to the various state income tax returns that the Company and subsidiaries file varies by state. There are no federal income tax examinations in progress. State income tax examinations are currently in progress for the 2017-2019 tax years.

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

	2021	2020	2019
(in thousands)			
Balance, beginning of year	\$ —	\$ 4,086	\$ —
Increases related to current year tax positions	—	—	1,466
Increases related to prior year tax positions	—	—	2,620
Decreases related to prior year tax positions	—	(4,086)	—
<b>Balance, end of year</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 4,086</b>

## K. EMPLOYEE BENEFIT PLANS

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

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



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

	2021	2020
(in thousands)		
Change in benefit obligation:		
Benefit obligation at January 1	\$ 424,610	\$ 390,674
Interest cost	10,769	12,372
Actuarial (gain) loss	(5,208)	35,538
Benefits paid (1)	(14,177)	(13,974)
<b>Benefit obligation at December 31</b>	<b>\$ 415,994</b>	<b>\$ 424,610</b>
Change in plan assets:		
Fair value of plan assets at January 1	\$ 327,725	\$ 311,289
Actual return on plan assets	36,283	30,410
Benefits paid	(14,177)	(13,974)
<b>Fair value of plan assets at December 31</b>	<b>\$ 349,831</b>	<b>\$ 327,725</b>
<b>Funded status at December 31</b>	<b>\$ (66,163)</b>	<b>\$ (96,885)</b>

(1) In 2021, the Company made lump sum benefit payments of \$0.1 million and monthly annuity payments of \$14.1 million. In 2020, the Company made lump sum benefit payments of \$1.3 million and monthly annuity payments of \$12.6 million.

The funded status is included in the Consolidated Statements of Financial Condition as a component of accrued expenses and other liabilities.

The accumulated benefit obligation for the defined benefit pension plan was \$403.7 million and \$407.3 million at December 31, 2021 and 2020, respectively.

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

	2021	2020	2019
(in thousands)			
Net income (loss)	\$ 17,601	\$ (22,093)	\$ (5,891)
Other comprehensive income (loss)	\$ 17,601	\$ (22,093)	\$ (5,891)

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

	2021	2020
(in thousands)		
Net loss	\$ (90,689)	\$ (108,290)
Accumulated other comprehensive loss	\$ (90,689)	\$ (108,290)

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

	2021	2020	2019
(in thousands)			
Service cost	\$ —	\$ —	\$ —
Interest cost	10,769	12,373	13,669
Expected return on plan assets	(22,457)	(21,393)	(20,283)
Amortization of loss	4,246	2,483	3,038
Special termination benefits	—	—	23,175
Net periodic benefit cost (benefit)	\$ (7,442)	\$ (6,537)	\$ 19,599

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

	2021	2020
(weighted averages)		
Discount rate	2.8 %	2.5 %
Rate of compensation increase	4.0 %	4.0 %

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

	2021	2020	2019
(weighted averages)			
Discount rate	2.5 %	3.3 %	4.2 %
Expected return on plan assets	7.0 %	7.0 %	7.5 %
Rate of compensation increase	4.0 %	4.0 %	4.0 %

The Company has set the long-term rate of return on plan assets assumption as of December 31, 2021 at 6.5%. This assumption will be used to calculate the net periodic benefit cost in 2022. It is estimated based on historical returns. Over long periods of time, equity securities have provided a return of approximately 8.0%, while debt securities have provided a return of approximately 4.0%.

The major categories of assets in the Company's pension plan as of December 31, 2021 and 2020 are presented in the following table. Assets are segregated by the level of valuation inputs within the fair value hierarchy, see Note T.

	Level 1	Level 2	Level 3	Total
(in thousands)				
<b>2021</b>				
Money market funds	\$ 25,116	\$ —	\$ —	\$ 25,116
U.S. government securities and agencies	17,250	12,849	—	30,099
Obligations of states and political subdivisions	—	1,397	—	1,397
Corporate bonds	—	43,718	—	43,718
Mutual funds	199,182	—	—	199,182
Common stocks	50,276	43	—	50,319
<b>Total fair value</b>	<b>\$ 291,824</b>	<b>\$ 58,007</b>	<b>\$ —</b>	<b>\$ 349,831</b>
<b>2020</b>				
Money market funds	\$ 10,778	\$ —	\$ —	\$ 10,778
U.S. government securities and agencies	18,769	16,928	—	35,697
Obligations of states and political subdivisions	—	1,684	—	1,684
Corporate bonds	—	38,963	—	38,963
Mutual funds	111,408	—	—	111,408
Common stocks	46,276	82,919	—	129,195
<b>Total fair value</b>	<b>\$ 187,231</b>	<b>\$ 140,494</b>	<b>\$ —</b>	<b>\$ 327,725</b>

