Great Western Bancorp, Inc.
Form 10-K
November 28, 2017

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

Form 10-K
(Mark One)

þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended September 30, 2017
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

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $0.01 par value per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No o
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes o No x
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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant’s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Annual Report on Form 10-K or any amendment to this

Form 10-K. x

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

The aggregate market value of the voting stock held by non-affiliates of the registrant as of March 31, 2017 was $2,492,033,526.

As of November 20, 2017, the number of shares of the registrant’s Common Stock outstanding was 58,853,861.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant’s definitive proxy statement for the annual meeting of shareholders to be held on February 22, 2018, and to be filed pursuant to Regulation 14A within 120 days after the registrant’s fiscal year ended September 30, 2017, are incorporated by reference under Part III.

GREAT WESTERN BANCORP, INC.
ANNUAL REPORT ON FORM 10-K
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EXPLANATORY NOTE

Except as otherwise stated or the context otherwise requires, references in this Annual Report on Form 10-K 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, our principal ultimate 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; and
- our “footprint” refers to the geographic markets within our states in which we currently conduct our business.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K 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 “Item 1A. Risk Factors” or “Item 7. 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;
- 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;
- 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;
- 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; and
- 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.

The foregoing factors should not be considered an exhaustive list and should be read together with the other cautionary statements included in this Annual Report on Form 10-K. 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 forward-looking statements contained in this Annual Report on Form 10-K. 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

ITEM 1. BUSINESS

Our Business

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. We were established more than 80 years ago and have achieved strong market positions by developing and maintaining extensive local relationships in the communities we serve. By leveraging our business and agribusiness focus, highly efficient operating model, robust approach to risk management and presence in attractive markets, we have achieved steady and profitable growth—both organically and through disciplined acquisitions. We have successfully completed nine acquisitions since 2006, including our 2010 Federal Deposit Insurance Corporation, or FDIC, assisted acquisition of TierOne Bank, which represented approximately $2.54 billion in acquired assets, and our 2016 acquisition of HF Financial Corp. ("HF Financial"), which represented approximately $1.12 billion of acquired assets. Our net income was $144.8 million for fiscal year 2017 and our loans and total assets were $9.01 billion and $11.69 billion, respectively, at September 30, 2017.

We focus on business and agribusiness banking, complemented by retail banking and wealth management services. Our loan portfolio consists primarily of business loans, comprised of commercial real estate ("CRE") loans, agribusiness loans and commercial non-real estate loans. At September 30, 2017, our business and agribusiness loans collectively accounted for 88.4% of our total loan portfolio. In addition, 67.2% of our aggregate loan portfolio, comprising 45.8% of CRE loans, 11.1% of agriculture real estate loans and 10.3% of residential real estate loans, was primarily secured by interests in real estate predominantly located in the states in which we operate. In addition, some of our other lending occasionally involves taking real estate as primary or secondary collateral. We offer small and mid-sized businesses a focused suite of financial products and have established strong relationships across a diversified range of sectors, including key areas supporting regional growth such as hospitality/tourism, agribusiness services, freight and transport and healthcare. We have developed extensive expertise in agribusiness lending, which serves one of the most prominent industries across our markets, and we offer a variety of financial services designed to meet the specific needs of our agribusiness customers. We also provide a range of deposit and loan products to our retail customers through several channels, including our branch network, online banking system, mobile banking applications and customer care centers. In our wealth management business, we seek to expand our private banking, financial planning, investment management and insurance operations to better position us to capture an increased share of the business of managing the private wealth of many of our business and agribusiness customers.

Our banking model seeks to balance the best of being a “big enough” and a “small enough” bank, providing capabilities typical of a much larger bank, such as diversified product specialists, customized banking solutions and multiple delivery channels, with a customer-focused culture usually associated with smaller banks. Our focus on balancing these capabilities with a service-oriented culture is embedded within our operations and is enhanced by focusing on our core competencies. We are well recognized within our markets for our relationship-based banking model that provides for local, efficient decision making. We believe we serve our customers in a manner that is responsive, flexible and accessible. Our relationship bankers strive to build deep, long-term relationships with customers and understand the customers’ specific needs to identify appropriate financial solutions. We believe we have been successful in attracting customers and bankers from larger competitors because of our flexible approach and the speed and efficiency with which we provide banking solutions to our customers while maintaining disciplined underwriting standards.

Our Business Strategy

We believe that stable long-term growth and profitability are the result of building strong customer relationships while maintaining disciplined underwriting standards. We plan to focus on originating high-quality loans and growing our cost-effective deposit base through our relationship-based business and agribusiness banking approach. We believe that continuing to focus on our core strengths will enable us to gain market share, continue to improve our operational efficiency and increase profitability. The key components of our strategy for continued success and future growth include the following:

Attract and Retain High-Quality Relationship Bankers

A key component of our growth in our existing markets and entry into new markets has been our ability to attract and retain high-quality relationship bankers. We have recruited approximately 71 new business and agribusiness relationship bankers since January 1, 2012 (out of a total of approximately 192 business and agribusiness relationship bankers at September 30, 2017), with average industry experience of over 15 years when hired. We believe we have been successful in recruiting qualified relationship bankers due primarily to our decentralized management approach, focused product suite and flexible and customer-focused culture while continuing to provide sophisticated banking capabilities to serve our customers’ needs. We intend to continue to hire experienced relationship bankers to execute our relationship-driven banking model. We utilize a variable compensation structure designed to incentivize our relationship bankers by tying their compensation to both the performance of the Company and their individual overall performance. We measure individual banker performance based on revenue, loans originated, deposits raised and asset quality/risk, among other performance measurements. We believe this structure establishes the appropriate incentives to serve our customers' needs, maintain strong performance and satisfy our risk management objectives. By leveraging the strong networks and reputation of our experienced relationship bankers, we believe we can continue to grow our loan portfolio and deposit base as well as offer customers a range of products and services to fulfill their financial needs.

Optimize Footprint in Existing and Complementary Markets

We pursue attractive growth opportunities to expand within our existing footprint and enter new markets aligned with our business model and strategic plans. We believe we can increase our presence in under-represented areas in our existing markets and broaden our footprint in attractive markets adjacent and complementary to our current markets by continuing our emphasis on business and agribusiness banking. Our branch strategy is guided by our ability to recruit experienced relationship bankers in under-represented and new markets. These bankers expand our banking relationships into these markets prior to opening a branch, which increases our likelihood of expanding profitably by developing an asset and/or deposit base before we establish a branch in that market. We will continue to opportunistically consider opening new branches. We intend to capitalize on growth opportunities we believe exist in growing economies in and adjacent to our existing markets.

Deepen Customer Relationships

We believe that our reputation, expertise and relationship-based banking model enable us to deepen our relationships with our customers. We look to leverage our relationships with existing customers by offering a range of products and services suitable to their needs such as online and mobile banking for consumer customers. We have sought to grow our low-cost customer deposit base by attracting more deposits from our business and agribusiness customers. We offer alternative cash management solutions intended to help retain business customers. We seek to expand and enhance our wealth management platform through focused product offerings that we believe will appeal to our more affluent customers. We intend to continue to capitalize on opportunities to capture more business from existing customers throughout our banking network. During fiscal year 2017, we continued to enhance our online and mobile banking platforms to enable person-to-person payments, online stop payments, and reward our customers for purchases made with their debit cards. With our new Online Account Opening, customers may open a checking account in minutes direct from their mobile phone. Our commercial customers now enjoy faster startup and simplified access to their banking information. We believe these enhancements are more competitive product offerings and expect them to contribute to growth in deposit balances over time.

Continue to Improve Efficiency and Manage Costs

We believe that our focus on operational efficiency, even in light of incremental costs related to being a public company with over $10 billion in consolidated total assets, is critical to our profitability and future growth. We intend to carefully manage our cost structure and continuously refine and implement internal processes to create further efficiencies and enhance our earnings. We believe our scalable systems, risk management infrastructure and operating model will better enable us to achieve further operational efficiencies as we grow our business.

Opportunistically Pursue Acquisitions

Our management team has extensive expertise and a successful track record in evaluating, executing and integrating attractive, franchise-enhancing acquisitions. We have successfully completed nine acquisitions since 2006, including our 2010 FDIC assisted acquisition of TierOne Bank, which represented approximately $2.54 billion in acquired assets, and our 2016 acquisition of HF Financial, which represented approximately $1.12 billion in acquired assets. We will continue to consider acquisitions that are consistent with our business strategy and financial model as opportunities arise. Illustrated below, as of September 30 of each indicated year, is the growth in our total assets, including the amount attributed as a result of acquisitions in that fiscal year.

Our Operating Model

We believe our highly efficient and scalable operating model has enabled us to operate profitably, remain competitive, increase market share and develop new business. We emphasize company-wide operating principles focused on proactive expense management, targeted investment, disciplined lending practices and focused product offerings. We have achieved cost efficiencies by consolidating our branch network through the closure of less profitable locations and through our demonstrated success in acquiring and integrating banks. We believe our focus on operating efficiency has contributed significantly to our return on equity, return on assets and net income.

Our Prior Relationship With NAB

We were formed as a Delaware corporation in July 2014 as a wholly owned subsidiary of National Americas Holdings LLC ("NAH") to be the publicly traded holding company for our bank. NAH was formed as a Delaware limited liability company in 2008 by NAB to facilitate NAB's purchase of our bank. In connection with our initial public offering in October 2014, we purchased all outstanding common stock issued by Great Western Bancorporation, Inc. ("GWBCI"), an Iowa corporation formed in 1968 which was then the holding company for our bank, from National Americas Investments, Inc., a wholly owned subsidiary of NAH. Following this purchase, GWBCI was merged with and into us and we continue as the surviving corporation succeeding to all the assets, liabilities and business of GWBCI. We conduct our business through our bank as a single reportable segment, with all of our identifiable assets located in the United States.

Prior to our initial public offering, we were an indirect wholly-owned subsidiary of NAB. NAB sold 18.4 million shares, representing 31.8% of our common stock, in the initial public offering. On May 6, 2015, NAB sold 23.0 million shares of our common stock, representing 39.7% of the common stock, in the second stage of its planned divestiture. On July 31, 2015, NAB sold all of its remaining shares of our common stock in a secondary public offering of 13.8 million shares and a concurrent share repurchase transaction in which we acquired 2.7 million shares from NAB to fully divest its ownership. There are no debts payable to NAB and its affiliates remaining.

Our Business Lines

Business Banking

Business banking is a key focus of our business model and is one of our core competencies. We provide business banking services to small and mid-sized businesses across a diverse range of industries, including key sectors supporting regional growth such as hospitality/tourism, ancillary agribusiness services (e.g., farm equipment suppliers and grain and seed merchants), freight and transport and healthcare (e.g., hospitals, physicians, care facilities and dentists). We offer our business banking customers a focused range of financial products designed to meet the specific needs of their businesses, including loans, lines of credit, cash management services, online business deposit and wire transfer services, in addition to non-interest-bearing demand deposit and savings accounts and corporate credit cards. At September 30, 2017, business banking represented $2.87 billion in deposits, an increase of $262.8 million from September 30, 2016, and $5.84 billion in loans, an increase of $416.4 million over the same period, which represents 32.0% and 64.9%, respectively, of our total deposits and loans.

Our business banking model is based on a fundamental understanding of the communities we serve and the banking needs of our customers. Our bank employs experienced relationship bankers across our footprint, each of whom offers our bank's suite of business banking products and services to our customers. Our relationship bankers strive to build deep, long-term customer relationships with our banking customers and to understand our customers' specific needs to identify appropriate financial solutions.

Our business banking lending portfolio comprises of CRE and commercial non-real estate loans. CRE loans include both owner-occupied CRE and non-owner-occupied CRE loans, multifamily residential real estate loans and construction and development loans. CRE lending is a significant component of our overall loan portfolio, although we are focused on managing our exposure to land development loans within construction and development lending, in particular, which we believe is relatively riskier than other types of CRE lending, including owner-occupied CRE lending. Commercial non-real estate loans represent one of our core competencies in business banking. We offer a focused range of lending products to our commercial non-real estate customers, including working capital and other shorter-term lines of credit, fixed-rate loans over a wide range of terms and variable-rate loans with varying terms.

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The composition of our business lending, as of September 30, 2017, is as follows:

	September 30, 2017							
	South Dakota	Arizona / Colorado	Iowa / Kansas / Missouri	Nebraska	North Dakota / Minnesota	Other [2]	Total	% of Total Loan Unpaid Principal Balance
	(dollars in thousands)							
Non-owner-occupied CRE loans [1]	$534,085	$544,116	$444,298	$366,815	$125,331	$10,681	$2,025,326	22.5 %
Owner-occupied CRE loans [1]	293,589	334,167	334,879	230,768	25,702	418	1,219,523	13.5 %
Construction and development loans [1]	58,282	164,325	179,769	123,209	9,114	4,037	538,736	6.0 %
Multifamily residential real estate loans [1]	139,991	26,612	63,144	67,184	43,132	1,157	341,220	3.8 %
Commercial non-real estate loans [1]	287,894	210,638	827,719	340,297	9,128	43,238	1,718,914	19.1 %
Total business loans	$1,313,841	$1,279,858	$1,849,809	$1,128,273	$212,407	$59,531	$5,843,719	64.9 %

[1] Unpaid principal balance for commercial real estate, agriculture and commercial non-real estate loans includes fair value adjustments associated with long-term fixed-rate loans where we have entered into interest rate swaps to hedge our interest rate risk.
[2] Balances in this column represent acquired workout loans and certain other loans managed by our workout staff, commercial and consumer credit card loans, fair value adjustments related to acquisitions and loans for which we have elected the fair value option, which could result in a negative carrying amount in the event of a net negative fair value adjustment.

The compositions of our CRE and commercial non-real estate loan portfolios, aggregated by customer exposure as of September 30, 2017, are diversified across loan sizes, as set forth below:

Agribusiness Banking

In addition to business banking, we consider agribusiness lending one of our core competencies. We have been providing banking services to the agricultural community since our bank was founded. We have developed extensive expertise and brand recognition in agribusiness lending, which is one of the largest industries that we serve. We provide loans and banking services to agribusiness customers across our geographic footprint. We predominantly lend to grain and protein producers who produce a range of agricultural commodities. Our agribusiness customers range in size from small family farms to large commercial farming operations. At September 30, 2017, our agribusiness loan portfolio was $2.12 billion, representing 23.6% of our bank's $8.97 billion in total lending. Our agribusiness loan portfolio was balanced at September 30, 2017, among the major types of agricultural production undertaken in our footprint, with grains (primarily corn, soybeans and wheat) representing 32.9% of our agribusiness loan portfolio; proteins (primarily beef cattle, dairy products and hogs) representing 51.8% of our agribusiness loan portfolio; and other products (including cotton, trees, fruits and nuts and vegetables, among others) representing 15.3% of our agribusiness loan portfolio, as set forth below:

The composition of our agribusiness lending portfolio is also geographically diversified across our footprint in our five business regions, as set forth below:

	September 30, 2017	
	Agribusiness Loans	% of Agribusiness Loan Portfolio
	(dollars in thousands)	
South Dakota	$701,899	33.1%
Arizona and Colorado	854,486	40.3%
Iowa, Kansas and Missouri	416,711	19.6%
Nebraska	147,863	7.0%
North Dakota and Minnesota	3,405	0.2%
Other [1]	(2,226)	(0.2)%
Total	$2,122,138	100.0%

[1] Balances in this row represent acquired workout loans and certain other loans managed by our staff, fair value adjustments related to acquisitions and loans for which we have elected the fair value option, which could result in a negative carrying amount in the event of a net negative fair value adjustment.

We offer a number of products to meet our agribusiness customers' banking needs, from short-term working capital funding to long-term land-related lending, as well as other tailored services. Through relationships with insurance agencies, we make available to our customers crop insurance that can provide farms with options for financial protection from various events, including flood, drought, hail, fire, disease, insect damage, wildfire and earthquake. We service our agribusiness customers through dedicated relationship bankers with deep industry/sector knowledge, supplemented by a team of local bankers focused on agriculture who build long-term relationships with customers.

Retail Banking

Retail banking provides a source of low-cost funding and deposit-related fee income. At September 30, 2017, our branch network consisted of 173 branch offices located in 129 communities. Our branch network enhances our ability to gather deposits, expand our brand presence, service our customers' needs, originate loans and maintain our customer relationships.

We offer traditional banking products to our retail customers, including non-interest-bearing demand accounts, interest-bearing savings and money market accounts, individual retirement accounts ("IRAs"), and time certificates of deposit. As the banking industry continues to experience broader customer acceptance of online and mobile banking tools for conducting basic banking functions and retail customers use branch locations with less frequency than they have historically, we serve our customers through a wide range of non-branch channels; including online, telephone and mobile banking platforms. In addition, we continue to optimize our branch network and have closed and/or relocated many less profitable branches. We continue to strive to optimize the effectiveness of our distribution channels and increase our operational efficiency to adapt to increasing customer preferences for self-service banking capabilities. At September 30, 2017, we had ATMs at 162, or 93.6%, of our branches and had another 21 company-owned ATMs at off-site locations. We are part of the MoneyPass, SHAZAM and NETS networks, enabling our customers to withdraw cash surcharge-free and service charge-free at over 25,000 ATM locations across the country.

Our retail branch network is spread among our five regions as follows:

	September 30, 2017	
	Number of branches	% of branches
South Dakota	38	22.0%
Arizona and Colorado	28	16.2%
Iowa, Kansas and Missouri	54	31.2%
Nebraska	50	28.9%
North Dakota and Minnesota	3	1.7%
Total	173	100.0%

We also provide a variety of loan products to individuals. At September 30, 2017, our residential real estate and consumer portfolio was $1.00 billion, representing 11.0% of our total lending, and comprised residential mortgage loans, home equity loans and home equity lines of credit and general lines of credit, auto loans and other loans. We also have a small amount of consumer credit card balances outstanding. In addition to retail loans held in our portfolio, we also originate residential mortgage loans for resale (including their servicing) on the secondary market and, in the fiscal year ended September 30, 2017, we sold $280.5 million of these loans and serviced $722.5 million of mortgage loans. At September 30, 2017, we had a retail and mortgage loan officer base of 425 individuals. Home equity originations (including residential mortgages) are sourced almost exclusively through our branch network. Our home equity loan portfolio is conservatively underwritten, including assessment of the borrower’s income, FICO score and the loan-to-value ratio. See “—Loans—Underwriting Principles” for discussion of our credit underwriting standards.

Wealth Management

We also provide our customers with a selection of wealth management solutions, including financial planning, private banking, investment management and trust services through associations with third party vendors, including registered broker-dealers and our investment adviser. Our investment representatives offer our customers investment management services through our branch network which entails overseeing and recommending investment allocations between asset classes based on a review of a client’s risk tolerance. These representatives also offer and sell insurance solutions, including life insurance, and offer trust services, including personal trusts and estate planning. At September 30, 2017 our investment representatives had $780.8 million in assets under management, and, through our trust services group, we had $1.00 billion in assets under management, for a combined total of $1.78 billion in assets under management. Enhancing and expanding our wealth management business is an important component of our strategic plan, as we believe it can deepen our customer relationships, create opportunities to provide a wider range of financial services products to our customers and drive stable and recurring revenue.

Loans

Overview

Our loan portfolio consists primarily of CRE, commercial non-real estate and agribusiness loans. We also originate residential real estate loans, personal loans, home equity loans, lines of credit, credit cards and auto loans. As described below, our loan portfolio is diversified across our customer base.

The following chart sets forth the composition of our loan portfolio by loan category as of September 30, 2017:

Our underwriting principles, discussed below, require portfolio diversification across geographies, industries and customers. Our lending is diversified both geographically, predominantly across our nine footprint states, and across our loan categories referenced above and within each of these categories. For example, within agribusiness lending, our portfolio is diversified across grain, protein and other types of agribusiness. Our commercial non-real estate and owner-occupied CRE lending categories are well diversified, with no individual industry comprising more than 10.0% of lending in these combined categories. See "—Our Business Lines—Agribusiness Banking" for information about the composition of our agribusiness loan portfolio and "—Our Business Lines—Business Banking" for information about the composition of our business banking loan portfolio. At a customer level, our largest exposure represents 0.7% of our total loans, and our top ten loan exposures represent approximately 4.9% of our total loans at September 30, 2017.

Underwriting Principles

General. We apply consistent credit principles in our assessment of lending proposals across all loan categories. We are a cash flow-focused lender, which means our assessment of any potential loan includes an analysis of whether the customer can generate sufficient cash flow, not only in normal operating conditions but in a range of circumstances, to ensure the likelihood that the borrowers' repayment obligations to our bank can be fully met. Our underwriting procedures include an assessment of the borrower's cash flow sustainability, the acceptability of the borrowing purpose, the borrower's liquidity, leverage, collateral quality and adequacy, industry dynamics, management capability, integrity and experience. For residential real estate, consumer and other lending, our underwriting process is intended to assess the prospective borrower's credit standing and ability to repay (which we analyze based on the borrower's cash flow, liquidity, credit standing, employment history and overall financial condition) and the value and adequacy of any collateral.

We establish what we believe to be conservative collateral guidelines that recognize the potential effects of volatility or deterioration of the value of collateral we accept, such as real estate, inventory, receivables and machinery. We manage this risk in a number of ways, including through advance rate guidelines for the various types of collateral we typically accept, along with periodic inspections. In addition, where we take real estate as collateral, and for some other specialized assets, we require assessment of value based on appropriate methodology and benchmarks. For our larger real estate commitments, this can include an independent third party appraisal review and, where appropriate, additional reviews.

We also assess the presence and viability of one or more acceptable secondary sources of repayment to mitigate potential future borrower cash flow deterioration. To improve the reliability of secondary sources of repayment, we prefer originating loans on a secured basis, and at September 30, 2017, less than 1.0% of our total lending was on an unsecured basis. We typically engage in unsecured lending only in situations involving long-standing customers of sound net worth and above-average liquidity with strong repayment ability (other than in connection with credit cards we issue).

We have a delegated commitment authorities framework that provides what we believe to be conservative levels of lending authority to our bankers commensurate with their role and lending experience. Commitments above the lending thresholds established for a banker require the approval, depending on the size of the commitment, of our regional credit managers, central senior credit managers, Chief Credit Officer or, for our largest commitments, our transactional credit committee. Loan analysis and decisions are documented and form part of the loan's continual monitoring and relationship management record. We believe this framework provides the necessary separation of authority and independence in the credit underwriting process while providing flexibility to expedite appropriate credit decisions and provide competitive customer service.

Agribusiness. The underwriting principles described above generally apply to our agribusiness lending, although our assessment of cash flow sustainability, acceptability of borrowing purpose, borrower liquidity, industry environment, marketing and management capability, integrity and experience are considered in light of the unique attributes of agribusiness lending. For example, we review the adequacy and sustainability of an agribusiness customer's operating cash flows to determine adequate coverage of interest and scheduled principal repayments, and, generally, require a minimum of 1.10 times in the most recent year or based on a 3-year average. We work with the borrower to select the appropriate funding facility, such as working capital line funding for short-term needs, medium-term borrowing to fund purchases of durables like machinery or equipment and long-term real estate loans, which are typically committed for five to ten years, with a maximum of 15 years.

As described above, we establish what we believe to be conservative collateral guidelines for our lending that recognize the volatility of asset prices. We also tailor the structure of certain loans, apply additional policies and require appropriate covenants to ensure our bank is well protected against the key potential risks. For livestock, we adopt what we believe to be conservative valuations to reduce the effects of cyclical trends before applying our collateral guidelines. For growing grain crops, we generally limit our lending to the coverage provided by crop insurance.

As is the case with all types of lending, external risks beyond a customer's business and operations can affect repayment. Our agribusiness lending, in particular, is subject to several external risks that we manage in various ways, including:

- Price cycles and volatility—Agricultural commodity prices are both cyclical and volatile, and we seek to manage these factors by diversifying our portfolio across a range of agribusiness customers including grain producers and protein producers (e.g., generally, low grain prices assist protein producers since their businesses use grains as inputs) and by determining and applying appropriate advance rate guidelines to agricultural commodities used as collateral, as discussed above.
- Weather, disease and other perils—Severe weather, natural disasters, acts of war or terrorism and other external events could significantly impact our business and the business of our borrowers. We seek to mitigate our exposure to this risk through our geographic diversification which is predominantly across nine states and a number of agricultural products. Federally subsidized crop insurance coverage is also available for over 120 kinds of crops, typically of 50% to 85% of a grower's average yield, against various agriculture-related perils, including flood, drought, hail, fire, disease, insect damage, wildlife and earthquake.

- Land prices—As discussed above, we focus on cash flow lending, which helps farms to ensure that they have sufficient cash flow to service debt and support their businesses, and generally take land as collateral, which provides a secondary repayment source, with conservative advance rate guidelines in assessing collateral adequacy.

Deposits

Deposits are our primary source of funds to support our revenue-generating assets. We offer traditional deposit products to consumers, businesses and other customers with a variety of rates and terms. Deposits at our bank are insured by the FDIC up to statutory limits. We price our deposit products with a view to maximizing our share of each customer's financial services business and prudently managing our cost of funds. At September 30, 2017, we held $8.98 billion of total deposits. At September 30, 2017, our deposit base consisted of $3.72 billion, or 41.5%, in checking accounts, $3.98 billion, or 44.3%, in money market and savings accounts, and $1.27 billion, or 14.2%, in time deposits and IRAs.

Our deposit base is diversified across our geographic footprint, as illustrated by the following table showing the composition of our deposit base by the geographic region of our branches at September 30, 2017:

	September 30, 2017		
	Number of Branches	Deposits	% of Deposits
	(dollars in thousands)		
South Dakota	38	$2,231,857	24.9%
Arizona and Colorado	28	1,530,668	17.0%
Iowa, Kansas and Missouri	54	2,561,315	28.5%
Nebraska	50	2,521,631	28.1%
North Dakota and Minnesota	3	51,527	0.6%
Corporate and other	—	80,615	0.9%
Total	173	$8,977,613	100.0%

Our deposit base is also diversified by client type. As of September 30, 2017, no individual depositor represented more than 1.7% of our total deposits, and our top ten depositors represented 8.5% of our total deposits. The composition of our deposit portfolio represents our strategy to move away from more costly time deposit accounts over the last few years toward more cost-effective transaction accounts as well as our focus on gathering business deposits, which are typically transaction accounts by nature. This shift in deposit mix has been largely responsible for the recent declines in our average cost of deposits from 0.48% at September 30, 2013 to 0.40% at September 30, 2017. At September 30, 2017, our deposit base included $843.5 million of municipal deposits, against which we were required to hold $533.3 million of collateral. Municipal deposits represent approximately 652 customers with an average balance per customer of $1.3 million.

The graph below shows our total deposits and deposits acquired at the end of each fiscal year presented, as well as weighted average costs of deposits for each fiscal year presented:

Risk Oversight and Management

We believe risk management is another core competency of our business. As we have grown, our risk team and its capabilities have expanded. Our risk management consists of comprehensive policies and processes and seeks to emphasize personal ownership and accountability for risk with all our employees. We expect our people to focus on managing our risks, and we support this with appropriate oversight and governance and a framework based on three lines of defense (including an internal audit team who report directly to the Audit Committee of our Board of Directors). We delegate authority for our risk management oversight and governance to a number of executive management committees, each responsible for overseeing various aspects of our risk management process. Various board committees, including the Risk Committee of our Board of Directors, provide oversight over our risk management function.

Our Management Risk Committee is responsible for oversight and governance of all risks across the enterprise. These responsibilities include monitoring our bank's overall risk profile to ensure it remains within the Board-approved risk appetite and adjusting activities as appropriate, assessing new and emerging risks, monitoring our risk management culture, assessing acceptability of the risk impacts of any material changes (or additions) to our products, vendor relationships, partnerships or other processes and overseeing compliance with regulatory expectations and requirements. The Management Risk Committee is chaired by our President and Chief Executive Officer and includes our Chief Risk Officer, Chief Credit Officer and executives representing our business and support areas together with senior risk managers. The Management Risk Committee is supported by the following five subcommittees, each with specific responsibility to monitor, oversee and approve changes in their respective areas of focus relating to risks: Asset & Liability Committee, Operational Risk & Compliance Committee, Transactional Credit Committee, Risk Standards Review Panel and Technology Committee. Our Transactional Credit Committee reviews and approves our largest lending exposures.

Our Chief Risk Officer leads our integrated risk management function that provides second line oversight of all enterprise risk, including strategic risk, credit risk and operational risk (such as compliance, regulatory, legal and reputational risk), as well as overseeing ongoing enhancements to our risk management processes. Our Chief Risk Officer, a member of our executive leadership team, reports to our President and Chief Executive Officer and has direct access to the Risk Committee of our Board of Directors. In addition, our executive leadership team and other members of management have responsibility for oversight and management of risk across business and operational lines.

Risk Framework and Appetite

Our risk framework is structured to guide decisions regarding the appropriate balance between risk and return considerations in our business. Our risk framework is informed by our strategy, risk appetite and financial plans approved by our Board of Directors. This framework includes risk policies, procedures, limits, targets and reporting. Our Board of Directors approves our stated risk appetites, which set forth the amount and type of risk we are willing to accept in pursuit of our strategy, business and financial objectives. Our risk appetites provide the context for our risk management tools, including, among others, risk policies, delegated authorities, limits, portfolio composition, underwriting standards and operational processes.

We manage risk through three lines of defense that allocate responsibility and accountability for risk management throughout our business. Our first line of defense is our business lines, credit and support functions, which are accountable for being aware of and managing the risks in their respective business areas and for operating within our established risk framework and appetite. Our second line of defense is our risk team, which provides monitoring, control, oversight and advice on risk to our business lines, credit and support functions across the enterprise, and our third line of defense is our internal audit function, which provides independent oversight that risks are being managed to an acceptable level and that our internal control frameworks are operating effectively.

Credit Risk Management

Credit risk is the potential for loss arising from a customer, counterparty or issuer failing to meet its contractual obligations to us. Our strategy for managing credit risk includes well-defined, centralized credit policies, uniform underwriting criteria, clearly delegated authority levels and accountability, ongoing risk monitoring and review processes for credit exposures and portfolio diversification by geography, industry and customer. We segment our loan portfolio into a number of asset classes for purposes of developing and documenting our credit risk management

procedures and determining associated allowance for loan and lease losses, including CRE, agriculture, commercial non-real estate, real estate, consumer and other lending. For a discussion of our underwriting standards, see "—Loans—Underwriting Principles."

We emphasize regular credit examinations and management reviews of loans with deteriorating credit quality as part of our credit risk management strategy. As part of this process, we perform assessments of asset quality, compliance with commercial and consumer credit policies and other critical credit information. We also monitor and update risk ratings on our non-consumer loans on an ongoing basis. With respect to consumer loans, we typically use standard credit scoring systems to assess our credit risks. We also rely on a dedicated risk asset review team to provide independent assurance of portfolio asset quality and policy compliance.

We have well-established procedures for managing loans that either show early signs of weakness or appear to have actually weakened. These procedures include moving a loan to our “watch” list when we have early concerns. Loans on our watch list receive more intense focus, along with more senior-level monitoring and reporting, a requirement of higher credit authority approval for any further lending increase and action plans for improving the prospects for such loans. Loans that we rate “substandard” (or lower) that are over $250,000 will generally fall under the management or consultation of our strategic business services team ("SBS"), our specialist loan rehabilitations, workout and other real estate owned ("OREO") asset team. These loans are actively managed, with the primary goal of SBS rehabilitating the loans to “performing” status. If rehabilitation is not feasible, a loan workout strategy is developed and put into execution to maximize our bank’s recovery of loan proceeds and other costs to which the bank is legally entitled. SBS also oversees the litigation of troubled assets, when appropriate. In addition, appropriate reserves and charge-offs are made based on assessment of potential realization levels and related costs.

Our non-lending activities also give rise to credit risk, including exposures resulting from our investment in securities and our entry into interest rate swap contracts. For more information on these activities, see “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations—Analysis of Financial Condition—Investments” and “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations—Analysis of Financial Condition—Derivatives.”

Operational Risk

Operational risk is the risk of loss arising from inadequate or failed processes, people or systems, external events (such as natural disasters), compliance failures, reputational damage or legal matters. We have a framework in place that includes the reporting and assessment of any operational risk events, including narrowly avoided operational risk events, and the assessment of our mitigating strategies within our key business lines. This framework is implemented through our policies, processes and reporting requirements, including those governing business and information technology continuity, information security and cyber-security, technological capability, fraud-risk management, operational risk profiling and vendor management. Our operational risk review process is a core part of our assessment of any material new or modified business or support initiative.

Our operational risks related to legal and compliance matters are heightened by the heavily regulated environment in which we operate. We have designed our processes and systems, and provide education of applicable legal and regulatory standards to our employees, to comply with these requirements. For information on the legal framework in which we operate, and which our operational risk processes and systems are designed to address, see “—Supervision and Regulation.”

Competition

The financial services industry and each of the markets in which we operate in particular are highly competitive. We face strong competition in gathering deposits, making loans and obtaining client assets for management by our investment or trust operations. We compete for deposits and loans by seeking to provide a higher level of personal service than is generally offered by our larger competitors, many of whom have more assets, capital and resources and higher lending limits than we do and may be able to conduct more intensive and broader based promotional efforts to reach both commercial and retail customers. We also compete based on advertising impact and interest rates. Our principal competitors for deposits, loans and client assets for management by our investment or trust operations include large nationwide banks such as U.S. Bank, Wells Fargo and Bank of America and various other nationwide, regional and community banks operating in our markets.

Competition for deposits is also affected by the ease with which customers can transfer deposits from one institution to another. Our cost of funds fluctuates with market interest rates and may be affected by higher rates being offered by other financial institutions. In certain interest rate environments, additional significant competition for deposits may be expected to arise from corporate and government debt securities and money market mutual funds. Our management

believes that our most direct competition for deposits comes from nationwide and regional banks, savings banks and associations, online internet banks, credit unions, insurance companies, money market funds, brokerage firms, other non-bank financial services companies and service-focused community banks that target the same customers.

Finally, deposit acquisition and retention is affected by the customer's online and mobile banking experience. During fiscal year 2017, we launched an online account opening platform and an account-to-account transfer program for consumer customers. We believe these enhancements are more competitive product offerings and expect them to contribute to growth in deposit balances over time.

We compete for loans principally through the quality of service we provide to borrowers while maintaining competitive interest rates, loan fees and other loan terms. We emphasize personalized relationship banking services and the local and efficient decision-making of our banking businesses. Because of economies of scale, our larger, nationwide competitors may offer loan pricing that is more attractive than loan pricing we can offer. Our most direct competition for loans comes from larger regional and national banks, savings banks and associations, online internet banks, credit unions, insurance companies and service-focused community banks that target the same customers. We also face competition for agribusiness loans from participants in the nationwide Farm Credit System and global banks.

We compete for wealth management clients on the basis of the level of investment performance, fees and personalized client service. Our competition in wealth management services comes primarily from other institutions, particularly larger regional and national banks, providing similar services, wealth management companies and brokerage firms, many of which are larger than us and provide a wider array of products and services.

Intellectual Property

In the highly competitive banking industry in which we operate, intellectual property is important to the success of our business. We own a variety of trademarks, service marks, trade names and logos and spend time and resources maintaining this intellectual property portfolio. We control access to our intellectual property through license agreements, confidentiality procedures, non-disclosure agreements with third parties, employment agreements and other contractual rights to protect our intellectual property.

Information Technology Systems

We devote significant resources to maintain stable, reliable, efficient and scalable information technology systems. We utilize a single, highly integrated core processing system from a third party vendor across our business that improves cost efficiency and acquisition integration. As advantageous, we work with our third party vendors to maximize the efficiency of our use of their applications. We use integrated systems to originate and process loans and deposit accounts, which reduces processing time, improves customer experience and reduces costs. Most customer records are maintained digitally. During fiscal year 2017, we have successfully executed several initiatives to continue to enhance our information security, online, mobile and cash management banking services and have implemented a new more automated branch teller transaction processing system to further improve the overall client experience.

Protecting our systems to ensure the safety of our customers' information is critical to our business. We use multiple layers of protection to control access and reduce risk, including conducting a variety of vulnerability and penetration tests on our platforms, systems and applications to reduce the risk that any attacks are successful. To protect against disasters, we have a backup offsite core processing system and recovery plans.

We have an enterprise data warehouse system to capture, analyze and report key metrics associated with customer and product profitability. Data that previously was arduous to collect across multiple systems is now available daily through standard and ad hoc reports to assist with managing our business and competing effectively in the marketplace.

Employees

As of September 30, 2017, we had 1,689 total employees, which included 1,542 full-time employees, 145 part-time employees and 2 temporary employees. Of our 1,689 employees, 1,204 are in core banking (i.e., non-line of business branch network employees, including relationship bankers), 90 employees are in lines of business (e.g., mortgage, credit cards, investments), 34 employees are in finance, 210 employees are in support services (i.e., employees in operations, IT and projects), 96 employees are in risk and credit management, 13 employees are in internal audit and 42 employees are in other functions. We believe our relationship with our employees to be generally good. We have not experienced any material employment-related issues or interruptions of services due to labor disagreements and are not a party to any collective bargaining agreements.

Executive Officers of the Registrant

The following table and the descriptions below set forth biographical information regarding our executive officers:

Name	Age	Position
Ken Karels	60	Chairman, President, Chief Executive Officer and Director
Peter Chapman	44	Chief Financial Officer and Executive Vice President
Stephen Ulenberg	60	Chief Risk Officer and Executive Vice President
Michael Gough	56	Chief Credit Officer and Executive Vice President
Doug Bass	56	Regional President and Executive Vice President

Ken Karels has served as Great Western Bancorporation, Inc.'s President and Chief Executive Officer and on its Board of Directors from 2010 through 2014, as well as the Chairman, President and Chief Executive Officer and on the Board of Directors of our company since its formation in July 2014. He was elected Chairman in 2017. Mr. Karels is also the Chairman, President and Chief Executive Officer of our bank and serves on the Boards of Directors of our bank and our other subsidiaries. Mr. Karels' duties include overall leadership and executive oversight of our bank. Mr. Karels has 40 years of banking experience and expertise in all areas of bank management and strategic bank acquisitions. He has served in several different capacities at our bank since February 2002, including Regional President and Chief Operating Officer for the bank's branch distribution channel including agriculture, business and retail lending and deposits functions. During his executive tenure, Mr. Karels has helped grow our bank from $5.2 billion in assets at September 30, 2009 to over $11 billion in assets today. Before joining our bank, Mr. Karels served as President and Chief Executive Officer at Marquette Bank, Milbank, SD, where he was employed for 25 years.

Peter Chapman has served as Great Western Bancorporation, Inc.'s Chief Financial Officer and Executive Vice President from 2013 through 2014 and on its Board of Directors from January 2013 until October 2014, as well as the Chief Financial Officer and Executive Vice President of our company since its formation in July 2014. Mr. Chapman is also the Chief Financial Officer and Executive Vice President of our bank. In 2017, Mr. Chapman also began overseeing all of our banking operations within the states of Minnesota and North Dakota. Mr. Chapman has over 23 years of industry experience and is responsible for all aspects of our financial and regulatory reporting together with planning and strategy and treasury management of our balance sheet. From 2010 until he was appointed as our Chief Financial Officer in November 2012, Mr. Chapman served as the General Manager, Finance Performance Management & Non Traded Businesses for NAB's Wholesale Banking business. From 2007 to 2010, Mr. Chapman served as Head of Financial Control at NAB and was responsible for oversight and delivery of NAB's external financial reporting and internal management reporting. From 2004 to 2007, Mr. Chapman was Manager, and then Senior Manager, in NAB's Group Accounting Policy team. From 1995 to 2004, Mr. Chapman held various roles with Ernst & Young's Financial Services Audit Division, including Group Manager of its Melbourne, Australia office's Financial Services Audit practice, and he was seconded to Ernst & Young's New York office from 1998 to 2000. Mr. Chapman has been a Chartered Accountant with the Institute of Chartered Accountants Australia since 1998 and is currently a Fellow of the Institute.

Stephen Ulenberg has served as Great Western Bancorporation, Inc.'s Chief Risk Officer and Executive Vice President from 2010 through 2014, as well as the Chief Risk Officer and Executive Vice President of our company since its formation in July 2014. Mr. Ulenberg is also the Chief Risk Officer and Executive Vice President of our bank. Mr. Ulenberg is responsible for ensuring that risk is effectively managed and overseen across our enterprise. Mr. Ulenberg has 33 years of experience in the financial services industry, including a 24-year career with NAB and its subsidiaries, where he has worked in a number of senior positions including frontline business leadership in commercial and wholesale banking, risk management and major, cross-organizational strategic initiatives-at both Bank of New Zealand (a NAB subsidiary) and NAB. Immediately prior to joining our bank, Mr. Ulenberg was responsible for the leadership of Bank of New Zealand's enterprise risk management capability across a $60 billion lending portfolio. In that role, Mr. Ulenberg provided related analytics, risk reporting, portfolio metrics, risk insights, asset quality information and oversight of decision analysis, managed provisioning, risk appetite and advanced Basel models and led ongoing enhancements to Bank of New Zealand's risk management capabilities.

Doug Bass has served as a Regional President of our bank since 2010 and is also an Executive Vice President of our company. Mr. Bass oversees all of our banking operations within the states of Arizona, Colorado, Iowa, Kansas and Missouri, as well as our wealth management and mortgage banking business lines. In total, Mr. Bass has over 34 years of banking experience. Mr. Bass has worked in various capacities with our bank since 2009 and has expertise in all areas of bank management within Great Western Bank. Before joining our bank, Mr. Bass served as President of First American Bank Group. Previously Mr. Bass served in various capacities over 15 years with Firstar Corporation, which is now known as US Bank, including as President and Chief Executive Officer of Firstar's Sioux City and Council Bluffs operations in western Iowa and as Manager of Correspondent Banking for its eastern Iowa operations, which also included responsibility for commercial banking and agribusiness lending.

Michael Gough has served as Chief Credit Officer and Executive Vice President of our company since 2017. Mr. Gough is also the Chief Credit Officer and Executive Vice President of our bank. Mr. Gough is responsible for the overall direction and operations of the credit department, including loan and portfolio quality, and oversees our commercial credit and collection policies, procedures and processes. Mr. Gough has been employed at our bank for over 21 years, and Mr. Gough has served as our bank's Chief Credit Officer for the past 3 years. Prior to his appointment as our bank's Chief Credit Officer, Mr. Gough started and managed the bank's Strategic Business Services ("SBS") which managed troubled assets and minimized the bank's loss exposure. Preceding his role as SBS manager for our bank, Mr. Gough served as the Executive Vice President of Credit for our bank's South Dakota charter which was thereafter merged with and the successor to the bank's Nebraska and Iowa charters.

Supervision and Regulation

We and our subsidiaries are subject to extensive regulation under federal and state banking laws that establish a comprehensive framework for our operations. This framework may materially impact our growth potential and financial performance and is intended primarily for the protection of depositors, customers, federal deposit insurance funds and the banking system as a whole, not for the protection of our stockholders and creditors. Significant elements of the statutes, regulations and policies applicable to us and our subsidiaries are described below. This description is qualified in its entirety by reference to the full text of the statutes, regulations and policies described.

Regulatory Agencies

Great Western is a bank holding company under the Bank Holding Company Act or the "BHC Act". Consequently, Great Western and its subsidiaries are subject to supervision, regulation and examination by the Board of Governors of the Federal Reserve System, or the Federal Reserve. The BHC Act provides generally for "umbrella" regulation of bank holding companies and functional regulation of holding company subsidiaries by applicable regulatory agencies. Great Western is also subject to the disclosure and regulatory requirements of the Exchange Act administered by the Securities and Exchange Commission, or the SEC, and, following the listing of our common stock, the rules adopted by the New York Stock Exchange, or NYSE, applicable to listed companies.

Great Western Bank, our bank subsidiary, is an FDIC-insured commercial bank chartered under the laws of South Dakota. Our bank is not a member of the Federal Reserve System. Consequently, the FDIC and the Division of Banking of the South Dakota Department of Labor and Regulation, or the South Dakota Division of Banking, are the primary regulators of our bank and also regulate our bank's subsidiaries. Our bank is also subject to the enforcement and rule-making authority of the Consumer Financial Protection Bureau, or the CFPB, regarding consumer financial products. The CFPB has authority to create and enforce consumer protection rules and regulations and has the power to examine our bank for compliance with such rules and regulations. The CFPB also has the authority to prohibit "unfair, deceptive or abusive" acts and practices. The CFPB has examination and enforcement authority over all banks with more than $10 billion in assets, such as our bank. In addition, we offer certain insurance and investment products through our bank and our bank's subsidiaries that are subject to regulation and supervision by applicable state insurance regulatory agencies and by the Financial Industry Regulatory Authority, or FINRA, as a result of a contractual relationship we have with a third party broker-dealer relating to the provision of some wealth management and investment services to customers.

Permissible Activities for Bank Holding Companies

In general, the BHC Act limits the business of bank holding companies to banking, managing or controlling banks and other activities that the Federal Reserve has determined to be so closely related to banking as to be a proper incident thereto.

Bank holding companies that qualify and elect to be treated as "financial holding companies" may engage in a broad range of additional activities that are (i) financial in nature or incidental to such financial activities or (ii) complementary to a financial activity and do not pose a substantial risk to the safety and soundness of depository institutions or the financial system generally. These activities include securities underwriting and dealing, insurance underwriting and making merchant banking investments. We have not elected to be treated as a financial holding company and currently have no plans to make a financial holding company election.

The BHC Act does not place territorial restrictions on permissible non-banking activities of bank holding companies. The Federal Reserve has the power to order any bank holding company or its subsidiaries to terminate any activity or to terminate its ownership or control of any subsidiary when the Federal Reserve has reasonable grounds to believe that continuing such activity, ownership or control constitutes a serious risk to the financial soundness, safety or stability of any bank subsidiary of the bank holding company.

Permissible Activities for Banks

As a South Dakota-chartered commercial bank, our bank's business is generally limited to activities permitted by South Dakota law and any applicable federal laws. Under the South Dakota Banking Code, our bank may generally engage in all usual banking activities, including taking commercial and savings deposits; lending money on personal and real security; issuing letters of credit; buying, discounting, and negotiating promissory notes, bonds, drafts and other forms of indebtedness; buying and selling currency and, subject to certain limitations, certain investment securities; engaging in all facets of the insurance business; and maintaining safe deposit boxes on premises. Subject to prior approval by the Director of the South Dakota Division of Banking, our bank may also permissibly engage in any activity permissible as of January 1, 2008 for a national bank doing business in South Dakota.

South Dakota law also imposes restrictions on our bank's activities and corporate governance requirements intended to ensure the safety and soundness of our bank. For example, South Dakota law requires our bank's officers to be elected annually and the election of each officer to be confirmed by the Director of the South Dakota Division of Banking. Our bank is also restricted under South Dakota law from investing in certain types of investment securities and is generally limited in the amount of money it can lend to a single borrower or invest in securities issued by a single issuer (in each case, 20% of our bank's capital stock and surplus plus 10% of our bank's undivided profits).

Acquisitions by Bank Holding Companies

The BHC Act, the Bank Merger Act, the South Dakota Banking Code and other federal and state statutes regulate acquisitions of commercial banks and other FDIC-insured depository institutions. We must obtain the prior approval of the Federal Reserve before (i) acquiring more than 5% of the voting stock of any FDIC-insured depository institution or other bank holding company (other than directly through our bank), (ii) acquiring all or substantially all of the assets of any bank or bank holding company or (iii) merging or consolidating with any other bank holding company. Under the Bank Merger Act, the prior approval of the FDIC is required for our bank to merge with another bank or purchase all or substantially all of the assets or assume any of the deposits of another FDIC-insured depository institution. In reviewing applications seeking approval of merger and acquisition transactions, bank regulators consider, among other things, the competitive effect and public benefits of the transactions, the capital position and managerial resources of the combined organization, the risks to the stability of the U.S. banking or financial system, the applicant's performance record under the Community Reinvestment Act of 1977, or the CRA, the applicant's compliance with fair housing and other consumer protection laws and the effectiveness of all organizations involved in combating money laundering activities. In addition, failure to implement or maintain adequate compliance programs could cause bank regulators not to approve an acquisition where regulatory approval is required or to prohibit an acquisition even if approval is not required.

Dividends; Stress Testing

Great Western is a legal entity separate and distinct from its banking and other subsidiaries. As a bank holding company, Great Western is subject to certain restrictions on its ability to pay dividends under applicable banking laws and regulations. Federal bank regulators are authorized to determine under certain circumstances relating to the

financial condition of a bank holding company or a bank that the payment of dividends would be an unsafe or unsound practice and to prohibit payment thereof. In particular, federal

bank regulators have stated that paying dividends that deplete a banking organization's capital base to an inadequate level would be an unsafe and unsound banking practice and that banking organizations should generally pay dividends only out of current operating earnings. In addition, in the current financial and economic environment, the Federal Reserve has indicated that bank holding companies should carefully review their dividend policy and has discouraged payment ratios that are at maximum allowable levels unless both asset quality and capital are very strong.

A significant portion of our income comes from dividends from our bank, which is also the primary source of our liquidity. In addition to the restrictions discussed above, our bank is subject to limitations under South Dakota law regarding the level of dividends that it may pay to us. In general, dividends by our bank may only be declared from its net profits and may be declared no more than once per calendar quarter. The approval of the South Dakota Director of Banking is required if our bank seeks to pay aggregate dividends during any calendar year that would exceed the sum of its net profits from the year to date and retained net profits from the preceding two years, minus any required transfers to surplus.

