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

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

Form 10-Q

(Mark One)

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer", "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

Smaller reporting company o Emerging growth company o

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

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

As of February 1, 2018, the number of shares of the registrant’s Common Stock outstanding was 58,896,189.

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

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

- “we,” “our,” “us” and our “company” refers to Great Western Bancorp, Inc., a Delaware corporation, and its consolidated subsidiaries.
- “our bank” refers to Great Western Bank, a South Dakota banking corporation;
- “NAB” refers to National Australia Bank Limited, an Australian public company that was our ultimate parent company prior to our initial public offering in October 2014 and, until July 31,2015, was our principal stockholder;
- our “states” refers to the nine states (Arizona, Colorado, Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota and South Dakota) in which we currently conduct our business; 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 Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. These forward-looking statements reflect our current views with respect to, among other things, future events and our financial performance. These statements are often, but not always, made through the use of words or phrases such as “anticipates,” “believes,” “can,” “could,” “may,” “predicts,” “potential,” “should,” “will,” “ “plans,” “projects,” “continuing,” “ongoing,” “expects,” "views," “intends” and similar words or phrases. These forward-lookin statements are not historical facts, and are based on current expectations, estimates and projections about our industry, management’s beliefs and certain assumptions made by management, many of which, by their nature, are inherently uncertain and beyond our control. Accordingly, we caution you that any such forward-looking statements are not guarantees of future performance and are subject to risks, assumptions, estimates and uncertainties that are difficult to predict. Although we believe that the expectations reflected in these forward-looking statements are reasonable as of the date made, actual results may prove to be materially different from the results expressed or implied by the forward-looking statements.

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

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

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

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

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

	(Unaudited) December 31, 2017	September 30, 2017
Assets		
Cash and due from banks	$189,907	$170,657
Interest-bearing bank deposits	107,689	189,739
Cash and cash equivalents	297,596	360,396
Securities available for sale	1,366,641	1,367,960
Loans, net of unearned discounts and deferred fees, including $53,388 and $57,537 of loans covered by FDIC loss share agreements at December 31, 2017 and September 30, 2017, respectively, and $980,144 and $1,016,576 of loans at fair value under the fair value option at December 31, 2017 and September 30, 2017, respectively, and $5,757 and $7,456 of loans held for sale at December 31, 2017 and September 30, 2017, respectively	9,165,373	8,968,553
Allowance for loan and lease losses	(64,023)	(63,503)
Net loans	9,101,350	8,905,050
Premises and equipment, including $1,111 and $5,147 of property held for sale at December 31, 2017 and September 30, 2017, respectively	107,731	112,209
Accrued interest receivable	54,817	53,176
Other repossessed property, including $86 and $0 of property covered by FDIC loss share agreements at December 31, 2017 and September 30, 2017, respectively	10,486	8,985
Goodwill	739,023	739,023
Cash surrender value of life insurance policies	29,823	29,619
Net deferred tax assets	28,548	42,400
Other assets	70,566	71,193
Total assets	$11,806,581	$11,690,011
Liabilities and stockholders’ equity		
Deposits		
Noninterest-bearing	$1,932,080	$1,856,126
Interest-bearing	7,092,105	7,121,487
Total deposits	9,024,185	8,977,613
Securities sold under agreements to repurchase	116,884	132,636
FHLB advances and other borrowings	721,009	643,214
Subordinated debentures and subordinated notes payable	108,343	108,302
Accrued expenses and other liabilities	68,287	73,246
Total liabilities	10,038,708	9,935,011
Stockholders’ equity		
Common stock, $0.01 par value, authorized 500,000,000 shares; 58,896,189 shares issued and outstanding at December 31, 2017 and 58,834,066 shares issued and outstanding at September 30, 2017	588	588
Additional paid-in capital	1,314,723	1,314,039
Retained earnings	463,207	445,747
Accumulated other comprehensive (loss)	(10,645)	(5,374)
Total stockholders' equity	1,767,873	1,755,000
Total liabilities and stockholders' equity	$11,806,581	$11,690,011

See accompanying notes.

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

	Three Months Ended	
	December 31, 2017	December 31, 2016
Interest and dividend income		
Loans	$107,680	$ 99,932
Taxable securities	6,494	5,878
Nontaxable securities	260	199
Dividends on securities	289	300
Federal funds sold and other	231	346
Total interest and dividend income	114,954	106,655
Interest expense		
Deposits	10,998	7,290
Securities sold under agreements to repurchase	95	115
FHLB advances and other borrowings	2,069	1,271
Subordinated debentures and subordinated notes payable	1,170	1,088
Total interest expense	14,332	9,764
Net interest income	100,622	96,891
Provision for loan and lease losses	4,557	7,049
Net interest income after provision for loan and lease losses	96,065	89,842
Noninterest income		
Service charges and other fees	13,178	13,837
Wealth management fees	2,185	2,254
Mortgage banking income, net	1,660	2,662
Net (loss) on sale of securities	(1)	—
Net (decrease) in fair value of loans at fair value	(8,665)	(64,001)
Net realized and unrealized gain on derivatives	7,227	58,976
Other	1,090	1,930
Total noninterest income	16,674	15,658
Noninterest expense		
Salaries and employee benefits	32,868	31,634
Data processing	5,896	5,677
Occupancy expenses	4,002	4,024
Professional fees	4,240	2,835
Communication expenses	988	1,040
Advertising	1,059	975
Equipment expense	846	798
Net loss recognized on repossessed property and other related expenses	214	658
Amortization of core deposits and other intangibles	426	839
Acquisition expenses	—	710
Other	4,329	3,347
Total noninterest expense	54,868	52,537
Income before income taxes	57,871	52,963
Provision for income taxes	28,641	16,060
Net income	$29,230	$ 36,903
Basic earnings per common share		
Weighted average shares outstanding	58,902,629	58,750,522
Basic earnings per share	$0.50	$ 0.63

Diluted earnings per common share		
Weighted average shares outstanding	59,087,729	58,991,905
Diluted earnings per share	$ 0.49	$ 0.63
Dividends per share		
Dividends paid	$ 11,770	$ 9,981
Dividends per share	$ 0.20	$ 0.17

See accompanying notes.

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

	Three Months Ended	
	December 31, 2017	December 31, 2016
Net income	$29,230	$36,903
Other comprehensive (loss), net of tax:		
Securities available for sale:		
Net unrealized holding (loss) arising during the year	(8,645)	(21,468)
Reclassification adjustment for net loss realized in net income	1	—
Income tax benefit	3,283	8,158
Net change in unrealized (losses) on securities available for sale	(5,361)	(13,310)
Defined benefit pension plan obligation:		
Net unrealized holding gain arising during the year	145	—
Income tax (expense)	(55)	—
Net change in defined benefit pension plan obligation	90	—
Other comprehensive (loss), net of tax	(5,271)	(13,310)
Comprehensive income	23,959	23,593

See accompanying notes.

