

Great Western Bancorp, Inc.
Form 10-Q
February 12, 2015

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

Form 10-Q

(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934
For the quarterly period ended December 31, 2014
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

(State or other jurisdiction of
incorporation or organization)

47-1308512

(IRS Employer
Identification Number)

100 North Phillips Avenue

Sioux Falls, South Dakota

(Address of principal executive offices)

(605) 334-2548

Registrant's telephone number, including area code

57104

(Zip Code)

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

Title of Each Class

Common Stock, \$0.01 par value per share

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

None

Name of Each Exchange on Which Registered

New York Stock Exchange

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 ☒ No ☐

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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

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

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☒ Smaller reporting company
(Do not check if a smaller company) ☐

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

As of February 6, 2014, the number of shares of the registrant's Common Stock outstanding was 57,886,114.

GREAT WESTERN BANCORP, INC.

QUARTERLY REPORT ON FORM 10-Q

For the Three Months Ended December 31, 2014

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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” refer to:

Great Western Bancorporation, Inc., an Iowa corporation, and its consolidated subsidiaries, for all periods prior to the Formation Transactions; and

Great Western Bancorp, Inc., a Delaware corporation, and its consolidated subsidiaries, for all periods after the completion of the Formation Transactions;

“Great Western” refer to Great Western Bancorporation, Inc. but not its consolidated subsidiaries, for all periods prior to the Formation Transaction, and Great Western Bancorp, Inc. but not its consolidated subsidiaries, for all periods after the completion of the Formation Transaction;

our “bank” refer to Great Western Bank, a South Dakota banking corporation;

“NAB” refer to National Australia Bank Limited, an Australian public company and our controlling stockholder;

our “states” refer to the seven states (South Dakota, Iowa, Nebraska, Colorado, Arizona, Kansas and Missouri) in which we currently conduct our business;

our “footprint” refer to the geographic markets within our states in which we currently conduct our business; and

the “Formation Transactions” means a series of transactions completed on October 17, 2014 and undertaken in preparation for our initial public offering comprised of:

the cash contribution by National Americas Holdings LLC to Great Western Bancorp, Inc. in an amount equal to the total stockholder’s equity of Great Western Bancorporation, Inc.;

the sale by National Americas Investment, Inc. of all outstanding capital stock of Great Western Bancorporation, Inc. to Great Western Bancorp, Inc. for an amount in cash equal to the total stockholder’s equity of Great Western Bancorporation, Inc.; and

the merger of Great Western Bancorporation, Inc. with and into Great Western Bancorp, Inc., with Great Western Bancorp, Inc. continuing as the surviving corporation and succeeding to all the assets, liabilities and business of Great Western Bancorporation, Inc.

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 “may,” “might,” “should,” “could,” “predict,” “potential,” “believe,” “expect,” “continue,” “anticipate,” “seek,” “estimate,” “intend,” “plan,” “projection,” “would,” “annualized” and “outlook,” or the negative version of words or other comparable words or phrases of a future or forward-looking nature. These forward-looking 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 “Item 1A. Risk Factors” or “Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations” 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;
- changes in market interest rates;
- the geographic concentration of our operations, and our concentration on originating business and agribusiness loans;
- the relative strength or weakness of the agricultural and commercial credit sectors and of the real estate markets in the markets in which our borrowers are located;
- declines in the market prices for agricultural products;
- 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 loss;
- our ability to attract and retain skilled employees or changes in our management personnel;
- our ability to effectively compete with other financial services companies and the effects of competition in the financial services industry on our business;
- changes in the demand for our products and services;
- the effectiveness of our risk management and internal disclosure controls and procedures;
- fluctuations in the values of our assets and liabilities and off-balance sheet exposures;
- our ability to attract and retain customer deposits;
- 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;
- our ability to identify and address cyber-security risks;
- any failure or interruption of our information and communications systems;
- our ability to keep pace with technological changes;
- our ability to successfully develop and commercialize new or enhanced products and services;
- possible impairment of our goodwill and other intangible assets, or any adjustment of the valuation of our deferred tax assets;
- the effects of problems encountered by other financial institutions;
- the effects of geopolitical instability, including war, terrorist attacks, and man-made and natural disasters;
- the effects of the failure of any component of our business infrastructure provided by a third party;
- the impact of, and changes in applicable laws, regulations and accounting standards and policies;

- market perceptions associated with our separation from NAB and other aspects of our business;
- our likelihood of success in, and the impact of, litigation or regulatory actions;
- 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;
- the effect of NAB's control over us as a result of its continuing beneficial ownership of a majority of our outstanding common stock;
- the incremental costs of operating as a standalone public company;
- our ability to meet our obligations as a public company, including our obligations under Section 404 of the Sarbanes-Oxley Act of 2002;
- our ability to retain service providers to perform oversight or control functions or services that have otherwise been performed in the past by NAB; and
- damage to our reputation from any of the factors described above, in "Item 1A. Risk Factors" or in "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations."

The foregoing factors should not be considered an exhaustive list and should be read together with the other cautionary statements included in this Quarterly Report on Form 10-Q or our Annual Report on Form 10-K for the fiscal year ended September 30, 2014. 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, whether as a result of new information, future developments or otherwise.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

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GREAT WESTERN BANCORP, INC.

Consolidated Balance Sheets (Unaudited)

(In Thousands, Except Share and Per Share Data)

| | December 31, 2014 | September 30, 2014 |
|--|----------------------|-----------------------|
| Assets | | |
| Cash and due from banks | \$428,186 | \$256,639 |
| Securities | 1,263,983 | 1,341,242 |
| Investment in affiliates | 1,683 | 1,683 |
| Loans, net of allowance for loan losses of \$51,820 and \$47,518 at December 31, 2014 and September 30, 2014, respectively (includes \$195,545 and \$234,036 of loans covered by FDIC loss share agreements at December 31, 2014 and September 30, 2014, respectively, \$1,023,281 and \$985,411 of loans and written loan commitments at fair value under the fair value option at December 31, 2014 and September 30, 2014, respectively, and \$9,387 and \$10,381 of loans held for sale at December 31, 2014 and September 30, 2014, respectively) | 6,934,945 | 6,739,949 |
| Premises and equipment | 102,462 | 103,707 |
| Accrued interest receivable | 38,201 | 42,609 |
| Other repossessed property (includes \$10,602 and \$10,628 of property covered under FDIC loss share agreements at December 31, 2014 and September 30, 2014, respectively) | 43,442 | 49,580 |
| FDIC indemnification asset | 22,162 | 26,678 |
| Goodwill | 697,807 | 697,807 |
| Core deposits and other intangibles | 11,916 | 14,229 |
| Net deferred tax assets | 44,759 | 44,703 |
| Other assets | 51,715 | 52,603 |
| Total assets | \$9,641,261 | \$9,371,429 |
| Liabilities and stockholders' equity | | |
| Deposits: | | |
| Noninterest-bearing | \$1,381,887 | \$1,303,015 |
| Interest-bearing | 5,857,319 | 5,749,165 |
| Total deposits | 7,239,206 | 7,052,180 |
| Securities sold under agreements to repurchase | 190,585 | 161,687 |
| FHLB advances and other borrowings | 575,085 | 575,094 |
| Related party notes payable | 41,295 | 41,295 |
| Subordinated debentures | 56,083 | 56,083 |
| Fair value of derivatives | 32,409 | 13,092 |
| Accrued interest payable | 4,812 | 5,273 |
| Income tax payable | 12,563 | 4,915 |
| Accrued expenses and other liabilities | 37,853 | 40,720 |
| Total liabilities | 8,189,891 | 7,950,339 |
| Stockholders' equity | | |
| Common stock, \$0.01 par value, authorized 500,000,000 shares; issued and outstanding at December 31, 2014 and September 30, 2014 - 57,886,114 shares | 579 | 579 |
| Additional paid-in capital | 1,260,592 | 1,260,124 |
| Retained earnings | 193,241 | 166,544 |
| Accumulated other comprehensive income (loss) | (3,042) | (6,157) |
| Total stockholders' equity | 1,451,370 | 1,421,090 |
| Total liabilities and stockholders' equity | \$9,641,261 | \$9,371,429 |
| See accompanying notes. | | |

