Great Western Bancorp, Inc.
Form 10-Q
August 07, 2018

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)

þ	QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the quarterly period ended June 30, 2018 Or
..	TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the transition period from to

Commission File Number 001-36688

Great Western Bancorp, Inc.
(Exact name of registrant as specified in its charter)

Delaware	47-1308512
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification Number)

225 South Main Avenue Sioux Falls, South Dakota	57104
(Address of principal executive offices)	(Zip Code)

(605) 334-2548
Registrant's telephone number, including area code

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer", "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)

Smaller reporting company o Emerging growth company o

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

As of August 1, 2018, the number of shares of the registrant's Common Stock outstanding was 58,911,563.

GREAT WESTERN BANCORP, INC.
QUARTERLY REPORT ON FORM 10-Q
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EXPLANATORY NOTE

Except as otherwise stated or the context otherwise requires, references in this Quarterly Report on Form 10-Q to:

- “we,” “our,” “us” and our “company” refers to Great Western Bancorp, Inc., a Delaware corporation, and its consolidated subsidiaries;
- “our bank” refers to Great Western Bank, a South Dakota banking corporation;
- “NAB” refers to National Australia Bank Limited, an Australian public company that was our ultimate parent company prior to our initial public offering in October 2014 and, until July 31, 2015, was our principal stockholder;
- our “states” refers to the nine states (Arizona, Colorado, Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota and South Dakota) in which we currently conduct our business;
- our “footprint” refers to the geographic markets within our states in which we currently conduct our business;
- "HF Financial" refers to HF Financial Corporation; and
- "FHLB" refers to Federal Home Loan Bank.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. These forward-looking statements reflect our current views with respect to, among other things, future events and our financial performance. These statements are often, but not always, made through the use of words or phrases such as “anticipates,” “believes,” “can,” “could,” “may,” “predicts,” “potential,” “should,” “will,” “ “plans,” “projects,” “continuing,” “ongoing,” “expects,” "views," “intends” and similar words or phrases. These forward-lookin statements are not historical facts, and are based on current expectations, estimates and projections about our industry, management’s beliefs and certain assumptions made by management, many of which, by their nature, are inherently uncertain and beyond our control. Accordingly, we caution you that any such forward-looking statements are not guarantees of future performance and are subject to risks, assumptions, estimates and uncertainties that are difficult to predict. Although we believe that the expectations reflected in these forward-looking statements are reasonable as of the date made, actual results may prove to be materially different from the results expressed or implied by the forward-looking statements.

A number of important factors could cause our actual results to differ materially from those indicated in these forward-looking statements, including those factors identified in “Part I, Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations” or "Part II, Item 1A Risk Factors" of this Report or the following:

- current and future economic and market conditions in the United States generally or in our states in particular, including the rate of growth and employment levels;
- our ability to anticipate interest rate changes and manage interest rate risk;
- our ability to achieve loan and deposit growth;
- the relative strength or weakness of the commercial, agricultural and real estate markets where our borrowers are located, including without limitation related asset and market prices;
- declines in asset prices and the market prices for agricultural products or changes in governmental support programs for the agricultural sector;
- our ability to effectively execute our strategic plan and manage our growth;
- our ability to successfully manage our credit risk and the sufficiency of our allowance for loan and lease loss;
- our ability to develop and effectively use the quantitative models we rely upon in our business;

- our ability to effectively compete with other financial services companies and the effects of competition in the financial services industry on our business;
- operational risks or risk management failures by us or critical third parties, including without limitation with respect to data processing, information systems, cyber-security, technological changes, vendor problems, business interruption and fraud risks;
- fluctuations in the values of our assets and liabilities and off-balance sheet exposures;
- unanticipated changes in our liquidity position, including but not limited to changes in our access to sources of liquidity and capital to address our liquidity needs;
- possible changes in trade, monetary and fiscal policies of, and other activities undertaken by, governments, agencies, central banks and similar organizations, including the potential negative effects of imposed and proposed tariffs on products that our customers may import or export, including among others, agricultural products;
- possible impairment of our goodwill and other intangible assets, or any adjustment of the valuation of our deferred tax assets;
- the effects of geopolitical instability, including war, terrorist attacks, and man-made and natural disasters;
- the impact of, and changes in applicable laws, regulations and accounting standards, policies and interpretations, including the impact of the Tax Cuts and Jobs Act of 2017;
- legal, compliance and reputational risks, including litigation and regulatory risks;
- our inability to receive dividends from our bank and to service debt, pay dividends to our common stockholders and satisfy obligations as they become due;
- expected cost savings in connection with the consolidation of recent acquisitions may not be fully realized or realized within the expected time frames, and deposit attrition, customer loss and revenue loss following completed acquisitions may be greater than expected;
- our ability to meet our obligations as a public company, including our obligations under Section 404 of the Sarbanes-Oxley Act of 2002 to maintain an effective system of internal control over financial reporting; and
- other risks and uncertainties inherent to our business, including those discussed under the heading "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended September 30, 2017 and in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2018.

The foregoing factors should not be considered an exhaustive list and should be read together with the other cautionary statements included in our Annual Report on Form 10-K for the fiscal year ended September 30, 2017. If one or more events related to these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may differ materially from what we anticipate. Accordingly, you should not place undue reliance on any such forward-looking statements. Any forward-looking statement speaks only as of the date on which it is made, and we do not undertake any obligation to update or review any forward-looking statement to reflect events or circumstances occurring after the date on which the statement is made or to reflect the occurrence of unanticipated events.

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)
GREAT WESTERN BANCORP, INC.
Consolidated Balance Sheets
(Dollars in Thousands, Except Share and Per Share Data)

	(Unaudited) June 30, 2018	September 30, 2017
Assets		
Cash and due from banks	$162,885	$170,657
Interest-bearing bank deposits	131,729	189,739
Cash and cash equivalents	294,614	360,396
Securities available for sale	1,372,711	1,367,960
Loans, net of unearned discounts and deferred fees, including $46,477 and $57,537 of loans covered by a FDIC loss share agreement at June 30, 2018 and September 30, 2017, respectively, and $888,247 and $1,016,576 of loans at fair value under the fair value option at June 30, 2018 and September 30, 2017, respectively, and $6,805 and $7,456 of loans held for sale at June 30, 2018 and September 30, 2017, respectively	9,379,819	8,968,553
Allowance for loan and lease losses	(64,688)	(63,503)
Net loans	9,315,131	8,905,050
Premises and equipment, including $1,107 and $5,147 of property held for sale at June 30, 2018 and September 30, 2017, respectively	107,364	112,209
Accrued interest receivable	51,979	53,176
Other repossessed property, including $131 and $0 of property covered by FDIC loss share agreements at June 30, 2018 and September 30, 2017, respectively	10,221	8,985
Goodwill	739,023	739,023
Cash surrender value of life insurance policies	30,245	29,619
Net deferred tax assets	31,487	42,400
Other assets	56,273	71,193
Total assets	$12,009,048	$11,690,011
Liabilities and stockholders’ equity		
Deposits		
Noninterest-bearing	$1,793,293	$1,856,126
Interest-bearing	7,792,025	7,121,487
Total deposits	9,585,318	8,977,613
Securities sold under agreements to repurchase	105,478	132,636
FHLB advances and other borrowings	335,000	643,214
Subordinated debentures and subordinated notes payable	108,426	108,302
Accrued expenses and other liabilities	58,085	73,246
Total liabilities	10,192,307	9,935,011
Stockholders’ equity		
Common stock, $0.01 par value, authorized 500,000,000 shares; 58,911,563 shares issued and outstanding at June 30, 2018 and 58,834,066 shares issued and outstanding at September 30, 2017	589	588
Additional paid-in capital	1,317,327	1,314,039
Retained earnings	525,462	445,747
Accumulated other comprehensive (loss)	(26,637)	(5,374)
Total stockholders' equity	1,816,741	1,755,000
Total liabilities and stockholders' equity	$12,009,048	$11,690,011

See accompanying notes.

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GREAT WESTERN BANCORP, INC.
Consolidated Statements of Income (Unaudited)
(Dollars in Thousands, Except Share and Per Share Data)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2018	2017	2018	2017
Interest income				
Loans	$116,522	$101,593	$334,196	$301,005
Investment securities	7,471	6,803	21,526	19,719
Federal funds sold and other	424	163	882	728
Total interest income	124,417	108,559	356,604	321,452
Interest expense				
Deposits	16,460	9,478	40,116	24,596
FHLB advances and other borrowings	1,963	1,080	6,941	4,033
Subordinated debentures and subordinated notes payable	1,322	1,113	3,699	3,299
Total interest expense	19,745	11,671	50,756	31,928
Net interest income	104,672	96,888	305,848	289,524
Provision for loan and lease losses	3,515	5,796	12,972	16,854
Net interest income after provision for loan and lease losses	101,157	91,092	292,876	272,670
Noninterest income				
Service charges and other fees	12,655	14,572	37,879	41,983
Wealth management fees	2,242	2,433	6,761	7,116
Mortgage banking income, net	1,352	1,828	4,178	6,130
Net gain on sale of securities	15	—	6	44
Net (decrease) increase in fair value of loans at fair value	(7,370)	6,060	(30,872)	(63,158)
Net realized and unrealized gain on derivatives	8,093	(9,088)	29,602	51,481
Other	1,952	1,522	6,801	4,878
Total noninterest income	18,939	17,327	54,355	48,474
Noninterest expense				
Salaries and employee benefits	35,122	32,868	101,661	96,872
Data processing and communication	7,177	7,370	23,251	20,965
Occupancy and equipment	4,974	4,866	15,112	14,812
Professional fees	4,297	4,141	12,564	10,535
Advertising	1,260	1,059	3,441	3,029
Net loss recognized on repossessed property and other related expenses	305	152	1,519	1,208
Amortization of core deposits and other intangibles	416	538	1,268	1,927
Acquisition expenses	—	—	—	710
Other	4,312	3,928	13,059	11,254
Total noninterest expense	57,863	54,922	171,875	161,312
Income before income taxes	62,233	53,497	175,356	159,832
Provision for income taxes	16,359	18,437	59,720	52,707
Net income	$45,874	$35,060	$115,636	$107,125
Basic earnings per common share				
Weighted average common shares outstanding	58,948,944	58,790,314	58,930,963	58,776,546
Basic earnings per share	$0.78	$0.60	$1.96	$1.82
Diluted earnings per common share				
Weighted average diluted common shares outstanding	59,170,058	59,130,632	59,134,635	59,065,402
Diluted earnings per share	$0.78	$0.59	$1.96	$1.81
Dividends per share				
Dividends paid	$14,724	$11,752	$38,274	$31,722

Dividends per share	$0.25	$0.20	$0.65	$0.54

See accompanying notes.

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GREAT WESTERN BANCORP, INC.
Consolidated Statements of Comprehensive Income (Unaudited)
(Dollars in Thousands)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2018	2017	2018	2017
Net income	$45,874	$35,060	$115,636	$107,125
Other comprehensive (loss) gain, net of tax:				
Securities available for sale:				
Net unrealized holding (loss) gain arising during the period	(5,671)	1,896	(26,596)	(17,757)
Reclassification adjustment for net gain realized in net income	(15)	—	(6)	(44)
Income tax benefit (expense)	1,402	(721)	7,692	6,764
Net change in unrealized (loss) gain on securities available for sale	(4,284)	1,175	(18,910)	(11,037)
Comprehensive income	$41,590	$36,235	$96,726	$96,088

See accompanying notes.

GREAT WESTERN BANCORP, INC.
Consolidated Statement of Stockholders' Equity (Unaudited)
(Dollars in Thousands, Except Share and Per Share Data)

	Comprehensive Income	Common Stock Par Value	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, September 30, 2016		$ 587	$1,312,347	$344,923	$ 5,534	$1,663,391
Net income	$ 107,125	—	—	107,125	—	107,125
Other comprehensive (loss), net of tax	(11,037)	—	—	—	(11,037)	(11,037)
Total comprehensive income	$ 96,088					
Cumulative effect adjustment [1]		—	751	(488)	—	263
Stock-based compensation, net of tax		—	4,963	—	—	4,963
Cash dividends:						
Common stock, $0.54 per share		—	—	(31,722)	—	(31,722)
Balance, June 30, 2017		$ 587	$1,318,061	$419,838	$ (5,503)	$1,732,983
Balance, September 30, 2017		$ 588	$1,314,039	$445,747	$ (5,374)	$1,755,000
Net income	$ 115,636	—	—	115,636	—	115,636
Other comprehensive (loss), net of tax	(18,910)	—	—	—	(18,910)	(18,910)
Total comprehensive income	$ 96,726					
Stock-based compensation, net of tax		1	3,288	—	—	3,289
Reclassification due to adoption of ASU 2018-02 [2]		—	—	2,353	(2,353)	—
Cash dividends:						
Common stock, $0.65 per share		—	—	(38,274)	—	(38,274)
Balance, June 30, 2018		$ 589	$1,317,327	$525,462	$ (26,637)	$1,816,741

[1] Cumulative effect adjustment relates to adoption of ASU 2016-09, Compensation - Stock Based Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting.
[2] Reclassification due to adoption of ASU 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. See Note 2, New Accounting Pronouncements and Note 15, Income Taxes, for additional information.
See accompanying notes.