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

	Comprehensive Income	Common Stock Par Value	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, September 30, 2016		$ 587	$1,312,347	$344,923	$ 5,534	$1,663,391
Net income	$ 36,903	—	—	36,903	—	36,903
Other comprehensive (loss), net of tax	(13,310)	—	—	—	(13,310)	(13,310)
Total comprehensive income	$ 23,593					
Stock-based compensation, net of tax		—	1,635	—	—	1,635
Cash dividends:						
Common stock, $0.17 per share		—	—	(9,981)	—	(9,981)
Balance, December 31, 2016		$ 587	$1,313,982	$371,845	$ (7,776)	$1,678,638
Balance, September 30, 2017		$ 588	$1,314,039	$445,747	$ (5,374)	$1,755,000
Net income	$ 29,230	—	—	29,230	—	29,230
Other comprehensive (loss), net of tax	(5,271)	—	—	—	(5,271)	(5,271)
Total comprehensive income	$ 23,959					
Stock-based compensation, net of tax		—	684	—	—	684
Cash dividends:						
Common stock, $0.20 per share		—	—	(11,770)	—	(11,770)
Balance, December 31, 2017		$ 588	$1,314,723	$463,207	$ (10,645)	$1,767,873

See accompanying notes.

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

	Three months ended	
	December 31, 2017	December 31, 2016
Operating activities		
Net income	$29,230	$36,903
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,514	3,990
Amortization of FDIC indemnification asset	1,018	867
Net loss on sale of securities	1	—
Gain on redemption of subordinated debentures	—	(111)
Net gain on sale of loans	(1,935)	(3,165)
Net loss on FDIC indemnification asset	224	211
Net loss on sale of premises and equipment	79	9
Net loss from sale/writedowns of repossessed property	214	658
Provision for loan and lease losses	4,557	7,049
Reversal of provision for loan servicing rights loss	(38)	(5)
Stock-based compensation	684	1,635
Originations of residential real estate loans held for sale	(48,476)	(87,868)
Proceeds from sales of residential real estate loans held for sale	52,110	94,866
Net deferred income taxes	17,226	(817)
Changes in:		
Accrued interest receivable	(1,641)	174
Other assets	2,574	(524)
FDIC clawback liability	206	267
Accrued interest payable and other liabilities	(2,212)	(62,884)
Net cash provided by (used in) operating activities	57,335	(8,745)
Investing activities		
Purchase of securities available for sale	(55,865)	(144,530)
Proceeds from sales of securities available for sale	164	—
Proceeds from maturities of securities available for sale	47,125	67,468
Net increase in loans	(205,929)	(105,771)
Payment of covered losses from FDIC indemnification claims	(230)	(188)
Purchase of premises and equipment	(1,469)	(940)
Proceeds from sale of premises and equipment	3,993	1
Proceeds from sale of repossessed property	1,956	2,641
Purchase of FHLB stock	(17,020)	(3,000)
Proceeds from redemption of FHLB stock	13,969	9,512
Net cash used in investing activities	(213,306)	(174,807)
Financing activities		
Net increase in deposits	46,659	101,663
Net (decrease) increase in securities sold under agreements to repurchase and other short-term borrowings	(15,752)	1,053
Proceeds from FHLB advances and other long-term borrowings	665,000	24,999
Repayments on FHLB advances and other long-term borrowings	(587,200)	(185,000)
Redemption of subordinated debentures	—	(3,625)
Taxes paid related to net share settlement of equity awards	(3,766)	—
Dividends paid	(11,770)	(9,981)

Net cash provided by (used in) financing activities	93,171	(70,891)
Net decrease in cash and cash equivalents	(62,800)	(254,443)
Cash and cash equivalents, beginning of period	360,396	524,611
Cash and cash equivalents, end of period	$297,596	$270,168
Supplemental disclosure of cash flow information		
Cash payments for interest	$12,599	$9,246
Cash payments for income taxes	$1,117	$10,574
Supplemental disclosure of noncash investing and financing activities		
Loans transferred to repossessed properties	$(3,671)	$(1,110)

See accompanying notes.

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

1. Nature of Operations and Summary of Significant Policies

Nature of Operations

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

Basis of Presentation

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

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

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

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

FDIC Indemnification Asset and Clawback Liability

FDIC Indemnification assets are included in other assets on the consolidated balance sheets.

Core Deposits and Other Intangibles

Core deposits and other intangibles are included in other assets in the consolidated balance sheets.

Loan Servicing Rights

Loan servicing rights are included in other assets in the consolidated balance sheets.

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 other assets or other 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 on the consolidated statements of income. 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 other assets or other liabilities, depending on the rights or obligations under the contract, on the consolidated balance sheet, with changes in fair value reported in net realized and unrealized gain (loss) on derivatives on the consolidated statements of income.

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

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 and included in other assets or other liabilities on the consolidated balance sheets with changes in fair value offsetting each other in net realized and unrealized gain (loss) on derivatives on the consolidated statements of income.

Subsequent Events

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

On January 25, 2018, the Board of Directors of the Company declared a dividend of $0.20 per common share payable on February 21, 2018 to stockholders of record as of close of business on February 9, 2018.

Correction of Prior Period Balances

The consolidated statements of income for the quarter ended December 31, 2016 has been revised to correct an immaterial classification error in interest income and noninterest income related to credit card interchange income. As a result, the consolidated statements of income has been revised to reflect these changes, as follows:

	As originally reported	Adjustments	As revised
	(dollars in thousands)		
Three months ended December 31, 2016			
Interest income - loans	$101,683	$ (1,751)	$99,932
Noninterest income - service charges and other fees	12,086	1,751	13,837
Twelve months ended September 30, 2017			
Interest income - loans	$414,434	$ (7,152)	$407,282
Noninterest income - service charges and other fees	48,573	7,152	55,725
Twelve months ended September 30, 2016			
Interest income - loans	$370,444	$ (6,716)	$363,728
Noninterest income - service charges and other fees	46,209	6,716	52,925

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

2. New Accounting Pronouncements

In 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 March 2017, 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 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,

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

2018, with early adoption permitted. The Company early adopted ASU 2017-08 during the first quarter of fiscal year 2018. There was no cumulative effect adjustment necessary to the Company's 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 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 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.

