Great Western Bancorp, Inc.
Form 10-Q
August 11, 2016

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

Form 10-Q

(Mark One)

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2016
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 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 or a smaller reporting company. See definitions of “large accelerated filer”, “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

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

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

As of August 4, 2016, the number of shares of the registrant’s Common Stock outstanding was 58,693,304.

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" refer to:
  - Great Western Bancorporation, Inc., an Iowa corporation, and its consolidated subsidiaries, for all periods prior to the Formation Transactions; and
  - Great Western Bancorp, Inc., a Delaware corporation, and its consolidated subsidiaries, for all periods after the completion of the Formation Transactions;
- "Great Western" refers to Great Western Bancorporation, Inc. but not its consolidated subsidiaries, for all periods prior to the Formation Transaction, and Great Western Bancorp, Inc. but not its consolidated subsidiaries, for all periods after the completion of the Formation Transaction;
- our "bank" 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 (South Dakota, Iowa, Nebraska, North Dakota, Minnesota, Colorado, Arizona, Kansas and Missouri) in which we currently conduct our business;
- our "footprint" refers to the geographic markets within our states in which we currently conduct our business; and
- the "Formation Transactions" means a series of transactions completed on October 17, 2014 and undertaken in preparation for our initial public offering comprised of:
  - the cash contribution by National Americas Holdings LLC to Great Western Bancorp, Inc. in an amount equal to the total stockholder's equity of Great Western Bancorporation, Inc.;
  - the sale by National Americas Investment, Inc. of all outstanding capital stock of Great Western Bancorporation, Inc. to Great Western Bancorp, Inc. for an amount in cash equal to the total stockholder's equity of Great Western Bancorporation, Inc.; and
  - the merger of Great Western Bancorporation, Inc. with and into Great Western Bancorp, Inc., with Great Western Bancorp, Inc. continuing as the surviving corporation and succeeding to all the assets, liabilities and business of Great Western Bancorporation, Inc.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. These forward-looking statements reflect our current views with respect to, among other things, future events and our financial performance. These statements are often, but not always, made through the use of words or phrases such as "may," "might," "should," "could," "predict," "potential," "believe," "expect," "continue," "anticipate," "seek," "estimate," "intend," "plan," "projection," "would," "annualized" and "outlook," or the negative version o words or other comparable words or phrases of a future or forward-looking nature. These forward-looking statements are not historical facts, and are based on current expectations, estimates and projections about our industry, management's beliefs and certain assumptions made by management, many of which, by their nature, are inherently uncertain and beyond our control. Accordingly, we caution you that any such forward-looking statements are not guarantees of future performance and are subject to risks, assumptions, estimates and uncertainties that are difficult to predict. Although we believe that the expectations reflected in these forward-looking statements are reasonable as of the date made, actual results may prove to be materially different from the results expressed or implied by the forward-looking statements.

A number of important factors could cause our actual results to differ materially from those indicated in these forward-looking statements, including those factors identified in “Item 1A. Risk Factors” or “Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations” 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;
- the effect of the current low interest rate environment or changes in market interest rates;
- the geographic concentration of our operations, and our concentration on originating business and agribusiness loans;
- the relative strength or weakness of the agricultural and commercial credit sectors and of the real estate markets in the markets in which our borrowers are located;
- declines in the market prices for agricultural products;
- our ability to effectively execute our strategic plan and manage our growth;
- our ability to successfully manage our credit risk and the sufficiency of our allowance for loan and lease loss;
- our ability to attract and retain skilled employees or changes in our management personnel;
- our ability to effectively compete with other financial services companies and the effects of competition in the financial services industry on our business;
- changes in the demand for our products and services;
- the effectiveness of our risk management and internal disclosure controls and procedures;
- fluctuations in the values of our assets and liabilities and off-balance sheet exposures;
- our ability to attract and retain customer deposits;
- our access to sources of liquidity and capital to address our liquidity needs;
- possible changes in trade, monetary and fiscal policies of, and other activities undertaken by, governments, agencies, central banks and similar organizations;
- our ability to identify and address cyber-security risks;
- any failure or interruption of our information and communications systems;
- our ability to keep pace with technological changes;
- our ability to successfully develop and commercialize new or enhanced products and services;
- possible impairment of our goodwill and other intangible assets, or any adjustment of the valuation of our deferred tax assets;
- the effects of problems encountered by other financial institutions;
- the effects of geopolitical instability, including war, terrorist attacks, and man-made and natural disasters;
- the effects of the failure of any component of our business infrastructure provided by a third party;
- the impact of, and changes in applicable laws, regulations and accounting standards and policies;