In October 2012, as required by the Dodd-Frank Wall Street Reform and Consumer Protection Act, or the Dodd-Frank Act, the Federal Reserve and the FDIC published final rules regarding company-run stress testing. These rules require bank holding companies and banks that meet the definition of a "covered bank" to conduct an annual company-run stress test of capital, consolidated earnings and losses under one base and at least two stress scenarios provided by the federal bank regulators. A "covered bank" is a bank holding company or a bank which has an average of consolidated assets over the four most recent consecutive quarters greater than $10 billion. We became a "covered bank" as of June 30, 2016 and as such we will report our first stress test under the 2018 year stress test cycle. We have an ongoing project to ensure that we are able to meet these requirements in a timely fashion and have completed an internal dry run of the stress test cycle during 2017 to increase preparedness for our 2018 submission. Neither we nor our bank is currently subject to the stress testing requirements, but we expect that once we are subject to those requirements, the Federal Reserve, the FDIC and the South Dakota Division of Banking will consider our results as an important factor in evaluating our capital adequacy, and that of our bank, in evaluating any proposed acquisitions and in determining whether any proposed dividends or stock repurchases by us or by our bank may be an unsafe or unsound practice.

Transactions with Affiliates

Transactions between our bank and its subsidiaries, on the one hand, and Great Western or any other subsidiary, on the other hand, are regulated under Sections 23A and 23B of the Federal Reserve Act. The Federal Reserve Act imposes quantitative and qualitative requirements and collateral requirements on covered transactions by Great Western Bank with, or for the benefit of, its affiliates. Generally, Sections 23A and 23B limit the extent to which our bank or its subsidiaries may engage in "covered transactions" with any one affiliate to an amount equal to 10% of our bank's capital stock and surplus, and contain an aggregate limit on all such transactions with all affiliates to an amount equal to 20% of such capital stock and surplus, and requires those transactions to be on terms at least as favorable to our bank as if the transaction were conducted with an unaffiliated third party. Covered transactions are defined by statute to include a loan or extension of credit, as well as a purchase of securities issued by an affiliate, a purchase of assets (unless otherwise exempted by the Federal Reserve) from the affiliate, certain derivative transactions that create a credit exposure to an affiliate, the acceptance of securities issued by the affiliate as collateral for a loan, and the issuance of a guarantee, acceptance or letter of credit on behalf of an affiliate. In addition, any credit transactions with an affiliate must be secured by designated amounts of specified collateral.

Federal law also limits a bank's authority to extend credit to its directors, executive officers and 10% (or greater) stockholders, as well as to entities controlled by such persons. Among other things, extensions of credit to insiders are required to be made on terms that are substantially the same as, and follow credit underwriting procedures that are not less stringent than, those prevailing for comparable transactions with unaffiliated persons. Also, the terms of such extensions of credit may not involve more than the normal risk of non-repayment or present other unfavorable features and may not exceed certain limitations on the amount of credit extended to such persons individually and in the aggregate.

Source of Strength

Federal Reserve policy and federal law require bank holding companies to act as a source of financial and managerial strength to their subsidiary banks. Under this requirement, we are expected to commit resources to support our bank, including at times when we may not be in a financial position to provide such resources, and it may not be in our, or

our stockholders' or creditors', best interests to do so. In addition, any capital loans we make to our bank are subordinate in right of payment to depositors and to certain other indebtedness of our bank. In the event of our bankruptcy, any commitment by us to a federal bank regulatory agency to maintain the capital of our bank will be assumed by the bankruptcy trustee and entitled to priority of payment.

Regulatory Capital Requirements
The Federal Reserve monitors the capital adequacy of our holding company on a consolidated basis, and the FDIC and the South Dakota Division of Banking monitor the capital adequacy of our bank. The bank regulators use a combination of risk-based guidelines and a leverage ratio to evaluate capital adequacy. The risk-based capital guidelines applicable to us and our bank are based on the Basel Committee’s December 2010 final capital framework, known as Basel III, as implemented by the federal bank regulators. The risk-based guidelines are intended to make regulatory capital requirements sensitive to differences in credit and market risk profiles among banks and bank holding companies, to account for off-balance sheet exposure and to minimize disincentives for holding liquid assets. Assets and off-balance sheet items are assigned to weighted risk categories, and capital is classified in one of the following tiers depending on its characteristic:
Common Equity Tier 1 ("CET1") Capital CET1 capital for us includes common equity, surplus and retained earnings less goodwill, most intangible assets and certain other assets. The capital rules require bank holding companies and banks to include Accumulated Other Comprehensive Income ("AOCI") into CET1 unless the bank and bank holding company use a one-time election to exclude AOCI from its regulatory capital metrics on January 1st, 2015. We elected to exclude AOCI from CET1.
Tier 1 (Core) Capital-Tier 1 capital for us includes CET1 and qualifying trust preferred securities at the holding company level, less goodwill, most intangible assets and certain other assets.
Tier 2 (Supplementary) Capital-Tier 2 capital for us includes qualifying subordinated debt and a limited amount of allowance for loan and lease losses.
Bank holding companies and banks are also currently required to comply with minimum leverage requirements, measured based on the ratio of a bank holding company’s or a bank’s, as applicable, Tier 1 capital to adjusted quarterly average total assets (as defined for regulatory purposes). These requirements generally necessitate a minimum Tier 1 leverage ratio of 4% for all bank holding companies and banks. To be considered “well capitalized” under the regulatory framework for prompt corrective action, our bank must maintain minimum Tier 1 leverage ratios of at least 5%. See “—Prompt Corrective Action Framework.”
Basel III and the Capital Rules. In July 2013, the federal bank regulators approved final rules, or the Capital Rules, implementing the Basel Committee’s December 2010 final capital framework for strengthening international capital standards, known as Basel III, and various provisions of the Dodd-Frank Act. The Capital Rules substantially revise the risk-based capital requirements applicable to bank holding companies and banks, including us and our bank, compared to the previous risk-based capital rules. The Capital Rules revise the components of capital and address other issues affecting the numerator in regulatory capital ratio calculations. The Capital Rules also address risk weights and other issues affecting the denominator in regulatory capital ratio calculations, including replacing the existing risk-weighting approach derived from Basel I with a more risk-sensitive approach based, in part, on the standardized approach adopted by the Basel Committee in its 2004 capital accords, known as Basel II. The Capital Rules also implement the requirements of Section 939A of the Dodd-Frank Act to remove references to credit ratings from the federal bank regulators’ rules. Subject to a phase-in period for various provisions, the Capital Rules became effective for us and for our bank beginning on January 1, 2015.
Under the Basel III Capital Rules, the minimum capital ratios are (i) 4.5% CET1 to risk-weighted assets, (ii) 6% Tier 1 capital (that is, CET1 plus Additional Tier 1 capital) to risk-weighted assets and (iii) 8% total capital (that is, Tier 1 capital plus Tier 2 capital) to risk-weighted assets.
The current capital rules also include a capital conservation buffer designed to absorb losses during periods of economic stress. The capital conservation buffer is composed entirely of CET1, on top of these minimum risk-weighted asset ratios. In addition, the Capital Rules provide for a countercyclical capital buffer applicable only to certain covered institutions. We do not expect the countercyclical capital buffer to be applicable to us or our bank. Banking institutions with a ratio of CET1 to risk-weighted assets above the minimum but below the capital conservation buffer (or below the combined capital conservation buffer and countercyclical capital buffer, when the latter is applied) will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall.
The implementation of the capital conservation buffer began on January 1, 2016 at the 0.625% level and will be phased in over a three-year period (increasing by 0.625% on each subsequent January 1, until it reaches 2.5% on

January 1, 2019). When fully phased-in, the Capital Rules will require us, and our bank, to maintain an additional capital conservation buffer of 2.5% of CET1, effectively resulting in minimum ratios of (i) 7% CET1 to risk-weighted assets, (ii) 8.5% Tier 1 capital to risk-weighted assets, and (iii) 10.5% total capital to risk-weighted assets.

The Capital Rules provide for a number of deductions from and adjustments to CET1. These include, for example, the requirement that mortgage servicing rights, certain deferred tax assets and significant investments in non-consolidated financial entities be deducted from CET1 to the extent that any one such category exceeds 10% of CET1 or all such categories in the aggregate exceed 15% of CET1. Implementation of the deductions and other adjustments to CET1 began on January 1, 2015 and will be phased in over a four-year period (beginning at 40% on January 1, 2015 and an additional 20% per year thereafter). The Capital Rules also generally preclude certain hybrid securities, such as trust preferred securities, from being counted as Tier 1 capital for most bank holding companies. Bank holding companies such as us who had less than $15 billion in assets as of December 31, 2009 (and who continue to have less than $15 billion in assets) are permitted to include trust preferred securities issued prior to May 19, 2010 as Additional Tier 1 capital under the Capital Rules, however.

The Capital Rules also prescribed a new standardized approach for risk weightings that expanded the risk-weighting categories from the current four Basel I-derived categories (0%, 20%, 50% and 100%) to a much larger and more risk-sensitive number of categories, depending on the nature of the assets, generally ranging from 0%, for U.S. government and agency securities, to 600%, for certain equity exposures, and resulting in higher risk weights for a variety of asset categories.

With respect to our bank, the Capital Rules also revised the prompt corrective action regulations pursuant to Section 38 of the Federal Deposit Insurance Act, or the FDIA. See "—Prompt Corrective Action Framework."

We believe that, as of September 30, 2017, we and our bank would meet all capital adequacy requirements under the Capital Rules on a fully phased-in basis as if such requirements were then in effect.

Liquidity Requirements

Historically, the regulation and monitoring of bank and bank holding company liquidity has been addressed as a supervisory matter, without required formulaic measures. The Basel III final framework requires banks and bank holding companies to measure their liquidity against specific liquidity tests that, although similar in some respects to liquidity measures historically applied by banks and regulators for management and supervisory purposes, going forward would be required by regulation. One test, referred to as the liquidity coverage ratio, or LCR, is designed to ensure that the banking entity maintains an adequate level of unencumbered high-quality liquid assets equal to the entity's expected net cash outflow for a 30-day time horizon (or, if greater, 25% of its expected total cash outflow) under an acute liquidity stress scenario. The other test, referred to as the net stable funding ratio, or NSFR, is designed to promote more medium- and long-term funding of the assets and activities of banking entities over a one-year time horizon. These requirements will incentivize banking entities to increase their holdings of U.S. Treasury securities and other sovereign debt as a component of assets and increase the use of long-term debt as a funding source.

In September 2015, the federal bank regulators approved final rules implementing the LCR for advanced approaches banking organizations (i.e., banking organizations with $250 billion or more in total consolidated assets or $10 billion or more in total on-balance sheet foreign exposure) and a modified version of the LCR for bank holding companies with at least $50 billion in total consolidated assets that are not advanced approach banking organizations, neither of which would apply to us or our bank. The federal bank regulators have not yet proposed rules to implement the NSFR, but the Federal Reserve has stated its intent to adopt a version of this measure as well.

Prompt Corrective Action Framework

The FDIA requires the federal bank regulators to take prompt corrective action in respect of depository institutions that fail to meet specified capital requirements. The FDIA establishes five capital categories ("well-capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized" and "critically undercapitalized"), and the federa bank regulators are required to take certain mandatory supervisory actions, and are authorized to take other discretionary actions, with respect to institutions that are undercapitalized, significantly undercapitalized or critically undercapitalized. The severity of these mandatory and discretionary supervisory actions depends upon the capital category in which the institution is placed. Generally, subject to a narrow exception, the FDIA requires the regulator to appoint a receiver or conservator for an institution that is critically undercapitalized.

An institution may be downgraded to, or deemed to be in, a capital category that is lower than indicated by its capital ratios if it is determined to be in an unsafe or unsound condition or if it receives an unsatisfactory examination rating with respect to certain matters. A bank's capital category is determined solely for the purpose of applying prompt corrective action regulations, and the capital category may not constitute an accurate representation of the bank's

overall financial condition or prospects for other purposes.

The Capital Rules revised the current prompt corrective action requirements effective January 1, 2015 by (i) introducing a CET1 ratio requirement at each level (other than critically undercapitalized), with the required CET1 ratio being 6.5% for well-capitalized status; (ii) increasing the minimum Tier 1 capital ratio requirement for each category (other than critically undercapitalized), with the minimum Tier 1 capital ratio for well-capitalized status being 8% (as compared to the previous 6%); and (iii) eliminating the provision that provided that a bank with a composite supervisory rating of 1 may have a 3% leverage ratio and still be adequately capitalized. The Capital Rules do not change the total risk-based capital requirement for any prompt corrective action category.

As of September 30, 2017, we and our bank were well capitalized with Tier 1 capital ratios of 11.4% and 11.6%, respectively, total capital ratios of 12.5% and 12.2%, respectively, Tier 1 leverage ratios of 10.3% and 10.4%, respectively, and a CET1 ratio of 10.7% and 11.6%, respectively, as calculated under Basel III which went into effect on January 1, 2015. For more information on these financial measures, including reconciliations to our and our bank's Tier 1 capital ratio, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Capital."

An institution that is categorized as undercapitalized, significantly undercapitalized or critically undercapitalized is required to submit an acceptable capital restoration plan to its appropriate federal bank regulator. Under the FDIA, in order for the capital restoration plan to be accepted by the appropriate federal banking agency, a bank holding company must guarantee that a subsidiary depository institution will comply with its capital restoration plan, subject to certain limitations. The bank holding company must also provide appropriate assurances of performance. The obligation of a controlling bank holding company under the FDIA to fund a capital restoration plan is limited to the lesser of 5% of an undercapitalized subsidiary's assets or the amount required to meet regulatory capital requirements. An undercapitalized institution is also generally prohibited from increasing its average total assets, making acquisitions and capital distributions, establishing any branches or engaging in any new line of business, except in accordance with an accepted capital restoration plan or with the approval of the FDIC. Institutions that are undercapitalized or significantly undercapitalized and either fail to submit an acceptable capital restoration plan or fail to implement an approved capital restoration plan may be subject to a number of requirements and restrictions, including orders to sell sufficient voting stock to become adequately capitalized, requirements to reduce total assets and cessation of receipt of deposits from correspondent banks. Critically undercapitalized depository institutions failing to submit or implement an acceptable capital restoration plan are subject to appointment of a receiver or conservator.

In addition, the FDIA prohibits an insured depository institution from accepting brokered deposits or offering interest rates on any deposits significantly higher than the prevailing rate in the bank's normal market area or nationally (depending upon where the deposits are solicited), unless it is well capitalized or is adequately capitalized and receives a waiver from the FDIC. A depository institution that is adequately capitalized and accepts brokered deposits under a waiver from the FDIC may not pay an interest rate on any deposit in excess of 75 basis points over certain prevailing market rates.

Safety and Soundness Standards

The federal banking agencies have adopted the Interagency Guidelines for Establishing Standards for Safety and Soundness. The guidelines establish general standards relating to internal controls and information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, asset quality, earnings and compensation, fees and benefits. In general, these guidelines require, among other things, appropriate systems and practices to identify and manage the risk and exposures specified in the guidelines. These guidelines also prohibit excessive compensation as an unsafe and unsound practice and describe compensation as excessive when the amounts paid are unreasonable or disproportionate to the services performed by an executive officer, employee, director or principal stockholder. In addition, the agencies adopted regulations that authorize, but do not require, an agency to order an institution that has been given notice by an agency that it is not satisfying any of such safety and soundness standards to submit a compliance plan. If, after being so notified, an institution fails to submit an acceptable compliance plan or fails in any material respect to implement an acceptable compliance plan, the bank regulator must issue an order directing action to correct the deficiency and may issue an order directing other actions of the types to which an undercapitalized institution may be subject under the FDIA. See "—Prompt Corrective Action Framework." If an institution fails to comply with such an order, the bank regulator may seek to enforce such order in judicial

proceedings and to impose civil money penalties.

Deposit Insurance

FDIC Insurance Assessments. As an FDIC-insured bank, our bank must pay deposit insurance assessments to the FDIC based on its average total assets minus its average tangible equity. Our bank’s assessment rates are currently based on its risk classification (i.e., the level of risk it poses to the FDIC’s deposit insurance fund). Institutions classified as higher risk pay assessments at higher rates than institutions that pose a lower risk. With the acquisition of HF Financial in 2016, our total assets exceeded $10 billion as of the quarter ended June 30, 2016. Since our bank's total consolidated assets have exceeded $10 billion for four consecutive quarters, the FDIC uses a performance score and a loss-severity score to calculate the assessment rate. In calculating these scores, the FDIC uses a bank’s capital level and regulatory supervisory ratings and certain financial measures to assess an institution’s ability to withstand asset-related stress and funding-related stress. The FDIC also has the ability to make discretionary adjustments to the total score based upon significant risk factors that are not adequately captured in the calculations. In addition to ordinary assessments described above, the FDIC has the ability to impose special assessments in certain instances.

The FDIC’s deposit insurance fund is currently underfunded, and the FDIC has raised assessment rates and imposed special assessments on certain institutions during recent years to raise funds. In October 2010, the FDIC adopted a restoration plan to ensure that the fund reserve ratio reaches 1.35% by September 30, 2020, as required by the Dodd-Frank Act. In March of 2016, the FDIC approved a final rule to meet this requirement by 2018. To meet the minimum reserve ratio by 2018, during the third calendar quarter of 2016 the FDIC began assessing banks with consolidated assets of more than $10 billion a surcharge assessment of 0.045%. The surcharge will continue through the earlier of the quarter that the reserve ratio first reaches or exceeds 1.35% and December 30, 2018.

Under the FDIA, the FDIC may terminate deposit insurance upon a finding that the institution has engaged in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC.

Other Assessments. In addition, the Deposit Insurance Funds Act of 1996 authorized the Financing Corporation to impose assessments on deposit insurance fund applicable deposits in order to service the interest on the Financing Corporation’s bond obligations from deposit insurance fund assessments. The amount assessed on individual institutions is in addition to the amount, if any, paid for deposit insurance according to the FDIC’s risk-related assessment rate schedules. Assessment rates may be adjusted quarterly to reflect changes in the assessment base.

Heightened Requirements for Bank Holding Companies with $10 Billion or More in Assets

Various federal banking laws and regulations, including rules adopted by the Federal Reserve pursuant to the requirements of the Dodd-Frank Act, impose heightened requirements on certain large banks and bank holding companies. Most of these rules apply primarily to bank holding companies with at least $50 billion in total consolidated assets, but certain rules also apply to banks and bank holding companies with at least $10 billion in total consolidated assets. With the acquisition of HF Financial on May 16, 2016, our total consolidated assets exceeded $10 billion. As the average of our total consolidated assets over the four most recent quarters exceeds $10 billion we are required to perform annual stress tests as described above in "—Dividends; Stress Testing" and below in "—Capital and Stress Testing Requirements". Because our bank’s total consolidated assets equal or exceed $10 billion, we or our bank, as applicable, will, among other requirements:

- be required to have a dedicated risk committee of our Board of Directors responsible for overseeing our enterprise-wide risk management policies, which must be commensurate with our capital structure, risk profile, complexity, activities, size and other appropriate risk-related factors, and including as a member at least one risk management expert;
- calculate our FDIC deposit assessment base using the performance score and a loss-severity score system described above in “—Deposit Insurance;” and
- be examined for compliance with federal consumer protection laws primarily by the Consumer Financial Protection Bureau, or CFPB, as described below in “—Consumer Financial Protection.”

Prior to exceeding $10 billion in total consolidated assets, we began analyzing these rules to ensure we were prepared to comply with these rules as applicable. We have established a Board Risk Committee and are running periodic and selective stress tests on liquidity, interest rates and certain areas of our loan portfolio.

The Volcker Rule

The Dodd-Frank Act prohibits insured depository institutions and their holding companies from engaging in proprietary trading except in limited circumstances, and prohibits them from owning equity interests in excess of three percent (3%) of Tier 1 Capital in private equity and hedge funds (known as the "Volcker Rule"). In December 2013, federal regulators adopted final rules to implement the Volcker Rule. The Final Rules prohibit banking entities from (1) engaging in short-term proprietary trading for their own accounts, and (2) having certain ownership interests in and relationships with hedge funds or private equity funds, which are referred to as "covered funds". The Final Rules are intended to provide greater clarity with respect to both the extent of those primary prohibitions and of the related exemptions and exclusions. The Final Rules also require each regulated entity to establish an internal compliance program that is consistent with the extent to which it engages in activities covered by the Volcker Rule, which must include (for the largest entities) making regular reports about those activities to regulators. Although the Final Rules provide some tiering of compliance and reporting obligations based on size, the fundamental prohibitions of the Volcker Rule apply to banking entities of any size, including the Great Western and our bank. Although the Final Rules were effective April 1, 2014, the Federal Reserve issued an order extending the period that institutions have to conform their activities to the requirements of the Volcker Rule to July 21, 2015. In addition, the Federal Reserve granted an extension until July 21, 2016 of the conformance period for banking entities to conform investments in and relationships with covered funds that were in place prior to December 31, 2013, and announced its intention to further extend this aspect of the conformance period until July 21, 2017. Great Western has evaluated the implications of the Final Rules on its investments and does not expect any material financial implications.

Depositor Preference

Under federal law, depositors (including the FDIC with respect to the subrogated claims of insured depositors) and certain claims for administrative expenses of the FDIC as receiver would be afforded a priority over other general unsecured claims against such an institution in the “liquidation or other resolution” of such an institution by any receiver.

Interstate Branching

Pursuant to the Dodd-Frank Act, national and state-chartered banks, such as our bank, may open an initial branch in a state other than its home state (e.g., a host state) by establishing a de novo branch at any location in such host state at which a bank chartered in such host state could establish a branch. Applications to establish such branches must still be filed with the appropriate primary federal regulator and, where applicable, the bank's state regulatory authority. As our bank is a South Dakota state chartered bank, we are required to file branch applications with both the FDIC and the South Dakota Division of Banking.

Capital and Stress Testing Requirements

Capital Requirements

We are subject to various regulatory capital requirements both at the Company and at the Bank level administered by the Federal Reserve and the FDIC, respectively. Failure to meet minimum capital requirements could result in certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have an adverse material effect on our financial condition and results of operations. Under capital adequacy guidelines and the regulatory framework for prompt corrective action (described below), we must meet specific capital guidelines that involve quantitative measures of our assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting policies. Our capital amounts and classification are also subject to judgments by the regulators regarding qualitative components, risk weightings, and other factors. We have consistently maintained regulatory capital ratios at or above the well capitalized standards.

In July 2013, the Federal regulators issued final rules establishing a new comprehensive capital framework for U.S. banking organizations. These rules implemented certain provisions of the Dodd-Frank Act and a separate international framework established by the Basel Committee on Banking Supervision for the regulation of capital and liquidity, generally referred to as "Basel III". The final rules seek to strengthen the components of regulatory capital, increase risk-based capital requirements, and make selected changes to the calculation of risk-weighted assets. The final rules, among other things:

- revise minimum capital requirements and adjust prompt corrective action thresholds;
-

revise the components of regulatory capital and create a new capital measure called "Common Equity Tier 1", which must constitute at least 4.5% of risk-weighted assets;

- specify that Tier 1 capital consists only of Common Equity Tier 1 and certain "Additional Tier 1 Capital" instruments meetings specified requirements;
- apply most deductions/adjustments to regulatory capital measures to Common Equity Tier 1 and not to other components of capital, potentially requiring higher levels of Common Equity Tier 1 in order to meet minimum ratio requirements;
- increase the minimum Tier 1 capital ratio requirements from 4% to 6%;
- retain the existing risk-based capital treatment for 1-4 family residential mortgage exposures;
- permit most banking organizations, including Great Western, to retain, through a one-time permanent election, the existing capital treatment for accumulated other comprehensive income;
- implement a new capital conservation buffer of Common Equity Tier 1 capital equal to 2.5% of risk-weighted assets, which will be in addition to the 4.5% Common Equity Tier 1 capital ratio and be phased in over a three year period beginning January 1, 2016 (this buffer is generally required to make capital distributions and pay executive bonuses);
- increase capital requirements for past-due loans, high volatility commercial real estate exposures, and certain short-term loan commitments;
- require the deduction of mortgage servicing assets and deferred tax assets that exceed 10% of Common Equity Tier 1 capital in each category and 15% of Common Equity Tier 1 capital in the aggregate; and
- remove references to credit ratings consistent with the Dodd-Frank Act and establish due diligence requirements for securitization exposures.

The Basel III Rules also require FDIC-insured state non-member banks and bank holding companies with total consolidated assets of more than $10 billion ("covered institutions") to establish a "capital conservation buffer" (consisting entirely of common equity Tier 1 capital) that will be 2.5% above the new regulatory minimum capital requirements when it is fully phased in. The result will be an increase in the minimum common equity Tier 1, Tier 1, and Total capital ratios to 7.0%, 8.5%, and 10.5%, respectively.

The new capital conservation buffer requirement is being phased in beginning in January 2016 at 0.625% of risk-weighted assets and will increase by that amount each year until fully implemented in January 2019. An institution can be subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if its capital levels fall below these amounts. The Basel III Rules also establish a maximum percentage of eligible retained income that can be utilized for such capital distributions.

The Basel III Rules also eliminate the inclusion of certain instruments, such as trust preferred securities, from Tier 1 capital. In addition, Tier 2 capital is no longer limited to the amount of Tier 1 capital included in total capital. In addition, certain deferred tax assets, and investments in unconsolidated subsidiaries over designated percentages of common stock, will be required to be deducted from capital, subject to a two-year transition period. Finally, Tier 1 capital will include accumulated other comprehensive income, which includes all unrealized gains and losses on available-for-sale debt and equity securities.

Under the final rules, compliance was required beginning January 1, 2015 for most banking organizations, including Great Western Bank, subject to a transition period for several aspects of the final rules, including the new minimum capital ratio requirements, the capital conservation buffer, and the regulatory capital adjustments and deductions. Requirements to maintain higher levels of capital could adversely impact our return on equity. We believe we will continue to exceed all estimated well-capitalized regulatory requirements under these new rules on a fully phased-in basis. For further detail on capital and capital ratios see discussion under Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," sections "Liquidity" and "Capital".

Capital Planning and Stress Testing Requirements

On October 12, 2012, the federal bank regulatory agencies published final rules implementing the company-run stress test requirements mandated by the Dodd-Frank Act for U.S. bank holding companies with total consolidated assets of $10 billion to $50 billion. Under the rules, we will be required to conduct annual company-run stress tests using different scenarios (baseline, adverse and severely adverse) provided annually by the Federal Reserve and the FDIC. The stress test is designed to assess the potential impact of different scenarios on earnings, losses and capital over a set time period, with consideration given to certain factors, including the organization's condition, risks, exposures, strategies and activities. The banking agencies have issued guidance on stress testing for banking organizations with more than $10 billion in total consolidated assets. This guidance outlines four "high-level" principles for stress testing practices that regulators expect banking organizations to include in their stress testing framework. In particular, the stress testing framework should (i) include activities and exercises that are tailored to and sufficiently capture the banking organization's exposures, activities and risks, (ii) employ multiple conceptually sound stress testing activities and approaches, (iii) be forward-looking and flexible, and (iv) be clear, actionable, well-supported, and used in the decision-making process.

Banking organizations with total consolidated assets of $10 billion to $50 billion will be required to report the results of the stress test by July 31 of each year, using data as of December 31 of the preceding year, and subsequently publish a summary of the results between October 15 and October 31. We anticipate that our pro forma capital ratios, as reflected in the stress test calculations under the required stress test scenarios, will be an important factor considered by the Federal Reserve in evaluating whether proposed payments of dividends or stock repurchases are consistent with its prudential adverse scenarios could adversely impact our net income and our return on equity.

Prompt Corrective Regulatory Action

Federal law requires, among other things, that federal bank regulatory authorities take "prompt corrective action" with respect to institutions that do not meet minimum capital requirements. For such purposes, the law establishes five capital tiers: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized.

As a result of the Basel III Rules, new definitions of the relevant measures for the five capital categories took effect on January 1, 2015. An institution is deemed is deemed to be "well capitalized" if it has a total risk-based capital ratio of 10% or greater, a Tier 1 risk-based capital ratio of 8% or greater, a common equity Tier 1 risk-based capital ratio of 6.5% or greater, and a leverage capital ratio of 5% or greater, and is not subject to a regulatory order, agreements, or directive to meet and maintain a specific capital level for any capital measure.

An institution is deemed to be "adequately capitalized" if it has a total risk-based capital ratio of 8% or greater, a Tier 1 risk-based capital ratio of 6% or greater, a common equity Tier 1 risk-based capital ratio of 4.5% or greater, and generally a leverage capital ratio of 4% or greater.

An institution is deemed to be "undercapitalized if it has a total risk-based capital ratio of less than 8%, a Tier 1 risk-based capital ratio of less than 6%, a common equity Tier 1 risk-based capital ratio of less than 4.5%, or generally a leverage capital ratio of less than 4%. An institution is deemed to be "significantly undercapitalized" if it has a total risk-based capital ratio of less than 6%, a Tier 1 risk-based capital ratio of less than 4%, a common equity Tier 1 risk-based capital ratio of less than 3%, or a leverage capital ratio of less than 3%. An institution is deemed to be "critically undercapitalized" if it has a ratio of tangible equity (as defined in the regulations) to total assets that is equal to or less than 2%.

"Undercapitalized" institutions are subject to growth, capital distribution (including dividend), and other limitations, and are required to submit a capital restoration plan. An institution's compliance with such a plan is required to be guaranteed by any company that controls the undercapitalized institution in an amount equal to the lesser of 5% of the bank's total assets when deemed undercapitalized or the amount necessary to achieve the status of adequately capitalized. If an undercapitalized institution fails to submit an acceptable plan, it is treated as if it is "significantly undercapitalized". Significantly undercapitalized institutions are subject to one or more additional restrictions including, but not limited to, an order by the FDIC to sell sufficient voting stock to become adequately capitalized; requirements to reduce total assets, cease receipt of deposits from correspondent banks, or dismiss directors or officers; and restrictions on interest rates paid on deposits, compensation of executive officers, and capital distributions by the parent holding company.

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Beginning 60 days after becoming "critically undercapitalized", critically undercapitalized institutions also may not make any payment of principal or interest on certain subordinated debt, extend credit for a highly leveraged transaction, or enter into any material transaction outside the ordinary course of business. In addition, subject to a narrow exception, the appointment of a receiver is required for a critically undercapitalized institution within 270 days after it obtains such status.

Interchange Fees

Under the Durbin Amendment to the Dodd-Frank Act, the Federal Reserve adopted rules establishing standards for assessing whether the interchange fees that may be charged with respect to certain electronic debit transactions are “reasonable and proportional” to the costs incurred by issuers for processing such transactions.

Interchange fees, or “swipe” fees, are charges that merchants pay to us and other card-issuing banks for processing electronic payment transactions. Under the final rules, the maximum permissible interchange fee is equal to no more than 21 cents plus 5 basis points of the transaction value for many types of debit interchange transactions. The Federal Reserve also adopted a rule to allow a debit card issuer to recover 1 cent per transaction for fraud prevention purposes if the issuer complies with certain fraud-related requirements required by the Federal Reserve. The Federal Reserve also has rules governing routing and exclusivity that require issuers to offer two unaffiliated networks for routing transactions on each debit or prepaid product.

As we exceeded $10 billion in assets during the third quarter of fiscal year 2016, effective July 1, 2017 we became subject to the interchange fee cap, and no longer qualify for the small issuer exemption. The small issuer exemption applies to any debit card issuer that, together with its affiliates, has total assets of less than $10 billion as of the end of the previous calendar year.

Consumer Financial Protection

We are subject to a number of federal and state consumer protection laws that extensively govern our relationship with our customers. These laws include the Equal Credit Opportunity Act, the Fair Credit Reporting Act, the Truth in Lending Act, the Truth in Savings Act, the Electronic Fund Transfer Act, the Expedited Funds Availability Act, the Home Mortgage Disclosure Act, the Fair Housing Act, the Real Estate Settlement Procedures Act, the Fair Debt Collection Practices Act, Fair Credit Reporting Act, the Service Members Civil Relief Act, the Right to Financial Privacy Act, Telephone Consumer Protection Act, CAN-SPAM Act, and these laws’ respective state-law counterparts, as well as state usury laws and laws regarding unfair and deceptive acts and practices. These and other federal laws, among other things, require disclosures of the cost of credit and terms of deposit accounts, provide substantive consumer rights, prohibit discrimination in credit transactions, regulate the use of credit report information, provide financial privacy protections, prohibit unfair, deceptive and abusive practices, restrict our ability to raise interest rates and subject us to substantial regulatory oversight. Violations of applicable consumer protection laws can result in significant potential liability from litigation brought by customers, including actual damages, restitution and attorneys’ fees. Federal bank regulators, state attorneys general and state and local consumer protection agencies may also seek to enforce consumer protection requirements and obtain these and other remedies, including regulatory sanctions, customer rescission rights, action by the state and local attorneys general in each jurisdiction in which we operate and civil money penalties. Failure to comply with consumer protection requirements may also result in our failure to obtain any required bank regulatory approval for merger or acquisition transactions we may wish to pursue or our prohibition from engaging in such transactions even if approval is not required.

The Dodd-Frank Act created a new, independent federal agency, the Consumer Financial Protection Bureau ("CFPB"), which was granted broad rulemaking, supervisory and enforcement powers under various federal consumer financial protection laws. The CFPB is also authorized to engage in consumer financial education, track consumer complaints, request data and promote the availability of financial services to underserved consumers and communities. Although all institutions are subject to rules adopted by the CFPB and examination by the CFPB in conjunction with examinations by the institution’s primary federal regulator, the CFPB has primary examination and enforcement authority over institutions with assets of $10 billion or more. Our consolidated assets exceeded $10 billion in the third quarter of 2016 and we are now subject to CFPB examination of our bank and enforcement with respect to various federal consumer protection laws, as well as continued examination by the Federal Deposit Insurance Corporation on certain consumer regulations. State authorities are also responsible for monitoring our compliance with all state consumer laws.

The consumer protection provisions of the Dodd-Frank Act and the examination, supervision and enforcement of those laws and implementing regulations by the CFPB have created a more intense and complex environment for consumer finance regulation. The CFPB has significant authority to implement and enforce federal consumer finance laws, including the Truth in Lending Act, the Equal Credit Opportunity Act and new requirements for financial services products provided for in the Dodd-Frank Act, as well as the authority to identify and prohibit unfair, deceptive or abusive acts and practices. The CFPB has broad rulemaking authority for a wide range of consumer financial laws that apply to all banks including, among other things, the authority to prohibit "unfair, deceptive, or

abusive" acts and practices. The review of products and practices to prevent such acts and practices is a continuing focus of the CFPB, and of banking regulators more broadly. The ultimate impact of this heightened scrutiny is uncertain but could result in changes to pricing, practices, products and procedures. It could also result in increased costs related to regulatory oversight, supervision and examination, additional remediation efforts and possible penalties. In addition, the Dodd-Frank Act provides the CFPB with broad supervisory, examination and enforcement authority over various consumer financial products and services, including the ability to require reimbursements and other payments to customers for alleged legal violations and to impose significant penalties, as well as injunctive relief that prohibits lenders from engaging in allegedly unlawful practices. The CFPB also has the authority to obtain cease and desist orders providing for affirmative relief or monetary penalties. The Dodd-Frank Act does not prevent states from adopting stricter consumer protection standards. State regulation of financial products and potential enforcement actions could also adversely affect our business, financial condition or results of operations.

Community Reinvestment Act of 1977

Under the CRA, our bank has an obligation, consistent with safe and sound operations, to help meet the credit needs of the market areas where it operates, which includes providing credit to low- and moderate-income individuals and communities. In connection with its examination of our bank, the FDIC is required to assess our bank’s compliance with the CRA. Our bank’s failure to comply with the CRA could, among other things, result in the denial or delay in certain corporate applications filed by us or our bank, including applications for branch openings or relocations and applications to acquire, merge or consolidate with another banking institution or holding company. Our bank received an overall rating of “satisfactory” in its most recently completed CRA examination.

Financial Privacy

The federal bank regulators have adopted rules limiting the ability of banks and other financial institutions to disclose non-public information about consumers to unaffiliated third parties. These limitations require disclosure of privacy policies to consumers and, in some circumstances, allow consumers to prevent disclosure of certain personal information to an unaffiliated third party. These regulations affect how consumer information is transmitted through diversified financial companies and conveyed to outside vendors.

Anti-Money Laundering and the USA PATRIOT ACT

A major focus of governmental policy on financial institutions in recent years has been aimed at combating money laundering and terrorist financing. The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, or the USA Patriot Act, substantially broadened the scope of United States anti-money laundering laws and regulations by imposing significant new compliance and due diligence obligations, creating new crimes and penalties and expanding the extra-territorial jurisdiction of the United States in these areas: customer identification programs, money laundering, terrorist financing, identifying and reporting suspicious activities and currency transactions, currency crimes, and cooperation between financial institutions and law enforcement authorities. The Financial Crimes Enforcement Agency, among other federal agencies, also promulgates rules and regulations regarding the USA Patriot Act that Financial Institutions are required to comply. Financial institutions are prohibited from entering into specified financial transactions and account relationships and must use enhanced due diligence procedures in their dealings with certain types of high-risk customers and implement a written customer identification program. Financial institutions must take certain steps to assist government agencies in detecting and preventing money laundering and report certain types of suspicious transactions. Regulatory authorities routinely examine financial institutions for compliance with these obligations, and failure of a financial institution to maintain and implement adequate programs to combat money laundering and terrorist financing, or to comply with all of the relevant laws or regulations, could have serious legal and reputational consequences for the institution, including causing applicable bank regulatory authorities not to approve merger or acquisition transactions when regulatory approval is required or to prohibit such transactions even if approval is not required. Regulatory authorities have imposed cease and desist orders and civil money penalties against institutions found to be violating these obligations.

Office of Foreign Assets Control Regulation

The U.S. Treasury Department’s Office of Foreign Assets Control, or OFAC, administers and enforces economic and trade sanctions against targeted foreign countries and regimes, under authority of various laws, including designated foreign countries, nationals and others. OFAC publishes lists of specially designated targets and countries. We and our

bank are responsible for, among other things, blocking accounts of, and transactions with, such targets and countries, prohibiting unlicensed trade and financial transactions with them and reporting blocked transactions after their occurrence. Failure to comply with these sanctions could have serious legal and reputational consequences, including causing applicable bank regulatory authorities not to approve merger or acquisition transactions when regulatory approval is required or to prohibit such transactions even if approval is not required.

Incentive Compensation

The Dodd-Frank Act requires the federal bank regulators and the SEC to maintain guidelines prohibiting incentive-based payment arrangements at specified regulated entities, including us and our bank, having at least $1 billion in total assets that encourage inappropriate risks by providing an executive officer, employee, director or principal stockholder with excessive compensation, fees, or benefits or that could lead to material financial loss to the entity.

The Federal Reserve will review, as part of the regular, risk-focused examination process, the incentive compensation arrangements of banking organizations, such as us, that are not “large, complex banking organizations.” These reviews will be tailored to each organization based on the scope and complexity of the organization’s activities and the prevalence of incentive compensation arrangements. The findings of the supervisory initiatives will be included in reports of examination. Deficiencies will be incorporated into the organization’s supervisory ratings, which can affect the organization’s ability to make acquisitions and take other actions. Enforcement actions may be taken against a banking organization if its incentive compensation arrangements, or related risk management control or governance processes, pose a risk to the organization’s safety and soundness and the organization is not taking prompt and effective measures to correct the deficiencies.

Future Legislation and Regulation

Congress may enact legislation from time to time that affects the regulation of the financial services industry, and state legislatures may enact legislation from time to time affecting the regulation of financial institutions chartered by or operating in those states. Federal and state regulatory agencies also periodically propose and adopt changes to their regulations or change the manner in which existing regulations are applied. The substance or impact of pending or future legislation or regulation, or the application thereof, cannot be predicted, although enactment of the proposed legislation could impact the regulatory structure under which we operate and may significantly increase our costs, impede the efficiency of our internal business processes, require us to increase our regulatory capital and modify our business strategy, and limit our ability to pursue business opportunities in an efficient manner. Our business, financial condition, results of operations or prospects may be adversely affected, perhaps materially, as a result.

Available Information

Our internet address is www.greatwesternbank.com. Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to these reports filed or furnished pursuant to Section 13(a) of the Exchange Act are available free of charge through our website (by clicking on the Investor Relations link at the bottom of the page) as soon as reasonably practicable after the filing or furnishing of such material with the SEC.

ITEM 1A. RISK FACTORS

Investing in our common stock involves a significant degree of risk. The material risks and uncertainties that management believes affect us are described below. Before investing in our common stock, you should carefully consider the risks and uncertainties described below, in addition to the other information contained in this Annual Report on Form 10-K. Any of the following risks, as well as risks that we do not know or currently deem immaterial, could have a material adverse effect on our business, financial condition or results of operations. As a result, the trading price of our common stock could decline, and you could lose some or all of your investment. Further, to the extent that any of the information in this report, or in other reports we file with the SEC, constitutes forward-looking statements, the risk factors below are cautionary statements identifying important factors that could cause actual results to differ materially from those expressed in any forward-looking statements made by us or on our behalf. See “Cautionary Note Regarding Forward-Looking Statements.”

Risks Related to Our Business

Our business may be adversely affected by conditions in the financial markets and economic conditions generally and in our states in particular.

Our financial performance generally, and in particular the ability of our borrowers to pay interest on and repay principal of outstanding loans and the value of collateral securing those loans, as well as demand for loans and other products and services we offer and whose success we rely on to drive our future growth, is highly dependent upon the business environment in the markets in which we operate, principally in our states, and in the United States as a whole. Unlike larger banks that are more geographically diversified, we provide banking and financial services to customers primarily in Arizona, Colorado, Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota and South Dakota. The economic conditions in these local markets may be different from, and in some instances worse than, the economic conditions in the United States as a whole. Some elements of the business environment that affect our financial performance include short-term and long-term interest rates, the prevailing yield curve, inflation and price levels (particularly for agricultural commodities), monetary policy, unemployment and the strength of the domestic economy and the local economy in the markets in which we operate. Unfavorable market conditions can result in a deterioration in the credit quality of our borrowers and the demand for our products and services, an increase in the number of loan delinquencies, defaults and charge-offs, additional provisions for loan and lease losses, adverse asset values and an overall material adverse effect on the quality of our loan portfolio. Unfavorable or uncertain economic and market conditions can be caused by declines in economic growth, business activity or investor or business confidence; limitations on the availability or increases in the cost of credit and capital; increases in inflation or interest rates; high unemployment; natural disasters; state or local government insolvency; or a combination of these or other factors.

In recent years, economic growth and business activity across a wide range of industries and regions in the U.S. has been slow and uneven. There are continuing concerns related to the level of U.S. government debt and fiscal actions that may be taken to address that debt, depressed oil prices and ongoing federal budget negotiations that may have a destabilizing effect on financial markets. There can be no assurance that economic conditions will continue to improve, and these conditions could worsen. Economic pressure on consumers and uncertainty regarding continuing economic improvement may result in changes in consumer and business spending, borrowing and saving habits. Such conditions could have a material adverse effect on the credit quality of our loans or our business, financial condition or results of operations.

The agricultural economy in our states has been affected by declines in prices and the rates of price growth for various crops and other agricultural commodities. Similarly, weaker prices could reduce the cash flows generated by farms and the value of agricultural land in our local markets and thereby increase the risk of default by our borrowers or reduce the foreclosure value of agricultural land and equipment that serve as collateral for certain of our loans. Further declines in commodity prices or collateral values may increase the incidence of default by our borrowers. Moreover, weaker prices might threaten farming operations in the United States, reducing market demand for agricultural lending. In particular, farm income has seen recent declines and in line with the downturn in farm income, farmland prices are coming under pressure. We monitor and review our agriculture portfolio to identify loans potentially affected by declines in agricultural commodity prices and lower collateral values and, where available, seek from the borrower credit enhancements such as additional collateral or government guarantees.

In addition, certain local economies in our states rely to varying extents on manufacturing, which has experienced steep declines in the United States over the last decade. Declines in agriculture or manufacturing in these local economies may cause the local commercial environment to decline, which may impact the credit quality of certain of our borrowers or reduce the demand for our products or services. Declines in manufacturing also may negatively affect the market for, and the value of, any industrial equipment or machinery and any raw materials used as collateral for any loans in our portfolio. While economic conditions in our states and the United States have shown signs of improvement, there can be no assurance that this improvement will continue.

We focus on originating business loans (in the form of commercial real estate loans and commercial and industrial loans), which may involve greater risk than residential mortgage lending.

As of September 30, 2017, our business lending, which consists of our CRE and commercial non-real estate loans, represented approximately $5.84 billion, or 64.9%, of our loan portfolio. Our CRE loans secured by owner-occupied

property and commercial non-real estate loans secured by business assets and guarantees from owners, which together form the core of our business banking focus, totaled approximately $2.94 billion, or 32.6%, of our loan portfolio at September 30, 2017, with undisbursed loan commitments for these loans amounting to an additional $760.3 million. We also had approximately $2.91 billion of other CRE loans (i.e., construction and development loans, multifamily residential real estate loans and CRE loans secured by commercial property that is not owner-occupied) at September 30, 2017, or 32.3% of our loan portfolio, including construction and development loans representing approximately 18.5% of our other CRE loans. Because payments on commercial non-real estate loans, owner-occupied CRE loans and other CRE loans are often dependent on the successful operation or development of the

property or business involved, repayment of such loans may be more sensitive than other types of loans to adverse conditions in the real estate market or the general economy. Collateral of all types, and particularly that of a specialized nature, may also experience significant declines in value in the short/medium term or the longer term. These types of loans may have a greater risk of loss than residential mortgage lending, in part because these loans are generally larger or more complex to underwrite than residential mortgages. In particular, real estate construction, acquisition and development loans have certain risks not present in other types of loans, including risks associated with construction cost overruns, project completion risk, general contractor credit risk and risks associated with the ultimate sale or use of the completed construction. If a decline in economic conditions or other issues cause difficulties for our borrowers of these types of business loans, if we fail to evaluate the credit of these loans accurately when we underwrite them or if we do not continue to monitor adequately the performance of these loans, our lending portfolio could experience delinquencies, defaults and credit losses that could have a material adverse effect on our business, financial condition or results of operations.

We originate agricultural loans which are dependent for repayment on the successful operation and management of the farm property, the health of the agricultural industry broadly, the location of the borrower in particular, and other factors outside of the borrower's control.

At September 30, 2017, our agricultural loans, consisting primarily of agricultural operating loans (e.g., loans to farm and ranch owners and operators) and agricultural real estate loans, were $2.12 billion, representing 23.6% of our total loan portfolio. At September 30, 2017, agricultural operating loans totaled $1.12 billion, or 12.5% of our loan portfolio; and agricultural real estate loans totaled $1.00 billion, or 11.1%, of our loan portfolio. The primary livestock of our customers to whom we have extended agricultural loans include dairy cows, hogs and feeder cattle, and the primary crops of our customers to whom we have extended agricultural loans include corn, soybeans and, to a lesser extent, wheat and cotton. In addition, we estimate that 10.0% of our commercial non-real estate loans and owner-occupied CRE loans were agriculture-related loans at September 30, 2017.

Agricultural markets are highly sensitive to real and perceived changes in the supply and demand of agricultural products. As over 85% of our agricultural lending (excluding commercial non-real estate loans and owner-occupied CRE loans) is to farms producing grain, beef cattle, dairy products or hogs, our performance is closely related to the performance of, and supply and demand in, these agricultural sub-sectors. Weaker crop prices could reduce the cash flows of our borrowers and the value of agricultural land in our markets and thereby increase the risk of default by our borrowers or reduce the foreclosure value of agricultural land and equipment that serves as collateral for certain of our loans. In addition, weakness in the agricultural economy could negatively impact our agricultural related commercial non-real estate and CRE loans.

Our agricultural loans are dependent on the profitable operation and management of the farm property securing the loan and its cash flows. The success of a farm property may be affected by many factors outside the control of the borrower, including:

- adverse weather conditions (such as hail, drought and floods), restrictions on water supply or other conditions that prevent the planting of a crop or limit crop yields;
- loss of crops or livestock due to disease or other factors;
- declines in the market prices or demand for agricultural products (both domestically and internationally), for any reason;
- increases in production costs (such as the costs of labor, rent, feed, fuel and fertilizer);
- adverse changes in interest rates, currency exchange rates, agricultural land values or other factors that may affect delinquency levels and credit losses on agricultural loans;
- the impact of government policies and regulations (including changes in price supports, subsidies, government-sponsored crop insurance, minimum ethanol content requirements for gasoline, tariffs, trade barriers and health and environmental regulations);
- access to technology and the successful implementation of production technologies; and
- changes in the general economy that could affect the availability of off-farm sources of income and prices of real estate for borrowers.

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Declines in agricultural commodity prices may have a particularly negative effect on certain farm borrowers. Lower prices for agricultural products may cause farm revenues to decline and farm operators may be unable to reduce expenses as quickly as their revenues decline. In addition, many farms are dependent on a limited number of key individuals whose injury or death could significantly affect the successful operation of the farm. If the cash flow from a farming operation is diminished, the borrower's ability to repay the loan may be impaired. Consequently, agricultural loans may involve a greater degree of risk than residential mortgage lending, particularly in the case of loans that are unsecured or secured by rapidly depreciating assets such as farm equipment (some of which is highly specialized with a limited or no market for resale) or assets such as livestock or crops. In such cases, any repossessed collateral for a defaulted agricultural operating loan may not provide an adequate source of repayment of the outstanding loan balance as a result of the greater likelihood of damage, loss or depreciation or because the assessed value of the collateral exceeds the eventual realization value.