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3. Securities Available for Sale

The amortized cost and approximate fair value of investments in securities, all of which are classified as available for sale according to management's intent, are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(dollars in thousands)			
As of December 31, 2017				
U.S. Treasury securities	$228,302	$ 2	$ (527)	$227,777
Mortgage-backed securities:				
Government National Mortgage Association	481,441	94	(9,330)	472,205
Federal Home Loan Mortgage Corporation	203,561	—	(2,869)	200,692
Federal National Mortgage Association	161,958	—	(2,528)	159,430
Small Business Assistance Program	237,965	212	(1,838)	236,339
States and political subdivision securities	70,034	86	(943)	69,177
Other	1,006	15	—	1,021
Total	$1,384,267	$ 409	$ (18,035)	$1,366,641

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

The amortized cost and approximate fair value of debt securities available for sale as of December 31, 2017 and September 30, 2017, by contractual maturity, are shown below. Maturities of mortgage-backed securities may differ from contractual maturities because the mortgages underlying the securities may be called or repaid without penalty.

	December 31, 2017		September 30, 2017	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
	(dollars in thousands)			
Due in one year or less	$93,551	$93,461	$91,535	$91,597
Due after one year through five years	189,128	188,080	193,117	193,373
Due after five years through ten years	15,535	15,291	16,306	16,097
Due after ten years	122	122	122	122
	298,336	296,954	301,080	301,189
Mortgage-backed securities	1,084,925	1,068,666	1,074,856	1,065,737
Securities without contractual maturities	1,006	1,021	1,006	1,034
Total	$1,384,267	$1,366,641	$1,376,942	$1,367,960

Proceeds from sales of securities available for sale were $0.2 million for the three months ended December 31, 2017 and $0.0 million for the three months ended December 31, 2016. No gross gains (pre-tax) or gross losses (pre-tax) were realized on the sales for the three months ended December 31, 2017 and 2016 using the specific identification method. The Company recognized no other-than-temporary impairment for the three months ended December 31, 2017 and 2016.

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Securities with an estimated fair value of approximately $990.6 million and $951.4 million at December 31, 2017 and September 30, 2017, 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 90% and 68% of the Company's investment portfolio at estimated fair value at December 31, 2017 and September 30, 2017, respectively, are reported in the consolidated financial statements at an amount less than their amortized cost. Based on evaluation of available evidence, including recent changes in market interest rates, credit rating information, implicit or explicit government guarantees, and information obtained from regulatory filings, management believes the declines in fair value of these securities are temporary. As the Company does not intend to sell the securities and it is not more likely than not the Company will be required to sell the securities before the recovery of their amortized cost basis, which may be maturity, the Company does not consider the securities to be other-than-temporarily impaired at December 31, 2017 or September 30, 2017.

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 December 31, 2017						
U.S. Treasury securities	$183,651	$(415)	$19,133	$(112)	$202,784	$(527)
Mortgage-backed securities	184,096	(1,703)	787,256	(14,862)	971,352	(16,565)
States and political subdivision securities	5,198	(33)	54,253	(910)	59,451	(943)
Total	$372,945	$(2,151)	$860,642	$(15,884)	$1,233,587	$(18,035)

	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)

As of December 31, 2017 and September 30, 2017, the Company had 320 and 249 securities, respectively, in an unrealized loss position.

4. Loans

The composition of loans as of December 31, 2017 and September 30, 2017, is as follows:

	December 31, 2017	September 30, 2017
	(dollars in thousands)	
Commercial real estate	$4,295,696	$4,124,805
Agriculture	2,177,383	2,122,138
Commercial non-real estate	1,695,731	1,718,914

Residential real estate	924,439	932,892
Consumer	62,872	66,559
Other	45,805	43,207
Ending balance	9,201,926	9,008,515
Less: Unamortized discount on acquired loans	(26,536)	(29,121)
Unearned net deferred fees and costs and loans in process	(10,017)	(10,841)
Total	$9,165,373	$ 8,968,553

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The loan segments above include loans covered by FDIC loss sharing agreements totaling $53.4 million and $57.5 million as of December 31, 2017 and September 30, 2017, respectively, residential real estate loans held for sale totaling $5.8 million and $7.5 million at December 31, 2017 and September 30, 2017, respectively, and $980.1 million and $1.02 billion of loans accounted for at fair value at December 31, 2017 and September 30, 2017, respectively.
Unearned net deferred fees and costs totaled $11.9 million and $11.6 million as of December 31, 2017 and September 30, 2017, respectively.
Loans in process represent loans that have been funded as of the balance sheet dates but not classified into a loan category and loan payments received as of the balance sheet dates that have not been applied to individual loan accounts. Loans in process totaled $(1.9) million and $(0.8) million at December 31, 2017 and September 30, 2017, respectively.
Loans guaranteed by agencies of the U.S. government totaled $162.3 million and $168.3 million at December 31, 2017 and September 30, 2017, respectively.
Principal balances of residential real estate loans sold totaled $50.2 million and $91.7 million for the three months ended December 31, 2017 and 2016, respectively.

Nonaccrual

Interest income on loans is accrued daily on the outstanding balances. Accrual of interest is discontinued when management believes, after considering collection efforts and other factors, the borrower's financial condition is such that collection of interest is doubtful, which is 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 following table presents the Company's nonaccrual loans at December 31, 2017 and September 30, 2017, excluding ASC 310-30 loans. Loans greater than 90 days past due and still accruing interest as of December 31, 2017 and September 30, 2017, were $0.2 million and $1.9 million, respectively.

	December 31, 2017	September 30, 2017
	(dollars in thousands)	
Nonaccrual loans		
Commercial real estate	$33,816	$ 14,693
Agriculture	91,094	99,325
Commercial non-real estate	13,016	13,674
Residential real estate	4,068	4,421
Consumer	162	112
Total	$142,156	$ 132,225

Credit Quality Information

The Company assigns all non-consumer loans a credit quality risk rating. These ratings are Pass, Watch, Substandard, Doubtful, and Loss. Loans with a Pass and Watch rating represent those loans not classified on the Company's rating scale for problem credits, with loans with a Watch rating being monitored and updated at least quarterly by management. Substandard loans are those where a well-defined weakness has been identified that may put full collection of contractual debt at risk. Doubtful loans are those where a well-defined weakness has been identified and a loss of contractual debt is probable. Substandard and doubtful loans are monitored and updated monthly. All loan risk ratings are updated and monitored on a continuous basis. The Company generally does not risk rate 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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GREAT WESTERN BANCORP, INC.
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The composition of the loan portfolio by internally assigned grade is as follows as of December 31, 2017 and September 30, 2017. This table is presented net of unamortized discount on acquired loans and excludes loans measured at fair value with changes in fair value reported in earnings of $980.1 million at December 31, 2017 and $1.02 billion at September 30, 2017:

As of December 31, 2017	Commercial Real Estate	Agriculture	Commercial Non-Real Estate	Residential Real Estate	Consumer	Other	Total
	(dollars in thousands)						
Credit Risk Profile by Internally Assigned Grade							
Grade:							
Pass	$3,693,522	$1,669,121	$1,363,503	$849,854	$62,084	$45,805	$7,683,889
Watchlist	48,429	149,746	32,571	3,708	195	—	234,649
Substandard	72,183	117,824	22,177	7,495	250	—	219,929
Doubtful	198	29	3,031	133	—	—	3,391
Loss	—	—	—	—	—	—	—
Ending balance	3,814,332	1,936,720	1,421,282	861,190	62,529	45,805	8,141,858
Loans covered by FDIC loss sharing agreements	—	—	—	53,388	—	—	53,388
Total	$3,814,332	$1,936,720	$1,421,282	$914,578	$62,529	$45,805	$8,195,246

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

Past Due Loans

The following table presents the Company’s past due loans at December 31, 2017 and September 30, 2017. This table is presented net of unamortized discount on acquired loans and excludes loans measured at fair value with changes in fair value reported in earnings of $980.1 million at December 31, 2017 and $1.02 billion at September 30, 2017.

