2020 ANNUAL REPORT

First National of Nebraska

To Our Stockholders

While 2020 was a difficult year, it was also a year in which we have never been more proud of our employees for all that they did to overcome significant challenges. The COVID-19 pandemic impacted every facet of our business and our lives in sudden, unexpected ways for most of the year. Despite all the adversity we faced, we managed to achieve record earnings of $296 million while also reaching record total assets and book value per share. Our return on equity of 11.6% placed us in the top quartile of our industry for the tenth time in the past eleven years. As a result, we again paid record dividends to stockholders of $210 per share.

NET INCOME	**2020**	**$296,100,000**
	2019	**$292,900,000**
	2018	**$280,100,000**
	2017	**$135,600,000**
	2016	**$217,500,000**

In our last few annual reports, we repeatedly noted that credit quality was unusually good. Having the perspective of many credit cycles, we knew at some point the environment would change so we remained especially vigilant and disciplined with respect to credit quality and balance sheet strength. In 2020 the environment most certainly changed in ways we could never have predicted. The COVID-19 pandemic proved that we cannot be certain of what lies ahead of us, so it always pays to maintain strong credit and financial discipline, coupled with an enduring amount of humility.

The COVID-19 Pandemic

When the COVID-19 pandemic first hit the United States in March of 2020, we witnessed unprecedented spikes in unemployment and business interruption due to government mandated restrictions on activity to slow the spread of the virus. At an astounding rate, 22 million Americans lost their jobs in just several short weeks, sending the unemployment rate from 3.5% in February to 14.5% in April. In addition to job losses, many small businesses found themselves suddenly with few customers and thus quickly running out of cash. The agricultural supply chain that we serve was completely disrupted as restaurants and processing plants shut down nationwide. All forms of travel and in-person entertainment plummeted, impacting related businesses and communities significantly. As if that were not enough, health care providers were overwhelmed with a flood of COVID-19 patients, straining those providers financially as elective procedures were delayed. Severe financial pressure was everywhere.

What followed this abrupt disruption was an unprecedented response from our federal government, which funded trillions of dollars of aid to individuals, businesses, and state and local governments. As we witnessed a massive population of our customers in need, our bank was called upon to help and we did so in countless ways, as did many banks in our industry. As much as any year that we can think of we were incredibly proud to call ourselves bankers as our industry helped so many people and businesses avoid financial catastrophe.

When Congress passed the CARES Act in April, we participated in the bill's newly created Paycheck Protection Program ("PPP") wherein we made loans to over 7,300 businesses and organizations totaling approximately $850 million. These loans, designed to be both guaranteed and forgiven by the Small Business Administration, were critical to helping many businesses stay open, cover expenses and preserve jobs. We took these loan applications and funded them in record time while our people worked around the clock adjusting to constant changes in regulations related to PPP. Meanwhile, in our branches, we quickly adjusted to having to serve hundreds of thousands of customers in ways that could keep our employees and our customers safe. We offered loan deferrals to tens of thousands of consumers who had credit cards, mortgages, auto loans and personal loans. We did all of this while moving thousands of our employees – quickly – to a work-at-home environment.

Despite all these challenges, when the year ended in 2020, credit quality actually improved. Our net charge off rate on our credit card loans for 2020 was 4.21%, which was a *decrease* from the 4.49% rate we experienced in 2019. Additionally, our classified loans and nonaccrual loans decreased in 2020. Despite improvements in credit quality, the economic environment was incredibly uncertain in 2020, and it is still uncertain as of this writing, so we added $60 million of reserves during the year in preparation for potential future loan losses. We believe the longer-term effects of the pandemic will have further adverse effects on our customers as government forbearance is lifted on various types of loans and other obligations. Likewise, many businesses are still weakened by persistently low revenue and business bankruptcies are increasing. The pandemic is still with us and its impact will be for years to come. We will no doubt have more troubled loans and loan losses.

Mitigating our credit risk requires consistency and discipline, but it also requires investment in our credit capabilities, which we focused on intently again in 2020. As we said last year, one of our more important initiatives is our investment in modernizing our consumer credit underwriting by using advanced data analytics that should allow us to serve more customers while mitigating credit risk.

The Franchise

Revenue fell 7% in 2020 due almost entirely to the impacts of the pandemic. We started 2020 absorbing the revenue challenges from the Federal Reserve decreasing interest rates three times during 2019 only to be hit with more substantial rate decreases. Not only did the short-term Federal Funds rate drop to near zero, but the interest rate on the ten-year Treasury bond dropped from 1.8% in January to an all-time low of 0.5% in April. All of these interest rate decreases largely contributed to the compression of our net interest margin from 6.07% in 2019 to 5.18% in 2020. The negative impact of those rate decreases will continue into 2021 when we will feel the full year effect of historically low interest rates.

Our loans grew just 1.7% for the full year, although certain categories grew or shrank at very different rates, reflecting the unusual environment. Credit card and unsecured consumer loans shrank by 8% or $560 million, while commercial real estate loans grew 8%, or $282 million. We witnessed dramatically lower spend on our credit cards as our customers stayed home to avoid the virus and thus significantly reduced spending on transportation, travel, entertainment, restaurants, lodging and retail. We also pulled back on credit card marketing as the pandemic began, adding to the decreasing loan portfolio. Home mortgage loans grew by 9% or $158 million due to significant mortgage volume. Our business loans grew, but this growth was mostly driven by the PPP loans we made, most of which are still on our balance sheet and in the process of running off through repayment or government forgiveness. As of this writing, though, we are making additional PPP loans as the federal government has renewed the program.

Deposits grew 15.7%, which represented a record $2.82 billion of growth. There were many drivers to this high growth rate and most of the causes were pandemic related. Many of our business customers built up liquidity in a flight to safety, reducing expenses and investments in their operations. The PPP loans we made to some of our business customers also increased their liquidity as their revenue declines proved shorter lived than expected. Many of our individual customers received direct payments from the government as a part of the CARES act and this also increased their deposits. Lastly, the cumulative effect of so many customers persistently spending less on travel, entertainment, and restaurants meant many of them saw their savings grow steadily throughout the year.

	GROSS LOANS	**DEPOSITS**
2020	**$16,620,671,000**	**$20,762,462,000**
2019	**$16,346,024,000**	**$17,940,025,000**
2018	**$15,950,419,000**	**$17,452,109,000**
2017	**$15,093,148,000**	**$16,715,852,000**
2016	**$14,011,120,000**	**$15,898,987,000**

Within our noninterest income categories, income grew 11.6% or $46 million 2020. However, much like our loan volumes the components that makeup our fee income varied significantly due to the economic environment. Our largest fee income source, net interchange fees from credit cards, fell significantly due to lower spending by our customers, particularly in the early months of the pandemic. Yet, during those same months when our customers' spending declined our mortgage volume exploded as customers were eager to take advantage of such low interest rates. Consequently, we processed record volumes of mortgages in 2020, resulting in record levels of associated gain-on-sale fee income. Nearly all this volume was processed in a work-at-home environment that saw many late nights and weekends of work by our employees. In addition, declining long-term interest rates meant we again had to write down the value of our Mortgage Servicing Rights ("MSR") by $35 million for the full year and that write down flows through our fee income line. That write down, however, did not stop us from having our best year ever in mortgage in both revenue and profitability. While processing this record volume, we also made significant investments in our mortgage systems to improve the customer experience as part of our commitment to the mortgage business and to being a customer led organization.

Expenses fell 7%, or $72 million, from $1 billion in 2019 to $929 million in 2020. Spending in many categories like travel & entertainment and buildings expenses fell dramatically as our employees worked from home. Our reduced marketing expense in credit card also contributed meaningfully to the drop in expenses. It is also worth noting that we saw benefits in 2020 from efficiency initiatives in 2019, most of which continued into 2020. Most notably, in 2020 we took a second restructuring charge of $10 million due to our Voluntary Enhanced Retirement Program ("VERP"), which we first offered in 2019 to 600 employees as a way for them to retire with certain financial and health care benefits. Ultimately, 414 of employees eligible for this early retirement offer accepted our offer and 188 of them retired in 2020, thus completing the program. We said thank you and farewell to many long time, talented employees. We continue to focus on efficiency while still growing the business as we believe we must do both to be a top performing bank.

Our Focus

Last year we established our intent to commit to a long-term focus on being **customer led, innovative and efficient**. We defined this commitment as striving to be a flatter organization, with management closer to the customer and decisions made primarily to improve the customer experience through innovation. This also means we will focus on knowing our customers well, using data to deliver personalized experiences and offer advice and guidance to our customers. It is imperative that we execute well on these priorities. The disruptive competitors who are growing rapidly using innovative technologies are a very real threat to the banking industry. Our strategic response to this threat revolves around an intense focus on our customers.

Ultimately, we are working toward what we have articulated as our "north star," which is to improve our customers' financial well-being. We have always held this north star within our core values, but we have never organized our company's structure, priorities and decision making around our north star as we are today. We are investing in our future by investing in new ways to help solve customers' problems, which starts by listening to customers and asking them what they need rather than telling them what we have. We also continue to modernize our technology environment and methods of working, both of which will bring us better agility to respond to customer needs.