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GREAT WESTERN BANCORP, INC.

Consolidated Statements of Comprehensive Income (Unaudited)

(In Thousands, Except Share and Per Share Data)

| | Three Months Ended December 31, | |
|--|------------------------------------|----------|
| | 2014 | 2013 |
| Interest and dividend income | | |
| Loans | \$84,344 | \$81,403 |
| Taxable securities | 5,687 | 6,969 |
| Nontaxable securities | 13 | 14 |
| Dividends on securities | 250 | 201 |
| Federal funds sold and other | 284 | 184 |
| Total interest and dividend income | 90,578 | 88,771 |
| Interest expense | | |
| Deposits | 6,015 | 6,879 |
| Securities sold under agreements to repurchase | 146 | 146 |
| FHLB advances and other borrowings | 946 | 1,037 |
| Related party notes payable | 232 | 234 |
| Subordinated debentures and other | 330 | 334 |
| Total interest expense | 7,669 | 8,630 |
| Net interest income | 82,909 | 80,141 |
| Provision for loan losses | 3,319 | (875) |
| Net interest income after provision for loan losses | 79,590 | 81,016 |
| Noninterest income | | |
| Service charges and other fees | 10,398 | 10,662 |
| Net gain on sale of loans | 1,544 | 1,616 |
| Casualty insurance commissions | 316 | 258 |
| Investment center income | 573 | 591 |
| Net gain on sale of securities | 51 | — |
| Trust department income | 1,068 | 905 |
| Net increase (decrease) in fair value of loans at fair value | 17,100 | (9,110) |
| Net realized and unrealized gain (loss) on derivatives | (24,605) | 4,837 |
| Other | 1,455 | 1,067 |
| Total noninterest income | 7,900 | 10,826 |
| Noninterest expense | | |
| Salaries and employee benefits | 24,088 | 24,021 |
| Occupancy expenses, net | 4,024 | 4,233 |
| Data processing | 4,828 | 5,028 |
| Equipment expenses | 956 | 1,027 |
| Advertising | 728 | 1,084 |
| Communication expenses | 1,173 | 1,114 |
| Professional fees | 3,572 | 2,898 |
| Net (gain) loss from sale of repossessed property and other assets | (368) | (571) |
| Amortization of core deposits and other intangibles | 2,313 | 4,688 |

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| | | |
|--|------------|------------|
| Other | 5,777 | 4,777 |
| Total noninterest expense | 47,091 | 48,299 |
| Income before income taxes | 40,399 | 43,543 |
| Provision for income taxes | 13,702 | 14,939 |
| Net income | \$26,697 | \$28,604 |
| Other comprehensive income (loss)—change in net unrealized gain (loss) on securities available-for-sale (net of deferred income tax (expense) benefit of \$(1,909) and 3,955 at December 31, 2014 and 2013 respectively) | 3,115 | (6,454) |
| Comprehensive income | \$29,812 | \$22,150 |
| Earnings per common share | | |
| Weighted average shares outstanding | 57,895,783 | 57,886,114 |
| Earnings per share | \$0.46 | \$0.49 |
| Diluted earnings per common share | | |
| Weighted average shares outstanding | 57,895,783 | 57,886,114 |
| Diluted earnings per share | \$0.46 | \$0.49 |
| Dividends per share | | |
| Dividends issued | \$— | \$34,000 |
| Dividends per share | \$0.00 | \$0.59 |
| See accompanying notes. | | |

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GREAT WESTERN BANCORP, INC.

Consolidated Statement of Stockholders' Equity (Unaudited)

(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, 2013 | | \$579 | \$1,260,124 | \$163,592 | \$(7,081) | \$1,417,214 |
| Net income | \$28,604 | — | — | 28,604 | — | 28,604 |
| Other comprehensive income, net of tax: | | | | | | |
| Net change in net unrealized gain (loss) on securities available for sale | \$(6,454) | — | — | — | (6,454) | (6,454) |
| Comprehensive income | \$22,150 | — | — | — | — | — |
| Stock-based compensation | | — | — | — | — | — |
| Cash dividends declared: | | | | | | |
| Common stock, \$0.59 per share | | — | — | (34,000) | — | (34,000) |
| Balance, December 31, 2013 | | \$579 | \$1,260,124 | \$158,196 | \$(13,535) | \$1,405,364 |
| Balance, September 30, 2014 | | \$579 | \$1,260,124 | \$166,544 | \$(6,157) | \$1,421,090 |
| Net income | \$26,697 | — | — | 26,697 | — | 26,697 |
| Other comprehensive income, net of tax: | | | | | | |
| Net change in net unrealized gain (loss) on securities available for sale | \$3,115 | — | — | — | 3,115 | 3,115 |
| Comprehensive income | \$29,812 | — | 468 | — | — | 468 |
| Stock-based compensation | | — | 468 | — | — | 468 |
| Cash dividends declared: | | | | | | |
| Common stock, \$0 per share | | — | — | — | — | — |
| Balance, December 31, 2014 | | \$579 | \$1,260,592 | \$193,241 | \$(3,042) | \$1,451,370 |

See accompanying notes.

GREAT WESTERN BANCORP, INC.