Our business is significantly dependent on the real estate markets where we operate, as a significant portion of our loan portfolio is secured by real estate.

At September 30, 2017, 67.2% of our aggregate loan portfolio, comprising our CRE loans (representing 45.8% of our aggregate loan portfolio), residential real estate loans (representing 10.3% of our aggregate loan portfolio) and agriculture real estate loans (representing 11.1% of our aggregate loan portfolio), was primarily secured by interests in real estate predominantly located in the states in which we operate. In addition, some of our other lending occasionally involves taking real estate as primary or secondary collateral. Real property values in these states may be different from, and in some instances worse than, real property values in other markets or in the United States as a whole, and may be affected by a variety of factors outside of our control and the control of our borrowers, including national and local economic conditions generally. Declines in real property prices, including prices for homes, commercial properties and farmland, in the states in which we operate could result in a deterioration of the credit quality of our borrowers, an increase in the number of loan delinquencies, defaults and charge-offs, and reduced demand for our products and services generally. Our CRE loans, in particular, totaled approximately $4.12 billion at September 30, 2017, or 45.8% of our loan portfolio, and may have a greater risk of loss than residential mortgage loans, in part because these loans are generally larger or more complex to underwrite. Agricultural real estate loans may be affected by similar factors to those that affect agricultural loans generally, including adverse weather conditions, disease and declines in the market prices for agricultural products or farm real estate. In addition, declines in real property values in the states in which we operate could reduce the value of any collateral we realize following a default on these loans and could adversely affect our ability to continue to grow our loan portfolio consistent with our underwriting standards. Our failure to effectively mitigate these risks could have a material adverse effect on our business, financial condition or results of operations.

We are subject to interest rate risk.

Fluctuations in interest rates may negatively impact our banking business and may weaken demand for some of our products. Our earnings and cash flows are largely dependent on net interest income, which is the difference between the interest income we receive from interest-earning assets (e.g., loans and investment securities) and the interest expense we pay on interest-bearing liabilities (e.g., deposits and borrowings). The level of net interest income is primarily a function of the average balance of interest-earning assets, the average balance of interest-bearing liabilities and the spread between the yield on such assets and the cost of such liabilities. These factors are influenced by both the pricing and mix of interest-earning assets and interest-bearing liabilities. Interest rates are volatile and highly sensitive to many factors that are beyond our control, such as economic conditions and policies of various governmental and regulatory agencies, and, in particular the monetary policy of the Federal Open Market Committee of the Federal Reserve System, or the FOMC. The average yield on our interest-earning assets has increased as the Federal Reserve has started to gradually increase rates after maintaining rates at historically low levels during the financial crisis and its aftermath. As interest rates continue to increase and if our floating rate interest-earning assets do not reprice faster than our interest-bearing liabilities, our net interest income could be adversely affected. If interest rates begin to decline, our net interest income may decrease. This would be the case because our ability to lower our interest expense has been limited at these interest rate levels, while the average yield on our interest-earning assets has continued to decrease.

Changes in monetary policy, including changes in interest rates, could influence not only the interest we receive on loans and securities and the amount of interest we pay on deposits and borrowings, but also our ability to originate loans and deposits. Historically, there has been an inverse correlation between the demand for loans and interest rates. Loan origination volume usually declines during periods of rising or high interest rates and increases during periods of declining or low interest rates. Changes in interest rates also have a significant impact on the carrying value of certain of our assets, including loans, real estate and investment securities, on our balance sheet. We may incur debt in the future and that debt may also be sensitive to interest rates.

The cost of our deposits is largely based on short-term interest rates, the level of which is driven primarily by the FOMC's actions. However, the yields generated by our loans and securities are often difficult to re-price and are typically driven by longer-term interest rates, which are set by the market or, at times, the FOMC's actions, and vary over time. The level of net interest income is therefore influenced by movements in such interest rates and the pace at which such movements occur. If the interest rates paid on our deposits and other borrowings increase at a faster pace than the interest rates on our loans and other investments, our net interest income may decline and, with it, a decline in our earnings may occur. Our net interest income and earnings would be similarly affected if the interest rates on our interest-earning assets declined at a faster pace than the interest rates on our deposits and other borrowings. Any substantial, unexpected, prolonged change in market interest rates could have a material adverse effect on our business, financial condition or results of operations.

Changes in interest rates can also affect the level of loan refinancing activity, which impacts the amount of prepayment penalty income we receive on loans we hold. Because prepayment penalties are recorded as interest income when received, the extent to which they increase or decrease during any given period could have a significant impact on the level of net interest income and net income we generate during that time. A decrease in our prepayment penalty income resulting from any change in interest rates or as a result of regulatory limitations on our ability to charge prepayment penalties could therefore adversely affect our net interest income, net income or results of operations.

Changes in interest rates can also affect the slope of the yield curve. A decline in the current yield curve or a flatter or inverted yield curve could cause our net interest income and net interest margin to contract, which could have a material adverse effect on our net income and cash flows, as well as the value of our assets. An inverted yield curve may also adversely affect the yield on investment securities by increasing the prepayment risk of any securities purchased at a premium. A flattening or inversion of the yield curve or a negative interest rate environment in the United States could create downward pressure on our net interest margin.

Changes in interest rates could also have a negative impact on our results of operations by reducing the ability of borrowers to repay their current loan obligations or by reducing our margins and profitability. As of September 30, 2017, 51.8% of our loans were advanced to our customers on a variable or adjustable-rate basis and another 11.3% of our loans were advanced to our customers on a fixed-rate basis where we utilized derivative instruments to swap our economic exposure to a variable-rate basis. As a result, an increase in interest rates could result in increased loan defaults, foreclosures and charge-offs and could necessitate further increases to the allowance for loan and lease losses, any of which could have a material adverse effect on our business, financial condition or results of operations. In addition, a decrease in interest rates could negatively impact our margins and profitability.

As of September 30, 2017, we had $1.86 billion of noninterest-bearing demand deposits and $5.85 billion of interest-bearing demand deposits. The prohibition restricting depository institutions from paying interest on demand deposits, such as checking accounts, was repealed effective on July 21, 2011 as part of the Dodd-Frank Act. We then began offering interest-bearing corporate checking accounts. Current interest rates for this product are very low because of current market conditions and, so far, the impact of the repeal has not been significant to us. However, we do not know what market rates will eventually be and, therefore, we cannot estimate at this time the long-term impact of the repeal on our interest expense on deposits. If we need to offer higher interest rates on checking accounts to maintain current clients or attract new clients, our interest expense will increase, perhaps materially. Furthermore, if we fail to offer interest in a sufficient amount to keep these demand deposits, our core deposits may be reduced, which would require us to obtain funding in other ways or risk slowing our future asset growth.

Our business depends on our ability to successfully manage credit risk.

The operation of our business requires us to manage credit risk. As a lender, we are exposed to the risk that our borrowers will be unable to repay their loans according to their terms, and that the collateral securing repayment of their loans, if any, may not be sufficient to ensure repayment. In addition, there are risks inherent in making any loan, including risks with respect to the period of time over which the loan may be repaid, risks relating to proper loan underwriting, risks resulting from changes in economic and industry conditions and risks inherent in dealing with individual borrowers. In order to successfully manage credit risk, we must, among other things, maintain disciplined and prudent underwriting standards and ensure that our bankers follow those standards. The weakening of these standards for any reason, such as an attempt to attract higher yielding loans, a lack of discipline or diligence by our

employees in underwriting and monitoring loans, our inability to adequately adapt policies and procedures to changes in economic or any other conditions affecting borrowers may negatively impact the quality of our loan portfolio, result in loan defaults, foreclosures and additional charge-offs and necessitate that we significantly increase our allowance for loan and lease losses. As a result, our inability to successfully manage credit risk could have a material adverse effect on our business, financial condition or results of operations.

An important feature of our credit risk management system is our use of an internal credit risk rating and control system through which we identify, measure, monitor and mitigate existing and emerging credit risk of our customers. As this process involves detailed analysis of the customer or credit risk, taking into account both quantitative and qualitative factors, it is subject to human error. In exercising their judgment, our employees may not always be able to assign an accurate credit rating to a customer or credit risk, which may result in our exposure to higher credit risks than indicated by our risk rating and control system. Although our management seeks to address possible credit risk proactively, it is possible that the credit risk rating and control system will not identify credit risk in our loan portfolio and that we may fail to manage credit risk effectively.

Some of our tools and metrics for managing credit risk and other risks are based upon our use of observed historical market behavior and assumptions. We rely on quantitative models to measure risks and to estimate certain financial values. Models may be used in such processes as determining the pricing of various products, grading loans and extending credit, measuring interest rate and other market risks, predicting losses, assessing capital adequacy and calculating regulatory capital levels, as well as estimating the value of financial instruments and balance sheet items. Poorly designed or implemented models present the risk that our business decisions based on information incorporating such models will be adversely affected due to the inadequacy of that information. Moreover, our models may fail to predict future risk exposures if the information used in the model is incorrect, obsolete or not sufficiently comparable to actual events as they occur, or if our model assumptions prove incorrect. We seek to incorporate appropriate historical data in our models, but the range of market values and behaviors reflected in any period of historical data is not at all times predictive of future developments in any particular period and the period of data we incorporate into our models may turn out to be inappropriate for the future period being modeled. In such case, our ability to manage risk would be limited and our risk exposure and losses could be significantly greater than our models indicated.

Our allowance for loan and lease losses, our fair value adjustments related to credit on loans for which we have elected the fair value option and our credit marks (which reduce the fair value) on acquired loan portfolios may be insufficient, which could lead to additional losses on loans beyond those currently anticipated.

We maintain an allowance for loan and lease losses, which is a reserve established through a provision for loan and lease losses charged to expense representing management’s best estimate of probable losses that have been incurred within our existing portfolio of loans, fair value adjustments related to credit risk on our loans for which we have elected the fair value option and credit marks, which are estimates of expected credit losses that reduce the fair value of certain loans acquired through acquisitions. The allowance, in the judgment of management, is necessary to reserve for estimated loan and lease losses and risks inherent in the portfolio. The level of the allowance reflects management’s continuing evaluation of specific credit risks; the quality of the loan portfolio; the value of the underlying collateral; the level of non-accruing loans; and economic, political and regulatory conditions. The determination of the appropriate level of the allowance for loan and lease losses inherently involves a high degree of subjectivity and requires us to make significant estimates of current credit risks, all of which may undergo material changes. We also establish fair value adjustments related to our estimates of expected credit losses for loans accounted for using the fair value option.

The application of the acquisition method of accounting in our acquisitions has impacted our allowance for loan and lease losses. Under the acquisition method of accounting, loans we acquired were recorded in our consolidated financial statements at their fair value at the time of acquisition and the related allowance for loan and lease loss was eliminated because credit quality, among other factors, was considered in the determination of fair value. We make various assumptions and judgments about the collectability of acquired loan portfolios, including the creditworthiness of borrowers and the value of the real estate and other assets serving as collateral for the repayment of secured loans. To the extent that the estimates we make at the time of acquisition prove to be inadequate based on changing facts and circumstances arising from reporting period to reporting period, we may incur losses (some of which may be covered by our loss-sharing agreements with the FDIC) associated with the acquired loans.

Although our management has established an allowance for loan and lease losses it believes is adequate to absorb probable and reasonably estimable losses in our loan portfolio, this allowance may not be adequate. We could sustain credit losses that are significantly higher than the amount of our allowance for loan and lease losses. Higher credit losses could arise for a variety of reasons, such as growth in our loan portfolio, changes in economic conditions affecting borrowers, new information regarding our loans and other factors within and outside our control. If agricultural commodity prices or real estate values were to decline or if economic conditions in one or more of our principal markets were to deteriorate unexpectedly, additional loan and lease losses not incorporated in the existing allowance for loan and lease losses might occur. There may be other credit issues we have not identified in our loan portfolio or may not identify in the future. As a result, for any number of reasons, we may incur increased credit-related charges in the future, which may be significant. Losses in excess of the existing allowance for loan and lease losses will reduce our net income and could have a material adverse effect on our business, financial condition or results of operations. A severe downturn in the economy generally or affecting the business and assets of individual customers would generate increased charge-offs and a need for higher reserves. In particular, a severe decrease in agricultural commodity prices or farmland prices could cause higher credit losses and a large allowance for loan and lease losses, principally in our agricultural loan portfolios.

In addition, bank regulatory agencies will periodically review our allowance for loan and lease losses and the value attributed to nonaccrual loans or to real estate we acquire through foreclosure. Such regulatory agencies may require us to adjust our determination of the value for these items, increase our allowance for loan and lease losses or reduce the carrying value of owned real estate, reducing our net income. Further, if charge-offs in future periods exceed the allowance for loan and lease losses, we may need additional adjustments to increase the allowance for loan and lease losses. These adjustments could have a material adverse effect on our business, financial condition or results of operations.

We are subject to liquidity risk that may affect our ability to meet our obligations and grow our business.

Liquidity risk is the risk that we will not be able to meet our obligations, including financial commitments, as they come due and is inherent in our operations. This risk can increase due to a number of factors, including an over-reliance on a particular source of funding (including, for example, short-term and overnight funding) or market-wide phenomena such as market dislocation and major disasters. Like many banking companies, we rely on customer deposits to meet a considerable portion of our funding, and we continue to seek customer deposits to maintain this funding base. We obtain deposits directly from retail and commercial customers and "brokered deposits" through third parties that offer our deposit products to their customers. As of September 30, 2017, we had $8.25 billion in direct deposits (which includes deposits from banks and financial institutions and deposits related to prepaid cards) and $725.4 million in deposits originated through brokerage firms (including network deposit sweeps). A key part of our liquidity plan and funding strategy is to expand our direct deposits as a source of funding. However, these deposits are subject to potentially dramatic fluctuations in availability or price due to certain factors outside our control, such as a loss of confidence by customers in us or the banking sector generally, customer perceptions of our financial health and general reputation, increasing competitive pressures from other financial services firms for retail or corporate customer deposits, changes in interest rates and returns on other investment classes, which could result in significant outflows of deposits within short periods of time or significant changes in pricing necessary to maintain current or attract additional deposits.

Competition among U.S. banks for customer deposits is intense, may increase the cost of retaining current deposits or procuring new deposits, and may otherwise negatively affect our ability to grow our deposit base. Any changes we make to the rates offered on our deposit products to remain competitive with other financial institutions may adversely affect our profitability and liquidity. Interest-bearing accounts earn interest at rates established by management based on competitive market factors. Maintaining and attracting new deposits is integral to our business and a major decline in deposits or failure to attract deposits in the future, including any such decline or failure related to an increase in interest rates paid by our competitors on interest-bearing accounts, could have an adverse effect on our results of operations and financial condition. The demand for the deposit products we offer may also be reduced due to a variety of factors, such as demographic patterns, changes in customer preferences, reductions in consumers’ disposable income, regulatory actions that decrease customer access to particular products, or the availability of competing products. An inability to grow, or any material decrease in, our deposits could have a material adverse effect on our

cost of funds and our ability to satisfy our liquidity needs. Further, the consequences of our liquidity risk may be more severe than other institutions because we do not currently have a credit rating from any major agency. Maintaining a diverse and appropriate funding strategy remains challenging, and any tightening of credit markets could have a material adverse impact on us. In particular, our funding from corporate and financial institution counterparties may cease to be available if such counterparties seek to reduce their credit exposures to banks and other financial institutions, which could be reflected, for example, in reductions in unsecured deposits supplied by these counterparties. Under such circumstances, we may need to seek funds from alternative sources, potentially at higher costs than our current sources.

Severe weather, natural disasters, acts of war or terrorism or other external events could significantly impact our business.

Severe weather, natural disasters, widespread disease or pandemics, acts of war or terrorism or other adverse external events could have a significant impact on our ability to conduct business. In addition, such events could affect the stability of our deposit base, impair the ability of borrowers to repay outstanding loans, impair the value of collateral securing loans, cause significant property damage, result in loss of revenue or cause us to incur additional expenses. Because of the concentration of agricultural loans in our lending portfolio and the volume of our borrowers in regions dependent on agriculture, we could be disproportionately affected relative to others in the case of external events such as floods, droughts and hail affecting the agricultural conditions in the markets we serve. The occurrence of any of these events in the future could have a material adverse effect on our business, financial condition or results of operations.

We may not be able to attract and retain key personnel and other skilled employees.

Our success depends, in large part, on the skills of our management team and our ability to retain, recruit and motivate key officers and employees. Our senior management team has significant industry experience, and their knowledge and relationships would be difficult to replace. Leadership changes will occur from time to time, and we cannot predict whether significant resignations will occur or whether we will be able to recruit additional qualified personnel. Competition for senior executives and skilled personnel in the financial services and banking industry is intense, which means the cost of hiring, incentivizing and retaining skilled personnel may continue to increase. We need to continue to attract and retain key personnel and to recruit qualified individuals to succeed existing key personnel to ensure the continued growth and successful operation of our business. In addition, as a provider of relationship-based commercial and agribusiness banking services, we must attract and retain qualified banking personnel to continue to grow our business, and competition for such personnel can be intense. Our ability to effectively compete for senior executives and other qualified personnel by offering competitive compensation and benefit arrangements may be restricted by applicable banking laws and regulations as discussed in “Item 1. Business—Supervision and Regulation—Incentive Compensation.” The loss of the services of any senior executive or other key personnel, or the inability to recruit and retain qualified personnel in the future, could have a material adverse effect on our business, financial condition or results of operations. In addition, to attract and retain personnel with appropriate skills and knowledge to support our business, we may offer a variety of benefits, which could reduce our earnings or have a material adverse effect on our business, financial condition or results of operations.

We operate in a highly competitive industry and market area.

We operate in the highly competitive financial services industry and face significant competition for customers from financial institutions located both within and beyond our principal markets. We compete with commercial banks, savings banks, credit unions, non-bank financial services companies and other financial institutions operating within or near the areas we serve, particularly nationwide and regional banks and larger community banking institutions that target the same customers we do. We also face competition for agricultural loans from participants in the nationwide Farm Credit System and global banks. In addition, as customer preferences and expectations continue to evolve, technology has lowered barriers to entry and made it possible for non-banks to offer products and services traditionally provided by banks, such as automatic transfer and automatic payment systems. Customer loyalty can be influenced by a competitor’s new products, especially offerings that could provide cost savings or a higher return to the customer. We may not be able to compete successfully with other financial institutions and financial service providers in our market, and we may have to pay higher interest rates to attract deposits, accept lower yields to attract loans and pay higher wages for new employees, resulting in reduced profitability. Further, increased lending activity by our competitors following the 2008 recession has led to increased competitive pressures on loan rates and terms for high-quality credits. Continued loan pricing pressure could have a further negative effect on our loan yields and net interest margin.

Many of our non-bank competitors are not subject to the same extensive regulations that govern our activities and may have greater flexibility in competing for business. Several of our competitors are also larger and have significantly more resources, greater name recognition and larger market shares, enabling them to maintain numerous banking locations, provide technology-based banking tools we do not provide, maintain a wider range of product offerings, mount extensive promotional and advertising campaigns and be more aggressive than us in competing for loans and

deposits. The financial services industry could become even more competitive as a result of legislative, regulatory and technological changes and continued consolidation. In addition, some of our current commercial banking customers may seek alternative banking sources as they develop needs for credit facilities larger than we may be able to accommodate. Our inability to compete successfully in the markets in which we operate could have a material adverse effect on our business, financial condition or results of operations.

We may not be able to successfully execute our strategic plan or manage our growth.

Our growth strategy focuses on organic growth, supplemented by acquisitions and requires us to manage several different elements simultaneously. Sustainable growth requires that we manage our risks by balancing loan and deposit growth at acceptable levels of risk, maintaining adequate liquidity and capital, hiring and retaining qualified employees, successfully managing the costs and implementation risks with respect to strategic projects and initiatives, and integrating acquisition targets and managing the costs. Our growth strategy may also change from time to time as a result of various internal and external factors. Our inability to manage our growth successfully could have a material adverse effect on our business, financial condition or results of operations.

We may be adversely affected by risks associated with completed and potential acquisitions.

Our growth strategy includes consideration of potential acquisition opportunities that we believe support our business strategy and may enhance our profitability. We face significant competition from numerous other financial services institutions, many of which will have greater financial resources than we do, when considering acquisition opportunities. Accordingly, attractive acquisition opportunities may not be available to us. There can be no assurance that we will be successful in identifying or completing any future acquisitions. Acquisitions also involve numerous risks, including:

- incurring time and expense associated with identifying and evaluating potential acquisitions and negotiating potential transactions, resulting in management’s attention being diverted from the operation of our existing business;
- using inaccurate estimates and judgments to evaluate credit, operations, funding, liquidity, business, management and market risks with respect to the target institution or assets;
- the risk that the acquired business will not perform to our expectations, including a failure to realize anticipated synergies or cost savings;
- difficulties, inefficiencies or cost overruns in integrating and assimilating the organizational cultures, operations, technologies, data, services and products of the acquired business with ours;
- the risk of key vendors not fulfilling our expectations or not accurately converting data;
- entering geographic and product markets in which we have limited or no direct prior experience;
- the potential loss of key employees or customers;
- the potential for liabilities and claims arising out of the acquired businesses;
- litigation relating to an acquisition, particularly in the context of a publicly-held acquisition target, that could require us to incur significant expenses and cause management distraction, as well as delay and/or enjoin the transaction; and
- the risk of not receiving required regulatory approvals or such approvals being delayed or restrictively conditional.

In addition, acquisitions of financial institutions involve operational and regulatory risks and other uncertainties, and acquired companies may have unknown or contingent liabilities with no corresponding accounting allowance, exposure to unexpected asset quality problems that require write-downs or write-offs (as well as restructuring and impairment or other charges), and other issues that could negatively affect our business. Acquisitions typically involve the payment of a premium over book and market values and, therefore, some dilution of our tangible book value and net income per common share may occur in connection with any future transaction.

Failed bank acquisitions involve risks similar to acquiring operating banks even though the FDIC might provide assistance to mitigate certain risks, such as sharing in exposure to loan and lease losses and providing indemnification against certain liabilities of the failed institution. However, because these acquisitions are typically conducted by the FDIC in a manner that does not allow the time typically taken for a due diligence review or for preparing the integration of an acquired institution, we may face additional risks in transactions with the FDIC. These risks include, among other things, accuracy or completeness of due diligence materials, the loss of customers and core deposits, strain on management resources related to collection and management of problem loans and problems related to integration and retention of personnel and operating systems. There can be no assurance that we will be successful in overcoming these risks or any other problems encountered in connection with acquisitions (including FDIC-assisted transactions), nor that any FDIC-assisted opportunities will be available to us in our markets. Our inability to overcome these risks could have a material adverse effect on our business, financial condition or results of operations.
In addition, we must generally satisfy a number of meaningful conditions prior to completing any acquisition, including, in certain cases, federal and state bank regulatory approval. Bank regulators consider a number of factors when determining whether to approve a proposed transaction, including the effect of the transaction on financial stability and the ratings and compliance history of all institutions involved, including the CRA, examination results and anti-money-laundering and Bank Secrecy Act compliance records of all institutions involved. The process for obtaining required regulatory approvals has become substantially more difficult as a result of the financial crisis, which could affect our future business. We may fail to pursue, evaluate or complete strategic and competitively significant business opportunities as a result of our inability, or our perceived inability, to obtain any required regulatory approvals in a timely manner or at all.

New lines of business, products, product enhancements or services may subject us to additional risks.

From time to time, we may implement or acquire new lines of business or offer new products and product enhancements as well as new services within our existing lines of business, such as mortgage servicing acquired through the HF Financial acquisition. There are substantial risks and uncertainties associated with these efforts, particularly in instances where the markets are not fully developed. In acquiring, developing or marketing new lines of business, products, product enhancements or services, we may invest significant time and resources, although we may not assign the appropriate level of resources or expertise necessary to make these new lines of business, products, product enhancements or services successful or to realize their expected benefits. Further, initial timetables for the introduction and development of new lines of business, products, product enhancements or services may not be achieved, and price and profitability targets may not prove feasible. External factors, such as compliance with regulations, competitive alternatives and shifting market preferences, may also impact the ultimate implementation of a new line of business or offerings of new products, product enhancements or services. Furthermore, any new line of business, product, product enhancement or service could have a significant impact on the effectiveness of our system of internal controls. Failure to successfully manage these risks in the development and implementation of new lines of business or offerings of new products, product enhancements or services could have a material adverse effect on our business, financial condition or results of operations.

If our techniques for managing risk are ineffective, we may be exposed to material unanticipated losses.

In order to manage the significant risks inherent in our business, we must maintain effective policies, procedures and systems that enable us to identify, monitor and control our exposure to material risks, such as credit, operational, legal and reputational risks. Our risk management methods may prove to be ineffective due to their design, their implementation or the degree to which we adhere to them, or as a result of the lack of adequate, accurate or timely information or otherwise. If our risk management efforts are ineffective, we could suffer losses that could have a material adverse effect on our business, financial condition or results of operations. In addition, we could be subject to litigation, particularly from our customers, and sanctions or fines from regulators. Our techniques for managing the risks we face may not fully mitigate the risk exposure in all economic or market environments, including exposure to risks that we might fail to identify or anticipate.

Reductions in interchange fees will reduce our associated income.

An interchange fee is a fee merchants pay to the interchange network in exchange for the use of the network’s infrastructure and payment facilitation, and which is paid to debit, credit and prepaid card issuers to compensate them for the costs associated with card issuance and operation. In the case of credit cards, this includes the risk associated

with lending money to customers. We earn interchange fees on these debit and credit card transactions, including $15.8 million in fees during the fiscal year ended September 30, 2017. The Durbin Amendment to the Dodd-Frank Act limits the amount of interchange fees that may be charged for debit and prepaid card transactions with respect to financial institutions with over $10.0 billion in total assets. Because our total assets exceeded $10.0 billion as of December 31, 2016, the interchange fee caps required by the Durbin Amendment negatively impacted debit card and ATM fees we receive that commenced in July 2017. We expect the decrease to be approximately $8.0 million, pre-tax, on an annualized basis going forward. To the extent interchange fees are further reduced, our income from those fees will be reduced, which could have a material adverse effect on our business and results of operations. See

"Item 1. Business—Supervision and Regulation—Interchange Fees" for further discussion. In addition, the payment card industry is subject to the operating regulations and procedures set forth by payment card networks, and our failure to comply with these operating regulations, which may change from time to time, could subject us to various penalties or fees or the termination of our license to use the payment card networks, all of which could have a material adverse effect on our business, financial condition or results of operations.

Operational risks are inherent in our business.

Our operations depend on our ability to process a very large number of transactions efficiently and accurately while complying with applicable laws and regulations. Operational risk and losses can result from internal and external fraud; errors by employees or third parties; failure to document transactions properly or to obtain proper authorization; failure to comply with applicable regulatory requirements and conduct of business rules; equipment failures, including those caused by natural disasters or by electrical, telecommunications or other essential utility outages; business continuity and data security system failures, including those caused by computer viruses, cyber-attacks or unforeseen problems encountered while implementing major new computer systems or upgrades to existing systems; or the inadequacy or failure of systems and controls, including those of our suppliers or counterparties. Although we have implemented risk controls and loss mitigation actions, and substantial resources are devoted to developing efficient procedures, identifying and rectifying weaknesses in existing procedures and training staff, it is not possible to be certain that such actions have been or will be effective in controlling each of the operational risks faced by us. Any weakness in these systems or controls, or any breaches or alleged breaches of such laws or regulations, could result in increased regulatory scrutiny, enforcement actions or legal proceedings and could have an adverse impact on our business, financial condition or results of operations.

Cyber-attacks or other security breaches could have a material adverse effect on our business.

In the normal course of business, we collect, process and retain sensitive and confidential information regarding our customers. We also have arrangements in place with other third parties through which we share and receive information about their customers who are or may become our customers. Although we devote significant resources and management focus to ensuring the integrity of our systems through information security and business continuity programs, our facilities and systems, and those of third party service providers, are vulnerable to external or internal security breaches, acts of vandalism, computer viruses, misplaced or lost data, programming or human errors or other similar events.

Information security risks for financial institutions like us have increased recently in part because of new technologies, the use of the Internet and telecommunications technologies (including mobile devices) to conduct financial and other business transactions and the increased sophistication and activities of organized crime, perpetrators of fraud, hackers, terrorists and others. In addition to cyber-attacks or other security breaches involving the theft of sensitive and confidential information, hackers recently have engaged in attacks against large financial institutions, particularly denial of service attacks that are designed to disrupt key business services, such as customer-facing web sites. We are not able to anticipate or implement effective preventive measures against all security breaches of these types, especially because the techniques used change frequently and because attacks can originate from a wide variety of sources. We employ detection and response mechanisms designed to contain and mitigate security incidents, but early detection may be thwarted by sophisticated attacks and malware designed to avoid detection.

We also face risks related to cyber-attacks and other security breaches in connection with our own and third-party systems, processes and data, including credit card transactions that typically involve the transmission of sensitive information regarding our customers through various third parties, including merchant acquiring banks, payment processors, payment card networks (e.g., Visa, MasterCard) and our processors. Some of these parties have in the past been the target of security breaches and cyber-attacks, and because the transactions involve third parties and environments such as the point of sale that we do not control or secure, future security breaches or cyber-attacks affecting any of these third parties could impact us through no fault of our own, and in some cases we may have exposure and suffer losses for breaches or attacks relating to them. We also rely on numerous other third party service providers to conduct other aspects of our business operations and face similar risks relating to them. While we conduct security reviews on these third parties, we cannot be sure that their information security protocols are sufficient to withstand a cyber-attack or other security breach.

The access by unauthorized persons to, or the improper disclosure by us of, confidential information regarding our customers or our own proprietary information, software, methodologies and business secrets could result in significant legal and financial exposure, supervisory liability, damage to our reputation or a loss of confidence in the security of our systems, products and services, which could have a material adverse effect on our business, financial condition or results of operations. In addition, recently there have been a number of well-publicized attacks or breaches affecting others in our industry that have heightened concern by consumers generally about the security of using credit cards, which have caused some consumers, including our customers, to use our credit cards less in favor of alternative methods of payment and has led to increased regulatory focus on, and

potentially new regulations relating to, these matters. Further cyber-attacks or other breaches in the future, whether affecting us or others, could intensify consumer concern and regulatory focus and result in reduced use of our cards and increased costs, all of which could have a material adverse effect on our business. To the extent we are involved in any future cyber-attacks or other breaches, our brand and reputation could be affected, could also have a material adverse effect on our business, financial condition or results of operations.

Our information systems may experience an interruption or breach in security.

Our communications, information and technology systems supporting our operations are important to our efficiency and vulnerable to unforeseen problems. Our operations depend on our ability, as well as that of third party service providers, to protect computer systems and network infrastructure against damage from fires, other natural disasters; power or telecommunications failures; acts of terrorism or wars or other catastrophic events; or other physical break-ins. Any damage or failure that causes interruptions in operations or disruptions in our business could result in liability to clients, regulatory intervention or reputational harm and, thus, could have a material adverse effect on our business, financial condition or results of operations.

We rely heavily on communications and information systems to conduct our business. Any failure, interruption or breach in security of these systems could result in failures or disruptions in our customer relationship management, general ledger, deposit, loan or other systems. Moreover, if any such failures, interruptions or security breaches do occur, they may not be adequately addressed. If we experience a disruption in the provision of any functions or services performed by third parties, we may have difficulty in finding alternate providers on terms favorable to us and in reasonable timeframes. The occurrence of any failures, interruptions or security breaches of our communications and information systems could damage our reputation, result in a loss of customer business, subject us to additional regulatory scrutiny or expose us to civil litigation and possible financial liability, any of which could have a material adverse effect on our business, financial condition or results of operations.

We continually encounter technological change.

The financial services industry is continually undergoing rapid technological change with frequent introductions of new, technology-driven products and services. The effective use of technology increases efficiency and enables financial institutions to better serve customers and to reduce costs. Our future success depends, in part, upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands, as well as to create additional efficiencies in our operations. Many of our competitors have substantially greater resources to invest in technological improvements than we do. We may not be able to effectively implement new, technology-driven products and services or be successful in marketing these products and services to our customers. In addition, the implementation of technological changes and upgrades to maintain current systems and integrate new ones may also cause service interruptions, transaction processing errors and system conversion delays and may cause us to fail to comply with applicable laws. Failure to successfully keep pace with technological change affecting the financial services industry and avoid interruptions, errors and delays could have a material adverse effect on our business, financial condition or results of operations.

We expect that new technologies and business processes applicable to the consumer credit industry will continue to emerge, and these new technologies and business processes may be better than those we currently use. Because the pace of technological change is high and our industry is intensely competitive, we may not be able to sustain our investment in new technology as critical systems and applications become obsolete or as better ones become available. A failure to maintain current technology and business processes could cause disruptions in our operations or cause our products and services to be less competitive, all of which could have a material adverse effect on our business, financial condition or results of operations.

Our ability to maintain, attract and retain customer relationships is highly dependent on our reputation.

Our customers rely on us to deliver superior, personalized financial services with the highest standards of ethics, performance, professionalism and compliance. Damage to our reputation could undermine the confidence of our current customers and our ability to attract potential customers. Such damage could also impair the confidence of our counterparties and vendors and ultimately affect our ability to effect transactions. Maintenance of our reputation depends not only on our success in maintaining our service-focused culture and controlling and mitigating the various risks described herein, but also on our success in identifying and appropriately addressing issues that may arise in areas such as potential conflicts of interest, anti-money laundering, client personal information and privacy issues,

employee, customer and other third party fraud, record-keeping, regulatory investigations and any litigation that may arise from the failure or perceived failure of us to comply with legal and regulatory requirements. Maintaining our reputation also depends on our ability to successfully prevent third parties from infringing on the "Great Western Bank" brand and associated trademarks and our other intellectual property. Defense of our reputation, trademarks and other intellectual property, including through litigation, could result in costs that could have a material adverse effect on our business, financial condition or results of operations.

Employee misconduct could expose us to significant legal liability and reputational harm.

We are vulnerable to reputational harm because we operate in an industry in which integrity and the confidence of our customers are of critical importance. Our employees could engage in misconduct that adversely affects our customers and/or our business. For example, if an employee were to engage in fraudulent, illegal, wrongful or suspicious activities, and/or activities resulting in consumer harm, we could be subject to regulatory sanctions and/or penalties, and suffer serious harm to our reputation (as a consequence of the negative perception resulting from such activities), financial position, customer relationships and ability to attract new customers. Our business often requires that we deal with confidential information. If our employees were to improperly use or disclose this information, even if inadvertently, we could suffer serious harm to our reputation, financial position and current and future business relationships. It is not always possible to deter employee misconduct, and the precautions we take to detect and prevent this activity may not always be effective. Misconduct by our employees, or even unsubstantiated allegations of misconduct, could result in a material adverse effect on our business, financial condition or results of operations.

We may be adversely affected by changes in the actual or perceived soundness or condition of other financial institutions.

Financial services institutions that deal with each other are interconnected as a result of trading, investment, liquidity management, clearing, counterparty and other relationships. Within the financial services industry, loss of public confidence, including through default by any one institution, could lead to liquidity challenges or to defaults by other institutions. Concerns about, or a default by, one institution could lead to significant liquidity problems and losses or defaults by other institutions, as the commercial and financial soundness of many financial institutions is closely related as a result of these credit, trading, clearing and other relationships. Even the perceived lack of creditworthiness of, or questions about, a counterparty may lead to market-wide liquidity problems and losses or defaults by various institutions. This systemic risk may adversely affect financial intermediaries, such as clearing agencies, banks and exchanges with which we interact on a daily basis or key funding providers such as the Federal Home Loan Banks, any of which could have a material adverse effect on our access to liquidity or otherwise have a material adverse effect on our business, financial condition or results of operations.

We may need to raise additional capital in the future, and such capital may not be available when needed or at all.

We may need to raise additional capital, in the form of additional debt or equity, in the future to have sufficient capital resources and liquidity to meet our commitments and fund our business needs and future growth, particularly if the quality of our assets or earnings were to deteriorate significantly. Our ability to raise additional capital, if needed, will depend on, among other things, conditions in the capital markets at that time, which are outside of our control, and our financial condition. Economic conditions and a loss of confidence in financial institutions may increase our cost of funding and limit access to certain customary sources of capital, including inter-bank borrowings, repurchase agreements and borrowings from the discount window of the Federal Reserve System.

We may not be able to obtain capital on acceptable terms—or at all. Any occurrence that may limit our access to the capital markets, such as a decline in the confidence of debt purchasers, depositors of our bank or counterparties participating in the capital markets or other disruption in capital markets, may adversely affect our capital costs and our ability to raise capital and, in turn, our liquidity. Further, if we need to raise capital in the future, we may have to do so when many other financial institutions are also seeking to raise capital and would then have to compete with those institutions for investors. An inability to raise additional capital on acceptable terms when needed could have a material adverse effect on our business, financial condition or results of operations.

The value of securities in our investment portfolio may decline in the future.

As of September 30, 2017, we owned $1.37 billion of investment securities. The fair value of our investment securities may be adversely affected by market conditions, including changes in interest rates, and the occurrence of any events adversely affecting the issuer of particular securities in our investments portfolio. We analyze our securities on a quarterly basis to determine if an other-than-temporary impairment has occurred. The process for determining whether impairment is other-than-temporary usually requires complex, subjective judgments about the future financial performance of the issuer in order to assess the probability of receiving all contractual principal and interest payments on the security. Because of changing economic and market conditions affecting issuers, we may be required to recognize other-than-temporary impairment in future periods, which could have a material adverse effect on our business, financial condition or results of operations.

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The value of our goodwill and other intangible assets may decline in the future.
As of September 30, 2017, we had $752.5 million of goodwill, other intangible assets and loan servicing rights. Goodwill represents the cost in excess of the fair value of net assets acquired (including identifiable intangibles) in transactions accounted for as business acquisitions. We review our goodwill for impairment at least annually, or more frequently if events or changes in circumstances indicate that the carrying value of the asset might be impaired. We determine impairment by comparing the implied fair value of the goodwill with the carrying amount of that goodwill. If the carrying amount of the goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to the excess. A significant decline in our expected future cash flows, a material change in interest rates, a significant adverse change in the business climate, slower growth rates or a significant or sustained decline in the price of our common stock may necessitate taking charges in the future related to the impairment of our goodwill and other intangible assets. We cannot provide assurance that we will not be required to record any charges for goodwill impairment in the future. If we conclude that such a write-down of goodwill and other intangible assets has become necessary, we will record the appropriate charge in the period in which it becomes known to us, which could have a material adverse effect on our business, financial condition or results of operations.
We rely on the mortgage secondary market for some of our liquidity.
We originate and sell a majority of our mortgage loans and their servicing rights, including $275.0 million of mortgage loans sold during fiscal year 2017. This does not include the loan servicing portfolio acquired from HF Financial, approximately $722.5 million, and portfolio loans consisting of ARMs and other nonconforming loans of approximately $932.9 million, each at September 30, 2017. We rely on Federal National Mortgage Association, or FNMA, and other purchasers to purchase loans in order to reduce our credit risk and provide funding for additional loans we desire to originate. We cannot provide assurance that these purchasers will not materially limit their purchases from us due to capital constraints or other factors, including, with respect to FNMA, a change in the criteria for conforming loans. In addition, various proposals have been made to reform the U.S. residential mortgage finance market, including the role of FNMA. The exact effects of any such reforms are not yet known, but may limit our ability to sell conforming loans to FNMA. In addition, mortgage lending is highly regulated, and our inability to comply with all federal and state regulations and investor guidelines regarding the origination, underwriting documentation and servicing of mortgage loans may also impact our ability to continue selling mortgage loans. If we are unable to continue to sell loans in the secondary market, our ability to fund, and thus originate, additional mortgage loans may be adversely affected, which could have a material adverse effect on our business, financial condition or results of operations.
We are subject to a variety of risks in connection with any sale of loans we may conduct.
When we sell mortgage loans we are required to make customary representations and warranties to the purchaser about the mortgage loans and the manner in which they were originated and serviced. If any of these representations and warranties are incorrect, we may be required to indemnify the purchaser for any related losses, or we may be required to repurchase or provide substitute mortgage loans for part or all of the affected loans. We may also be required to repurchase loans as a result of borrower fraud or in the event of early payment default by the borrower on a loan we have sold. If the level of repurchase and indemnity activity becomes material, it could have a material adverse effect on our liquidity, business, financial condition or results of operations.
Mortgage lending is highly regulated. Our inability to comply with all federal and state regulations and investor guidelines regarding the origination, underwriting documentation and servicing of mortgage loans may impact our ability to continue selling mortgage loans.
We may also, from time to time, engage in selling or participating all or part of certain commercial, agricultural or other types of loans. Such sales entail similar risks to those described above.
In addition, we must report as held for sale any loans which we have undertaken to sell, whether or not a purchase agreement for the loans has been executed. We may therefore be unable to ultimately complete a sale for part or all of the loans we classify as held for sale. We must exercise our judgment in determining when loans must be reclassified from held for investment status to held for sale status under applicable accounting guidelines. Any failure to accurately report loans as held for sale could result in regulatory investigations and monetary penalties. Any of these actions could have a material adverse effect on our business, financial condition or results of operations. Our policy is to carry loans held for sale at the lower of cost or fair value. As a result, prior to being sold, any loans classified as

held for sale may be adversely affected by market conditions, including changes in interest rates, by changes in the borrower’s creditworthiness, and the value associated with these loans, including any loans originated for sale in the secondary market, may decline prior to being sold. We may be required to reduce the value of any loans we mark held for sale as a result, which could have a material adverse effect on our business, financial condition or results of operations.

The value of our loan servicing rights could be adversely affected by changes in interest rates.
As a residential mortgage servicer in the U.S., we have a portfolio of loan servicing rights. A loan servicing right is the right to service a mortgage loan - collect principal, interest and escrow amounts - for a fee. Loan servicing rights are subject to interest rate risk in that their fair value will fluctuate as a result of changes in the interest rate environment. When interest rates fall, borrowers are usually more likely to prepay their mortgage loans by refinancing them at a lower rate. As the likelihood of prepayment increases, the fair value of our loan servicing rights can decrease. Any decrease in the fair value of our loan servicing rights will reduce earnings in the period in which the decrease occurs, which can result in earnings volatility.
The appraisals and other valuation techniques we use in evaluating and monitoring loans secured by real property may not accurately describe the net value of the collateral that we can realize.
In considering whether to make a loan secured by real property, we generally require an appraisal of the property. However, an appraisal is only an estimate of the value of the property at the time the appraisal is made, and, as real estate values may change significantly in relatively short periods of time (especially in periods of heightened economic uncertainty), this estimate may not accurately describe the net value of the real property collateral after the loan is made. As a result, we may not be able to realize the full amount of any remaining indebtedness when we foreclose on and sell the relevant property. In addition, we rely on appraisals and other valuation techniques to establish the value of our OREO and to determine certain loan impairments. If any of these valuations are inaccurate, our consolidated financial statements may not reflect the correct value of our OREO, and our allowance for loan and lease losses may not reflect accurate loan impairments. This could have a material adverse effect on our business, financial condition or results of operations.
Our operations could be interrupted if certain external vendors on which we rely experience difficulty, terminate their services or fail to comply with banking laws and regulations.
We depend to a significant extent on relationships with third party service providers. Specifically, we utilize third party core banking services and receive credit card and debit card services, branch capture services, Internet banking services and services complementary to our banking products from various third party service providers. If these third party service providers experience difficulties or terminate their services and we are unable to replace them with other service providers, our operations could be interrupted. It may be difficult for us to replace some of our third party vendors, particularly vendors providing our core banking, credit card and debit card services, in a timely manner if they were unwilling or unable to provide us with these services in the future for any reason. If an interruption were to continue for a significant period of time, it could have a material adverse effect on our business, financial condition or results of operations. Even if we are able to replace them, it may be at higher cost to us, which could have a material adverse effect on our business, financial condition or results of operations. In addition, if a third party provider fails to provide the services we require, fails to meet contractual requirements, such as compliance with applicable laws and regulations, or suffers a cyber-attack or other security breach, our business could suffer economic and reputational harm that could have a material adverse effect on our business, financial condition or results of operations.
We rely on dividends and other payments from our bank for substantially all of our revenue.
We are a separate and distinct legal entity from our bank, and we receive substantially all of our operating cash flows from dividends and other payments from our bank. These dividends and payments are the principal source of funds to pay dividends on our common stock and interest and principal on any debt we may have. Various federal and state laws and regulations limit the amount of dividends that our bank may pay to us. Also, our right to participate in a distribution of assets upon a subsidiary’s liquidation or reorganization is subject to the prior claims of the subsidiary’s creditors. In the event our bank is unable to pay dividends to us, we may not be able to service debt, pay obligations, or pay dividends on our common stock. The inability to receive dividends from our bank could have a material adverse effect on our business, financial condition or results of operations.

Loans that we make through certain federal programs are dependent on the federal government's continuation and support of these programs and on our compliance with their requirements.

We participate in various U.S. government agency guarantee programs, including programs operated by the United States Department of Agriculture, Small Business Administration, Farm Service Administration and the United States Department of the Interior. We are responsible for following all applicable U.S. government agency regulations, guidelines and policies whenever we originate loans as part of these guarantee programs. If we fail to follow any applicable regulations, guidelines or policies associated with a particular guarantee program, any loans we originate as part of that program may lose the associated guarantee, exposing us to credit risk we would not otherwise be exposed to or underwritten as part of our origination process for U.S. government agency guaranteed loans, or result in our inability to continue originating loans under such programs. The loss of any guarantees for loans we have extended under U.S. government agency guarantee programs or the loss of our ability to participate in such programs could have a material adverse effect on our business, financial condition or results of operations.

We depend on the accuracy and completeness of information about clients and counterparties.

In deciding whether to extend credit or enter into other transactions, we may rely on information furnished by or on behalf of customers and counterparties, including financial statements, credit reports and other financial information. We may also rely on representations of those customers or counterparties or of other third parties, such as independent auditors, as to the accuracy and completeness of that information. Reliance on inaccurate, fraudulent or misleading financial statements, credit reports or other financial information could result in loan and lease losses, reputational damage or other effects that could have a material adverse effect on our business, financial condition or results of operations.

Downgrades to the credit rating of the U.S. government or of its securities or any of its agencies by one or more of the credit ratings agencies could have a material adverse effect on general economic conditions, as well as our business.

On August 5, 2011, Standard & Poor's cut the credit rating of the U.S. federal government's long-term sovereign debt from AAA to AA+, while also keeping its outlook negative. Moody's had lowered its own outlook for the same debt to "Negative" on August 2, 2011, and Fitch also lowered its outlook for the same debt to "Negative" on November 28, 2011. As of the date of this filing, all three rating agencies show a "Stable" outlook. Further downgrades of the U.S. federal government's sovereign credit rating, and the perceived creditworthiness of U.S. government-backed obligations, could impact our ability to obtain funding that is collateralized by affected instruments and our ability to access capital markets on favorable terms. Such downgrades could also affect the pricing of funding, when funding is available. A downgrade of the credit rating of the U.S. government, or of its agencies, government-sponsored enterprises or related institutions, agencies or instrumentalities, may also adversely affect the market value of such instruments and, further, exacerbate the other risks to which we are subject and any related adverse effects on our business, financial condition or results of operations.

Our internal controls, processes and procedures may fail or be circumvented.

Our internal controls, disclosure controls, processes and procedures, and corporate governance policies and procedures are based in part on certain assumptions and can provide only reasonable (not absolute) assurances that the objectives of the system are met. Any failure or circumvention of our controls, processes and procedures or failure to comply with regulations related to controls, processes and procedures could necessitate changes in those controls, processes and procedures, which may increase our compliance costs, divert management attention from our business or subject us to regulatory actions and increased regulatory scrutiny. Any of these could have a material adverse effect on our business, financial condition or results of operations.

Our accounting estimates and risk management processes rely on analytical and forecasting techniques.

Our accounting policies and methods are fundamental to how we record and report our financial condition and results of operations. Our management must exercise judgment in selecting and applying many of these accounting policies and methods so they comply with U.S. Generally Accepted Accounting Principles ("GAAP") and reflect management's judgment of the most appropriate manner to report our financial condition and results of operations. In some cases, management must select the accounting policy or method to apply from two or more alternatives, any of which may be reasonable under the circumstances, yet which may result in our reporting materially different results than would have been reported under a different alternative.

Certain accounting policies are critical to presenting our financial condition and results of operations. They require management to make difficult, subjective or complex judgments about matters that are uncertain. Materially different amounts could be reported under different conditions or using different assumptions or estimates. These critical accounting policies include, but are not limited to, the allowance for loan and lease losses, valuation of assets acquired and liabilities assumed in business combinations, goodwill impairment, core deposits and other intangibles, derivatives and income taxes. Because of the uncertainty

of estimates involved in these matters, we may be required to do one or more of the following: significantly increase the allowance for loan and lease losses or sustain loan and lease losses that are significantly higher than the reserve provided; recognize significant impairment on goodwill and other intangible asset balances; reduce the carrying value of an asset measured at fair value; or significantly increase our accrued tax liability. Any of these could have a material adverse effect on our business, financial condition or results of operations. For a discussion of our critical accounting policies, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and the Impact of Accounting Estimates."

We rely extensively on models in managing many aspects of our business, and these models may be inaccurate or misinterpreted.

We rely extensively on models in managing many aspects of our business, including liquidity and capital planning, customer selection, credit and other risk management, pricing, reserving and collections management. The models may prove in practice to be less predictive than we expect for a variety of reasons, including errors in constructing, interpreting or using the models or inaccurate assumptions (e.g., failures to update assumptions appropriately or in a timely manner). Our assumptions may be inaccurate for many reasons as they often involve matters that are inherently difficult to predict and beyond our control (e.g., macroeconomic conditions and their impact on behavior) and often involve complex interactions between a number of variables, factors and other assumptions. The errors or inaccuracies in our models may be material, and could lead us to make wrong or sub-optimal decisions in managing our business, and this could have a material adverse effect on our business, financial condition or results of operations.