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

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

	2021	2020
(percent of plan assets)		
Asset category:		
Equity securities	71.3 %	73.4 %
Debt securities	21.5 %	23.3 %
Cash and cash equivalents	7.2 %	3.3 %
<b>Total</b>	<b>100.0 %</b>	<b>100.0 %</b>

The primary investment objective of the Company's pension plan is to provide long-term asset growth with income. To accomplish this objective, the Company has adopted a moderate risk tolerance to achieve an annual rate of return that meets or exceeds the returns of an index composed of 60% S&P 500 and 40% Barclays Capital Aggregate. In accordance with the Company's moderate risk tolerance, rate of return expectations and appropriate cash levels needed to fund short-term expected benefit distributions, the target ranges of the asset-mix are as follows: equity securities including Parent Company stock (60% - 80%) and liability hedging securities (20% - 40%). Each of the major categories of asset classes is adequately diversified among economic sectors of the market. Investments are made in accordance with permitted and prohibited investments identified in the plan's Investment Policy Statement.

The pension plan did not own Parent Company common stock at December 31, 2021, and owned Parent Company common stock with a fair value of \$82.8 million at December 31, 2020.

The Company made no contributions during the 2021 and 2020 plan year, and the Company does not expect to make further contributions to the pension plan in 2022.

At December 31, 2021, estimated benefit payments which reflect expected future service, as appropriate, are expected to be paid as follows:

	<b>Pension</b>
(in thousands)	
2022	\$ 14,291
2023	14,984
2024	15,454
2025	16,479
2026	17,086
2027 - 2031	97,248

In addition to the pension and postretirement benefit plans, the Company also has contributory 401(k) savings plan which covers substantially all employees. Total cost for this plan, included within noninterest expense on the Consolidated Statements of Income, for the years ended December 31, 2021, 2020 and 2019, was \$22.5 million, \$21.8 million and \$23.8 million, respectively.

The Company has established an executive long-term incentive plan (LTIP). For the years ended December 31, 2021, 2020 and 2019, expense attributable to the LTIP was \$9.9 million, \$5.7 million, and \$4.1 million, respectively. The LTIP allows eligible participants to select among the investment alternatives provided by the plan, which includes Parent Company stock (for some or all participants, at the discretion of the Executive Committee). The shares of Parent Company stock are held in a qualifying Grantor Trust which is consolidated into the Company's financial statements. Accordingly, these shares are reflected as treasury stock on the Company's Consolidated Statements of Stockholders' Equity. Any increase or decrease in the value of the investments is recognized as a component of compensation expense which, for the years ended December 31, 2021, 2020, and 2019, was \$24.9 million, \$11.4 million, and \$12.8 million.

## **L. CARD ASSOCIATION TRANSACTIONS**

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

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

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

Through a series of transactions that occurred in September and December 2009, the Company sold all of its approximately 5.3 million shares of Class B VISA stock for cash. The Company recorded a gain upon sale of its VISA stock of \$195.2 million. As a part of the sales, the Company retained a conversion swap agreement that requires the Company to reimburse the purchaser for any reduction of the conversion rate below the rate of 0.5824, which was the conversion rate as of the closing of the VISA stock sale, and requires the Company to make certain periodic payments (which began in 2011) until the escrow account is terminated. The Company has posted collateral of agency collateralized mortgage obligations and agency bonds in the amount of \$252.7 million to secure this reimbursement obligation. The conversion rate is based on VISA's funding of the escrow account, and reflects a 4-1 stock split. During 2019, VISA made additional contributions to the escrow account, thereby reducing the conversion rate to 1.6228, respectively. No reimbursement payments were made during 2020 and 2021.

The Company continues to retain a contingent litigation liability because the Company continues to be liable for obligations arising from its prior membership interests. At December 31, 2021 and 2020, the Company's contingent litigation liability was estimated to be \$32.2 million and \$14.2 million, respectively, and is recorded in accrued expenses and other liabilities on the Consolidated Statements of Financial Condition. To the extent that the Company's proportionate share of any settlement exceeds the recorded contingent litigation liability, the Company's financial results will be impacted.

## **M. CONTINGENCIES AND COMMITMENTS**

### **Commitments**

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

The Company had unused credit card lines of \$29.7 billion and \$26.0 billion at December 31, 2021 and 2020, respectively. The Company has the contractual right to reduce the unused line at any time without prior notice. Since many unused credit card lines are never actually drawn upon, the unfunded amounts do not necessarily represent future funding requirements.