- market perceptions associated with our separation from NAB and other aspects of our business;
- our likelihood of success in, and the impact of, litigation or regulatory actions;
- our inability to receive dividends from our bank and to service debt, pay dividends to our common stockholders and satisfy obligations as they become due;
- the incremental costs of operating as a standalone public company;
- our ability to meet our obligations as a public company, including our obligations under Section 404 of the Sarbanes-Oxley Act of 2002 to maintain an effective system of internal control over financial reporting;
- our ability to retain service providers to perform oversight or control functions or services that have otherwise been performed in the past by NAB;
- various risks and uncertainties associated with our recently completed acquisition of HF Financial Corp. (“HF Financial”), including, without limitation, our ability to effectively and timely integrate HF Financial’s operations into our operations, our ability to achieve the estimated synergies from the proposed transaction, litigation related to the proposed transaction and the effects of the proposed transaction, on our future financial condition, operating results, strategy and plans;
- damage to our reputation from any of the factors described above; 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, 2015.

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, 2015. If one or more events related to these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may differ materially from what we anticipate. Accordingly, you should not place undue reliance on any such forward-looking statements. Any forward-looking statement speaks only as of the date on which it is made, and we do not undertake any obligation to update or review any forward-looking statement, whether as a result of new information, future developments or otherwise.

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

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

	(Unaudited) June 30, 2016	September 30, 2015
Assets		
Cash and due from banks	$475,785	$237,770
Securities available for sale	1,361,164	1,327,327
Loans, net of unearned discounts and deferred fees, including $80,137 and $97,030 of loans covered by FDIC loss share agreements at June 30, 2016 and September 30, 2015, respectively, and $1,156,442 and $1,118,687 of loans and written loan commitments at fair value under the fair value option at June 30, 2016 and September 30, 2015, respectively, and $21,301 and $9,867 of loans held for sale at June 30, 2016 and September 30, 2015, respectively.	8,606,974	7,325,198
Allowance for loan and lease losses	(64,243)	(57,200)
Net loans	8,542,731	7,267,998
Premises and equipment, including $7,974 and $0 of property held for sale at June 30, 2016 and September 30, 2015	118,151	97,550
Accrued interest receivable	43,547	44,077
Other repossessed property, including $50 and $61 of property covered by FDIC loss share arrangements at June 30, 2016 and September 30, 2015, respectively	11,701	15,892
FDIC indemnification asset	11,706	14,722
Goodwill	738,460	697,807
Core deposits and other intangibles	12,757	7,119
Loan servicing rights	6,231	—
Cash value of life insurance	28,945	6,800
Net deferred tax assets	40,199	32,470
Other assets	61,845	49,122
Total assets	$11,453,222	$9,798,654
Liabilities and stockholders' equity		
Deposits		
Noninterest-bearing	$1,802,169	$1,368,453
Interest-bearing	6,678,040	6,018,612
Total deposits	8,480,209	7,387,065
Securities sold under agreements to repurchase	159,016	185,271
FHLB advances and other borrowings	913,377	581,000
Subordinated debentures and subordinated notes payable	111,827	90,727
Fair value of derivatives	91,319	53,613
Accrued interest payable	5,387	4,006
Accrued expenses and other liabilities	51,576	37,626
Total liabilities	9,812,711	8,339,308
Stockholders' equity		
Common stock, $0.01 par value, authorized 500,000,000 shares; 58,693,499 shares issued and outstanding at June 30, 2016 and 55,219,596 shares issued and outstanding at September 30, 2015	587	552
Additional paid-in capital	1,311,510	1,201,387
Retained earnings	319,383	255,089
Accumulated other comprehensive income	9,031	2,318

Total stockholders' equity	1,640,511	1,459,346
Total liabilities and stockholders' equity	$11,453,222	$9,798,654

See accompanying notes.