We may have exposure to tax liabilities that are larger than we anticipate.

The tax laws applicable to our business activities, including the laws of the United States, South Dakota and other jurisdictions, are subject to interpretation and may change over time. From time to time, legislative initiatives, such as current proposals for fundamental federal tax reform and corporate tax rate changes, which may impact our effective tax rate and could adversely affect our deferred tax assets or our tax positions or liabilities, may be enacted. The taxing authorities in the jurisdictions in which we operate may challenge our tax positions, which could increase our effective tax rate and harm our financial position and results of operations. In addition, our future income taxes could be adversely affected by earnings being higher than anticipated in jurisdictions that have higher statutory tax rates or by changes in tax laws, regulations or accounting principles. We are subject to audit and review by U.S. federal and state tax authorities. Any adverse outcome of such a review or audit could have a negative effect on our financial position and results of operations. In addition, the determination of our provision for income taxes and other liabilities requires significant judgment by management. Although we believe that our estimates are reasonable, the ultimate tax outcome may differ from the amounts recorded in our financial statements and could have a material adverse effect on our financial results in the period or periods for which such determination is made.

Fulfilling our public company financial reporting and other regulatory obligations is expensive and time consuming and may strain our resources.

As a public company, we are subject to the reporting requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act, and are required to implement specific corporate governance practices and adhere to a variety of reporting requirements under the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, and the related rules and regulations of the SEC, as well as the rules of the NYSE. The Exchange Act requires us to file annual, quarterly and current reports with respect to our business and financial condition. Sarbanes-Oxley requires, among other things, that we maintain effective disclosure controls and procedures and internal control over financial reporting. In accordance with Section 404 of Sarbanes-Oxley, our management has conducted its annual assessment of the effectiveness of our internal control over financial reporting and management's report on these internal controls is included in Item 9 of this Annual Report on Form 10-K. Our independent registered public accounting firm is required to attest to the effectiveness of our internal control over financial reporting and its attestation report is also included in Item 9 of this Annual Report on Form 10-K. The process of assessing the effectiveness of our internal control over financial reporting requires significant documentation of policies, procedures and systems, review of documentation by our internal auditing and accounting staff and testing by our independent registered public accounting firm. This process has involved, and will continue to involve, considerable time and attention, may strain our internal resources and will increase our operating costs. We may experience higher than anticipated operating expenses and outside auditor fees as we continue to comply with these requirements. If our independent registered public accounting firm is

unable to express an opinion as to the effectiveness of our internal control over financial reporting, investors may lose confidence in the accuracy and completeness of our financial reports and the market price of our common stock could be negatively affected, and we could become subject to investigations by the NYSE, the SEC or other regulatory authorities, which could require additional financial and management resources. This could have a material adverse effect on our business, financial condition or results of operations.

We may not be able to report our financial results accurately and timely as a publicly listed company if we fail to maintain an effective system of disclosure controls and procedures and internal control over financial reporting.
As a publicly traded company, we are required to file periodic reports containing our consolidated financial statements with the SEC within a specified time following the completion of quarterly and annual periods. Maintaining effective disclosure controls and procedures is necessary to identify information we must disclose in our periodic reports and maintaining effective internal control over financial reporting is necessary to produce reliable financial statements and to prevent fraud. If we fail to maintain effective disclosure controls and procedures or effective internal control over financial reporting, we may experience difficulty in satisfying our SEC reporting obligations. Any failure by us to file our periodic reports with the SEC in a timely manner could harm our reputation and cause investors and potential investors to lose confidence in us and reduce the market price of our common stock, and could result in a suspension or delisting of our common stock from the NYSE.
We must also comply with Section 404 of the Sarbanes-Oxley Act which requires that we perform an annual evaluation of the effectiveness of our internal control over financial reporting. During the course of our evaluation and testing, we may identify deficiencies, including a material weakness, which would have to be remediated to satisfy SEC rules for attesting to the effectiveness of our internal control over financial reporting. A material weakness is defined by the standards issued by the Public Company Accounting Oversight Board as a deficiency, or combination of deficiencies, in internal control over financial reporting that results in a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. If a material weakness is determined to exist, we have to disclose this deficiency in periodic reports we file with the SEC. The existence of a material weakness would preclude management from concluding that our internal control over financial reporting is effective and would also preclude our independent auditors from attesting to the effectiveness of our internal control over financial reporting. In addition, disclosures of this type in our SEC reports could cause investors to lose confidence in our financial reporting and may negatively affect the market price of our common stock.
In accordance with the requirements of Section 404 of the Sarbanes Oxley Act, our management evaluated the effectiveness of our internal control over financial reporting as of September 30, 2017, and concluded that we maintained an effective system of internal control over financial reporting as of that date. Our management's report on this subject is found in Item 9 of this Annual Report on Form 10-K.
More generally, if we are unable to meet the demands that have been placed upon us as a public company, including the requirements of the Sarbanes-Oxley Act, we may be unable to accurately report our financial results in future periods, or report them within the timeframes required by law or stock exchange regulations. Failure to comply with the Sarbanes-Oxley Act could also potentially subject us to sanctions or investigations by the SEC or other regulatory authorities. Under such circumstances, we may be unable to implement the necessary internal controls in a timely manner, or at all, and future material weaknesses may exist or may be discovered. If we fail to implement the necessary improvements, or if material weaknesses or other deficiencies occur, our ability to accurately and timely report our financial position could be impaired, which could result in late filings of our annual and quarterly reports under the Exchange Act, restatements of our consolidated financial statements, a decline in our stock price, suspension or delisting of our common stock from the NYSE and could have a material adverse effect on our business, results of operations or financial condition. Even if we are able to report our financial statements accurately and in a timely manner, any failure in our efforts to implement the improvements or disclosure of material weaknesses in our future filings with the SEC could cause our reputation to be harmed and our stock price to decline significantly.
We are subject to environmental liability risk associated with our bank branches and any real estate collateral we acquire upon foreclosure.
During the ordinary course of business, we may foreclose on and take title to properties securing certain loans that we have originated or acquired. We also have an extensive branch network, owning separate branch locations throughout the areas we serve. For any real property that we may possess, there is a risk that hazardous or toxic substances could be found on these properties. If hazardous or toxic substances are found, we may be liable for remediation costs, as well as for personal injury and property damage and costs of complying with applicable environmental regulatory requirements. Failure to comply with such requirements can result in penalties. Environmental laws may require us to incur substantial expenses and may materially reduce the affected property's value or limit our ability to use or sell the

affected property. In addition, future laws or more stringent interpretations or enforcement policies with respect to existing laws may increase our exposure to environmental liability. Environmental reviews of real property before initiating foreclosure actions may not be sufficient to detect all potential environmental hazards. The remediation costs and any other financial liabilities associated with an environmental hazard could have a material adverse effect on our business, financial condition or results of operations.

We may be alleged to have infringed upon intellectual property rights owned by others, or may be unable to protect our intellectual property.

Competitors or other third parties may allege that we, or consultants or other third parties retained or indemnified by us, infringe on their intellectual property rights. We also may face allegations that our employees have misappropriated intellectual property of their former employers or other third parties. Given the complex, rapidly changing and competitive technological and business environment in which we operate, and the potential risks and uncertainties of intellectual property-related litigation, an assertion of an infringement claim against us may cause us to spend significant amounts to defend the claim (even if we ultimately prevail); to pay significant money damages; to lose significant revenues; to be prohibited from using the relevant systems, processes, technologies or other intellectual property; to cease offering certain products or services or to incur significant license, royalty or technology development expenses. Moreover, it has become common in recent years for individuals and groups to purchase intellectual property assets for the sole purpose of making claims of infringement and attempting to extract settlements from companies like ours. Even in instances where we believe that claims and allegations of intellectual property infringement against us are without merit, defending against such claims is time consuming and expensive and could result in the diversion of time and attention of our management and employees. In addition, although in some cases a third party may have agreed to indemnify us for such costs, such indemnifying party may refuse, or be unable, to uphold its contractual obligations.

Moreover, we rely on a variety of measures to protect our intellectual property and proprietary information, including copyrights, trademarks and controls on access and distribution. These measures may not prevent misappropriation or infringement of our intellectual property or proprietary information and a resulting loss of competitive advantage, and in any event, we may be required to litigate to protect our intellectual property and proprietary information from misappropriation or infringement by others, which is expensive, could cause a diversion of resources and may not be successful. Third parties may challenge, invalidate or circumvent our intellectual property, or our intellectual property may not be sufficient to provide us with competitive advantages. In addition, the usage of branding that could be confused with ours could create negative perceptions and risks to our brand and reputation. Our competitors or other third parties may independently design around or develop technology similar to ours or otherwise duplicate our services or products such that we could not assert our intellectual property rights against them. In addition, our contractual arrangements may not effectively prevent disclosure of our intellectual property or confidential and proprietary information or provide an adequate remedy in the event of an unauthorized disclosure.

We may be subject to claims and litigation pertaining to our fiduciary responsibilities.

Some of the services we provide, such as trust and investment services, require us to act as fiduciaries for our customers and others. From time to time, third parties make claims and take legal action against us pertaining to the performance of our fiduciary responsibilities. If these claims and legal actions are not resolved in a manner favorable to us, we may be exposed to significant financial liability or our reputation could be damaged. Either of these results may adversely impact demand for our products and services or otherwise have a material adverse effect on our business, financial condition or results of operations.

Changes in our accounting policies or in accounting standards could materially affect how we report our financial condition or results of operations.

From time to time, the Financial Accounting Standards Board, or the FASB, and SEC change the financial accounting and reporting standards that govern the preparation of our financial statements. As a result of changes to financial accounting or reporting standards, whether promulgated or required by the FASB or other regulators, we could be required to change certain of the assumptions or estimates we have previously used in preparing our financial statements, which could negatively impact how we record and report our results of operations and financial condition generally. For additional information on the key areas for which assumptions and estimates are used in preparing our financial statements, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and the Impact of Accounting Estimates."

Risks Related to the Regulatory Oversight of Our Business

The banking industry is highly regulated, and the regulatory framework, together with any future legislative or regulatory changes, may have a significant adverse effect on our operations.

The banking industry is extensively regulated and supervised under both federal and state laws and regulations that are intended primarily for the protection of depositors, customers, federal deposit insurance funds and the banking system as a whole, not for the protection of our stockholders and creditors. We are subject to regulation and supervision by the Federal Reserve, and our bank is subject to regulation and supervision by the FDIC, the South Dakota Division of Banking and the CFPB. The laws and regulations applicable to us govern a variety of matters, including permissible types, amounts and terms of loans and investments we may make, the maximum interest rate that may be charged, the amount of reserves our bank must hold against deposits it takes,

the types of deposits our bank may accept and the rates it may pay on such deposits, maintenance of adequate capital and liquidity, changes in the control of us and our bank, restrictions on dividends and establishment of new offices by our bank. We must obtain approval from our regulators before engaging in certain activities, and there can be no assurance that any regulatory approvals we may require will be obtained, either in a timely manner or at all. Our regulators also have the ability to compel us to, or restrict us from, taking certain actions entirely, such as actions that our regulators deem to constitute an unsafe or unsound banking practice. Our failure to comply with any applicable laws or regulations, or regulatory policies and interpretations of such laws and regulations, could result in sanctions by regulatory agencies, civil money penalties or damage to our reputation, all of which could have a material adverse effect on our business, financial condition or results of operations.

Since the recent financial crisis, federal and state banking laws and regulations, as well as interpretations and implementations of these laws and regulations, have undergone substantial review and change. In particular, the Dodd-Frank Act drastically revised the laws and regulations under which we operate. Financial institutions generally have also been subjected to increased scrutiny from regulatory authorities. These changes and increased scrutiny may result in increased costs of doing business, decreased revenues and net income, may reduce our ability to effectively compete to attract and retain customers, or make it less attractive for us to continue providing certain products and services. Any future changes in federal and state law and regulations, as well as the interpretations and implementations of such laws and regulations, could affect us in substantial and unpredictable ways, including those listed above or other ways that could have a material adverse effect on our business, financial condition or results of operations.

We are subject to heightened regulatory requirements as we have exceeded $10 billion in assets.

With the acquisition of HF Financial on May 16, 2016, our bank’s total assets exceeded $10 billion during the quarter ended June 30, 2016. The Dodd-Frank Act and its implementing regulations impose various additional requirements on bank holding companies with $10 billion or more in total assets, including compliance with portions of the Federal Reserve’s enhanced prudential oversight requirements and annual stress testing requirements and a more frequent and enhanced regulatory examination regime. In addition, banks, including ours, with $10 billion or more in total assets are primarily examined by the CFPB with respect to various federal consumer financial protection laws and regulations, with the FDIC maintaining supervision over some consumer related regulations. Previously, the FDIC has been primarily responsible for examining our bank’s compliance with consumer protection laws. As a relatively new agency with evolving regulations and practices, there is some uncertainty as to how the CFPB’s examination and regulatory authority might impact our business.

Compliance with these requirements may necessitate that we hire additional compliance or other personnel, design and implement additional internal controls, or incur other significant expenses, any of which could have a material adverse effect on our business, financial condition or results of operations. Compliance with the annual stress testing requirements, part of which must be publicly disclosed, may also be misinterpreted by the market generally or our customers and, as a result, may adversely affect our stock price or our ability to retain our customers or effectively compete for new business opportunities. Our regulators may also consider the status of our preparation for compliance with these regulatory requirements when examining our operations generally or when considering any request for regulatory approval we may make, even requests for approvals on unrelated matters. As a result, we may incur additional related costs and business impacts in order to ensure compliance.

We are required to act as a source of financial and managerial strength for our bank in times of stress.

Under federal law and longstanding Federal Reserve policy, we are expected to act as a source of financial and managerial strength to our bank, and to commit resources to support our bank if necessary. We may be required to commit additional resources to our bank at times when we may not be in a financial position to provide such resources or when it may not be in our, or our stockholders’ or creditors’, best interests to do so. Providing such support is more likely during times of financial stress for us and our bank, which may make any capital we are required to raise to provide such support more expensive than it might otherwise be. In addition, any capital loans we make to our bank are subordinate in right of payment to depositors and to certain other indebtedness of our bank. In the event of our bankruptcy, any commitment by us to a federal banking regulator to maintain the capital of our bank will be assumed by the bankruptcy trustee and entitled to priority of payment.

We may be subject to more stringent capital requirements in the future.

We are subject to regulatory requirements specifying minimum amounts and types of capital that we must maintain. From time to time, the regulators change these regulatory capital adequacy guidelines. If we fail to meet these minimum capital guidelines and other regulatory requirements, we or our subsidiaries may be restricted in the types of activities we may conduct and we may be prohibited from taking certain capital actions, such as paying dividends and repurchasing or redeeming capital securities.

In particular, the capital requirements applicable to us under the recently adopted capital rules implementing the Basel III capital framework in the United States started to be phased-in on January 1, 2015. We are now required to satisfy additional, more stringent, capital adequacy standards than we had in the past. In addition, our stress test results may have the effect of requiring us to comply with even greater capital requirements. While we expect to meet the requirements of the new Basel III-based capital rules, we may fail to do so. In addition, these requirements could have a negative impact on our ability to lend, grow deposit balances, make acquisitions or make capital distributions in the form of dividends or share repurchases. Higher capital levels could also lower our return on equity.

Litigation and regulatory actions, including possible enforcement actions, could subject us to significant fines, penalties, judgments or other requirements resulting in increased expenses or restrictions on our business activities.

Our business is subject to increased litigation and regulatory risks as a result of a number of factors, including the highly regulated nature of the financial services industry and the focus of state and federal prosecutors on banks and the financial services industry generally. This focus has only intensified since the financial crisis commencing in 2008 and its aftermath, with regulators and prosecutors focusing on a variety of financial institution practices and requirements, including foreclosure practices, compliance with applicable consumer protection laws, classification of held for sale assets and compliance with anti-money laundering statutes, the Bank Secrecy Act and sanctions imposed by the Office of Foreign Assets Control of the U.S. Department of the Treasury.

In the normal course of business, from time to time, we are or have been named as a defendant in various legal actions, including arbitrations, class actions and other litigation, arising in connection with our business activities and acquisitions. Certain of the legal actions included claims for substantial compensatory or punitive damages or claims for indeterminate amounts of damages. In addition, while the arbitration provisions in certain of our customer agreements historically have limited our exposure to consumer class action litigation, there can be no assurance that we will be able to include or enforce our arbitration clauses in the future. We may also, from time to time, be the subject of subpoenas, requests for information, reviews, investigations and proceedings (both formal and informal) by governmental agencies regarding our business. Any such legal or regulatory actions may subject us to substantial compensatory or punitive damages, significant fines, penalties, obligations to change our business practices or other requirements resulting in increased expenses, diminished income and damage to our reputation. Our involvement in any such matters, even if the matters are ultimately determined in our favor, could also cause significant harm to our reputation and divert management attention from the operation of our business. Further, any settlement, consent order or adverse judgment in connection with any formal or informal proceeding or investigation by government agencies may result in litigation, investigations or proceedings as other litigants and government agencies begin independent reviews of the same activities. As a result, the outcome of legal and regulatory actions could be material to our business, results of operations, financial condition and cash flows depending on, among other factors, the level of our earnings for that period, and could have a material adverse effect on our business, financial condition or results of operations.

Increases in FDIC insurance premiums may adversely affect our earnings.

Our bank's deposits are insured by the FDIC up to legal limits and, accordingly, our bank is subject to FDIC deposit insurance assessments. We generally cannot control the amount of premiums our bank will be required to pay for FDIC insurance. As our bank has exceeded $10 billion in assets, the method for calculating its FDIC assessments has changed and our bank's FDIC assessments have increased as a result. See "Item 1. Business—Supervision and Regulation—Deposit Insurance." In addition, the FDIC recently increased the deposit insurance fund's target reserve ratio to 2.0% of insured deposits following the Dodd-Frank Act's elimination of the 1.5% cap on the insurance fund's reserve ratio and has put in place a restoration plan to restore the deposit insurance fund to its 1.35% minimum reserve ratio mandated by the Dodd-Frank Act by September 30, 2020. In March of 2016, the FDIC approved a final rule to meet this requirement by 2018. To meet the minimum reserve ratio by 2018, during the third calendar quarter of 2016 the FDIC began assessing banks with consolidated assets of more than $10.0 billion a surcharge assessment of 0.045%. The surcharge will continue through the earlier of the quarter that the reserve ratio first reaches or exceeds 1.35% and December 31, 2018. In the event the reserve ratio does not reach 1.35% by December 31, 2018, the FDIC has approved imposing a shortfall assessment on banks with $10.0 billion or more in consolidated assets on March 31, 2019. In addition, if there is an increase in financial institution failures, our bank may be required to pay even higher FDIC insurance premiums than the recently increased levels, or the FDIC may charge additional special assessments.

Future increases of FDIC insurance premiums or special assessments could have a material adverse effect on our business, financial condition or results of operations.

We are subject to the CRA, fair lending and other laws and regulations, and our failure to comply with these laws and regulations could lead to material penalties.
The CRA, the Equal Credit Opportunity Act, the Fair Housing Act and other fair lending laws and regulations impose nondiscriminatory lending and other requirements on financial institutions. The U.S. Department of Justice and other federal agencies, including the FDIC and CFPB, are responsible for enforcing these laws and regulations. A successful challenge to an institution's performance under the CRA, fair lending and other compliance laws and regulations could result in a wide variety of sanctions, including the required payment of damages and civil money penalties, injunctive relief, imposition of restrictions on mergers and acquisitions activity and restrictions on expansion. Private parties may also have the ability to challenge an institution's performance under fair lending laws in private class action litigation. The costs of defending, and any adverse outcome from, any such challenge could damage our reputation or could have a material adverse effect on our business, financial condition or results of operations.
Failure to comply with mortgage loan servicing standards, guidelines, laws and regulations may result in substantial penalties, additional costs or losses.
As a residential mortgage servicer in the U.S., we have a portfolio of loan servicing rights. A loan servicing right is the right to service a mortgage loan - collect principal, interest and escrow amounts - for a fee. The housing Government Sponsored Enterprises, such as Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation and the Federal Home Loan Bank System ("GSEs"), that own the mortgages that we service in our loan servicing rights portfolio have mortgage servicing standards. The U.S. Department of Housing and Urban Development ("HUD") and state housing finance agencies govern and establish guidelines for the servicing of GSE mortgages. The failure to comply with these standards and guidelines, as well as other applicable federal and state laws and regulations, could result in penalties assessed by HUD, the GSEs and/or our other regulators, or we could be forced to sell all or part of our loan servicing rights portfolio. In addition, we are subject to certain legal and contractual requirements for how we hold, transfer, use or enforce promissory notes, security instruments and other documents for residential mortgage loans that we service. Further, we currently use the Mortgage Electronic Registration Systems, Inc. ("MERS") system for our servicing efforts. If documentation requirements were not met, or if the use of MERS or the MERS system is found not valid or effective, we could be obligated to, or choose to, take remedial actions and may be subject to additional costs or losses.
Regulations relating to privacy, information security and data protection could increase our costs, affect or limit how we collect and use personal information and adversely affect our business opportunities.
We are subject to various privacy, information security and data protection laws, including requirements concerning security breach notification, and we could be negatively impacted by these laws. For example, our business is subject to the Gramm-Leach-Bliley Act which, among other things: (i) imposes certain limitations on our ability to share nonpublic personal information about our customers with nonaffiliated third parties; (ii) requires that we provide certain disclosures to customers about our information collection, sharing and security practices and afford customers the right to "opt out" of any information sharing by us with nonaffiliated third parties (with certain exceptions) and (iii) requires we develop, implement and maintain a written comprehensive information security program containing safeguards appropriate based on our size and complexity, the nature and scope of our activities, and the sensitivity of customer information we process, as well as plans for responding to data security breaches. Various state and federal banking regulators and states have also enacted data security breach notification requirements with varying levels of individual, consumer, regulatory or law enforcement notification in certain circumstances in the event of a security breach. Moreover, legislators and regulators in the United States are increasingly adopting or revising privacy, information security and data protection laws that potentially could have a significant impact on our current and planned privacy, data protection and information security-related practices, our collection, use, sharing, retention and safeguarding of consumer or employee information, and some of our current or planned business activities. This could also increase our costs of compliance and business operations and could reduce income from certain business initiatives. This includes increased privacy-related enforcement activity at the federal level, by the Federal Trade Commission, as well as at the state level, such as with regard to mobile applications.
Compliance with current or future privacy, data protection and information security laws (including those regarding security breach notification) affecting customer or employee data to which we are subject could result in higher compliance and technology costs and could restrict our ability to provide certain products and services, which could

have a material adverse effect on our business, financial conditions or results of operations. Our failure to comply with privacy, data protection and information security laws could result in potentially significant regulatory or governmental investigations or actions, litigation, fines, sanctions and damage to our reputation, which could have a material adverse effect on our business, financial condition or results of operations.

Our use of third party vendors and our other ongoing third party business relationships are subject to increasing regulatory requirements and attention.

We regularly use third party vendors as part of our business. We also have substantial ongoing business relationships with other third parties. These types of third party relationships are subject to increasingly demanding regulatory requirements and attention by our federal bank regulators. Recent regulation requires us to enhance our due diligence, ongoing monitoring and control over our third party vendors and other ongoing third party business relationships. In certain cases we may be required to renegotiate our agreements with these vendors to meet these enhanced requirements, which could increase our costs. We expect that our regulators will hold us responsible for deficiencies in our oversight and control of our third party relationships and in the performance of the parties with which we have these relationships. As a result, if our regulators conclude that we have not exercised adequate oversight and control over our third party vendors or other ongoing third party business relationships or that such third parties have not performed appropriately, we could be subject to enforcement actions, including civil money penalties or other administrative or judicial penalties or fines as well as requirements for customer remediation, any of which could have a material adverse effect our business, financial condition or results of operations.

Risks Related to Our FDIC-Assisted Acquisition of TierOne Bank

Our bank purchased certain assets and assumed certain liabilities of TierOne Bank in an FDIC-assisted transaction.

On June 4, 2010, our bank acquired certain assets and assumed certain liabilities of TierOne Bank from the FDIC in an assisted transaction, which could present additional risks to our business. Although this transaction provided and provides for FDIC assistance to our bank through loss sharing agreements to mitigate certain risks, such as sharing exposure to loan and lease losses and providing indemnification against certain liabilities of the former TierOne Bank, we are still subject to some of the same risks we face in acquiring another bank in a negotiated transaction, including risks associated with maintaining customer relationships and failure to realize the anticipated acquisition benefits in the amounts and within the timeframes we expect. Our ability to seek indemnification under the commercial loss-sharing agreement in connection with TierOne Bank terminated on June 4, 2015, and covered $63.1 million in loans as of that date. The current balance of those loans as of September 30, 2017 totaled $24.6 million. The single-family loss-sharing agreement, which covered $57.5 million in loans at September 30, 2017, terminates in June of 2020.

The terms of the single-family loss-sharing agreement are extensive and failure to comply with any of the guidelines could result in a specific asset or group of assets permanently losing their loss-sharing coverage. No assurances can be given that we will manage the covered assets in such a way as to always maintain loss-sharing coverage on all such assets and fully recover the value of our loss-sharing asset, and the loss of any loss-sharing coverage could have a material adverse effect on our business, financial condition or results of operations.

Our decisions regarding our estimated loss-sharing indemnification asset may be inaccurate.

In the FDIC-assisted transaction, we recorded a fair value adjustment and a related loss-sharing indemnification asset, representing 80% of expected credit losses on covered loans during the life of such indemnifications. We have subsequently analyzed the portfolio on a regular basis, taking into account historical loss experience, volume and classification of loans, volume and trends in delinquencies and nonaccruals, local economic conditions and other pertinent information. As a result of these analyses, we have recorded allowance for loan and lease losses, partially offset by additional indemnification assets, to address subsequent impairment in certain loans and pools of loans. While we believe that our current levels of fair value adjustments and allowance for loan and lease losses are adequate to absorb future losses that may occur in the acquired loan portfolio, if our assumptions are incorrect, our actual losses could be higher than estimated and increased loss reserves may be needed to respond to different economic conditions or adverse developments in the acquired loan portfolio. Any increase in future loan and lease losses could have a material adverse effect on our business, financial condition or results of operations.

Risks Related to Our Common Stock

Our stock price may be volatile, and our stockholders could lose part or all of their investment as a result.

Stock price volatility may make it more difficult for our stockholders to resell their common stock when they want and at prices they find attractive. Our stock price may fluctuate significantly in response to a variety of factors including, among other things:

- actual or anticipated variations in our quarterly results of operations;
- recommendations or research reports about us or the financial services industry in general published by securities analysts;
- the failure of securities analysts to cover, or continue to cover, us;
- operating and stock price performance of other companies that investors deem comparable to us;
- news reports relating to trends, concerns and other issues in the financial services industry;
- perceptions in the marketplace regarding us, or our reputation, competitors or other financial institutions;
- future sales of our common stock;
- departure of our management team or other key personnel;
- new technology used, or services offered, by competitors;
- significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving us or our competitors;
- failure to integrate acquisitions or realize anticipated benefits from acquisitions;
- existing or increased regulatory and compliance requirements, changes or proposed changes in laws or regulations, or differing interpretations thereof affecting our business, or enforcement of these laws and regulations;
- litigation and governmental investigations; and
- geopolitical conditions such as acts or threats of terrorism or military conflicts.

If any of the foregoing occurs, it could cause our stock price to fall and may expose us to litigation that, even if our defense is successful, could distract our management and be costly to defend. General market fluctuations, industry factors and general economic and political conditions and events—such as economic slowdowns or recessions, interest rate changes or credit loss trends—could also cause our stock price to decrease regardless of operating results.

We may not pay dividends on our common stock in the future.

Holders of our common stock are entitled to receive only such dividends as our Board of Directors may declare out of funds legally available for such payments. However, our Board of Directors may, in its sole discretion, change the amount or frequency of dividends or discontinue the payment of dividends entirely. In addition, we are a bank holding company, and our ability to declare and pay dividends is dependent on certain federal regulatory considerations, including the guidelines of the Federal Reserve regarding capital adequacy and dividends. In addition, our ability to pay dividends depends primarily on our receipt of dividends from our bank, the payment of which is subject to numerous limitations under federal and state banking laws, regulations and policies. See "Item 1. Business—Supervision and Regulation—Dividends; Stress Testing." As a consequence of these various limitations and restrictions, we may not be able to make, or may have to reduce or eliminate, the payment of dividends on our common stock. Any change in the level of our dividends or the suspension of the payment thereof could have a material adverse effect on the market price of our common stock.

Future issues or sales of our common stock in the public market could lower our stock price, and any additional capital raised by us through the sale of equity or convertible securities may dilute the ownership interests of our stockholders.

The market price of our common stock could decline as a result of the issues or sales of a large number of shares of our common stock or from the perception that such sales could occur. These sales, or the possibility that these sales may occur, also may make it more difficult for us to raise additional capital by selling equity securities in the future, at a time and price that we deem appropriate.

We have also filed a registration statement with the SEC registering 897,222 shares of our common stock for issuance pursuant to awards granted under our equity incentive plans. We have granted awards covering 603,899 shares of our common stock under these plans as of September 30, 2017. We may increase the number of shares registered for this purpose from time to time. Once we issue these shares, their holders will be able to sell them in the public market.

We cannot predict the size of future issuances or sales of our common stock or the effect, if any, that future issuances or sales of shares of our common stock may have on the market price of our common stock. Sales or distributions of substantial amounts of our common stock (including shares issued in connection with an acquisition), or the perception that such sales could occur, may cause the market price of our common stock to decline.

In addition, future issuances of our common stock, whether under our equity incentive plans, to fund acquisitions or to raise capital, will also have the effect of diluting the ownership interests of our current stockholders, meaning, among other things, that their voting power and share of our earnings will be reduced on a proportional basis.

Certain banking laws and certain provisions of our certificate of incorporation may have an anti-takeover effect.

Provisions of federal banking laws, including regulatory approval requirements, could make it difficult for a third party to acquire us, even if doing so would be perceived to be beneficial to our stockholders. Acquisition of 10% or more of any class of voting stock of a bank holding company or depository institution, including shares of our common stock, generally creates a rebuttable presumption that the acquirer “controls” the bank holding company or depository institution and the acquisition of such control would be subject to federal regulatory approval. Also, a bank holding company must obtain the prior approval of the Federal Reserve before, among other things, acquiring direct or indirect ownership or control of more than 5% of the voting shares of any bank, including our bank.

There also are provisions in our amended and restated certificate of incorporation and amended and restated bylaws, such as limitations on the ability to call a special meeting of our stockholders, and the classification of our Board of Directors into three separate classes each serving for three-year terms, that may be used to delay or block a takeover attempt. In addition, our Board of Directors is authorized under our amended and restated certificate of incorporation to issue shares of preferred stock, and determine the rights, terms conditions and privileges of such preferred stock, without stockholder approval. These provisions may effectively inhibit a non-negotiated merger or other business combination, which, in turn, could have a material adverse effect on the market price of our common stock.

We have also elected in our amended and restated certificate of incorporation to be governed by Section 203 of the Delaware General Corporation Law which generally prohibits a person qualifying as an “interested stockholder” from entering into a transaction for a business combination with us unless, subject to certain exceptions, such transaction is first approved by our Board of Directors. An “interested stockholder” is generally defined as any person who owns 15% or more of our outstanding voting stock. The purpose of this election is to provide our Board of Directors with leverage in negotiating with an interested stockholder desiring to pursue a business combination with us by making it more difficult for such stockholder to complete such transaction in the absence of board approval. This election may discourage certain take-over attempts which our stockholders may otherwise deem to be in their best interests and this, in turn, could have an adverse effect on the market price of our common stock.

Our amended and restated certificate of incorporation designates the Court of Chancery of the State of Delaware as the sole and exclusive forum for certain types of actions and proceedings that may be initiated by our stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers, employees or agents.

Our amended and restated certificate of incorporation provides that, unless we consent in writing to an alternative forum, the Court of Chancery of the State of Delaware will be the sole and exclusive forum for (i) any derivative action or proceeding brought on our behalf, (ii) any action asserting a claim of breach of a fiduciary duty owed by any of our directors, officers, employees or agents to us or our stockholders, (iii) any action asserting a claim arising pursuant to any provision of the Delaware General Corporation Law, or DGCL, our amended and restated certificate of incorporation or our amended and restated bylaws or (iv) any action asserting a claim that is governed by the internal affairs doctrine, in each case subject to the Court of Chancery having personal jurisdiction over the indispensable parties named as defendants therein and the claim not being one which is vested in the exclusive jurisdiction of a court or forum other than the Court of Chancery or for which the Court of Chancery does not have subject matter jurisdiction. Any person purchasing or otherwise acquiring any interest in any shares of our capital stock shall be deemed to have notice of and to have consented to this provision of our amended and restated certificate of incorporation. This choice of forum provision may limit our stockholders' ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers, employees or agents, which may discourage such lawsuits against us and our directors, officers, employees and agents even though an action, if successful, might benefit our stockholders. Stockholders who do bring a claim in the Court of Chancery could face additional litigation costs in pursuing any such claim, particularly if they do not reside in or near Delaware. The Court of Chancery may also reach different judgments or results than would other courts, including courts where a stockholder considering an action may be located or would otherwise choose to bring the action, and such judgments or results may be more favorable to us than to our stockholders. Alternatively, if a court were to find this provision of our amended and restated certificate of incorporation inapplicable to, or unenforceable in respect of, one or more of the specified types of actions or proceedings, we may incur additional costs.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our corporate headquarters is located at 225 S. Main Ave, Sioux Falls, South Dakota 57104, and in Sioux Falls we have one additional owned facility from which our finance and risk departments operated and two leased facilities for our data center and operations center. At September 30, 2017, the additional owned facility was under contract for sale and was sold in October 2017. The finance and risk departments were relocated to our corporate headquarters. In addition to our corporate headquarters, we operate from 173 branch offices located in 129 communities in Arizona, Colorado, Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota and South Dakota. We lease 53 of our branch offices, all on market terms, and we own the remainder of our offices, including our corporate headquarters. All of our banking offices are in free-standing, permanent facilities. We generally believe our existing and contracted-for facilities are adequate to meet our requirements.

ITEM 3. LEGAL PROCEEDINGS

From time to time we are a party to various litigation matters and subject to various regulatory matters that arise in the ordinary course of our business. We establish reserves for such matters when potential losses become probable and can be reasonably estimated. We believe the ultimate resolution of existing litigation and regulatory matters will not have a material adverse effect on our financial condition, results of operations or cash flows. However, changes in circumstances or additional information could result in additional reserves or resolution of these matters in excess of established reserves, which could adversely affect our financial condition, results of operations or cash flows, potentially materially.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is traded on the New York Stock Exchange under the symbol "GWB." As of January 6, 2017, the Company had 8,514 holders of record. Information regarding the trading price and dividends paid on our common stock for each quarterly period within the two most recent fiscal years is set forth in the table below.

	High	Low	Dividends Paid
Fiscal year 2017:			
First Quarter	$44.11	$31.51	$ 0.17
Second Quarter	45.61	39.10	0.17
Third Quarter	45.62	36.42	0.20
Fourth Quarter	41.87	33.27	0.20
Fiscal year 2016:			
First Quarter	$31.13	$23.76	$ 0.14
Second Quarter	28.58	22.68	0.14
Third Quarter	34.45	26.43	0.14
Fourth Quarter	35.01	30.15	0.14

Dividends

We intend to pay quarterly cash dividends on our common stock, subject to approval by our Board of Directors. Although we expect to pay dividends according to our dividend policy, we may elect not to pay dividends. Any declarations of dividends, and the amount and timing thereof, will be at the discretion of our Board of Directors. In determining the amount of any future dividends, our Board of Directors will take into account: (i) our financial results; (ii) our available cash, as well as anticipated cash requirements (including debt servicing); (iii) our capital requirements and the capital requirements of our subsidiaries (including our bank); (iv) contractual, legal, tax and regulatory restrictions on, and implications of, the payment of dividends by us to our stockholders or by our bank to us; (v) general economic and business conditions; and (vi) any other factors that our Board of Directors may deem relevant. Therefore, there can be no assurance that we will pay any dividends to holders of our stock, or as to the amount of any such dividends. See "Item 1A. Risk Factors—Risks Related to Our Common Stock—We may not pay dividends on our common stock in the future."

Our ability to declare and pay dividends on our stock is also subject to numerous limitations applicable to bank holding companies under federal and state banking laws, regulations and policies. Federal bank regulators are authorized to determine under certain circumstances relating to the financial condition of a bank holding company or a bank that the payment of dividends would be an unsafe or unsound practice and to prohibit payment thereof. In addition, under the General Corporation Law of the State of Delaware, we may only pay dividends from legally available surplus or, if there is no such surplus, out of our net profits for the fiscal year in which the dividend is declared and the preceding fiscal year. Surplus is generally defined as the excess of the fair value of our total assets over the sum of the fair value of our total liabilities plus the aggregate par value of our issued and outstanding capital stock.

Because we are a holding company and do not engage directly in other business activities of a material nature, our ability to pay dividends on our stock depends primarily upon our receipt of dividends from our bank, the payment of which is subject to numerous limitations under federal and state banking laws, regulations and policies. In general, dividends by our bank may only be declared from its net profits and may be declared no more than once per calendar quarter. The approval of the South Dakota Director of Banking is required if our bank seeks to pay aggregate dividends during any calendar year that would exceed the sum of its net profits from the year to date and retained net profits from the preceding two years, minus any required transfers to surplus. Moreover, under the FDIA an insured depository institution may not pay any dividends if the institution is undercapitalized or if the payment of the dividend would cause the institution to become undercapitalized. In addition, the federal bank regulatory agencies have issued

policy statements providing that FDIC-insured depository institutions and their holding companies should generally pay dividends only out of their current operating earnings. See "Item 1. Business—Supervision and Regulation—Dividends; Stress Testing" for more information on federal and state banking laws, regulations and policies limiting our and our bank's ability to declare and pay dividends. The current and future dividend policy of our bank is also subject to the discretion of its Board of Directors. Our bank is not obligated to pay dividends to us. For additional information, see "Item 1A. Risk Factors—Risks Related to Our Business—We rely on

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dividends and other payments from our bank for substantially all of our revenue" and "Item 1A. Risk Factors—Risks Related to Our Common Stock—We may not pay dividends on our common stock in the future."

None of the indentures governing our outstanding junior subordinated debentures or lines of credit contain covenants limiting our ability or the ability of our subsidiaries to pay dividends, absent a default under the terms of the indenture, or under our guarantee of the trust preferred securities issued by our affiliate that owns the applicable debentures, or a deferral of the payment of interest on such debentures in accordance with the terms of the applicable indenture.

Under our amended and restated certificate of incorporation, holders of our common stock and non-voting common stock will be equally entitled to receive ratably such dividends as may be declared from time to time by our Board of Directors out of legally available funds. No shares of our non-voting common stock are currently outstanding.

Securities Authorized for Issuance under Equity Compensation Plans

The following table provides information as of September 30, 2017 about our common stock that may be issued under our equity compensation plans, which consist of the Great Western Bancorp, Inc. 2014 Omnibus Incentive Compensation Plan and the Great Western Bancorp, Inc. 2014 Non-Employee Director Plan.

	Number of securities to be issued upon exercise of outstanding restricted and performance based stock compensation (a)	Weighted average exercise price of outstanding restricted and performance based stock compensation (b)	Number of securities available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders [1]	509,822	$ 32.97	293,323
Equity compensation plans not approved by security holders	—	—	—
Total	509,822	$ 32.97	293,323

[1] Each of our equity compensation plans were approved by the our Board of Directors on October 8, 2014 and subsequently approved by National Americas Holdings LLC, our sole stockholder at that time, on October 10, 2014.

Purchases of Equity Securities

On October 26, 2016, our Board of Directors approved a stock repurchase program wherein we may repurchase of up to $100.0 million of our common stock (the "Repurchase Program"). The Repurchase Program permits shares to be repurchased in the open market, including pursuant to any trading plan that may be adopted in accordance with Rule 10b5-1 of the SEC. Repurchases may be made at management's discretion at prices management considers to be attractive, subject to the availability of stock, general market conditions, the applicable trading price, future alternative advantageous uses for capital, and our financial performance. Open market purchases will be conducted in accordance with the limitations set forth in Rule 10b-18 of the SEC and other applicable legal requirements.

The Repurchase Program has no time limit and may be suspended, terminated or modified at any time for any reason, including market conditions, the cost of repurchasing shares, the availability of alternative investment opportunities, liquidity, and other factors deemed appropriate. These factors may also affect the timing and amount of share repurchases. The Repurchase Program does not obligate us to purchase any particular number of shares. Any shares acquired will be canceled and become authorized but unissued shares, available for future issuance.

The table below puts forth information regarding our purchases of common stock during the fourth quarter of fiscal year 2017.

Period	Total number of shares (or units) purchased (a)	Average price paid per share (or unit) (b)	Total number of shares (or units) purchased as part of	Maximum number (or approximate dollar value) of shares (or units) that

			publicly announced plans or programs (c)	may yet be purchased under the plans or programs (d)
7/1/2017 - 7/31/17	$ —	$ —	—	$ 100,000,000
8/1/2017 - 8/31/17	—	—	—	100,000,000
9/1/17 - 9/30/17	162,586	34.46	162,586	94,397,279
Total	162,586	$ 34.46	162,586	$ 94,397,279

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Total Shareholder Return Performance Graph

The following graph compares the cumulative total stockholder return on our common stock, since a trading market was established on October 15, 2014, to the cumulative total returns for the Standard & Poor's ("S&P") 500 Index, Russell 2000 Index and Keefe, Bruyette & Woods ("KBW") Regional Bank Index. We have determined to compare our performance to the KBW Regional Bank Index for purpose of the graph as it includes most of the peer banks we typically use for comparison purposes. The graph assumes that $100 was invested on October 15, 2014 in our common stock and the above indexes. The cumulative total return on each investment is as of September 30, 2017 and assumes reinvestment of dividends.

	As of September 30, 2017
Great Western Bancorp Inc.	$ 242.10
S&P 500	$ 142.79
Russell 2000	$ 146.39
KBW Regional Bank Index	$ 163.57

ITEM 6. SELECTED FINANCIAL DATA

The following consolidated financial data as of and for the dates and periods indicated is derived from our audited consolidated financial statements. The selected consolidated financial data presented below is not indicative of our future results for any period. The selected consolidated financial data set forth below should be read in conjunction with our consolidated financial statements and related notes and “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” included elsewhere in this Annual Report on Form 10-K. The historical financial information below also contains non-GAAP financial measures, which have not been audited.

	September 30,									
	2017		2016		2015		2014		2013	
	(Dollars in thousands except share and per share amounts)									
Income Statement Data:										
Interest and dividend income	$441,667		$395,698		$363,381		$352,476		$349,634	
Interest expense	45,320		33,524		29,884		32,052		39,161	
Net interest income	396,347		362,174		333,497		320,424		310,473	
Provision for loan and lease losses	21,539		16,955		19,041		684		11,574	
Net interest income, after provision for loan and lease losses	374,808		345,219		314,456		319,740		298,899	
Noninterest income	56,062		42,537		33,890		39,781		59,832	
Noninterest expense	216,643		207,640		186,794		200,222		208,590	
Income before income taxes	214,227		180,116		161,552		159,299		150,141	
Provision for income taxes	69,441		58,863		52,487		54,347		53,898	
Net income	$144,786		$121,253		$109,065		$104,952		$96,243	
Other Financial Info / Performance Ratios:										
Net interest margin	3.97	%	3.96	%	3.94	%	4.02	%	3.99	%
Adjusted net interest margin [1]	3.83	%	3.74	%	3.68	%	3.79	%	3.81	%
Return on average total assets	1.27	%	1.16	%	1.12	%	1.14	%	1.07	%
Return on average common equity	8.5	%	7.9	%	7.5	%	7.3	%	7.0	%
Return on average tangible common equity [1]	15.4	%	15.1	%	15.4	%	16.6	%	17.5	%
Efficiency ratio [1]	46.5	%	49.6	%	48.0	%	50.4	%	50.6	%
Dividends per common share	$0.74		$0.56		$0.36		$1.76		$0.72	
Dividend payout ratio	30.2	%	26.1	%	18.8	%	97.2	%	43.0	%
Earnings per common share - diluted	$2.45		$2.14		$1.90		$1.81		$1.66	
Adjusted earnings per common share - diluted [1]	$2.46		$2.31		$1.90		$1.81		$1.66	
Balance Sheet Data:										
Loans [2]	$8,968,553		$8,682,644		$7,325,198		$6,787,467		$6,362,673	
Allowance for loan and lease losses	63,503		64,642		57,200		47,518		55,864	
Securities	1,367,960		1,315,860		1,327,327		1,341,242		1,480,449	
Goodwill	739,023		739,023		697,807		697,807		697,807	
Total assets	11,690,011		11,531,180		9,798,654		9,371,429		9,134,258	
Total deposits	8,977,613		8,604,790		7,387,065		7,052,180		6,948,208	
Total liabilities	9,935,011		9,867,789		8,339,308		7,950,339		7,717,044	
Total stockholder’s equity	1,755,000		1,663,391		1,459,346		1,421,090		1,417,214	
Asset Quality Ratios:										
Nonaccrual loans / total loans	1.54	%	1.46	%	0.93	%	1.16	%	2.03	%
	0.71	%	0.74	%	0.78	%	0.70	%	0.88	%

Allowance for loan and lease losses / total loans										
Net charge-offs / average total loans	0.26	%	0.12	%	0.13	%	0.14	%	0.44	%
Capital Ratios:										
Tier 1 capital ratio	11.4	%	11.1	%	10.9	%	11.8	%	12.4	%
Total capital ratio	12.5	%	12.2	%	12.1	%	12.9	%	13.8	%
Tier 1 leverage ratio	10.3	%	9.5	%	9.1	%	9.1	%	9.2	%
Common equity tier 1 ratio	10.7	%	10.2	%	10.1	%	*		*	
Tangible common equity to tangible assets [1]	9.2	%	8.5	%	8.3	%	8.2	%	8.2	%
Book value per share - GAAP	$29.83		$28.34		$26.43		$24.55		$24.48	
Tangible book value per share [1]	$17.11		$15.55		$13.66		$12.25		$11.90	

[1] This is a non-GAAP financial measure we believe is helpful to interpreting our financial results. For more information on this non-GAAP financial measure, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Non-GAAP Financial Measures" and for a reconciliation to the most directly comparable GAAP financial measure, see "—Non-GAAP Financial Measures Reconciliations".
[2] Loans include unpaid principal balance net of unamortized discount on acquired loans and unearned net deferred fees and costs and loans in process.
* Not applicable for period presented

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Non-GAAP Financial Measures Reconciliations

For more information on these financial measures, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Non-GAAP Financial Measures."

	For the fiscal year ended September 30,				
	2017	2016	2015	2014	2013
	(Dollars in thousands except share and per share amounts)				
Adjusted net income and adjusted earnings per common share:					
Net income - GAAP	$144,786	$121,253	$109,065	$104,952	$96,243
Add: Acquisition expenses, net of tax	440	9,729	—	—	—
Adjusted net income	$145,226	$130,982	$109,065	$104,952	$96,243
Weighted average diluted common shares outstanding	59,029,382	56,729,350	57,500,878	57,886,114	57,886,114
Earnings per common share - diluted	$2.45	$2.14	$1.90	$1.81	$1.66
Adjusted earnings per common share - diluted	$2.46	$2.31	$1.90	$1.81	$1.66
Tangible net income and return on average tangible common equity:					
Net income - GAAP	$144,786	$121,253	$109,065	$104,952	$96,243
Add: Tax on amortization of intangible assets, net of tax	2,044	2,384	6,230	12,971	16,046
Tangible net income	$146,830	$123,637	$115,295	$117,923	$112,289
Average common equity	$1,702,225	$1,541,844	1,456,223	1,430,772	1,380,296
Less: Average goodwill and other intangible assets	749,393	721,726	707,920	719,573	738,140
Average tangible common equity	$952,832	$820,118	$748,303	$711,199	$642,156
Return on average common equity *	8.5 %	7.9 %	7.5 %	7.3 %	7.0 %
Return on average tangible common equity **	15.4 %	15.1 %	15.4 %	16.6 %	17.5 %

* Calculated as net income - GAAP divided by average common equity.
** Calculated as tangible net income divided by average tangible common equity.

	2017	2016	2015	2014	2013
Adjusted net interest income and adjusted net interest margin (fully-tax equivalent basis):					
Net interest income - GAAP	$396,347	$362,174	$333,497	$320,424	$310,473
Add: Tax equivalent adjustment	8,599	7,534	6,576	4,663	3,541
Net interest income (FTE)	404,946	369,708	340,073	325,087	314,014
Add: Current realized derivative gain (loss)	(14,395)	(20,727)	(21,642)	(18,255)	(14,217)
Adjusted net interest income (FTE)	$390,551	$348,981	$318,431	$306,832	$299,797
Average interest earning assets	$10,209,741	$9,339,858	$8,641,719	$8,093,861	$7,862,860
Net interest margin (FTE) *	3.97 %	3.96 %	3.94 %	4.02 %	3.99 %
Adjusted net interest margin (FTE) **	3.83 %	3.74 %	3.68 %	3.79 %	3.81 %

* Calculated as net interest income (FTE) divided by average interest earning assets.