GREAT WESTERN BANCORP, INC.
Consolidated Statements of Cash Flows (Unaudited)
(Dollars in Thousands)

	Nine months ended	
	June 30, 2018	June 30, 2017
Operating activities		
Net income	$115,636	$107,125
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	9,496	11,187
Amortization of FDIC indemnification asset	2,244	3,473
Net loss on sale of securities and other assets	2,711	1,465
Gain on redemption of subordinated debentures	—	(111)
Net gain on sale of loans	(4,924)	(7,381)
Provision for loan and lease losses	12,972	16,854
Reversal of provision for loan servicing rights loss	(72)	(6)
Stock-based compensation	3,289	5,226
Originations of residential real estate loans held for sale	(189,827)	(209,695)
Proceeds from sales of residential real estate loans held for sale	195,402	218,491
Net deferred income taxes	18,743	192
Changes in:		
Accrued interest receivable	1,197	4,053
Other assets	669	737
Accrued interest payable and other liabilities	(14,850)	(67,750)
Net cash provided by operating activities	152,686	83,860
Investing activities		
Purchase of securities available for sale	(224,159)	(255,014)
Proceeds from sales of securities available for sale	25,906	5,042
Proceeds from maturities of securities available for sale	163,393	179,160
Net increase in loans	(433,428)	(130,643)
Payment of covered losses from FDIC indemnification claims	(588)	(571)
Purchase of premises and equipment	(5,492)	(4,979)
Proceeds from sale of premises and equipment	4,600	4,024
Proceeds from sale of repossessed property	8,433	4,205
Purchase of FHLB stock	(47,372)	(22,945)
Proceeds from redemption of FHLB stock	59,914	39,217
Net cash used in investing activities	(448,793)	(182,504)
Financing activities		
Net increase in deposits	607,914	354,801
Net decrease in securities sold under agreements to repurchase and other short-term borrowings	(27,158)	(17,837)
Proceeds from FHLB advances and other long-term borrowings	150,000	375,700
Repayments on FHLB advances and other long-term borrowings	(458,200)	(775,000)
Redemption of subordinated debentures	—	(3,625)
Taxes paid related to net share settlement of equity awards	(3,957)	(383)
Dividends paid	(38,274)	(31,722)
Net cash provided by (used in) financing activities	230,325	(98,066)
Net decrease in cash and cash equivalents	(65,782)	(196,710)
Cash and cash equivalents, beginning of period	360,396	524,611
Cash and cash equivalents, end of period	$294,614	$327,901
Supplemental disclosure of cash flow information		

Cash payments for interest	$47,237	$30,996
Cash payments for income taxes	$39,404	$52,796
Supplemental disclosure of noncash investing and financing activities		
Loans transferred to repossessed properties	$(11,188)	$(4,182)

See accompanying notes.

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GREAT WESTERN BANCORP, INC.
Notes to Consolidated Financial Statements (Unaudited)

1. Nature of Operations and Summary of Significant Policies

Nature of Operations

Great Western Bancorp, Inc. (the "Company") is a bank holding company organized under the laws of Delaware and is listed on the New York Stock Exchange ("NYSE") under the symbol GWB. The primary business of the Company is ownership of its wholly owned subsidiary, Great Western Bank (the "Bank"). The Bank is a full-service regional bank focused on relationship-based business and agri-business banking in Arizona, Colorado, Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota and South Dakota. The Company and the Bank are subject to the regulation of certain federal and/or state agencies and undergo periodic examinations by those regulatory authorities. Substantially all of the Company's income is generated from banking operations.

Basis of Presentation

The accompanying unaudited consolidated interim financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") and reflect all adjustments that are, in the opinion of management, necessary for the fair presentation of the financial position and results of operations for the periods presented. All such adjustments are of a normal recurring nature.

Certain previously reported amounts have been reclassified to conform to the current presentation.

The unaudited interim consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended September 30, 2017, which includes a description of significant accounting policies. The results of operations for interim periods are not necessarily indicative of the results that may be expected for the year or any other period.

The accompanying unaudited consolidated financial statements include the accounts and results of operations of the Company and its subsidiaries after elimination of all significant intercompany accounts and transactions. The preparation of unaudited consolidated financial statements in conformity with U.S. GAAP requires management to make certain estimates and assumptions that affect the amounts reported on the consolidated financial statements and accompanying notes. Actual results could differ from these estimates.

Subsequent Events

The Company has evaluated all events or transactions that occurred through the date the Company issued these financial statements. Other than those events described below, there were no other material events that would require recognition in the consolidated financial statements or disclosure in the notes to the consolidated financial statements.

On July 26, 2018, the Board of Directors of the Company declared a dividend of $0.25 per common share payable on August 22, 2018 to stockholders of record as of close of business on August 10, 2018.

Correction of Prior Period Balances

The consolidated statements of income for the quarter ended June 30, 2017 have been revised to correct an immaterial classification error in interest income and noninterest income related to credit card interchange income. As a result, the consolidated statements of income have been revised to reflect these changes as follows.

	As originally reported	Adjustments	As revised
	(dollars in thousands)		
Three months ended June 30, 2017			
Interest income - loans	$103,435	$ (1,842)	$101,593
Noninterest income - service charges and other fees	12,730	1,842	14,572
Nine months ended June 30, 2017			
Interest income - loans	$306,253	$ (5,248)	$301,005
Noninterest income - service charges and other fees	36,735	5,248	41,983

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GREAT WESTERN BANCORP, INC.
Notes to Consolidated Financial Statements (Unaudited)

	As originally reported	Adjustments	As revised
	(dollars in thousands)		
Twelve months ended September 30, 2017			
Interest income - loans	$414,434	$ (7,152)	$407,282
Noninterest income - service charges and other fees	48,573	7,152	55,725
Twelve months ended September 30, 2016			
Interest income - loans	$370,444	$ (6,716)	$363,728
Noninterest income - service charges and other fees	46,209	6,716	52,925

The above revisions had no effect on net income, earnings per share, retained earnings or capital ratios. Periods not presented herein will be revised, as applicable, as they are included in future filings.

2. New Accounting Pronouncements

In February 2018, the Financial Accounting Standards Board ("FASB") issued ASU 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income, which allows for the reclassification of stranded tax effects resulting from the Tax Cuts and Jobs Act of 2017 ("Tax Reform Act") from other comprehensive income to retained earnings. ASU 2018-02 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018, with early adoption permitted. The Company early adopted ASU 2018-02 during the second quarter of fiscal year 2018 with period of adoption application. Upon adoption, the Company made a policy election to reclassify stranded tax effects of approximately $2.4 million from accumulated other comprehensive income to retained earnings.

In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities, which amends the hedge accounting recognition and presentation requirements in ASC 815 to improve the transparency and understandability of information conveyed to financial statement users about an entity's risk management activities to better align the entity's financial reporting for hedging relationships with those risk management activities and to reduce the complexity of and simplify the application of hedge accounting. ASU 2017-12 is to be applied to all existing hedging relationships on the date of adoption and will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted in any interim period, with the effect of adoption reflected as of the beginning of the fiscal year of adoption. The Company is currently evaluating the potential impact of ASU 2017-12 on our consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, which addresses timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. ASU 2016-13 requires institutions to measure all expected credit losses related to financial assets measured at amortized costs with an expected loss model based on historical experience, current conditions and reasonable and supportable forecasts relevant to affect the collectability of the financial assets, which is referred to as the current expected credit loss (CECL) model. ASU 2016-13 requires enhanced disclosures, including qualitative and quantitative requirements, to help understand significant estimates and judgments used in estimating credit losses, as well as provide additional information about the amounts recorded in the financial statements. ASU 2016-13 will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted after December 15, 2018. The amendment requires the use of the modified retrospective approach for adoption. The Company has formed a project team to work on the implementation of ASU 2016-13 and is in the process of selecting a vendor to partner with to make the required changes to our existing credit loss estimation methodology. The Company is currently evaluating the potential impact on our consolidated financial statements, however, since the magnitude of the anticipated change in the allowance for credit losses will be impacted by economic conditions and trends in the Company's portfolio at the time of adoption, the quantitative impact cannot yet be reasonably estimated.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which requires that lessees recognize the assets and liabilities arising from leases on the balance sheet and disclosing key information about leasing arrangements. Lessees will be required to recognize an obligation for future lease payments measured on a discounted basis and a related right-of-use asset. ASU 2016-02 does not significantly change lease accounting requirements applicable to lessors; however, certain changes were made to align, where necessary, lessor accounting with the lessee accounting model and ASC Topic 606, "Revenue from Contracts with Customers." ASU 2016-02 will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Company is currently evaluating the potential impact of ASU 2016-02 on our consolidated financial statements.

GREAT WESTERN BANCORP, INC.
Notes to Consolidated Financial Statements (Unaudited)

In January 2016, the FASB issued ASU 2016-01, Financial Instruments - Overall (Subtopic 825-10) - Recognition and Measurement of Financial Assets and Financial Liabilities, which requires equity investments, in general, to be measured at fair value with changes in fair value recognized in earnings. It also eliminates the requirement to disclose the methods and significant assumptions used to estimate the fair value for financial instruments measured at amortized cost, requires entities to use the exit price notion when measuring fair value, requires an entity to present separately in other comprehensive income the portion of the total change in fair value of a liability resulting from a change in the measurement category and form on the balance sheet or accompanying notes, clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available for sale securities in combination with the entity's other deferred tax assets, and simplifies the impairment assessment of equity investments without readily determinable fair values. ASU 2016-01 became effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted. The Company does not believe ASU 2016-01 will have a material impact on our consolidated financial statements.
In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), which implements a more robust framework that clarifies the principles for recognizing revenue and gives greater consistency and comparability in revenue recognition practices. In the new framework, an entity recognizes revenue in an amount that reflects the consideration to which the entity expects to be entitled in exchange for goods or services. The new model requires the identification of performance obligations included in the contract with customers, a determination of the transaction price and an allocation of the price to those performance obligations. The entity recognizes revenue when performance obligations are satisfied. In August 2015, the FASB issued ASU 2015-14, which deferred the effective date of ASU 2014-09 to annual reporting periods beginning after December 15, 2017. In March 2016, the FASB issued ASU 2016-08, which intends to improve the operability and understandability of the implementation guidance on principal versus agent considerations. In April 2016, the FASB issued ASU 2016-10, which clarifies guidance pertaining to the identification of performance obligations and the licensing implementation. In May 2016, the FASB issued ASU 2016-11 and 2016-12, which further clarify guidance and provide practical expedients related to the adoption of ASU 2014-09. The standard permits the use of either the retrospective or cumulative effect transition method. The standard, along with subsequent guidance from FASB, lists several items that are specifically out of scope for ASU 2014-09, including but not limited to core interest income, derivative instruments, investments, and loan origination fees.
To address the new standard, the Company formed a working group and has completed the initial scoping phase to determine which revenue streams may be subject to accounting or disclosure changes upon adoption in October of 2018. Subsequent to this initial scoping, the Company selected a representative sample of contracts from the in-scope revenue streams for review under the amended guidance ("key contracts"). The review of key contracts is in process. Based on the analysis to date, we do not anticipate significant changes as a result of implementing the standard, but will conclude on quantitative and qualitative impacts during the fourth quarter.
3. Securities Available for Sale
The amortized cost and approximate fair value of investments in securities, all of which are classified as available for sale according to management's intent, are summarized as follows.

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(dollars in thousands)			
As of June 30, 2018				
U.S. Treasury securities	$178,774	$ —	$(1,239)	$177,535
Mortgage-backed securities:				
Government National Mortgage Association	445,376	48	(15,082)	430,342
Federal Home Loan Mortgage Corporation	250,832	56	(5,720)	245,168
Federal National Mortgage Association	194,515	33	(5,241)	189,307

Small Business Assistance Program	267,428	72	(7,167)	260,333
States and political subdivision securities	70,509	13	(1,496)	69,026
Other	1,006	—	(6)	1,000
Total	$1,408,440	$ 222	$(35,951)	$1,372,711

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	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(dollars in thousands)			
As of September 30, 2017				
U.S. Treasury securities	$228,039	$ 579	$(15)	$228,603
Mortgage-backed securities:				
Government National Mortgage Association	511,457	228	(6,635)	505,050
Federal Home Loan Mortgage Corporation	169,147	75	(1,247)	167,975
Federal National Mortgage Association	170,247	22	(1,287)	168,982
Small Business Assistance Program	224,005	726	(1,001)	223,730
States and political subdivision securities	73,041	187	(642)	72,586
Other	1,006	28	—	1,034
Total	$1,376,942	$ 1,845	$(10,827)	$1,367,960

The amortized cost and approximate fair value of debt securities available for sale as of June 30, 2018 and September 30, 2017, by contractual maturity, are shown below. Maturities of mortgage-backed securities may differ from contractual maturities because the mortgages underlying the securities may be called or repaid without penalty.

	June 30, 2018		September 30, 2017	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
	(dollars in thousands)			
Due in one year or less	$120,927	$120,476	$91,535	$91,597
Due after one year through five years	116,445	114,655	193,117	193,373
Due after five years through ten years	11,789	11,308	16,306	16,097
Due after ten years	122	122	122	122
	249,283	246,561	301,080	301,189
Mortgage-backed securities	1,158,151	1,125,150	1,074,856	1,065,737
Securities without contractual maturities	1,006	1,000	1,006	1,034
Total	$1,408,440	$1,372,711	$1,376,942	$1,367,960

Proceeds from sales of securities available for sale were $0.7 million and $25.9 million for the three and nine months ended June 30, 2018 and $0.0 million and $5.0 million for the three and nine months ended June 30, 2017, respectively. Negligible gross gains (pre-tax) or gross losses (pre-tax) were realized on the sales for the three and nine months ended June 30, 2018 and 2017 using the specific identification method. The Company recognized no other-than-temporary impairment for the three and nine months ended June 30, 2018 and 2017.

Securities with an estimated fair value of approximately $901.1 million and $951.4 million at June 30, 2018 and September 30, 2017, respectively, were pledged as collateral on public deposits, securities sold under agreements to repurchase, and for other purposes as required by contractual obligation or law. The counterparties do not have the right to sell or pledge the securities the Company has pledged as collateral.

As detailed in the following tables, certain investments in debt securities, which are approximately 93% and 68% of the Company’s investment portfolio at estimated fair value at June 30, 2018 and September 30, 2017, respectively, are reported in the consolidated financial statements at an amount less than their amortized cost. Based on evaluation of available evidence, including recent changes in market interest rates, credit rating information, implicit or explicit government guarantees, and information obtained from regulatory filings, management believes the declines in fair value of these securities are temporary. As the Company does not intend to sell the securities and it is not more likely than not the Company will be required to sell the securities before the recovery of their amortized cost basis, which may be maturity, the Company does not consider the securities to be other-than-temporarily impaired at June 30, 2018 or September 30, 2017.

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The following table presents the Company's gross unrealized losses and approximate fair value in investments, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position.