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

At December 31, 2021 and 2020, the Company had commercial letters of credit and unused loan commitments, excluding credit card lines, of \$5.6 billion and \$5.9 billion, respectively. Additionally, standby letters of credit of \$129.4 million and \$126.3 million had been issued at December 31, 2021 and 2020, respectively. No material future payments or losses are anticipated as a result of these transactions and the fair value of these guarantees is estimated to be immaterial. Correspondingly, the Company has not recorded a liability for these contingencies in the Consolidated Statements of Financial Condition.

### **Voluntary Enhanced Retirement Program**

In 2019, the Company announced and commenced a Voluntary Enhanced Retirement Program (the "Program") furthering its on going efforts to increase efficiency. The Program charges consisted of employee termination benefits, including pension expenses, severance costs and medical benefit costs. These workforce reductions resulted in no charges in 2021 and pretax charges of \$9.9 million at December 31, 2020, respectively, recognized within salaries and employee benefits within the Consolidated Statements of Income.

### **Covered Litigation**

#### *In re: Payment Card Fee and Merchant Discount Antitrust Litigation*

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

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

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

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

Litigation relating specifically to the injunctive relief claims raised by the Rule 23(b)(2) Putative Injunctive Relief Class in MDL 1720 is ongoing. The parties have concluded fact discovery to supplement the record evidence established through the initial discovery period which concluded in November 2008. On September 27, 2021, the Court granted Plaintiffs' motion for class certification and certified a Rule 23(b)(2) mandatory, non-opt-out Equitable Relief Class. The parties continue to maintain an open and ongoing dialogue to explore potential grounds for settlement.

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

#### *Other Covered Litigation*

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

### Patent Infringement and Other Litigation

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

## N. DERIVATIVE ASSETS AND LIABILITIES

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

### *Interest Rate Derivatives*

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

The following table presents the net gains and losses recorded in the Consolidated Statements of Income and Comprehensive Income related to interest rate contracts designated as cash flow hedges for the years ended December 31:

	2021	2020	2019
(in thousands)			
Amount of gain recognized in other comprehensive income	\$ —	\$ 4,899	\$ 4,009
Amount of loss reclassified from other comprehensive income into net interest income	—	(3,287)	(3,300)

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

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

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

Derivative instruments include interest rate locks on commitments to originate loans for the held for sale portfolio and forward commitments on contracts to deliver mortgage-backed securities and loans. The Company has

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

The notional amounts and estimated fair values of interest rate and foreign currency derivative positions outstanding at December 31, 2021 and 2020, respectively, are presented in the following table.

	2021		2020	
	Notional Amount	Fair Value Asset/ (Liability)	Notional Amount	Fair Value Asset/ (Liability)
(in thousands)				
Non hedging interest rate derivatives:				
Customer swaps	\$ 131,697	\$ 15,961	\$ 129,785	\$ 25,290
Counter customer swaps	131,697	(2,760)	129,785	(4,442)
Mortgage forwards	205,079	352	575,579	(4,443)
Mortgage written options	155,607	1,481	401,862	11,464
Foreign currency derivatives:				
Customer forwards	170,887	5,852	119,344	(3,870)
Counter customer forwards	170,760	(5,726)	119,297	3,943

## O. REGULATORY AND CAPITAL RELATED MATTERS

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

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

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

- Common Equity Tier I capital, which includes common equity, noncontrolling interests in consolidated depository institution subsidiaries, less goodwill, intangibles, mortgage servicing assets and purchased credit card relationships.
- Tier I capital, which includes Common Equity Tier I capital and the grandfathered trust preferred securities.
- Tier II capital, which includes Tier I capital, hybrid capital instruments, subordinated debt including capital notes and portions of the allowance for loan losses.

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



As of December 31, 2021 and 2020, the Company's banking subsidiary was well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized under the framework for prompt corrective action, the Company's banking subsidiary must maintain minimum Common Equity Tier I capital of 6.5%, Tier I risk-based capital of 8%, total risk-based capital of 10%, and Tier I leverage capital (Tier I capital to average assets) of 5%. Regulators are also permitted to establish individual minimum capital ratios for the Company's banking subsidiary that may be higher than those necessary to be considered well capitalized under the regulatory framework for prompt and corrective action.