** Calculated as adjusted net interest income (FTE) divided by average interest earning assets.

Adjusted interest income and adjusted yield (fully-tax equivalent basis), on non ASC 310-30 loans:					
Net interest income - GAAP	$403,633	$362,987	$329,618	$318,775	$264,333
Add: Tax equivalent adjustment	8,599	7,534	6,576	4,663	3,541
Interest income (FTE)	412,232	370,521	336,194	323,438	267,874
Add: Current realized derivative gain (loss)	(14,395)	(20,727)	(21,642)	(18,255)	(14,217)
Adjusted interest income (FTE)	$397,837	$349,794	$314,552	$305,183	$253,657
Average non ASC 310-30 loans	$8,581,615	$7,736,454	$6,889,738	$6,311,857	$5,876,116
Yield (FTE) *	4.80%	4.79%	4.88%	5.12%	4.56%
Adjusted yield (FTE) **	4.64%	4.52%	4.57%	4.84%	4.32%

* Calculated as interest income (FTE) divided by average loans.
** Calculated as adjusted interest income (FTE) divided by average loans.

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	For the fiscal year ended September 30,				
	2017	2016	2015	2014	2013
	(Dollars in thousands except share and per share amounts)				
Efficiency ratio:					
Total revenue - GAAP	$452,409	$404,711	$367,387	$360,205	$370,305
Add: Tax equivalent adjustment	8,599	7,534	6,576	4,663	3,541
Total revenue (FTE)	$461,008	$412,245	$373,963	$364,868	$373,846
Noninterest expense	$216,643	$207,640	$186,794	$200,222	$208,590
Less: Amortization of intangible assets	2,358	3,264	7,110	16,215	19,290
Tangible noninterest expense	$214,285	$204,376	$179,684	$184,007	$189,300
Efficiency ratio *	46.5 %	49.6 %	48.0 %	50.4 %	50.6 %

* Calculated as the ratio of tangible noninterest expense to total revenue (FTE).

	2017	2016	2015	2014	2013
Tangible common equity and tangible common equity to tangible assets:					
Total stockholders' equity	$1,755,000	$1,663,391	$1,459,346	$1,421,090	$1,417,214
Less: Goodwill and other intangible assets	748,397	750,755	704,926	712,036	728,251
Tangible common equity	$1,006,603	$912,636	$754,420	$709,054	$688,963
Total assets	$11,690,011	$11,531,180	$9,798,654	$9,371,429	$9,134,258
Less: Goodwill and other intangible assets	748,397	750,755	704,926	712,036	728,251
Tangible assets	$10,941,614	$10,780,425	$9,093,728	$8,659,393	$8,406,007
Tangible common equity to tangible assets	9.2 %	8.5 %	8.3 %	8.2 %	8.2 %
Tangible book value per share:					
Total stockholders' equity	$1,755,000	$1,663,391	$1,459,346	$1,421,090	$1,417,214
Less: Goodwill and other intangible assets	748,397	750,755	704,926	712,036	728,251
Tangible common equity	$1,006,603	$912,636	$754,420	$709,054	$688,963
Common shares outstanding	58,834,066	58,693,304	55,219,596	57,886,114	57,886,114
Book value per share - GAAP	$29.83	$28.34	$26.43	$24.55	$24.48
Tangible book value per share	$17.11	$15.55	$13.66	$12.25	$11.90

Selected Quarterly Results of Operations

We believe the following quarterly unaudited consolidated statements of income data has been prepared on substantially the same basis as our audited consolidated financial statements and includes all adjustments, consisting only of normal recurring adjustments, necessary for the fair presentation of our consolidated results of operations for the quarters presented. The historical results for any quarter do not necessarily indicate the results expected for any future period. This unaudited condensed consolidated quarterly data should be read together with our audited consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K.

	For the quarter ended:							
	Sept. 30, 2017	Jun. 30, 2017	Mar. 31, 2017	Dec. 31, 2016	Sept. 30, 2016	Jun. 30, 2016	Mar. 31, 2016	Dec. 31, 2015
	(Dollars in thousands except share and per share amounts)							
Operating Data:								
Interest and dividend income	$114,967	$110,401	$107,893	$108,406	$107,718	$100,189	$94,307	$93,484
Interest expense	13,391	11,671	10,494	9,764	9,491	8,537	7,969	7,527
Provision for loan and lease losses	4,685	5,796	4,009	7,049	5,063	5,372	2,631	3,889
Noninterest income	12,836	15,485	13,834	13,907	15,798	9,097	8,999	8,644
Noninterest expense	55,332	54,922	53,852	52,537	57,342	61,222	44,855	44,220
Net income	37,662	35,060	35,162	36,903	33,758	26,360	30,674	30,461
Net interest income	101,576	98,730	97,399	98,642	98,227	91,652	86,338	85,957
Adjusted net interest income (FTE) [1]	100,984	97,564	95,706	96,298	95,344	88,552	82,954	82,131
Net interest margin (FTE) [1]	4.00 %	4.00 %	3.98 %	3.89 %	3.92 %	3.95 %	3.99 %	3.98 %
Adjusted net interest margin (FTE) [1]	3.90 %	3.87 %	3.83 %	3.71 %	3.73 %	3.74 %	3.75 %	3.73 %
Earnings per common share - diluted	$0.64	$0.59	$0.60	$0.63	$0.57	$0.46	$0.55	$0.55
Adjusted earnings per common share - diluted [1]	$0.64	$0.59	$0.60	$0.63	$0.60	$0.59	$0.56	$0.55

[1] This is a non-GAAP financial measure we believe is helpful to interpreting our financial results. For more information on this non-GAAP financial measure, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Non-GAAP Financial Measures" and for a reconciliation to the most directly comparable GAAP financial measure, see "—Non-GAAP Quarterly Financial Measures Reconciliations".

Non-GAAP Quarterly Financial Measures Reconciliations
For more information on these financial measures, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Non-GAAP Financial Measures."

	For the quarter ended:							
	Sept. 30, 2017	Jun. 30, 2017	Mar. 31, 2017	Dec. 31, 2016	Sept. 30, 2016	Jun. 30, 2016	Mar. 31, 2016	Dec. 31, 2015
	(Dollars in thousands except share and per share amounts)							
Adjusted net income and adjusted earnings per common share:								
Net income - GAAP	$37,662	$35,060	$35,162	$36,903	$33,758	$26,360	$30,674	$30,461
Add: Acquisition expenses, net of tax	—	—	—	440	1,700	7,551	478	—
Adjusted net income	$37,662	$35,060	$35,162	$37,343	$35,458	$33,911	$31,152	$30,461
Weighted average diluted common shares outstanding	58,914,144	59,130,632	59,073,669	58,991,905	58,938,367	57,176,705	55,408,876	55,393,452
Earnings per common share - diluted	$0.64	$0.59	$0.60	$0.63	$0.57	$0.46	$0.55	$0.55
Adjusted earnings per common share - diluted	$0.64	$0.59	$0.60	$0.63	$0.60	$0.59	$0.56	$0.55
Adjusted net interest income (FTE):								
Net interest income	$101,576	$98,730	$97,399	$98,642	$98,227	$91,652	$86,338	$85,957
Add: Tax equivalent adjustment	2,122	2,154	2,182	2,142	2,012	1,905	1,791	1,826
Net interest income (FTE)	103,698	100,884	99,581	100,784	100,239	93,557	88,129	87,783
Add: Current realized derivative gain (loss)	(2,714)	(3,320)	(3,875)	(4,486)	(4,895)	(5,005)	(5,175)	(5,652)
Adjusted net interest income (FTE)	$100,984	$97,564	$95,706	$96,298	$95,344	$88,552	$82,954	$82,131
Average interest earning assets	$10,283,401	$10,124,404	$10,144,875	$10,286,284	$10,173,743	$9,528,576	$8,892,465	$8,764,649
Net interest margin (FTE)*	4.00 %	4.00 %	3.98 %	3.89 %	3.92 %	3.95 %	3.99 %	3.98 %

Adjusted net interest margin (FTE)**	3.90	%	3.87	%	3.83	%	3.71	%	3.73	%	3.74	%	3.75	%	3.73	%

* Calculated as net interest income (FTE) divided by average interest earning assets. Annualized for partial-year periods.
** Calculated as adjusted net interest income (FTE) divided by average interest earning assets. Annualized for partial-year periods.

ITEM 7. 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 in Item 8 of this Annual Report on Form 10-K. 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."

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.

Tax Equivalent Presentation

All references to net interest income, net interest margin, interest income on non ASC 310-30 loans, yield on ASC 310-30 loans and the related non-GAAP adjusted measure of each item are presented on a fully-tax equivalent basis ("FTE") unless otherwise noted.

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 sale 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.

Net income was $144.8 million for fiscal year 2017, an increase of $23.5 million, or 19.4%, compared to net income of $121.3 million for fiscal year 2016. Adjusted net income, which excludes the effect of one-time acquisition expenses related to the HF Financial acquisition, was $145.2 million, an increase of $14.2 million, or 10.9% compared to $131.0 million for fiscal year 2016. Total revenue (non-FTE) for fiscal year 2017 grew by 11.8%, partially offset by higher noninterest expenses, excluding the effect of one-time acquisition expenses, and income tax expense. For more information on our adjusted net income, see "—Non-GAAP Financial Measures" and for a reconciliation to the most directly comparable GAAP financial measure, see "Item 6. Selected Financial Data—Non-GAAP Financial Measures Reconciliations".

Our efficiency ratio, which measures our ability to manage noninterest expenses, remained strong during fiscal year 2017 at 46.5%, compared to 49.6% for fiscal year 2016. The elevated efficiency ratio fiscal year 2016 was due almost entirely to one-time acquisition expenses related to the HF Financial acquisition. For more information on our efficiency ratio, see "—Non-GAAP Financial Measures" and for a reconciliation to the most directly comparable GAAP financial measure, see "Item 6. Selected Financial Data—Non-GAAP Financial Measures Reconciliations".

Net interest margin, which measures our ability to maintain interest rates on interest earning assets above those of interest bearing liabilities, was 3.97%, 3.96% and 3.94%, respectively, for fiscal years 2017, 2016 and 2015. Adjusted net interest margin, which adjusts for the realized gain (loss) on interest rate swaps, was 3.83%, 3.74% and 3.68%, 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 were 1 basis point higher and 9 basis points higher, respectively, compared to fiscal year 2016 primarily as a result of higher loan interest income driven by 10.8% growth in average loans outstanding between the periods combined with a 5 basis point increase in the yield on total loans, partially offset by an 8 basis point increase in the cost of deposits. Net interest margin and adjusted net interest margin for fiscal year 2016 increased 2 and 6 basis points, respectively, compared to fiscal year 2015 due to asset and growth mix, including growth in average total loans of 11.8% as a proportion of interest earning assets partially offset by an 11 basis point decrease in the yield on total loans. For more information on our adjusted net interest margin, see "—Non-GAAP Financial Measures" and for a reconciliation to the most directly comparable GAAP financial measure, see "Item 6. Selected Financial Data—Non-GAAP Financial Measures Reconciliations".

Net income for the year represents earnings per fully diluted common share of $2.45, compared to $2.14 for fiscal year 2016. On October 26, 2017, our Board of Directors declared a dividend of $0.20 per common share payable on

November 22, 2017 to owners of record as of the close of business on November 10, 2017.

Total loans were $8.97 billion as of September 30, 2017, compared to $8.68 billion as of September 30, 2016. The net growth of $285.9 million, or 3.3%, during the fiscal year was primarily driven by growth in the CRE portfolio of $370.7 million, partially offset by an $88.1 million reduction in residential real estate loans outstanding. Deposits as of September 30, 2017 were $8.98 billion, representing an increase of $372.8 million or 4.3% from $8.60 billion as of September 30, 2016 which was primarily due to growth in commercial deposit accounts.

Asset quality metrics remained relatively stable as loans classified as "Watch" status were $311.6 million as of September 30, 2017, a decrease of $16.0 million, or 4.9%, compared to September 30, 2016 and loans classified as "Substandard" were $232.8 million, a decrease of $8.8 million, or 3.6%, over the same period.

At September 30, 2017, nonaccrual loans were $138.3 million, with $4.9 million of the balance covered by FDIC loss-sharing agreements. Total nonaccrual loans increased by $11.9 million, or 9.4%, during the year driven by the deterioration of a small number of relationships in the agriculture portfolio that have been closely monitored for a number of quarters, partially offset by improvements in the commercial non-real estate and CRE portfolios. OREO balances decreased by $1.3 million, or 12.6%, during the year.

Net charge-offs for fiscal year 2017 were $22.7 million, or 0.26% of average loans, compared to $9.5 million, or 0.12% of average loans in fiscal year 2016. Net charge-offs were primarily concentrated in the commercial non-real estate and agriculture loan portfolios.

Our capital position is strong and stable, with Tier 1 capital, total capital and Tier 1 leverage ratios of 11.4%, 12.5% and 10.3%, respectively, at September 30, 2017, compared to 11.1%, 12.2% and 9.5%, respectively, at September 30, 2016. In addition, our Common Equity Tier 1 ratio was 10.7% at September 30, 2017, compared to 10.2% at September 30, 2016. Our tangible common equity to tangible assets ratio was 9.2% at September 30, 2017, compared to 8.5% at September 30, 2016. All regulatory capital ratios remain above regulatory minimums to be considered "well capitalized." For more information on our tangible common equity to tangible assets ratio, see "—Non-GAAP Financial Measures" and for a reconciliation to the most directly comparable GAAP financial measure, see "Item 6. Selected Financial Data—Non-GAAP Financial Measures Reconciliations".

Key Factors Affecting Our Business and Financial Statements

Economic Conditions

Our loan portfolio can be affected in several ways by changes in economic conditions in our local markets and across the country. For example, declining local economic prospects can reduce borrowers’ willingness to take out new loans or our expectations of their ability to repay existing loans, while declining national conditions can limit the markets for our commercial and agribusiness borrowers’ products. Conversely, rising consumer and business confidence can increase demand for loans to fund consumption and investments, which can lead to opportunities for us to grant new loans and further develop our banking relationships with our customers. Some elements of the business environment that affect our financial performance include short-term and long-term interest rates, inflation and price levels (particularly for agricultural commodities), monetary policy, unemployment and the strength of the domestic economy and the local economy in the markets in which we operate. Because commercial non-real estate and owner-occupied CRE borrowers are particularly exposed to external economic conditions such as consumer sentiment, repayment of commercial non-real estate and owner-occupied CRE loans may be more sensitive than other types of loans to adverse conditions in the real estate market or the general economy. These loans totaled approximately $2.94 billion, or 32.6%, of our total loan portfolio as of September 30, 2017. In addition, agricultural loans, which comprised 23.6% of our loan portfolio as of September 30, 2017, depend on the health of the agricultural industry broadly and in the location of the borrower in particular and on commodity prices. See “Item 1A. Risk Factors—Risks Related to Our Business—Our business may be adversely affected by conditions in the financial markets and economic conditions generally and in our states in particular.”

Interest Rates

Net interest income is our largest source of income and is the difference between the interest income we receive from interest-earning assets (e.g., loans and investment securities) and the interest expense we pay on interest-bearing liabilities (e.g., deposits and borrowings). The level of net interest income is primarily a function of the average balance of interest-earning assets, the average balance of interest-bearing liabilities and the spread between the yield on such assets and the cost of such liabilities. These factors are influenced by both the pricing and mix of interest-earning assets and interest-bearing liabilities. Interest rates can be volatile and are highly sensitive to many factors beyond our control, such as economic conditions, the policies of various governmental and regulatory agencies and, in particular, the monetary policy of the FOMC.

The cost of our deposits and short-term borrowings is largely based on short-term interest rates, the level of which is driven primarily by the FOMC's actions. However, the yields generated by our loans and securities are typically driven by longer-term interest rates, which are dictated by the market or, at times, the FOMC's actions, and generally vary from day to day. The level of net interest income is therefore influenced by movements in such interest rates, the changing mix in our funding sources and the pace at which such movements occur. See "Item 1A. Risk Factors—Risks Related to Our Business—We are subject to interest rate risk" and "Item 7A. Quantitative and Qualitative Disclosures About Market Risk."

Asset Quality and Loss-Sharing Agreements

Our asset quality remained relatively stable during fiscal year 2017 with net charge-offs as a percentage of average loans of 26 basis points. We continue to run off assets from our acquisition of TierOne Bank that are not part of our core lending business, including non-owner-occupied CRE loans and construction and development loans, particularly those outside our footprint. At September 30, 2017, we had approximately $99.9 million of loans acquired as part of the TierOne Bank acquisition, representing 1.1% of our overall loan portfolio and approximately $663.4 million of loans acquired as part of the HF Financial acquisition, representing 7.4% of our overall loan portfolio. The majority of our loans acquired from TierOne Bank continue to be subject to a loss-sharing agreement with the FDIC where we are indemnified by the FDIC for 80% of our losses associated with any covered loans. While our ability to seek indemnification under the commercial loss-sharing agreement terminated in June 2015, the single-family loss-sharing agreement, which covered $57.5 million in loans at September 30, 2017, does not terminate until June of 2020. The amount of reimbursement we receive as a result of these indemnity payments, and the amount of income derived from the underlying loans, has decreased over time as the volume of covered loans we continue to hold declines. To date, we have not had any indemnity claims arising from the FDIC loss-sharing agreements rejected by the FDIC. Future indemnity claims may be denied if we fail to comply with the requirements of our loss-sharing agreements with the FDIC, which could result in additional losses and charge-offs related to these loans. See "Item 1A. Risk Factors—Risks Related to Our FDIC—Assisted Acquisition of TierOne Bank—Our bank purchased certain assets and assumed certain liabilities of TierOne Bank in an FDIC-assisted transaction."

Banking Laws and Regulations

We are subject to extensive supervision and regulation under federal and state banking laws. See "Item 1. Business—Supervision and Regulation" and "Item 1A. Risk Factors—Risks Related to the Regulatory Oversight of Our Business." Financial institutions have been subject to increased regulatory scrutiny in recent years as significant structural changes in the bank regulatory framework have been adopted in response to the recent financial crisis. In particular, federal bank regulators have increased regulatory expectations generally and with respect to consumer compliance, economic sanctions, anti-money laundering and Bank Secrecy Act requirements. As a result of these heightened expectations, we may incur additional costs associated with legal compliance that may affect our financial results in the future.

Payment of Interest on Demand Deposits. In addition, effective July 2011, the Dodd-Frank Act repealed the prohibition restricting depository institutions from paying interest on demand deposits, such as checking accounts. We offer an interest-bearing corporate checking account, but interest rates on this product remain low due to current market conditions. Consequently, this change has not significantly affected our financial results. If interest rates on this product increase in the future, our business may be affected.

Basel III and Its Implementing Regulations. In July 2013, the federal bank regulators approved new regulations implementing the Basel III capital framework and various provisions of the Dodd-Frank Act. These regulations

became effective for us on January 1, 2015, subject to phase-in of various provisions. The most significant changes from the current risk-based capital guidelines applicable to us were the revisions affecting the numerator in regulatory capital calculations and the increased risk weightings for higher-volatility CRE loans, for revolving lines of credit of less than one year in duration and for past-due and impaired loans. See “—Capital” and "Item 1A. Risk Factors—Risks Related to the Regulatory Oversight of Our Business—We may be subject to more stringent capital requirements in the future" for further information.

Interchange Fees. The small issuer exemption applies to any debit card issuer that, together with its affiliates, has total assets of less than $10 billion as of the end of the previous calendar year. Because our consolidated total assets remained under $10 billion as of December 31, 2015, we were able to qualify for the small issuer exemption from the interchange fee cap until we exceeded $10 billion in assets during the third quarter of fiscal year 2016. Effective July 1, 2017 we became subject to the interchange fee cap, and no longer qualify for the small issuer exemption, which resulted in a negative impact on the debit card and ATM fees we received after that date. We expect the decrease to be approximately $8.0 million, pre-tax, on an annualized basis going forward. To the extent interchange fees are further reduced, our income from those fees will be reduced, which could have a material adverse effect on our business and results of operations.

Heightened Prudential Requirements. We and our bank both exceeded $10 billion in total consolidated assets during fiscal year 2016. Following the fourth consecutive quarter (and any applicable phase-in period) where we or our bank exceeded this threshold, we or our bank, as applicable, became subject to a number of additional requirements (such as annual stress testing requirements implemented pursuant to the Dodd-Frank Act and general oversight by the CFPB) that will impose additional compliance costs on our business. See “Item 1. Business—Supervision and Regulation—Heightened Requirements for Bank Holding Companies with $10 Billion or More in Assets.” We have an ongoing project to ensure that we are able to meet these requirements in a timely fashion and have completed an internal dry run of the stress test cycle during 2017 to increase preparedness for our 2018 submission.

Competition

Our profitability and growth are affected by the highly competitive nature of the financial services industry. We compete with commercial banks, savings banks, credit unions, non-bank financial services companies and other financial institutions operating within the areas we serve, particularly nationwide and regional banks and larger community banks that target the same customers we do. We also face competition for agribusiness loans from participants in the nationwide Farm Credit System and global banks. Recently, we have seen increased competitive pressures on loan rates and terms for high-quality credits, driven in part by the prolonged low-interest rate environment. Continued loan pricing pressure may continue to affect our financial results in the future. See “Item 1A. Risk Factors—Risks Related to Our Business—We operate in a highly competitive industry and market area.”

Operational Efficiency

We believe that our focus on operational efficiency is critical to our profitability and future growth, and our management has adopted numerous processes to improve our level of operational efficiency. For example, we are focused on providing a range of profitable products and services. In addition, instead of using multiple information technology solutions, we have increased the efficiency of our operations by using a single integrated third party core processing system across all of our locations. We continue to optimize our branch network and have commenced reviews of additional internal processes and our vendor relationships, with a view to identifying opportunities to further improve efficiency and enhance earnings. We are also continuing our efforts to shift our deposit base to lower-cost customer deposits, a strategic initiative that has been primarily responsible for driving our cost of deposit funding down.

We surpassed $10 billion in consolidated total assets during fiscal year 2016. As a result, we are subject to the Dodd-Frank Act Stress Test (DFAST) regulations and have hired additional staff members and implemented additional processes to ensure our bank meets all the reporting regulations and we expect to incur additional costs related to this compliance requirement. For additional information on DFAST, see “Item 1A. Risk Factors—Risks Related to Our Business—We are subject to heightened regulatory requirements as we have exceeded $10 billion in assets” and “Item 1. Business—Supervision and Regulation—Capital and Stress Testing Requirements."

Goodwill and Amortization of Other Intangibles

Since 2006, we have completed nine acquisitions. We accounted for these transactions using the acquisition method of accounting, under which the acquired company’s net assets are recorded at fair value at the date of acquisition and the difference between the purchase price and fair value of the net assets acquired is recorded as goodwill, if positive, and as bargain purchase gain, if negative. At September 30, 2017, we had $739.0 million of goodwill, $622.4 million of which relates to the acquisition of us by NAB in 2008 and was pushed down to our balance sheet, with the balance relating to subsequent acquisitions completed by us.

Under relevant accounting guidance, we are required to review goodwill for impairment annually, or more frequently if events or circumstances indicate that the fair value of our business may be less than its carrying value. The valuation of goodwill is dependent on forward-looking expectations related to nationwide and local economic conditions and our associated financial performance. A significant decline in our expected future cash flows, a material change in interest rates, a significant adverse change in the business climate, slower growth rates or a significant or sustained decline in the price of our common stock, may necessitate taking charges in the future related to the impairment of our intangible assets. Our recognition of any such impairment could adversely affect our future financial results. See "Item 1A. Risk Factors—Risks Related to Our Business—The value of our goodwill and other intangible assets may decline in the future."

As a result of these acquisitions, including the acquisition of us by NAB in 2008, we also have recorded intangible assets related to core deposits, brand intangibles and other intangibles. Each of these intangible assets is amortized as noninterest expense according to a specified schedule. The most significant component of these intangibles relates to our core deposits, of which $2.4 million was amortized as noninterest expense during fiscal year 2017. Total scheduled amortization for all intangible assets includes approximately $1.7 million for fiscal year 2018 and slightly lower amounts for fiscal years 2019 through 2026. For additional information on these intangible assets and their respective amortization schedules, see "Note 1. Nature of Operations and Summary of Significant Accounting Policies—Core Deposits and Other Intangibles" and "Note 13. Core Deposits and Other Intangibles" contained in our audited consolidated financial statements included elsewhere in this Annual Report on Form 10-K.

Loans and Interest Rate Swaps Accounted for at Fair Value

In 2017 we began a new program of selling interest swaps directly to customers. As of September 30, 2017 we have originated 4 swaps with a notional value of $36.1 million. These interest rate swaps sales are used to enable customers to achieve a long-term fixed rate by selling the customer a long-term variable rate loan indexed to LIBOR plus a credit spread whereby the bank enters into an interest rate swap with our customer where the customer pays a fixed rate of interest set at the time of origination on the interest rate swap and then the customer receives a floating rate equal to the rate paid on the loan, thus resulting in a fixed rate of interest over the life of the interest rate swap. We minimize the market and liquidity risks of the swaps entered into with the customer by entering into an offsetting position with a swap dealer.

Prior to 2017 we entered into fixed-rate loans having original maturities of 5 years or greater (typically between 5 and 15 years) with certain of our commercial and agribusiness banking customers to assist them in facilitating their risk management strategies. We mitigated our interest rate risk associated with certain of these loans by entering into equal and offsetting fixed-to-floating interest rate swap agreements for these loans with swap counterparties. We elected to account for the loans at fair value under ASC 825 Fair Value Option. Changes in the fair value of these loans are recorded in earnings as a component of noninterest income in the relevant period. We also record an adjustment for credit risk in noninterest income based on our loss history for similar loans, adjusted for our assessment of existing market conditions for the specific portfolio of loans. If a specific relationship becomes impaired, we measure the estimated credit loss and record that amount through the credit risk adjustment.

The related interest rate swaps are recognized as either assets or liabilities in our financial statements and any gains or losses on these swaps are recorded in earnings as a component of noninterest income. The instruments are fully effective from an interest rate risk perspective, as gains and losses on our swaps are directly offset by changes in fair value of the hedged loans (i.e., swap interest rate risk adjustments are directly offset by associated loan interest rate risk adjustments). Consequently, any changes in noninterest income associated with changes in fair value resulting from interest rate movement, as opposed to changes in credit quality, on the loans are directly offset by equal and opposite charges to, or reductions in, noninterest income for the related interest rate swap. To ensure the correlation of movements in fair value between the interest rate swap and the related loan, we pass on all economic costs associated with our hedging activity resulting from loan customer prepayments (partial or full) to the borrower. For additional information about the treatment of interest rate swaps and related loans in our financial statements, see "Note 10. Derivative Financial Instruments" and "Note 25. Fair Value Measurements" in our audited consolidated financial statements included elsewhere in this Annual Report on Form 10-K.

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Results of Operations—Fiscal Years Ended September 30, 2017, 2016 and 2015

Overview

The following table highlights certain key financial and performance information for fiscal years 2017, 2016 and 2015:

	For the fiscal year ended September 30,		
	2017	2016	2015
	(dollars in thousands, except share and per share amounts)		
Operating Data:			
Interest and dividend income (FTE)	$450,266	$403,232	$369,957
Interest expense	45,320	33,524	29,884
Noninterest income	56,062	42,537	33,890
Noninterest expense	216,643	207,640	186,794
Provision for loan and lease losses	21,539	16,955	19,041
Net income	144,786	121,253	109,065
Adjusted net income [1]	$145,226	$130,982	$109,065
Common shares outstanding	58,834,066	58,693,304	55,219,596
Weighted average diluted common shares outstanding	59,029,382	56,729,350	57,500,878
Earnings per common share - diluted	$2.45	$2.14	$1.90
Adjusted earnings per common share - diluted [1]	2.46	2.31	1.90
Performance Ratios:			
Net interest margin (FTE) [1]	3.97 %	3.96 %	3.94 %
Adjusted net interest margin (FTE) [1]	3.83 %	3.74 %	3.68 %
Return on average total assets	1.27 %	1.16 %	1.12 %
Return on average common equity	8.5 %	7.9 %	7.5 %
Return on average tangible common equity [1]	15.4 %	15.1 %	15.4 %
Efficiency ratio [1]	46.5 %	49.6 %	48.0 %

[1] This is a non-GAAP financial measure we believe is helpful to interpreting our financial results. For more information on this non-GAAP financial measure, see "—Non-GAAP Financial Measures" and for a reconciliation to the most directly comparable GAAP financial measure, see "Item 6. Selected Financial Data — Non-GAAP Financial Measures Reconciliations".

Net Interest Income

The following tables present net interest income, net interest margin and adjusted net interest margin for fiscal years 2017, 2016 and 2015:

	For the fiscal year ended September 30,		
	2017	2016	2015
	(dollars in thousands)		
Net interest income:			
Total interest and dividend income (FTE)	$450,266	$403,232	$369,957
Less: Total interest expense	45,320	33,524	29,884
Net interest income (FTE)	$404,946	$369,708	$340,073
Net interest margin (FTE) and adjusted net interest margin (FTE) [1]			
Average interest-earning assets	$10,209,741	$9,339,858	$8,641,719
Average interest-bearing liabilities	$9,573,937	$8,760,173	$8,181,719
Net interest margin (FTE)	3.97 %	3.96 %	3.94 %

Adjusted net interest margin (FTE) [1]	3.83 %	3.74 %	3.68 %

[1] This is a non-GAAP financial measure we believe is helpful to interpreting our financial results. For more information on this non-GAAP financial measure, see "—Non-GAAP Financial Measures" and for a reconciliation to the most directly comparable GAAP financial measure, see "Item 6. Selected Financial Data—Non-GAAP Financial Measures Reconciliations".

Net interest income was $404.9 million in fiscal year 2017 compared to $369.7 million in fiscal year 2016, an increase of 9.5%. The increase was driven by higher loan interest income driven by 10.8% of growth in average loans outstanding between the periods combined with a 5 basis point increase in the yield on total loans, partially offset by an 8 basis point increase in the cost of deposits. Net interest income was $369.7 million in fiscal year 2016 compared to $340.1 million in fiscal year 2015, an increase of 8.7%. The increase was driven by organic and inorganic loan growth and $3.5 million of accretion income from the HF Financial ASC 310-20 loans, partially offset by $1.4 million of accrued interest charged-off.

Net interest margin was 3.97% in fiscal year 2017, compared with 3.96% in fiscal year 2016. Adjusted net interest margin was 3.83% and 3.74%, respectively, over the same periods. Net interest margin remained relatively stable primarily due to a 9 basis point rise in the yield on interest-earning assets, offset by a 9 basis point rise in the cost of interest-bearing liabilities. The growth in adjusted net interest margin was driven by a $6.3 million reduction in the cost of interest rate swaps compared to fiscal year 2016, as a result of increases in short-term LIBOR rates.

Net interest margin was 3.96% in fiscal year 2016, compared with 3.94% in fiscal year 2015. Adjusted net interest margin was 3.74% and 3.68%, respectively, over the same periods. The increase was primarily as a result of asset growth and mix, including the growth in average total loans of 11.8% as a proportion of interest-earning assets partially offset by an 11 basis point decrease in the yield on total loans and a 1 basis point increase in the cost of interest-bearing liabilities. For more information on our adjusted net interest margin and adjusted net interest income, see "—Non-GAAP Financial Measures" and for a reconciliation to the most directly comparable GAAP financial measure, see "Item 6. Selected Financial Data—Non-GAAP Financial Measures Reconciliations".

The following table presents the distribution of average assets, liabilities and equity, interest income and resulting yields on average interest-earning assets, and interest expense and rates on average interest-bearing liabilities for fiscal years 2017, 2016 and 2015. Loans on nonaccrual status that had interest accrued as of the date of nonaccrual is immediately reversed as a reduction to interest income, while any interest subsequently recovered is recorded in the period of recovery. Tax-exempt loans and securities, totaling $703.1 million at September 30, 2017 and $694.2 million at September 30, 2016, are typically entered at lower interest rate arrangements than comparable non-exempt loans and securities. The amount of interest income reflected below has been adjusted to include the amount of tax benefit realized in the period and as such is presented on a fully-tax equivalent basis, the calculation of which is outlined in the discussion of non-GAAP items, see "—Non-GAAP Financial Measures" and for a reconciliation to the most directly comparable GAAP financial measure, see "Item 6. Selected Financial Data—Non-GAAP Financial Measures Reconciliations". ASC 310-30 loans represent loans accounted for in accordance with ASC 310-30 Accounting for Purchased Loans that were credit impaired at the time we acquired them. Non ASC 310-30 loans represent loans we have originated and loans we have acquired that were not credit impaired at the time we acquired them.

	Fiscal year ended September 30,								
	2017			2016			2015		
	Average Balance	Interest (FTE)	Yield / Cost	Average Balance	Interest (FTE)	Yield / Cost	Average Balance	Interest (FTE)	Yield / Cost
	(dollars in thousands)								
Assets									
Interest-bearing bank deposits	$123,616	$922	0.75%	$122,651	$574	0.47%	$244,850	$652	0.27%
Investment securities	1,390,453	26,311	1.89%	1,366,925	24,680	1.81%	1,377,718	24,271	1.76%
Non ASC 310-30 loans, net [1]	8,581,615	412,232	4.80%	7,736,454	370,521	4.79%	6,889,738	336,194	4.88%
ASC 310-30 loans, net	114,057	10,801	9.47%	113,828	7,457	6.55%	129,413	8,840	6.83%
Loans, net	8,695,672	423,033	4.86%	7,850,282	377,978	4.81%	7,019,151	345,034	4.92%
Total interest-earning assets	10,209,741	450,266	4.41%	9,339,858	403,232	4.32%	8,641,719	369,957	4.28%
Noninterest-earning assets	1,154,861			1,079,503			1,079,201		
Total assets	$11,364,602	$450,266	3.96%	$10,419,361	$403,232	3.87%	$9,720,920	$369,957	3.81%
Liabilities and Stockholders' Equity									
Noninterest-bearing deposits	$1,806,491			$1,493,287			$1,350,749		
NOW, money market and savings deposits	5,709,863	$25,969	0.45%	5,081,401	$16,206	0.32%	4,472,223	$12,374	0.28%
CDs	1,300,987	9,066	0.70%	1,345,693	8,908	0.66%	1,539,863	10,988	0.71%
Total deposits	8,817,341	35,035	0.40%	7,920,381	25,114	0.32%	7,362,835	23,362	0.32%
Securities sold under agreements to repurchase	122,188	384	0.31%	160,820	519	0.32%	168,455	563	0.33%
FHLB advances and other borrowings	525,491	5,437	1.03%	580,283	4,154	0.72%	554,127	3,631	0.66%
Related party notes payable	—	—	— %	—	—	— %	34,301	771	2.25%
Subordinated debentures and subordinated notes payable	108,917	4,464	4.10%	98,689	3,737	3.79%	62,001	1,557	2.51%
Total borrowings	756,596	10,285	1.36%	839,792	8,410	1.00%	818,884	6,522	0.80%
Total interest-bearing liabilities	9,573,937	$45,320	0.47%	8,760,173	$33,524	0.38%	8,181,719	$29,884	0.37%
Noninterest-bearing liabilities	88,440			117,344			82,978		
Stockholders' equity	1,702,225			1,541,844			1,456,223		
Total liabilities and stockholders' equity	$11,364,602			$10,419,361			$9,720,920		
Net interest spread			3.49%			3.49%			3.44%
Net interest income and net interest margin (FTE)		$404,946	3.97%		$369,708	3.96%		$340,073	3.94%

Less: Tax equivalent adjustment	$8,599		$7,534		$6,576	
Net interest income and net interest margin - ties to Statements of Income	$396,347	3.88%	$362,174	3.88%	$333,497	3.86%

[1] Interest income includes $4.1 million, $3.6 million and $0.2 million for the fiscal year 2017, 2016 and 2015, respectively, resulting from accretion of purchase accounting discount associated with acquired loans.

Interest and Dividend Income

The following table presents interest and dividend income for fiscal years 2017, 2016 and 2015:

	Fiscal year ended September 30,		
	2017	2016	2015
	(dollars in thousands)		
Interest and dividend income:			
Loans (FTE)	$423,033	$377,978	$345,034
Taxable securities	24,262	23,249	22,973
Nontaxable securities	978	230	51
Dividends on securities	1,071	1,201	1,247
Federal funds sold and other	922	574	652
Total interest and dividend income (FTE)	450,266	403,232	369,957
Tax equivalent adjustment	8,599	7,534	6,576
Total interest and dividend income (GAAP)	$441,667	$395,698	$363,381

Total interest and dividend income consists primarily of interest income on loans and interest and dividend income on our investment portfolio. Total interest and dividend income was $450.3 million for fiscal year 2017, compared to $403.2 million for fiscal year 2016 and $370.0 million for fiscal year 2015. Significant components of interest and dividend income are described in further detail below.

Loans. Interest income on all loans increased to $423.0 million in fiscal year 2017 from $378.0 million in fiscal year 2016, an increase of 11.9% during the year. Average net loan balances for fiscal year 2017 were $8.70 billion, representing a 10.8% increase compared to the same period in fiscal year 2016. Growth was primarily in the CRE segment of the portfolio, partially offset by a reduction in the residential real estate segment of the portfolio. The largest contributor to growth during fiscal year 2017 was in non-owner occupied CRE, combined with moderate increases in construction and development and owner-occupied subsegments which were largely offset by a decline in multi-family residential real estate subsegments. Interest income on ASC 310-30 loans, which are purchased credit impaired loans with a different income recognition model, increased $3.3 million between the two periods, primarily driven by accelerated accretion of interest income on two pools of purchased credit impaired loans in fiscal year 2017. Interest income on all loans increased to $378.0 million in fiscal year 2016 from $345.0 million in fiscal year 2015, an increase of 9.6% during the year. Average net loan balances for fiscal year 2016 were $7.85 billion, representing an 11.8% increase compared to the same period in fiscal year 2015. Growth was focused in the CRE and agriculture segments of the portfolio offset with a slight contraction in the residential real estate segment of the portfolio. The largest contributor to growth during fiscal year 2016 was CRE which was distributed across the non-owner-occupied, owner-occupied, construction and development and multi-family residential real estate subsegments across a diverse range of projects with a continued focus on limiting exposure to land development and other projects that are speculative in nature. Interest income on ASC 310-30 loans decreased $1.4 million between the two periods, primarily driven by lower average balances prior to the acquisition of HF Financial in the third quarter of 2016.

Our yield on loans is affected by market interest rates, the level of adjustable-rate loan indices, interest rate floors and caps, customer repayment activity, the level of loans held for sale, portfolio mix, and the level of nonaccrual loans. The average tax equivalent yield on non-ASC 310-30 loans was 4.80% for fiscal year 2017, an increase of 1 basis point compared to 4.79% for fiscal year 2016, which was a 9 basis point decrease from 4.88% for fiscal year 2015. Adjusted for the current realized gain (loss) on derivatives we use to manage interest rate risk on certain of our loans at fair value, which we believe represents the underlying economics of the transactions, the adjusted yield on non-ASC 310-30 loans was 4.64% for fiscal year 2017, an increase of 12 basis points compared to 4.52% for fiscal year 2016, which was a 5 basis points decrease compared to 4.57% for fiscal year 2015. Starting in fiscal year 2016 and continuing through fiscal year 2017 we have begun to benefit from period-over-period increases in LIBOR rates which have reduced the net cost of pay fixed, receive floating interest rate swaps the Company utilizes related to certain fixed rate loans and benchmark rate hikes which have raised interest rates on many of our floating and variable rate loans.

The average yield on ASC 310-30 loans was 9.47% for fiscal year 2017, compared to 6.55% for fiscal year 2016 and 6.83% for fiscal year 2015. The yield on this portion of the portfolio is heavily impacted by the amortization rates for the related FDIC indemnification asset, which is recorded through interest income. The portfolio continues to run off and represents a very small portion of the overall loan portfolio with average balances of $114.1 million, $113.8 million and $129.4 million for fiscal years 2017, 2016 and 2015, respectively, which represents 1.3%, 1.4% and 1.8% of the total average loan portfolio, respectively.

The average duration of the loan portfolio, including the impact of the interest rate swaps on the duration of fair value loans, was a relatively short 1.3 years as of September 30, 2017. Approximately 48%, or $4.32 billion, of the portfolio is comprised of fixed rate loans, of which $1.02 billion of loans are fixed-rate loans with an original term of 5 years or greater which we have entered into equal and offsetting fixed-to-floating interest rate swaps. These loans effectively behave as floating rate loans. Of the remaining floating rate loans in the portfolio, approximately 52% are indexed to Wall Street Journal Prime, 27% to 5-year Treasuries and the balance to various other indices. Approximately 3% of our total loans' rates are floored, with an average interest rate floor 77 bps above market rates.

Loan-related fee income of $13.4 million is included in interest income for fiscal year 2017 compared to $11.1 million for fiscal year 2016 and $9.4 million for fiscal year 2015. In addition, certain fees collected at loan origination are considered to be a component of yield on the underlying loans and are deferred and recognized into income over the life of the loans. Amortization related to the FDIC indemnification assets of $4.7 million, $3.8 million and $7.6 million for fiscal years 2017, 2016 and 2015, respectively, is included as a reduction to interest income.

Investment Portfolio. The carrying value of investment securities and FHLB stock was $1.41 billion and $1.36 billion as of September 30, 2017, and 2016, respectively. Interest and dividend income on investments includes income

earned on investment securities and FHLB stock. Interest and dividend income on investments was $26.3 million for fiscal year 2017, an increase of $1.6 million, or 6.6%, from $24.7 million in fiscal year 2016. The increase was driven by an 8 basis point increase in the fiscal year 2017 yield to 1.89% from 1.81% for fiscal year 2016 combined with an increase in average balances.

In fiscal year 2016, interest and dividend income on investments increased to $24.7 million from $24.3 million in fiscal year 2015, an increase of 1.7%. The increase was driven by a 5 basis point increase in the fiscal year 2016 yield to 1.81% from 1.76% for fiscal year 2015 offset by a decrease in average balances.

The weighted average life of the portfolio was 3.6 years at September 30, 2017, and 3.3 years at September 30, 2016 and 3.1 years at September 30, 2015. Average investments in fiscal years 2017, 2016 and 2015 were 13.6%, 14.6% and 15.9%, respectively, of total average interest-earning assets.

Interest Expense

The following table presents interest expense for fiscal years 2017, 2016 and 2015:

	For the fiscal year ended September 30,		
	2017	2016	2015
	(dollars in thousands)		
Interest expense			
Deposits	$35,035	$25,114	$23,362
Securities sold under agreements to repurchase	384	519	563
FHLB advances and other borrowings	5,437	4,154	3,631
Related party notes payable	—	—	771
Subordinated debentures and subordinated notes payable	4,464	3,737	1,557
Total interest expense	$45,320	$33,524	$29,884

Total interest expense consists primarily of interest expense on five components: deposits, securities sold under agreements to repurchase, FHLB advances and other borrowings, related party notes payable and our outstanding subordinated debentures and subordinated notes payable. Total interest expense increased $11.8 million, or 35.2%, to $45.3 million in fiscal year 2017, from $33.5 million in fiscal year 2016, which increased $3.6 million, or 12.2%, from $29.9 million in fiscal year 2015. Average interest-bearing liabilities increased $813.8 million, or 9.3%, to $9.57 billion in fiscal year 2017, from $8.76 billion in fiscal year 2016, which increased $578.5 million, or 7.1%, from $8.18 billion in fiscal year 2015. The average cost of total interest-bearing liabilities increased to 0.47% in fiscal year 2017, compared to 0.38% in fiscal year 2016 and 0.37% in fiscal year 2015. Significant components of interest expense are described in further detail below.

Deposits. Interest expense on deposits, consisting of non-interest-bearing demand accounts, money market and savings accounts, NOW accounts, savings accounts and time deposits, was $35.0 million in fiscal year 2017 compared with $25.1 million in fiscal year 2016, an increase of $9.9 million, or 39.5%, driven by growth in average deposits outstanding and increasing benchmark interest rates. Average deposit balances increased to $8.82 billion from $7.92 billion, respectively, for the same periods, an increase of $897.0 million, or 11.3%. The cost of deposits increased 8 basis points to 0.40% for fiscal year 2017 from 0.32% for fiscal year 2016, reflecting a rise in market interest rates. Interest expense on deposits was $25.1 million in fiscal year 2016 compared with $23.4 million in fiscal year 2015, an increase of $1.8 million, or 7.5%. Average deposit balances increased $557.5 million, or 7.6%, to $7.92 billion from $7.36 billion, respectively, for the same periods. The cost of deposits remained stable at 0.32% for fiscal year 2016 and 2015.

Average non-interest-bearing demand account balances comprised 20.5% of average total deposits for fiscal year 2017 compared with 18.9% for fiscal year 2016, and 18.3% for fiscal year 2015. Total average other transactional accounts, consisting of money market and savings accounts, continued to increase in fiscal year 2017 to 64.8% of total average deposits, compared to 64.2% of total average deposits for fiscal year 2016 and 60.7% in fiscal year 2015, while time deposit accounts decreased in fiscal year 2017 to 14.8% of total average deposits from 17.0% in fiscal year 2016 and 20.9% in fiscal year 2015. We continue our strategy of focusing on cost-effective transaction accounts as well as our focus on gathering business deposits, which are typically transaction accounts by nature.

FHLB Advances and Other Borrowings. Interest expense on FHLB advances and other borrowings was $5.4 million for fiscal year 2017, compared to $4.2 million for fiscal year 2016 and $3.6 million for fiscal year 2015, reflecting weighted average cost of 1.03%, 0.72% and 0.66%, respectively. Our average balance for FHLB advances and other borrowings decreased to $525.5 million in fiscal year 2017 from $580.3 million in fiscal year 2016, which increased from $554.1 million in fiscal year 2015. Average FHLB advances and other borrowings as a proportion of total average interest-bearing liabilities were 5.5% for fiscal year 2017, 6.6% for fiscal year 2016 and 6.8% for fiscal year 2015. The average rate paid on FHLB advances is impacted by market rates and the various terms and repricing frequency of the specific outstanding borrowings in each year. Our total outstanding FHLB advances were $643.2

million at September 30, 2017, compared with $871.0 million at September 30, 2016 and $581.0 million at September 30, 2015. The weighted average contractual rate paid on our FHLB advances was 1.36% at September 30, 2017, 0.69% at September 30, 2016 and 0.61% at September 30, 2015. The average tenor of our FHLB advances was 4 months, 52 months and 60 months at September 30, 2017, 2016 and 2015, respectively. The amount of other borrowings and related interest expense are immaterial in each of fiscal years 2017, 2016 and 2015.

We must collateralize FHLB advances by pledging real estate loans or investments. We pledge more assets than required by our current level of borrowings in order to maintain additional borrowing capacity. Although we may substitute other loans for such pledged loans, we are restricted in our ability to sell or otherwise pledge these loans without substituting collateral or prepaying a portion of the FHLB advances. At September 30, 2017, we had pledged $3.71 billion of loans to the FHLB, against which we had borrowed $643.2 million.

Subordinated Debentures and Subordinated Notes Payable. Interest expense on our outstanding subordinated debentures and subordinated notes payable was $4.5 million for fiscal year 2017, $3.7 million for fiscal year 2016, and $1.6 million for fiscal year 2015. At September 30, 2017, 2016 and 2015, the weighted average contractual rate on outstanding junior subordinated debentures and subordinated notes payable was 4.88%, 4.88% and 2.39%, respectively. While fiscal year 2017 and 2016 remained fairly stable, the increase between fiscal year 2016 and 2015 was primarily driven by $35.0 million of junior subordinated debentures we issued in July 2015 at a higher rate than the related party note rates. We primarily used the proceeds to repay the outstanding subordinated capital note issued to NAB New York Branch.

Securities Sold Under Agreements to Repurchase; Related Party Notes Payable. Securities sold under agreements to repurchase represent retail repurchase agreements with customers and, together, with our related party notes payable, represent a small portion of our overall funding profile. The interest expense associated with securities sold under agreements to repurchase remained largely consistent between fiscal year 2017, 2016, and 2015. In fiscal years 2017 and 2016, the interest expense associated with related party notes payable decreased compared to fiscal year 2015 due to the repayment of the subordinated capital note issued to NAB New York Branch on July 31, 2015.

Rate and Volume Variances

Net interest income is affected by changes in both volume and interest rates. Volume changes are caused by increases or decreases during the year in the level of average interest-earning assets and average interest-bearing liabilities. Rate changes result from increases or decreases in the yields earned on assets or the rates paid on liabilities.

The following table presents each of the last two fiscal years and a summary of the changes in interest income and interest expense on a tax equivalent basis resulting from changes in the volume of average asset and liability balances and changes in the average yields or rates compared with the preceding fiscal year. If significant, the change in interest income or interest expense due to both volume and rate has been prorated between the volume and the rate variances based on the dollar amount of each variance.