Consolidated Statements of Cash Flows (Unaudited)

(In Thousands)

| | Three Months Ended | |
|---|----------------------|----------------------|
| | December 31, 2014 | December 31, 2013 |
| Operating activities | | |
| Net income | \$26,697 | \$28,604 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 6,258 | 9,861 |
| Net gain on sale of securities | (51) |) — |
| Net gain on sale of loans | (1,544) |) (1,616) |
| Net (gain) loss on sale of premises and equipment | (7) |) 292 |
| Net gain from sale of repossessed property and other assets | (368) |) (571) |
| Provision for loan losses | 3,319 | (875) |
| Provision for repossessed assets | 2,110 | 534 |
| Proceeds from FDIC indemnification claims | 1,635 | 633 |
| Stock-based compensation | 468 | — |
| Originations of residential real estate loans held-for-sale | (63,298) |) (54,667) |
| Proceeds from sales of residential real estate loans held-for-sale | 65,836 | 55,810 |
| Net deferred income taxes | (1,964) |) (3,697) |
| Changes in: | | |
| Accrued interest receivable | 4,408 | 3,443 |
| Other assets | 833 | 1,475 |
| FDIC indemnification asset | 2,881 | 3,300 |
| FDIC clawback liability | 221 | 143 |
| Accrued interest payable and other liabilities | 23,416 | (7,851) |
| Net cash provided by operating activities | 70,850 | 34,818 |
| Investing activities | | |
| Purchase of securities available for sale | (48,539) |) — |
| Proceeds from sales and maturities of securities available for sale | 129,116 | 84,323 |
| Net increase in loans | (200,677) |) (121,735) |
| Purchase of premises and equipment | (942) |) (442) |
| Proceeds from sale of premises and equipment | 6 | 426 |
| Proceeds from sale of other assets | 5,765 | 2,801 |
| Redemption of FHLB stock | 53 | 2,061 |
| Net cash used in investing activities | (115,218) |) (32,566) |
| Financing activities | | |
| Net increase in deposits | 187,026 | 237,430 |
| Net increase (decrease) in securities sold under agreements to repurchase | 28,898 | (29,163) |
| Net decrease in FHLB advances and other borrowings | (9) |) (50,503) |
| Dividends paid | — | (34,000) |
| Net cash provided by financing activities | 215,915 | 123,764 |
| Net increase in cash and due from banks | 171,547 | 126,016 |
| Cash and due from banks, beginning of period | 256,639 | 282,157 |
| Cash and due from banks, end of period | \$428,186 | \$408,173 |
| Supplemental disclosures of cash flows information | | |
| Cash payments for interest | \$8,129 | \$8,919 |
| Cash payments for income taxes | \$8,758 | \$15,681 |
| Supplemental schedules of noncash investing and financing activities | | |

| | | |
|--|---------|---------|
| Loans transferred to repossessed assets and other assets | \$1,369 | \$1,932 |
| See accompanying notes. | | |

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GREAT WESTERN BANCORP, INC.

Notes to Consolidated Financial Statements (Unaudited)

1. Basis of Presentation

Great Western Bancorp, Inc. (the "Company") is a bank holding company organized under the laws of Delaware. 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 agribusiness banking in Arizona, Colorado, Iowa, Kansas, Missouri, Nebraska, 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. The Company was a majority owned indirect subsidiary of National Australia Bank Limited ("NAB") at December 31, 2014.

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 other than the reclassifications outlined below.

The unaudited interim consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ending September 30, 2014, 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 in the consolidated financial statements and accompanying notes. Actual results could differ from these estimates.

The Company has evaluated all events or transactions that occurred through the date the Company issued these financial statements. During this period, the Company did not have any material recognizable or non-recognizable subsequent events other than outlined below.

On January 28, 2015, the board of directors of the Company declared a dividend of \$0.12 per common share payable on February 23, 2015 to owners of record as of close of business on February 12, 2015.

Changes in the Presentation of Results for Loans at Fair Value and Related Derivatives

In the normal course of business, the Company manages interest rate risk by entering into fixed-to-floating interest rate swaps related to all fixed-rate loans with original terms longer than five years. The Company has elected to account for these loans using the Fair Value Option. During the first quarter of fiscal year 2015, the Company identified an immaterial error in its reporting of one aspect of the derivatives related to these loans and also elected to change the presentation of the reported changes in fair value of these loans and related derivatives, each as discussed below. The Company's previous consolidated financial statements have been corrected or reclassified, as appropriate, to be consistent with the accompanying unaudited consolidated financial statements.

During the first quarter of fiscal year 2015, the Company identified that the current realized gain (loss) on the derivatives related to fair value loans has been improperly recorded as loan interest income instead of being presented in the same line item as the unrealized gain (loss) on the derivatives. As such, the realized gain (loss) on the derivatives related to fair value loans has been moved from loan interest income to "Net realized and unrealized gain (loss) on derivatives" within noninterest income. The Company has determined these corrections to be immaterial to the prior period financial statements and there was no effect on net income, equity or cash flows. The following table reflects the impact of the matter described above on previously filed financial statements:

GREAT WESTERN BANCORP, INC.

Notes to Consolidated Financial Statements (Unaudited)

| | Previously Reported Interest Income | Currently Reported Noninterest Income |
|--|--|--|
| Twelve months ended September 30, 2014 | | |
| Realized gain (loss) on derivatives | \$(18,255) | \$(18,255) |
| Twelve months ended September 30, 2013 | | |
| Realized gain (loss) on derivatives | \$(14,217) | \$(14,217) |
| Twelve months ended September 30, 2012 | | |
| Realized gain (loss) on derivatives | \$(9,931) | \$(9,931) |

Additionally, the Company previously reported the changes in fair value of these loans related to both interest rates and credit quality in interest income and the Company presented the changes in fair value of the derivatives in noninterest expense. Changes in fair value related to interest rates on the loans and changes in fair value of the derivatives were completely offset in any reporting period. To improve the clarity and comparability of its financial statements, the Company has elected to change its presentation of the changes in fair value related to these loans and derivatives by presenting these changes in two separate line items in noninterest income. As such, changes in fair value related to these loans, both related to interest rates and credit quality, is presented in "Net increase (decrease) in fair value of loans at fair value" within noninterest income, and changes in fair value related to these derivatives is presented in "Net realized and unrealized gain (loss) on derivatives" within noninterest income. The following table reflects the impact of the matter described above on previously filed financial statements:

| | Previously Reported | | Currently Reported | |
|--|---------------------|------------------------|--------------------|-------------|
| | Interest Income | Noninterest Expense | Noninterest Income | |
| Twelve months ended September 30, 2014 | | | | |
| Unrealized gain (loss) on derivatives | \$— | \$ 11,922 | \$— | \$ 11,922 |
| Loan fair value change related to interest rates | (11,922) | — | (11,922) | — |
| Loan fair value change related to credit quality | 18 | — | 18 | — |
| | \$(11,904) | \$ 11,922 | \$(11,904) | \$ 11,922 |
| Twelve months ended September 30, 2013 | | | | |
| Unrealized gain (loss) on derivatives | \$— | \$(40,305) | \$— | \$(40,305) |
| Loan fair value change related to interest rates | 40,305 | — | 40,305 | — |
| Loan fair value change related to credit quality | 855 | — | 855 | — |
| | \$41,160 | \$(40,305) | \$41,160 | \$(40,305) |
| Twelve months ended September 30, 2012 | | | | |
| Unrealized gain (loss) on derivatives | \$— | \$ 19,369 | \$— | \$ 19,369 |
| Loan fair value change related to interest rates | (19,369) | — | (19,369) | — |
| Loan fair value change related to credit quality | 4,276 | — | 4,276 | — |
| | \$(15,093) | \$ 19,369 | \$(15,093) | \$ 19,369 |

2. New Accounting Pronouncements

There have been no new applicable accounting pronouncements issued during the three months ended December 31, 2014.