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

	Actual, as of December 31, 2021		Actual, as of December 31, 2020	
	Amount	Ratio	Amount	Ratio
(\$ in thousands)				
Common Equity Tier I Capital to Risk Weighted Assets				
Consolidated Company	\$ 2,827,290	13.68 %	\$ 2,518,981	13.00 %
First National Bank of Omaha	2,698,450	13.10 %	2,430,681	12.58 %
Total Capital to Risk Weighted Assets				
Consolidated Company	\$ 3,385,260	16.38 %	\$ 3,062,242	15.80 %
First National Bank of Omaha	2,956,479	14.36 %	2,674,995	13.85 %
Tier I Capital to Risk Weighted Assets				
Consolidated Company	\$ 2,977,639	14.41 %	\$ 2,668,674	13.77 %
First National Bank of Omaha	2,698,450	13.10 %	2,430,681	12.58 %
Tier I Capital to Average Assets				
Consolidated Company	\$ 2,977,639	11.42 %	\$ 2,668,674	10.95 %
First National Bank of Omaha	2,698,450	10.45 %	2,430,681	10.07 %

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

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

In July 2013, the Federal Reserve approved a final rule to implement in the United States the Basel III regulatory capital reforms from the Basel Committee on Banking Supervision and certain changes required by the Dodd-Frank Act. The final rule increases minimum requirements for both the quantity and quality of capital held by banking organizations. The rule includes a new minimum ratio of Common Equity Tier 1 capital to risk-weighted assets of 4.5% and a Common Equity Tier 1 capital conservation buffer of 2.5% of risk-weighted assets. The new minimum was phased in through 2019. The final rule also adjusted the methodology for calculating risk-weighted assets to enhance risk sensitivity. As part of Basel III, the Company's cumulative trust preferred securities were grandfathered and qualify as Tier 1 capital. Subsequent to December 31, 2021, the Company acquired Western States Bank. Because of the acquisition, the clause in Basel III that kept the trust preferred securities qualified as Tier I capital is forfeited and the instruments will be classified as Tier II capital.

The banking industry is also affected by the monetary and fiscal policies of regulatory authorities, including the FRB. Through open market securities transactions, variations in the discount rate, the establishment of reserve requirements and the regulation of certain interest rates payable by member banks, the FRB exerts considerable influence over the cost and availability of funds obtained for lending and investing. Changes in interest rates, deposit levels and loan demand are influenced by the changing conditions in the national economy and in the money markets, as well as the effect of actions by monetary and fiscal authorities.

The CFPB regulates financial products and services, as well as certain financial services providers. The CFPB is authorized to prevent "unfair, deceptive or abusive acts or practices" and ensure consistent enforcement of laws

so that all consumers have access to markets for consumer financial products and services that are fair, transparent and competitive. The CFPB has rulemaking and interpretive authority under the Dodd-Frank Act and other federal consumer financial services laws, as well as broad supervisory, examination and enforcement authority over large providers of consumer financial products and services and is authorized to collect fines and require consumer restitution in the event of violations of laws and/or regulations. Several products, including credit cards, are areas of focus of the CFPB. This focus may result in additional guidance for credit card issuers, regulatory changes or legislative recommendations to Congress. The ultimate impact of increased regulation and scrutiny is uncertain at this time.

Under the terms of an agreement with related party stockholders, the Company and certain related parties had or have the option to purchase up to 52,286 shares of Company common stock at fair market value. No shares were purchased in 2021 and 2020, and 30,811 shares remain available for purchase. Fair market value will be negotiated by the parties and may or may not require independent appraisals. Exercise of the option is subject to a number of factors including the sufficiency of capital, availability of cash or borrowing capacity, regulatory approval and approval by the Company's Board of Directors, if the Company is the purchaser.

## P. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

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

	Available for Sale Securities	Qualifying Cash Flow Hedges	Employee Benefit Plans	Total
(in thousands)				
Balance, January 1, 2019	\$ (29,571)	\$ (1,775)	\$ (80,183)	\$ (111,529)
Net change in unrealized gains (losses)	96,759	709	(7,786)	89,682
Net unrealized gains on transfer of securities from available-for sale to held-to-maturity	162	—	—	162
Reclassification adjustment for net losses realized in net income	(21)	—	—	(21)
Income tax (expense) benefit	(22,774)	(167)	1,830	(21,111)
Balance, December 31, 2019	44,555	(1,233)	(86,139)	(42,817)
Net change in unrealized gains (losses)	110,444	1,612	(28,899)	83,157
Net unrealized gains on transfer of securities from available-for sale to held-to-maturity	139	—	—	139
Reclassification adjustment for net gains realized in net income	(10,004)	—	—	(10,004)
Income tax (expense) benefit	(23,638)	(379)	6,791	(17,226)
Balance, December 31, 2020	121,496	—	(108,247)	13,249
Net change in unrealized gains (losses)	<b>(119,255)</b>	<b>—</b>	<b>22,907</b>	<b>(96,348)</b>
Net unrealized gains on transfer of securities from available-for sale to held-to-maturity	<b>94</b>	<b>—</b>	<b>—</b>	<b>94</b>
Income tax (expense) benefit	<b>28,005</b>	<b>—</b>	<b>(5,383)</b>	<b>22,622</b>
Balance, December 31, 2021	<b>\$ 30,340</b>	<b>\$ —</b>	<b>\$ (90,723)</b>	<b>\$ (60,383)</b>