	2017 vs 2016			2016 vs 2015		
	Volume	Rate	Total	Volume	Rate	Total
	(dollars in thousands)					
Increase (decrease) in interest income:						
Cash and cash equivalents	$5	$343	$348	$(422)	$344	$(78)
Investment securities	412	1,219	1,631	(174)	583	409
Non ASC 310-30 loans	39,625	2,085	41,710	41,433	(7,105)	34,328
ASC 310-30 loans	15	3,330	3,345	(1,016)	(368)	(1,384)
Total loans	39,640	5,415	45,055	40,417	(7,473)	32,944
Total increase (decrease)	40,057	6,977	47,034	39,821	(6,546)	33,275
Increase in interest expense:						
NOW, money market & savings deposits	2,181	7,582	9,763	1,827	2,005	3,832
Time deposits	(311)	469	158	(1,305)	(776)	(2,081)
Securities sold under agreements to repurchase	(123)	(13)	(136)	(24)	(19)	(43)
FHLB advances and other borrowings	(425)	1,708	1,283	181	342	523
Related party notes payable	—	—	—	(771)	—	(771)
Subordinated debentures and subordinated notes payable	399	329	728	1,177	1,003	2,180
Total increase	1,721	10,075	11,796	1,085	2,555	3,640
Increase (decrease) in net interest income (FTE)	$38,336	$(3,098)	$35,238	$38,736	$(9,101)	$29,635

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Provision for Loan and Lease Losses

We recognized a provision for loan and lease losses of $21.5 million for fiscal year 2017 compared to a provision for loan and lease losses of $17.0 million for fiscal year 2016, an increase of $4.5 million or 27.0%. The higher provision for loan and lease losses compared to fiscal year 2016 was driven primarily by the higher level of net charge-offs recognized during fiscal year 2017, which was concentrated in the commercial non-real estate and agriculture segments of the loan portfolio. The required specific allowance for loan and lease losses ("ALLL") decreased by $3.2 million, mainly due to a number of charge-offs related to loans for which a specific ALLL had been previously recorded. Included within the $21.5 million provision for loan and lease losses was a net recoupment of $0.7 million during fiscal year 2017 associated with ASC 310-30 loans. This compares to a recoupment of $1.1 million related to this portion of the portfolio recorded in fiscal year 2016.

We recognized a provision for loan and lease losses of $17.0 million for fiscal year 2016 compared to a provision for loan and lease losses of $19.0 million for fiscal year 2015, a decrease of $2.0 million, or 11.0%. The decrease in provision for loan and lease losses compared to fiscal year 2015 was attributable to a small number of primarily commercial non-real estate exposures that were provided for in the second quarter of 2015. The required specific ALLL increased by $9.4 million due to the deterioration of a small number of specific loan relationships primarily in the agriculture sector. Included within the $17.0 million provision for loan and lease losses was a net recoupment of $1.1 million during fiscal year 2016 associated with ASC 310-30 loans. This compares to an improvement of $0.7 million related to this portion of the portfolio recorded in fiscal year 2015.

	Fiscal year ended September 30,		
	2017	2016	2015
	(dollars in thousands)		
Provision for loan and lease losses, non ASC 310-30 loans *	$22,210	$18,011	$19,718
Provision for loan and lease losses, ASC 310-30 loans	(671)	(1,056)	(677)
Provision for loan and lease losses, total	$21,539	$16,955	$19,041

* As presented above, the non ASC 310-30 loan portfolio includes originated loans, other than loans for which we have elected the fair value option, and loans we acquired that we did not determine were acquired with deteriorated credit quality.

Total Credit-Related Charges

In addition to the higher provision for loan and lease losses we incurred during the current fiscal year compared to the 2016 fiscal year, we recognized other credit-related charges. We believe the following table, which summarizes each component of the total credit-related charges incurred during the current and prior fiscal years, is helpful to understanding the overall impact on our yearly results of operations. Net OREO charges include OREO operating costs, valuation adjustments and gain (loss) on sale of OREO properties, each of which entered OREO as a result of the former borrower failing to perform on a loan obligation. Reversal of interest income on nonaccrual loans occurs when we become aware that a loan, for which we had been recognizing interest income, will no longer be able to perform according to the terms and conditions of the loan agreement, including repayment of interest owed to us, while a recovery of interest income on nonaccrual loans occurs when we receive payment of interest owed to us. Loan fair value adjustments related to credit relate to the portion of our loan portfolio for which we have elected the fair value option; these amounts reflect expected credit losses in the portfolio.

Item	Included within F/S Line Item(s):	For the fiscal year ended September 30,		
		2017	2016	2015
		(dollars in thousands)		
Provision for loan and lease losses	Provision for loan and lease losses	$21,539	$16,955	$19,041
Net OREO charges	Net loss on repossessed property and other related expenses	1,749	1,263	5,382
Reversal of interest income on nonaccrual loans	Interest income on loans	930	1,433	372

Loan fair value adjustment related to credit	Net increase in fair value of loans at fair value	936	1,618	3,703
Total		$25,154	$21,269	$28,498

Total credit-related charges for fiscal year 2017 increased $3.9 million, or 18.3%, compared to fiscal year 2016. The increase in total credit-related charges was primarily driven by increased net charge-offs driving higher required provision for loan and lease losses. Total credit-related charges for fiscal year 2016 decreased $7.2 million, or 25.4%, compared to fiscal year 2015 driven by a decreased provision for loan and lease losses during the period as discussed previously in this report and a decrease in OREO charges as a result of a decrease in the number and carrying value of properties held in OREO compared to fiscal year 2015.

Noninterest Income

The following table presents noninterest income for the periods ended September 30, 2017, 2016 and 2015:

	Fiscal year ended September 30,		
	2017	2016	2015
	(dollars in thousands)		
Noninterest income			
Service charges and other fees	$48,573	$46,209	$39,134
Wealth management fees	9,118	7,283	7,412
Mortgage banking income, net	7,928	7,261	6,694
Net gain on sale of securities	75	160	310
Other	5,699	3,968	5,686
Subtotal, product and service fees	71,393	64,881	59,236
Net (decrease) increase in fair value of loans at fair value	(65,231)	26,314	36,742
Net realized and unrealized gain (loss) on derivatives	49,900	(48,658)	(62,088)
Subtotal, loans at fair value and related derivatives	(15,331)	(22,344)	(25,346)
Total noninterest income	$56,062	$42,537	$33,890

Our noninterest income is comprised of the various fees we charge our customers for products and services we provide and the impact of changes in fair value of loans for which we have elected the fair value treatment and realized and unrealized gains (losses) on the related interest rate swaps we utilize to manage interest rate risk on these loans. While we are required under US GAAP to present both components within total noninterest income, we believe it is helpful to analyze the two broader components of noninterest income separately to better understand the underlying performance of the business.

Noninterest income was $56.1 million for fiscal year 2017, compared with $42.5 million for fiscal year 2016, an increase of $13.5 million or 31.8%. Noninterest income was $42.5 million for fiscal year 2016, compared with $33.9 million for fiscal year 2015, an increase of $8.6 million or 25.5%. Significant components of noninterest income are described in further detail below.

Product and Service Fees. We recognized $71.4 million of noninterest income related to product and service fees in fiscal year 2017, an increase of $6.5 million, or 10.0%, compared to fiscal year 2016. The increase was primarily attributable to service charges and other fees which increased by $2.4 million, or 5.1%, and included debit card interchange income, combined with a $1.8 million increase, or 25.2%, in wealth management fees and a $1.7 million increase, or 43.6%, in other income. As previously discussed in this report, higher allowable interchange rates were capped as required by the Durbin Amendment effective July 1, 2017. Management expects the fiscal year 2018 reduction in interchange income to be approximately $8.0 million, pre-tax.

Noninterest income related to product and service fees was $64.9 million for the fiscal year 2016 compared to $59.2 million for fiscal year 2015, an increase of $5.6 million or 9.5%. Service charges and other fees increased by $7.1 million, accounting for the largest component of the increase, partially offset by a $1.7 million decrease in other noninterest income. Management estimates that the impact of the opportunity to charge higher debit card interchange rates for a period of time accounted for approximately $6.3 million of the increase. Fees related to commercial deposit accounts increased, partially offset by other consumer account fees primarily related to overdrafts and non-sufficient funds.

Loans at fair value and related derivatives. As discussed in "—Analysis of Financial Condition—Derivatives," changes in the fair value of loans for which we have elected the fair value treatment and realized and unrealized gains and losses on the related derivatives are recognized within noninterest income. For fiscal years 2017, 2016 and 2015 these items accounted for $(15.3) million, $(22.3) million and $(25.3) million, respectively. The change was driven by a favorable change in the credit adjustment of $0.7 million and a $6.3 million reduction in the current cost of interest rate swaps driven by changes in the interest rate environment. We believe that the current realized loss on the derivatives economically offsets the interest income earned on the related loans; we present elsewhere the adjusted net interest income and adjusted net interest margin reflecting the metrics we use to manage the business. The change during fiscal year 2016 was driven by a net favorable change in the credit adjustment of $2.1 million and a $0.9 million

reduction in in the current cost of interest rate swaps.

Noninterest Expense

The following table presents noninterest expense for fiscal years 2017, 2016 and 2015:

	Fiscal year ended September 30,		
	2017	2016	2015
	(dollars in thousands)		
Noninterest expense			
Salaries and employee benefits	$128,135	$109,055	$100,646
Data processing	24,514	21,719	19,531
Occupancy expenses	16,470	15,759	14,809
Professional fees	15,038	13,572	14,024
Communication expenses	3,774	3,721	4,455
Advertising	3,983	4,267	3,940
Equipment expense	3,347	3,795	3,905
Net loss recognized on repossessed property and other related expenses	1,749	1,263	5,382
Amortization of core deposits and other intangibles	2,358	3,264	7,110
Acquisition expenses	710	15,692	—
Other	16,565	15,533	12,992
Total noninterest expense	$216,643	$207,640	$186,794

Our noninterest expense consists primarily of salaries and employee benefits, data processing, occupancy expenses, professional fees, communication expenses, advertising and acquisition expenses. Noninterest expense increased to $216.6 million in fiscal year 2017 from $207.6 million in fiscal year 2016, an increase of $9.0 million or 4.3%, which in turn increased $20.8 million, or 11.2%, from $186.8 million in fiscal year 2015. Included in noninterest expense for fiscal year 2017 and 2016 was $0.7 million and $15.7 million of non-recurring acquisition expenses; absent this reduction, total noninterest expense increased by $24.0 million, or 12.5% and $5.2 million, or 2.8%, in fiscal years 2017 and 2016, respectively. Our efficiency ratio was 46.5% for fiscal year 2017, 49.6% for fiscal year 2016 and 48.0% for fiscal year 2015. For more information on our efficiency ratio, see "—Non-GAAP Financial Measures" and for a reconciliation to the most directly comparable GAAP financial measure, see "Item 6. Selected Financial Data—Non-GAAP Financial Measures Reconciliations". Significant changes in components of noninterest expense are described in further detail below.

Salaries and Employee Benefits. Salaries and employee benefits are the largest component of noninterest expense and include the cost of incentive compensation, stock compensation, benefit plans, health insurance and payroll taxes. These expenses were $128.1 million for fiscal year 2017, a 17.5% increase from $109.1 million for fiscal year 2016. The majority of the increase was driven by additional roles added to meet regulatory and risk management expectations, higher long-term incentive compensation and higher cost of employee benefits, which was primarily related to higher health insurance costs and standard annual wage increases. Salaries and employee benefits were $109.1 million for fiscal year 2016, an 8.4% an increase from $100.6 million for fiscal year 2015. The increase was driven primarily by the impact of integrating HF Financial's operations into the consolidated business and standard annual wage increases.

Data Processing. These expenses include payments to vendors who provide software, data processing, and services on an outsourced basis, costs related to supporting and developing Internet-based activities, credit card rewards provided to our customers and depreciation of bank-owned hardware and software. Expenses for data processing were $24.5 million for fiscal year 2017 and $21.7 million for fiscal year 2016, or an increase of 12.9%. The increase was driven primarily by amortization of recent technology investments. Expenses for data processing were $21.7 million and $19.5 million for fiscal year 2016 and 2015, respectively. The increase was driven primarily by the higher software-related costs and the incremental costs associated with the HF Financial acquisition.

Occupancy Expenses. Occupancy expenses include our branch network and administrative office locations throughout our footprint, including both owned and leased locations, property taxes and maintenance expense. These costs were $16.5 million for fiscal year 2017, $15.8 million for fiscal year 2016 and $14.8 million for fiscal year 2015. The increase in fiscal year 2017 was primarily due to increased rent, utilities and property tax expenses. The increase in

fiscal year 2016 was primarily driven by the addition of HF Financial locations acquired.

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Professional Fees. Professional fees include our FDIC and FICO assessments, the cost of accountants and other consultants, and legal services required to complete transactions, resolve legal matters or delinquent loans. These expenses were $15.0 million for fiscal year 2017, a 10.8% increase from $13.6 million for fiscal year 2016. Professional fees increased in the current fiscal year due to an increase in our FDIC assessment as a result of exceeding $10.0 billion in total assets. Fiscal year 2016 decreased slightly compared to fiscal year 2015 primarily due to elevated levels of professional fees in fiscal year 2015 related to becoming a publicly traded company.

Net Loss Recognized on Repossessed Property and Other Assets. Our net loss on the sale of repossessed property and other assets was $1.7 million for fiscal year 2017, a slight increase from $1.3 million for fiscal year 2016. The increase was primarily due to the write down of one large property in OREO. Net loss on the sale of repossessed property and other assets was $1.3 million for fiscal year 2016, a decrease of $4.1 million from $5.4 million for fiscal year 2015. The decrease in fiscal year 2016 was primarily due to the decrease in the number and carrying value of properties held as OREO and available for sale, resulting in fewer sales and lower cumulative losses.

Amortization of Core Deposits and Other Intangibles. Amortization of core deposits and other intangibles represents the scheduled amortization of specifically-identifiable intangible assets arising from acquisitions, including NAB’s acquisition of us as well as subsequent acquisitions completed by us. The most significant component of amortization of core deposits and other intangibles relates to core deposit intangible assets, which represented $1.4 million in fiscal year 2017 compared to $0.8 million in fiscal year 2016 and $4.7 million in fiscal year 2015. The intangible assets currently recorded are scheduled to amortize through May 2026. Total scheduled amortization for all intangible assets includes approximately $1.7 million for fiscal year 2018 and slightly lower amounts for fiscal years 2019 through 2026.

Other. Other noninterest expenses include costs related to OREO costs prior to foreclosure, business development and professional membership fees, travel and entertainment costs and other costs incurred. Other noninterest expenses increased to $16.6 million in fiscal year 2017 from $15.5 million in fiscal year 2016, an increase of 6.6%. The increase was primarily due to an increase in OREO costs prior to foreclosure. Other noninterest expenses increased to $15.5 million in fiscal year 2016 from $13.0 million in fiscal year 2015, an increase of 19.6%. The increase was primarily due to increased costs related to underwriting new loans.

Provision for Income Taxes

The provision for income taxes varies due to the amount of taxable income, the investments in tax-advantaged securities and tax credit funds and the rates charged by federal and state authorities. The provision for income taxes of $69.4 million in fiscal year 2017 represents an effective tax rate of 32.4%, compared to $58.9 million or 32.7% for fiscal year 2016 and $52.5 million or 32.5% for fiscal year 2015, with the lower effective tax rate for fiscal year 2017 driven, in part, by tax benefits related to the vesting of shares of company stock under the company's stock based compensation plan. Approximately $1.4 million of this benefit related to shares granted to certain employees concurrent with the company's Initial Public Offering that vested during the fourth quarter of the current fiscal year and were one-time in nature.

Return on Assets and Equity

The table below presents our return on average total assets, return on average common equity and average common equity to average assets ratio at and for the dates presented:

	Fiscal year ended September 30,		
	2017	2016	2015
Return on average total assets	1.27%	1.16%	1.12%
Return on average common equity	8.5 %	7.9 %	7.5 %
Average common equity to average assets ratio	15.0%	14.8%	15.0%

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Analysis of Financial Condition

The following table highlights certain key financial and performance information for the last three fiscal years:

	As of September 30,		
	2017	2016	2015
	(dollars in thousands)		
Balance Sheet and Other Information:			
Total assets	$11,690,011	$11,531,180	$9,798,654
Loans [1]	8,968,553	8,682,644	7,325,198
Allowance for loan and lease losses	63,503	64,642	57,200
Deposits	8,977,613	8,604,790	7,387,065
Stockholders' equity	1,755,000	1,663,391	1,459,346
Tangible common equity [2]	$1,006,603	$912,636	$754,420
Tier 1 capital ratio	11.4 %	11.1 %	10.9 %
Total capital ratio	12.5 %	12.2 %	12.1 %
Tier 1 leverage ratio	10.3 %	9.5 %	9.1 %
Common equity tier 1 ratio	10.7 %	10.2 %	10.1 %
Tangible common equity / tangible assets [2]	9.2 %	8.5 %	8.3 %
Book value per share - GAAP	$29.83	$28.34	$26.43
Tangible book value per share [2]	$17.11	$15.55	$13.66
Nonaccrual loans / total loans	1.54 %	1.46 %	0.93 %
Net charge-offs / average total loans	0.26 %	0.12 %	0.13 %
Allowance for loan and lease losses / total loans	0.71 %	0.74 %	0.78 %

[1] Loans include unpaid principal balance net of unamortized discount on acquired loans and unearned net deferred fees and costs and loans in process.

[2] This is a non-GAAP financial measure we believe is helpful to interpreting our financial results. For more information on this non-GAAP financial measure, see "—Non-GAAP Financial Measures" and for a reconciliation to the most directly comparable GAAP financial measure, see "Item 6. Selected Financial Data—Non-GAAP Financial Measures Reconciliations".

Our total assets were $11.69 billion at September 30, 2017, compared with $11.53 billion at September 30, 2016 and $9.80 billion at September 30, 2015. The increase in total assets for fiscal year 2017 was primarily attributable to growth in loans and securities available for sale, partially offset by a reduction in cash and cash equivalents compared to September 30, 2016. The increase in total assets for fiscal year 2016 was principally attributable to the acquisition of HF Financial, which added assets with an acquired value $1.12 billion, and organic loan growth, which was $493.7 million, or 6.7%, compared to September 30, 2015.

At September 30, 2017, loans as shown above were $8.97 billion, an increase of $285.9 million, or 3.3%, from $8.68 billion at September 30, 2016. Loans at September 30, 2016 increased $1.36 billion, or 18.5% compared to September 30, 2015. Excluding loans acquired at a fair value of $863.7 million in the HF Financial acquisition, organic loan growth was $493.7 million, or 6.7%. In our most recent fiscal year, total deposits were $8.98 billion, an increase of 4.3%, from September 30, 2016. Deposits at September 30, 2016 increased $1.22 billion, or 16.5%, including deposits of $863.1 million acquired in the HF Financial acquisition, from September 30, 2015.

Loan Portfolio

The following table presents our loan portfolio by category at each of the dates indicated:

	As of September 30,				
	2017	2016	2015	2014	2013
	(dollars in thousands)				
Unpaid principal balance:					
Commercial real estate [1]					
Originated	$3,628,235	$3,171,516	$2,708,512	$2,321,982	$1,980,319
Acquired	496,570	582,591	137,236	219,212	331,655
Total	4,124,805	3,754,107	2,845,748	2,541,194	2,311,974
Agriculture [1]					
Originated	1,990,648	1,974,226	1,841,437	1,661,030	1,553,561
Acquired	131,490	194,711	20,028	20,179	33,687
Total	2,122,138	2,168,937	1,861,465	1,681,209	1,587,248
Commercial non-real estate [1]					
Originated	1,670,349	1,601,328	1,591,974	1,544,747	1,434,891
Acquired	48,565	71,838	17,536	26,893	46,865
Total	1,718,914	1,673,166	1,609,510	1,571,640	1,481,756
Residential real estate					
Originated	724,906	746,384	714,855	639,194	566,367
Acquired	207,986	274,574	208,290	262,411	340,102
Total	932,892	1,020,958	923,145	901,605	906,469
Consumer					
Originated	56,467	59,850	68,840	82,849	88,388
Acquired	10,092	16,423	4,209	7,237	13,089
Total	66,559	76,273	73,049	90,086	101,477
Other lending					
Originated	43,132	42,398	38,371	34,243	24,711
Acquired	75	79	—	—	—
Total	43,207	42,477	38,371	34,243	24,711
Total originated	8,113,737	7,595,702	6,963,989	6,284,045	5,648,237
Total acquired	894,778	1,140,216	387,299	535,932	765,398
Total unpaid principal balance	9,008,515	8,735,918	7,351,288	6,819,977	6,413,635
Less: Unamortized discount on acquired loans	(29,121)	(39,947)	(19,264)	(25,638)	(34,717)
Less: Unearned net deferred fees and costs and loans in process	(10,841)	(13,327)	(6,826)	(6,872)	(16,245)
Total loans	8,968,553	8,682,644	7,325,198	6,787,467	6,362,673
Allowance for loan and lease losses	(63,503)	(64,642)	(57,200)	(47,518)	(55,864)
Loans, net	$8,905,050	$8,618,002	$7,267,998	$6,739,949	$6,306,809

[1] Unpaid principal balance for commercial real estate, agriculture and commercial non-real estate loans includes fair value adjustments associated with long-term fixed-rate loans where we have entered into interest rate swaps to hedge our interest rate risk.

We have successfully completed nine acquisitions since 2006. Our most recent acquisition of HF Financial, which represented approximately $863.7 million in acquired loans, was completed on May 16, 2016.

During the fiscal year ended September 30, 2017, total loans grew by 3.3%, or $285.9 million. The growth was primarily focused in CRE loans, which grew $370.7 million, or 9.9%, partially offset by residential real estate loans, which declined $88.1 million, or 8.6%. Over the same time period, agriculture, commercial non-real estate, consumer and other loan balances remained generally stable. During the fiscal year ended September 30, 2016, total loans grew by 18.5%, or $1.36 billion. Growth excluding loans acquired at a fair value of $863.7 million in the HF Financial acquisition was $493.7 million, or 6.7%. The growth was primarily focused in CRE loans, which grew $416.6 million, or 14.6%, excluding acquired loans of $491.8 million, and agriculture loans, which grew $117.6 million, or 6.3%, excluding acquired loans of $189.8 million, partially offset by a $35.6 million decrease in residential real estate loans, excluding acquired loans of $133.4 million. Over the same time period, commercial non-real estate, consumer and other loan balances remained generally stable.

The following table presents an analysis of the unpaid principal balance of our loan portfolio at September 30, 2017, by loan and collateral type and by each of the five major geographic areas we use to manage our markets.

	September 30, 2017							
	South Dakota	Arizona / Colorado	Iowa / Kansas / Missouri	Nebraska	North Dakota / Minnesota	Other [2]	Total	%
	(dollars in thousands)							
Commercial real estate [1]	$1,025,947	$1,069,220	$1,022,089	$787,976	$203,280	$16,293	$4,124,805	45.8 %
Agriculture [1]	701,899	854,486	416,711	147,863	3,405	(2,226)	2,122,138	23.6 %
Commercial non-real estate [1]	287,894	210,638	827,719	340,297	9,128	43,238	1,718,914	19.1 %
Residential real estate	232,206	172,767	276,093	201,680	17,590	32,556	932,892	10.3 %
Consumer	25,608	2,337	22,257	14,746	689	922	66,559	0.7 %
Other lending	—	—	—	—	—	43,207	43,207	0.5 %
Total	$2,273,554	$2,309,448	$2,564,869	$1,492,562	$234,092	$133,990	$9,008,515	100.0%
% by location	25.2 %	25.6 %	28.5 %	16.6 %	2.6 %	1.5 %	100.0 %	

[1] Unpaid principal balance for commercial real estate, agriculture and commercial non-real estate loans includes fair value adjustments associated with long-term fixed-rate loans where we have entered into interest rate swaps to hedge our interest rate risk.

[2] Balances in this column represent acquired workout loans and certain other loans managed by our workout staff, commercial and consumer credit card loans, fair value adjustments related to acquisitions and loans for which we have elected the fair value option, which could result in a negative carrying amount in the event of a net negative fair value adjustment.

The following table presents additional detail regarding our CRE, agriculture, commercial non-real estate and residential real estate loans at September 30, 2017:

	September 30, 2017
	(dollars in thousands)
Construction and development	$538,736
Owner-occupied CRE	1,219,523
Non-owner-occupied CRE	2,025,326
Multifamily residential real estate	341,220
Commercial real estate	4,124,805

Agriculture real estate	997,683
Agriculture operating loans	1,124,455
Agriculture	2,122,138
Commercial non-real estate	1,718,914
Home equity lines of credit	306,408
Closed-end first lien	467,914
Closed-end junior lien	37,928
Residential construction	120,642
Residential real estate	932,892
Consumer	66,559
Other	43,207
Total unpaid principal balance	$9,008,515

Commercial Real Estate. CRE includes owner-occupied CRE, non-owner-occupied CRE, construction and development lending, and multi-family residential real estate. While CRE lending will remain a significant component of our overall loan portfolio, we are committed to managing our exposure to riskier construction and development deals specifically, and to CRE lending in general, by targeting relationships with sound management and financials which are priced to reflect the amount of risk we accept as the lender.
Agriculture. Agriculture loans include farm operating loans and loans collateralized by farm land. According to the American Banker's Association, at June 30, 2017, we were ranked the sixth-largest farm lender bank in the United States measured by total dollar volume of farm loans. We consider agriculture lending one of our core competencies. We target a 20% to 30% portfolio composition for agriculture loans according to our Risk Appetite Statement approved by our Board of Directors. Within our agriculture portfolio, loans are diversified across a wide range of subsectors with the majority of the portfolio concentrated within various types of grain, livestock and dairy products, and across different geographical segments within our footprint. While our borrowers have experienced volatile commodity prices over recent years, we believe there continues to typically be strong secondary sources of repayment and low borrower leverage for the agriculture loan portfolio. Continued pressure on the commodity prices or a further downturn in the agriculture economy could directly impact the quality of our agricultural loans and could indirectly and adversely impact other lending categories including commercial non-real estate, CRE, residential real estate and consumer.
Commercial Non-Real Estate. Commercial non-real estate, or business lending, represents one of our core competencies. We believe that providing a tailored range of integrated products and services, including lending, to small- and medium-enterprise customers is the business at which we excel and through which we can generate favorable returns for our stockholders. We offer a number of different products including working capital and other shorter-term lines of credit, fixed-rate loans and variable rate loans with interest rate swaps over a wide range of terms, and variable-rate loans with varying terms. Our bank's direct exposure to energy-related borrowers is less than 1.2% of total loans.
Residential Real Estate. Residential real estate lending reflects 1-to-4-family real estate construction loans, closed-end first-lien mortgages (primarily single-family long-term first mortgages resulting from acquisitions of other banks), closed-end junior-lien mortgages and home equity lines of credit, or HELOCs. Our closed-end first-lien mortgages include a small percentage of single-family first mortgages that we originate and do not subsequently sell into the secondary market, including some jumbo products, adjustable-rate mortgages and rural home mortgages. Conversely, a large percentage of our total single-family first mortgage originations are sold into the secondary market in order to meet our interest rate risk management objectives.
Consumer. Our consumer lending offering comprises a relatively small portion of our total loan portfolio, and predominantly reflects small-balance secured and unsecured products marketed by our retail branches.
Other Lending. Other lending includes all other loan relationships that do not fit within the categories above, primarily consumer and commercial credit cards, customer deposit account overdrafts, and lease receivables.
The following table presents the maturity distribution of our loan portfolio as of September 30, 2017. The maturity dates were determined based on the contractual maturity date of the loan:

	September 30, 2017			
	1 Year or Less	>1 Through 5 Years	>5 Years	Total
	(dollars in thousands)			
Maturity distribution:				
Commercial real estate	$364,222	$ 1,881,490	$1,879,093	$4,124,805
Agriculture	1,002,792	718,177	401,169	2,122,138
Commercial non-real estate	706,317	539,781	472,816	1,718,914
Residential real estate	222,934	329,041	380,917	932,892
Consumer	10,078	45,367	11,114	66,559
Other lending	43,207	—	—	43,207
Total	$2,349,550	$ 3,513,856	$3,145,109	$9,008,515

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The following table presents the distribution, as of September 30, 2017, of our loans that were due after one year between fixed and variable interest rates:

	September 30, 2017		
	Fixed	Variable	Total
	(dollars in thousands)		
Maturity distribution:			
Commercial real estate	$1,944,887	$1,815,696	$3,760,583
Agriculture	870,041	249,305	1,119,346
Commercial non-real estate	638,576	374,021	1,012,597
Residential real estate	217,059	492,899	709,958
Consumer	43,365	13,116	56,481
Total	$3,713,928	$2,945,037	$6,658,965

OREO

In the normal course of business, we obtain title to parcels of real estate and other assets when borrowers are unable to meet their contractual obligations and we initiate foreclosure proceedings, or via deed in lieu of foreclosure actions. OREO assets are considered nonperforming assets. When we obtain title to an asset, we evaluate how best to maintain and protect our interest in the property and seek to liquidate the assets at an acceptable price in a timely manner. Our total OREO carrying value was $9.0 million as of September 30, 2017, a decrease of $1.3 million, or 12.6%, compared to September 30, 2016 which decreased $5.6 million, or 35.3%, compared to September 30, 2015. The decreases were primarily driven by the liquidation of a number of assets during the periods. The following table presents our OREO balances for the period indicated:

	Fiscal year ended September 30,		
	2017	2016	2015
	(dollars in thousands)		
Beginning balance	$10,282	$15,892	$49,580
Additions to OREO	7,786	4,481	7,636
Valuation adjustments and other	(1,630)	(2,400)	(7,408)
Sales	(7,453)	(7,691)	(33,916)
Ending balance	$8,985	$10,282	$15,892

Investments

The following table presents the amortized cost of each category of our investment portfolio at the dates indicated:

	September 30,		
	2017	2016	2015
	(dollars in thousands)		
U.S. Treasury securities	$228,039	$227,007	$250,986
U.S. Agency securities	—	—	74,412
Mortgage-backed securities:			
Government National Mortgage Association	511,457	664,529	842,460
Federal National Mortgage Association	339,394	210,933	46,449
Small Business Assistance Program	224,005	142,921	101,415
States and political subdivision securities	73,041	55,525	1,849
Corporate debt securities	—	4,998	4,996
Other	1,006	1,006	1,006
Total	$1,376,942	$1,306,919	$1,323,573

We have historically invested excess deposits in high-quality, liquid investment securities including residential agency mortgage-backed securities and, to a lesser extent, U.S. Treasury securities, corporate debt securities and securities issued by U.S. states and political subdivisions. Our investment portfolio serves as a means to collateralize FHLB borrowings and public funds deposits, to earn net spread income on excess deposits and to maintain liquidity and balance interest rate risk. Since September 30, 2016, the fair value of the portfolio has increased by $52.1 million, or 4.0%.

The following tables present the aggregate amortized cost of each investment category of the investment portfolio and the weighted average yield ("WA yield") for each investment category for each maturity period at September 30, 2017. Maturities of mortgage-backed securities may differ from contractual maturities because the mortgages underlying the securities may be called or prepaid without any penalties. The WA yield on these assets is presented below based on the contractual rate, as opposed to a tax equivalent yield concept.

	September 30, 2017													
	Due in one year or less		Due after one year through five years		Due after five years through ten years		Due after ten years		Mortgage-backed securities		Securities without contractual maturities		Total	
	Amount	WA Yield	Amount	WA Yield	Amount	WA Yield	Amount	WA Yield	Amount	WA Yield	Amount	WA Yield	Amount	WA Yield
	(dollars in thousands)													
U.S. Treasury securities	$84,870	1.39%	$143,169	1.66%	$—	%	$—	— %	$—	— %	$—	%	$228,039	1.56%
Mortgage-backed securities	—	— %	—	— %	—	— %	—	— %	1,074,856	2.02%	—	%	1,074,856	2.02%
States and political subdivision securities	6,665	1.30%	49,948	1.46%	16,306	1.88%	122	5.00%	—	— %	—	%	73,041	1.55%
Other	—	— %	—	— %	—	— %	—	— %	—	— %	1,006	%	1,006	— %
Total	$91,535	1.38%	$193,117	1.61%	16,306	1.88%	$122	5.00%	$1,074,856	2.02%	$1,006	%	$1,376,942	1.92%

Asset Quality

We place an asset on nonaccrual status when any installment of principal or interest is more than 90 days past due or earlier when management determines the ultimate collection of all contractually due principal or interest to be unlikely. Restructured loans for which we grant payment or significant interest rate concessions are placed on nonaccrual status until collectability improves and a satisfactory payment history is established, generally by the receipt of at least six consecutive payments. Our collection policies related to delinquent and charged-off loans are highly focused on individual relationships, and we believe that these policies are in compliance with all applicable laws and regulations.

The following table presents the dollar amount of nonaccrual loans, OREO, restructured performing loans and accruing loans over 90 days past due, at the end of the dates indicated. Loans covered by FDIC loss-sharing agreements are generally pooled with other similar loans and are accreting purchase discount into income each period. Subject to compliance with the applicable loss-sharing agreement, we are indemnified by the FDIC at a rate of 80% for any future credit losses on loans covered by a FDIC loss-sharing agreement through June 4, 2020 for single-family real estate loans. Our loss-sharing agreement for commercial loans expired June 4, 2015.

	September 30,				
	2017	2016	2015	2014	2013
	(dollars in thousands)				
Nonaccrual loans [1]					
Commercial real estate					
Loans covered by FDIC loss-sharing agreements	$—	$—	$—	$21,995	$31,151
Loans not covered by FDIC loss-sharing agreements	14,912	20,624	16,870	20,767	57,652
Total	14,912	20,624	16,870	42,762	88,803
Agriculture [3]	100,504	68,526	24,569	11,453	8,236
Commercial non-real estate					
Loans covered by FDIC loss-sharing agreements	—	—	—	2,126	2,947
Loans not covered by FDIC loss-sharing agreements	13,674	27,307	14,287	4,908	6,641
Total	13,674	27,307	14,287	7,034	9,588
Residential real estate					
Loans covered by FDIC loss-sharing agreements	4,893	4,095	5,317	10,839	13,401
Loans not covered by FDIC loss-sharing agreements	4,206	5,599	7,124	6,671	8,746
Total	9,099	9,694	12,441	17,510	22,147
Consumer [3]	123	244	122	146	226
Other lending [3]	—	—	—	—	—
Total nonaccrual loans covered by FDIC loss-sharing agreements	4,893	4,095	5,317	34,960	47,499
Total nonaccrual loans not covered by FDIC loss-sharing agreements	133,419	122,300	62,972	43,945	81,501
Total nonaccrual loans	138,312	126,395	68,289	78,905	129,000
OREO	8,985	10,282	15,892	49,580	57,422
Total nonperforming assets	147,297	136,677	84,181	128,485	186,422
Restructured performing loans	32,490	46,568	60,371	36,837	39,130
Total nonperforming and restructured assets	$179,787	$183,245	$144,552	$165,322	$225,552
Accruing loans 90 days or more past due	$1,859	$1,991	$58	$28	$227
Nonperforming restructured loans included in total nonaccrual loans	$71,334	$36,778	$13,966	$20,415	$63,140
Percent of total assets					
Nonaccrual loans [1]					
Loans not covered by FDIC loss-sharing agreements	1.14 %	1.06 %	0.64 %	0.47 %	0.89 %
Total	1.18 %	1.10 %	0.70 %	0.84 %	1.41 %
OREO	0.08 %	0.09 %	0.16 %	0.53 %	0.63 %
Nonperforming assets [2]	1.26 %	1.19 %	0.86 %	1.37 %	2.04 %
Nonperforming and restructured assets [2]	1.54 %	1.59 %	1.48 %	1.76 %	2.47 %

[1] Includes nonperforming restructured loans
[2] Includes nonaccrual loans, which includes nonperforming restructured loans
[3] Loans not covered by FDIC loss-sharing agreements

At September 30, 2017, our nonperforming assets were 1.26% of total assets, compared to 1.19% at September 30, 2016. Total nonaccrual loans increased by $11.9 million, or 9.4% compared to September 30, 2016, which increased $58.1 million, or 85.1%, compared to September 30, 2015. The increase in nonaccrual loans in fiscal year 2017 was primarily driven by the deterioration of a small number of relationships in the agriculture portfolio that have been closely monitored for a number of quarters, partially offset by improvements in the commercial non-real estate and CRE portfolios. The increase in nonaccrual loans for fiscal year 2016 was primarily driven by the deterioration of a

small number of lending relationships in the commercial non-real estate and agriculture portfolios.

We recognized approximately $0.8 million of interest income on loans that were on nonaccrual for the fiscal year ended 2017. Excluding loans covered by FDIC loss-sharing agreements, we had average nonaccrual loans (calculated as a two-point average) of $127.9 million outstanding during fiscal year 2017. Based on the average loan portfolio yield for these loans for the current fiscal year, we estimate that interest income would have been $6.1 million higher during the period had these loans been accruing.

We consistently monitor all loans internally rated “watch” or worse because that rating indicates we have identified some potential weakness emerging; but loans rated “watch” will not necessarily become problem loans or become impaired. Aside from the loans on the watch list, we do not believe we have any potential problem loans that are not already identified as nonaccrual, past due or restructured as it is our policy to promptly reclassify loans as soon as we become aware of doubts as to the borrowers’ ability to meet repayment terms.
When we grant concessions to borrowers that we would not otherwise grant if not for the borrowers’ financial difficulties, such as reduced interest rates or extensions of loan periods, we consider these modifications troubled debt restructurings ("TDRs").
The table below outlines total TDRs, split between accruing and nonaccruing loans, at each of the dates indicated:

	Fiscal year ended September 30,		
	2017	2016	2015
	(dollars in thousands)		
Commercial real estate			
Performing TDRs	$1,121	$18,250	$30,917
Nonperforming TDRs	5,351	2,356	4,725
Total	6,472	20,606	35,642
Agriculture			
Performing TDRs	22,678	19,823	20,041
Nonperforming TDRs	59,633	28,688	6,857
Total	82,311	48,511	26,898
Commercial non-real estate			
Performing TDRs	8,369	8,102	8,928
Nonperforming TDRs	5,641	4,789	833
Total	14,010	12,891	9,761
Residential real estate			
Performing TDRs	311	370	452
Nonperforming TDRs	688	937	1,547
Total	999	1,307	1,999
Consumer			
Performing TDRs	11	23	33
Nonperforming TDRs	21	8	4
Total	32	31	37
Total performing TDRs	32,490	46,568	60,371
Total nonperforming TDRs	71,334	36,778	13,966
Total TDRs	$103,824	$83,346	$74,337

As of September 30, 2017, total TDRs increased $20.5 million, or 24.6%, compared to September 30, 2016, which increased $9.0 million, or 12.1%, compared to September 30, 2015. Both performing and nonperforming TDRs increased as of September 30, 2017 mainly due to a handful of additional TDRs in the agriculture portfolio compared to the prior period.
We entered into loss-sharing agreements with the FDIC related to certain assets (loans and OREO) acquired from TierOne Bank on June 4, 2010. We are generally indemnified by the FDIC at a rate of 80% for any future credit losses through June 4, 2020 for single-family real estate loans and OREO. Our commercial loss-sharing agreement with the FDIC has expired.

The table below presents nonaccrual loans, TDRs, and OREO covered by the remaining loss-sharing agreement; a rollforward of the allowance for loan and lease losses for loans covered by the remaining loss-sharing agreement; a rollforward of allowance for loan and lease losses for only ASC 310-30 loans covered by the remaining loss-sharing agreement; and a rollforward of OREO covered by the remaining loss-sharing agreement at and for the periods presented.

	At and for the fiscal year ended September 30,				
	2017	2016	2015	2014	2013
	(dollars in thousands)				
Assets covered by FDIC loss-sharing agreements					
Nonaccrual loans [1]	$4,893	$4,095	$5,317	$34,960	$47,499
TDRs	191	255	425	5,293	6,145
OREO	—	106	61	10,628	24,412
Allowance for loan and lease losses, loans covered by FDIC loss-sharing agreements					
Balance at beginning of year	$907	$1,625	$5,108	$7,246	$14,470
Additional impairment recorded	196	—	782	3,122	2,509
Recoupment of previously-recorded impairment	(892)	(677)	(1,701)	(4,482)	(5,095)
Charge-offs	(15)	(41)	—	(778)	(4,638)
Recoveries	—	—	—	—	—
Expiration of loss-sharing agreement	—	—	(2,564)	—	—
Balance at end of year	$196	$907	$1,625	$5,108	$7,246
OREO covered by FDIC loss-sharing agreement					
Balance at beginning of year	$106	$61	$10,628	$24,412	$44,332
Additions to OREO	14	182	1,666	1,785	6,100
Valuation adjustments and other	—	(15)	(2,034)	(3,750)	(3,754)
Sales	(120)	(122)	(7,031)	(11,819)	(22,266)
Expiration of loss-sharing agreement	—	—	(3,168)	—	—
Balance at end of year	$—	$106	$61	$10,628	$24,412

[1] Includes nonperforming restructured loans.

Allowance for Loan and Lease Losses

We establish an allowance for the inherent risk of probable losses within our loan portfolio. The allowance for loan and lease losses is management's best estimate of probable credit losses that are incurred in the loan portfolio. We determine the allowance for loan and lease losses based on an ongoing evaluation, driven primarily by monitoring changes in loan risk grades, delinquencies and other credit risk indicators, which is an inherently subjective process. We consider the uncertainty related to certain industry sectors and the extent of credit exposure to specific borrowers within the portfolio. In addition, we consider concentration risks associated with the various loan portfolios and current economic conditions that might impact the portfolio. All of these estimates are susceptible to significant change. Changes to the allowance for loan and lease losses are made by charges to the provision for loan and lease losses. 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.

Our allowance for loan and lease losses consists of two components. For non-impaired loans, we calculate a weighted average loss ratio of 12-, 36- and 60-month historical realized losses by collateral type; adjust as necessary for our interpretation of current economic conditions and current portfolio trends including credit quality, concentrations, aging of the portfolio and/or significant policy and underwriting changes not entirely covered by the calculated historical loss rates; and apply the loss rates to outstanding loan balances in each collateral category. We calculate the weighted average ratio of 12-, 36- and 60-month historical realized losses for each collateral type by dividing the average net annual charge-offs by the average outstanding loans of such type subject to the calculation for each of the

12-, 36- and 60-month periods, then averaging those three results. For impaired loans, we estimate our exposure for each individual relationship, given the current payment status of the loan and the value of the underlying collateral as supported by third party appraisals, broker's price opinions, and/or the borrower's financial statements and internal valuation assessments, each adjusted for liquidation costs. Any shortfall between the liquidation value of the underlying collateral and the recorded investment value of the loan is considered the required specific reserve amount. Actual losses in any period may exceed

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allowance amounts. We evaluate and adjust our allowance for loan and lease losses, and the allocation of the allowance between loan categories, each month.

The following table presents an analysis of our allowance for loan and lease losses, including provisions for loan and lease losses, charge-offs and recoveries, for the periods indicated:

	At and for the fiscal year ended September 30,				
	2017	2016	2015	2014	2013
	(dollars in thousands)				
Allowance for loan and lease losses:					
Balance at beginning of year	$64,642	$57,200	$47,518	$55,864	$71,878
Provision charged to expense	22,210	18,011	19,718	4,456	13,650
Impairment of ASC 310-30 loans	(671)	(1,056)	(677)	(3,772)	(2,076)
Charge-offs:					
Commercial real estate	(2,043)	(3,625)	(1,971)	(3,199)	(19,648)
Agriculture	(7,853)	(4,294)	(606)	(2,429)	(4,069)
Commercial non-real estate	(12,576)	(2,629)	(11,153)	(5,380)	(3,636)
Residential real estate	(809)	(1,157)	(238)	(631)	(1,766)
Consumer	(196)	(206)	(129)	(211)	(244)
Other lending	(2,403)	(2,255)	(1,617)	(1,893)	(1,851)
Total charge-offs	(25,880)	(14,166)	(15,714)	(13,743)	(31,214)
Recoveries:					
Commercial real estate	485	719	1,339	1,470	689
Agriculture	415	556	131	58	22
Commercial non-real estate	652	1,429	3,407	1,439	1,206
Residential real estate	507	495	231	233	279
Consumer	102	149	104	156	396
Other lending	1,041	1,305	1,143	1,357	1,034
Total recoveries	3,202	4,653	6,355	4,713	3,626
Net loan (charge-offs)	(22,678)	(9,513)	(9,359)	(9,030)	(27,588)
Balance at end of year	$63,503	$64,642	$57,200	$47,518	$55,864
Average total loans for the year [1]	$8,695,672	$7,850,282	$7,019,151	$6,506,525	$6,223,009
Total loans at year end [1]	$8,968,553	$8,682,644	$7,325,198	$6,787,467	$6,362,673
Ratios					
Net charge-offs to average total loans [1]	0.26 %	0.12 %	0.13 %	0.14 %	0.44 %
Allowance for loan and lease losses to:					
Total loans	0.71 %	0.74 %	0.78 %	0.70 %	0.88 %
Nonaccruing loans [2]	47.60 %	52.86 %	90.83 %	108.13 %	68.54 %

[1] Loans include unpaid principal balance net of unamortized discount on acquired loans and unearned net deferred fees and costs and loans in process.

[2] Nonaccruing loans excludes loans covered by FDIC loss-sharing agreements.

In the fiscal year 2017, we recorded net charge-offs of $22.7 million, representing 0.26% of average total loans, a 14 basis point increase compared to 0.12% of average total loans for fiscal year 2016. The higher level of net charge-offs recognized during fiscal year 2017 were concentrated in the commercial non-real estate and agriculture segments of the loan portfolio.

At September 30, 2017, the allowance for loan and lease losses was 0.71% of our total loan portfolio, a 3 basis point decrease compared with 0.74% at September 30, 2016. The balance of the ALLL decreased from $64.6 million to

$63.5 million over the same period. The higher level of net charge-offs recognized in fiscal year 2017 was the primary driver of the reduction in ALLL as the majority of charge-offs related to loans for which a specific ALLL had been previously recorded.

Net loan charge-offs decreased from fiscal year 2013 to 2014 and remained relatively flat for 2015 to 2016 when compared to fiscal year 2014. We believe this trend is reflective of our focus on managing our exposure to non-owner-occupied commercial real estate and construction and development loans, which we believe are relatively riskier than owner-occupied CRE loans, and indicates that the majority of our most problematic commercial real estate loans have been worked out of our portfolio.
Additionally, a portion of our loans which are carried at fair value, totaling $1.02 billion and $1.13 billion at September 30, 2017 and 2016, respectively, have no associated allowance for loan and lease losses, but rather have a fair value adjustment related to credit risk included within their carrying value, thus driving the overall ratio of allowance for loan and lease losses to total loans lower. The amount of fair value adjustment related to credit risk on these loans was $8.3 million and $7.4 million at September 30, 2017 and 2016, respectively, translating to an additional 0.09% of total loans at September 30, 2017 and 2016. Finally, the total purchase discount remaining on all acquired loans equates to 0.32% and 0.46% of total loans at September 30, 2017 and 2016, respectively.
The following tables present management's historical allocation of the allowance for loan and lease losses by loan category, in both dollars and percentage of our total allowance for loan and lease losses, to specific loans in those categories at the dates indicated:

	September 30,				
	2017	2016	2015	2014	2013
	(dollars in thousands)				
Allocation of allowance for loan and lease losses:					
Commercial real estate	$16,941	$17,946	$18,014	$16,884	$22,562
Agriculture	25,757	25,115	13,952	10,655	9,296
Commercial non-real estate	14,114	12,990	15,996	10,550	11,222
Residential real estate	5,347	7,106	8,025	8,342	11,779
Consumer	329	438	348	264	312
Other lending	1,015	1,047	865	823	693
Total	$63,503	$64,642	$57,200	$47,518	$55,864

	September 30,				
	2017	2016	2015	2014	2013
Allocation of allowance for loan and lease losses:					
Commercial real estate	26.7 %	27.8 %	31.5 %	35.5 %	40.4 %
Agriculture	40.6 %	38.9 %	24.4 %	22.4 %	16.6 %
Commercial non-real estate	22.2 %	20.1 %	28.0 %	22.2 %	20.1 %
Residential real estate	8.4 %	11.0 %	14.0 %	17.6 %	21.1 %
Consumer	0.5 %	0.6 %	0.6 %	0.6 %	0.6 %
Other lending	1.6 %	1.6 %	1.5 %	1.7 %	1.2 %
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Management will continue to evaluate the loan portfolio and assess economic conditions in order to determine future allowance levels and the amount of loan and lease loss provisions. We review the appropriateness of our allowance for loan and lease losses on a monthly basis. Management monitors closely all past due and restructured loans in assessing the appropriateness of its allowance for loan and lease losses. In addition, we follow procedures for reviewing and grading all substantial commercial and agriculture relationships at least annually. Based predominantly upon the review and grading process, we determine the appropriate level of the allowance in response to our assessment of the probable risk of loss inherent in our loan portfolio. Management makes additional loan and lease loss provisions when the results of its problem loan assessment methodology or overall allowance appropriateness test indicate additional provisions are required.
The review of problem loans is an ongoing process during which management may determine that additional charge-offs are required or additional loans should be placed on nonaccrual status. We have also recorded an allowance for unfunded lending-related commitments that represents our estimate of incurred losses on the portion of lending commitments that borrowers have not advanced. The balance of the allowance for unfunded lending-related

commitments was $0.5 million at September 30, 2017 and September 30, 2016 and is recorded in accrued expenses and other liabilities in the consolidated balance sheet.

Deposits

We obtain funds from depositors by offering consumer and business demand deposit accounts, money market accounts, NOW accounts, savings accounts and term time deposits. At September 30, 2017 and September 30, 2016, our total deposits were $8.98 billion and $8.60 billion, respectively, representing an increase of 4.3%, which was primarily spread across commercial deposit accounts. Our accounts are federally insured by the FDIC up to the legal maximum. We have significantly shifted the composition of our deposit portfolio away from time deposits toward demand, NOW, money market and savings accounts in recent years.