	Less than 12 months		12 months or more		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
	(dollars in thousands)					
As of June 30, 2018						
U.S. Treasury securities	$167,539	$(1,234)	$9,996	$(5)	$177,535	$(1,239)
Mortgage-backed securities	313,945	(6,369)	713,284	(26,841)	1,027,229	(33,210)
States and political subdivision securities	20,601	(145)	44,235	(1,351)	64,836	(1,496)
Other	1,000	(6)	—	—	1,000	(6)
Total	$503,085	$(7,754)	$767,515	$(28,197)	$1,270,600	$(35,951)

	Less than 12 months		12 months or more		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
	(dollars in thousands)					
As of September 30, 2017						
U.S. Treasury securities	$10,003	$(15)	$—	$—	$10,003	$(15)
Mortgage-backed securities	635,969	(5,425)	241,368	(4,746)	877,337	(10,171)
States and political subdivision securities	21,705	(197)	25,773	(444)	47,478	(641)
Other	—	—	—	—	—	—
Total	$667,677	$(5,637)	$267,141	$(5,190)	$934,818	$(10,827)

As of June 30, 2018 and September 30, 2017, the Company had 361 and 249 securities, respectively, in an unrealized loss position.

4. Loans

The composition of loans as of June 30, 2018 and September 30, 2017, is as follows.

	June 30, 2018	September 30, 2017
	(dollars in thousands)	
Commercial real estate	$4,529,446	$4,124,805
Agriculture	2,176,318	2,122,138
Commercial non-real estate	1,750,827	1,718,914
Residential real estate	857,848	932,892
Consumer	51,417	66,559
Other	44,187	43,207
Ending balance	9,410,043	9,008,515
Less: Unamortized discount on acquired loans	(19,850)	(29,121)
Unearned net deferred fees and costs and loans in process	(10,374)	(10,841)
Total	$9,379,819	$8,968,553

The loan segments above include loans covered by a FDIC loss sharing agreement totaling $46.5 million and $57.5 million as of June 30, 2018 and September 30, 2017, respectively, residential real estate loans held for sale totaling $6.8 million and $7.5 million at June 30, 2018 and September 30, 2017, respectively, and $888.2 million and $1.02 billion of loans accounted for at fair value at June 30, 2018 and September 30, 2017, respectively.

Unearned net deferred fees and costs totaled $13.1 million and $11.6 million as of June 30, 2018 and September 30, 2017, respectively.

Loans in process represent loans that have been funded as of the balance sheet dates but not classified into a loan category and loan payments received as of the balance sheet dates that have not been applied to individual loan accounts. Loans in process totaled $(2.7) million and $(0.8) million at June 30, 2018 and September 30, 2017, respectively.

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Loans guaranteed by agencies of the U.S. government totaled $169.7 million and $168.3 million at June 30, 2018 and September 30, 2017, respectively.
Principal balances of residential real estate loans sold totaled $72.7 million and $66.0 million for the three months ended June 30, 2018 and 2017, respectively, and $190.5 million and $211.1 million for the nine months ended June 30, 2018 and 2017, respectively.

Nonaccrual

Interest income on loans is accrued daily on the outstanding balances. Accrual of interest is discontinued when management believes, after considering collection efforts and other factors, the borrower's financial condition is such that collection of interest is doubtful, which is usually at 90 days past due. Generally, when loans are placed on nonaccrual status, interest receivable is reversed against interest income in the current period. Interest payments received thereafter are applied as a reduction to the remaining principal balance as long as concern exists as to the ultimate collection of the principal. Loans are removed from nonaccrual status when they become current as to both principal and interest and concern no longer exists as to the collectability of principal and interest.
The following table presents the Company's nonaccrual loans at June 30, 2018 and September 30, 2017, excluding ASC 310-30 loans. Loans greater than 90 days past due and still accruing interest as of June 30, 2018 and September 30, 2017, were $0.1 million and $1.9 million, respectively.

	June 30, 2018	September 30, 2017
	(dollars in thousands)	
Nonaccrual loans		
Commercial real estate	$29,869	$ 14,693
Agriculture	81,387	99,325
Commercial non-real estate	9,154	13,674
Residential real estate	3,590	4,421
Consumer	55	112
Total	$124,055	$ 132,225

Credit Quality Information

The Company assigns all non-consumer loans a credit quality risk rating. These ratings are Pass, Watch, Substandard, Doubtful, and Loss. Loans with a Pass and Watch rating represent those loans not classified on the Company's rating scale for problem credits, with loans with a Watch rating being monitored and updated at least quarterly by management. Substandard loans are those where a well-defined weakness has been identified that may put full collection of contractual debt at risk. Doubtful loans are those where a well-defined weakness has been identified and a loss of contractual debt is probable. Substandard and doubtful loans are monitored and updated monthly. All loan risk ratings are updated and monitored on a continuous basis. The Company generally does not risk rate residential real estate or consumer loans unless a default event such as bankruptcy or extended nonperformance takes place. Alternatively, standard credit scoring systems are used to assess credit risks of consumer loans.

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The following table presents the composition of the loan portfolio by internally assigned grade as of June 30, 2018 and September 30, 2017. This table is presented net of unamortized discount on acquired loans and excludes loans measured at fair value with changes in fair value reported in earnings of $888.2 million at June 30, 2018 and $1.02 billion at September 30, 2017.

As of June 30, 2018	Commercial Real Estate	Agriculture	Commercial Non-Real Estate	Residential Real Estate [1]	Consumer [1]	Other	Total
	(dollars in thousands)						
Credit Risk Profile by Internally Assigned Grade							
Grade:							
Pass	$3,971,920	$1,680,976	$1,438,425	$795,325	$50,657	$44,187	$7,981,490
Watchlist	55,047	166,130	23,440	5,158	336	—	250,111
Substandard	61,592	127,661	25,935	6,050	165	—	221,403
Doubtful	97	4	2,322	39	—	—	2,462
Loss	—	—	—	—	—	—	—
Ending balance	4,088,656	1,974,771	1,490,122	806,572	51,158	44,187	8,455,466
Loans covered by a FDIC loss sharing agreement	—	—	—	46,477	—	—	46,477
Total	$4,088,656	$1,974,771	$1,490,122	$853,049	$51,158	$44,187	$8,501,943

[1] The Company generally does not risk rate residential real estate or consumer loans unless a default event such as a bankruptcy or extended nonperformance takes place. Alternatively, standard credit scoring systems are used to assess credit risks of residential real estate and consumer loans.

As of September 30, 2017	Commercial Real Estate	Agriculture	Commercial Non-Real Estate	Residential Real Estate [1]	Consumer [1]	Other	Total
	(dollars in thousands)						
Credit Risk Profile by Internally Assigned Grade							
Grade:							
Pass	$3,519,689	$1,577,403	$1,369,803	$853,266	$65,673	$43,207	$7,429,041
Watchlist	80,195	157,407	31,878	4,158	187	—	273,825
Substandard	37,627	130,953	21,438	7,368	306	—	197,692
Doubtful	521	119	3,841	242	—	—	4,723
Loss	—	—	—	—	—	—	—
Ending balance	3,638,032	1,865,882	1,426,960	865,034	66,166	43,207	7,905,281
Loans covered by a FDIC loss sharing agreement	—	—	—	57,537	—	—	57,537
Total	$3,638,032	$1,865,882	$1,426,960	$922,571	$66,166	$43,207	$7,962,818

[1] The Company generally does not risk rate residential real estate or consumer loans unless a default event such as a bankruptcy or extended nonperformance takes place. Alternatively, standard credit scoring systems are used to assess credit risks of residential real estate and consumer loans.

Past Due Loans

The following table presents the Company’s past due loans at June 30, 2018 and September 30, 2017. This table is presented net of unamortized discount on acquired loans and excludes loans measured at fair value with changes in fair value reported in earnings of $888.2 million at June 30, 2018 and $1.02 billion at September 30, 2017.

Current

	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due		Total Financing Receivables
	(dollars in thousands)					
As of June 30, 2018						
Commercial real estate	$3,199	$ 94	$ 23,019	$26,312	$4,062,344	$4,088,656
Agriculture	1,138	2,746	20,060	23,944	1,950,827	1,974,771
Commercial non-real estate	685	128	7,481	8,294	1,481,828	1,490,122
Residential real estate	1,562	444	1,410	3,416	803,156	806,572
Consumer	106	15	—	121	51,037	51,158
Other	—	—	—	—	44,187	44,187
Ending balance	6,690	3,427	51,970	62,087	8,393,379	8,455,466
Loans covered by a FDIC loss sharing agreement	274	541	263	1,078	45,399	46,477
Total	$6,964	$ 3,968	$ 52,233	$63,165	$8,438,778	$8,501,943

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	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Current	Total Financing Receivables
	(dollars in thousands)					
As of September 30, 2017						
Commercial real estate	$876	$ 22,536	$ 6,504	$29,916	$3,608,116	$3,638,032
Agriculture	1,453	3,181	20,844	25,478	1,840,404	1,865,882
Commercial non-real estate	2,485	115	8,580	11,180	1,415,780	1,426,960
Residential real estate	1,428	76	951	2,455	862,579	865,034
Consumer	71	24	18	113	66,053	66,166
Other	—	—	—	—	43,207	43,207
Ending balance	6,313	25,932	36,897	69,142	7,836,139	7,905,281
Loans covered by a FDIC loss sharing agreement	998	54	738	1,790	55,747	57,537
Total	$7,311	$ 25,986	$ 37,635	$70,932	$7,891,886	$7,962,818

Impaired Loans

The following table presents the Company’s impaired loans. This table excludes purchased credit impaired loans and loans measured at fair value with changes in fair value reported in earnings of $888.2 million at June 30, 2018 and $1.02 billion at September 30, 2017.

	June 30, 2018			September 30, 2017		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
	(dollars in thousands)					
Impaired loans:						
With an allowance recorded:						
Commercial real estate	$45,330	$47,969	$ 5,313	$20,819	$24,893	$ 3,621
Agriculture	63,272	77,756	10,720	79,219	88,268	11,468
Commercial non-real estate	18,798	21,701	5,343	17,950	28,755	4,779
Residential real estate	4,383	5,032	2,022	5,177	5,874	2,581
Consumer	166	171	70	280	287	86
Total impaired loans with an allowance recorded	131,949	152,629	23,468	123,445	148,077	22,535
With no allowance recorded:						
Commercial real estate	15,316	54,750	—	16,652	69,677	—
Agriculture	64,317	67,427	—	51,256	64,177	—
Commercial non-real estate	10,176	19,316	—	13,983	38,924	—
Residential real estate	1,802	4,267	—	2,574	9,613	—
Consumer	1	118	—	13	950	—
Total impaired loans with no allowance recorded	91,612	145,878	—	84,478	183,341	—
Total impaired loans	$223,561	$298,507	$ 23,468	$207,923	$331,418	$ 22,535

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The following table presents the average recorded investment on impaired loans and interest income recognized on impaired loans for the three and nine months ended June 30, 2018 and 2017, respectively, are as follows.

	Three Months Ended June 30, 2018		Three Months Ended June 30, 2017		Nine Months Ended June 30, 2018		Nine Months Ended June 30, 2017	
	Average Recorded Investment	Interest Income Recognized While on Impaired Status	Average Recorded Investment	Interest Income Recognized While on Impaired Status	Average Recorded Investment	Interest Income Recognized While on Impaired Status	Average Recorded Investment	Interest Income Recognized While on Impaired Status
	(dollars in thousands)							
Commercial real estate	$61,257	$ 402	$40,939	$ 579	$57,818	$ 2,456	$45,294	$ 1,794
Agriculture	126,262	1,592	140,512	1,993	125,047	3,763	127,621	5,186
Commercial non-real estate	28,915	354	43,224	331	30,402	1,130	45,424	1,111
Residential real estate	6,780	54	9,051	112	7,273	335	9,489	352
Consumer	199	3	415	13	234	10	408	40
Total	$223,413	$ 2,405	$234,141	$ 3,028	$220,774	$ 7,694	$228,236	$ 8,483

Valuation adjustments made to repossessed properties totaled $0.5 million and $0.1 million for the three months ended June 30, 2018 and 2017 and $1.2 million and $1.0 million for the nine months ended June 30, 2018 and 2017, respectively. The adjustments are included in net loss recognized on repossessed property and other related expenses in noninterest expense.

Troubled Debt Restructurings

Included in certain loan categories in the impaired loans are troubled debt restructurings (“TDRs”) that were classified as impaired. These TDRs do not include purchased credit impaired loans. When the Company grants concessions to borrowers such as reduced interest rates or extensions of loan periods that would not be considered other than because of borrowers’ financial difficulties, the modification is considered a TDR. Specific reserves included in the allowance for loan and lease losses for TDRs were $10.4 million and $8.8 million at June 30, 2018 and September 30, 2017, respectively. There were $5.2 million commitments to lend additional funds to borrowers whose loans were modified in a TDR as of June 30, 2018 and negligible commitments to lend additional funds to borrowers whose loans were modified in a TDR as of September 30, 2017.

The following table presents the recorded value of the Company’s TDR balances as of June 30, 2018 and September 30, 2017.

	June 30, 2018		September 30, 2017	
	Accruing	Nonaccrual	Accruing	Nonaccrual
	(dollars in thousands)			
Commercial real estate	$612	$ 2,623	$1,121	$ 5,351
Agriculture	32,203	57,685	22,678	59,633
Commercial non real estate	3,564	3,792	8,369	5,641
Residential real estate	299	261	311	688
Consumer	80	—	11	21
Total	$36,758	$ 64,361	$32,490	$ 71,334

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The following table presents a summary of all accruing loans restructured in TDRs through either a rate modification, term extension, payment modification or due to a bankruptcy during the three and nine months ended June 30, 2018 and 2017.

	Three Months Ended June 30, 2018			Three Months Ended June 30, 2017			Nine Months Ended June 30, 2018			Nine Months Ended June 30, 2017		
		Recorded Investment			Recorded Investment			Recorded Investment			Recorded Investment	
	Number	Pre-Modification	Post-Modification	Number	Pre-Modification	Post-Modification	Number	Pre-Modification	Post-Modification	Number	Pre-Modification	Post-Modification
	(dollars in thousands)											
Commercial real estate	—	$ —	$ —	1	$ 3,230	$ 3,230	—	$ —	$ —	1	$ 3,230	$ 3,230
Agriculture	3	4,680	4,680	6	8,289	8,289	5	10,753	10,753	8	16,723	16,723
Commercial non-real estate	—	—	—	2	692	692	—	—	—	6	1,218	1,218
Residential real estate	—	—	—	—	—	—	—	—	—	1	9	9
Consumer	—	—	—	—	—	—	1	73	73	—	—	—
Total accruing	3	$ 4,680	$ 4,680	9	$ 12,211	$ 12,211	6	$ 10,826	$ 10,826	16	$ 21,180	$ 21,180
Change in recorded investment due to principal paydown at time of modification	—	$ —	$ —	—	$ —	$ —	—	$ —	$ —	—	$ —	$ —
Change in recorded investment due to chargeoffs at time of modification	—	—	—	—	—	—	—	—	—	—	—	—

The following table presents a summary of all non-accruing loans restructured in TDRs through either a rate modification, term extension, payment modification or due to a bankruptcy during the three and nine months ended June 30, 2018 and 2017.