We continue to focus on **our vision of being a top performing bank for our customers, employees, stockholders and communities.** During a year like 2020 with the challenges facing our communities, we quickly pivoted and contributed significant time and money to help those most in need. Working with countless nonprofits across our communities, we also collaborated with leaders from those organizations to help raise money for people most impacted by COVID-19. We believe a bank is reflection of its community and should be a leader in its community, just as we continued to be in 2020.

Perhaps what we are most proud of looking back on 2020 is the way in which we continued investing in the future of the business while addressing the challenges of the pandemic. We never stopped our transformation efforts or reduced our significant focus on being customer led, innovative and efficient. As a result, we were able to introduce several important, new customer experiences while also launching promising initiatives in the heat of the crisis. We also continued to strengthen our balance sheet, increasing liquidity, capital and reserves to record levels so that we can operate from a position of strength to better serve customers.

We are so thankful to our employees for all that they did this year: for their working long hours, for working in difficult conditions, and for doing their best work despite new challenges to their own lives. Our employees' commitment and resilience were inspiring to us. Our people strive to meet the needs of our customers and communities every day, just as they have for 163 years now. Each one of those employees has our sincere gratitude and as a stockholder they deserve yours as well. Please join us in thanking them for a job well done!

Clark Lauritzen   Bruce R. Lauritzen

Clark D. Lauritzen

Chairman and President

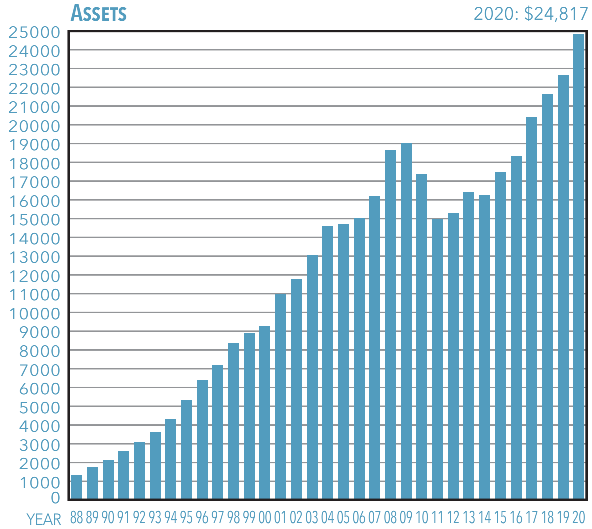
Bruce R. Lauritzen

Chairman Emeritus

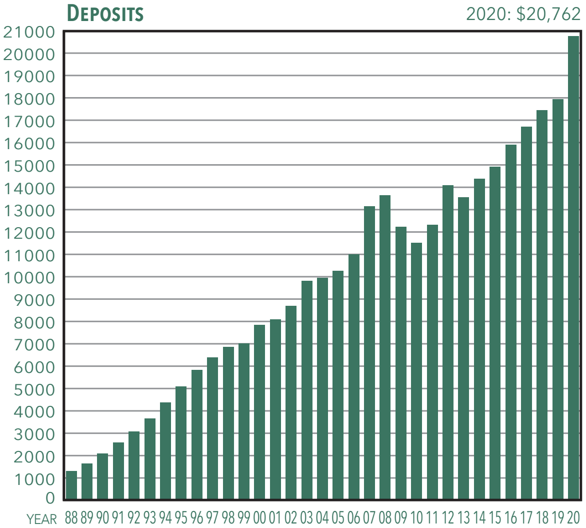
First National of Nebraska and Subsidiaries
Performance Trends

($ in millions)