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

## Q. RECENT ACCOUNTING PRONOUNCEMENT

ASU 2016-13, "Financial Instruments - Credit Losses (Topic 326): Assets Measured at Amortized Cost," was issued to revise guidance for impairments on financial instruments. The guidance requires an impairment model (known as the current expected credit loss (CECL) model) that is based on expected rather than incurred losses. Subsequently, the FASB has issued additional ASUs which further clarify this guidance. The CECL model is applicable to loans held for investment, securities held to maturity, lease receivables, financial guarantee contracts and certain unconditional loan commitments. The CECL model will replace current accounting for purchased credit-impaired and impaired loans. The guidance also amends the debt securities other-than-temporary impairments model. The effective date for the revised standard is for fiscal years beginning after

December 15, 2022. The Company is currently evaluating the impact that this guidance will have on its consolidated financial statements and related disclosures.

## R. REVENUE FROM CONTRACTS WITH CUSTOMERS

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

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

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

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

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

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

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

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

The Company had no material contract assets, contract liabilities, or remaining performance obligations as of December 31, 2021. Total receivables from revenue recognized under the scope of ASC 606 were \$19.6 million and \$21.4 million as of December 31, 2021 and December 31, 2020, respectively. These receivables are included as part of the other assets line on the Consolidated Statements of Financial Condition.

## S. LEASES

At December 31, 2021, operating lease right-of-use assets of \$31.5 million and operating lease liabilities of \$33.3 million were included in Other Assets, Accrued Expenses and Other Liabilities, respectively, on the Consolidated Statements of Financial Condition. The Company does not have any significant finance leases in which the Company is the lessee.

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

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

The Company recognized \$2.8 million and \$4.7 million of right-of-use assets obtained in exchange lease liabilities during the years ended December 31, 2021 and 2020, respectively. Supplemental information related to leases as of December 31, 2021 and 2020 is as follows:

	2021	2020
(in thousands)		
Lease term and discount rate:		
Weighted-average remaining lease term (years)	10.4	10.5
Weighted average remaining discount rate	3.2%	3.1%
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 6,224	\$ 6,454

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

	2021	2020
(in thousands)		
Lease Costs		
Operating lease cost	\$ 7,812	\$ 7,017
Other	3,179	2,806
Total lease cost	\$ 10,991	\$ 9,823

The remaining lease payments for operating leases with initial or remaining terms of one year or more as of December 31, 2021 were as follows: 2022 – \$5.9 million; 2023 – \$4.8 million; 2024 – \$4.5 million; 2025 – \$3.7 million; 2026 – \$3.4 million and \$20.9 million thereafter through the year 2066. Interest on lease payments is \$10.0 million, with a present value of lease liabilities of \$33.3 million at December 31, 2021.

The Company may lease owned properties or lease unoccupied office space. Income on these leases was \$11.2 million and \$11.2 million for the years ended December 31, 2021 and 2020, respectively.

## T. FAIR VALUES OF FINANCIAL INSTRUMENTS

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

Financial instruments are considered Level 1 when valuation can be based on quoted prices in active markets for identical assets or liabilities. Level 2 financial instruments are valued using quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data of substantially the full term of the assets or liabilities. Financial instruments are considered Level 3 when their values are determined using pricing models, discounted cash flow methodologies or similar techniques and at least one significant model input is unobservable. Level 3 is assigned when determination of the fair value requires significant management judgment or estimation. There were no transfers in or out of Level 3 during the years ended December 31, 2021, 2020 and 2019, respectively.