	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Current	Total Financing Receivables
	(dollars in thousands)					
As of December 31, 2017						
Commercial real estate	$5,571	$18,485	$11,134	$35,190	$3,779,142	$3,814,332

Agriculture	8,515	11,173	19,122	38,810	1,897,910	1,936,720
Commercial non-real estate	1,651	283	6,734	8,668	1,412,614	1,421,282
Residential real estate	3,733	954	1,572	6,259	854,931	861,190
Consumer	124	15	77	216	62,313	62,529
Other	—	—	—	—	45,805	45,805
Ending balance	19,594	30,910	38,639	89,143	8,052,715	8,141,858
Loans covered by FDIC loss sharing agreements	1,721	328	1,525	3,574	49,814	53,388
Total	$21,315	$ 31,238	$ 40,164	$92,717	$8,102,529	$8,195,246

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

Impaired Loans

The following table presents the Company's impaired loans. This table excludes purchased credit impaired loans and loans measured at fair value with changes in fair value reported in earnings of $980.1 million at December 31, 2017 and $1.02 billion at September 30, 2017:

	December 31, 2017			September 30, 2017		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
	(dollars in thousands)					
Impaired loans:						
With an allowance recorded:						
Commercial real estate	$17,503	$21,856	$ 3,168	$20,819	$24,893	$ 3,621
Agriculture	62,382	72,426	9,447	79,219	88,268	11,468
Commercial non-real estate	18,428	26,662	5,210	17,950	28,755	4,779
Residential real estate	5,713	6,469	2,731	5,177	5,874	2,581
Consumer	230	237	86	280	287	86
Total impaired loans with an allowance recorded	104,256	127,650	20,642	123,445	148,077	22,535
With no allowance recorded:						
Commercial real estate	53,783	93,231	—	16,652	69,677	—
Agriculture	54,806	60,690	—	51,256	64,177	—
Commercial non-real estate	13,415	22,835	—	13,983	38,924	—
Residential real estate	2,070	5,047	—	2,574	9,613	—
Consumer	15	134	—	13	950	—
Total impaired loans with no allowance recorded	124,089	181,937	—	84,478	183,341	—
Total impaired loans	$228,345	$309,587	$ 20,642	$207,923	$331,418	$ 22,535

The average recorded investment on impaired loans and interest income recognized on impaired loans for the three months ended December 31, 2017 and 2016, respectively, are as follows:

	Three Months Ended December 31, 2017		Three Months Ended December 31, 2016	
	Average Recorded	Interest Income	Average Recorded	Interest Income

	Investment	Recognized While on Impaired Status	Investment	Recognized While on Impaired Status
	(dollars in thousands)			
Commercial real estate	$54,379	$ 1,576	$52,022	$ 670
Agriculture	123,832	982	107,222	1,867
Commercial non-real estate	31,888	451	48,700	422
Residential real estate	7,767	165	10,056	114
Consumer	269	4	374	15
Total	$218,135	$ 3,178	$218,374	$ 3,088

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Valuation adjustments made to repossessed properties totaled $0.0 million and $0.4 million for the three months ended December 31, 2017 and 2016, respectively. The adjustments are included in noninterest expense.

Troubled Debt Restructurings

Included in certain loan categories in the impaired loans are troubled debt restructurings ("TDRs") that were classified as impaired. These TDRs do not include purchased credit impaired loans. When the Company grants concessions to borrowers such as reduced interest rates or extensions of loan periods that would not be considered other than because of borrowers' financial difficulties, the modification is considered a TDR. Specific reserves included in the allowance for loan and lease losses for TDRs were $6.9 million and $8.8 million at December 31, 2017 and September 30, 2017, respectively. There were no commitments to lend additional funds to borrowers whose loans were modified in a TDR as of December 31, 2017 and September 30, 2017.

The following table presents the recorded value of the Company's TDR balances as of December 31, 2017 and September 30, 2017:

	December 31, 2017		September 30, 2017	
	Accruing	Nonaccrual	Accruing	Nonaccrual
	(dollars in thousands)			
Commercial real estate	$621	$ 4,859	$1,121	$ 5,351
Agriculture	23,178	54,401	22,678	59,633
Commercial non-real estate	8,284	3,957	8,369	5,641
Residential real estate	258	808	311	688
Consumer	11	—	11	21
Total	$32,352	$ 64,025	$32,490	$ 71,334

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The following table presents a summary of all accruing loans restructured in TDRs during the three months ended December 31, 2017 and 2016, respectively:

	Three Months Ended December 31, 2017			Three Months Ended December 31, 2016		
		Recorded Investment			Recorded Investment	
	Number	Pre-Modification	Post-Modification	Number	Pre-Modification	Post-Modification
	(dollars in thousands)					
Commercial real estate						
Rate modification	—	$ —	$ —	—	$ —	$ —
Term extension	—	—	—	—	—	—
Payment modification	—	—	—	—	—	—
Bankruptcy	—	—	—	—	—	—
Other	—	—	—	—	—	—
Total commercial real estate	—	—	—	—	—	—
Agriculture						
Rate modification	—	—	—	—	—	—
Term extension	—	—	—	—	—	—
Payment modification	—	—	—	—	—	—
Bankruptcy	—	—	—	—	—	—
Other	—	—	—	—	—	—
Total agriculture	—	—	—	—	—	—
Commercial non-real estate						
Rate modification	—	—	—	—	—	—
Term extension	—	—	—	—	—	—
Payment modification	—	—	—	2	433	433
Bankruptcy	—	—	—	—	—	—
Other	—	—	—	—	—	—
Total commercial non-real estate	—	—	—	2	433	433
Residential real estate						
Rate modification	—	—	—	—	—	—
Term extension	—	—	—	—	—	—
Payment modification	—	—	—	1	9	9
Bankruptcy	—	—	—	—	—	—
Other	—	—	—	—	—	—
Total residential real estate	—	—	—	1	9	9
Consumer						
Rate modification	—	—	—	—	—	—
Term extension	—	—	—	—	—	—
Payment modification	—	—	—	—	—	—
Bankruptcy	—	—	—	—	—	—
Other	—	—	—	—	—	—
Total consumer	—	—	—	—	—	—
Total accruing	—	$ —	$ —	3	$ 442	$ 442
Change in recorded investment due to principal paydown at time of modification	—	$ —	$ —	—	$ —	$ —
	—	$ —	$ —	—	$ —	$ —