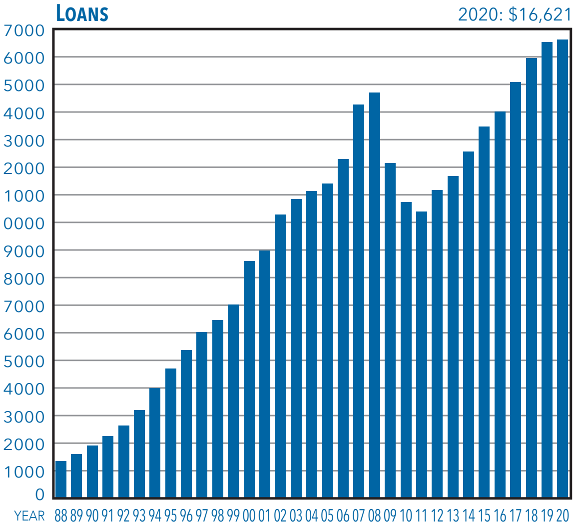
Assets 2020: $24,817



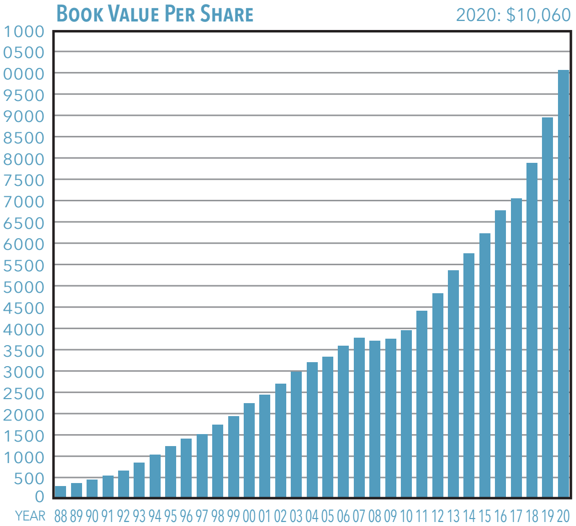
Deposits 2020: $20,762



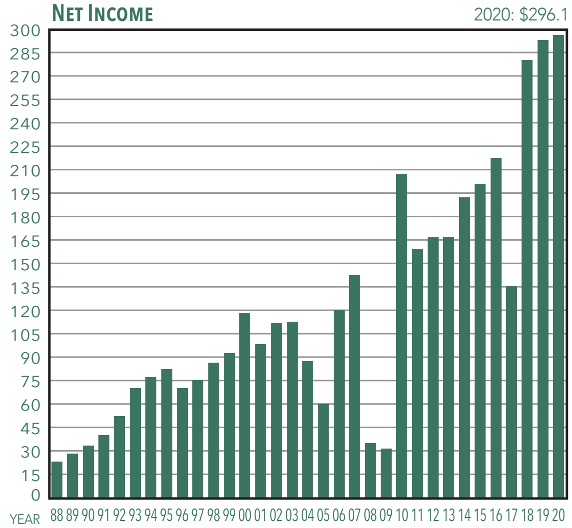
Loans 2020: $16,621



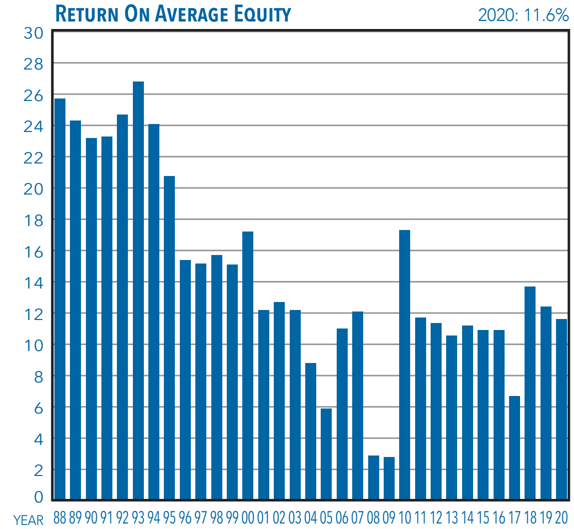
Book Value Per Share 2020: $10,060



Net Income 2020: $296.1



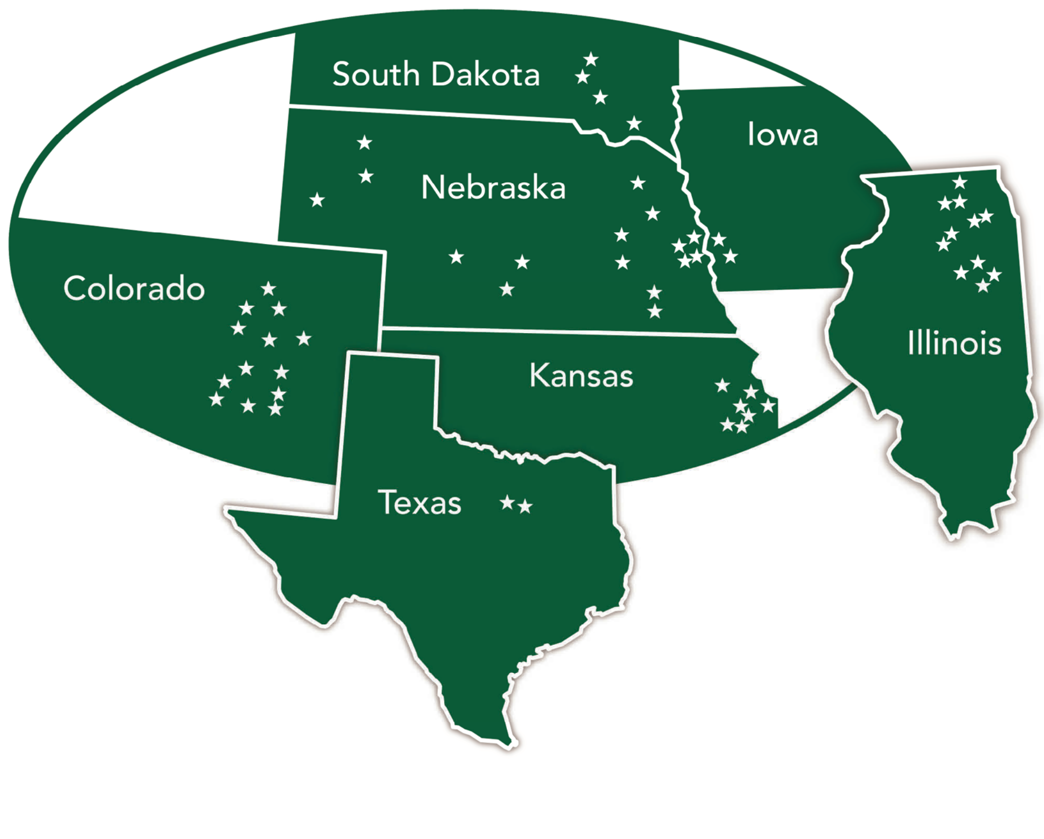
Return On Average Equity 2020: 11.6%



First National of Nebraska and Subsidiaries
Financial Highlights

	Years ended December 31,				
	2020	**2019**	**2018**	**2017**	**2016**
(in thousands except per share data)					
Total assets	**$ 24,817,423**	$ 22,623,708	$ 21,647,511	$ 20,434,754	$ 19,046,202
Total interest income and noninterest income	**$ 1,733,813**	$ 1,860,392	$ 1,756,463	$ 1,606,039	$ 1,578,214
Net income	**$ 296,123**	$ 292,939	$ 280,106	$ 135,644	$ 217,547
Stockholders' equity	**$ 2,698,539**	$ 2,402,361	$ 2,165,274	$ 1,963,157	$ 2,028,286
Allowance for loan losses	**$ 440,341**	$ 376,823	$ 402,621	$ 392,692	$ 327,644
Per share data:					
Diluted earnings	**$ 1,104**	$ 1,071	$ 1,011	$ 469	$ 720
Dividends	**$ 210**	$ 210	$ 200	$ 100	$ 147
Stockholders' equity	**$ 10,060**	$ 8,957	$ 7,889	$ 7,051	$ 6,769
Dividend payout ratio	**19.0%**	19.6%	19.7%	21.3%	20.4%
Profit ratios:					
Return on average equity	**11.6%**	12.4%	13.7%	6.7%	10.9%
Return on average assets	**1.3%**	1.4%	1.4%	0.7%	1.2%

First National of Nebraska and subsidiaries have 96 full-service branches throughout seven states.



First National of Nebraska and Subsidiaries
Consolidated Statements of Financial Condition

(in thousands except share data)	December 31, 2020	December 31, 2019
Assets		
Cash and due from banks	**$ 2,882,349**	$ 1,043,546
Federal funds sold and other short-term investments	**4,215**	6,700
Total cash and cash equivalents	**2,886,564**	1,050,246
Interest-bearing time deposits due from banks	**30,670**	30,919
Investment securities:		
Available-for-sale debt securities (amortized cost $4,037,271 and $3,664,803)	**4,196,310**	3,723,395
Held-to-maturity debt securities (fair value $169,159 and $191,608)	**163,643**	190,219
Other securities, at cost (includes equity securities $23,915 and $24,752 carried at fair value)	**77,164**	107,236
Total investment securities	**4,437,117**	4,020,850
Credit card loans held for sale	**—**	188,337
Loans and leases (1)	**16,620,671**	16,346,024
Less: Allowance for loan losses	**440,341**	376,823
Net loans and leases	**16,180,330**	15,969,201
Premises, equipment and software, net	**484,503**	508,561
Other assets (1)	**601,797**	637,761
Goodwill	**165,329**	165,329
Intangible assets	**31,113**	52,504
Total assets	**$ 24,817,423**	$ 22,623,708
Liabilities and Stockholders' Equity		
Deposits:		
Noninterest-bearing	**$ 7,163,439**	$ 5,194,273
Interest-bearing	**13,599,023**	12,745,752
Total deposits	**20,762,462**	17,940,025
Short-term fundings	**157,588**	191,787
Federal Home Loan Bank advances	**—**	450,000
Net other borrowings (1)	**305,054**	703,056
Accrued expenses and other liabilities	**595,591**	588,524
Net capital notes and trust preferred securities	**298,189**	347,955
Total liabilities	**22,118,884**	20,221,347
Contingencies and commitments (Note L)		
Stockholders' equity:		
Common stock, $5 par value, 370,000 shares authorized; 315,000 shares issued; 268,251 and 268,222 outstanding	**1,575**	1,575
Additional paid-in capital	**8,987**	7,474
Retained earnings	**3,018,257**	2,778,464
Treasury stock of 46,749 and 46,778 shares, at cost	**(343,529)**	(342,335)
Accumulated other comprehensive gain (loss)	**13,249**	(42,817)
Total stockholders' equity	**2,698,539**	2,402,361
Total liabilities and stockholders' equity	**$ 24,817,423**	$ 22,623,708

(1) Balances at December 31, 2020 and 2019 include assets and liabilities of a consolidated securitization trust, which includes loans of $2.6 billion and $3.1 billion, restricted cash of $0.0 million and $0.0 million, and other borrowings of $299.6 million and $598.6 million, respectively.

See Notes to Consolidated Financial Statements

First National of Nebraska and Subsidiaries
Consolidated Statements of Income

(in thousands except share and per share data)	Years ended December 31, 2020	2019	2018
Interest income:			
Interest and fees on loans and lease financing	**$ 1,191,144**	$ 1,358,028	$ 1,278,464
Interest on investment securities	**97,651**	97,998	79,212
Interest on federal funds sold and other short-term investments	**2,836**	8,077	6,675
Total interest income	**1,291,631**	1,464,103	1,364,351
Interest expense:			
Interest on deposits	**69,284**	143,038	95,915
Interest on short-term fundings	**552**	1,009	458
Interest on Federal Home Loan Bank advances	**1,879**	4,018	4,304
Interest on other borrowings	**7,188**	21,026	17,805
Interest on capital notes and trust preferred securities	**14,292**	16,878	15,033
Total interest expense	**93,195**	185,969	133,515
Net interest income	**1,198,436**	1,278,134	1,230,836
Provision for loan losses	**331,472**	291,160	326,765
Net interest income after provision for loan losses	**866,964**	986,974	904,071
Noninterest income:			
Processing services	**134,576**	166,645	187,716
Deposit services	**33,942**	33,575	33,451
Trust and investment services	**66,988**	65,832	65,821
Gain on sale of mortgage loans	**105,348**	38,482	22,006
Managed services	**45,045**	43,587	43,235
Other	**56,283**	48,168	39,883
Total noninterest income	**442,182**	396,289	392,112
Noninterest expense:			
Salaries and employee benefits	**483,203**	533,371	464,633
Net occupancy expense of premises	**60,194**	55,761	53,488
Equipment rentals, depreciation and maintenance	**104,668**	95,198	92,830
Marketing, communications and supplies	**76,812**	90,764	82,228
Processing expense	**50,197**	49,965	47,243
Loan servicing expense	**58,286**	60,500	55,138
Professional services	**39,234**	39,966	35,708
Contingent litigation and regulatory matters	**—**	6,843	33,945
Other	**56,249**	68,416	70,023
Total noninterest expense	**928,843**	1,000,784	935,236
Income before income taxes	**380,303**	382,479	360,947
Income tax expense (benefit):			
Current	**122,892**	104,036	76,191
Deferred	**(38,712)**	(14,496)	4,650
Total income tax expense	**84,180**	89,540	80,841
Net income	**$ 296,123**	$ 292,939	$ 280,106
Basic and diluted earnings per common share	**$ 1,104**	$ 1,071	$ 1,011
Average basic and diluted common shares outstanding	**268,211**	273,450	277,010

See Notes to Consolidated Financial Statements

First National of Nebraska and Subsidiaries
Consolidated Statements of Comprehensive Income

(in thousands)	Years ended December 31, 2020	2019	2018
Net income	**$ 296,123**	$ 292,939	$ 280,106
Other comprehensive income (loss), before tax:			
Net unrealized gain (loss) on available-for-sale securities	**110,444**	96,759	(8,119)
Net unrealized gain on qualifying cash flow hedges	**1,612**	709	2,320
Net unrealized gain (loss) on employee benefit plans	**(28,899)**	(7,786)	19,302
Net unrealized gain on transfer of securities from available-for-sale to held-to-maturity	**139**	162	119
Less: Reclassification adjustment for net gain (loss) realized in net income	**10,004**	21	(416)
Other comprehensive gain, before tax	**73,292**	89,823	14,038
Less: Income tax expense for other comprehensive gain	**17,226**	21,111	3,286
Other comprehensive gain, net of tax	**56,066**	68,712	10,752
Reclassification of accounting changes to retained earnings	**—**	—	(18,835)
Comprehensive income	**$ 352,189**	$ 361,651	$ 272,023

See Notes to Consolidated Financial Statements

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

For the years ended December 31, 2020, 2019, and 2018

(in thousands except share and share data)	Common Stock ($5 par value)	Additional Paid-in Capital	Retained Earnings	Treasury Stock (at cost)	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance, January 1, 2018	$ 1,575	$ 5,353	$ 2,299,072	$ (239,397)	$ (103,446)	$ 1,963,157
Net income	—	—	280,106	—	—	280,106
Other comprehensive loss, net of tax	—	—	18,835	—	(8,083)	10,752
Purchases of treasury stock - 4,159 shares	—	—	—	(35,050)	—	(35,050)
Sales of treasury stock - 182 shares	—	818	—	660	—	1,478
Dividends declared - $200 per share	—	—	(55,169)	—	—	(55,169)
Balance, December 31, 2018	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**