	Three Months Ended June 30, 2018			Three Months Ended June 30, 2017			Nine Months Ended June 30, 2018			Nine Months Ended June 30, 2017		
		Recorded Investment			Recorded Investment			Recorded Investment			Recorded Investment	
	Number	Pre-Modification	Post-Modification	Number	Pre-Modification	Post-Modification	Number	Pre-Modification	Post-Modification	Number	Pre-Modification	Post-Modification
	(dollars in thousands)											
Commercial real estate		$ —	$ —	—	$ —	$ —	—	$ —	$ —	—	$ —	$ —
Agriculture		—	—	3	4,351	4,351	6	8,374	8,374	9	17,339	17,339
Commercial non-real estate		—	—	—	—	—	—	—	—	—	—	—
Residential real estate		—	—	—	—	—	—	—	—	1	21	21
Consumer		—	—	—	—	—	—	—	—	3	21	21
Total non-accruing		$ —	$ —	3	$ 4,351	$ 4,351	6	$ 8,374	$ 8,374	13	$ 17,381	$ 17,381
Change in recorded investment due to principal paydown at time of modification		$ —	$ —	—	$ —	$ —	—	$ —	$ —	—	$ —	$ —
Change in recorded investment due to chargeoffs at time of modification		—	—	—	—	—	—	—	—	—	—	—

The following table presents loans that were modified as TDRs within the previous 12 months and for which there was a payment default for the three and nine months ended June 30, 2018 and 2017, respectively.

	Three Months Ended June 30, 2018		Three Months Ended June 30, 2017		Nine Months Ended June 30, 2018		Nine Months Ended June 30, 2017	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
	(dollars in thousands)							
Commercial real estate	—	$ —	—	$ —	—	$ —	—	$ —
Agriculture	2	130	—	—	2	130	—	—
Commercial non-real estate	2	3,214	1	—	2	3,214	1	—
Residential real estate	—	—	—	—	—	—	—	—
Consumer	—	—	—	—	—	—	—	—
Total	4	$ 3,344	1	$ —	4	$ 3,344	1	$ —

For purposes of the table above, a loan is considered to be in payment default once it is 90 days or more contractually past due under the modified terms. The table includes loans that experienced a payment default during the period, but may be performing in accordance with the modified terms as of the balance sheet date. For the three months ended June 30, 2018 and 2017, there were $0.2 million and $3.4 million, respectively, and $0.8 million and $5.5 million for the nine months ended June 30, 2018 and 2017, respectively, of loans removed from TDR status as they were restructured at market terms and are performing.

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5. Allowance for Loan and Lease Losses

The allowance for loan and lease losses is determined based on an ongoing evaluation, driven primarily by monitoring changes in loan risk grades, delinquencies, and other credit risk indicators, which are inherently subjective. The Company considers the uncertainty related to certain industry sectors and the extent of credit exposure to specific borrowers within the portfolio. In addition, consideration is given to concentration risks associated with the various loan portfolios and current economic conditions that might impact the portfolio. The Company also considers changes, if any, in underwriting activities, the loan portfolio composition (including product mix and geographic, industry, or customer-specific concentrations), trends in loan performance, the level of allowance coverage relative to similar banking institutions and macroeconomic factors, such as changes in unemployment rates, gross domestic product, and consumer bankruptcy filings.

Changes to the allowance for loan and lease losses are made by charges to the provision for loan and lease losses, which is reflected on the consolidated statements of income. Past due status is monitored as an indicator of credit deterioration. Loans that are 90 days or more past due are put on nonaccrual status unless a repayment is eminent. Loans deemed to be uncollectible are charged off against the allowance for loan and lease losses. Recoveries of amounts previously charged-off are credited to the allowance for loan and lease losses.

The allowance for loan and lease losses consist of reserves for probable losses that have been identified related to specific borrowing relationships that are individually evaluated for impairment ("specific reserve"), as well as probable losses inherent in our loan portfolio that are not specifically identified ("collective reserve").

The specific reserve relates to impaired loans. A loan is impaired when, based on current information and events, it is probable the Company will be unable to collect all amounts due (interest as well as principal) according to the contractual terms of the loan agreement. Specific reserves are determined on a loan-by-loan basis based on management's best estimate of the Company's exposure, given the current payment status of the loan, the present value of expected payments, and the value of any underlying collateral. Impaired loans also include loans modified in troubled debt restructurings. Generally, the impairment related to troubled debt restructurings is measured based on the fair value of the collateral, less cost to sell, or the present value of expected payments relative to the unpaid principal balance. If the impaired loan is identified as collateral dependent, then the fair value of the collateral method of measuring the amount of the impairment is utilized. This method requires obtaining an independent appraisal of the collateral and reducing the appraised value by applying a discount factor to the appraised value, if necessary, and including costs to sell.

Management's estimate for collective reserves reflects losses incurred in the loan portfolio as of the consolidated balance sheet reporting date. Incurred loss estimates primarily are based on historical loss experience and portfolio mix. Incurred loss estimates may be adjusted for qualitative factors such as current economic conditions and current portfolio trends including credit quality, concentrations, aging of the portfolio, and/or significant policy and underwriting changes.

The following tables present the Company's allowance for loan and lease losses roll forward for the three and nine months ended June 30, 2018 and 2017.

Three Months Ended June 30, 2018	Commercial Real Estate	Agriculture	Commercial Non-Real Estate	Residential Real Estate	Consumer	Other	Total
	(dollars in thousands)						
Beginning balance April 1, 2018	$18,914	$24,129	$15,730	$5,111	$279	$976	$65,139
Charge-offs	(1,671)	(1,978)	(333)	(167)	(60)	(399)	(4,608)
Recoveries	116	103	140	100	48	135	642
Provision	354	3,035	323	(529)	20	302	3,505
(Improvement) impairment of ASC 310-30 loans	(28)	—	—	38	—	—	10
Ending balance June 30, 2018	$17,685	$25,289	$15,860	$4,553	$287	$1,014	$64,688

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Three Months Ended June 30, 2017	Commercial Real Estate	Agriculture	Commercial Non-Real Estate	Residential Real Estate	Consumer	Other	Total
	(dollars in thousands)						
Beginning balance April 1, 2017	$16,996	$26,320	$11,949	$6,069	$371	$980	$62,685
Charge-offs	(57)	(288)	(4,076)	(236)	(28)	(518)	(5,203)
Recoveries	57	258	283	50	45	243	936
Provision	1,209	(1,805)	6,269	(123)	(38)	338	5,850
(Improvement) of ASC 310-30 loans	(54)	—	—	—	—	—	(54)
Ending balance June 30, 2017	$18,151	$24,485	$14,425	$5,760	$350	$1,043	$64,214

Nine Months Ended June 30, 2018	Commercial Real Estate	Agriculture	Commercial Non-Real Estate	Residential Real Estate	Consumer	Other	Total
	(dollars in thousands)						
Beginning balance October 1, 2017	$16,941	$25,757	$14,114	$5,347	$329	$1,015	$63,503
Charge-offs	(3,268)	(4,959)	(3,176)	(442)	(176)	(1,491)	(13,512)
Recoveries	326	275	349	216	90	469	1,725
Provision	3,675	4,331	4,573	(539)	44	1,021	13,105
Impairment (improvement) of ASC 310-30 loans	11	(115)	—	(29)	—	—	(133)
Ending balance June 30, 2018	$17,685	$25,289	$15,860	$4,553	$287	$1,014	$64,688

Nine Months Ended June 30, 2017	Commercial Real Estate	Agriculture	Commercial Non-Real Estate	Residential Real Estate	Consumer	Other	Total
	(dollars in thousands)						
Beginning balance October 1, 2016	$17,946	$25,115	$12,990	$7,106	$438	$1,047	$64,642
Charge-offs	(1,881)	(7,708)	(7,769)	(502)	(138)	(1,834)	(19,832)
Recoveries	441	402	502	311	75	819	2,550
Provision	1,759	6,676	8,702	(263)	(25)	1,011	17,860
(Improvement) of ASC 310-30 loans	(114)	—	—	(892)	—	—	(1,006)
Ending balance June 30, 2017	$18,151	$24,485	$14,425	$5,760	$350	$1,043	$64,214

The following tables provide details regarding the allowance for loan and lease losses and balance by type of allowance as of June 30, 2018 and September 30, 2017. These tables are presented net of unamortized discount on acquired loans and excludes loans of $888.2 million measured at fair value, loans held for sale of $6.8 million, and guaranteed loans of $161.3 million for June 30, 2018 and loans measured at fair value of $1.02 billion, loans held for sale of $7.5 million, and guaranteed loans of $168.3 million for September 30, 2017.

As of June 30, 2018	Commercial Real Estate	Agriculture	Commercial Non-Real Estate	Residential Real Estate	Consumer	Other	Total
	(dollars in thousands)						
Allowance for loan and lease losses							
Individually evaluated for impairment	$5,313	$10,720	$5,343	$2,022	$70	$—	$23,468
Collectively evaluated for impairment	11,679	14,569	10,517	2,376	217	1,014	40,372
ASC 310-30 loans	693	—	—	155	—	—	848
Total allowance	$17,685	$25,289	$15,860	$4,553	$287	$1,014	$64,688

Financing Receivables							
Individually evaluated for impairment	$60,646	$127,589	$28,974	$6,185	$167	$—	$223,561
Collectively evaluated for impairment	3,919,649	1,821,465	1,401,583	796,039	50,506	44,187	8,033,429
ASC 310-30 loans	28,119	2,838	2,041	43,388	485	—	76,871
Loans Outstanding	$4,008,414	$1,951,892	$1,432,598	$845,612	$51,158	$44,187	$8,333,861

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As of September 30, 2017	Commercial Real Estate	Agriculture	Commercial Non-Real Estate	Residential Real Estate	Consumer	Other	Total
	(dollars in thousands)						
Allowance for loan and lease losses							
Individually evaluated for impairment	$3,621	$11,468	$4,779	$2,581	$86	$—	$22,535
Collectively evaluated for impairment	12,638	14,174	9,335	2,570	243	1,015	39,975
ASC 310-30 loans	682	115	—	196	—	—	993
Total allowance	$16,941	$25,757	$14,114	$5,347	$329	$1,015	$63,503
Financing Receivables							
Individually evaluated for impairment	$37,471	$130,475	$31,933	$7,751	$293	$—	$207,923
Collectively evaluated for impairment	3,487,232	1,702,634	1,333,888	854,330	65,207	43,207	7,486,498
ASC 310-30 loans	30,099	7,174	1,920	52,736	666	—	92,595
Loans Outstanding	$3,554,802	$1,840,283	$1,367,741	$914,817	$66,166	$43,207	$7,787,016

For acquired loans not accounted for under ASC 310-30 (purchased non-impaired), the Company utilizes specific and collective reserve calculation methods similar to originated loans. The required ALLL for these loans is included in the individually evaluated for impairment bucket of the ALLL if the loan is rated substandard or worse, and in the collectively evaluated for impairment bucket for pass rated loans.

The Company maintains an ALLL for acquired loans accounted for under ASC 310-30 as a result of impairment to loan pools arising from the periodic re-valuation of these loans. Any impairment in the individual pool is generally recognized in the current period as provision for loan and lease losses. Any improvement in the estimated cash flows, is generally not recognized immediately, but is instead reflected as an adjustment to the related loan pools yield on a prospective basis once any previously recorded impairment has been recaptured.

The ALLL for ASC 310-30 loans totaled $0.8 million at June 30, 2018, compared to $1.0 million at September 30, 2017. For the three and nine months ended June 30, 2018, loan pools accounted for under ASC 310-30 had a negligible net provision and a net reversal of provision of $0.1 million, respectively. The net provision for the three month period ended June 30, 2018 was a result of cash flows being lower than expected in one of the pools during the period while the net reversal of provision for the nine month period ended June 30, 2018 was driven by an overall increase in expected cash flows. Net provision reversal for the three and nine months ended June 30, 2017, totaled $0.1 million and $1.0 million, respectively. The net reversals of provision for the periods ended June 30, 2017 were a result of updated assumptions being applied to one of the acquired mortgage pools which resulted in higher than expected cash flows.

The reserve for unfunded loan commitments was $0.5 million at both June 30, 2018 and September 30, 2017 and is recorded in accrued expenses and other liabilities on the consolidated balance sheets.

6. Accounting for Certain Loans Acquired with Deteriorated Credit Quality

In June 2010 and May 2016, the Company acquired certain loans that had deteriorated credit quality (ASC 310-30 loans or Purchased Credit Impaired loans). Several factors were considered when evaluating whether a loan was considered a purchased credit impaired loan, including the delinquency status of the loan, updated borrower credit status, geographic information and updated loan-to-values ("LTV"). Further, these purchased credit impaired loans had differences between contractual amounts owed and cash flows expected to be collected, that were at least in part, due to credit quality. U.S. GAAP allows purchasers to aggregate purchased credit impaired loans acquired in the same fiscal quarter in one or more pools, provided that the loans have common risk characteristics. A pool is then accounted

for as a single asset with a single composite interest rate and an aggregate expectation of cash flows.
Loan pools are periodically reassessed to determine expected cash flows. In determining the expected cash flows, the timing of cash flows and prepayment assumptions for smaller, homogeneous loans are based on statistical models that take into account factors such as the loan interest rate, credit profile of the borrowers, the years in which the loans were originated, and whether the loans are fixed or variable rate loans. Prepayments may be assumed on large individual loans that consider similar prepayment factors listed above for smaller homogeneous loans. The re-assessment of purchased credit impaired loans resulted in the following changes in the accretable yield during the three and nine months ended June 30, 2018 and 2017.