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3. Restrictions on Cash and Due from Banks

The Company is required to maintain reserve balances in cash and on deposit with the Federal Reserve based on a percentage of deposits. The total requirement was approximately \$41.9 million and \$50.4 million at December 31, 2014 and September 30, 2014, respectively.

4. Securities

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 (in thousands):

| | Amortized | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|-------------|------------------------------|-------------------------------|-------------|
| As of December 31, 2014 | | | | |
| U.S. Treasury securities | \$271,551 | \$1,027 | \$— | \$272,578 |
| Mortgage-backed securities: | | | | |
| Government National Mortgage Association | 989,204 | 3,307 | (9,409) | 983,102 |
| States and political subdivision securities | 2,117 | 1 | — | 2,118 |
| Corporate debt securities | 4,996 | 145 | — | 5,141 |
| Other | 1,006 | 38 | — | 1,044 |
| | \$1,268,874 | \$4,518 | \$ (9,409) | \$1,263,983 |

| | Amortized | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|-------------|------------------------------|-------------------------------|-------------|
| As of September 30, 2014 | | | | |
| U.S. Treasury securities | \$222,868 | \$31 | \$ (174) | \$222,725 |
| Mortgage-backed securities: | | | | |
| Government National Mortgage Association | 1,113,363 | 4,639 | (14,587) | 1,103,415 |
| States and political subdivision securities | 2,188 | 1 | — | 2,189 |
| Corporate debt securities | 11,732 | 141 | — | 11,873 |
| Other | 1,006 | 34 | — | 1,040 |
| | \$1,351,157 | \$4,846 | \$ (14,761) | \$1,341,242 |

The amortized cost and approximate fair value of debt securities available for sale as of December 31, 2014 and September 30, 2014, 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 any penalties.

| | December 31, 2014 | | September 30, 2014 | |
|---|-------------------|-------------|--------------------|-------------|
| (In Thousands) | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| Due in one year or less | \$470 | \$470 | \$7,207 | \$7,218 |
| Due after one year through five years | 247,796 | 248,733 | 223,282 | 223,140 |
| Due after five years through ten years | 30,398 | 30,634 | 6,299 | 6,429 |
| | 278,664 | 279,837 | 236,788 | 236,787 |
| Mortgage-backed securities | 989,204 | 983,102 | 1,113,363 | 1,103,415 |
| Securities without contractual maturities | 1,006 | 1,044 | 1,006 | 1,040 |
| | \$1,268,874 | \$1,263,983 | \$1,351,157 | \$1,341,242 |

GREAT WESTERN BANCORP, INC.

Notes to Consolidated Financial Statements (Unaudited)

Proceeds from sales of securities available for sale were \$55.1 million and \$0.2 million for the three months ended December 31, 2014 and 2013, respectively. Gross gains of \$0.6 million and \$0 and gross losses of \$0.5 million and \$0 were realized on the sales for the three months ended December 31, 2014 and 2013, respectively, using the specific identification method.

Securities with a carrying value of approximately \$1,161.7 million and \$1,132.3 million at December 31, 2014 and September 30, 2014, respectively, were pledged as collateral on public deposits, securities sold under agreements to repurchase, and for other purposes as required or permitted by 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 52% and 64% of the Company's investment portfolio at December 31, 2014 and September 30, 2014, 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 that 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 December 31, 2014 or September 30, 2014. For the three months ended December 31, 2014 and 2013, the Company did not recognize any other-than-temporary impairment.

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 (in thousands):

| | Less than 12 months | | December 31, 2014 12 months or more | | Total | |
|----------------------------|---------------------|------------|---|-------------|------------|-------------|
| | Fair Value | Unrealized | Fair Value | Unrealized | Fair Value | Unrealized |
| U.S. Treasury securities | \$— | \$— | \$— | \$— | \$— | \$— |
| Mortgage-backed securities | 68 | — | 656,512 | (9,409) | 656,580 | (9,409) |
| Corporate debt securities | — | — | — | — | — | — |
| Other | — | — | — | — | — | — |
| | \$68 | \$— | \$656,512 | \$(9,409) | \$656,580 | \$(9,409) |
| | Less than 12 months | | September 30, 2014 12 months or more | | Total | |
| | Fair Value | Unrealized | Fair Value | Unrealized | Fair Value | Unrealized |
| U.S. Treasury securities | \$98,344 | \$(174) | \$— | \$— | \$98,344 | \$(174) |
| Mortgage-backed securities | 24,625 | (125) | 730,171 | (14,462) | 754,796 | (14,587) |
| Corporate debt securities | — | — | — | — | — | — |
| Other | — | — | — | — | — | — |
| | \$122,969 | \$(299) | \$730,171 | \$(14,462) | \$853,140 | \$(14,761) |

The Company's investments in nonmarketable equity securities are all stock of the Federal Home Loan Bank ("FHLB"). The carrying value of Federal Home Loan Bank stock was \$35.9 million and \$35.9 million as of December 31, 2014 and September 30, 2014, respectively, and is reported in other assets on the consolidated balance sheets. No indicators of impairment related to FHLB stock were identified during three months ended December 31, 2014 and 2013.

GREAT WESTERN BANCORP, INC.

Notes to Consolidated Financial Statements (Unaudited)

The components of other comprehensive income from net unrealized gains (losses) on securities available for sale for the three months ended December 31, 2014 and 2013 are as follows (in thousands):

| | Three Months Ended December 31, | |
|---|------------------------------------|--------------|
| | 2014 | 2013 |
| Beginning balance accumulated other comprehensive income (loss) | \$ (6,157) | \$ (7,081) |
| Net unrealized holding gain (loss) arising during the period | 4,973 | (10,409) |
| Reclassification adjustment for net gain realized in net income | 51 | — |
| Net change in unrealized gain (loss) before income taxes | 5,024 | (10,409) |
| Income tax (expense) benefit | (1,909) | 3,955 |
| Net change in unrealized (loss) gain on securities after taxes | 3,115 | (6,454) |
| Ending balance accumulated other comprehensive income (loss) | \$ (3,042) | \$ (13,535) |

5. Loans

The composition of net loans as of December 31, 2014 and September 30, 2014, is as follows (in thousands):

| | December 31, 2014 | September 30, 2014 |
|---|----------------------|-----------------------|
| Residential real estate | \$910,406 | \$901,605 |
| Commercial real estate | 2,645,721 | 2,541,194 |
| Commercial non real estate | 1,551,607 | 1,571,640 |
| Agriculture | 1,788,028 | 1,681,209 |
| Consumer | 85,822 | 90,086 |
| Other | 35,311 | 34,243 |
| | 7,016,895 | 6,819,977 |
| Less: | | |
| Allowance for loan losses | (51,820) | (47,518) |
| Unamortized discount on acquired loans | (23,321) | (25,638) |
| Unearned net deferred fees and costs and loans in process | (6,809) | (6,872) |
| | \$6,934,945 | \$6,739,949 |

The loan breakouts above include loans covered by FDIC loss sharing agreements totaling \$195.5 million and \$234.0 million as of December 31, 2014 and September 30, 2014, respectively, residential real estate loans held for sale totaling \$9.4 million and \$10.4 million at December 31, 2014 and September 30, 2014, respectively, and \$1,023.3 million and \$985.4 million of loans and written loan commitments accounted for at fair value as of December 31, 2014 and September 30, 2014, respectively.