See Notes to Consolidated Financial Statements

First National of Nebraska and Subsidiaries
Consolidated Statements of Cash Flows

(in thousands)	Years ended December 31, 2020	2019	2018
OPERATING ACTIVITIES			
Net Income	**$ 296,123**	$ 292,939	$ 280,106
Adjustments to reconcile net income to net cash flows from (used in) operating activities:			
Provision for loan losses	**331,472**	291,160	326,765
Depreciation, amortization and accretion	**77,019**	75,445	75,621
Provision for deferred taxes	**(38,712)**	(14,496)	4,650
Origination of mortgage loans for resale	**(1,983,971)**	(1,269,330)	(942,042)
Proceeds from the sale of mortgage loans originated for resale	**1,819,699**	1,248,489	965,418
Contingent litigation payments	**(6,453)**	(12,725)	(19,657)
Other asset and liability activity, net	**66,695**	42,976	16,508
Net cash flows from operating activities	**561,872**	654,458	707,369
INVESTING ACTIVITIES			
Maturities of securities available-for-sale	**751,910**	550,187	378,780
Sales of securities available-for-sale	**180,323**	113,227	156,180
Purchases of securities available-for-sale	**(1,313,078)**	(1,052,282)	(1,071,797)
Maturities of securities held-to-maturity	**59,203**	41,052	38,495
Purchases of securities held-to-maturity	**(34,245)**	(22,796)	(8,890)
Redemptions of FHLB stock and other securities	**35,197**	20,592	50,536
Purchases of FHLB stock and other securities	**(5,290)**	(43,753)	(37,809)
Maturities of interest-bearing time deposits	**31,587**	30,000	32,631
Purchases of interest-bearing time deposits	**(31,338)**	(30,015)	(31,554)
Net change in loans and leases	**(351,419)**	(882,043)	(1,205,097)
Sale of credit card loan portfolios	**158,329**	—	—
Purchases of premises, equipment and software	**(25,087)**	(36,092)	(34,088)
Other, net	**2,214**	2,745	671
Net cash flows used in investing activities	**(541,694)**	(1,309,178)	(1,731,942)
FINANCING ACTIVITIES			
Net change in deposits	**2,822,437**	487,916	736,257
Net change in short term fundings	**(34,199)**	170,165	(213,286)
Net change in FHLB advances	**(450,000)**	150,000	50,000
Issuance of other borrowings	**—**	129,700	51,200
Principal repayments on other borrowings	**(100,327)**	(30,195)	(51,300)
Proceeds from new securitizations	**—**	—	300,000
Principal repayments on other borrowings of securitization trusts	**(300,000)**	(300,000)	—
Issuance of capital notes	**—**	—	150,000
Principal repayments on capital notes	**(50,000)**	—	—
Cash dividends paid	**(56,330)**	(57,319)	(55,169)
Net change in treasury stock	**319**	(67,245)	(33,572)
Net cash flows from financing activities	**1,831,900**	483,022	934,130
Net change in cash, cash equivalents and restricted cash	**1,852,078**	(171,698)	(90,443)
Cash, cash equivalents and restricted cash at beginning of year	**1,088,575**	1,260,273	1,350,716
Cash, cash equivalents and restricted cash at end of year	**$ 2,940,653**	$ 1,088,575	$ 1,260,273
Cash paid during the year for:			
Interest	**$ 96,447**	$ 186,965	$ 130,660
Income taxes	**$ 109,326**	$ 103,740	$ 53,758

The Company transferred $3.1 million, $2.0 million and $7.6 million from loans to other real estate owned during the years ended December 31, 2020, 2019 and 2018, respectively.

See Notes to Consolidated Financial Statements

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Consolidation – The consolidated financial statements of First National of Nebraska, Inc. (the Parent Company) and subsidiaries (collectively, the Company) include the accounts of the Parent Company; its 99.99% owned subsidiary, First National Bank of Omaha and subsidiaries (the Bank); its nonbanking subsidiaries; and its variable interest entities (VIEs) in which it is the primary beneficiary. All intercompany transactions and balances have been eliminated in consolidation. Subsequent events are analyzed through February 26, 2021, 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 segregated in compliance with the securitization trust. As of December 31, 2020 and 2019, restricted cash was $54.1 million and $38.3 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.

Credit Card Loans Held for Sale – Loans held for sale are carried at the lower of aggregate cost or fair value.

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 residential 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 $0.6 million and $3.6 million at December 31, 2020 and 2019, 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.

B. INVESTMENT SECURITIES

Available-for-Sale Debt Securities

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

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2020				
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**
Total debt securities available-for-sale	**$ 4,037,271**	**$ 162,053**	**$ (3,014)**	**$ 4,196,310**
2019				
U.S. government obligations	$ 445,860	$ 6,000	$ (619)	$ 451,241
Obligations of states and political subdivisions	45,934	483	(161)	46,256
Agency mortgage-backed securities	3,159,286	59,947	(5,823)	3,213,410
Other securities	13,723	—	(1,235)	12,488
Total debt securities available-for-sale	$ 3,664,803	$ 66,430	$ (7,838)	$ 3,723,395

There were $10.0 million gross realized gains on sales for available-for-sale debt securities in 2020, no realized gains on sales in 2019 and 2018. 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 $180.3 million, $113.2 million and $156.2 million for 2020, 2019 and 2018, respectively.

Held-to-Maturity Debt Securities

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

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2020				
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**
Total debt securities held-to-maturity	**$ 163,643**	**$ 5,577**	**$ (61)**	**$ 169,159**
2019				
U.S. government obligations	$ 25,007	$ 294	$ —	$ 25,301
Obligations of states and political subdivisions	21,912	341	(13)	22,240
Agency mortgage-backed securities	143,300	1,277	(510)	144,067
Total debt securities held-to-maturity	$ 190,219	$ 1,912	$ (523)	$ 191,608

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, 2020:

	Available-for-Sale		Held-to-Maturity	
(in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Debt securities				
Due in one year or less	**$ 174,442**	**$ 175,704**	**$ 2,129**	**$ 2,142**
Due after one year through five years	**223,607**	**231,443**	**23,310**	**24,150**
Due after five years through ten years	**46,453**	**48,730**	**21,370**	**22,286**
Due after ten years	**34,041**	**34,232**	**11,702**	**12,198**
Agency mortgage-backed securities (weighted average life of 2.9 years)	**3,545,003**	**3,693,711**	**105,132**	**108,383**
Total	**$ 4,023,546**	**$ 4,183,820**	**$ 163,643**	**$ 169,159**

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, 2020 and 2019:

	Less than 12 months		12 months or greater		Total	
	Fair Value	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
(in thousands)						
2020						
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)**
2019						
U.S. government obligations	$ 100,198	$ (511)	$ 46,677	$ (108)	$ 146,875	$ (619)
Obligations of states and political subdivisions	1,072	(13)	8,308	(161)	9,380	(174)
Agency mortgage-backed securities	368,834	(3,419)	499,540	(2,914)	868,374	(6,333)
Other securities	—	—	12,488	(1,235)	12,488	(1,235)
Total temporarily impaired securities	$ 470,104	$ (3,943)	$ 567,013	$ (4,418)	$ 1,037,117	$ (8,361)

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, 2020, nor is it more likely than not that the Company will have to sell any security before a recovery of the cost.

Securities totaling $3.3 billion and $3.0 billion at December 31, 2020 and 2019, respectively, were pledged to secure public deposits, repurchase agreements and for other purposes as required or permitted by law.

The Company did not hold any trading securities at December 31, 2020 or 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:

(in thousands)	2020	2019
Credit card	**$ 6,205,850**	$ 6,765,316
Real estate – commercial	**3,638,836**	3,357,205
Real estate – residential (1)	**2,001,827**	1,843,759
Commercial	**2,010,459**	1,476,740
Agricultural	**1,869,737**	1,874,306
Other	**904,647**	1,019,318
Gross loans	**16,631,356**	16,336,644
Deferred loan fees (costs), net	**(10,685)**	9,380
Total loans and leases	**16,620,671**	16,346,024
Less:		
Allowance for loan losses	**440,341**	376,823
Net loans and leases	**$ 16,180,330**	$ 15,969,201

(1) Includes mortgage loans held for sale of $276.9 million and $105.9 million at December 31, 2020 and 2019, respectively.