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	Three Months Ended		Nine Months Ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
	(dollars in thousands)			
Balance at beginning of period	$37,841	$38,705	$44,131	$38,124
Accretion	(3,993)	(3,789)	(11,038)	(9,767)
Reclassification from nonaccretable difference	2,554	13,218	3,309	19,777
Balance at end of period	$36,402	$48,134	$36,402	$48,134

The reclassifications from nonaccretable difference noted in the table above represent instances where specific pools of loans are expected to perform better over the remaining lives of the loans than expected at the prior re-assessment date.

The following table provides purchased credit impaired loans at June 30, 2018 and September 30, 2017.

	June 30, 2018			September 30, 2017		
	Outstanding Balance [1]	Recorded Investment [2]	Carrying Value [3]	Outstanding Balance [1]	Recorded Investment [2]	Carrying Value [3]
	(dollars in thousands)					
Commercial real estate	$102,633	$ 28,119	$27,426	$110,797	$ 30,099	$29,417
Agriculture	5,065	2,838	2,838	10,463	7,174	7,059
Commercial non-real estate	9,196	2,041	2,041	9,825	1,920	1,920
Residential real estate	50,421	43,388	43,233	61,981	52,736	52,540
Consumer	553	485	485	798	666	666
Total lending	$167,868	$ 76,871	$76,023	$193,864	$ 92,595	$91,602

[1] Represents the legal balance of ASC 310-30 loans.
[2] Represents the book balance of ASC 310-30 loans.
[3] Represents the book balance of ASC 310-30 loans net of the related allowance for loan and lease losses.

7. FDIC Indemnification Asset

Under the terms of the purchase and assumption agreement with the FDIC with regard to the TierOne Bank acquisition, the Company is reimbursed for a portion of the losses incurred on covered assets. As covered assets are resolved, whether it be through repayment, short sale of the underlying collateral, the foreclosure on or sale of collateral, or the sale or charge-off of loans or other repossessed property, any differences between the carrying value of the covered assets versus the payments received during the resolution process, that are reimbursable by the FDIC, are recognized as reductions in the FDIC indemnification asset. Any gains or losses realized from the resolution of covered assets reduce or increase, respectively, the amount recoverable from the FDIC.

The following table represents a summary of the activity related to the FDIC indemnification asset for the three and nine months ended June 30, 2018 and 2017.

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2018	2017	2018	2017
	(dollars in thousands)			
Balance at beginning of period	$3,678	$8,371	$5,704	$10,777
Amortization	(494)	(1,492)	(2,244)	(3,473)
Changes in expected reimbursements from FDIC for changes in expected credit losses	(23)	36	(56)	(69)
Changes in reimbursable expenses	(340)	(283)	(1,002)	(821)

Reimbursements of covered losses to the FDIC	169	353	588	571
Balance at end of period	$2,990	$6,985	$2,990	$6,985

The loss claims filed are subject to review, approval, and annual audits by the FDIC or its assigned agents for compliance with the terms in the loss sharing agreement. The commercial loss share agreement claim period ended on June 4, 2015. The non-commercial loss share agreement ends June 4, 2020.

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8. Derivative Financial Instruments
The Company uses interest rate swaps to manage its interest rate risk and market risk in accommodating the needs of its customers. The Company recognizes all derivatives on the consolidated balance sheet at fair value in either other assets or accrued expenses and other liabilities as appropriate. The following table presents the notional amounts and gross fair values of all derivative assets and liabilities held by the Company as of June 30, 2018 and September 30, 2017.

	June 30, 2018			September 30, 2017		
	Notional Amount	Gross Asset Fair Value	Gross Liability Fair Value	Notional Amount	Gross Asset Fair Value	Gross Liability Fair Value
	(dollars in thousands)					
Derivatives not designated as hedging instruments:						
Interest rate swaps						
Financial institution counterparties	$1,078,868	$18,404	$(4,028)	$1,025,474	$4,967	$(22,737)
Customer counterparties	183,790	2,440	(1,542)	36,072	615	—
Mortgage loan commitments	31,074	8	—	37,765	—	(48)
Mortgage loan forward sale contracts	34,254	—	(8)	43,628	48	—
Total	$1,327,986	$20,852	$(5,578)	$1,142,939	$5,630	$(22,785)

Netting of Derivatives
We record the derivatives on a net basis when a right of offset exists, based on transactions with a single counterparty that are subject to a legally enforceable master netting agreement. When bilateral netting agreements or similar agreements exist between the Company and its counterparties that create a single legal claim or obligation to pay or receive the net amount in settlement of the individual derivative contracts, the Company reports derivative assets and liabilities on a net by derivative contract by counterparty basis. The following tables provide information on the Company's netting adjustments as of June 30, 2018 and September 30, 2017.

	Gross Fair Value	Fair Value Offset Amount	Cash Collateral	Net Amount Presented on the Consolidated Balance Sheet
	(dollars in thousands)			
June 30, 2018				
Total Derivative Assets	$20,852	$(4,028)	$(13,178)	$ 3,646
Total Derivative Liabilities [1] [2]	$(5,578)	$4,028	$—	$ (1,550)

[1] In addition to the cash collateral, there were securities of $5.0 million posted as collateral for financial institution counterparties at June 30, 2018.
[2] There was an additional $0.9 million of collateral held for initial margin with our Futures Clearing Merchant for clearing derivatives at June 30, 2018 and is included in other assets in the consolidated balance sheets.

	Gross Fair Value	Fair Value Offset Amount	Cash Collateral	Net Amount Presented on the Consolidated Balance Sheet

	(dollars in thousands)			
September 30, 2017				
Total Derivative Assets	$ 1,850	$ (1,850)	$ —	$ —
Total Derivative Liabilities [1] [2]	(19,005)	1,850	—	(17,155)

[1] In addition to the cash collateral, there were securities of $25.0 million posted as collateral for financial institution counterparties at September 30, 2017.

[2] There was an additional $2.3 million of collateral held for initial margin with our Futures Clearing Merchant for clearing derivatives at September 30, 2017 and is included in other assets in the consolidated balance sheets.

As with any financial instrument, derivative financial instruments have inherent risk including adverse changes in interest rates. The Company's exposure to derivative credit risk is defined as the possibility of sustaining a loss due to the failure of the counterparty to perform in accordance with the terms of the contract. Credit risks associated with interest rate swaps are similar to those relating to traditional on-balance sheet financial instruments. The Company manages interest rate swap credit risk with the same standards and procedures applied to its commercial lending activities.

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Credit-risk-related contingent features
The Company has agreements with its derivative counterparties that contain a provision where if the Company or the derivative counterparty fails to maintain its status as a well/adequately capitalized institution, then the other party has the right to terminate the derivative positions and the Company or the derivative counterparty would be required to settle its obligations under the agreements. The Company has minimum collateral posting thresholds with its Swap Dealers and Futures Clearing Merchant.
Beginning in the second quarter of fiscal year 2018, the Company entered into risk participation agreements ("RPA"s) with some of its derivative counterparties to assume the credit exposure related to interest rate derivative contracts. The Company's loan customer enters into an interest rate swap directly with a derivative counterparty and the Company agrees through an RPA to take on the counterparty's risk of loss on the interest rate swap due to a default by the customer. The notional amounts of RPAs sold were $37.4 million as of June 30, 2018. Assuming all underlying loan customers defaulted on their obligation to perform under the interest rate swap with a derivative counterparty, the exposure from these RPAs would be $0.8 million at June 30, 2018 based on the fair value of the underlying swaps.
The effect of derivatives on the consolidated statements of income for the three and nine months ended June 30, 2018 and 2017 was as follows.

	Location of Gain (Loss) Recognized in Statements of Income	Amount of Gain (Loss) Recognized in Statements of Income			
		Three Months Ended		Nine Months Ended	
		June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
		(dollars in thousands)			
Derivatives not designated as hedging instruments:					
Interest rate swaps	Net realized and unrealized gain on derivatives	$8,093	$(9,088)	$29,602	$51,481
Mortgage loan commitments	Net realized and unrealized gain on derivatives	4	(109)	8	(56)
Mortgage loan forward sale contracts	Net realized and unrealized gain on derivatives	(4)	109	(8)	56

9. The Fair Value Option for Certain Loans
The Company has elected to measure certain long-term loans at fair value to assist in managing the interest rate risk for longer-term loans. This fair value option was elected upon the origination of these loans. Interest income is recognized in the same manner as interest on non-fair value loans.
See Note 18 for additional disclosures regarding the fair value of the fair value option loans.
Long-term loans for which the fair value option has been elected had a net unfavorable difference between the aggregate fair value and the aggregate unpaid loan principal balance and written loan commitment amount of approximately $28.4 million at June 30, 2018 and a net favorable difference of approximately $8.8 million at September 30, 2017. The total unpaid principal balance of these long-term loans was approximately $916.6 million and $1.01 billion at June 30, 2018 and September 30, 2017, respectively. The fair value of these loans is included in total loans in the consolidated balance sheets and are grouped with commercial real estate, agricultural and commercial non-real estate loans in Note 4. As of June 30, 2018 and September 30, 2017, there were loans with a fair value of $13.2 million and $14.7 million, respectively, which were greater than 90 days past due or in nonaccrual status with an unpaid principal balance of $14.7 million and $17.0 million, respectively.
Changes in fair value for items for which the fair value option has been elected and the line items in which these changes are reported within the consolidated statements of income are as follows for the three and nine months ended June 30, 2018 and 2017.

	Three Months Ended June 30, 2018		Three Months Ended June 30, 2017		Nine Months Ended June 30, 2018		Nine Months Ended June 30, 2017	
	Noninterest Income	Total Changes in Fair Value	Noninterest Income	Total Changes in Fair Value	Noninterest Income	Total Changes in Fair Value	Noninterest Income	Total Changes in Fair Value
	(dollars in thousands)							
Long-term loans	$(7,370)	$(7,370)	$6,060	$ 6,060	$(30,872)	$(30,872)	$(63,158)	$(63,158)

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For long-term loans, $0.1 million and $0.3 million for the three months ended June 30, 2018 and 2017, respectively, and $0.2 million and a negligible amount for the nine months ended June 30, 2018 and 2017, respectively, of the total change in fair value is attributable to changes in specific credit risk. The gains or losses attributable to changes in instrument-specific credit risk were determined based on an assessment of existing market conditions and credit quality of the underlying loan for the specific portfolio of loans.

10. Core Deposits and Other Intangibles

The following table presents a summary of intangible assets subject to amortization as of June 30, 2018 and September 30, 2017.

	Core Deposit Intangible	Brand Intangible	Other Intangible	Total
	(dollars in thousands)			
As of June 30, 2018				
Gross carrying amount	$7,339	$ 8,464	$ 538	$16,341
Accumulated amortization	(2,374)	(5,687)	(174)	(8,235)
Net intangible assets	$4,965	$ 2,777	$ 364	$8,106
As of September 30, 2017				
Gross carrying amount	$7,339	$ 8,464	$ 538	$16,341
Accumulated amortization	(1,579)	(5,264)	(124)	(6,967)
Net intangible assets	$5,760	$ 3,200	$ 414	$9,374

Amortization expense of intangible assets was $0.4 million and $0.5 million for the three months ended June 30, 2018 and 2017, respectively, and $1.3 million and $1.9 million for the nine months ended June 30, 2018 and 2017.

The estimated amortization expense of intangible assets assumes no activities, such as acquisitions, which would result in additional amortizable intangible assets. Estimated amortization expense of intangible assets in subsequent fiscal years is as follows.

	Amount (dollars in thousands)
Remaining in 2018	$ 394
2019	1,538
2020	1,430
2021	1,334
2022	1,249
2023 and thereafter	2,161
Total	$ 8,106

11. Loan Servicing Rights

Loan servicing rights are created when residential mortgage loans are sold in the secondary market with the seller retaining the right to service those loans and receive servicing income over the life of the loan. The Company acquired loan servicing rights as a part of the acquisition of HF Financial. The actual balance of loans being serviced for others are not reported as assets in the accompanying consolidated balance sheets.

The following table is the activity for loan servicing rights and the related valuation allowance for the three and nine months ended June 30, 2018 and 2017.

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2018	2017	2018	2017
	(dollars in thousands)			
Loan servicing rights				

Beginning of period	$3,596	$4,906	$4,155	$5,794
Amortization [1]	(259)	(369)	(818)	(1,257)
End of period	$3,337	$4,537	$3,337	$4,537

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	Three Months Ended June 30,		Nine Months Ended June 30,	
	2018	2017	2018	2017
	(dollars in thousands)			
Valuation allowance				
Beginning of period	$(10)	$(3)	$(81)	$(13)
(Additions) / reductions [1]	1	(4)	72	6
End of period	$(9)	$(7)	$(9)	$(7)
Loan servicing rights, net	$3,328	$4,530	$3,328	$4,530
Servicing fees received	$438	$500	$1,310	$1,573
Balance of loans serviced at:				
Beginning of period	669,767	792,779	722,461	868,865
End of period	641,403	759,670	641,403	759,670

[1] Changes to carrying amounts are reported net of loan servicing income on the consolidated statements of comprehensive income for the periods presented.

Amortization of servicing rights is adjusted each quarter based upon analysis of portfolio attributes and factors, including an evaluation of historical prepayment activity and prospective industry consensus data. An independent third party is utilized to calculate the amortization and valuation based upon specific loan characteristics, prepayment speeds generated from a validation model utilizing both empirical and market derived data and discount rates. At June 30, 2018, the constant prepayment rates (CPR) used to calculate the amortization averaged 10.4%. For valuation purposes, an average discount rate of 11.8% was utilized at June 30, 2018. Based on the Company's analysis of mortgage servicing rights, a negligible valuation reserve was recorded at June 30, 2018, and a $0.1 million valuation reserve was recorded at September 30, 2017.

12. Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase generally mature overnight following the transaction date. Securities underlying the agreements had an amortized cost of approximately $135.1 million and $139.3 million and fair value of approximately $129.6 million and $137.4 million at June 30, 2018 and September 30, 2017, respectively. In most cases, in alignment with the repurchase agreements in place with our customers, the Company over-collateralizes the agreements at 102% of total funds borrowed to protect the purchaser from changes in market value. Additionally, the Company utilizes held-in-custody procedures to ensure the securities sold under repurchase agreements are unencumbered.

The following tables present the gross obligation by the class of collateral pledged and the remaining contractual maturity of the agreements at June 30, 2018 and September 30, 2017.