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

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

The fair value of MHFS for which the Company elected the fair value option and the contractual aggregate unpaid principal balance, as of December 31, 2021, was \$95.0 million and \$93.6 million, respectively. The fair value of MHFS for which the Company elected the fair value option and the contractual aggregate unpaid principal balance, as of December 31, 2020, was \$276.9 million and \$266.9 million, respectively. Changes in the fair value of MHFS are recorded in gain on sale of mortgage loans on the Consolidated Statements of Income, and increased pretax net income by \$8.5 million and \$8.5 million in 2021 and 2020, respectively. At December 31, 2021 and 2020, there were no MHFS that were 90 days or more past due nor were any of the MHFS placed on nonaccrual status. No credit losses were recognized on MHFS for the year ended December 31, 2021 and 2020.

The following table summarizes financial assets and financial liabilities measured at fair value on a recurring basis as of December 31, 2021 and 2020, segregated by the level of the valuation inputs within the fair-value hierarchy utilized to measure fair value:

	Level 1	Level 2	Level 3	Total
(in thousands)				
<b>2021</b>				
Available-for-sale debt securities				
U.S. government obligations	\$ 468,405	\$ 34,162	\$ —	\$ 502,567
Obligations of states and political subdivisions	—	69,309	—	69,309
Agency mortgage-backed securities	—	4,001,725	—	4,001,725
Other securities	—	12,490	5,000	17,490
Total available-for-sale debt securities	468,405	4,117,686	5,000	4,591,091
Mortgage loans held for sale	—	94,976	—	94,976
Mortgage servicing rights	—	—	47,415	47,415
Derivative assets	—	23,646	—	23,646
Derivative liabilities	—	(8,486)	—	(8,486)
Marketable equity securities	30,189	2,165	—	32,354
Total fair value	\$ 498,594	\$ 4,229,987	\$ 52,415	\$ 4,780,996
<b>2020</b>				
Available-for-sale debt securities				
U.S. government obligations	\$ 378,349	\$ 58,295	\$ —	\$ 436,644
Obligations of states and political subdivisions	—	53,465	—	53,465
Agency mortgage-backed securities	—	3,693,711	—	3,693,711
Other securities	—	12,490	—	12,490
Total available-for-sale debt securities	378,349	3,817,961	—	4,196,310
Mortgage loans held for sale	—	276,734	—	276,734
Mortgage servicing rights	—	—	27,588	27,588
Interest rate derivative assets	—	40,697	—	40,697
Interest rate derivative liabilities	—	(12,755)	—	(12,755)
Marketable equity securities	22,630	1,285	—	23,915
Total fair value	\$ 400,979	\$ 4,123,922	\$ 27,588	\$ 4,552,489

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

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

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

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

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

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

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

The following table presents the changes in the Level 3 fair value category related to assets measured at fair value on a recurring basis for the years ended December 31, 2021, 2020 and 2019:

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

	December 31, 2019	Total losses realized and unrealized in earnings	Purchases, issuances, transfers or settlements	Transfers in (out) of Level 3	December 31, 2020
(in thousands)					
Mortgage servicing rights	\$ 45,780	\$ (34,562)	\$ 16,370	\$ —	\$ 27,588
Total fair value	\$ 45,780	\$ (34,562)	\$ 16,370	\$ —	\$ 27,588

	December 31, 2018	Total losses realized and unrealized in earnings	Purchases, issuances, transfers or settlements	Transfers in (out) of Level 3	December 31, 2019
(in thousands)					
Mortgage servicing rights	\$ 57,300	\$ (24,781)	\$ 13,261	\$ —	\$ 45,780
Total fair value	\$ 57,300	\$ (24,781)	\$ 13,261	\$ —	\$ 45,780

The following table presents a summary of quantitative information about recurring fair value measurements based on significant unobservable inputs (Level 3) as of December 31, 2021:

	Fair Value - December 31, 2021	Valuation Technique	Significant Unobservable Input	Range (Weighted Average)
(in thousands)				
Mortgage servicing rights	\$ 47,415	Discounted cash flows	Prepayment rate Discount rate	12 - 35% (13.6%) 9 - 13% (9.4%)

The fair values of these assets (measured using significant unobservable inputs) are sensitive primarily to changes in prepayment and discount rates. At December 31, 2021, a 10% and 20% increase in the prepayment rates used to measure fair value would result in a decrease in the fair value of \$2.4 million and \$4.6 million, respectively. At December 31, 2021, a 10% and 20% increase in the discount rates used to measure fair value

would result in a decrease in the fair value of \$1.6 million and \$3.1 million, respectively. These sensitivities are hypothetical. Changes in fair value based on variations in assumptions generally cannot be extrapolated because the relationship of the change in fair value may not be linear. Additionally, the effect of a variation in a particular assumption on the fair value of the MSRs is calculated without changing any other assumptions. Changes in one factor may result in changes in another, which could increase or decrease the magnitude of the sensitivities.