Related Party Loans

Loan participations sold to banks owned by controlling stockholders of the Company were $23.6 million and $5.7 million at December 31, 2020 and 2019, respectively. Loan participations of $78.2 million and $74.5 million were also purchased from companies owned by controlling stockholders at December 31, 2020 and 2019, respectively. Loans and commitments to Company directors and their associated entities were made in the ordinary course of business and were approximately $3.4 million and $1.9 million at December 31, 2020 and 2019, 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:

(in thousands)	2020	2019	2018
Balance, beginning of year	**$ 376,823**	$ 402,621	$ 392,692
Provision for loan losses	**331,472**	291,160	326,765
Transfer of loans to held for sale	**—**	(11,215)	—
Loans charged off	**(338,861)**	(392,030)	(374,074)
Loans recovered	**70,907**	86,287	57,238
Total net charge-offs	**(267,954)**	(305,743)	(316,836)
Balance, end of year	**$ 440,341**	$ 376,823	$ 402,621

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

Credit Card	**2020**	**2019**	**2018**
(in thousands)			
Balance, beginning of year	**$ 274,966**	$ 289,107	$ 282,992
Provision for loan losses	**287,836**	294,784	299,603
Transfer of loans to held for sale	**—**	(11,215)	—
Loans charged off	**(309,024)**	(357,222)	(341,073)
Loans recovered	**55,981**	59,512	47,585
Total net charge-offs	**(253,043)**	(297,710)	(293,488)
Balance, end of year	**$ 309,759**	$ 274,966	$ 289,107

Other Bank Loans	**2020**	**2019**	**2018**
(in thousands)			
Balance, beginning of year	**$ 101,857**	$ 113,514	$ 109,700
Provision for loan losses	**43,636**	(3,624)	27,162
Loans charged off	**(29,837)**	(34,808)	(33,001)
Loans recovered	**14,926**	26,775	9,653
Total net charge-offs	**(14,911)**	(8,033)	(23,348)
Balance, end of year	**$ 130,582**	$ 101,857	$ 113,514

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:

(in thousands)	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
2020				
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**
Total	**$ 114,769**	**$ 16,001**	**$ 16,505,902**	**$ 424,340**
2019				
Credit card	$ 57,916	$ 16,336	$ 6,716,390	$ 258,630
Real estate – commercial	7,739	22	3,342,944	28,496
Real estate – residential	22,628	1,273	1,823,758	7,739
Commercial	7,411	476	1,469,664	12,628
Agricultural	15,230	388	1,859,886	21,107
Other	1,239	—	1,021,219	29,728
Total	$ 112,163	$ 18,495	$ 16,233,861	$ 358,328

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, 2020 and 2019. The unpaid contractual principal balance represents the Company's gross investment in the loan without deferred loan costs.

(in thousands)	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance
2020					
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**	**—**
Total	**$ 114,832**	**$ 60,146**	**$ 54,623**	**$ 114,769**	**$ 16,001**
2019					
Credit card	$ 57,842	$ —	$ 57,916	$ 57,916	$ 16,336
Real estate – commercial	7,739	5,988	1,751	7,739	22
Real estate – residential	22,627	17,052	5,576	22,628	1,273
Commercial	7,411	5,467	1,944	7,411	476
Agricultural	15,229	13,899	1,331	15,230	388
Other	1,239	1,091	148	1,239	—
Total	$ 112,087	$ 43,497	$ 68,666	$ 112,163	$ 18,495

The following table summarizes the Company's average balance of impaired loans during 2020 and 2019 and interest income recognized during 2020 and 2019 on impaired loans subsequent to their classification as impaired:

(in thousands)	Average Balance	Recognized Interest Income
2020		
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**
Total	**$ 117,476**	**$ 4,496**
2019		
Credit card	$ 57,313	$ 3,064
Real estate – commercial	8,388	402
Real estate – residential	22,954	904
Commercial	7,465	351
Agricultural	15,095	150
Other	1,199	8
Total	$ 112,414	$ 4,879

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:

($ in thousands)	Number of loans modified	Recorded investment in loans classified as a TDR
2020		
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**
Total modifications	**5,868**	**$ 87,243**
2019		
Credit card	9,187	$ 57,842
Real estate – commercial	—	6,256
Real estate – residential	32	22,627
Commercial	5	6,728
Agricultural	1	5,139
Other	3	1,239
Total modifications	9,228	$ 99,831

At December 31, 2020 and 2019, respectively, $5.2 million and $8.3 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 $2.8 million and $4.3 million upon classification in 2020 and 2019, respectively. The Company recorded an allowance for loan loss equal to $14.5 million and $16.3 million on all credit card troubled debt restructurings in 2020 and 2019, respectively.

At December 31, 2020 and 2019, other banking loans modified as troubled debt restructurings of $8.6 million and $11.9 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, 2020 or December 31, 2019.

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)						
2020						
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**

	Real Estate - Commercial	Real Estate - Residential	Commercial	Agricultural	Other	Total
2019						
Internally assigned grade:						
Pass	$ 3,302,145	$ 1,824,120	$ 1,356,840	$ 1,744,956	$ 1,015,153	$ 9,243,214
Special mention	2,078	617	63,190	586	—	66,471
Substandard	52,982	19,022	56,710	128,764	4,165	261,643
Total	$ 3,357,205	$ 1,843,759	$ 1,476,740	$ 1,874,306	$ 1,019,318	$ 9,571,328

	Credit Card
Based on payment activity:	
Performing	$ 6,591,434
Nonperforming	173,882
Total	$ 6,765,316

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)					
2020					
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**
Total	**$ 122,043**	**$ 95,049**	**$ 217,092**	**$ 97,359**	**$ 35,352**

(in thousands)	30 – 89 Days Past Due	90 or More Days Past Due	Total Past Due	Nonaccrual Loans	Greater than 90 Days Past Due and Accruing
2019					
Credit card	$ 83,663	$ 90,219	$ 173,882	$ 85,518	$ 679
Real estate – commercial	24,879	201	25,080	2,188	201
Real estate – residential	12,128	2,100	14,228	5,704	2,100
Commercial	16,118	130	16,248	1,530	130
Agricultural	10,550	—	10,550	14,053	—
Other	6,836	277	7,113	2,433	277
Total	$ 154,174	$ 92,927	$ 247,101	$ 111,426	$ 3,387

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:

(in thousands)	2020	2019
Restricted cash	**$ —**	$ —
Other	**31**	64
Total other assets	**$ 31**	$ 64
Credit card loans	**$ 2,606,387**	$ 3,100,212
Allowance for loan losses allocated to securitized loans	**(130,096)**	(123,694)
Total net loans	**$ 2,476,291**	$ 2,976,518
Borrowings owed to securitization investors	**$ 300,000**	$ 600,000
Unamortized debt issuance costs	**(422)**	(1,356)
Total net other borrowings	**$ 299,578**	$ 598,644

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

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

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

Residential Mortgage Loans

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

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

E. PREMISES, EQUIPMENT AND SOFTWARE

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

(in thousands)		2020		2019
Land	**$**	**90,551**	$	91,081
Buildings		**591,382**		593,170
Leasehold improvements		**49,790**		50,618
Software and equipment		**429,193**		459,106
Total premises, equipment and software		**1,160,916**		1,193,975
Less accumulated depreciation		**676,413**		685,414
Net premises, equipment and software	**$**	**484,503**	$	508,561

Depreciation expense included in net occupancy expense of premises and equipment rentals, depreciation and maintenance on the Consolidated Statements of Income totaled $46.7 million, $48.1 million and $50.9 million for 2020, 2019 and 2018, 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 2020, the Company completed its qualitative assessment of goodwill and did not recognize an impairment for the year ended December 31, 2020. In prior years, the Company recorded accumulated impairment losses of $4.0 million. 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, 2020 and 2019.

Mortgage Servicing Rights
The right to service mortgage loans for others, or MSRs, are recognized when mortgage loans are sold and the rights to service these loans are retained. Mortgage loans serviced for others totaled $5.1 billion and $5.2 billion at December 31, 2020 and 2019, respectively. In exchange for servicing these loans, the Company receives servicing fees. Servicing fees related to MSRs were $14.5 million, $14.2 million and $13.4 million for the years ended December 31, 2020, 2019 and 2018, respectively, and are recognized in processing services on the Company's Consolidated Statements of Income. The Company records the fair value of MSRs on its Consolidated Statements of Financial Condition. The Company determines the fair value of MSRs based on valuations obtained from an independent valuation specialist. The valuation model calculates the present value of estimated future net servicing income based on assumptions including estimates of prepayment speeds, discount rates, delinquency rates, late fees, other ancillary income and costs to service. The fair value of the MSR asset was $27.6 million and $45.8 million as of December 31, 2020 and 2019, respectively, and is included in intangible assets. Changes in the fair value of MSRs are recorded in current period earnings in processing services on the Company's Consolidated Statements of Income.

G. DEPOSITS

At December 31, 2020, the scheduled maturities of total certificates of deposit were as follows:

(in thousands)		
2021	$	**962,313**
2022		**262,512**
2023		**85,297**
2024		**43,579**
2025		**29,671**
2026 and thereafter		**420**
Total certificates of deposit	$	**1,383,792**

The aggregate amount of certificates of deposit, each with a minimum denomination of $250,000, was approximately $191.2 million and $437.4 million at December 31, 2020 and 2019, respectively.

The amount of deposits reclassified to overdraft loans were $3.1 million and $11.0 million at December 31, 2020 and 2019, respectively.