The following table presents the balances and weighted average cost of our deposit portfolio at the following dates:

	September 30,					
	2017		2016		2015	
	Amount	Weighted Avg. Cost	Amount	Weighted Avg. Cost	Amount	Weighted Avg. Cost
	(dollars in thousands)					
Non-interest-bearing demand	$1,856,126	— %	$1,880,512	— %	$1,368,453	— %
NOW accounts, money market and savings	5,847,432	0.55 %	5,343,183	0.36 %	4,638,446	0.27 %
Time certificates, $250,000 or more	273,365	1.16 %	265,904	0.99 %	217,016	0.89 %
Other time certificates	1,000,690	0.78 %	1,115,191	0.65 %	1,163,150	0.68 %
Total	$8,977,613	0.48 %	$8,604,790	0.34 %	$7,387,065	0.30 %

At September 30, 2017 and 2016, the Company had $725.4 million and $641.4 million, respectively, in brokered deposits.

Municipal public deposits constituted $843.5 million and $874.5 million of our deposit portfolio at September 30, 2017, and September 30, 2016, respectively, of which $533.3 million and $492.7 million, respectively, were required to be collateralized. Our top 10 depositors were responsible for 8.5% and 7.9% of our total deposits at September 30, 2017 and September 30, 2016, respectively.

The following table presents deposits by region:

	September 30,		
	2017	2016	2015
	(dollars in thousands)		
South Dakota	$2,231,857	$2,258,707	$1,529,483
Arizona / Colorado	1,530,668	1,331,127	1,141,950
Iowa / Kansas / Missouri	2,561,315	2,531,781	2,305,489
Nebraska	2,521,631	2,297,599	2,334,172
North Dakota / Minnesota	51,527	101,421	—
Corporate and other	80,615	84,155	75,971
Total deposits	$8,977,613	$8,604,790	$7,387,065

We fund a portion of our assets with time deposits that have balances of $250,000 or more and that have maturities generally in excess of six months. At September 30, 2017 and September 30, 2016, our time deposits of $250,000 or more totaled $273.4 million and $265.9 million, respectively. The following table presents the maturities of our time deposits of $250,000 or more and less than $250,000 in size at September 30, 2017:

	September 30, 2017	
	Greater than or equal to $250,000	Less than $250,000
	(dollars in thousands)	
Remaining maturity:		
Three months or less	$53,483	$196,889
Over three through six months	45,333	152,919
Over six through twelve months	60,688	258,714
Over twelve months	113,861	392,168
Total	$273,365	$1,000,690
Percent of total deposits	3.0 %	11.1 %

At September 30, 2017 and September 30, 2016, the average remaining maturity of all time deposits was approximately 14 months. The average time deposit amount per account was approximately $27,870 and $27,237 at September 30, 2017 and September 30, 2016, respectively.

Derivatives

In 2017 we began a new program of selling interest swaps directly to customers. As of September 30, 2017 we have originated 4 swaps with a notional value of $36.1 million. These interest rate swaps sales are used to enable customers to achieve a long-term fixed rate by selling the customer a long-term variable rate loan indexed to LIBOR plus a credit spread whereby the Bank enters into an interest rate swap with our customer where the customer pays a fixed rate of interest set at the time of origination on the interest rate swap and then the customer receives a floating rate equal to the rate paid on the loan, thus resulting in a fixed rate of interest over the life of the interest rate swap. We then enter into a mirrored interest rate swap with a swap dealer where we pay and receive the same fixed and floating rate as we pay and receive from the interest rate swap we have with our customer. As the interest paid and received by us on the two swaps net to zero, we are left with the variable rate of the long-term loan.

Prior to 2017 we entered into fixed-rate loans having original maturities of 5 years or greater (typically between 5 and 15 years) with certain of our commercial and agribusiness banking customers to assist them in facilitating their risk management strategies. We mitigated our interest rate risk associated with certain of these loans by entering into equal and offsetting fixed-to-floating interest rate swap agreements for these loans with swap counterparties. We elected to account for the loans at fair value under ASC 825 Fair Value Option. Changes in the fair value of these loans are recorded in earnings as a component of noninterest income in the relevant period. The related interest rate swaps are recognized as either assets or liabilities in our financial statements and any gains or losses on these swaps, both realized and unrealized, are recorded in earnings as a component of noninterest income. The economic hedges are fully effective from an interest rate risk perspective, as gains and losses on our swaps are directly offset by changes in fair value of the hedged loans (i.e., swap interest rate risk adjustments are directly offset by associated loan interest rate risk adjustments). Consequently, any changes in noninterest income associated with changes in fair value resulting from interest rate movement, as opposed to changes in credit quality, on the loans are directly offset by equal and opposite unrealized charges to or reductions in noninterest income for the related interest rate swap. Any changes in the fair value of the loans related to credit quality and the current realized gain (loss) on derivatives are not offsetting amounts within noninterest income. To ensure the correlation of movements in fair value between the interest rate swap and the related loan, we pass on all economic costs associated with our hedging activity resulting from loan customer prepayments (partial or full) to the customer.

Short-Term Borrowings

Our primary sources of short-term borrowings include securities sold under repurchase agreements and certain FHLB advances maturing within 12 months. The following table presents certain information with respect to only our borrowings with original maturities less than 12 months at and for the periods noted:

	At and for the fiscal year ended September 30,		
	2017	2016	2015
	(dollars in thousands)		
Short-term borrowings:			
Securities sold under agreements to repurchase	$132,636	$138,744	$182,399
FHLB advances	587,200	231,000	—
Total short-term borrowings	$719,836	$369,744	$182,399
Maximum amount outstanding at any month-end during the year	$719,836	$549,227	$229,429
Average amount outstanding during the year	$352,395	$272,344	$182,202
Weighted average rate for the year	0.70 %	0.37 %	0.38 %
Weighted average rate as of date indicated	1.24 %	0.46 %	0.25 %

We have a $10.0 million revolving line of credit, which expires July 28, 2018, at an interest rate of one month LIBOR plus 200 basis points. At September 30, 2017, we did not have any advances on the line of credit.

Other Borrowings

We have outstanding $75.9 million and $80.9 million, respectively, of junior subordinated debentures to affiliated trusts in connection with the issuance of trust preferred securities by such trusts as of September 30, 2017 and September 30, 2016, respectively. We are permitted under applicable laws and regulations to count these trust preferred securities as part of our Tier 1 capital. In the first quarter of fiscal year 2017, we redeemed 5,000 shares of HF Capital Trust V Debentures under the First Supplemental Indenture dated May 13, 2016.

In 2015, we issued $35.0 million of 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 September 30, 2017, have an interest rate of 4.875% per annum, payable semi-annually on each February 15 and August 15, commencing on February 15, 2016 until August 15, 2020. During the fiscal year 2017, we incurred $4.5 million in interest expense on all outstanding subordinated debentures and notes compared to $3.7 million in fiscal year 2016, which related to the increase in subordinated debt acquired in the HF Financial acquisition.

Off-Balance Sheet Commitments, Commitments, Guarantees and Contractual Obligations

The following table summarizes the maturity of our contractual obligations and other commitments to make future payments at September 30, 2017. Customer deposit obligations categorized as "not determined" include noninterest-bearing demand accounts, NOW accounts, money market and savings accounts with no stated maturity date.

	September 30, 2017					
	Less Than 1 Year	1 to 2 Years	2 to 5 Years	>5 Years	Not Determined	Total
	(dollars in thousands)					
Contractual Obligations:						
Customer deposits	$741,831	$273,140	$231,129	$1,761	$7,729,752	$8,977,613
Securities sold under agreement to repurchase	132,636	—	—	—	—	132,636
FHLB advances and other borrowings	543,200	75,000	—	25,000	—	643,200
Subordinated notes payable	—	—	—	75,920	—	75,920
Subordinated debentures	—	—	—	35,000	—	35,000
Operating leases, net of sublease income	5,157	4,523	8,757	6,629	—	25,066
Accrued interest payable	4,405	—	—	—	—	4,405
Interest on FHLB advances	1,434	915	2,745	763	—	5,857
Interest on subordinated notes payable	2,683	2,683	8,049	32,616	—	46,031
Interest on subordinated debentures	1,706	1,706	5,119	4,905	—	13,436
Other Commitments:						
Commitments to extend credit—non-credit card	$1,347,172	$233,226	$400,229	$328,611	$—	$2,309,238
Commitments to extend credit—credit card	206,415	—	—	—	—	206,415
Letters of credit	70,186	—	—	—	—	70,186

Instruments with Off-Balance Sheet Risk

In the normal course of business, we enter into various transactions that are not included in our consolidated financial statements in accordance with GAAP. These transactions include commitments to extend credit to our customers and letters of credit. Commitments to extend credit are agreements to lend to a customer provided there is no violation of any condition established in the commitment. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Letters of credit are conditional commitments issued primarily to support or guarantee the performance of a customer's obligations to a third party. The credit risk involved in issuing letters of credit is essentially the same as originating a loan to the customer. We manage the risks associated with these arrangements by evaluating each customer's creditworthiness prior to issuance through a process similar to that used by us in deciding whether to extend credit to the customer.

The following table presents the total notional amounts of all commitments by us to extend credit and letters of credit as of the dates indicated:

	September 30,		
	2017	2016	2015
	(dollars in thousands)		
Commitments to extend credit	$2,515,653	$2,158,041	$2,156,243
Letters of credit	70,186	61,802	52,571
Total	$2,585,839	$2,219,843	$2,208,814

Liquidity

Liquidity refers to our ability to maintain cash flow that is adequate to fund operations and meet present and future financial obligations through either the sale or maturity of existing assets or by obtaining additional funding through liability management. We consider the effective and prudent management of liquidity to be fundamental to our health and strength. Our objective is to manage our cash flow and liquidity reserves so that they are adequate to fund our obligations and other commitments on a timely basis and at a reasonable cost.

Our liquidity risk is managed through a comprehensive framework of policies and limits overseen by our bank's asset and liability committee. We continuously monitor and make adjustments to our liquidity position by adjusting the balance between sources and uses of funds as we deem appropriate. Our primary measures of liquidity include monthly cash flow analyses under ordinary business activities and conditions and under situations simulating a severe run on our bank. We also monitor our bank's deposit to loan ratio to ensure high quality funding is available to support our strategic lending growth objectives, and have internal management targets for the FDIC's liquidity ratio, net short-term non-core funding dependence ratio and non-core liabilities to total assets ratio. The results of these measures and analyses are incorporated into our contingency funding plan, which provides the basis for the identification of our liquidity needs. We also acquire brokered deposits when the cost of funds is advantageous to other funding sources.

Great Western Bancorp, Inc. Our primary source of liquidity is cash obtained from dividends by our bank. We primarily use our cash for the payment of dividends, when and if declared by our Board of Directors and the payment of interest on our outstanding junior subordinated debentures. We also use cash, as necessary, to satisfy the needs of our bank through equity contributions and for acquisitions. At September 30, 2017, we had $15.0 million of cash. During the first quarter of fiscal year 2018, we declared and paid a dividend of $0.20 per common share. The outstanding amounts under our revolving line of credit with a large retail bank and our private placement subordinated capital notes together totaled $35.0 million at September 30, 2017. Our management believes that the sources of available liquidity are adequate to meet all reasonably foreseeable short-term and intermediate-term demands. We may consider raising additional capital in public or private offerings of debt or equity securities.

Great Western Bank. Our bank maintains sufficient liquidity by maintaining minimum levels of excess cash reserves (measured on a daily basis), a sufficient amount of unencumbered, highly liquid assets and access to contingent funding with the FHLB. At September 30, 2017, our bank had cash of $360.4 million and $1.37 billion of highly-liquid securities held in our investment portfolio, of which $951.4 million were pledged as collateral on public deposits, securities sold under agreements to repurchase, and for other purposes as required or permitted by law. The balance could be sold to meet liquidity requirements. Our bank had $643.2 million in FHLB borrowings at September 30, 2017, with additional available lines of $1.55 billion. Our bank also had an additional borrowing capacity of $1.89 billion with the Federal Reserve Board Discount Window ("FRB Discount Window"). Our bank primarily uses liquidity to meet loan requests and commitments (including commitments under letters of credit), to accommodate outflows in deposits and to take advantage of interest rate market opportunities. At September 30, 2017, we had a total of $2.59 billion of outstanding exposure under commitments to extend credit and issued letters of credit. Our management believes that the sources of available liquidity are adequate to meet all our bank's reasonably foreseeable short-term and intermediate-term demands.

Capital

As a bank holding company, we must comply with the capital requirements established by the Federal Reserve, and our bank must comply with the capital requirements established by the FDIC. The current risk-based guidelines applicable to us and our bank are based on the Basel III framework, as implemented by the federal bank regulators. The following table presents our regulatory capital ratios at September 30, 2017 and the standards for both well-capitalized depository institutions and minimum capital requirements. Our capital ratios exceeded applicable regulatory requirements as of that date.

	September 30, 2017			
	Actual			
	Capital Amount	Ratio	Minimum Capital Requirement Ratio	Well Capitalized Ratio
	(dollars in thousands)			
Great Western Bancorp, Inc.				
Tier 1 capital	$1,101,899	11.4%	6.0 %	8.0 %
Total capital	1,200,885	12.5%	8.0 %	10.0 %
Tier 1 leverage	1,101,899	10.3%	4.0 %	5.0 %
Common equity Tier 1	1,028,389	10.7%	5.75 %	6.5 %
Risk-weighted assets	$9,635,155			
Great Western Bank				
Tier 1 capital	$1,112,466	11.6%	6.0 %	8.0 %
Total capital	1,176,451	12.2%	8.0 %	10.0 %
Tier 1 leverage	1,112,466	10.4%	4.0 %	5.0 %
Common equity Tier 1	1,112,466	11.6%	5.75 %	6.5 %
Risk-weighted assets	$9,632,195			

At September 30, 2017 and September 30, 2016, our Tier 1 capital included an aggregate of $73.5 million and $77.2 million, respectively, of trust preferred securities issued by our subsidiaries. At September 30, 2017, our Tier 2 capital included $63.5 million of the allowance for loan and lease losses and $35.0 million of subordinated capital notes. At September 30, 2016, our Tier 2 capital included $64.6 million of the allowance for loan and lease losses and $35.0 million of subordinated capital notes. Our total risk-weighted assets were $9.64 billion at September 30, 2017.

Non-GAAP Financial Measures

We rely on certain non-GAAP measures in making financial and operational decisions about our business. We believe that each of the non-GAAP measures presented is helpful in highlighting trends in our business, financial condition and results of operations which might not otherwise be apparent when relying solely on our financial results calculated in accordance with U.S. generally accepted accounting principles, or GAAP. We disclose net interest income and related ratios and analysis on a taxable-equivalent basis, which may also be considered non-GAAP financial measures. We believe this presentation to be the preferred industry measurement of net interest income as it provides a relevant comparison of net interest income arising from taxable and tax-exempt sources. In addition, certain performance measures, including the efficiency ratio and net interest margin utilize net interest income on a taxable-equivalent basis.

In particular, we evaluate our profitability and performance based on our adjusted net income, adjusted earnings per common share, tangible net income and return on average tangible common equity. Our adjusted net income and adjusted earnings per common share exclude the after-tax effect of items with a significant impact to net income that we do not believe to be recurring in nature, (e.g., one-time acquisition expenses). Our tangible net income and return on average tangible common equity exclude the effects of amortization expense relating to intangible assets and related tax effects from the acquisition of us by NAB and our acquisitions of other institutions. We believe these measures help highlight trends associated with our financial condition and results of operations by providing net income and return information excluding significant nonrecurring items (for adjusted net income and adjusted

earnings per share) and based on our cash payments and receipts during the applicable period (for tangible net income and return on average tangible common equity).

We also evaluate our profitability and performance based on our adjusted net interest income, adjusted net interest margin, adjusted interest income on non ASC 310-30 loans and adjusted yield on non ASC 310-30 loans. We adjust each of these four measures to include the current realized gain (loss) of derivatives we use to manage interest rate risk on certain of our loans, which we believe economically offsets the interest income earned on the loans. Similarly, we evaluate our operational efficiency based on our efficiency ratio, which excludes the effect of amortization of core deposit and other intangibles (a non-cash expense item) and includes the tax benefit associated with our tax-advantaged loans.

We evaluate our financial condition based on the ratio of our tangible common equity to our tangible assets and the ratio of our tangible common equity to common shares outstanding. Our calculation of this ratio excludes the effect of our goodwill and other intangible assets. We believe this measure is helpful in highlighting the common equity component of our capital and because of its focus by federal bank regulators when reviewing the health and strength of financial institutions in recent years and when considering regulatory approvals for certain actions, including capital actions. We also believe the ratio of our tangible common equity to common shares outstanding is helpful in understanding our stockholders' relative ownership position as we undertake various actions to issue and retire common shares outstanding.

For reconciliations for each of these non-GAAP financial measures to the closest GAAP financial measures, see "Item 6. Selected Financial Data—Non-GAAP Financial Measures Reconciliations" and "Item 6. Selected Financial Data—Non-GAAP Quarterly Financial Measures Reconciliations". Each of the non-GAAP measures presented should be considered in context with our GAAP financial results included in this Annual Report on Form 10-K.

Impact of Inflation and Changing Prices

Our financial statements included in this Annual Report on Form 10-K have been prepared in accordance with GAAP, which requires us to measure financial position and operating results primarily in terms of historic dollars. Changes in the relative value of money due to inflation or recession generally are not considered. The primary effect of inflation on our operations is reflected in increased operating costs. In our management's opinion, changes in interest rates affect the financial condition of a financial institution to a far greater degree than changes in the inflation rate. While interest rates are greatly influenced by changes in the inflation rate, they do not necessarily change at the same rate or in the same magnitude as the inflation rate. Interest rates are highly sensitive to many factors that are beyond our control, including changes in the expected rate of inflation, the influence of general and local economic conditions and the monetary and fiscal policies of the United States government, its agencies and various other governmental regulatory authorities.

Recent Accounting Pronouncements

See "Note 1- Nature of Operations and Summary of Significant Accounting Policies" in the accompanying "Notes to Consolidated Financial Statements" included in this Annual Report on Form 10-K for a discussion of new accounting pronouncements and their expected impact on our financial statements.

Critical Accounting Policies and the Impact of Accounting Estimates

Our consolidated financial statements and accompanying notes are prepared in accordance with GAAP. Our accounting policies are more fully described in Note 1 of the consolidated financial statements. Certain accounting policies require our management to use significant judgment and estimates, which can have a material impact on the carrying amount of certain assets and liabilities. We consider these policies to be critical accounting policies. The judgment and assumptions made are based upon historical experience or other factors that management believes to be reasonable under the circumstances. Because of the nature of the judgment and assumptions, actual results could differ from estimates, which could have a material effect on our financial condition and results of operations.

We have identified the following accounting policies as critical: the allowance for loan and lease losses, valuation of assets acquired and liabilities assumed in business combinations, goodwill impairment, core deposits and other intangibles, derivatives, and income taxes. We have reviewed these critical accounting estimates and related disclosures with our Audit Committee.

Allowance for Loan and Lease Losses

Description. We maintain an allowance for loan and lease losses at a level management believes is appropriate based on ongoing evaluation of the probable estimated losses inherent in the loan portfolio driven primarily by monitoring changes in loan risk grades, delinquencies, and other credit risk indicators, which is inherently subjective. A well-documented methodology has been developed and is applied to ensure consistency across our markets. We also have a formalized independent loan review program to evaluate loan administration, credit quality, and compliance with corporate loan standards. This program includes periodic, regular reviews of problem loan reports, delinquencies and charge-offs.

The allowance for loan and lease losses consists 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”). Changes to the allowance for loan and lease losses are made by charges to the provision for loan and lease losses, which is reflected in the consolidated statements of income. 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 specific reserve relates to impaired loans. A loan is impaired when, based on current information and events, it is probable we 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 our exposure, given the current payment status of the loan, the present value of expected payments, and the value of any underlying collateral. 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. Further discussion of the methodology used in establishing the allowance for loan and lease losses is provided in the Allowance for Loan and Lease Losses section of "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Note 1. Nature of Operations and Summary of Significant Accounting Policies."

Judgments and Uncertainties. Management makes a range of assumptions to determine what is believed to be the appropriate level of allowance for loan and lease losses. Specific reserves for impaired loans rely on a present value of expected payments or the value of underlying collateral generally based on independent appraisals. Collective reserves rely on historical loss experience based on the portfolio mix, 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. All of these estimates are susceptible to significant change.

Effect if Actual Results Differ From Assumptions. The allowance represents our best estimate of estimated losses in the loan portfolio, but significant downturns in circumstances relating to loan quality and economic conditions could result in a requirement for additional allowance. Likewise, an upturn in loan quality and improved economic conditions may allow a reduction in the required allowance. In either instance, unanticipated changes could have a significant impact on our financial position and results of operations.

Valuation of Assets Acquired and Liabilities Assumed in Business Combinations

Description. We account for business combinations in accordance with ASC 805, Business Combinations. We recognize assets acquired and liabilities assumed in acquisitions at their fair values as of the acquisition date, with the acquisition-related transaction and restructuring costs expensed in the period incurred. Determining the fair value of assets acquired and liabilities assumed often involves estimates based on third-party valuations, such as appraisals, or internal valuations based on discounted cash flow analyses and may include estimates of attrition, inflation, asset growth rates, discount rates, multiples of earnings or other relevant factors. In addition, fair values are subject to refinement for up to a year after the closing date of an acquisition. Adjustments recorded to the acquired assets and liabilities are applied prospectively.

Judgments and Uncertainties. Fair values are based on estimates using management's assumptions using future growth rates, future attrition of the customer base, discount rates, multiples of earnings or other relevant factors.

Effect if Actual Results Differ From Assumptions. Any change in the acquisition date fair value of assets acquired and liabilities assumed may materially affect our financial position, results of operations and liquidity.
Goodwill Impairment
Description. Goodwill represents the cost in excess of the fair value of net assets acquired (including identifiable intangibles) in transactions accounted for as business combinations. Goodwill often involves estimates based on third party valuations, such as appraisals, or internal valuations based on discounted cash flow analyses or other valuation techniques. Under ASC Topic 350 Goodwill and Other Intangible Assets, goodwill recorded must be reviewed for impairment on an annual basis, as well as on an interim basis if events or changes indicate that the asset might be impaired. An impairment loss must be recognized for any excess of carrying value over fair value of the goodwill, and any subsequent increases in goodwill must not be recognized in the consolidated financial statements.
Judgments and Uncertainties. The determination of fair values is based on a quantitative analysis using management's assumptions of future growth rates, future attrition of the customer base, discount rates, multiples of earnings and other relevant factors.
Effect if Actual Results Differ From Assumptions. Changes in these factors, as well as downturns in economic or business conditions, could have a significant adverse impact on the carrying value of goodwill and could result in an impairment loss affecting our consolidated financial statements as a whole.
Core Deposits and Other Intangibles
Description. Intangible assets are non-physical assets generally recognized as part of an acquisition, where the acquirer is allowed to assign some portion of the purchase price to acquired intangible assets having a useful life of greater than one year. These assets often involve estimates based on third party valuations or internal valuations based on discounted cash flow analyses or other valuation techniques. Our intangible assets include core deposits, brand intangibles, customer relationships, and other intangibles. In addition, the determination of the useful lives over which an intangible asset will be amortized is subjective. Under ASC Topic 350 Goodwill and Other Intangible Assets, intangible assets are evaluated for impairment if indicators of impairment are identified.
Judgments and Uncertainties. The determination of fair values is based on a quantitative analysis using management's assumptions of future growth rates, future attrition of the customer base, discount rates and other relevant factors.
Effect if Actual Results Differ From Assumptions. Changes in these factors, as well as downturns in economic or business conditions, could have a significant adverse impact on the carrying value of core deposits and other intangibles and could result in an impairment loss affecting our consolidated financial statements as a whole.
Derivatives
Description. We maintain an overall interest rate risk management strategy that permits the use of derivative instruments to modify exposure to interest rate risk. We enter into interest rate swap contracts to offset the interest rate risk associated with borrowers who lock in long-term fixed rates (greater than or equal to 5 years to maturity) through a fixed rate loan. Generally, under these swaps, we agree with various swap counterparties to exchange the difference between fixed-rate and floating-rate interest amounts based upon notional principal amounts. These contracts do not qualify for hedge accounting. These interest rate derivative instruments are recognized as assets and liabilities on the consolidated balance sheets and measured at fair value, with changes in fair value reported in net realized and unrealized gain (loss) on derivatives. Since each fixed rate loan is paired with an offsetting derivative contract, the impact to net income is minimized. We also have back to back swaps with customers where we enter into an interest rate swap with loan customers to provide a facility to mitigate the interest rate risk associated with offering a fixed rate and simultaneously enters into a swap with an outside third party that is matched in exact offsetting terms. The back to back swaps are recorded at fair value and recognized as assets and liabilities, depending on the rights or obligations under the contract, in fair value of derivatives on the consolidated balance sheet, with changes in fair value reported in net realized and unrealized gain (loss) on derivatives.

In 2017 we began a new program of selling interest swaps directly to customers. These interest rate swaps sales are used to enable customers to achieve a long-term fixed rate by selling the customer a long-term variable rate loan indexed to LIBOR plus a credit spread whereby the Bank enters into an interest rate swap with our customer where the customer pays a fixed rate of interest set at the time of origination on the interest rate swap and then the customer receives a floating rate equal to the rate paid on the loan, thus resulting in a fixed rate of interest over the life of the interest rate swap. We minimize the market and liquidity risks of the swaps entered into with the customer by entering into an offsetting position with a swap dealer.

We enter into forward interest rate lock commitments on mortgage loans to be held for sale, which are commitments to originate loans whereby the interest rate on the loan is determined prior to funding. We also have corresponding forward sales contracts related to these interest rate lock commitments. Both the mortgage loan commitments and the related sales contracts are considered derivatives and are recorded at fair value with changes in fair value recorded in noninterest income.

Judgments and Uncertainties. Our 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. We manage interest rate swap credit risk with the same standards and procedures applied to our commercial lending activities.

Effect if Actual Results Differ From Assumptions. As with any financial instrument, derivative financial instruments have inherent risk including adverse changes in interest rates. We have agreements with our derivative counterparties that contain a provision where if we fail to maintain our status as a well/adequately capitalized institution, then the counterparty has the right to terminate the derivative positions and we would be required to settle our obligations under the agreements.

Income Taxes

Description. We are subject to the income tax laws of the U.S., its states, and the municipalities in which we operate. These tax laws are complex and subject to different interpretations by the taxpayer and the relevant government taxing authorities. We review income tax expense and the carrying value of deferred tax assets quarterly, and as new information becomes available, the balances are adjusted as appropriate. We follow ASC Topic 740, Income Taxes, which prescribes a recognition threshold of more-likely-than-not, and a measurement attribute for all tax positions taken or expected to be taken on a tax return, in order for those tax position to be recognized in the consolidated financial statements. Further discussion is provided in "Note 19. Income Taxes" in the consolidated financial statements.

Judgments and Uncertainties. In establishing a provision for income tax expense, we must make judgments and interpretations about the application of these inherently complex tax laws. We must also make estimates about when in the future certain items will affect taxable income in the various tax jurisdictions. Disputes over interpretations of the tax laws may be subject to review/adjudication by the court systems of the various tax jurisdictions or may be settled with the taxing authority upon examination or audit.

Effect if Actual Results Differ From Assumptions. Although we believe the judgments and estimates used are reasonable, actual results could differ and we may be exposed to losses or gains that could be material. To the extent we prevail in matters for which reserves have been established, or are required to pay amounts in excess of our reserves, our effective income tax rate in a given financial statement period could be materially affected. An unfavorable tax settlement would result in an increase in our effective income tax rate in the period of resolution. A favorable tax settlement would result in a reduction in our effective income tax rate in the period of resolution.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our primary market risk is interest rate risk, which is defined as the risk of loss of net interest income or net interest margin because of changes in interest rates.

We seek to measure and manage the potential impact of interest rate risk. Interest rate risk occurs when interest-earning assets and interest-bearing liabilities mature or re-price at different times, on a different basis or in unequal amounts. Interest rate risk also arises when our assets, liabilities and off-balance sheet contracts each respond differently to changes in interest rates, including as a result of explicit and implicit provisions in agreements related to such assets and liabilities and in off-balance sheet contracts that alter the applicable interest rate and cash flow characteristics as interest rates change. The two primary examples of such provisions that we are exposed to are the duration and rate sensitivity associated with indeterminate-maturity deposits (e.g., non-interest-bearing checking accounts, NOW accounts, savings accounts and money market accounts) and the rate of prepayment associated with fixed-rate lending and mortgage-backed securities. Interest rates may also affect loan demand, credit losses, mortgage origination volume and other items affecting earnings.

Our management of interest rate risk is overseen by our bank's asset and liability committee based on a risk management infrastructure approved by our board of directors that outlines reporting and measurement requirements. In particular, this infrastructure sets limits and management targets, calculated monthly, for various metrics, including our economic value sensitivity, our economic value of equity and net interest income simulations involving parallel shifts in interest rate curves, steepening and flattening yield curves, and various prepayment and deposit duration assumptions. Our risk management infrastructure also requires a periodic review of all key assumptions used, such as identifying appropriate interest rate scenarios, setting loan prepayment rates based on historical analysis, non-interest-bearing and interest-bearing demand deposit durations based on historical analysis, and the targeted investment term of capital.

We manage the interest rate risk associated with our interest-bearing liabilities by managing the interest rates and tenors associated with our borrowings from the FHLB and deposits from our customers that we rely on for funding. In particular, from time to time we use special offers on deposits to alter the interest rates and tenors associated with our interest-bearing liabilities. We manage the interest rate risk associated with our interest-earning assets by managing the interest rates and tenors associated with our investment and loan portfolios, from time to time purchasing and selling investment securities and selling residential mortgage loans in the secondary market.

We rely on interest rate swaps to hedge our interest rate exposure on CRE, agricultural and commercial non-real estate loans with fixed interest rates of more than 5 years, such as our tailored business loans. As of September 30, 2017, we had a notional amount of $1.01 billion of interest rate swaps outstanding. The overall effectiveness of our hedging strategies is subject to market conditions, the quality of our execution, the accuracy of our valuation assumptions, the associated counterparty credit risk and changes in interest rates.

We do not engage in speculative trading activities relating to interest rates, foreign exchange rates, commodity prices, equities or credit.

Evaluation of Interest Rate Risk

We use a net interest income simulation model to measure and evaluate potential changes in our net interest income. We run various hypothetical interest rate scenarios at least monthly and compare these results against a scenario with no changes in interest rates. Our net interest income simulation model incorporates various assumptions, which we believe are reasonable but which may have a significant impact on results such as: (1) the timing of changes in interest rates, (2) shifts or rotations in the yield curve, (3) re-pricing characteristics for market-rate-sensitive instruments on and off balance sheet, (4) differing sensitivities of financial instruments due to differing underlying rate indices, (5) varying loan prepayment speeds for different interest rate scenarios, (6) the effect of interest rate limitations in our assets, such as floors and caps, (7) the effect of our interest rate swaps, and (8) overall growth and repayment rates and product mix of assets and liabilities. Because of limitations inherent in any approach used to measure interest rate risk, simulation results are not intended as a forecast of the actual effect of a change in market interest rates on our results but rather as a means to better plan and execute appropriate asset-liability management strategies and manage our interest rate risk.

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Potential changes to our adjusted net interest income (i.e., GAAP net interest income plus current realized gain or loss on derivatives) in hypothetical rising and declining rate scenarios calculated as of September 30, 2017 are presented in the following table. The projections assume (1) immediate, parallel shifts downward of the yield curve of 100 basis points and immediate, parallel shifts upward of the yield curve of 100, 200, 300 and 400 basis points and (2) gradual shifts downward of 100 basis points over 12 months and gradual shifts upward of 100, 200, 300 and 400 basis points over 12 months. In the current interest rate environment, a downward shift of the yield curve of 200, 300 and 400 basis points does not provide us with meaningful results. In a downward parallel shift of the yield curve, interest rates at the short-end of the yield curve are not modeled to decline any further than 0%. For the immediate-shift scenarios, we assume short-term rates follow a forward yield curve throughout the forecast period that is dictated by the instantaneously shocked yield curve from the as of date. In the gradual-shift scenarios, we take each rate across the yield curve from the as of date and shock it by 1/12th of the total change in rates each month for twelve months.

	Estimated Increase (Decrease) in Annualized Adjusted Net Interest Income for the Year Ended September 30, 2017	
Change in Market Interest Rates as of September 30, 2017	Year Ending September 30, 2018	Year Ending September 30, 2019
Immediate Shifts		
+400 basis points	9.98 %	16.70 %
+300 basis points	7.51 %	12.60 %
+200 basis points	5.03 %	8.46 %
+100 basis points	2.53 %	4.26 %
-100 basis points	(4.90)%	(7.32)%
Gradual Shifts		
+400 basis points	2.02 %	
+300 basis points	1.54 %	
+200 basis points	1.05 %	
+100 basis points	0.55 %	
-100 basis points	(1.91)%	

We primarily use interest rate swaps to ensure that long-term fixed-rate loans are effectively re-priced as short-term rates change, which we believe would allow us to achieve these results. The results of this simulation analysis are hypothetical, and a variety of factors might cause actual results to differ substantially from what is depicted. For example, if the timing and magnitude of interest rate changes differ from those projected, our net interest income might vary significantly. Non-parallel yield curve shifts such as a flattening or steepening of the yield curve or changes in interest rate spreads would also cause our net interest income to be different from that depicted. An increasing interest rate environment could reduce projected net interest income if deposits and other short-term liabilities re-price faster than expected or faster than our assets re-price. Actual results could differ from those projected if we grow assets and liabilities faster or slower than estimated, if we experience a net outflow of deposit liabilities or if our mix of assets and liabilities otherwise changes. Actual results could also differ from those projected if we experience substantially different repayment speeds in our loan portfolio than those assumed in the simulation model. Finally, these simulation results do not contemplate all the actions that we may undertake in response to potential or actual changes in interest rates, such as changes to our loan, investment, deposit, funding or hedging strategies.

For more information on our adjusted net interest income, see "—Non-GAAP Financial Measures" and for a reconciliation to the most directly comparable GAAP financial measure, see "Item 6. Selected Financial Data—Non-GAAP Financial Measures Reconciliations".

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of
Great Western Bancorp, Inc.

We have audited the accompanying consolidated balance sheets of Great Western Bancorp, Inc. (the "Company") as of September 30, 2017 and 2016, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended September 30, 2017. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Great Western Bancorp, Inc. at September 30, 2017 and 2016, and the consolidated results of its operations and its cash flows for each of the three years in the period ended September 30, 2017, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Great Western Bancorp, Inc.'s internal control over financial reporting as of September 30, 2017, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated November 28, 2017 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
Minneapolis, Minnesota
November 28, 2017

GREAT WESTERN BANCORP, INC.
Consolidated Balance Sheets
(Dollars in Thousands, Except Share and Per Share Data)

	September 30, 2017	September 30, 2016
Assets		
Cash and due from banks	$170,657	$142,152
Interest bearing bank deposits	189,739	382,459
Cash and cash equivalents	360,396	524,611
Securities available for sale	1,367,960	1,315,860
Loans, net of unearned discounts and deferred fees, including $57,537 and $73,272 of loans covered by FDIC loss share agreements at September 30, 2017 and 2016, respectively, and $1,016,576 and $1,131,111 of loans and written loan commitments at fair value under the fair value option at September 30, 2017 and 2016, respectively, and $7,456 and $12,918 of loans held for sale at September 30, 2017 and 2016, respectively	8,968,553	8,682,644
Allowance for loan and lease losses	(63,503)	(64,642)
Net loans	8,905,050	8,618,002
Premises and equipment, including $5,147 and $8,112 of property held for sale at September 30, 2017 and September 30, 2016, respectively	112,209	118,506
Accrued interest receivable	53,176	49,531
Other repossessed property, including $0 and $106 of property covered by FDIC loss share agreements at September 30, 2017 and 2016, respectively	8,985	10,282
FDIC indemnification asset	5,704	10,777
Goodwill	739,023	739,023
Core deposits and other intangibles	9,374	11,732
Loan servicing rights	4,074	5,781
Cash surrender value of life insurance policies	29,619	29,166
Net deferred tax assets	42,400	38,346
Other assets	52,041	59,563
Total assets	$11,690,011	$11,531,180
Liabilities and stockholders’ equity		
Deposits		
Noninterest-bearing	$1,856,126	$1,880,512
Interest-bearing	7,121,487	6,724,278
Total deposits	8,977,613	8,604,790
Securities sold under agreements to repurchase	132,636	141,688
FHLB advances and other borrowings	643,214	871,037
Subordinated debentures and subordinated notes payable	108,302	111,873
Fair value of derivatives	17,107	81,515
Accrued interest payable	4,405	4,074
Accrued expenses and other liabilities	51,734	52,812
Total liabilities	9,935,011	9,867,789
Stockholders’ equity		
Common stock, $0.01 par value, authorized 500,000,000 shares; 58,834,066 shares issued and outstanding at September 30, 2017 and 58,693,304 shares issued and outstanding at September 30, 2016	588	587
Additional paid-in capital	1,314,039	1,312,347
Retained earnings	445,747	344,923
Accumulated other comprehensive (loss) income	(5,374)	5,534

Total stockholders’ equity	1,755,000	1,663,391
Total liabilities and stockholders’ equity	$11,690,011	$11,531,180

See accompanying notes.

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

	Years Ended September 30,		
	2017	2016	2015
Interest and dividend income			
Loans	$414,434	$370,444	$338,458
Taxable securities	24,262	23,249	22,973
Nontaxable securities	978	230	51
Dividends on securities	1,071	1,201	1,247
Federal funds sold and other	922	574	652
Total interest and dividend income	441,667	395,698	363,381
Interest expense			
Deposits	35,035	25,114	23,362
Securities sold under agreements to repurchase	384	519	563
FHLB advances and other borrowings	5,437	4,154	3,631
Related party notes payable	—	—	771
Subordinated debentures and subordinated notes payable	4,464	3,737	1,557
Total interest expense	45,320	33,524	29,884
Net interest income	396,347	362,174	333,497
Provision for loan and lease losses	21,539	16,955	19,041
Net interest income after provision for loan and lease losses	374,808	345,219	314,456
Noninterest income			
Service charges and other fees	48,573	46,209	39,134
Wealth management fees	9,118	7,283	7,412
Mortgage banking income, net	7,928	7,261	6,694
Net gain on sale of securities	75	160	310
Net (decrease) increase in fair value of loans at fair value	(65,231)	26,314	36,742
Net realized and unrealized gain (loss) on derivatives	49,900	(48,658)	(62,088)
Other	5,699	3,968	5,686
Total noninterest income	56,062	42,537	33,890
Noninterest expense			
Salaries and employee benefits	128,135	109,055	100,646
Data processing	24,514	21,719	19,531
Occupancy expenses	16,470	15,759	14,809
Professional fees	15,038	13,572	14,024
Communication expenses	3,774	3,721	4,455
Advertising	3,983	4,267	3,940
Equipment expense	3,347	3,795	3,905
Net loss recognized on repossessed property and other related expenses	1,749	1,263	5,382
Amortization of core deposits and other intangibles	2,358	3,264	7,110
Acquisition expenses	710	15,692	—
Other	16,565	15,533	12,992
Total noninterest expense	216,643	207,640	186,794

Income before income taxes	214,227	180,116	161,552
Provision for income taxes	69,441	58,863	52,487
Net income	$ 144,786	$ 121,253	$ 109,065
Basic earnings per common share			
Weighted average shares outstanding	58,770,708	56,563,438	57,455,693
Basic earnings per share	$ 2.46	$ 2.14	$ 1.90
Diluted earnings per common share			
Weighted average shares outstanding	59,029,382	56,729,350	57,500,878
Diluted earnings per share	$ 2.45	$ 2.14	$ 1.90
Dividends per share			
Dividends paid	43,474	$ 31,419	$ 20,520
Dividends per share	$ 0.74	$ 0.56	$ 0.36

See accompanying notes.

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

	Years Ended September 30,		
	2017	2016	2015
Net income	$144,786	$121,253	$109,065
Other comprehensive income (loss), net of tax:			
Securities available for sale:			
Net unrealized holding (loss) gain arising during the year	(17,848)	5,347	13,979
Reclassification adjustment for net (gain) realized in net income	(75)	(160)	(310)
Income tax benefit (expense)	6,811	(1,971)	(5,194)
Net change in unrealized (losses) gains on securities available for sale	(11,112)	3,216	8,475
Defined benefit pension plan obligation:			
Net unrealized holding gain arising during the year	329	—	—
Income tax (expense)	(125)	—	—
Net change in defined benefit pension plan obligation	204	—	—
Other comprehensive (loss) income, net of tax	(10,908)	3,216	8,475
Comprehensive income	$133,878	$124,469	$117,540

See accompanying notes.

GREAT WESTERN BANCORP, INC.
Consolidated Statements of Stockholders' Equity
(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, 2014		$ 579	$1,260,124	$166,544	$ (6,157)	$1,421,090
Net income	$ 109,065	—	—	109,065	—	109,065
Other comprehensive income, net of tax	8,475	—	—	—	8,475	8,475
Comprehensive income	$ 117,540					
Stock-based compensation, net of tax		—	1,236	—	—	1,236
Common stock repurchased		(27)	(59,973)	—	—	(60,000)
Cash dividends:						
Common stock, $0.36 per share		—	—	(20,520)	—	(20,520)
Balance, September 30, 2015		$ 552	$1,201,387	$255,089	$ 2,318	$1,459,346
Net income	$ 121,253	—	—	121,253	—	121,253
Other comprehensive income, net of tax	3,216	—	—	—	3,216	3,216
Comprehensive income	$ 124,469					
Stock-based compensation, net of tax		—	3,517	—	—	3,517
Common stock issued in business acquisition		35	107,443	—	—	107,478
Cash dividends:						
Common stock, $0.56 per share		—	—	(31,419)	—	(31,419)
Balance, September 30, 2016		$ 587	$1,312,347	$344,923	$ 5,534	$1,663,391
Net income	$ 144,786	—	—	144,786	—	144,786
Other comprehensive loss, net of tax	(10,908)	—	—	—	(10,908)	(10,908)
Comprehensive income	$ 133,878					
Cumulative effect adjustment [1]		—	751	(488)		263
Stock-based compensation, net of tax		2	6,545	—	—	6,547
Repurchase of common stock		(1)	(5,604)	—	—	(5,605)
Cash dividends:						
Common stock, $0.74 per share		—	—	(43,474)	—	(43,474)
Balance, September 30, 2017		$ 588	$1,314,039	$445,747	$ (5,374)	$1,755,000

[1] Cumulative effect adjustment related to adoption of ASU 2016-09
See accompanying notes.

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

	Years Ended September 30,		
	2017	2016	2015
Operating activities			
Net income	$144,786	$121,253	$109,065
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	13,599	16,259	20,984
Amortization of FDIC indemnification asset	4,748	3,836	7,552
Net gain on sale of securities	(75)	(160)	(310)
Gain on redemption of subordinated debentures	(111)	—	—
Net gain on sale of loans	(9,635)	(8,053)	(6,694)
Net loss on FDIC indemnification asset	1,031	1,069	2,277
Net (gain) loss on sale of premises and equipment	(160)	1,974	(1,983)
Net loss from sale/writedowns of repossessed property	1,749	1,263	5,382
Provision for loan and lease losses	21,539	16,955	19,041
Provision for loan servicing rights loss	68	13	—
Stock-based compensation	6,810	3,517	1,236
Originations of residential real estate loans held-for-sale	(275,015)	(294,221)	(281,098)
Proceeds from sales of residential real estate loans held-for-sale	290,111	299,223	288,306
Net deferred income taxes	2,631	(1,563)	7,040
Changes in:			
Accrued interest receivable	(3,645)	(1,337)	(1,468)
Other assets	(2,405)	4,703	(1,814)
FDIC clawback liability	1,349	1,061	917
Accrued interest payable and other liabilities	(65,866)	19,017	30,330
Net cash provided by operating activities	131,509	184,809	198,763
Investing activities			
Purchase of securities available for sale	(313,701)	(278,291)	(353,249)
Proceeds from sales of securities available for sale	5,074	145,934	105,190
Proceeds from maturities of securities available for sale	233,357	308,033	269,284
Net increase in loans	(318,876)	(503,394)	(553,976)
(Payment) reimbursement of covered losses from FDIC indemnification claims	(706)	(960)	2,127
Purchase of premises and equipment	(6,409)	(15,456)	(3,895)
Proceeds from sale of premises and equipment	5,260	741	3,576
Proceeds from sale of repossessed property	7,334	12,173	35,942
Purchase of FHLB stock	(38,345)	(48,295)	(50,335)
Proceeds from redemption of FHLB stock	47,819	43,045	50,512
Net cash paid in business acquisition	—	(15,669)	—
Net cash used in investing activities	(379,193)	(352,139)	(494,824)
Financing activities			
Net increase in deposits	373,408	355,001	334,885
Net increase in securities sold under agreements to repurchase and other short-term borrowings	347,148	81,762	23,584
Proceeds from FHLB advances and other long-term borrowings	—	394,827	295,906
Repayments on FHLB advances and other long-term borrowings	(584,000)	(346,000)	(290,000)
Proceeds from issuance of subordinated notes payable, net	—	—	34,632
Redemption of subordinated debentures	(3,625)	—	—
Payment of related party notes payable	—	—	(41,295)

Common stock repurchased	(5,605)	—	(60,000)
Taxes paid related to net share settlement of equity awards [1]	(383)	—	—
Dividends paid	(43,474)	(31,419)	(20,520)
Net cash provided by financing activities	83,469	454,171	277,192
Net (decrease) increase in cash and cash equivalents	(164,215)	286,841	(18,869)
Cash and cash equivalents, beginning of year	524,611	237,770	256,639
Cash and cash equivalents, end of year	$360,396	$524,611	$237,770
Supplemental disclosures of cash flows information			
Cash payments for interest	$44,989	$33,456	$31,150
Cash payments for income taxes	$71,964	$54,570	$52,319
Supplemental schedules of noncash investing and financing activities			
Loans transferred to repossessed assets	$(7,786)	$(4,331)	$(7,636)
Repossessed property transferred to premises and equipment	$—	$(840)	$—

[1] Related to the Company's early adoption of ASU 2016-09, certain prior period amounts have been retrospectively reclassified between operating activities and financing activities. See Note 1, Nature of Operations and Summary of Significant Policies, for additional information.

See accompanying notes.

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GREAT WESTERN BANCORP, INC.
Notes to Consolidated Financial Statements

1. Nature of Operations and Summary of Significant Accounting 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.

Segment Reporting

The "Segment Reporting" topic of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") requires that public companies report certain information about operating segments. It also requires that public companies report certain information about their products and services, the geographic areas in which they operate, and their major customers. The Company is a holding company for a regional bank, which offers a wide array of products and services to its customers. Pursuant to its banking strategy, emphasis is placed on building relationships with its customers, as opposed to building specific lines of business. As a result, the Company is not organized and does not allocate resources around discernible lines of business or geographies and prefers to work as an integrated unit to customize solutions for its customers, with business line and geographic emphasis and product offerings changing over time as needs and demands change. Therefore, the Company only reports one segment, which is consistent with the Company's preparation of financial information that is evaluated regularly by management in deciding how to allocate resources and assess performance.

Basis of Presentation and Principles of Consolidation

The accounting and reporting policies of the Company conform with accounting principles generally accepted in the United States ("U.S. GAAP"), SEC rules and interpretive releases and prevailing practices within the banking industry. All significant income and expenses are recorded on the accrual basis. The accompanying consolidated financial statements include the accounts and results of the Company and its subsidiaries after elimination of all significant intercompany accounts and transactions.

The Company determines whether it has a controlling financial interest in an entity by first evaluating whether the entity is a voting interest entity or a variable interest entity ("VIE") under U.S. GAAP. Voting interest entities are entities in which the total equity investment at risk is sufficient to enable the entity to finance itself independently and provides the equity holders with the obligation to absorb losses, the right to receive residual returns and the right to make decisions about the entity's activities. The Company consolidates voting interest entities in which it has all, or at least a majority of, the voting interest. As defined in applicable accounting standards, VIEs are entities that lack one or more of the characteristics of a voting interest entity. A controlling financial interest in a VIE is present when an enterprise has both the power to direct the activities of the VIE that most significantly impact the VIE's economic performance and an obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE. The enterprise with a controlling financial interest, known as the primary beneficiary, consolidates the VIE. The Company's wholly owned subsidiaries Great Western Statutory Trust IV, GWB Capital Trust VI, Sunstate Bancshares Trust II, HF Financial Capital Trust III, HF Financial Capital Trust IV, HF Financial Capital Trust V and HF Financial Capital Trust VI are VIEs for which the Company is not the primary beneficiary. Accordingly, the accounts of these trusts are not included in the Company's consolidated financial statements.