Unamortized net deferred fees and costs totaled \$6.8 million and \$6.3 million as of December 31, 2014 and September 30, 2014, 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 \$0 and \$0.6 million as of December 31, 2014 and September 30, 2014, respectively.

Loans guaranteed by agencies of the U.S. government totaled \$101.9 million and \$106.5 million at December 31, 2014 and September 30, 2014, respectively.

GREAT WESTERN BANCORP, INC.

Notes to Consolidated Financial Statements (Unaudited)

Principal balances of residential real estate loans sold totaled \$64.3 million and \$54.2 million for the three months ended December 31, 2014 and 2013, respectively.

The following table presents the Company's nonaccrual loans at December 31, 2014 and September 30, 2014 (in thousands), excluding loans covered under the FDIC loss-sharing agreements. Loans greater than 90 days past due and still accruing interest as of December 31, 2014 and September 30, 2014, were not significant.

| Nonaccrual loans | December 31, 2014 | September 30, 2014 |
|----------------------------|----------------------|-----------------------|
| Residential real estate | \$7,269 | \$6,671 |
| Commercial real estate | 10,638 | 20,767 |
| Commercial non real estate | 10,630 | 4,908 |
| Agriculture | 10,342 | 11,453 |
| Consumer | 104 | 146 |
| Total | \$38,983 | \$43,945 |

The following table (in thousands) presents the Company's past due loans at December 31, 2014 and September 30, 2014. 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 \$1,023.3 million for December 31, 2014 and \$985.4 million for September 30, 2014.

| As of December 31, 2014 | 30-59 Days Past Due | 60-89 Days Past Due | Greater Than 90 Days | Total Past Due | Current | Total Financing Receivables |
|--|------------------------|------------------------|-------------------------|-------------------|-------------|-----------------------------------|
| Residential real estate | \$3,652 | \$543 | \$3,368 | \$7,563 | \$773,471 | \$781,034 |
| Commercial real estate | 1,860 | 3,632 | 4,636 | 10,128 | 2,256,815 | 2,266,943 |
| Commercial non real estate | 1,586 | 2,146 | 8,043 | 11,775 | 1,120,734 | 1,132,509 |
| Agriculture | 4,036 | — | 3,673 | 7,709 | 1,465,574 | 1,473,283 |
| Consumer | 205 | 108 | 28 | 341 | 85,327 | 85,668 |
| Other | — | — | — | — | 35,311 | 35,311 |
| | 11,339 | 6,429 | 19,748 | 37,516 | 5,737,232 | 5,774,748 |
| Loans covered by FDIC loss sharing agreements | 4,760 | 1,879 | 3,315 | 9,954 | 185,591 | 195,545 |
| Total | \$16,099 | \$8,308 | \$23,063 | \$47,470 | \$5,922,823 | \$5,970,293 |

| As of September 30, 2014 | 30-59 Days Past Due | 60-89 Days Past Due | Greater Than 90 Days | Total Past Due | Current | Total Financing Receivables |
|--|------------------------|------------------------|-------------------------|-------------------|-------------|-----------------------------------|
| Residential real estate | \$675 | \$611 | \$2,581 | \$3,867 | \$760,887 | \$764,754 |
| Commercial real estate | 11,050 | 819 | 3,384 | 15,253 | 1,988,585 | 2,003,838 |
| Commercial non real estate | 1,761 | 6,228 | 744 | 8,733 | 1,303,925 | 1,312,658 |
| Agriculture | 16 | 368 | 4,205 | 4,589 | 1,364,960 | 1,369,549 |
| Consumer | 244 | 18 | 49 | 311 | 89,528 | 89,839 |
| Other | — | — | — | — | 34,243 | 34,243 |
| | 13,746 | 8,044 | 10,963 | 32,753 | 5,542,128 | 5,574,881 |
| Loans covered by FDIC loss sharing agreements | 1,960 | 1,252 | 3,728 | 6,940 | 227,096 | 234,036 |
| Total | \$15,706 | \$9,296 | \$14,691 | \$39,693 | \$5,769,224 | \$5,808,917 |

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GREAT WESTERN BANCORP, INC.

Notes to Consolidated Financial Statements (Unaudited)

The composition of the loan portfolio by internally assigned grade is as follows as of December 31, 2014 and September 30, 2014. This table (in thousands) 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 \$1,023.3 million for December 31, 2014 and \$985.4 million for September 30, 2014:

| As of December 31, 2014 | Residential Real Estate | Commercial Real Estate | Commercial Non Real Estate | Agriculture | Consumer | Other | Total |
|---|----------------------------|---------------------------|----------------------------------|-------------|----------|----------|-------------|
| Credit Risk Profile by Internally Assigned Grade: | | | | | | | |
| Pass | \$764,217 | \$2,129,884 | \$1,021,994 | \$1,314,547 | \$85,082 | \$35,311 | \$5,351,035 |
| Watchlist | 4,548 | 70,965 | 73,936 | 125,659 | 365 | — | 275,473 |
| Substandard | 11,717 | 65,984 | 34,884 | 33,042 | 221 | — | 145,848 |
| Doubtful | 552 | 110 | 1,514 | 35 | — | — | 2,211 |
| Loss | — | — | 181 | — | — | — | 181 |
| Ending balance | 781,034 | 2,266,943 | 1,132,509 | 1,473,283 | 85,668 | 35,311 | 5,774,748 |
| Loans covered by FDIC loss sharing agreements | 119,894 | 66,264 | 7,460 | 1,874 | 53 | — | 195,545 |
| Total | \$900,928 | \$2,333,207 | \$1,139,969 | \$1,475,157 | \$85,721 | \$35,311 | \$5,970,293 |
| As of September 30, 2014 | Residential Real Estate | Commercial Real Estate | Commercial Non Real Estate | Agriculture | Consumer | Other | Total |
| Credit Risk Profile by Internally Assigned Grade: | | | | | | | |
| Pass | \$747,485 | \$1,867,866 | \$1,218,558 | \$1,202,145 | \$89,197 | \$34,243 | \$5,159,494 |
| Watchlist | 5,320 | 84,132 | 65,628 | 132,262 | 381 | — | 287,723 |
| Substandard | 11,290 | 51,692 | 27,499 | 35,107 | 242 | — | 125,830 |
| Doubtful | 659 | 148 | 798 | 35 | 19 | — | 1,659 |
| Loss | — | — | 175 | — | — | — | 175 |
| Ending balance | 764,754 | 2,003,838 | 1,312,658 | 1,369,549 | 89,839 | 34,243 | 5,574,881 |
| Loans covered by FDIC loss sharing agreements | 127,115 | 95,467 | 9,390 | 2,004 | 60 | — | 234,036 |
| Total | \$891,869 | \$2,099,305 | \$1,322,048 | \$1,371,553 | \$89,899 | \$34,243 | \$5,808,917 |

GREAT WESTERN BANCORP, INC.