H. DEBT OBLIGATIONS

Other borrowings and capital notes and trust preferred securities of the Company as of December 31, 2020, were as follows:

(in thousands)	Other Borrowing - Securitized Debt	Other Borrowings	Capital Notes and Trust Preferred Securities
Scheduled maturities and payments due on obligations:			
Due in one year or less	**$ 300,000**	**$ 1,033**	**$ —**
Due after one year through two years	**—**	**1,053**	**—**
Due after two years through three years	**—**	**1,067**	**—**
Due after three years through four years	**—**	**841**	**—**
Due after four years through five years	**—**	**841**	**—**
Due after five years	**—**	**641**	**300,000**
Total debt obligations	**$ 300,000**	**$ 5,476**	**$ 300,000**

FHLB Advances

There were no line of credit advances outstanding as of December 31, 2020. There were $450.0 million in line of credit advances as of December 31, 2019, carrying a variable interest rate that changes daily based on the FHLB. At December 31, 2020 and 2019, FHLB approved borrowing capacity available for outstanding advances based on pledged real estate loans totaled $1.7 and $1.5 billion, respectively, and mortgage-backed securities totaled $904.8 and $959.7 million, respectively. Additionally, the Company held FHLB stock totaling $1.4 million and $31.8 million at December 31, 2020 and 2019.

Other Borrowings

The Company had other borrowings at December 31 as follows:

(in thousands)	2020	2019
Borrowings owed to securitization investors	**$ 300,000**	$ 600,000
FNN Ag Funding	**—**	100,000
Other borrowings	**5,476**	4,412
Total other borrowings	**305,476**	704,412
Less unamortized debt issuance costs	**(422)**	(1,356)
Other borrowings, net	**$ 305,054**	$ 703,056

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 matures in October 2021 and requires the payment of interest at a variable rate tied to LIBOR plus 0.46% respectively. The $600.0 million outstanding as of December 31, 2019, consisted of two publicly issued term securitization facilities which mature in October 2020 and October 2021 and requires the payment of interest at a variable rate tied to LIBOR plus 0.44% and 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, 2020. As of December 31, 2019 the Company had an outstanding balance of $100.0 million carrying a variable interest rate that changed monthly as determined by the Agribank lending rate. As of December 31, 2020 FNN Ag Funding, LLC had total assets of $280.1 million, total liabilities of $123.0 million and equity of $157.1 million.

Capital Notes and Trust Preferred Securities

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

(in thousands)	2020	2019
Subordinated capital notes, due 2020	**$ —**	$ 50,000
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**	350,000
Less unamortized debt issuance costs	**(1,811)**	(2,045)
Capital notes and trust preferred securities, net	**$ 298,189**	$ 347,955

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, 2020) 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 2.23% at December 31, 2020. After five years from the respective issuance dates, the Company may elect to redeem these cumulative trust preferred securities prior to their scheduled maturity. At December 31, 2020, these cumulative trust preferred securities qualified as Tier I capital of the Company.

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

I. 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:

(in thousands)	**2020**	**2019**
Deferred tax assets:		
Allowance for loan losses	**$ 103,471**	$ 88,545
Credit card rewards	**15,561**	14,239
Reserve for unfunded commitments	**7,154**	8,255
Employee benefits	**57,158**	45,890
Purchased credit card relationships	**4,549**	4,670
Net operating loss carryforwards (1)	**259**	415
Capital loss carryforwards	**—**	4,874
Accrual for contingent litigation and regulatory matters	**3,334**	4,902
Unrealized loss on derivatives	**—**	379
Other	**12,020**	6,741
Gross deferred tax assets	**203,506**	178,910
Less: Valuation allowance	**(259)**	(5,289)
Total deferred tax assets	**203,247**	173,621
Deferred tax liabilities:		
Credit card loan fee deferral	**26,654**	33,317
Depreciation and amortization	**24,178**	27,797
Mortgage servicing rights	**6,483**	10,758
Market adjustment on available-for-sale securities	**37,323**	13,685
Other	**6,704**	7,646
Total deferred tax liabilities	**101,342**	93,203
Net deferred tax assets	**$ 101,905**	$ 80,418

(1) Expire from 2022 to 2040

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

(in thousands)	2020	2019	2018
Current federal	**$ 105,785**	$ 87,720	$ 64,645
Current state	**17,107**	16,316	11,546
Total current taxes	**122,892**	104,036	76,191
Deferred federal	**(33,622)**	(11,810)	4,002
Deferred state	**(5,090)**	(2,686)	648
Total deferred taxes	**(38,712)**	(14,496)	4,650
Total provision for income taxes	**$ 84,180**	$ 89,540	$ 80,841

The effective rates of total tax expense for the years ended December 31, 2020, 2019 and 2018, were different than the statutory federal tax rate. The reasons for the differences were as follows:

(percent of pretax income)	2020	2019	2018
Statutory federal tax rate	**21.0 %**	21.0 %	21.0 %
Additions (reductions) in taxes resulting from:			
Tax-exempt interest income	**(0.4)**	(0.4)	(0.4)
State taxes	**2.6**	2.7	2.7
Income tax credits	**(0.2)**	(0.5)	(0.2)
Other items, net	**0.5**	0.6	0.4
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)	—
2017 Tax Cuts and Jobs Act impact on deferred taxes (2)	**—**	—	(1.1)
Effective tax rate	**22.1 %**	23.4 %	22.4 %

(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%.
(2) The Company filed certain accounting method changes for which the benefit was estimated and reported in the 2017 financial statements. Finalizing these method changes resulted in an effective tax rate benefit in 2018 of 1.1%.

At December 31, 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. At December 31, 2018, there were no unrecognized tax benefits, interest or penalties recorded.

The Company believes that it is reasonably possible the total amount of unrecognized tax benefits will increase in the range of $1 million to $1.5 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 2016. 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 or state income tax examinations in progress.

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

(in thousands)	2020	2019	2018
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)**	—	—
Balance, end of year	**$ —**	$ 4,086	$ —

J. 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.

During 2019, there was a Plan Amendment as part of the Company's Voluntary Enhanced Retirement Program (the "Program"). The Program offered an enhanced pension benefit for pension-eligible employees and removal or reduction of pension benefit decreases as a result of retiring before age 65. The special termination benefits as part of the Plan Amendment resulted in pretax charges of $23.2 million at December 31, 2019.

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

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

(in thousands)	2020	2019
Change in benefit obligation:		
Benefit obligation at January 1	**$ 390,674**	$ 328,864
Interest cost	**12,372**	13,669
Actuarial loss	**35,538**	47,057
Benefits paid (1)	**(13,974)**	(22,091)
Plan amendment	**—**	23,175
Benefit obligation at December 31	**$ 424,610**	$ 390,674
Change in plan assets:		
Fair value of plan assets at January 1	**$ 311,289**	$ 275,474
Actual return on plan assets	**30,410**	57,906
Benefits paid	**(13,974)**	(22,091)
Fair value of plan assets at December 31	**$ 327,725**	$ 311,289
Funded status at December 31	**$ (96,885)**	$ (79,385)

(1) In 2020, the Company made lump sum benefit payments of $1.3 million and monthly annuity payments of $12.6 million. In 2019, the Company made lump sum benefit payments of $0.2 million and monthly annuity payments of $9.3 million. In addition, the Company settled $12.6 million of liability through the purchase of a group annuity contract.

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 $407.3 million and $373.3 million at December 31, 2020 and 2019, respectively.

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

(in thousands)	2020	2019	2018
Net loss	**$ (22,093)**	$ (5,891)	$ (433)
Other comprehensive loss	**$ (22,093)**	$ (5,891)	$ (433)

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

(in thousands)	2020	2019
Net loss	**$ (108,290)**	$ (86,197)
Accumulated other comprehensive loss	**$ (108,290)**	$ (86,197)

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

(in thousands)	2020	2019	2018
Service cost	**$ —**	$ —	$ —
Interest cost	**12,373**	13,669	12,719
Expected return on plan assets	**(21,393)**	(20,283)	(20,168)
Amortization of loss	**2,483**	3,038	3,456
Special termination benefits	**—**	23,175	—
Net periodic benefit cost	**$ (6,537)**	$ 19,599	$ (3,993)

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

(weighted averages)	2020	2019
Discount rate	**2.5 %**	3.3 %
Rate of compensation increase	**4.0 %**	4.0 %

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

(weighted averages)	2020	2019	2018
Discount rate	**3.3 %**	4.2 %	3.6 %
Expected return on plan assets	**7.0 %**	7.5 %	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, 2020 at 7.0%. This assumption will be used to calculate the net periodic benefit cost in 2020. 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 Company's portfolio consists of 48.1% publicly traded equity securities, 25.3% Parent Company stock, 23.3% fixed income debt securities, and 3.3% cash and cash equivalents.

The major categories of assets in the Company's pension plan as of December 31, 2020 and 2019 are presented in the following table. Assets are segregated by the level of valuation inputs within the fair value hierarchy, see Note S.

(in thousands)	Level 1	Level 2	Level 3	Total
2020				
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**
Total fair value	**$ 187,231**	**$ 140,494**	**$ —**	**$ 327,725**
2019				
Money market funds	$ 53,437	$ —	$ —	$ 53,437
U.S. government securities and agencies	20,363	16,274	—	36,637
Obligations of states and political subdivisions	—	863	—	863
Corporate bonds	—	34,249	—	34,249
Mutual funds	67,947	—	—	67,947
Common stocks	38,631	79,525	—	118,156
Total fair value	$ 180,378	$ 130,911	$ —	$ 311,289

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

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

(percent of plan assets)	2020	2019
Asset category:		
Equity securities	**73.4 %**	59.9 %
Debt securities	**23.3 %**	23.0 %
Cash and cash equivalents	**3.3 %**	17.1 %
Total	**100.0 %**	100.0 %

The primary investment objective of the Company's pension plan is to provide long-term asset growth with income. To accomplish this objective, the Company has adopted a moderate risk tolerance to achieve an annual rate of return that meets or exceeds the returns of an index composed of 60% S&P 500 and 40% Barclays Capital Aggregate. In accordance with the Company's moderate risk tolerance, rate of return expectations and appropriate cash levels needed to fund short-term expected benefit distributions, the target ranges of the asset-mix are as follows: equity securities 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 owned Parent Company common stock with a fair value of $82.8 million and $79.3 million at December 31, 2020 and 2019, respectively.