	June 30, 2018				
	Remaining Contractual Maturity of the Agreements				
	Overnight and Continuous	Up to 30 Days	30-90 Days	Greater than 90 Days	Total
	(dollars in thousands)				
Repurchase agreements					
Municipal securities	$3,035	$—	$—	$—	$3,035
Mortgage-backed securities	102,443	—	—	—	102,443
Total repurchase agreements	$105,478	$—	$—	$—	$105,478

	September 30, 2017				
	Remaining Contractual Maturity of the Agreements				
	Overnight and Continuous	Up to 30 Days	30-90 Days	Greater than 90 Days	Total
	(dollars in thousands)				
Repurchase agreements					
Municipal securities	$3,626	$ —	$ —	$ —	$3,626
Mortgage-backed securities	129,010	—	—	—	129,010
Total repurchase agreements	$132,636	$ —	$ —	$ —	$132,636

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13. FHLB Advances and Other Borrowings
FHLB advances and other borrowings consist of the following at June 30, 2018 and September 30, 2017.

	June 30, 2018	September 30, 2017
	(dollars in thousands)	
Short-term borrowings:		
Notes payable to FHLB, interest rates from 1.25% to 1.27%	$—	$ 512,200
FHLB fed funds advance, interest rate of 2.10% and maturity date in October 2018	160,000	75,000
Long-term borrowings:		
Notes payable to FHLB, interest rates from 2.28% to 3.66% and maturity dates from March 2020 to July 2023, collateralized by real estate loans, with various call dates at the option of the FHLB	175,000	56,000
Total	335,000	643,200
Fair value adjustment [1]	—	14
Total FHLB advances and other borrowings	$335,000	$ 643,214

[1] Adjustment reflects the fair value adjustments related to the FHLB advances and notes payable assumed as part of the HF Financial acquisition.

The Company had a $10.0 million revolving line of credit which expired on July 28, 2018. The line of credit had an interest rate of one month LIBOR plus 200 basis points, with interest payable monthly. The interest rate was 4.09% at June 30, 2018. There were no outstanding advances on this line of credit at June 30, 2018 and September 30, 2017.
As of June 30, 2018 and September 30, 2017, the Company had a borrowing capacity of $1.52 billion and $1.89 billion, respectively, with the Federal Reserve Board Discount Window ("FRB Discount Window"). Principal balances of loans pledged to FRB Discount Window to collateralize the borrowing totaled $1.83 billion at June 30, 2018 and $2.55 billion at September 30, 2017. The Company has secured this line for contingency funding.
As of June 30, 2018 and September 30, 2017, based on its collateral pledged, the additional borrowing capacity of the Company with the FHLB was $1.79 billion and $1.55 billion, respectively.
Principal balances of loans pledged to the FHLB to collateralize notes payable totaled $3.20 billion and $3.71 billion at June 30, 2018 and September 30, 2017, respectively. In second quarter of fiscal year 2018, the Company purchased a letter of credit from the FHLB for $150.0 million which is pledged as collateral on public deposits. This letter of credit is committed until January 29, 2019.
As of June 30, 2018, FHLB advances and other borrowings are due or callable (whichever is earlier) in subsequent fiscal years as follows.

	Amount (dollars in thousands)
Remaining in 2018	$ —
2019	160,000
2020	150,000
2021	—
2022	—
2023 and thereafter	25,000
Total	$ 335,000

14. Subordinated Debentures and Subordinated Notes Payable
Junior Subordinated Deferrable Interest Debentures
The Company has seven trusts which were created or assumed as part of prior acquisitions that as of June 30, 2018 have issued and outstanding in the aggregate 73,400 shares, $1,000 par value, of Company Obligated Mandatorily Redeemable Preferred Securities (the "Preferred Securities"). These seven trusts were established and exist for the sole

purpose of issuing Preferred Securities and investing the proceeds in junior subordinated deferrable interest debentures (the "Debentures") issued by the Company. The Debentures constitute the sole assets of the seven trusts. The Preferred Securities provide for cumulative cash distributions calculated at a rate based on three month LIBOR plus a range from 1.48% to 3.35% adjusted quarterly. The Company may, at one or

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more times, defer interest payments on the Debentures for up to 20 consecutive quarters following suspension of dividends on all capital stock, but not beyond the respective maturity date. At the end of any deferral period, all accumulated and unpaid interest must be paid. The Debentures have redemption dates ranging from January 7, 2033 to October 1, 2037; however, the Company has the option to shorten the respective maturity date for all seven Preferred Securities as the call option date has passed. Holders of the Preferred Securities have no voting rights. The Preferred Securities are unsecured and rank junior in priority of the payment to all of the Company's indebtedness and senior to the Company's common and preferred stock. The trusts' ability to pay amounts due on the Preferred Securities is solely dependent upon the Company making payment on the related Debentures. The Company's obligation under the Debentures and relevant trust agreements constitute a full, irrevocable, and unconditional guarantee on a subordinated basis by it of the obligations of the trusts under the Preferred Securities.

For regulatory purposes, the Debentures qualify as elements of capital. As of June 30, 2018 and September 30, 2017, $73.6 million and $73.5 million of Debentures were eligible for treatment as Tier 1 capital, respectively.

Relating to the trusts, the Company held as assets $2.5 million in common shares at June 30, 2018 and September 30, 2017 which are included in other assets on the consolidated balance sheets.

Subordinated Notes Payable

In 2015, the Company issued $35.0 million of 4.875% fixed-to-floating rate subordinated notes that mature on August 15, 2025 through a private placement. The notes, which qualify as Tier 2 capital under capital rules in effect at June 30, 2018, have an interest rate of 4.875% per annum, payable semi-annually on each February 15 and August 15, which commenced on February 15, 2016 until August 15, 2020, to but excluding the maturity date or date of earlier redemption, the notes will bear interest at a rate per annum equal to three-month LIBOR for the related interest period plus 3.15%, payable quarterly on each November 15, February 15, April 15 and August 15. The notes are subordinated in right of payment to all of the Company's senior indebtedness and effectively subordinated to all existing and future debt and all other liabilities of the Company's subsidiary bank. The Company may elect to redeem the notes (subject to regulatory approval), in whole or in part, on any early redemption date which is any interest payment date on or after August 15, 2020 at a redemption price equal to 100% of the principal amount plus any accrued and unpaid interest. Other than on an early redemption date, the notes cannot be accelerated except in the event of bankruptcy or the occurrence of certain other events of bankruptcy, insolvency or reorganization.

Unamortized debt issuance costs related to these notes, which are included in Subordinated Debentures and Subordinated Notes Payable, totaled $0.2 million at June 30, 2018 and September 30, 2017. Proceeds from the private placement of subordinated notes repaid outstanding subordinated debt.

Subordinated debentures and subordinated notes payable are summarized as follows.

	June 30, 2018		September 30, 2017	
	Amount Outstanding	Common Shares Held in Other Assets	Amount Outstanding	Common Shares Held in Other Assets
	(dollars in thousands)			
Junior subordinated debentures payable to nonconsolidated trusts				
GW Statutory Trust IV, variable rate of 2.85%, plus 3 month LIBOR	$23,093	$ 693	$23,093	$ 693
GW Statutory Trust VI, variable rate of 1.48%, plus 3 month LIBOR	30,928	928	30,928	928
SSB Trust II, variable rate of 1.85%, plus 3 month LIBOR	2,062	62	2,062	62
HF Capital Trust III, variable rate of 3.35%, plus 3 month LIBOR	5,155	155	5,155	155
HF Capital Trust IV, variable rate of 3.10%, plus 3 month LIBOR	7,217	217	7,217	217
HF Capital Trust V, variable rate of 1.83%, plus 3 month LIBOR	5,310	310	5,310	310
HF Capital Trust VI, variable rate of 1.65%, plus 3 month LIBOR	2,155	155	2,155	155
Total junior subordinated debentures payable	75,920	$ 2,520	75,920	$ 2,520

Less: fair value adjustment [1]	(2,341)	(2,409)
Total junior subordinated debentures payable, net of fair value adjustment	73,579	73,511
Subordinated notes payable		
Fixed to floating rate, 4.875% per annum	35,000	35,000
Less: unamortized debt issuance costs	(153)	(209)
Total subordinated notes payable	34,847	34,791
Total subordinated debentures and subordinated notes payable	$108,426	$108,302

[1] Adjustment reflects the fair value adjustments related to the junior subordinated deferrable interest debentures assumed as part of the HF Financial acquisition.

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15. Income Taxes

The provision for income taxes charged to operations consists of the following for the three and nine months ended June 30, 2018 and 2017.

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2018	2017	2018	2017
	(dollars in thousands)			
Currently paid or payable				
Federal	$11,881	$14,334	$32,632	$44,275
State	2,951	3,341	8,345	8,042
Total	14,832	17,675	40,977	52,317
Deferred tax expense				
Federal	1,302	1,033	18,141	467
State	225	(271)	602	(77)
Total	1,527	762	18,743	390
Total provision for income taxes	$16,359	$18,437	$59,720	$52,707

The income tax provision differs from the amount of income tax determined by applying the U.S. federal income tax rate of 24.5% for the three and nine months ended June 30, 2018 and 35% for the three and nine months ended June 30, 2017 to pretax income due to the following.

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2018	2017	2018	2017
	(dollars in thousands)			
Income tax expense computed at the statutory rate	$15,265	$18,725	$43,012	$55,941
Increase (decrease) in income taxes resulting from:				
State income taxes, net of federal benefit	2,396	1,995	6,752	5,177
Tax exempt interest income	(1,514)	(2,057)	(4,300)	(6,091)
Impact of enacted federal income tax rate reduction	(115)	—	13,471	—
Other	327	(226)	785	(2,320)
Income tax expense, as reported	$16,359	$18,437	$59,720	$52,707

Net deferred tax assets (liabilities) consist of the following components at June 30, 2018 and September 30, 2017.

	June 30, 2018	September 30, 2017
	(dollars in thousands)	
Deferred tax assets:		
Allowance for loan and lease losses	$16,210	$ 23,730
Compensation	3,365	6,227
Securities available for sale	8,807	3,413
Other real estate owned	336	763
Core deposit intangible and other fair value adjustments	4,272	6,058
Excess tax basis of FDIC indemnification asset and clawback liability	3,703	4,563
Excess tax basis of loans acquired over carrying value	5,500	9,417
Other reserves	2,842	4,406
Other	4,940	6,922
Total deferred tax assets	49,975	65,499
Deferred tax liabilities:		
Goodwill and other intangibles	(12,652)	(13,784)

Premises and equipment	(5,615)	(8,828)
Other	(221)	(487)
Total deferred tax liabilities	(18,488)	(23,099)
Net deferred tax assets	$31,487	$ 42,400

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At June 30, 2018 and September 30, 2017, the Company had an income tax receivable from the Internal Revenue Service (the "IRS") of $3.2 million and $4.6 million, respectively, which is included in other assets on the consolidated balance sheets. The Company is no longer subject to U.S. federal, state and local or non-U.S. income tax examinations by tax authorities for years before 2014.

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (the "Tax Reform Act"), was enacted into law. Beginning in 2018, the Tax Reform Act reduces the federal tax rate for corporations from 35% to 21% and changes or limits certain tax deductions. Because of the Company's September 30 fiscal year end, a blended statutory rate of 24.5% is applied to all net income before taxes generated during the current fiscal year. The new blended statutory rate reduced the provision for income taxes by approximately $5.2 million and $15.0 million for the three and nine months ended June 30, 2018, respectively. Another result of the lower corporate tax rate this fiscal year was the Company recording a revaluation discrete tax adjustment of $13.6 million to reduce its net deferred tax assets, which increased the provision for income taxes in the first quarter. The actual impact of the revaluing deferred taxes has varied from the estimated charge to provision of $13.6 million due to uncertainties in our preliminary estimates and the effect of further clarification of the new law, but changes have been immaterial.

The Company adopted new accounting guidance in the second quarter of fiscal year 2018 that allows reclassification of $2.4 million in stranded tax effects that relate to a change in the federal tax rate from accumulated other comprehensive income to retained earnings.

The Bank's effective tax rate for the three and nine months ended June 30, 2018 was 26.3% and 34.1%, respectively, compared to 34.5% and 33.0% for the three and nine months ended June 30, 2017, respectively. Excluding the nonrecurring deferred taxes adjustment related to federal tax reform, the three and nine months ended June 30, 2018 effective tax rates were both 26.3%.

Uncertain tax positions were not significant at June 30, 2018 or September 30, 2017.

16. Employee Benefit Plans

Profit Sharing Plan

The Company participates in a multiple employer 401(k) profit sharing plan ("the 401(k) Plan"). All employees are eligible to participate, beginning with the first day of the month coincident with or immediately following the completion of one year of service and having reached the age of 21. In addition to employee contributions, the Company may contribute discretionary amounts for eligible participants. Contribution rates for participating employees must be equal. The Company contributed $1.5 million and $1.4 million to the 401(k) Plan for the three months ended June 30, 2018 and 2017, respectively, and $4.5 million and $4.3 million for the nine months ended June 30, 2018 and 2017.

Defined Benefit Plan

The Company acquired a noncontributory (cash balance) defined benefit pension plan ("the Pension Plan") from HF Financial which covers former employees of HF Financial and its wholly-owned subsidiaries. Effective July 1, 2015, the Pension Plan was frozen which eliminates future contributions for qualified individuals.

On November 27, 2017, the Company's Board of Directors voted to terminate the Pension Plan effective February 1, 2018. In order to settle its liabilities under the Pension Plan, the Company offered participants the option to receive either an annuity purchased from an insurance carrier or a lump-sum cash payment. Total benefit payments paid by the Company were $5.3 million as part of Pension Plan termination.

The Company completed the transfer of all liabilities and administrative responsibilities under the Pension Plan at the end of fiscal third quarter 2018.