Certain financial and non-financial assets and liabilities are measured at fair value on a nonrecurring basis; that is, these items are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). These include collateral for certain impaired loans, foreclosed assets acquired to satisfy loans, impaired other long-lived assets, impaired indefinite-lived intangibles and/or goodwill, and pension plan assets. The following table summarizes carrying value of assets measured at fair value on a nonrecurring basis as of December 31, 2021 and 2020, segregated by the level of the valuation inputs within the fair-value hierarchy utilized to measure fair value.

	Level 1	Level 2	Level 3	Total
(in thousands)				
<b>2021</b>				
Impaired loans	\$ —	\$ —	\$ 44,596	\$ 44,596
Foreclosed assets	—	98	—	98
Nonmarketable equity securities	—	18,568	—	18,568
<b>Total fair value</b>	<b>\$ —</b>	<b>\$ 18,666</b>	<b>\$ 44,596</b>	<b>\$ 63,262</b>
<b>2020</b>				
Impaired loans	\$ —	\$ —	\$ 37,001	\$ 37,001
Foreclosed assets	—	569	—	569
Nonmarketable equity securities	—	15,229	—	15,229
<b>Total fair value</b>	<b>\$ —</b>	<b>\$ 15,798</b>	<b>\$ 37,001</b>	<b>\$ 52,799</b>

**Impaired loans** - Impaired loans were measured at fair value on a non-recurring basis in 2021 and 2020. Certain impaired loans are reported at fair value if repayment is expected solely from the collateral. The fair value is primarily based on an appraisal of the underlying collateral using unobservable data; therefore, these loans are classified within Level 3 of the fair-value hierarchy. At December 31, 2021 and 2020, the par value of the impaired loans reported at fair value was \$44.6 million and \$37.0 million, respectively.

**Foreclosed assets** - The fair value of a foreclosed asset upon initial recognition is estimated using Level 2 inputs based on observable market data. The observable market data is obtained through unadjusted third-party appraisals. Foreclosed assets measured during the year ended at fair value upon initial recognition totaled \$1.0 million and \$3.1 million at December 31, 2021 and 2020, respectively. The Company had no losses related to the change in fair value of all foreclosed assets held during 2021. The Company recognized \$0.5 million and \$1.5 million in losses related to the change in fair value of all foreclosed assets held during 2020 and 2019, respectively.

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

The following table presents a summary of quantitative information about nonrecurring fair value measurements based on significant unobservable inputs (Level 3) as of December 31, 2021:

	Fair Value - December 31, 2021	Valuation Technique	Significant Unobservable Input	Range (Weighted Average)
(in thousands)				
Impaired loans	\$ 44,596	Appraised value, as adjusted	Adjustments to appraised value	0 - 100% (10.1%)



The fair values of these assets (measured using significant unobservable inputs) are sensitive primarily to changes in management's adjustments to the appraised value of the underlying collateral. At December 31, 2021, a 10% and 20% increase in the appraisal adjustments to measure fair value would result in a decrease in the fair value of \$0.8 million and \$1.3 million, respectively.

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

The following table presents the estimated fair values of financial assets and liabilities which are not measured and reported at fair value at December 31, 2021 and 2020, and the level of the valuation inputs within the fair-value hierarchy utilized to measure fair value at December 31, 2021 and 2020. Although management is not aware of any factors that would significantly affect the estimated fair value amounts after December 31, 2021, such amounts have not been comprehensively revalued, and the current estimated fair value of these financial instruments may have changed since that point in time.

December 31, 2021					
	Carrying Amount	Estimated Fair Value	Level 1	Level 2	Level 3
(in thousands)					
Financial assets:					
Interest-bearing time deposits due from banks	\$ 30,672	\$ 30,672	\$ —	\$ 30,672	\$ —
Held-to-maturity securities	147,429	149,458	—	149,458	—
Federal Home Loan Bank stock and other securities, at cost	52,540	52,540	—	52,540	—
Net loans and leases	16,569,964	15,848,125	—	—	15,848,125
Financial liabilities:					
Deposits	\$ 22,913,629	\$ 21,683,301	\$ —	\$ 21,683,301	\$ —
Other borrowings	4,688	4,688	—	4,688	—
Capital notes and trust preferred securities	300,000	284,875	—	284,875	—
December 31, 2020					
	Carrying Amount	Estimated Fair Value	Level 1	Level 2	Level 3
(in thousands)					
Financial assets:					
Interest-bearing time deposits due from banks	\$ 30,670	\$ 30,670	\$ —	\$ 30,670	\$ —
Held-to-maturity securities	163,643	169,159	—	169,159	—
Federal Home Loan Bank stock and other securities, at cost	53,249	53,249	—	53,249	—
Net loans and leases	15,903,596	15,340,741	—	—	15,340,741
Financial liabilities:					
Deposits	\$ 20,762,462	\$ 20,222,714	\$ —	\$ 20,222,714	\$ —
Other borrowings	305,054	305,054	—	305,054	—
Capital notes and trust preferred securities	300,000	272,700	—	272,700	—