Change in recorded investment due to chargeoffs at time of modification

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The following table presents a summary of all non-accruing loans restructured in TDRs during the three months ended December 31, 2017 and 2016:

	Three Months Ended December 31, 2017			Three Months Ended December 31, 2016		
		Recorded Investment			Recorded Investment	
	Number	Pre-Modification	Post-Modification	Number	Pre-Modification	Post-Modification
	(dollars in thousands)					
Commercial real estate						
Rate modification	—	$ —	$ —	—	$ —	$ —
Term extension	—	—	—	—	—	—
Payment modification	—	—	—	—	—	—
Bankruptcy	—	—	—	—	—	—
Other	—	—	—	—	—	—
Total commercial real estate	—	—	—	—	—	—
Agriculture						
Rate modification	—	—	—	—	—	—
Term extension	—	—	—	—	—	—
Payment modification	—	—	—	—	—	—
Bankruptcy	—	—	—	—	—	—
Other	—	—	—	—	—	—
Total agriculture	—	—	—	—	—	—
Commercial non-real estate						
Rate modification	—	—	—	—	—	—
Term extension	—	—	—	—	—	—
Payment modification	—	—	—	—	—	—
Bankruptcy	—	—	—	—	—	—
Other	—	—	—	—	—	—
Total commercial non-real estate	—	—	—	—	—	—
Residential real estate						
Rate modification	—	—	—	—	—	—
Term extension	—	—	—	—	—	—
Payment modification	—	—	—	1	21	21
Bankruptcy	—	—	—	—	—	—
Other	—	—	—	—	—	—
Total residential real estate	—	—	—	1	21	21
Consumer						
Rate modification	—	—	—	—	—	—
Term extension	—	—	—	—	—	—
Payment modification	—	—	—	—	—	—
Bankruptcy	—	—	—	—	—	—
Other	—	—	—	—	—	—
Total consumer	—	—	—	—	—	—
Total non-accruing	—	$ —	$ —	1	$ 21	$ 21
Change in recorded investment due to principal paydown at time of modification	—	$ —	$ —	—	$ —	$ —
	—	$ —	$ —	—	$ —	$ —

Change in recorded investment due to chargeoffs at time of modification

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The table below represents loans that were modified as TDRs within the previous 12 months and for which there was a payment default for the three months ended December 31, 2017 and 2016, respectively.

	Three Months Ended December 31, 2017		Three Months Ended December 31, 2016	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
	(dollars in thousands)			
Commercial real estate	1	$ 3,230	1	$ 34
Agriculture	—	—	—	—
Commercial non-real estate	—	—	3	1,945
Residential real estate	—	—	—	—
Consumer	—	—	1	8
Total	1	$ 3,230	5	$ 1,987

A loan is considered to be in payment default once it is 90 days or more contractually past due under the modified terms. The table above includes loans that experienced a payment default during the period, but may be performing in accordance with the modified terms as of the balance sheet date. For the three months ended December 31, 2017 and 2016, there were $0.6 million and $0.0 million, respectively, of loans removed from TDR status as they were restructured at market terms and are performing.

5. Allowance for Loan and Lease Losses

The allowance for loan and lease losses is determined based on an ongoing evaluation, driven primarily by monitoring changes in loan risk grades, delinquencies, and other credit risk indicators, which 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.

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

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

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

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

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The following tables present the Company's allowance for loan and lease losses roll forward for the three months ended December 31, 2017 and 2016:

Three Months Ended December 31, 2017	Commercial Real Estate	Agriculture	Commercial Non-Real Estate	Residential Real Estate	Consumer	Other	Total
	(dollars in thousands)						
Beginning balance October 1, 2017	$16,941	$ 25,757	$ 14,114	$ 5,347	$ 329	$1,015	$63,503
Charge-offs	(329)	(2,198)	(1,239)	(255)	(54)	(534)	(4,609)
Recoveries	148	47	121	90	22	144	572
Provision	(755)	1,144	3,438	330	10	437	4,604
(Improvement) of ASC 310-30 loans	(10)	—	—	(37)	—	—	(47)
Ending balance December 31, 2017	$15,995	$ 24,750	$ 16,434	$ 5,475	$ 307	$1,062	$64,023

Three Months Ended December 31, 2016	Commercial Real Estate	Agriculture	Commercial Non-Real Estate	Residential Real Estate	Consumer	Other	Total
	(dollars in thousands)						
Beginning balance October 1, 2016	$17,946	$ 25,115	$ 12,990	$ 7,106	$ 438	$1,047	$64,642
Charge-offs	—	(2,866)	(1,959)	(150)	(79)	(498)	(5,552)
Recoveries	99	27	98	205	15	184	628
Provision	(1,546)	6,243	2,314	(350)	(34)	323	6,950
(Improvement) impairment of ASC 310-30 loans	124	—	—	(25)	—	—	99
Ending balance December 31, 2016	$16,623	$ 28,519	$ 13,443	$ 6,786	$ 340	$1,056	$66,767

The following tables provide details regarding the allowance for loan and lease losses and balance by type of allowance as of December 31, 2017 and September 30, 2017. These tables are presented net of unamortized discount on acquired loans and excludes loans of $980.1 million measured at fair value, loans held for sale of $5.8 million, and guaranteed loans of $162.3 million for December 31, 2017 and loans measured at fair value of $1.02 billion, loans held for sale of $7.5 million, and guaranteed loans of $168.3 million for September 30, 2017.

As of December 31, 2017	Commercial Real Estate	Agriculture	Commercial Non-Real Estate	Residential Real Estate	Consumer	Other	Total
	(dollars in thousands)						
Allowance for loan and lease losses							
Individually evaluated for impairment	$3,168	$9,447	$5,210	$2,731	$86	$—	$20,642
Collectively evaluated for impairment	12,155	15,188	11,224	2,646	221	1,062	42,496
ASC 310-30 loans	672	115	—	98	—	—	885
Total allowance	$15,995	$24,750	$16,434	$5,475	$307	$1,062	$64,023
Financing Receivables							
Individually evaluated for impairment	$71,286	$117,188	$31,843	$7,783	$245	$—	$228,345
Collectively evaluated for impairment	3,635,278	1,788,260	1,328,215	851,442	61,683	45,805	7,710,683
ASC 310-30 loans	29,388	7,181	1,926	49,085	601	—	88,181

Loans Outstanding	$3,735,952	$1,912,629	$1,361,984	$908,310	$62,529	$45,805	$8,027,209

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

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

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

The ALLL for ASC 310-30 loans totaled $0.9 million at December 31, 2017, compared to $1.0 million at September 30, 2017. For the three months ended December 31, 2017, loan pools accounted for under ASC 310-30 had a net reversal of provision of $0.1 million as a result of increases in expected cash flows. For the three months ended December 31, 2016, loan pools accounted for under ASC 310-30 had a net provision of $0.1 million as a result of actual cash flows being lower than expected cash flows.