17. Stock-Based Compensation

On September 26, 2014, the Board of Directors adopted, and on October 10, 2014, NAB, at that time our controlling shareholder, approved the Great Western Bancorp, Inc. 2014 Omnibus Incentive Compensation Plan (the “2014 Plan”), the Great Western Bancorp, Inc. 2014 Non-Employee Director Plan (the “2014 Director Plan”), and the Great Western Bancorp, Inc. Executive Incentive Compensation Plan (the “Bonus Plan”), collectively ("the Plans"), which provide for the issuance of restricted share units and performance based share units to certain officers, employees and directors of

the Company. On February 22, 2018, our stockholders approved amendments to the 2014 Plan and the 2014 Director Plan to increase the number of shares available for future grants under the Plans. The Plans were primarily established to enhance the Company’s ability to attract, retain and motivate

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employees. The Company's Board of Directors, the Compensation Committee of the Board of Directors ("Compensation Committee"), or executive management upon delegation of the Compensation Committee has exclusive authority to select the employees and others, including directors, to receive the awards and to establish the terms and conditions of each award made pursuant to the Company's stock-based compensation plans.
Stock units issued under the Company's restricted and performance based stock plans may not be sold or otherwise transferred until the vesting period has been met and, if applicable, performance objectives have been obtained. During the vesting periods, participants do not have voting rights and dividends are accumulated until the time upon which the award vests. Upon specified events, as defined in the Plans, stock unit awards that have not vested and/or performance hurdles that have not been met will be forfeited.
Based on the substantive terms of each award, restricted and performance-based awards are classified as equity awards and accounted for under the treasury stock method. The fair value of equity-classified awards is based on the market price of the stock on the measurement date and is amortized as compensation expense on a straight-line basis over the vesting or performance period.
Stock compensation is recognized based on the number of awards to vest using actual forfeiture amounts. For performance-based stock awards, an estimate is made of the number of shares expected to vest as a result of actual performance against the performance targets to determine the amount of compensation expense to be recognized. The estimate is reevaluated quarterly and total compensation expense is adjusted for any change in the current period.
Stock-based compensation expense is included in salaries and employee benefits expense in the consolidated statements of income. Stock compensation expense was $1.4 million and $4.3 million for the three and nine months ended June 30, 2018, respectively, and $1.4 million and $5.2 million for the three and nine months ended June 30, 2017, respectively. Related income tax benefits recognized were $0.4 million and $1.4 million for the three and nine months ended June 30, 2018, respectively, and $0.5 million and $1.9 million for the three and nine months ended June 30, 2017, respectively.
The following is a summary of the Plans' restricted share and performance-based stock award activity as of June 30, 2018 and September 30, 2017. The number of performance shares granted in the following table are reflected at the amount of achievement of the pre-established targets.

	June 30, 2018		September 30, 2017	
	Common Shares	Weighted-Average Grant Date Fair Value	Common Shares	Weighted-Average Grant Date Fair Value
Restricted Shares				
Restricted shares, beginning of fiscal year	180,337	$ 33.06	160,335	$ 26.89
Granted	89,376	41.07	90,363	39.35
Vested	(97,148)	32.08	(68,293)	26.97
Forfeited	(8,139)	35.78	(2,068)	30.91
Canceled	—	—	—	—
Restricted shares, end of period	164,426	$ 37.86	180,337	$ 33.06
Vested, but not issuable at end of period	39,514	$ 32.90	29,287	$ 30.05
Performance Shares				
Performance shares, beginning of fiscal year	133,604	$ 33.39	236,185	$ 20.28
Granted	54,982	29.13	137,612	39.43
Vested	—	—	(235,055)	18.00
Forfeited	(4,487)	37.94	(5,138)	19.80
Canceled	—	—	—	—
Performance shares, end of period	184,099	$ 35.61	133,604	$ 33.39
Vested, but not issuable at end of period	5,612	$ 18.00	5,612	$ 18.00

As of June 30, 2018, there was $6.3 million of unrecognized compensation cost related to nonvested restricted stock awards expected to be recognized over a period of 2.4 years. The fair value of the vested, but not issued stock awards at June 30, 2018, was $1.9 million.

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18. Fair Value Measurements

The Company measures, monitors and discloses certain of its assets and liabilities on a fair value basis. 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 at the measurement date. The fair value guidance also establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The guidance describes three levels of inputs that may be used to measure fair value are as follows.

Level 1	Quoted prices in active markets for identical assets or liabilities
Level 2	Observable inputs other than Level 1 prices, such as 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 for substantially the full term of the assets or liabilities
Level 3	Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Level 1 inputs are considered to be the most transparent and reliable and Level 3 inputs are considered to be the least transparent and reliable. The Company assumes the use of the principal market to conduct a transaction of each particular asset or liability being measured and then considers the assumptions that market participants would use when pricing the asset or liability. Whenever possible, the Company first looks for quoted prices for identical assets or liabilities in active markets (Level 1 inputs) to value each asset or liability. However, when inputs from identical assets or liabilities on active markets are not available, the Company utilizes market observable data for similar assets and liabilities. The Company maximizes the use of observable inputs and limits the use of unobservable inputs to occasions when observable inputs are not available. The need to use unobservable inputs generally results from the lack of market liquidity of the actual financial instrument or of the underlying collateral. Although in some instances, third party price indications may be available, limited trading activity can challenge the observability of these quotations.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy.

Securities Available for Sale

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include U.S. Treasury securities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows and classified as Level 2 securities. Level 2 securities include mortgage-backed, states and political subdivisions, and other securities. Where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. Level 3 securities were immaterial at June 30, 2018 and September 30, 2017.

Interest Rate Swaps and Loans

Interest rate swaps are valued by the Company's Swap Dealers using cash flow valuation techniques with observable market data inputs. The fair value of loans accounted for under the fair value option represents the net carrying value of the loan, plus the equal and opposite amount of the value of the swap needed to hedge the interest rate risk and an adjustment for credit risk based on our assessment of existing market conditions for the specific portfolio of loans. This is used due to the strict prepayment penalties put in the loan terms to cover the cost of exiting the hedge of the loans in the case of early prepayment or termination. The adjustment for credit risk on loans accounted for under the fair value option is not significant to the overall fair value of the loans. The fair values estimated by the Company's Swap Dealers use interest rates that are observable or that can be corroborated by observable market data and, therefore, are classified within Level 2 of the valuation hierarchy. The Company has entered into Collateral Agreements with its Swap Dealers and Futures Clearing Merchant which entitle it to receive collateral to cover market values on derivatives which are in asset position, thus a credit risk adjustment on interest rate swaps is not warranted.

The Company regularly enters into interest rate lock commitments on mortgage loans to be held for sale with corresponding forward sales contracts related to these interest rate lock commitments, the fair values of which are calculated by applying observable market values from Fannie Mae TBA pricing to each interest rate lock commitment and forward sales contract, therefore, are classified within Level 2 of the valuation hierarchy. The Company also has back-to-back swaps with loan customers, with corresponding swaps with an outside third party in exact offsetting terms.

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The following table presents the fair value measurements of assets and liabilities recognized in the accompanying consolidated balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2018 and September 30, 2017.

	Fair Value	Level 1	Level 2	Level 3
	(dollars in thousands)			
As of June 30, 2018				
U.S. Treasury securities	$177,535	$177,535	$—	$—
Mortgage-backed securities	1,125,150	—	1,125,150	—
States and political subdivision securities	69,026	—	68,196	830
Other	1,000	—	1,000	—
Total securities available for sale	$1,372,711	$177,535	$1,194,346	$830
Derivatives-assets	$3,646	$—	$3,646	$—
Derivatives-liabilities	1,550	—	1,550	—
Fair value loans	888,247	—	888,247	—
As of September 30, 2017				
U.S. Treasury securities	$228,603	$228,603	$—	$—
Mortgage-backed securities	1,065,737	—	1,065,737	—
States and political subdivision securities	72,586	—	71,517	1,069
Other	1,034	—	1,034	—
Total securities available for sale	$1,367,960	$228,603	$1,138,288	$1,069
Derivatives-assets	$—	$—	$—	$—
Derivatives-liabilities	17,155	—	17,155	—
Fair value loans	1,016,576	—	1,016,576	—

The following table presents the changes in Level 3 financial instruments for the three and nine months ended June 30, 2018 and 2017.

	Three Months Ended		Nine Months Ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
	(dollars in thousands)			
Balance, beginning of period	$965	$1,224	$1,069	$1,315
Principal paydown	(135)	(155)	(239)	(246)
Balance, end of period	$830	$1,069	$830	$1,069

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value on a nonrecurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy.

Other Repossessed Property

Other repossessed property consists of loan collateral that has been repossessed through foreclosure. This collateral is comprised of commercial and residential real estate and other repossessed assets. Other repossessed property is recorded initially at fair value of the collateral less estimated selling costs. Subsequent to foreclosure, valuations are updated periodically, and the assets may be marked down further to fair value less selling costs, reflecting a valuation allowance. Fair value measurements may be based upon appraisals, third-party price opinions, or internally developed pricing methods. These measurements are classified as Level 3.

Impaired Loans (Collateral Dependent)

Loans for which it is probable that the Company will not collect all principal and interest due according to contractual terms are measured for impairment. Allowable methods for estimating fair value include using the fair value of the collateral for collateral dependent loans or, where a loan is determined not to be collateral dependent, using the discounted cash flow method.

If the impaired loan is identified as collateral dependent, then the fair value method of measuring the amount of the impairment is utilized. This method requires obtaining a current independent appraisal of the collateral and applying a discount factor,

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if necessary, to the appraised value and including costs to sell. Because many of these inputs are not observable, the measurements are classified as Level 3.

Mortgage Loans Held for Sale

Fair value of mortgage loans held for sale is based on either quoted prices for the same or similar loans, or values obtained from third parties, or are estimated for portfolios of loans with similar financial characteristics and are therefore considered a Level 2 valuation.

Loan Servicing Rights

Fair value is determined at a tranche level, based on market prices for comparable mortgage servicing contracts (Level 3), when available, or alternatively based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model utilizes interest rate, prepayment speed, and default rate assumptions that market participants would use in estimating future net servicing income and that can be validated against market data (Level 3).

Property Held for Sale

This real estate property is carried in premises and equipment as property held for sale at fair value based upon the transactional price if available, or the appraised value of the property.

The following tables present the fair value measurement of assets and liabilities measured at fair value on a nonrecurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2018 and September 30, 2017.

	Fair Value	Level 1	Level 2	Level 3
	(dollars in thousands)			
As of June 30, 2018				
Other repossessed property	$9,051	$ —	$ —	$9,051
Impaired loans	200,093	—	—	200,093
Loans held for sale, at lower of cost or fair value	6,805	—	6,805	—
Loan servicing rights	3,328	—	—	3,328
Property held for sale	1,107	—	—	1,107
As of September 30, 2017				
Other repossessed property	$7,728	$ —	$ —	$7,728
Impaired loans	185,388	—	—	185,388
Loans held for sale, at lower of cost or fair value	7,456	—	7,456	—
Loan servicing rights	4,074	—	—	4,074
Property held for sale	5,147	—	—	5,147

The valuation techniques and significant unobservable inputs used to measure Level 3 fair value measurements at June 30, 2018 were as follows.

Fair Value of Assets / (Liabilities) at June 30, 2018	Valuation Technique(s)	Unobservable Input	Range	Weighted Average
(dollars in thousands)				
$9,051	Appraisal value		N/A	N/A

Other repossessed property			Property specific adjustment		
Impaired loans	200,093	Appraisal value	Property specific adjustment	N/A	N/A
Loan servicing rights	3,328	Discounted cash flows	Constant prepayment rate Discount rate	7.9 - 20.2% 10.0 - 15.0%	10.4% 11.8%
Property held for sale	1,107	Appraisal value	Property specific adjustment	N/A	N/A

Disclosures about Fair Value of Financial Instruments

For financial instruments that have quoted market prices, those quotes are used to determine fair value. Financial instruments that have no defined maturity, have a remaining maturity of 180 days or less, or reprice frequently to a market rate are assumed to have a fair value that approximates carrying value, after taking into consideration any applicable credit risk. If no market quotes are available, financial instruments are valued by discounting the expected cash flows using an estimated current market interest rate for the financial instrument.

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The short maturity of the Company's assets and liabilities results in having a significant number of financial instruments whose fair value equals or closely approximates carrying value. Such financial instruments are reported in the following consolidated balance sheet categories: cash and cash equivalents, securities sold under agreements to repurchase, and accrued interest.
Fair value estimates are based on existing on and off-balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. Significant assets and liabilities that are not considered financial instruments include premises and equipment, deferred income taxes, goodwill, and core deposit and other intangibles. In addition, the tax ramifications related to the realization of unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in the estimates.
Off-balance sheet instruments (commitments to extend credit and standby letters of credit) are generally short-term and at variable rates. Therefore, both the carrying amount and the estimated fair value associated with these instruments are immaterial. Fair values for balance sheet instruments as of June 30, 2018 and September 30, 2017 are as follows.

		June 30, 2018		September 30, 2017	
	Level in Fair Value Hierarchy	Carrying Amount	Fair Value	Carrying Amount	Fair Value
		(dollars in thousands)			
Assets					
Cash and cash equivalents	Level 1	$294,614	$294,614	$360,396	$360,396
Loans, net excluding fair valued loans, loans held for sale and impaired loans	Level 3	8,219,986	8,102,174	7,881,018	7,798,134
Accrued interest receivable	Level 2	51,979	51,979	53,176	53,176
Cash surrender value of life insurance policies	Level 2	30,245	30,245	29,619	29,619
FHLB stock	Level 2	25,008	25,008	37,551	37,551
Liabilities					
Deposits	Level 2	$9,585,318	$9,585,693	$8,977,613	$8,978,926
FHLB advances and other borrowings	Level 2	335,000	336,094	643,214	645,421
Securities sold under repurchase agreements	Level 2	105,478	105,478	132,636	132,636
Accrued interest payable	Level 2	7,925	7,925	4,405	4,405
Subordinated debentures and subordinated notes payable	Level 2	108,426	107,824	108,302	108,293

The following methods and assumptions were used in estimating the fair value of financial instruments that were not previously disclosed.
Cash and cash equivalents: Due to the short term nature of cash and cash equivalents, the estimated fair value is equal to the carrying value and they are categorized as a Level 1 fair value measurement.
Loans, net excluding fair valued loans and loans held for sale: The fair value of the loan portfolio is estimated using observable inputs including estimated cash flows, and discount rates based on interest rates currently being offered for loans with similar terms, to borrowers of similar credit quality. Loans held for investment are categorized as a Level 3 fair value measurement.
Accrued interest receivable: Due to the nature of accrued interest receivable, the estimated fair value is equal to the carrying value and they are categorized as a Level 2 fair value measurement.
Cash Surrender Value of Life Insurance Policies: Fair value is equal to the cash surrender value of the life insurance policies and are categorized as Level 2 fair value measurement.
FHLB stock: The carrying amount of FHLB stock approximates its fair value as it can only be redeemed with the FHLB at par value. FHLB stock has been categorized as a Level 2 fair value measurement.