## U. CONDENSED FINANCIAL INFORMATION OF FIRST NATIONAL OF NEBRASKA

### First National of Nebraska (parent company only) Condensed Statements of Financial Condition

	December 31,	
	2021	2020
(in thousands)		
Assets		
Cash and due from banks	\$ 496,402	\$ 432,140
Investment securities available-for-sale	5,129	133
Investment in subsidiaries:		
First National Bank of Omaha	2,798,468	2,606,011
Nonbanking subsidiaries	52,946	49,063
Total investment in subsidiaries	2,851,414	2,655,074
Other assets	49,046	43,872
Total assets	\$ 3,401,991	\$ 3,131,219
Liabilities and Stockholders' Equity		
Accrued expenses and other liabilities	\$ 166,379	\$ 129,417
Subordinated notes and debentures	148,706	148,496
Due to subsidiaries	154,765	154,766
Total liabilities	469,850	432,679
Stockholders' equity:		
Common stock	1,575	1,575
Additional paid-in capital	11,177	8,987
Retained earnings	3,412,160	3,018,258
Treasury stock, at cost	(432,388)	(343,529)
Accumulated other comprehensive loss	(60,383)	13,249
Total stockholders' equity	2,932,141	2,698,540
Total liabilities and stockholders' equity	\$ 3,401,991	\$ 3,131,219

**First National of Nebraska** (parent company only)  
**Condensed Statements of Operations**

	Years ended December 31,		
	2021	2020	2019
(in thousands)			
Revenues:			
Income from subsidiaries:			
Dividends from First National Bank of Omaha	\$ 253,002	\$ 121,554	\$ 143,868
Management and service fees	4,753	4,693	4,498
Interest and investment income	5,187	5,088	13,198
Total revenues	<b>262,942</b>	131,335	161,564
Expenses:			
Other	48,067	25,876	27,757
Total expenses	<b>48,067</b>	25,876	27,757
Income before income taxes and equity in undistributed earnings of subsidiaries	<b>214,875</b>	105,459	133,807
Income tax benefit	<b>(8,534)</b>	(3,783)	(1,828)
Total income before equity in undistributed earnings of subsidiaries	<b>223,409</b>	109,242	135,635
Equity in undistributed losses of subsidiaries:			
First National Bank of Omaha	<b>266,096</b>	185,694	156,776
Nonbanking subsidiaries	<b>3,883</b>	1,187	528
Total equity in undistributed earnings of subsidiaries	<b>269,979</b>	186,881	157,304
Net income	<b>\$ 493,388</b>	\$ 296,123	\$ 292,939

## **INDEPENDENT AUDITOR’S REPORT**

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

### **Opinion**

We have audited the consolidated financial statements of First National of Nebraska, Inc. and its subsidiaries (the “Company”), which comprise the consolidated statements of financial condition as of December 31, 2021 and 2020, and the related consolidated statements of income, comprehensive income, stockholders’ equity, and cash flows for each of the three years in the period ended December 31, 2021, and the related notes to the consolidated financial statements (collectively referred to as the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the three years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

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

### **Responsibilities of Management for the Financial Statements**

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

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

### **Auditor’s Responsibilities for the Audit of the Financial Statements**

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

In performing an audit in accordance with GAAS, we:

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

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

#### **Other Information Included in the Annual Report**

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

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

*DELOITTE & TOUCHE LLP*

Omaha, Nebraska  
February 25, 2022



**Board of Directors**

Clarkson D. Lauritzen  
Chairman and President

Bruce R. Lauritzen  
Chairman Emeritus

Michael S. Foutch  
Executive Vice President

Jeffrey A. Sims  
Executive Vice President

Joe E. Armstrong

George J. Behringer

Margaret Lauritzen Dodge

Patrick J. Duffy

Bryan D. Slone

**Executive Officers**

Clarkson D. Lauritzen – Chairman and President

Sean B. Baker ..... Executive Vice President

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

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

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

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

Jeffery A. Sims ..... Executive Vice President, Chief Credit Officer

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