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

Use of Estimates

U.S. GAAP requires management makes estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

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GREAT WESTERN BANCORP, INC.
Notes to Consolidated Financial Statements

Subsequent Events
On October 26, 2017, the Board of Directors of the Company declared a dividend of $0.20 per common share payable on November 22, 2017 to stockholders of record as of close of business on November 10, 2017.
The Company evaluated subsequent events through the date its consolidated financial statements were issued. Other than those events described above, 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.
Business Combinations
The Company accounts for business combinations under the acquisition method of accounting in accordance with ASC 805, Business Combinations ("ASC 805"). The Company recognizes the fair value of the assets acquired and liabilities assumed, immediately expenses transaction costs and accounts for restructuring plans separately from the business combination. There is no separate recognition of the acquired allowance for loan and lease losses on the acquirer's balance sheet as credit related factors are incorporated directly into the fair value of the loans recorded at the acquisition date. The excess of the cost of the acquisition over the fair value of the net tangible and intangible assets acquired is recorded as goodwill. Alternatively, a bargain purchase gain is recorded equal to the amount by which the fair value of assets purchased exceeds the fair value of liabilities assumed and consideration paid.
Results of operations of the acquired business are included in the consolidated statements of income from the effective date of acquisition.
Fair values are subject to refinement for up to a year after the closing date of an acquisition as information relative to closing date fair values becomes available. Adjustments recorded to the acquired assets and liabilities are applied prospectively in accordance with ASU 2015-16.
Cash and Cash Equivalents
For purposes of the consolidated statements of cash flows, management has defined cash and cash equivalents to include cash on hand, amounts due from banks (including cash items in process of clearing), and amounts held at other financial institutions with an initial maturity of 90 days or less.
Securities
The Company classifies securities upon purchase in one of three categories: trading, held to maturity, or available for sale. Debt and equity securities held for resale are classified as trading. Debt securities for which the Company has the ability and positive intent to hold until maturity are classified as held to maturity. All other securities are classified as available for sale as they may be sold prior to maturity in response to changes in the Company's interest rate risk profile, funding needs, demand for collateralized deposits by public entities or other reasons.
Held to maturity securities are stated at amortized cost, which represents actual cost adjusted for premium amortization and discount accretion. Available for sale securities are stated at fair value, with unrealized gains and losses, net of related taxes, included in stockholders' equity as a component of accumulated other comprehensive income (loss).
Trading securities are stated at fair value. Realized and unrealized gains and losses from sales and fair value adjustments of trading securities are included in other noninterest income in the consolidated statements of income.
Purchases and sales of securities are recognized on a trade date basis. The cost of securities sold is based on the specific identification method.
Declines in the fair value of investment securities available for sale that are deemed to be other-than-temporary are recognized in earnings as a realized loss, and a new cost basis for the securities is established. In evaluating other-than-temporary impairment, management considers the length of time and extent to which the fair value has been less than amortized cost, the financial condition and near-term prospects of the issuer, and the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value in the near term. Declines in the fair value of debt securities below amortized cost are deemed to be other-than-temporary in circumstances where: (1) the Company has the intent to sell a security; (2) it is more likely than not that the Company will be required to sell the security before recovery of its amortized cost

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basis; or (3) the Company does not expect to recover the entire amortized cost basis of the security. If the Company intends to sell a security or if it is more likely than not that the Company will be required to sell the security before recovery, an other-than-temporary impairment loss is recognized in earnings equal to the difference between the security's amortized cost basis and its fair value. If the Company does not intend to sell the security or it is not more likely than not that it will be required to sell the security before recovery, the other-than-temporary impairment write-down is separated into an amount representing credit loss, which is recognized in earnings, and an amount related to all other factors, which is recognized in accumulated other comprehensive income (loss).

Interest and dividends, including amortization of premiums and accretion of discounts, are recognized as interest or dividend income when earned. Realized gains and losses on sales (using the specific identification method) and declines in value judged to be other-than-temporary are included in noninterest income in the consolidated statements of income.

Federal Home Loan Bank Stock

Investments in the Federal Home Loan Bank ("FHLB") stock are restricted as to redemption and are carried at cost. Investments in FHLB stock are reviewed regularly for possible other-than-temporary impairment, and the cost basis of this investment is reduced by any declines in value determined to be other-than-temporary. FHLB stock is included in other assets on the consolidated balance sheets.

Loans

The Company's accounting method for loans differs depending on whether the loans were originated or purchased and, for purchased loans, whether the loans were acquired at a discount related to evidence of credit deterioration since date of origination.

Originated Loans

Loans that management has the intent and ability to hold for the foreseeable future, or until maturity or pay-off, generally are reported at their outstanding principal balance, adjusted for charge-offs, the allowance for loan and lease losses, and any unamortized deferred fees or costs. Other fees not associated with originating a loan are recognized as fee income when earned.

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 generally 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 Company has elected to measure certain long-term loans and written loan commitments at fair value to assist in managing interest rate risk for longer-term loans. Fair value loans are fixed-rate loans having original maturities of 5 years or greater (typically between 5 and 15 years) to our business and agribusiness banking customers to assist them in facilitating their risk management strategies. The fair value option was elected upon the origination or acquisition of these loans and written loan commitments. Interest income is recognized in the same manner on loans reported at fair value as on non-fair value loans, except in regard to origination fees and costs which are recognized immediately upon closing. The changes in fair value of long-term loans and written loan commitments at fair value are reported in noninterest income.

For loans held for sale, loan fees charged or received on origination, net of certain direct loan origination costs, are recognized in income when the related loan is sold. For loans held for investment, loan fees, net of certain direct loan origination costs, are deferred and the net amount is amortized as an adjustment of the related loan's yield. The Company is generally amortizing these amounts over the contractual lives of the loans. Commitment fees are recognized as income when received.

The Company grants commercial, agricultural, residential real estate, consumer and other loans to customers primarily in Arizona, Colorado, Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota and South Dakota. The amount of

collateral obtained, if deemed necessary, is based on management's credit evaluation of the borrower. Collateral held varies but includes accounts receivable, inventory, property and equipment, residential real estate, income-producing commercial and agricultural properties, and personal guarantees of the borrower or related parties. Government guarantees are also obtained for some loans, which reduces the Company's risk of loss.

Loans originated and intended for sale in the secondary market are carried at the lower of cost or fair value. Loans held for sale include fixed rate single-family residential mortgage loans under contract to be sold in the secondary market. In most cases, loans are carried at cost and sold within 45 days. These loans are sold with the mortgage servicing rights released. Under limited circumstances, buyers may have recourse to return a purchased loan to the Company. Recourse conditions may include early payment default, breach of representation or warranties, or documentation deficiencies.

Fair value of loans held for sale is determined based on prevailing market prices for loans with similar characteristics, sale contract prices, or, for certain portfolios, discounted cash flow analysis. Declines in fair value below cost (and subsequent recoveries) are recognized in net gain on sale of loans. Deferred fees and costs related to these loans are not amortized but are recognized as part of the cost basis of the loan at the time it is sold. Gains or losses on sales are recognized upon delivery and included in net gain on sale of loans.

Purchased Loans

Loans acquired (non-impaired and impaired) in a business acquisition are recorded at their fair value at the acquisition date. Credit discounts are included in the determination of fair value; therefore, an allowance for loan and lease losses is not recorded at the acquisition date.

In determining the acquisition date fair value of purchased loans with evidence of credit deterioration ("purchased impaired loans"), and in subsequent accounting, the Company generally aggregates impaired purchased consumer and certain smaller balance impaired commercial loans into pools of loans with common risk characteristics, while accounting for larger-balance impaired commercial loans individually. Expected cash flows at the acquisition date in excess of the fair value of loans are recorded as interest income over the life of the loans using a level-yield method. Management estimates the cash flows expected to be collected at acquisition and at subsequent measurement dates using internal risk models, which incorporate the estimate of key assumptions, such as default rates, loss severity, and prepayment speeds. Subsequent to the acquisition date, decreases in cash flows over those expected at the acquisition date are recognized by recording an allowance for loan and lease losses. Subsequent increases in cash flow over those expected at the acquisition date are recognized as reductions to allowance for loan and lease losses to the extent impairment was previously recognized and thereafter as interest income prospectively.

For purchased loans not deemed impaired at the acquisition date, the difference between the fair value and the unpaid principal balance of the loan at acquisition date is amortized or accreted to interest income using the effective interest method over the remaining period to contractual maturity.

Credit Risk Management

The Company's strategy for credit risk management includes well-defined, centralized credit policies, uniform underwriting criteria and ongoing risk monitoring and review processes for all credit exposures. The strategy also emphasizes diversification on a geographic, industry, loan class type, and customer level; regular credit examinations; and management reviews of loans exhibiting deterioration of credit quality. The credit risk management strategy also includes a credit risk assessment process that performs assessments of compliance with commercial and consumer credit policies, risk ratings, and other critical credit information. Loan decisions are documented with respect to the borrower's business, purpose of the loan, evaluation of the repayment sources, and the associated risks, evaluation of collateral, covenants and monitoring requirements, and risk rating rationale.

The Company categorizes its loan portfolio into six classes, which is the level at which it develops and documents a systematic methodology to determine the allowance for loan and lease losses. The Company's six loan portfolio classes are commercial real estate, agriculture, commercial non-real estate, residential real estate, consumer and other lending.

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The commercial real estate lending class includes loans made to small and middle market businesses, including multi-family properties. Loans in this class are generally secured by commercial real estate with cash flows generally being the primary source of repayment. Historical loss history and updated loan-to-value information on collateral-dependent loans are the primary factors in determining the allowance for loan and lease losses for the commercial real estate lending class. Key risk characteristics relevant to the commercial real estate lending class include the industry and geography of the borrower’s business, purpose of the loan, repayment sources, borrower’s debt capacity and financial performance, loan covenants, and nature of pledged collateral. We consider these risk characteristics in assigning risk ratings and estimating environmental factors considered in determining the allowance for loan and lease losses.

The agriculture lending class includes loans made to agricultural individuals and businesses. Loans in this class are generally secured by operating assets and agriculture real estate and guaranteed by owners; cashflows are most often our primary source of repayment. Historical loss history and updated loan-to-value information on collateral-dependent loans are the primary factors in determining the allowance for loan and lease losses for the agriculture lending class. Key risk characteristics relevant to the agriculture lending class include the geography of the borrower’s operations, commodity prices and weather patterns, purpose of the loan, repayment sources, borrower’s debt capacity and financial performance, loan covenants, and nature of pledged collateral. We consider these risk characteristics in assigning risk ratings and estimating environmental factors considered in determining the allowance for loan and lease losses.

The commercial non-real estate lending class includes loans made to small and middle market businesses, and loans made to public sector customers. Loans in this class are generally secured by business assets and guaranteed by owners; cashflows are most often our primary source of repayment. Historical loss history and updated loan-to-value information on collateral-dependent loans are the primary factors in determining the allowance for loan and lease losses for the commercial non-real estate lending class. Key risk characteristics relevant to the commercial non-real estate lending class include the industry and geography of the borrower’s business, purpose of the loan, repayment sources, borrower’s debt capacity and financial performance, loan covenants, and nature of pledged collateral. We consider these risk characteristics in assigning risk ratings and estimating environmental factors considered in determining the allowance for loan and lease losses.

The residential real estate lending class includes loans made to consumer customers including residential mortgages, residential construction loans and home equity loans and lines. These loans are typically fixed rate loans secured by residential real estate. Home equity lines are revolving accounts giving the borrower the ability to draw and repay balances repeatedly, up to a maximum commitment, and are secured by residential real estate. Home equity lines typically have variable rate terms which are benchmarked to a prime rate. Historical loss history is the primary factor in determining the allowance for loan and lease losses for the residential real estate lending class. Key risk characteristics relevant to residential real estate lending class loans primarily relate to the borrower’s capacity and willingness to repay and include unemployment rates and other economic factors, and customer payment history. These risk characteristics, among others, are reflected in the environmental factors considered in determining the allowance for loan and lease losses.

The consumer lending class includes loans made to consumer customers including loans secured by automobiles and other installment loans, and the other lending class includes credit card loans and unsecured revolving credit lines. Historical loss history is the primary factor in determining the allowance for loan and lease losses for the consumer and other lending classes. Key risk characteristics relevant to loans in the consumer and other lending classes primarily relate to the borrower’s capacity and willingness to repay and include unemployment rates and other economic factors, and customer payment and overall credit history. These risk characteristics, among others, are reflected in the environmental factors considered in determining the allowance for loan and lease losses.

The other lending class includes all other loan relationships that do not fit within the categories above, primarily consumer and commercial credit cards, customer deposit account overdrafts, and lease receivables.

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 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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Troubled Debt Restructurings (“TDRs”)
Loans modified under troubled debt restructurings involve granting a concession to a borrower who is experiencing financial difficulty. These concessions could include a reduction in the interest rate on the loan, payment extensions, forgiveness of principal, forbearance, or other actions intended to maximize collection, which generally would not otherwise be considered. Our TDRs include performing and nonperforming TDRs, which consist of loans that continue to accrue interest at the loan's original interest rate as we expect to collect the remaining principal and interest on the loan, and nonaccrual TDRs, which include loans that are in a nonaccrual status and are no longer accruing interest, as we do not expect to collect the full amount of principal and interest owed from the borrower on these loans. At the time of modification (except for loans on nonaccrual status), a TDR is classified as nonperforming TDR until a six-month payment history of principal and interest payments, in accordance with the terms of the loan modification, is sustained, at which time we move the loan to a performing status (performing TDR). If we do not expect to collect all principal and interest on the loan, the modified loan is classified as a nonaccrual TDR. All TDRs are accounted for as impaired loans and are included in our analysis of the allowance for loan and lease losses. A TDR that has been renewed for a borrower who is no longer experiencing financial difficulty and which yields a market rate of interest at the time of a renewal is no longer considered a TDR.
Allowance for Loan and Lease Losses (“ALLL”) and Unfunded Commitments
The Company maintains an allowance for loan and lease losses at a level management believes is appropriate to reserve for credit losses inherent in our loan portfolio. 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 is 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.
All of these estimates are susceptible to significant change. Changes to the allowance for loan and lease losses are made by charges to the provision for loan and lease losses, which is reflected in 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.

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The Company maintains an ALLL for acquired impaired loans accounted for under ASC 310-30, resulting from decreases in expected cash flows arising from the periodic revaluation of these loans. Any decrease in expected cash flows in the individual loan pool is generally recognized in the current provision for loan and lease losses. Any increase in expected cash flows is generally not recognized immediately but is instead reflected as an adjustment to the related loan or pool's yield on a prospective basis once any previously recorded provision for loan and lease loss has been recognized.

For acquired nonimpaired loans accounted for under ASC 310-20, the Company utilizes methods to estimate the required allowance for loan and lease losses similar to originated loans; the required reserve is compared to the net carrying value of each acquired nonimpaired loan (by class) to determine if a provision is required.

Unfunded residential mortgage loan commitments entered into in connection with mortgage loans to be held for sale are considered derivatives and are recorded at fair value and included in other liabilities on the consolidated balance sheets with changes in fair value recorded in other interest income. All other unfunded loan commitments are generally related to providing credit facilities to customers and are not considered derivatives. For purchased loans, the fair value of the unfunded credit commitments is considered in determination of the fair value of the loans recorded at the date of acquisition. Reserves for credit exposure on all other unfunded credit commitments are recorded in other liabilities on the consolidated balance sheets. We maintain a reserve for unfunded commitments at a level we believe to be sufficient to absorb estimated probable losses related to unfunded credit facilities.

FDIC Indemnification Asset and Clawback Liability

In conjunction with a Federal Deposit Insurance Corporation (“FDIC”) assisted transaction of TierOne Bank in 2010, the Company entered into two loss share agreements with the FDIC, one covering certain single family residential mortgage loans with the claim period ending June 2020 and one covering commercial loans and other assets, in which the claim period ended in June 2015. The agreements cover a portion of realized losses on loans, foreclosed real estate and certain other assets. The Company has recorded assets on the consolidated balance sheets (i.e. indemnification assets) representing estimated future amounts recoverable from the FDIC.

Fair values of loans covered by the loss sharing agreements at the acquisition date were estimated based on projected cash flows available based on the expected probability of default, default timing and loss given default, the expected reimbursement rates (generally 80%) from the FDIC and other relevant terms of the loss sharing agreements. The initial fair value was established by discounting these expected cash flows with a market discount rate for instruments with like maturity and risk characteristics.

The loss share assets are measured separately from the related loans and foreclosed real estate and recorded as an FDIC indemnification asset on the consolidated balance sheets because they are not contractually embedded in the loans and are not transferable with the loans should the Company choose to dispose of them. Subsequent to the acquisition date, reimbursements received from the FDIC for actual incurred losses reduce the carrying amount of the loss share assets. Reductions to expected losses on covered assets, to the extent such reductions to expected losses are the result of an improvement to the actual or expected cash flows from the covered assets, also reduce the carrying amount of the loss share assets. The rate of accretion of the indemnification asset discount included in interest income slows to mirror the accelerated accretion of the loan discount. Additional expected losses on covered assets, to the extent such expected losses result in the recognition of an allowance for loan and lease losses, increase the carrying amount of the loss share assets. A related increase in the value of the indemnification asset up to the amount covered by the FDIC is calculated based on the reimbursement rates from the FDIC and is included in other noninterest income. The corresponding loan accretion or amortization is recorded as a component of interest income on the consolidated statements of income. Although these assets are contractual receivables from the FDIC, there are no contractual interest rates.

As part of the loss sharing agreements, the Company also assumed a liability (“FDIC Clawback Liability”) to be paid within 45 days subsequent to the maturity or termination of the loss sharing agreements that is contingent upon actual losses incurred over the life of the agreements relative to expected losses considered in the consideration paid at acquisition date and the amount of losses reimbursed to the Company under the loss sharing agreements. The liability

was recorded at fair value as of the acquisition date. The fair value was based on a discounted cash flow calculation that considered the formula defined in the loss sharing agreements and projected losses. The difference between the fair value at acquisition date and the projected losses is amortized through other noninterest expense. As projected losses and reimbursements are updated, as described above, the FDIC Clawback Liability is adjusted and a gain or loss is recorded in other noninterest expense.

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Premises and Equipment
Premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed principally by the straight-line method over the estimated useful lives of the assets. Costs incurred for maintenance and repairs are expensed as incurred. The range of estimated useful lives for buildings and building improvements are 10 to 40 years and 3 to 10 years for furniture and equipment.
Other Repossessed Property
Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less estimated cost to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management, and the assets are carried at the lower of carrying amount or fair value less estimated cost to sell. Income and expenses from operations of repossessed property are included in noninterest expense. Residential real estate loans which were in the process of being foreclosed as of September 30, 2017 and 2016 were approximately $1.6 million and $1.4 million, respectively.
Long-lived Asset Impairment
The Company evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset’s carrying value is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of the long-lived asset exceeds its fair value.
No long-lived asset impairments were recognized during the years ended September 30, 2017, 2016 or 2015.
Goodwill
Goodwill represents the cost in excess of the fair value of net assets acquired (including identifiable intangibles) in transactions accounted for as business combinations. In accordance with ASC Topic 350 Goodwill and Other Intangible Assets, goodwill is evaluated annually for impairment, as well as on an interim basis if events or changes indicate that the asset might be impaired. An impairment loss would be recognized for any excess of carrying value over fair value of the goodwill or the indefinite-lived intangible asset. Subsequent increases in goodwill would not be recognized in the consolidated financial statements. In the fourth quarter of fiscal year 2017, the Company elected to early adopt ASU 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment, which removed Step 2 of the goodwill impairment test. The adoption of this standard had no impact to the consolidated financial statements.
The Company historically performed its impairment evaluation as of June 30 of each fiscal year. During the third quarter of fiscal year 2017, the Company voluntarily changed its annual impairment assessment date from June 30 to July 1. The change in evaluation date better aligned with the Company's budget and strategic planning cycle. This voluntary change in accounting principle was not made to delay, accelerate or avoid an impairment charge. The change was not applied retrospectively as it was impracticable to do so because retrospective application would have required the application of significant estimates and assumptions with the use of hindsight. Accordingly, the change was applied prospectively. This change has no direct or indirect financial statement impact to the years ended September 30, 2017, 2016 or 2015. No goodwill impairment was recognized during the years ended September 30, 2017, 2016 or 2015.
The Company performed its goodwill impairment assessment on the basis of one reporting unit. A quantitative analysis using three methods; market multiple, comparable transaction, and discounted cash flow were applied in the assessment. The average of the values calculated under the three methods determined a range of equity value. For the discounted cash flow method, the income growth was projected for the reporting unit over three years and a terminal value was computed. Assumptions used in the discounted cash flow method were based on growth rates, volatility, discount rate and the equity risk premium inherent in the Company's current stock prices. These assumptions are considered significant unobservable inputs and represent the Company's best estimate of assumptions that market participants would use to determine fair value of the reporting unit.

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Core Deposits and Other Intangibles
Intangible assets consist of core deposits, brand intangible, customer relationships, and other intangibles. Core deposits represent the identifiable intangible value assigned to core deposit bases arising from purchase acquisitions. Brand intangible represents the value associated with the Bank charter. Customer relationships intangible represents the identifiable intangible value assigned to customer relationships arising from a purchase acquisition. Other intangibles represent contractual franchise arrangements under which the franchiser grants the franchisee the right to perform certain functions within a designated geographical area.
The methods and lives used to amortize intangible assets are as follows:

Intangible	Method	Years
Core deposit	Straight-line or effective yield	5 - 10
Brand intangible	Straight-line	15
Customer relationships	Straight-line	8.5
Other intangibles	Straight-line	1.25 - 9.33

Intangible assets are evaluated for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. No intangible asset impairments were recognized during the years ended September 30, 2017, 2016 or 2015.
Loan Servicing Rights
The loan servicing rights asset recognized as part of the HF Financial acquisition was initially recorded at fair value. These servicing rights have subsequently been accounted for using the lower of cost or fair value method. Fair value is based on a valuation model that calculates the present value of estimated future net servicing income using key assumptions such as prepayment speeds and discount rate. The asset is amortized into mortgage banking income, net on the consolidated statements of income in proportion to and over the period of estimated net servicing income. Loan servicing rights are evaluated for impairment based upon the fair value of the rights as compared to the carrying amount. Impairment is determined by stratifying rights into groupings based on characteristics, such as interest rate, loan type and investor type. Impairment is recognized through a valuation allowance, to the extent that fair value is less than the carrying amount. If the Company later determines that all or a portion of the impairment no longer exists, a reduction of the allowance may be recorded as an increase to noninterest income. If the Company determines the impairment to be permanent, the valuation is written off against the loan servicing rights, which results in a new amortized balance. Changes in the valuation allowance are reported in mortgage banking income, net in the consolidated statements of income. The fair value of loan servicing rights is subject to significant fluctuations as a result of changes in estimated and actual prepayment speeds and default rates and losses. Estimating future cash flows on the underlying mortgages is a difficult analysis and requires judgment based on the best information available. Based on the Company's analysis of loan servicing rights, a valuation allowance of $0.07 million, $0.01 million and $0.00 million was recorded during the years ended September 30, 2017, 2016 and 2015, respectively.
Servicing fee income, which is reported in noninterest income, is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding balance or a fixed amount per loan and are recorded as income as earned. The amortization of loan servicing rights is netted against mortgage banking income, net in the consolidated statements of income.
Bank Owned Life Insurance (“BOLI”)
BOLI represents life insurance policies on the lives of certain Company officers or former officers for which the Company is the beneficiary. The carrying amount of bank owned life insurance consists of the initial premium paid plus increases in cash value less the carrying amount associated with any death benefits received. Death benefits paid in excess of the applicable carrying amount are recognized as income, which is exempt from income taxes.

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Derivatives
The Company maintains an overall interest rate risk management strategy that permits the use of derivative instruments to modify exposure to interest rate risk. The Company enters into interest rate swap contracts to offset the interest rate risk associated with borrowers who lock in long-term fixed rates (greater than or equal to 5 years to maturity) through a fixed rate loan. Generally, under these swaps, the Company agrees with various swap counterparties to exchange the difference between fixed-rate and floating-rate interest amounts based upon notional principal amounts. These contracts do not qualify for hedge accounting. These interest rate derivative instruments are recognized as assets and liabilities on the consolidated balance sheets and measured at fair value, with changes in fair value reported in net realized and unrealized gain (loss) on derivatives. Since each fixed rate loan is paired with an offsetting derivative contract, the impact to net income is minimized. The Company also has back to back swaps with loan customers where the Company enters into an interest rate swap with loan customers to provide a facility to mitigate the interest rate risk associated with offering a fixed rate and simultaneously enters into a swap with an outside third party that is matched in exact offsetting terms. The back to back swaps are recorded at fair value and recognized as assets and liabilities, depending on the rights or obligations under the contract, in fair value of derivatives on the consolidated balance sheet, with changes in fair value reported in net realized and unrealized gain (loss) on derivatives.
In 2017 the Company began a new program of selling interest swaps directly to customers. These interest rate swaps sales are used to enable customers to achieve a long-term fixed rate by selling the customer a long-term variable rate loan indexed to LIBOR plus a credit spread whereby the bank enters into an interest rate swap with our customer where the customer pays a fixed rate of interest set at the time of origination on the interest rate swap and then the customer receives a floating rate equal to the rate paid on the loan, thus resulting in a fixed rate of interest over the life of the interest rate swap. The bank minimizes the market and liquidity risks of the swaps entered into with the customer by entering into an offsetting position with a swap dealer.

The Company enters into forward interest rate lock commitments on mortgage loans to be held for sale, which are commitments to originate loans whereby the interest rate on the loan is determined prior to funding. The Company also has corresponding forward sales contracts related to these interest rate lock commitments. Both the mortgage loan commitments and the related sales contracts are considered derivatives and are recorded at fair value with changes in fair value recorded in noninterest income.
Stock Based Compensation
Restricted and performance-based stock units/awards are classified as equity awards and accounted for under the treasury stock method. Compensation expense for non-vested stock units/awards is based on the fair value of the award on the measurement date, which, for the Company, is the date of the grant and is recognized ratably over the vesting or performance period of the award. The fair value of non-vested stock units/awards is generally the market price of the Company's stock on the date of grant.
In the third quarter of fiscal year 2017, the Company elected to early adopt ASU No. 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employees Share Based Payments Accounting. The Company had no previously unrecognized excess tax benefits, therefore, there was no impact to the consolidated financial statements as it related to the elimination of the requirement that excess tax benefits be realized before recognition. The Company's consolidated financial statements are presented as if ASU 2016-09 was adopted as of the beginning of the fiscal year, which resulted in a reclassification from additional paid-in capital to provision for income taxes of $0.3 million, $0.0 million and $0.0 million for the years ended September 30, 2017, 2016 and 2015, respectively. This change had an immaterial impact on diluted earnings per common share for the years ended September 30, 2017, 2016 and 2015. Prior period financial statement presentation of equity and tax expense as of and for the three month and fiscal year to date periods ended December 31, 2016 and March 31, 2017 will be recast when presented in future filings.
ASU 2016-09 also requires that all income tax related cash flows resulting from share-based payments be reported as operating activities in the statement of cash flows. Previously, income tax benefits at settlement of an award were

reported as a reduction to operating cash flows and an increase to financing cash flows to the extent that those benefits exceeded the income tax benefits reported in earnings during the award's vesting period. The Company has not previously reported any excess tax benefits from stock-based compensation in the financing activities section of the consolidated statement of cash flows. ASU 2016-09 also requires an employer to classify the cash paid to a tax authority when shares are withheld to satisfy its statutory income tax withholding obligation as a financing activity on the statement of cash flows (previous guidance did not specify how these cash flows should be classified). The Company has elected to apply these changes in cash flow classification on a prospective basis.

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As part of the adoption of ASU 2016-09, the Company made an accounting policy election to account for forfeitures on an actual basis and discontinue the use of an estimated forfeiture approach. The impact of this change was a cumulative effect adjustment of $0.3 million as an increase to the opening balance of total equity and an increase to deferred tax assets.

Income Taxes

Income tax expense includes two components: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over income. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax basis of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur. Deferred income tax expense results from changes in deferred tax assets and liabilities between periods.

Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

Tax benefits related to uncertain tax positions are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term "more likely than not" means a likelihood of more than 50 percent; the terms "examined" and "upon examination" also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information.

The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management’s judgment.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company-put presumptively beyond reach of the Company and its creditors, even in bankruptcy or other receivership, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

Securities sold under agreements to repurchase are accounted for as collateralized financing transactions and are recorded at amounts at which the securities were financed, plus accrued interest.

Defined Benefit Plan

The Company assumed plan sponsorship of the HF Financial Corp. Pension Plan as part of the HF Financial acquisition. Defined benefit pension obligation and related costs are calculated using actuarial concepts and measurements. Three critical assumptions, the discount rate, the expected long-term rate of return on plan assets, and mortality rates are important elements of expense and/or benefit obligation measurements. Other assumptions involve employee demographic factors such as retirement patterns and turnover. The Company evaluates all assumptions annually. For the pension valuation performed as of September 30, 2017 mortality assumptions were based on the RP-2014 mortality tables and the MP 2016 projection scales.

The discount rate enables the Company to state expected future benefit payments as a present value on the measurement date. The Company determined the discount rate for the pension valuation as of September 30, 2017 by utilizing the standard duration index from the Citi Pension Discount Curve and Liability Index. A lower discount rate increases the present value of benefit obligations and increases pension expense.

To determine expected long-term rate of return on defined benefit pension plan assets, the Company considers the current asset allocation of the defined benefit pension plan, as well as historical and expected returns on each asset class. A lower expected rate of return on defined pension plan assets will increase pension expense.

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The Company recognizes the over- or under-funded status of a plan as an other asset or other liability in the consolidated balance sheets as measured by the difference between the fair value of the plan assets and the projected benefit obligation. When recorded, unrecognized prior service costs and actuarial gains and losses are recognized as a component of accumulated other comprehensive income (loss).

Revenue Recognition

The Company recognizes revenue as it is earned based on contractual terms, as transactions occur, or as services are provided and collectability is reasonably assured. Certain specific policies related to service charges and other fees include the following:

Deposit Service Charges

Service charges on deposit accounts are primarily fees related to customer overdraft events and not sufficient funds fees, net of any refunded fees, and are recognized as transactions occur and services are provided. Service charges on deposit accounts also relate to monthly fees based on minimum balances, and are earned as transactions occur and services are provided.

Interchange Fees

Interchange fees include interchange income from consumer debit card transactions processed through card association networks. Interchange income is a fee paid by a merchant bank to the card-issuing bank through the interchange network. Interchange fees are set by the card association networks and are based on cardholder purchase volumes.

Wealth Management Fees

Wealth management fees include commission income from financial planning, investment management and insurance operations.

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income, net of applicable income taxes. Other comprehensive income (loss) consists of unrealized appreciation (depreciation) on available for sale securities and unrealized holding gains (losses) on defined benefit plan obligations.

New Accounting Pronouncements

In August 2017, the Financial Accounting Standards Board (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 May 2017, the Financial Accounting Standards Board (FASB) issued ASU 2017-09, Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting, which provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. Under ASU 2017-09, an entity will not apply modification accounting to a share-based payment award if all of the following are the same immediately before and after the change: (i) the award's fair value, (ii) the award's vesting conditions and (iii) the award's classification as an equity or liability instrument. ASU 2017-09 is to be applied prospectively to an award modified on or after the adoption date and will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Early adoption is permitted. The Company does not believe ASU 2017-09 will have a material impact on our consolidated financial statements.

In March 2017, the Financial Accounting Standards Board (FASB) issued ASU 2017-08, Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt

Securities, which shortens the amortization period for certain callable debt securities held at a premium to the earliest call date unless applicable guidance related to certain pools

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of securities is applied to consider estimated prepayments. Under prior guidance, entities were generally required to amortize premiums on individual, non-pooled callable debt securities as a yield adjustment over the contractual life of the security. There is no accounting change for debt securities held at a discount. ASU 2017-08 will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018, with early adoption permitted. The Company is currently evaluating the potential impact of ASU 2017-08 on our consolidated financial statements.

In March 2017, the FASB issued ASU 2017-07, Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost, which requires an employer to report the service cost component in the same line item as other compensation costs arising from services rendered by employees in the income statement with the other components of the net benefit cost presented below the income from operations line in the income statement. ASU 2017-07 will be effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017, with early adoption permitted as of the beginning of the annual period. The Company is currently evaluating the potential impact of ASU 2017-07 on our consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment, which eliminates Step 2 from the goodwill impairment test. Under this ASU, an entity should perform its annual or interim goodwill impairment test by comparing the fair value of the reporting unit with its carrying amount, and should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value with the loss not exceeding the total amount of goodwill allocated to that reporting unit. ASU 2017-04 will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted. We elected to adopt the provisions of ASU 2017-04 in the fourth quarter of fiscal year 2017 in advance of the required application date. See Note 1 - Nature of Operations and Summary of Significant Policies - Goodwill for further discussion.

In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business, which contains amendments that clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. Under the current implementation guidance in Topic 805, there are three elements of a business: inputs, processes, and outputs. While an integrated set of assets and activities (collectively referred to as a “set”) that is a business usually has outputs, outputs are not required to be present. In addition, all the inputs and processes that a seller uses in operating a set are not required if market participants can acquire the set and continue to produce outputs. ASU 2017-01 amendments provide a screen to determine when a set is not a business. If the screen is not met, the amendments (1) require that to be considered a business, a set must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output and (2) remove the evaluation of whether a market participant could replace missing elements. ASU 2017-01 provides a framework to assist entities in evaluating whether both an input and a substantive process are present. The amendments in ASU 2017-01 are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017 and should be applied prospectively. No disclosures are required at transition. The Company has determined that ASU 2017-01 is not expected to have a material impact on the Company’s consolidated financial statements; however, the Company will continue to closely monitor developments and additional guidance.

In October 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-17, Consolidation (Topic 810): Interests held through Related Parties that are under Common Control, which alters how a decision maker needs to consider indirect interests in a variable interest entity held through an entity under common control and simplifies that analysis to require consideration of only an entity’s proportionate indirect interest in a VIE held through a common control party. ASU 2016-17 amends ASU 2015-02, Consolidations (Topic 810): Amendments to the Consolidation Analysis, which was not effective for the Company in the current fiscal year. ASU 2016-17 will be 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 2016-17 will have an impact on our consolidated financial statements.

In October 2016, the FASB issued ASU No. 2016-16, Income Taxes (Topic 740): Intra-Equity Transfers of Assets Other Than Inventory, which addresses improvement in accounting for income tax consequences of intra-equity transfers of assets other than inventory. This update requires that an entity recognize the income tax consequences of the intra-equity transfer of an asset other than inventory when the transfer occurs. The update eliminates the exception for an intra-equity transfer for assets other than inventory. ASU 2016-16 will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted. The amendment requires the use of a modified retrospective transaction approach through a cumulative effect adjustment directly to retained earnings as of the beginning of adoption. The Company does not believe ASU 2016-16 will have an impact on our consolidated financial statements.

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In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force), which addresses eight specific cash flow issues with the objective of reducing the existing diversity in presentations and classification in the statement of cash flows. The eight specific cash flow issues addressed include: debt prepayment or debt extinguishment costs; settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies; distributions received from equity method investees; beneficial interests in securitization transactions; and separately identifiable cash flows and application of the predominance principle. ASU 2016-15 will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted. The amendment requires the use of the retrospective transaction approach for adoption. The Company does not believe ASU 2016-15 will have a material impact on our consolidated financial statements.

In June 2016, the FASB issued ASU No. 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. The ASU 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. The ASU 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 currently evaluating the potential impact on our consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, Compensation - Stock Based Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting, which includes provisions intended to simplify various aspects related to how share-based payments are accounted for and presented in the financial statements. Some of the key provisions of this new ASU include: (1) companies will no longer record excess tax benefits and certain tax deficiencies in additional paid-in capital (“APIC”). Instead, they will record all excess tax benefits and tax deficiencies as income tax expense or benefit in the income statement, and APIC pools will be eliminated. The guidance also eliminates the requirement that excess tax benefits be realized before companies can recognize them. In addition, the guidance requires companies to present excess tax benefits as an operating activity on the statement of cash flows rather than as a financing activity; (2) increase the amount an employer can withhold to cover income taxes on awards and still qualify for the exception to liability classification for shares used to satisfy the employer’s statutory income tax withholding obligation. The new guidance will also require an employer to classify the cash paid to a tax authority when shares are withheld to satisfy its statutory income tax withholding obligation as a financing activity on its statement of cash flows (current guidance did not specify how these cash flows should be classified); and (3) permit companies to make an accounting policy election for the impact of forfeitures on the recognition of expense for share-based payment awards. Forfeitures can be estimated, as required today, or recognized when they occur. ASU 2016-09 is effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. Earlier application is permitted. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity that elects early adoption must adopt all of the amendments in the same period. We elected to adopt the provisions of ASU 2016-09 in the third quarter of fiscal year 2017 in advance of the required application date. See Note 1 - Nature of Operations and Summary of Significant Accounting Policies - Stock Based Compensation for further discussion.

In February 2016, the FASB issued ASU No. 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.
In January 2016, the FASB issued ASU No. 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

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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 will be 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 No. 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 No. 2015-14 which deferred the effective date of ASU No. 2014-09 to annual reporting periods beginning after December 15, 2017. In March 2016, the FASB issued ASU No. 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 No. 2016-10, which clarifies guidance pertaining to the identification of performance obligations and the licensing implementation. In May 2016, the FASB issued ASU Nos. 2016-11 and 2016-12, which further clarify guidance and provide practical expedients related to the adoption of ASU No. 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. Based on this preliminary analysis, we do not anticipate significant changes as a result of implementing the standard, but will conclude on the quantitative and qualitative impacts once we have completed our review of key contracts for any in-scope items over the coming months.

2. Acquisition Activity

On May 16, 2016, the Company acquired by merger 100% of HF Financial Corp ("HF Financial"), the holding company of Home Federal Bank. Under terms of the agreement, HF Financial's stockholders had the right to receive for each share of HF Financial common stock, at their election (but subject to proration in the event cash or stock is oversubscribed), either (i) 0.6500 share of the Company's common stock, or (ii) $19.50 in cash. The total consideration was prorated as necessary to ensure that 24.29% of the total outstanding shares of HF Financial common stock were exchanged for cash and 75.71% of the total outstanding shares of HF Financial common stock were exchanged for shares of the Company's common stock. The total merger consideration of $142.0 million was paid by the Company in the acquisition, which resulted in goodwill of $41.2 million, as shown in the table below. With this acquisition, the Company expanded its presence in South Dakota and into North Dakota and Minnesota through the addition of 23 bank offices and experienced in-market teams. The following summarizes consideration paid and an allocation of purchase price to net assets acquired.

	Number of Shares	Amount
		(dollars in thousands)
Equity consideration:		

Common stock issued	3,448,119	$ 107,478
Non-equity consideration:		
Cash		34,487
Total consideration paid		141,965
Fair value of net assets acquired including identifiable intangible assets		100,749
Goodwill		$ 41,216

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As of the acquisition date, goodwill of $41.2 million arose from the acquisition as a result of consideration in excess of net assets acquired. No goodwill is expected to be deductible for income tax purposes. The fair value of intangible assets created in the acquisition was $14.5 million related to core deposits and other intangible assets and loan servicing rights. During the fourth quarter of 2016, the Company obtained additional information regarding the valuation of the deferred tax assets, which resulted in an increase in goodwill recognized in the transaction of $0.6 million. There were no adjustments to current period income statement as a result of the adjustment.
The following table summarizes the assets acquired and liabilities assumed which were recorded on the consolidated balance sheet as of the date of merger of HF Financial:

	Fair Value (dollars in thousands)
Identifiable assets acquired:	
Cash and cash equivalents	$18,818
Investment securities	165,052
Loans	863,741
Premises and equipment	19,220
Accrued interest receivable	4,117
Other repossessed property	4
Intangible assets	7,877
Loan servicing rights	6,573
Other assets	36,076
Total identifiable assets acquired	$1,121,478
Liabilities assumed:	
Deposits	$863,121
FHLB advances and other borrowings	115,881
Subordinated debentures	21,110
Other liabilities	20,617
Total liabilities assumed	1,020,729
Fair value of net identifiable assets acquired	100,749
Net purchase price	141,965
Goodwill	$41,216

The Company accounted for the aforementioned business combination under the acquisition method in accordance with ASC Topic 805, Business Combinations. Accordingly, the purchase price is allocated to the fair value of the assets acquired and liabilities assumed as of the date of acquisition. The Company has made all final adjustments to the purchase price allocation and retrospectively adjusted goodwill recorded. Material adjustments to acquisition date estimated fair values would be recorded in the reporting period in which the adjustment amounts are determined. Determining the fair value of assets and liabilities, particularly illiquid assets and liabilities, is a complicated process involving significant judgment regarding estimates and assumptions used to calculate estimated fair value. Fair value adjustments based on updated estimates could materially affect the goodwill recorded on the acquisition. The Company may incur losses on the acquired loans that are materially different from losses the Company originally projected.
The results of the merged HF Financial operations are presented within the Company’s consolidated financial statements from the acquisition date. Acquisition-related transaction expenses associated with the HF Financial acquisition totaled $0.7 million, $15.7 million and $0.0 million for the fiscal years ended September 30, 2017, 2016 and 2015, respectively.

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Supplemental pro forma information (unaudited)
The following unaudited pro forma combined results of operations of the Company and HF Financial presents results as if the acquisition had been completed as of the beginning of each period indicated. The unaudited pro forma combined results of operations are presented solely for information purposes and are not intended to represent or be indicative of the consolidated results of operations that the Company would have reported had this transaction been completed as of the dates and for the periods presented, nor are they necessarily indicative of future results. In particular, no adjustments have been made to eliminate the amount of HF Financial's provision for loan and lease losses incurred prior to the acquisition date that would not have been necessary had the acquired loans been recorded at fair value as of the beginning of each period indicated. In accordance with Article 11 of SEC Regulation S-X, transaction costs directly attributable to the acquisition have been excluded.

	For the Year Ended September 30,		
	2017	2016	2015
	(Unaudited, dollars in thousands, except per share data)		
Net interest income	$396,347	$386,454	$370,778
Net income	144,786	126,286	114,731
Basic earnings per share	2.46	2.23	2.00
Fully diluted earnings per share	2.45	2.23	2.00

In the acquisition, the Company acquired $863.7 million of loans at fair value, net of $28.5 million, or 3.30%, estimated discount to the outstanding principal balance. Of the total loans acquired, management identified $65.4 million that were considered to be credit impaired and are accounted for under ASC Topic 310-30. The table below summarizes the total contractually required principal and interest cash payments, management's estimate of expected total cash payments and fair value of the loans as of acquisition date for purchased credit impaired loans. Contractually required principal and interest payments have been adjusted for estimated prepayments.

	Amount		
	(Unaudited, dollars in thousands)		
Contractually required principal and interest	$	83,710	
Non-accretable difference	(28,516		)
Cash flows expected to be collected	55,194		
Accretable yield	(3,662		)
Total purchased credit impaired loans acquired	$	51,532	

The following table presents the acquired loan data for the HF Financial acquisition.

	Fair Value of Acquired Loans at Acquisition Date	Gross Contractual Amounts Receivable at Acquisition Date	Best Estimate at Acquisition Date of Contractual Cash Flows Not Expected to

			be Collected
	(Unaudited, dollars in thousands)		
Acquired receivables subject to ASC 310-30	$51,532	$ 83,710	$ 28,516
Acquired receivables not subject to ASC 310-30	812,209	998,255	9,572

3. Restrictions on Cash and Cash Equivalents

The Company is required to maintain reserve balances in cash and on deposit with the Federal Reserve based on a percentage of transactional deposits. The total requirement was approximately $26.9 million and $94.9 million at September 30, 2017 and 2016, respectively.

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4. 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 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 National Mortgage Association	339,394	97	(2,534)	336,957
Small Business Assistance Program	224,005	726	(1,001)	223,730
States and political subdivision securities	73,041	187	(642)	72,586
Corporate debt securities	—	—	—	—
Other	1,006	28	—	1,034
Total	$1,376,942	$ 1,845	$(10,827)	$1,367,960

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(dollars in thousands)			
As of September 30, 2016				
U.S. Treasury securities	$227,007	$ 3,973	$ —	$230,980
Mortgage-backed securities:				
Government National Mortgage Association	664,529	3,172	(1,922)	665,779
Federal National Mortgage Association	210,933	1,324	—	212,257
Small Business Assistance Program	142,921	2,362	—	145,283
States and political subdivision securities	55,525	123	(164)	55,484
Corporate debt securities	4,998	24	—	5,022
Other	1,006	49	—	1,055
Total	$1,306,919	$ 11,027	$ (2,086)	$1,315,860

The amortized cost and approximate fair value of debt securities available for sale as of September 30, 2017 and 2016, 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 penalty.

	September 30, 2017		September 30, 2016	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
	(dollars in thousands)			
Due in one year or less	$91,535	$91,597	$3,706	$3,709
Due after one year through five years	193,117	193,373	262,333	266,312
Due after five years through ten years	16,306	16,097	21,369	21,343
Due after ten years	122	122	122	122
	301,080	301,189	287,530	291,486
Mortgage-backed securities	1,074,856	1,065,737	1,018,383	1,023,319
Securities without contractual maturities	1,006	1,034	1,006	1,055
Total	$1,376,942	$1,367,960	$1,306,919	$1,315,860

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Proceeds from sales of securities available for sale were $5.1 million, $145.9 million and $105.2 million for the years ended September 30, 2017, 2016 and 2015 respectively. Gross gains (pre-tax) of $0.1 million, $0.5 million and $0.8 million and gross losses (pre-tax) of $0.0 million, $0.0 million and $0.5 million were realized on the sales for the years ended September 30, 2017, 2016 and 2015, respectively, using the specific identification method. The Company recognized no other-than-temporary impairment for the year ended September 30, 2017. The Company recognized an other-than-temporary impairment included in net gain on sale of securities in the consolidated statements of income of $0.4 million on two security holdings attributable to credit for the year ended September 30, 2016. There was no other-than-temporary impairment recognized for the year ended September 30, 2015.
Securities with an estimated fair value of approximately $951.4 million and $971.3 million at September 30, 2017 and 2016, 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 68% and 25% of the Company's investment portfolio at September 30, 2017 and 2016, 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 September 30, 2017 or 2016.
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 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)
Total	$667,677	$(5,637)	$267,141	$(5,190)	$934,818	$(10,827)

	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, 2016						
U.S. Treasury securities	$—	$—	$—	$—	$—	$—
Mortgage-backed securities	17,528	(6)	284,995	(1,916)	302,523	(1,922)
States and political subdivision securities	27,933	(164)	—	—	27,933	(164)
Total	$45,461	$(170)	$284,995	$(1,916)	$330,456	$(2,086)

As of September 30, 2017 and 2016, the Company had 249 and 110 securities, respectively, in an unrealized loss position.

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5. Loans
The composition of net loans as of September 30, 2017 and 2016 is as follows:

	September 30,	
	2017	2016
	(dollars in thousands)	
Commercial real estate	$4,124,805	$3,754,107
Agriculture	2,122,138	2,168,937
Commercial non-real estate	1,718,914	1,673,166
Residential real estate	932,892	1,020,958
Consumer	66,559	76,273
Other	43,207	42,477
Ending balance	9,008,515	8,735,918
Less: Unamortized discount on acquired loans	(29,121)	(39,947)
Unearned net deferred fees and costs and loans in process	(10,841)	(13,327)
Total	$8,968,553	$8,682,644

The loan breakouts above include loans covered by FDIC loss sharing agreements totaling $57.5 million and $73.3 million as of September 30, 2017 and 2016, respectively, residential real estate loans held for sale totaling $7.5 million and $12.9 million at September 30, 2017 and 2016, respectively, and $1.02 billion and $1.13 billion of loans accounted for at fair value as of September 30, 2017 and 2016, respectively.
Unearned net deferred fees and costs totaled $11.6 million and $8.6 million as of September 30, 2017 and 2016, 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 $(0.8) million and $4.7 million as of September 30, 2017 and 2016, respectively.
Loans guaranteed by agencies of the U.S. government totaled $168.3 million and $120.0 million at September 30, 2017 and 2016, respectively.
Principal balances of residential real estate loans sold totaled $280.5 million and $291.2 million for the years ended September 30, 2017 and 2016, respectively.
Nonaccrual
The following table presents the Company's nonaccrual loans at September 30, 2017 and 2016, excluding ASC 310-30 loans. Loans greater than 90 days past due and still accruing interest as of September 30, 2017 and 2016 were $1.9 million and $2.0 million, respectively.

	September 30,	
	2017	2016
Nonaccrual loans	(dollars in thousands)	
Commercial real estate	$14,693	$13,870
Agriculture	99,325	66,301
Commercial non-real estate	13,674	27,280
Residential real estate	4,421	5,962
Consumer	112	223
Total	$132,225	$113,636

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Notes to Consolidated Financial Statements

Credit Quality Information
The composition of the loan portfolio by internally assigned grade is as follows as of September 30, 2017 and 2016. 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 $1.02 billion for 2017 and $1.13 billion for 2016:

As of September 30, 2017	Commercial Real Estate	Agriculture	Commercial Non-Real Estate	Residential Real Estate	Consumer	Other	Total
Credit Risk Profile by Internally Assigned Grade	(dollars in thousands)						
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 FDIC loss sharing agreements	—	—	—	57,537	—	—	57,537
Total	$3,638,032	$1,865,882	$1,426,960	$922,571	$66,166	$43,207	$7,962,818

As of September 30, 2016	Commercial Real Estate	Agriculture	Commercial Non-Real Estate	Residential Real Estate	Consumer	Other	Total
Credit Risk Profile by Internally Assigned Grade	(dollars in thousands)						
Grade:							
Pass	$3,276,048	$1,514,344	$1,093,913	$919,224	$75,065	$42,477	$6,921,071
Watchlist	81,148	204,326	37,283	4,741	110	—	327,608
Substandard	57,415	130,569	42,319	10,885	417	—	241,605
Doubtful	147	630	395	130	—	—	1,302
Loss	—	—	—	—	—	—	—
Ending balance	3,414,758	1,849,869	1,173,910	934,980	75,592	42,477	7,491,586
Loans covered by FDIC loss sharing agreements	—	—	—	73,272	—	—	73,272
Total	$3,414,758	$1,849,869	$1,173,910	$1,008,252	$75,592	$42,477	$7,564,858

Past Due Loans
The following table presents the Company’s past due loans at September 30, 2017 and 2016. 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 $1.02 billion for 2017 and $1.13 billion for 2016.

	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Current	Total Financing Receivables
As of September 30, 2017	(dollars in thousands)					
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 FDIC loss sharing agreements						