Deposits: The estimated fair value of deposits with no stated maturity, such as non-interest bearing demand deposits, savings, NOW, and money market accounts, is equal to the amount payable on demand. The fair value of interest-bearing time deposits is based on the discounted value of contractual cash flows of such deposits, taking into account the option for early withdrawal. The discount rate is estimated using the rates offered by the Company, at the respective measurement dates, for deposits of similar maturities. Deposits have been categorized as a Level 2 fair value measurement.
FHLB advances and other borrowings: The fair value of FHLB advances and other borrowings is estimated using discounted cash flow analysis, based on current incremental borrowing rates for similar types of borrowing arrangements. In the absence of a

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reasonably precise methodology to determine the fair value of the credit agreement, carrying value has been used to represent fair value. FHLB advances and other borrowings have been categorized as a Level 2 fair value measurement.

Securities sold under repurchase agreements: The Company’s repurchase agreements are overnight transactions that mature the day after the transaction, and as a result of this short-term nature, the estimated fair value equals the carrying value. Securities sold under repurchase agreements have been categorized as a Level 2 fair value measurement.

Accrued interest payable: Due to the nature of accrued interest payable, the estimated fair value is equal to the carrying value and they are categorized as a Level 2 fair value measurement.

Subordinated Debentures and Subordinated Notes Payable: The fair value of subordinated debentures and subordinated notes payable is estimated using discounted cash flow analysis, based on current incremental debt rates. Subordinated debentures and subordinated notes payable have been categorized as a Level 2 fair value measurement.

19. Earnings per Share

Basic earnings per common share is calculated by dividing net income available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per common share is calculated by dividing net income available to common shareholders by the weighted average number of common shares outstanding determined for the basic earnings per share calculation plus the dilutive effect of stock compensation using the treasury stock method.

The following information was used in the computation of basic and diluted earnings per share (EPS) for the three and nine months ended June 30, 2018 and 2017.

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2018	2017	2018	2017
	(dollars in thousands, except per share data)			
Net income	$45,874	$ 35,060	$115,636	$ 107,125
Weighted average common shares outstanding	58,948,944	58,790,314	58,930,963	58,776,546
Dilutive effect of stock based compensation	221,114	340,318	203,672	288,856
Weighted average common shares outstanding for diluted earnings per share calculation	59,170,058	59,130,632	59,134,635	59,065,402
Basic earnings per share	$0.78	$ 0.60	$1.96	$ 1.82
Diluted earnings per share	$0.78	$ 0.59	$1.96	$ 1.81

The Company had no shares of unvested performance stock as of June 30, 2018 and 2017 which were not included in the computation of diluted earnings per common share because performance conditions for vesting had not been met. The Company had no shares of anti-dilutive stock awards outstanding as of June 30, 2018 and 2017.

ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The historical consolidated financial data discussed below reflects our historical results of operations and financial condition and should be read in conjunction with our financial statements and related notes thereto presented elsewhere in this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K for the fiscal year ended September 30, 2017, previously filed with the SEC. In addition to historical financial data, this discussion includes certain forward-looking statements regarding events and trends that may affect our future results. Such statements are subject to risks and uncertainties that could cause our actual results to differ materially. See “Cautionary Note Regarding Forward-Looking Statements.” For a more complete discussion of the factors that could affect our future

results, see “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended September 30, 2017 and in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2018.
Any discrepancies included in this filing between totals and the sums of percentages and dollar amounts presented, or between rounded dollar amounts, are due to rounding.
Unless otherwise noted, references to "the current period" or "the current quarter" refer to the fiscal quarter ended June 30, 2018 and references to "the comparable period" or "the comparable quarter" refer to the fiscal quarter ended June 30, 2017.

Tax Equivalent Presentation

All references to net interest income, net interest margin, interest income on non ASC 310-30 loans, yield on non ASC 310-30 loans and the related non-GAAP adjusted measure of each item are presented on a fully-tax equivalent ("FTE") basis unless otherwise noted. In fiscal year 2018, the enacted Tax Reform Act reduced the federal tax rate for corporations from 35% to 21%. Because of the Company's September 30 fiscal year end, a blended statutory rate of 24.5% was applied to all FTE non-GAAP adjusted measures beginning December 31, 2017.

Overview

We are a full-service regional bank holding company focused on relationship-based business and agribusiness banking. We serve our customers through 173 branches in attractive markets in nine states: Arizona, Colorado, Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota and South Dakota.

Our bank was established more than 80 years ago and we have achieved strong market positions by developing and maintaining extensive local relationships in the communities we serve. By leveraging our business and agribusiness focus, presence in attractive markets, highly efficient operating model and robust approach to risk management, we have achieved significant and profitable growth—both organically and through disciplined acquisitions. We provide financial results based on a fiscal year ending September 30 as a single reportable segment.

The principal sources of our revenues and cash flows are: (i) interest and fees earned on loans made or held by our bank; (ii) interest on fixed income investments held by our bank; (iii) fees on wealth management services; (iv) service charges on deposit accounts maintained at our bank; (v) gain on the sale of loans held for sale (vi) gains on sales of securities; and (vii) merchant and card fees. Our principal expenses are: (i) interest expense on deposit accounts and other borrowings; (ii) salaries and employee benefits; (iii) data processing costs primarily associated with maintaining our bank's loan and deposit functions; (iv) occupancy expenses for maintaining our bank's facilities; (v) professional fees; (vi) business development; (vii) FDIC insurance assessments; and (viii) other real estate owned expenses. The largest component contributing to our net income is net interest income, which is the difference between interest earned on earning assets (primarily loans and investments) and interest paid on interest-bearing liabilities (primarily deposit accounts and other borrowings). One of management's principal functions is to manage the spread between interest earned on earning assets and interest paid on interest-bearing liabilities in an effort to maximize net interest income while maintaining an appropriate level of interest rate risk.

Due to the Tax Cuts and Jobs Act of 2017, a blended statutory federal tax rate of 24.5% was applied to net income before taxes generated during fiscal year 2018, compared to 35% for fiscal year 2017. The Company's tax equivalent adjustment to net interest income and net interest margin was $1.7 million and $4.9 million for the three and nine month periods ended June 30, 2018, compared to $2.2 million and $6.5 million for the prior comparable periods in fiscal year 2017, on a consistent asset base. This change reduced net interest margin and adjusted net interest margin by approximately 3 basis points for the three month period and 2 basis points for the nine month period ended June 30, 2018 and increased our efficiency ratio by a negligible amount for the same periods. For more information on our net interest margin, adjusted net interest margin and efficiency ratio, including a reconciliation to the most directly comparable GAAP financial measure, see "—Non-GAAP Financial Measures" section.

Correction of Prior Period Balances

The consolidated statements of income have been revised to correct an immaterial classification error in loan interest income and noninterest income related to credit card interchange income for all periods presented. The reclassification had no effect on net income, earnings per share, retained earnings or capital ratios for all periods presented; however, our net interest margin and adjusted net interest margin were reduced by six to eight basis points compared to what was originally reported for the prior comparable periods. Periods not presented herein will be revised, as applicable, as they are included in future filings. For more information on the reclassification of credit card interchange income, see "—Notes to the Consolidated Financial Statements, Nature of Operations and Summary of Significant Policies" section. For more information on our efficiency ratio, net interest margin and adjusted net interest margin, including a reconciliation to the most directly comparable GAAP financial measure, see "—Non-GAAP Financial Measures" section.

Highlights for the Three and Nine Months ended June 30, 2018

Net income was $45.9 million, or $0.78 per diluted share, for the third quarter of fiscal year 2018, compared to $35.1 million, or $0.59 per diluted share, for the third quarter of fiscal year 2017, an increase of $10.8 million, or 30.8%. Compared to the third quarter of fiscal year 2017, total revenue (non-FTE) for the third quarter of fiscal year 2018 grew by 8.2%, provision for loan and lease losses were reduced by 39.4% and noninterest expenses grew by 5.4%. Total revenue (non-FTE) is the sum of net interest income (non-FTE) and noninterest income. Net income was $115.6 million, or $1.96 per diluted share, for the first nine months of fiscal year 2018, compared to $107.1 million, or $1.81 per diluted share, for the same period in fiscal year 2017. Our efficiency ratio was reduced to 45.8% for the quarter ending June 30, 2018, from 46.7% for the quarter ending June 30, 2017. For more information on our efficiency ratio, including a reconciliation to the most directly comparable GAAP financial measure, see "—Non-GAAP Financial Measures" section.

Net interest margin, which measures our ability to maintain interest rates on interest earning assets above those of interest bearing liabilities, was 3.97%, 3.92% and 3.92%, respectively, for the quarters ended June 30, 2018, March 31, 2018 and June 30, 2017. Adjusted net interest margin, which reflects the realized gain (loss) on interest rate swaps, was 3.94%, 3.86% and 3.79%, respectively, for the same periods. We believe our adjusted net interest margin is more representative of our underlying performance and is the measure we use internally to evaluate our results. Net interest margin and adjusted net interest margin increased by 5 basis point and 15 basis points, respectively, compared to the same quarter in fiscal year 2017. Net interest margin increased between the two periods primarily due to a 32 basis point increase in the yield on interest-earning assets, driven by higher average loan balances as a proportion of interest earning assets and improving loan yields, offset by a 28 basis point increase in the cost of interest-bearing deposits and moderate increases in the cost of borrowings. A $2.5 million reduction in the current quarter of the cost of interest rate swaps compared to the same quarter in fiscal year 2017 is the primary driver of the more pronounced increase in adjusted net interest margin compared to net interest margin. For more information on our adjusted net interest margin, including a reconciliation to the most directly comparable GAAP financial measure, see "—Non-GAAP Financial Measures" section.

Total loans were $9.38 billion at June 30, 2018 compared to $8.97 billion at September 30, 2017. The net growth of $0.41 billion, or 4.6%, occurred primarily within the commercial real estate ("CRE") segment of the loan portfolio, which grew $0.40 billion, including strong growth in owner-occupied CRE and construction loans.

Deposits were $9.59 billion at June 30, 2018, an increase of $0.61 billion, or 6.8%, compared to $8.98 billion at September 30, 2017, which was primarily due to the increase in interest-bearing deposits of $0.67 billion, or 9.4%, which included a $0.29 billion increase in brokered deposits and a $0.22 billion increase in public deposits.

At June 30, 2018, loans graded "Watch" were $276.0 million, a decrease of $35.6 million, or 11.4%, compared to September 30, 2017 while loans graded "Substandard" were $268.0 million, an increase of $35.2 million, or 15.1%, over the same period. Nonaccrual loans, including ASC 310-30 loans, were $127.3 million as of June 30, 2018. Total nonaccrual loans decreased by $11.0 million compared to September 30, 2017, primarily driven by charge offs and transfers to other repossessed property. Total other repossessed property balances were $10.2 million as of June 30, 2018, an increase of $1.2 million, or 13.8%, compared to September 30, 2017 due to transfers into other repossessed property.

Provision for loan and lease losses was $3.5 million for the third quarter of fiscal year 2018, compared to $5.8 million for the same quarter of fiscal year 2017. The provision was lower due to a higher amount of specific reserve balances in the prior comparable quarter. Net charge-offs for the third quarter of fiscal year 2018 were $4.0 million, or 0.17% of average total loans on an annualized basis, with the majority of net charge-offs concentrated in the CRE and agricultural segments of the loan portfolio, bringing fiscal year-to-date net charge-offs to $11.8 million, or 0.17% of average total loans on an annualized basis. For the comparable periods in fiscal year 2017, net charge-offs were $4.3 million, or 0.20% of average total loans on an annualized basis for the third quarter of fiscal year 2017, bringing fiscal year-to-date net charge-offs to $17.3 million, or 0.27% of average total loans on an annualized basis. The ratio of ALLL to total loans was 0.69% at June 30, 2018, a decrease from 0.71% at September 30, 2017. The balance of the ALLL increased to $64.7 million at June 30, 2018 from $63.5 million at September 30, 2017.

Tier 1 capital, total capital and Tier 1 leverage ratios were 11.8%, 12.8% and 10.6%, respectively, at June 30, 2018, compared to 11.4%, 12.5% and 10.3%, respectively, at September 30, 2017. In addition, our Common Equity Tier 1

ratio was 11.0% and 10.7% at June 30, 2018 and September 30, 2017, respectively. Our tangible common equity to tangible assets ratio was 9.5% at June 30, 2018 and 9.2% at September 30, 2017. For more information on our tangible common equity to tangible assets ratio, including a reconciliation to the most directly comparable GAAP financial measure, see "—Non-GAAP Financial Measures" section.

Key Factors Affecting Our Business and Financial Statements

As discussed in our Annual Report on Form 10-K for the fiscal year ended September 30, 2017, our business, financial condition and results of operations are impacted by several key factors, including economic conditions, interest rates, asset quality, banking laws and regulations, competition, operational efficiency, goodwill and amortization of other intangible assets and loans and interest rate swaps accounted for at fair value. There have been no material changes to these factors except as otherwise supplemented within this Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2018 and within our Quarterly Report on Form 10-Q for the quarterly periods ended March 31, 2018 and December 31, 2017, respectively.

Results of Operations—Three and Nine Month Periods Ended June 30, 2018 and 2017

Overview

The following table highlights certain key financial and performance information for the three and nine month periods ended June 30, 2018 and 2017.

	Three Months Ended		Nine Months Ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
	(dollars in thousands, except share and per share amounts)			
Operating Data:				
Interest income (FTE)	$126,146	$110,713	$361,514	$327,929
Interest expense	19,745	11,671	50,756	31,928
Noninterest income	18,939	17,327	54,355	48,474
Noninterest expense	57,863	54,922	171,875	161,312
Provision for loan and lease losses	3,515	5,796	12,972	16,854
Net income	45,874	35,060	115,636	107,125
Adjusted net income [1]	45,874	35,060	129,222	107,565
Common shares outstanding	58,911,563	58,761,597	58,911,563	58,761,597
Weighted average diluted common shares outstanding	59,170,058	59,130,632	59,134,635	59,065,402
Earnings per common share - diluted	$0.78	$0.59	$1.96	$1.81
Adjusted earnings per common share - diluted [1]	0.78	0.59	2.19	1.82