The Company made no contributions during the 2020 and 2019 plan year, and the Company does not expect to make further contributions to the pension plan in 2021.

At December 31, 2020, estimated benefit payments net of estimated federal subsidy receipts, which reflect expected future service, as appropriate, are expected to be paid as follows:

(in thousands)		**Pension**
2021	$	**12,468**
2022		**13,079**
2023		**13,983**
2024		**14,733**
2025		**15,977**
2026 - 2030		**91,868**

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, 2020, 2019 and 2018, was $21.8 million, $23.8 million and $22.1 million, respectively.

The Company has established an executive long-term incentive plan (LTIP). For the years ended December 31, 2020, 2019 and 2018, expense attributable to the LTIP plan was $5.7 million, $4.1 million, and $5.2 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.

K. 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 $259.7 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. As a result, the Company made reimbursement payments to the purchaser in the amount of $6.3 million during 2019. No reimbursement payments were made during 2020.

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, 2020 and 2019, the Company's contingent litigation liability was estimated to be $14.2 million and $20.9 million, respectively, and is recorded in accrued expenses and other liabilities on the Consolidated Statements of Financial Condition. To the extent that the Company's proportionate share of any settlement exceeds the recorded contingent litigation liability, the Company's financial results will be impacted.

L. 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 $26.0 billion and $27.9 billion at December 31, 2020 and 2019, 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, 2020 and 2019, the Company had commercial letters of credit and unused loan commitments, excluding credit card lines, of $5.9 billion and $5.0 billion, respectively. Additionally, standby letters of credit of $126.3 million and $110.2 million had been issued at December 31, 2020 and 2019, 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 pretax charges of $9.9 million and $49.8 million at December 31, 2020 and 2019, 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. As of the present date, the parties are concluding briefing, however, no hearing date has been established by the Second Circuit 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, and are currently engaged in expert discovery and motion practice. The parties continue to maintain an open and ongoing dialogue to explore any 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.

M. DERIVATIVE ASSETS AND LIABILITIES

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

Interest Rate Derivatives

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

The Company had entered into an interest rate swap to limit the interest rate exposure on variable-rate subordinated capital notes. The notional amount of the interest rate swap agreement was $50.0 million and matured in 2020. The interest rate swap converted the Company's variable exposure to a fixed rate of 6.6%. The Company accounted for the interest rate swap agreement as a cash flow hedge; therefore, the change in fair value was recorded in other comprehensive gain (loss) for the years ended December 31, 2020, 2019 and 2018.

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:

(in thousands)	**2020**	2019	2018
Amount of gain recognized in other comprehensive income	**$ 4,899**	$ 4,009	$ 5,620
Amount of loss reclassified from other comprehensive income into net interest income	**(3,287)**	(3,300)	(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, 2020 and 2019, respectively, are presented in the following table.

	2020		**2019**	
	Notional Amount	**Fair Value Asset/ (Liability)**	**Notional Amount**	**Fair Value Asset/ (Liability)**
(in thousands)				
Derivative positions designated as hedges of cash flows:				
Interest rate swaps on variable-rate subordinated capital notes	**$ —**	**$ —**	$ 50,000	$ (1,611)
Non hedging interest rate derivatives:				
Customer swaps	**129,785**	**25,290**	145,988	13,462
Counter customer swaps	**129,785**	**(4,442)**	145,988	(2,497)
Mortgage forwards	**575,579**	**(4,443)**	189,923	(149)
Mortgage written options	**401,862**	**11,464**	148,956	1,339
Foreign currency derivatives:				
Customer forwards	**119,344**	**(3,870)**	93,047	118
Counter customer forwards	**119,297**	**3,943**	93,066	(55)

N. 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, 2020 and 2019, 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, 2020		Actual, as of December 31, 2019	
	Amount	**Ratio**	**Amount**	**Ratio**
($ in thousands)				
Common Equity Tier I Capital to Risk Weighted Assets				
Consolidated Company	**$ 2,518,981**	**13.00 %**	$ 2,275,501	11.54 %
First National Bank of Omaha	**2,430,681**	**12.58 %**	2,241,834	11.40 %
Total Capital to Risk Weighted Assets				
Consolidated Company	**$ 3,062,242**	**15.80 %**	$ 2,811,086	14.26 %
First National Bank of Omaha	**2,674,995**	**13.85 %**	2,489,717	12.66 %
Tier I Capital to Risk Weighted Assets				
Consolidated Company	**$ 2,668,674**	**13.77 %**	$ 2,425,204	12.30 %
First National Bank of Omaha	**2,430,681**	**12.58 %**	2,241,834	11.40 %
Tier I Capital to Average Assets				
Consolidated Company	**$ 2,668,674**	**10.95 %**	$ 2,425,204	11.05 %
First National Bank of Omaha	**2,430,681**	**10.07 %**	2,241,834	10.29 %

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 will be allowed to qualify as tier 1 capital. For the quarter beginning January 1, 2015, the Company was compliant with revised minimum regulatory capital ratios and began the transitional period for definitions of regulatory capital and regulatory capital adjustments and deductions established under the final rule. The Company was also in compliance with the risk-weighted asset calculations as of January 1, 2015.

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. Pursuant to FRB reserve requirements, the banking subsidiaries were required to maintain certain cash reserve balances with the Federal Reserve System. At December 31, 2020, no cash reserves were required, and at December 31, 2019, approximately $99.0 million cash reserves were required.

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 of our 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 2020 and 2019, 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.

O. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

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

(in thousands)	Available for Sale Securities	Qualifying Cash Flow Hedges	Employee Benefit Plans	Total
Balance, January 1, 2018	$ (20,748)	$ (2,933)	$ (79,765)	$ (103,446)
Net change in unrealized gains (losses)	(8,119)	2,320	19,302	13,503
Net unrealized gains on transfer of securities from available-for sale to held-to-maturity	119	—	—	119
Reclassification adjustment for net losses realized in net income	416	—	—	416
Income tax (expense) benefit	1,795	(545)	(4,536)	(3,286)
Reclassification of accounting changes to retained earnings	(3,034)	(617)	(15,184)	(18,835)
Balance, December 31, 2018	(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 gains 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**

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

P. RECENT ACCOUNTING PRONOUNCEMENTS

ASU 2016-13, “Financial Instruments - Credit Losses (Topic 326): Assets Measured at Amortized Cost,” was issued to revise guidance for impairments on financial instruments. The guidance requires an impairment model (known as the 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.

ASU 2018-13, “Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement,” eliminates such disclosures as the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy. The ASU adds new disclosure requirements for Level 3 measurements. This ASU is effective for fiscal years beginning after December 15, 2019, with early adoption permitted for any eliminated or modified disclosures. The Company has fully adopted this guidance.

ASU 2018-14, “Compensation – Retirement Benefits – Defined Benefit Plans – General (Subtopic 715-20): Disclosure Framework – Changes to the Disclosure Requirements for Defined Benefit Plans,” amends ASC 715 to add, remove and clarify disclosure requirements related to defined benefit pension and other postretirement plans. The ASU eliminates the requirement to disclose the amounts in accumulated other comprehensive income expected to be recognized as part of net periodic benefit cost over the next year. This ASU is effective for fiscal years ending after December 15, 2020 and must be applied on a retrospective basis. The Company has fully adopted this guidance.

ASU 2020-04, "Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting," provides for optional expedients and other guidance regarding the accounting related to modifications of contracts, hedging relationships and other transactions affected by reference rate reform. The amendments in this Update are effective for all entities as of March 12, 2020 through December 31, 2022. The Company has elected to retrospectively adopt the new standard as of January 1, 2020 which resulted in no material immediate impact. While reference rate reform is not expected to have a material accounting impact on the Company's consolidated financial position or results of operations, the standard will ease the administrative burden in accounting for the future effects of reference rate reform.

ASU 2021-01, "Reference Rate Reform (Topic 848): Scope," clarifies that certain optional expedients and exceptions in Topic 848 for contract modifications and hedge accounting apply to derivatives that are affected by the change in interest rate used for discounting. The amendments in this Update are effective immediately for all entities. The Company has adopted the new standard as of January 1, 2020 which resulted in no material immediate impact.

Q. 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, 2020. Total receivables from revenue recognized under the scope of ASC 606 were $21.4 million and $21.3 million as of December 31, 2020 and December 31, 2019, respectively. These receivables are included as part of the other assets line on the Consolidated Statements of Financial Condition.

R. LEASES

At December 31, 2020, operating lease right-of-use assets of $35.7 million and operating lease liabilities of $37.1 million were included in Other Assets 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. For operating leases existing prior to January 1, 2019, the rate for the remaining lease term as of January 1, 2019 was used.