The reserve for unfunded loan commitments was $0.5 million at both December 31, 2017 and September 30, 2017 and is recorded in other liabilities on the consolidated balance sheets.

6. Accounting for Certain Loans Acquired with Deteriorated Credit Quality

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

Loan pools are periodically reassessed to determine expected cash flows. In determining the expected cash flows, the timing of cash flows and prepayment assumptions for smaller, homogeneous loans are based on statistical models that take into account factors such as the loan interest rate, credit profile of the borrowers, the years in which the loans were originated, and whether the loans are fixed or variable rate loans. Prepayments may be assumed on large individual loans that consider similar prepayment factors listed above for smaller homogeneous loans. The re-assessment of purchased credit impaired loans resulted in the following changes in the accretable yield during the three months ended December 31, 2017 and 2016:

	Three Months Ended	
	December 31, 2017	December 31, 2016
	(dollars in thousands)	
Balance at beginning of period	$44,131	$ 38,124
Accretion	(3,381)	(2,938)
Reclassification from nonaccretable difference	1,168	4,572
Balance at end of period	$41,918	$ 39,758

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

The following table provides purchased credit impaired loans at December 31, 2017 and September 30, 2017:

	December 31, 2017			September 30, 2017		
	Outstanding Balance [1]	Recorded Investment [2]	Carrying Value [3]	Outstanding Balance [1]	Recorded Investment [2]	Carrying Value [3]
	(dollars in thousands)					
Commercial real estate	$108,397	$ 29,388	$28,716	$110,797	$ 30,099	$29,417
Agriculture	10,341	7,181	7,066	10,463	7,174	7,059
Commercial non-real estate	9,764	1,926	1,926	9,825	1,920	1,920
Residential real estate	57,758	49,085	48,987	61,981	52,736	52,540
Consumer	737	601	601	798	666	666
Total lending	$186,997	$ 88,181	$87,296	$193,864	$ 92,595	$91,602

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

7. FDIC Indemnification Asset

Under the terms of the purchase and assumption agreement with the FDIC with regard to the TierOne Bank acquisition, the Company is reimbursed for a portion of the losses incurred on covered assets. As covered assets are resolved, whether it be through repayment, short sale of the underlying collateral, the foreclosure on or sale of collateral, or the sale or charge-off of loans or other repossessed property, any differences between the carrying value of the covered assets versus the payments received during the resolution process, that are reimbursable by the FDIC, are recognized as reductions in the FDIC indemnification asset. Any gains or losses realized from the resolution of covered assets reduce or increase, respectively, the amount recoverable from the FDIC. The following table represents a summary of the activity related to the FDIC indemnification asset for the three months ended December 31, 2017 and 2016:

	Three Months Ended	
	December 31, 2017	December 31, 2016
	(dollars in thousands)	
Balance at beginning of period	$5,704	$ 10,777
Amortization	(1,018)	(867)
Changes in expected reimbursements from FDIC for changes in expected credit losses	(18)	28
Changes in reimbursable expenses	(206)	(239)
Reimbursements of covered losses to the FDIC	230	188
Balance at end of period	$4,692	$ 9,887

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

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8. Derivative Financial Instruments

The Company uses interest rate swaps to manage its interest rate risk and market risk in accommodating the needs of its customers. The Company recognizes all derivatives on the consolidated balance sheet at fair value in either other assets or accrued expenses and other liabilities as appropriate. The following table presents the notional amounts and gross fair values of all derivative assets and liabilities held by the Company as of December 31, 2017 and September 30, 2017:

	December 31, 2017			September 30, 2017		
	Notional Amount	Gross Asset Fair Value	Gross Liability Fair Value	Notional Amount	Gross Asset Fair Value	Gross Liability Fair Value
	(dollars in thousands)					
Derivatives not designated as hedging instruments:						
Interest rate swaps						
Financial institution counterparties	$1,022,553	$7,554	$(16,858)	$1,025,474	$4,967	$(22,737)
Customer counterparties	63,915	814	(76)	36,072	615	—
Mortgage loan commitments	22,618	1	—	37,765	—	(48)
Mortgage loan forward sale contracts	27,622	—	(1)	43,628	48	—
Total	$1,136,708	$8,369	$(16,935)	$1,142,939	$5,630	$(22,785)

Netting of Derivatives

We record the derivatives on a net basis when a right of offset exists, based on transactions with a single counterparty that are subject to a legally enforceable master netting agreement. When bilateral netting agreements or similar agreements exist between the Company and its counterparties that create a single legal claim or obligation to pay or receive the net amount in settlement of the individual derivative contracts, the Company reports derivative assets and liabilities on a net by derivative contract by counterparty basis. The following tables provide information on the Company's netting adjustments as of December 31, 2017 and September 30, 2017:

	Amounts offset on the Consolidated Balance Sheet			
	Gross Fair Value	Fair Value Offset Amount	Cash Collateral	Net Amount Presented on the Consolidated Balance Sheet
	(dollars in thousands)			
December 31, 2017				
Total Derivative Assets	$8,369	$(5,906)	$(1,650)	$ 813
Total Derivative Liabilities [1, 2]	$(16,935)	$5,906	$—	$ (11,029)

[1] In addition to the cash collateral, there were securities of $24.9 million posted as collateral for financial institution counterparties at December 31, 2017.
[2] There was an additional $2.9 million of collateral held for initial margin with our Futures Clearing Merchant for clearing derivatives at December 31, 2017 and is included in other assets in the consolidated balance sheets.

	Amounts offset on the Consolidated Balance Sheet			
	Gross Fair Value	Fair Value Offset Amount	Cash Collateral	Net Amount Presented on the Consolidated Balance Sheet
	(dollars in thousands)			
September 30, 2017				
Total Derivative Assets	$1,850	$(1,850)	$ —	$ —
Total Derivative Liabilities [1, 2]	(19,005)	1,850	—	(17,155)

[1] In addition to the cash collateral, there were securities of $25.0 million posted as collateral for financial institution counterparties at September 30, 2017.
[2] There was an additional $2.3 million of collateral held for initial margin with our Futures Clearing Merchant for clearing derivatives at September 30, 2017 and is included in other assets in the consolidated balance sheets.