Notes to Consolidated Financial Statements (Unaudited)

Impaired Loans

The following table presents the Company's impaired loans (in thousands). This table excludes loans covered by FDIC loss sharing agreements:

| | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment |
|-----------------------------|------------------------|--------------------------------|----------------------|-----------------------------------|
| As of December 31, 2014 | | | | |
| Impaired loans: | | | | |
| With an allowance recorded: | | | | |
| Residential real estate | \$12,425 | \$12,483 | \$2,419 | \$12,266 |
| Commercial real estate | 76,250 | 76,332 | 2,846 | 69,203 |
| Commercial non real estate | 39,110 | 39,194 | 8,828 | 35,816 |
| Agriculture | 34,080 | 34,077 | 955 | 34,804 |
| Consumer | 223 | 261 | 42 | 251 |
| | \$162,088 | \$162,347 | \$15,090 | \$152,340 |
| As of September 30, 2014 | | | | |
| Impaired loans: | | | | |
| With an allowance recorded: | | | | |
| Residential real estate | \$12,107 | \$12,737 | \$2,529 | \$13,572 |
| Commercial real estate | 62,155 | 64,597 | 2,017 | 84,490 |
| Commercial non real estate | 32,522 | 37,882 | 3,927 | 31,827 |
| Agriculture | 35,528 | 37,958 | 1,155 | 30,546 |
| Consumer | 280 | 491 | 51 | 346 |
| | \$142,592 | \$153,665 | \$9,679 | \$160,781 |

There are no impaired loans without a valuation allowance, other than those loans for which the Company has claim to collateral with value(s) in excess of the outstanding loan amount, after allowing for the cost of liquidating the collateral as of December 31, 2014. There were no impaired loans without a valuation allowance as of September 30, 2014. Interest income recognized on impaired loans was \$3.1 million and \$1.2 million for the three months ended December 31, 2014 and 2013, respectively.

Valuation adjustments made to repossessed properties for the three months ended December 31, 2014 and 2013, totaled \$2.1 million and \$0.5 million, respectively, and are included in other noninterest expense.

Troubled Debt Restructured Loans

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 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 losses for TDRs were \$2.1 million and \$3.2 million at December 31, 2014 and September 30, 2014, respectively. Commitments to lend additional funds to borrowers whose loans were modified in a TDR were not significant as of December 31, 2014 or September 30, 2014.

GREAT WESTERN BANCORP, INC.

Notes to Consolidated Financial Statements (Unaudited)

The following table presents the recorded value of the Company's TDR balances as of December 31, 2014 and September 30, 2014 (in thousands):

| | December 31, 2014 | | September 30, 2014 | |
|----------------------------|-------------------|------------|--------------------|------------|
| | Accruing | Nonaccrual | Accruing | Nonaccrual |
| Residential real estate | \$723 | \$1,947 | \$1,112 | \$1,730 |
| Commercial real estate | 41,114 | 6,638 | 25,177 | 6,884 |
| Commercial non real estate | 7,561 | 1,468 | 6,753 | 1,785 |
| Agriculture | 3,731 | 9,708 | 3,780 | 9,994 |
| Consumer | 17 | 17 | 35 | 22 |
| Total | \$53,146 | \$19,778 | \$36,857 | \$20,415 |

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GREAT WESTERN BANCORP, INC.

Notes to Consolidated Financial Statements (Unaudited)

The following table presents a summary of all accruing loans restructured in TDRs during the three months ended December 31, 2014 and 2013:

| (\$ in thousands) | Three Months Ended December 31, 2014 | | | 2013 | | |
|--|---|---|-----------------------|--------|---|-----------------------|
| | Number | Recorded Investment Pre- Modification | Post- Modification | Number | Recorded Investment Pre- Modification | Post- Modification |
| Residential real estate | | | | | | |
| Rate modification | — | \$— | \$— | — | \$— | \$— |
| Term extension | — | — | — | 2 | 74 | 74 |
| Payment modification | — | — | — | 1 | 15 | 15 |
| Bankruptcy | — | — | — | 1 | 130 | 130 |
| Other | — | — | — | — | — | — |
| Total residential real estate | — | — | — | 4 | 219 | 219 |
| Commercial real estate | | | | | | |
| Rate modification | — | — | — | — | — | — |
| Term extension | — | — | — | — | — | — |
| Payment modification | 2 | 18,881 | 18,881 | 1 | 1,070 | 1,070 |
| Bankruptcy | — | — | — | — | — | — |
| Other | — | — | — | — | — | — |
| Total commercial real estate | 2 | 18,881 | 18,881 | 1 | 1,070 | 1,070 |
| Commercial non real estate | | | | | | |
| Rate modification | 1 | 32 | 32 | 2 | 500 | 500 |
| Term extension | — | — | — | 3 | 1,699 | 1,699 |
| Payment modification | 1 | 1,824 | 1,824 | 2 | 668 | 668 |
| Bankruptcy | — | — | — | — | — | — |
| Other | — | — | — | — | — | — |
| Total commercial non real estate | 2 | 1,856 | 1,856 | 7 | 2,867 | 2,867 |
| Agriculture | | | | | | |
| Rate modification | — | — | — | — | — | — |
| Term extension | — | — | — | — | — | — |
| Payment modification | — | — | — | — | — | — |
| Bankruptcy | — | — | — | — | — | — |
| Other | — | — | — | — | — | — |
| Total agriculture | — | — | — | — | — | — |
| Consumer | | | | | | |
| Rate modification | — | — | — | — | — | — |
| Term extension | — | — | — | — | — | — |
| Payment modification | — | — | — | — | — | — |
| Bankruptcy | — | — | — | — | — | — |
| Other | — | — | — | 1 | 10 | 10 |
| Total consumer | — | — | — | 1 | 10 | 10 |
| Total accruing | 4 | \$20,737 | \$ 20,737 | 13 | \$4,166 | \$ 4,166 |
| Change in recorded investment due to principal paydown at time of | — | — | — | — | — | — |

modification

Change in recorded investment due to
chargeoffs at time of modification

— — — — — —

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GREAT WESTERN BANCORP, INC.