The Company recognized $4.7 million and $49.3 million of right-of-use assets obtained in exchange lease liabilities during the years ended December 31, 2020 and 2019, respectively. Supplemental information related to leases as of December 31, 2020 and 2019 is as follows:

	2020	2019
(in thousands)		
Lease term and discount rate:		
Weighted-average remaining lease term (years)	**10.5**	12.2
Weighted average remaining discount rate	**3.1%**	3.4%
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	**$ 6,454**	$ 6,648

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.

	2020	2019
(in thousands)		
Lease Costs		
Operating lease cost	**$ 7,017**	$ 7,334
Other	**2,806**	1,990
Total lease cost	**$ 9,823**	$ 9,324

The remaining lease payments for operating leases with initial or remaining terms of one year or more as of December 31, 2020 were as follows: 2021 – $6.8 million; 2022 – $5.5 million; 2023 – $4.9 million; 2024 – $4.6 million; 2025 – $4.0 million and $23.3 million thereafter through the year 2066. Interest on lease payments is $11.9 million, with a present value of lease liabilities of $37.1 million at December 31, 2020.

The Company may lease owned properties or lease unoccupied office space. Income on these leases was $11.2 million and $12.5 million for the years ended December 31, 2020 and 2019, respectively.

S. 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, 2020, 2019 and 2018, 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, 2020, was $276.7 million and $266.9 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, 2019, was $105.9 million and $104.6 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 $0.2 million in 2020 and 2019, respectively. At December 31, 2020 and 2019, 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, 2020 and 2019.

The following table summarizes financial assets and financial liabilities measured at fair value on a recurring basis as of December 31, 2020 and 2019, segregated by the level of the valuation inputs within the fair-value hierarchy utilized to measure fair value:

(in thousands)	Level 1	Level 2	Level 3	Total
2020				
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**
Derivative assets	**—**	**40,697**	**—**	**40,697**
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**
2019				
Available-for-sale debt securities				
U.S. government obligations	$ 389,170	$ 62,071	$ —	$ 451,241
Obligations of states and political subdivisions	—	46,256	—	46,256
Agency mortgage-backed securities	—	3,213,410	—	3,213,410
Other securities	—	12,488	—	12,488
Total available-for-sale debt securities	389,170	3,334,225	—	3,723,395
Mortgage loans held for sale	—	105,850	—	105,850
Mortgage servicing rights	—	—	45,780	45,780
Interest rate derivative assets	—	14,919	—	14,919
Interest rate derivative liabilities	—	(4,312)	—	(4,312)
Marketable equity securities	23,302	1,450	—	24,752
Total fair value	$ 412,472	$ 3,452,132	$ 45,780	$ 3,910,384

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, 2020, 2019 and 2018:

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

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

(in thousands)	December 31, 2017	Total losses realized and unrealized in earnings	Purchases, issuances, transfers or settlements	Transfers in (out) of Level 3	December 31, 2018
Mortgage servicing rights	$ 52,785	$ (6,322)	$ 10,837	$ —	$ 57,300
Total fair value	$ 52,785	$ (6,322)	$ 10,837	$ —	$ 57,300

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, 2020:

(in thousands)	Fair Value - December 31, 2020	Valuation Technique	Significant Unobservable Input	Range (Weighted Average)
Mortgage servicing rights	**$ 27,588**	Discounted cash flows	Prepayment rate	**12 - 36% (20.8%)**
			Discount rate	**9 - 13% (9.5%)**

The fair values of these assets (measured using significant unobservable inputs) are sensitive primarily to changes in prepayment and discount rates. At December 31, 2020, a 10% and 20% increase in the prepayment rates used to measure fair value would result in a decrease in the fair value of $2.5 million and $4.7 million, respectively. At December 31, 2020, a 10% and 20% increase in the discount rates used to measure fair value would result in a decrease in the fair value of $0.8 million and $1.5 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, 2020 and 2019, segregated by the level of the valuation inputs within the fair-value hierarchy utilized to measure fair value.

(in thousands)	Level 1	Level 2	Level 3	Total
2020				
Impaired loans	**$ —**	**$ —**	**$ 37,001**	**$ 37,001**
Foreclosed assets	**—**	**569**	**—**	**569**
Nonmarketable equity securities	**—**	**15,229**	**—**	**15,229**
Total fair value	**$ —**	**$ 15,798**	**$ 37,001**	**$ 52,799**
2019				
Impaired loans	$ —	$ —	$ 21,742	$ 21,742
Foreclosed assets	—	3,605	—	3,605
Nonmarketable equity securities	—	6,926	—	6,926
Total fair value	$ —	$ 10,531	$ 21,742	$ 32,273

Impaired loans - Impaired loans were measured at fair value on a non-recurring basis in 2020 and 2019. 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, 2020 and 2019, the par value of the impaired loans reported at fair value was $37.0 million and $21.7 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 $3.1 million and $2.0 million at December 31, 2020 and 2019, respectively. The Company recognized $0.5 million, $1.5 million and $1.8 million in losses related to the change in fair value of all foreclosed assets held during 2020, 2019, and 2018, 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, 2020:

(in thousands)	Fair Value - December 31, 2020	Valuation Technique	Significant Unobservable Input	Range (Weighted Average)
Impaired loans	**$ 37,001**	Appraised value, as adjusted	Adjustments to appraised value	**0 - 100% (8.7%)**

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, 2020, a 10% and 20% increase in the appraisal adjustments to measure fair value would result in a decrease in the fair value of $1.6 million and $1.7 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, 2020 and 2019, and the level of the valuation inputs within the fair-value hierarchy utilized to measure fair value at December 31, 2020 and 2019. Although management is not aware of any factors that would significantly affect the estimated fair value amounts after December 31, 2020, 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, 2020				
(in thousands)	Carrying Amount	Estimated Fair Value	Level 1	Level 2	Level 3
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	—

	December 31, 2019				
(in thousands)	Carrying Amount	Estimated Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Interest-bearing time deposits due from banks	$ 30,919	$ 30,919	$ —	$ 30,904	$ —
Held-to-maturity securities	190,219	191,608	—	191,608	—
Federal Home Loan Bank stock and other securities, at cost	82,484	82,484	—	82,484	—
Credit card loans held for sale	188,337	188,337	—	188,337	—
Net loans and leases	15,853,412	15,120,675	—	—	15,120,675
Financial liabilities:					
Deposits	$ 17,940,025	$ 16,529,452	$ —	$ 16,529,452	$ —
Federal Home Loan Bank advances	450,000	450,001	—	450,001	—
Other borrowings	704,412	704,412	—	704,412	—
Capital notes and trust preferred securities	350,000	334,300	—	334,300	—

First National of Nebraska

T. CONDENSED FINANCIAL INFORMATION OF FIRST NATIONAL OF NEBRASKA

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

(in thousands)		December 31, 2020		December 31, 2019
Assets				
Cash and due from banks	**$**	**432,140**	$	361,625
Investment securities available-for-sale		**133**		—
Investment in subsidiaries:				
First National Bank of Omaha		**2,606,011**		2,364,246
Nonbanking subsidiaries		**49,063**		47,878
Total investment in subsidiaries		**2,655,074**		2,412,124
Other assets		**43,872**		46,776
Total assets	**$**	**3,131,219**	$	2,820,525
Liabilities and Stockholders' Equity				
Accrued expenses and other liabilities	**$**	**129,417**	$	115,097
Subordinated notes and debentures		**148,496**		148,286
Due to subsidiaries		**154,766**		154,867
Total liabilities		**432,679**		418,250
Stockholders' equity:				
Common stock		**1,575**		1,575
Additional paid-in capital		**8,987**		7,474
Retained earnings		**3,018,258**		2,778,463
Treasury stock, at cost		**(343,529)**		(342,420)
Accumulated other comprehensive loss		**13,249**		(42,817)
Total stockholders' equity		**2,698,540**		2,402,275
Total liabilities and stockholders' equity	**$**	**3,131,219**	$	2,820,525

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

(in thousands)	2020	2019	2018
	Years ended December 31,		
Revenues:			
Income from subsidiaries:			
Dividends from First National Bank of Omaha	**$ 121,554**	$ 143,868	$ 110,021
Management and service fees	**4,693**	4,498	4,358
Interest and investment income	**5,088**	13,198	4,820
Total revenues	**131,335**	161,564	119,199
Expenses:			
Other	**25,876**	27,757	20,626
Total expenses	**25,876**	27,757	20,626
Income before income taxes and equity in undistributed earnings of subsidiaries	**105,459**	133,807	98,573
Income tax benefit	**(3,783)**	(1,828)	(2,366)
Total income before equity in undistributed earnings of subsidiaries	**109,242**	135,635	100,939
Equity in undistributed earnings (losses) of subsidiaries:			
First National Bank of Omaha	**185,694**	156,776	175,877
Nonbanking subsidiaries	**1,187**	528	3,290
Total equity in undistributed earnings of subsidiaries	**186,881**	157,304	179,167
Net income	**$ 296,123**	$ 292,939	$ 280,106

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying 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, 2020 and 2019, 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, 2020, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of First National of Nebraska, Inc. and its subsidiaries as of December 31, 2020 and 2019, and the results of their operations and their cash flows for each of the three years then ended in accordance with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

Omaha, Nebraska
February 26, 2021

First National of Nebraska

Board of Directors

Bruce R. Lauritzen Chairman Emeritus	Clarkson D. Lauritzen Chairman and President	Michael S. Foutch Executive Vice President
Roger A. Fleury	Joe E. Armstrong	George J. Behringer
Margaret Lauritzen Dodge	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