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

Credit-risk-related contingent features

The Company has agreements with its derivative counterparties that contain a provision where if the Company or the derivative counterparty fails to maintain its status as a well/adequately capitalized institution, then the other party has the right to terminate the derivative positions and the Company or the derivative counterparty would be required to settle its obligations under the agreements. The Company has minimum collateral posting thresholds with its derivative counterparties.

As of December 31, 2017 and September 30, 2017, the termination value of derivatives in a net liability position related to these agreements was $10.7 million and $20.3 million, respectively, which includes accrued interest but excludes any adjustment for nonperformance risk. Additionally, as of December 31, 2017 and September 30, 2017 the termination value of derivatives in a net asset position related to these agreements was $1.6 million and $1.2 million, respectively, which includes accrued interest but excludes any adjustment for nonperformance risk and as of December 31, 2017 and September 30, 2017, the derivative counterparty had posted to the Company $1.7 million and $1.0 million, respectively, in eligible collateral.

The effect of derivatives on the consolidated statements of comprehensive income for the three months ended December 31, 2017 and 2016 was as follows:

	Location of Gain (Loss) Recognized in Statements of Income	Amount of Gain (Loss) Recognized in Statements of Income Three Months Ended December 31, 2017	December 31, 2016
		(dollars in thousands)	
Derivatives not designated as hedging instruments:			
Interest rate swaps	Net realized and unrealized gain on derivatives	$7,227	$ 58,976
Mortgage loan commitments	Net realized and unrealized gain on derivatives	1	(105)
Mortgage loan forward sale contracts	Net realized and unrealized gain on derivatives	(1)	105

9. The Fair Value Option For Certain Loans

The Company has elected to measure certain long-term loans at fair value to assist in managing the interest rate risk for longer-term loans. This fair value option was elected upon the origination of these loans. Interest income is recognized in the same manner as interest on non-fair value loans.

See Note 18 for additional disclosures regarding the fair value of the fair value option loans.

Long-term loans for which the fair value option has been elected had a net favorable difference between the aggregate fair value and the aggregate unpaid loan principal balance and written loan commitment amount of approximately $1.3 million and $8.8 million at December 31, 2017 and September 30, 2017, respectively. The total unpaid principal balance of these long-term loans was approximately $978.9 million and $1.01 billion at December 31, 2017 and September 30, 2017, respectively. The fair value of these loans is included in total loans in the consolidated balance sheets and are grouped with commercial real estate, agricultural and commercial non-real estate loans in Note 4. As of December 31, 2017 and September 30, 2017, there were loans with a fair value of $14.1 million and $14.7 million, respectively, which were greater than 90 days past due or in nonaccrual status with an unpaid principal balance of $15.0 million and $17.0 million, respectively.

Changes in fair value for items for which the fair value option has been elected and the line items in which these changes are reported within the consolidated statements of income are as follows for the three months ended December 31, 2017 and 2016:

	Three Months Ended December 31, 2017		Three Months Ended December 31, 2016	
	Noninterest Income	Total Changes in Fair Value	Noninterest Income	Total Changes in Fair Value
	(dollars in thousands)			
Long-term loans	$(8,665)	$(8,665)	$(64,001)	$(64,001)

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For long-term loans, $1.0 million and $0.5 million for the three months ended December 31, 2017 and 2016, respectively, of the total change in fair value is attributable to changes in specific credit risk. The gains or losses attributable to changes in instrument-specific credit risk were determined based on an assessment of existing market conditions and credit quality of the underlying loan for the specific portfolio of loans.

10. Core Deposits and Other Intangibles

A summary of intangible assets subject to amortization is as follows:

	Core Deposit Intangible	Brand Intangible	Other Intangible	Total
As of December 31, 2017	(dollars in thousands)			
Gross carrying amount	$7,339	$ 8,464	$ 538	$16,341
Accumulated amortization	(1,847)	(5,405)	(141)	(7,393)
Net intangible assets	$5,492	$ 3,059	$ 397	$8,948
As of September 30, 2017				
Gross carrying amount	$7,339	$ 8,464	$ 538	$16,341
Accumulated amortization	(1,579)	(5,264)	(124)	(6,967)
Net intangible assets	$5,760	$ 3,200	$ 414	$9,374

Amortization expense of intangible assets was $0.4 million and $0.8 million for the three months ended December 31, 2017 and 2016, respectively.

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

	Amount (dollars in thousands)
Remaining in 2018	$ 1,236
2019	1,538
2020	1,430
2021	1,334
2022	1,249
2023 and thereafter	2,161
Total	$ 8,948

11. Loan Servicing Rights

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

The following table is the activity for loan servicing rights and the related valuation allowance for the three months ended December 31, 2017 and 2016:

	Three Months Ended	
	December 31, 2017	December 31, 2016
	(dollars in thousands)	
Loan servicing rights		
Beginning of period	$4,155	$ 5,794
Additions	—	—

Amortization [1]	(313)	(508)
End of period	$3,842	$ 5,286

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	Three Months Ended	
	December 31, 2017	December 31, 2016
	(dollars in thousands)	
Valuation allowance		
Beginning of period	$(81)	$ (13)
(Additions) / reductions [1]	38	5
End of period	$(43)	$ (8)
Loan servicing rights, net	$3,799	$ 5,278
Servicing fees received	$437	$ 548
Balance of loans serviced at:		
Beginning of period	722,461	868,865
End of period	692,593	823,375

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

Amortization of servicing rights is adjusted each quarter based upon analysis of portfolio attributes and factors, including an evaluation of historical prepayment activity and prospective industry consensus data. An independent third party is utilized to calculate the amortization and valuation based upon specific loan characteristics, prepayment speeds generated from a validation model utilizing both empirical and market derived data and discount rates. At December 31, 2017, the constant prepayment rates (CPR) used to calculate the amortization averaged 12.0%. For valuation purposes, an average discount rate of 11.9% was utilized at December 31, 2017. Based on the Company's analysis of mortgage servicing rights, a $0.0 million valuation reserve was recorded at December 31, 2017, and a $0.1 million valuation reserve was recorded at September 30, 2017.

12. Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase generally mature overnight following the transaction date. Securities underlying the agreements had an amortized cost of approximately $152.8 million and $139.3 million and fair value of approximately $149.8 million and $137.4 million at December 31, 2017 and September 30, 2017, respectively. In most cases, the Company over-collateralizes the repurchase agreements at 102% of total funds borrowed to protect the purchaser from changes in market value. Additionally, the Company utilizes held-in-custody procedures to ensure the securities sold under repurchase agreements are unencumbered. The following tables present the gross obligation by the class of collateral pledged and the remaining contractual maturity of the agreements at December 31, 2017 and September 30, 2017.