Notes to Consolidated Financial Statements (Unaudited)

The following table presents a summary of all non-accruing loans restructured in TDRs during the three months ended December 31, 2014 and 2013:

| (\$ in thousands) | Three Months Ended December 31, 2014 | | | 2013 | | |
|--|---|---|-----------------------|--------|---|-----------------------|
| | Number | Recorded Investment Pre- Modification | Post- Modification | Number | Recorded Investment Pre- Modification | Post- Modification |
| Residential real estate | | | | | | |
| Rate modification | — | \$— | \$ — | — | \$— | \$ — |
| Term extension | — | — | — | 1 | 2 | 2 |
| Payment modification | — | — | — | — | — | — |
| Bankruptcy | — | — | — | 1 | 4 | 4 |
| Other | — | — | — | 1 | 38 | 38 |
| Total residential real estate | — | — | — | 3 | 44 | 44 |
| Commercial real estate | | | | | | |
| Rate modification | — | — | — | — | — | — |
| Term extension | — | — | — | — | — | — |
| Payment modification | — | — | — | — | — | — |
| Bankruptcy | — | — | — | — | — | — |
| Other | — | — | — | — | — | — |
| Total commercial real estate | — | — | — | — | — | — |
| Commercial Non Real Estate | | | | | | |
| Rate modification | — | — | — | — | — | — |
| Term extension | — | — | — | 8 | 125 | 125 |
| Payment modification | — | — | — | — | — | — |
| Bankruptcy | — | — | — | — | — | — |
| Other | — | — | — | — | — | — |
| Total commercial non real estate | — | — | — | 8 | 125 | 125 |
| Agriculture | | | | | | |
| Rate modification | — | — | — | — | — | — |
| Term extension | — | — | — | — | — | — |
| Payment modification | — | — | — | — | — | — |
| Bankruptcy | — | — | — | — | — | — |
| Other | — | — | — | — | — | — |
| Total agriculture | — | — | — | — | — | — |
| Consumer | | | | | | |
| Rate modification | — | — | — | — | — | — |
| Term extension | — | — | — | 1 | 11 | 11 |
| Payment modification | — | — | — | — | — | — |
| Bankruptcy | — | — | — | — | — | — |
| Other | — | — | — | 1 | 1 | 1 |
| Total consumer | — | — | — | 2 | 12 | 12 |
| Total non-accruing | — | \$— | \$ — | 13 | \$181 | \$ 181 |
| Change in recorded investment due to principal paydown at time of modification | — | — | — | — | — | — |
| | — | — | — | — | — | — |

Change in recorded investment due to
chargeoffs at time of modification

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GREAT WESTERN BANCORP, INC.

Notes to Consolidated Financial Statements (Unaudited)

For the three months ended December 31, 2014 and 2013, the table below represents defaults on loans that were first modified during the respective past 12 months, that became 90 days or more delinquent or were charged-off during the three months ended December 31, 2014 and 2013, respectively.

| (\$ in thousands) | Three Months Ended December 31, 2014 | | 2013 | |
|----------------------------|--|------------------------|-----------------------|------------------------|
| | Number of Loans | Recorded Investment | Number of Loans | Recorded Investment |
| Residential real estate | 6 | \$ 522 | — | \$ — |
| Commercial real estate | 1 | 95 | 2 | 6,296 |
| Commercial non real estate | — | — | — | — |
| Agriculture | 1 | 15 | 1 | 3,676 |
| Consumer | — | — | — | — |
| | 8 | \$ 632 | 3 | \$ 9,972 |

The majority of loans that were modified and subsequently became 90 days or more delinquent have remained on nonaccrual status since the time of modification.

GREAT WESTERN BANCORP, INC.

Notes to Consolidated Financial Statements (Unaudited)

6. Allowance for Loan Losses

The following table presents the Company's allowance for loan losses roll forward and respective loan balances for the three month period ended December 31, 2014 and 2013. This table (in thousands) 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 \$1,023.3 million, loans held for sale of \$9.4 million, and guaranteed loans of \$101.9 million for December 31, 2014 and loans measured at fair value with changes in fair value reported in earnings of \$985.4 million, loans held for sale of \$10.4 million, and guaranteed loans of \$106.5 million for September 30, 2014.

| As of December 31, 2014 | Residential Real Estate | Commercial Real Estate | Commercial Non Real Estate | Agriculture | Consumer | Other | Total |
|--|----------------------------|---------------------------|----------------------------------|-------------|----------|----------|-------------|
| Allowance for loan losses | | | | | | | |
| Beginning balance October 1, 2014 | \$8,342 | \$16,884 | \$10,550 | \$10,655 | \$264 | \$823 | \$47,518 |
| Charge-offs | (57 |) (82 |) (84 |) — | (38 |) (428 |) (689 |
| Recoveries | 43 | 69 | 1,160 | 57 | 24 | 319 | 1,672 |
| Provision | (350 |) 735 | 2,999 | 208 | (24 |) 71 | 3,639 |
| Impairment of loans acquired with deteriorated credit quality | (411 |) 116 | — | — | (25 |) — | (320 |
| Ending balance December 31, 2014 | \$7,567 | \$17,722 | \$14,625 | \$10,920 | \$201 | \$785 | \$51,820 |
| Ending balance: individually evaluated for impairment | \$2,418 | \$2,783 | \$8,816 | \$948 | \$42 | \$— | \$15,007 |
| Ending balance: collectively evaluated for impairment | \$2,776 | \$11,986 | \$5,809 | \$9,972 | \$159 | \$785 | \$31,487 |
| Ending balance: loans acquired with deteriorated credit quality | \$2,373 | \$761 | \$— | \$— | \$— | \$— | \$3,134 |
| Ending balance: loans acquired without deteriorated credit quality | \$— | \$2,192 | \$— | \$— | \$— | \$— | \$2,192 |
| Financing receivables | | | | | | | |
| Ending balance | \$890,085 | \$2,291,220 | \$1,088,065 | \$1,468,565 | \$85,721 | \$35,311 | \$5,858,967 |
| Ending balance: individually evaluated for impairment | \$9,592 | \$66,049 | \$37,961 | \$23,743 | \$142 | \$— | \$137,487 |
| Ending balance: collectively evaluated for impairment | \$671,566 | \$2,113,647 | \$1,038,540 | \$1,422,861 | \$81,525 | \$35,311 | \$5,363,450 |

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| | | | | | | | |
|--|-----------|----------|---------|----------|---------|-----|-----------|
| Ending balance: loans acquired with deteriorated credit quality | \$97,779 | \$28,768 | \$4,817 | \$1,623 | \$1,734 | \$— | \$134,721 |
| Ending balance: loans acquired without deteriorated credit quality | \$111,148 | \$82,756 | \$6,747 | \$20,338 | \$2,320 | \$— | \$223,309 |

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GREAT WESTERN BANCORP, INC.

Notes to Consolidated Financial Statements (Unaudited)