	December 31, 2017				
	Remaining Contractual Maturity of the Agreements				
	Overnight and Continuous	Up to 30 Days	30-90 Days	Greater than 90 Days	Total
	(dollars in thousands)				
Repurchase agreements					
Municipal securities	$2,919	$ —	$ —	$ —	$2,919
Mortgage-backed securities	113,965	—	—	—	113,965

Total repurchase agreements	$116,884	$ —	$ —	$ —	$116,884

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

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13. FHLB Advances and Other Borrowings

FHLB advances and other borrowings consist of the following at December 31, 2017 and September 30, 2017:

	December 31, 2017	September 30, 2017
	(dollars in thousands)	
Short-term borrowings:		
Notes payable to Federal Home Loan Bank (FHLB), interest rates from 1.42% to 1.54% and maturity dates in January 2018, collateralized by real estate loans and FHLB stock, with various call dates at the option of the FHLB	$665,000	$ 512,200
Federal Home Loan Bank fed funds advance, interest rate of 1.33%	—	75,000
Long-term borrowings:		
Notes payable to Federal Home Loan Bank (FHLB), interest rates from 1.05% to 3.66% and maturity dates from April 2018 to July 2023, collateralized by real estate loans and FHLB stock, with various call dates at the option of the FHLB	56,000	56,000
Total	721,000	643,200
Fair value adjustment [1]	9	14
Total FHLB advances and other borrowings	$721,009	$ 643,214

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

The Company has a $10.0 million revolving line of credit which expires on July 28, 2018. The line of credit has an interest rate of one month LIBOR plus 200 basis points, with interest payable monthly. There is also an unused line fee of 0.15% on the unused portion which is payable quarterly. The interest rate was 3.56% at December 31, 2017. There were no outstanding advances on this line of credit at December 31, 2017 and September 30, 2017.

As of December 31, 2017, the Company had a borrowing capacity of $1.69 billion with the Federal Reserve Board Discount Window ("FRB Discount Window"). Principal balances of loans pledged to FRB Discount Window to collateralize the borrowing totaled $1.99 billion at December 31, 2017 and $2.55 billion at September 30, 2017. The Company has secured this line for contingency funding.

As of December 31, 2017 and September 30, 2017, based on its Federal Home Loan Bank stock holdings, the combined aggregate additional borrowing capacity of the Company with the Federal Home Loan Bank was $1.40 billion and $1.55 billion, respectively.

Principal balances of loans pledged to the Federal Home Loan Bank to collateralize notes payable totaled $3.77 billion and $3.71 billion at December 31, 2017 and September 30, 2017, respectively.

As of December 31, 2017, FHLB advances and other borrowings are due or callable (whichever is earlier) in subsequent fiscal years as follows:

	Amount (dollars in thousands)
Remaining in 2018	$ 696,000
2019	—
2020	—
2021	—
2022	—
2023 and thereafter	25,000
Total	$ 721,000

14. Subordinated Debentures and Subordinated Notes Payable

Junior Subordinated Deferrable Interest Debentures

The Company has seven trusts which were created or assumed as part of the HF Financial and Sunstate Bank acquisitions that have issued and outstanding 73,400 shares, $1,000 par value, as of December 31, 2017 of Company Obligated Mandatorily Redeemable Preferred Securities (the "Preferred Securities"). These seven trusts were established and exist for the sole purpose of issuing Preferred Securities and investing the proceeds in junior subordinated deferrable interest debentures (the "Debentures") issued by the Company. The Debentures constitute the sole assets of the seven trusts. The Preferred Securities provide for cumulative cash distributions calculated at a rate based on three month LIBOR plus a range from 1.48% to 3.35% adjusted quarterly. The Company may, at one or more times, defer interest payments on the Debentures for up to 20 consecutive quarters following suspension of

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

For regulatory purposes the Debentures qualify as elements of capital. $73.5 million of Debentures were eligible for treatment as Tier 1 capital as of December 31, 2017 and September 30, 2017.

Relating to the trusts, the Company held as assets $2.5 million in common shares at December 31, 2017 and September 30, 2017 which are included in other assets on the consolidated balance sheets.

Subordinated Notes Payable

In 2015, the Company issued $35.0 million of 4.875% fixed-to-floating rate subordinated notes that mature on August 15, 2025 through a private placement. The notes, which qualify as Tier 2 capital under capital rules in effect at December 31, 2017, have an interest rate of 4.875% per annum, payable semi-annually on each February 15 and August 15, which commenced on February 15, 2016 until August 15, 2020, to but excluding the maturity date or date of earlier redemption, the notes will bear interest at a rate per annum equal to three-month LIBOR for the related interest period plus 3.15%, payable quarterly on each November 15, February 15, April 15 and August 15. The notes are subordinated in right of payment to all of the Company's senior indebtedness and effectively subordinated to all existing and future debt and all other liabilities of the Company's subsidiary bank. The Company may elect to redeem the notes (subject to regulatory approval), in whole or in part, on any early redemption date which is any interest payment date on or after August 15, 2020 at a redemption price equal to 100% of the principal amount plus any accrued and unpaid interest. Other than on an early redemption date, the notes cannot be accelerated except in the event of bankruptcy or the occurrence of certain other events of bankruptcy, insolvency or reorganization. Unamortized debt issuance costs related to these notes, which are included in Subordinated Debentures and Subordinated Notes Payable, totaled $0.2 million at December 31, 2017 and September 30, 2017. Proceeds from the private placement of subordinated notes repaid outstanding subordinated debt.

Subordinated debentures and subordinated notes payable are summarized as follows:

	December 31, 2017		September 30, 2017	
	Amount Outstanding	Common Shares Held in Other Assets	Amount Outstanding	Common Shares Held in Other Assets
	(dollars in thousands)			
Junior subordinated debentures payable to nonconsolidated trusts				
GW Statutory Trust IV, variable rate of 2.85%, plus 3 month LIBOR	$23,093	$ 693	$23,093	$ 693
GW Statutory Trust VI, variable rate of 1.48%, plus 3 month LIBOR	30,928	928	30,928	928
SSB Trust II, variable rate of 1.85%, plus 3 month LIBOR	2,062	62	2,062	62
HF Capital Trust III, variable rate of 3.35%, plus 3 month LIBOR	5,155	155	5,155	155
HF Capital Trust IV, variable rate of 3.10%, plus 3 month LIBOR	7,217	217	7,217	217
HF Capital Trust V, variable rate of 1.83%, plus 3 month LIBOR	5,310	310	5,310	310
HF Capital Trust VI, variable rate of 1.65%, plus 3 month LIBOR	2,155	155	2,155	155

Total junior subordinated debentures payable	75,920	$ 2,520	75,920	$ 2,520
Less: fair value adjustment [1]	(2,387)		(2,409)	
Total junior subordinated debentures payable, net of fair value adjustment	73,533		73,511	
Subordinated notes payable				
Fixed to floating rate, 4.875% per annum	35,000		35,000	
Less: unamortized debt issuance costs	(190)		(209)	
Total subordinated notes payable	34,810			