| As of December 31, 2013 | Residential Real Estate | Commercial Real Estate | Commercial Non Real Estate | Agricultural | Consumer | Other | Total |
|--|----------------------------|---------------------------|----------------------------------|--------------|-----------|-----------|--------------|
| Allowance for loan losses | | | | | | | |
| Beginning balance October 1, 2013 | \$ 11,779 | \$ 22,562 | \$ 11,222 | \$ 9,296 | \$ 312 | \$ 693 | \$ 55,864 |
| Charge-offs | (230) | — | (161) | — | (56) | (470) | (917) |
| Recoveries | 75 | 591 | 887 | 17 | 36 | 391 | 1,997 |
| Provision | 230 | (861) | (646) | (57) | 98 | 111 | (1,125) |
| Impairment of loans acquired with deteriorated credit quality | — | — | 250 | — | — | — | 250 |
| Ending balance December 31, 2013 | \$ 11,854 | \$ 22,292 | \$ 11,552 | \$ 9,256 | \$ 390 | \$ 725 | \$ 56,069 |
| Ending balance: individually evaluated for impairment | \$ 3,128 | \$ 5,355 | \$ 6,227 | \$ 2,724 | \$ 167 | \$ — | \$ 17,601 |
| Ending balance: collectively evaluated for impairment | \$ 3,691 | \$ 16,207 | \$ 3,614 | \$ 6,532 | \$ 223 | \$ 725 | \$ 30,992 |
| Ending balance: loans acquired with deteriorated credit quality | \$ 5,035 | \$ 730 | \$ 1,711 | \$ — | \$ — | \$ — | \$ 7,476 |
| Ending balance: loans acquired without deteriorated credit quality | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — |
| Financing receivables | | | | | | | |
| Ending balance | \$ 890,073 | \$ 2,299,661 | \$ 1,079,956 | \$ 1,466,851 | \$ 85,721 | \$ 35,311 | \$ 5,857,573 |
| Ending balance: individually evaluated for impairment | \$ 10,037 | \$ 68,973 | \$ 31,299 | \$ 22,666 | \$ 582 | \$ — | \$ 133,557 |
| Ending balance: collectively evaluated for impairment | \$ 611,785 | \$ 2,019,099 | \$ 1,025,543 | \$ 1,412,871 | \$ 77,315 | \$ 35,311 | \$ 5,181,924 |
| Ending balance: loans acquired with deteriorated credit quality | \$ 122,068 | \$ 80,903 | \$ 6,833 | \$ — | \$ 2,646 | \$ — | \$ 212,450 |
| Ending balance: loans acquired | \$ 146,183 | \$ 130,686 | \$ 16,281 | \$ 31,314 | \$ 5,178 | \$ — | \$ 329,642 |

without deteriorated
credit
quality

The reserve for unfunded loan commitments was \$0.4 million at both December 31, 2014 and September 30, 2014.

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GREAT WESTERN BANCORP, INC.

Notes to Consolidated Financial Statements (Unaudited)

7. Accounting for Certain Loans Acquired with Deteriorated Credit Quality

In June 2010, the Company acquired certain loans that had deteriorated credit quality. Loan accounting specific to these purchased impaired loans addresses differences between contractual cash flows expected to be collected from the initial investment in loans if those differences are attributable, at least in part, to credit quality. Several factors were considered when evaluating whether a loan was considered a purchased impaired loan, including the delinquency status of the loan, updated borrower credit status, geographic information, and updated loan-to-values ("LTV"). U.S. GAAP allows purchasers to aggregate purchased 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, homogenous 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 homogenous loans. The re-assessment of purchased impaired loans resulted in the following changes in the accretable yield during the three months ended December 31, 2014 and 2013 (in thousands):

| | | |
|--|----------|---|
| Balance at September 30, 2014 | \$50,889 | |
| Accretion | (4,787 |) |
| Reclassification from nonaccretable difference | 320 | |
| Disposals | (80 |) |
| Balance at December 31, 2014 | 46,342 | |
| Balance at September 30, 2013 | \$67,660 | |
| Accretion | (4,430 |) |
| Reclassification from nonaccretable difference | — | |
| Disposals | (4,819 |) |
| Balance at December 31, 2013 | \$58,411 | |

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 impaired loans at December 31, 2014 and September 30, 2014 (in thousands):

| | December 31, 2014 | | | September 30, 2014 | | |
|-------------------------------|-------------------------------------|-------------------------------------|--------------------------------|-------------------------------------|-------------------------------------|--------------------------------|
| | Outstanding Balance ¹ | Recorded Investment ² | Carrying Value ³ | Outstanding Balance ¹ | Recorded Investment ² | Carrying Value ³ |
| Residential real estate | \$110,493 | \$97,779 | \$95,406 | \$115,863 | \$102,987 | \$100,203 |
| Commercial real estate | 107,514 | 28,768 | 28,007 | 130,825 | 49,202 | 48,557 |
| Commercial non real estate | 14,710 | 4,817 | 4,817 | 16,697 | 6,361 | 6,361 |
| Agriculture | 1,622 | 1,623 | 1,623 | 1,747 | 1,746 | 1,746 |
| Consumer | 1,838 | 1,734 | 1,734 | 2,019 | 1,843 | 1,818 |
| Total lending | \$236,177 | \$134,721 | \$131,587 | \$267,151 | \$162,139 | \$158,685 |

¹ Represents the legal balance of loans acquired with deteriorated credit quality.

² Represents the book balance of loans acquired with deteriorated credit quality.

³ Represents the book balance of loans acquired with deteriorated credit quality net of the related allowance for loan losses.

Due to improved cash flows of the purchased impaired loans, the reductions to allowance recognized on previous impairments were \$0 and \$0.5 million for the three months ended December 31, 2014 and 2013, respectively.

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GREAT WESTERN BANCORP, INC.

Notes to Consolidated Financial Statements (Unaudited)

8. 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 OREO, 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 months ended December 2014 and 2013 (in thousands):

| | Three Months Ended December 31, | |
|--|------------------------------------|----------|
| | 2014 | 2013 |
| Balance at beginning of year | \$26,678 | \$45,690 |
| Amortization | (2,534) | (3,285) |
| Changes in expected reimbursements from FDIC for changes in expected credit losses | (191) | (26) |
| Changes in reimbursable expenses | (156) | 10 |
| Payments to/(from) the FDIC | (1,635) | (633) |
| Balance at end of year | \$22,162 | \$41,756 |

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 agreements.

9. Derivative Financial Instruments

In the normal course of business, the Company uses interest rate swaps to manage its interest rate risk and market risk in accommodating the needs of its customers. Also, the Company 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.

Derivative instruments are recognized as either assets or liabilities in the accompanying consolidated financial statements and are measured at fair value.

The following table summarizes the notional amounts and estimated fair values of the Company's derivative instruments at December 31, 2014 and September 30, 2014 (in thousands).

| | December 31, 2014 | | | |
|--|--------------------|---------------------------|------------------------|------------------------|
| | Notional Amount | Balance Sheet Location | Positive Fair Value | Negative Fair Value |
| Derivatives not designated as hedging instruments: | | | | |
| Interest rate swaps | \$1,018,809 | Liabilities | \$1,118 | \$(33,513) |
| Mortgage loan commitments | 31,834 | Assets | 14 | — |
| Mortgage loan forward sale contracts | 36,004 | Liabilities | — | (14) |
| | September 30, 2014 | | | |
| | Notional Amount | Balance Sheet Location | Positive Fair Value | Negative Fair Value |
| Derivatives not designated as hedging instruments: | | | | |
| Interest rate swaps | \$986,440 | Liabilities | \$6,213 | \$(19,286) |
| Mortgage loan commitments | 22,563 | Assets | 19 | — |
| Mortgage loan forward sale contracts | 28,459 | Liabilities | — | (19) |

GREAT WESTERN BANCORP, INC.

Notes to Consolidated Financial Statements (Unaudited)

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 is 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. Amounts due from NAB to reclaim cash collateral under the interest rate swap master netting arrangements have not been offset against the derivative balances. These receivables are classified on the consolidated balance sheets as cash and were \$0 as of December 31, 2014 and