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2016	2015	2016	2015
Interest and dividend income				
Loans	$93,749	$ 85,240	$269,137	$251,978
Taxable securities	5,826	5,984	17,600	17,050
Nontaxable securities	61	10	85	36
Dividends on securities	396	489	832	997
Federal funds sold and other	157	155	326	599
Total interest and dividend income	100,189	91,878	287,980	270,660
Interest expense				
Deposits	6,451	5,776	18,145	17,775
Securities sold under agreements to repurchase	124	134	395	430
FHLB advances and other borrowings	986	867	2,831	2,706
Related party notes payable	—	233	—	692
Subordinated debentures and subordinated notes payable	976	330	2,662	985
Total interest expense	8,537	7,340	24,033	22,588
Net interest income	91,652	84,538	263,947	248,072
Provision for loan and lease losses	5,372	4,410	11,892	17,408
Net interest income after provision for loan and lease losses	86,280	80,128	252,055	230,664
Noninterest income				
Service charges and other fees	12,316	9,627	33,098	28,896
Wealth management fees	1,807	1,972	5,087	5,754
Mortgage banking income, net	1,669	1,903	4,143	5,027
Net gain (loss) on sale of securities	134	—	(196)	51
Net increase (decrease) in fair value of loans at fair value	14,198	(24,394)	35,253	7,914
Net realized and unrealized gain (loss) on derivatives	(21,925)	18,946	(53,379)	(27,357)
Other	898	1,951	2,733	4,556
Total noninterest income	9,097	10,005	26,739	24,841
Noninterest expense				
Salaries and employee benefits	28,352	26,612	78,417	75,373
Data processing	5,625	4,657	15,822	14,193
Occupancy expenses	4,002	3,161	11,436	11,169
Professional fees	3,327	3,289	9,087	10,464
Communication expenses	788	1,031	2,650	3,429
Advertising	1,047	1,196	3,015	2,870
Equipment expense	959	1,075	2,794	2,956
Net loss recognized on repossessed property and other related expenses	379	1,067	479	5,547
Amortization of core deposits and other intangibles	822	1,776	2,239	6,402
Acquisition expenses	12,179	—	12,950	—
Other	3,742	2,566	11,408	9,556

Total noninterest expense	61,222	46,430	150,297	141,959
Income before income taxes	34,155	43,703	128,497	113,546
Provision for income taxes	7,795	14,871	41,002	38,293
Net income	$26,360	$ 28,832	$87,495	$75,253
Other comprehensive income (loss) - change in net unrealized gain (loss) on securities available for sale (net of deferred income tax (expense) benefit of $(2,649), and $2,254 for the three months ended June 30, 2016 and 2015, respectively and $(4,115) and $(2,712) for the nine months ended June 30, 2016 and 2015, respectively)	4,322	(3,845)	6,713	4,423
Comprehensive income	$30,682	$ 24,987	$94,208	$79,676
Basic earnings per common share				
Weighted average shares outstanding	57,012,698	57,898,335	55,845,322	57,897,484
Basic earnings per share	$0.46	$ 0.50	$1.57	$1.30
Diluted earnings per common share				
Weighted average shares outstanding	57,176,705	57,959,202	55,993,011	57,929,188
Diluted earnings per share	$0.46	$ 0.50	$1.56	$1.30
Dividends per share				
Dividends paid	$7,734	$ 6,946	$23,201	$13,893
Dividends per share	$0.14	$ 0.12	$0.42	$0.24

See accompanying notes.

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

	Comprehensive Income	Common Stock Par Value	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, September 30, 2014		$ 579	$1,260,124	$166,544	$ (6,157)	$1,421,090
Net income	$ 75,253	—	—	75,253	—	75,253
Other comprehensive income, net of tax:						
Net change in net unrealized gain on securities available for sale	4,423	—	—	—	4,423	4,423
Total comprehensive income	$ 79,676					
Stock-based compensation		—	978	—	—	978
Cash dividends:						
Common stock, $0.24 per share		—	—	(13,893)	—	(13,893)
Balance, June 30, 2015		$ 579	$1,261,102	$227,904	$ (1,734)	$1,487,851
Balance, September 30, 2015		$ 552	$1,201,387	$255,089	$ 2,318	$1,459,346
Net income	$ 87,495	—	—	87,495	—	87,495
Other comprehensive income, net of tax:						
Net change in net unrealized gain on securities available for sale	6,713	—	—	—	6,713	6,713
Total comprehensive income	$ 94,208					
Stock-based compensation		—	2,680	—	—	2,680
Common stock issued in business acquisition		35	107,443	—	—	107,478
Cash dividends:						
Common stock, $0.42 per share		—	—	(23,201)	—	(23,201)
Balance, June 30, 2016		$ 587	$1,311,510	$319,383	$ 9,031	$1,640,511

See accompanying notes.

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

	Nine months ended June 30, 2016	Nine months ended June 30, 2015
Operating activities		
Net income	$87,495	$75,253
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	11,827	17,474
Amortization of FDIC indemnification asset	2,886	6,347
Net loss (gain) on sale of securities	196	(51)
Net gain on sale of loans	(4,485)	(5,027)
Net loss on FDIC indemnification asset	836	1,686
Net (gain) on sale of premises and equipment	(32)	(1,681)
Loss from sale/writedowns of repossessed property	479	5,547
Provision for loan and lease losses	11,892	17,408
Provision for loan servicing rights loss	176	—
Stock-based compensation	2,680	978
Originations of residential real estate loans held for sale	(184,255)	(212,144)
Proceeds from sales of residential real estate loans held for sale	172,821	218,379
Deferred income taxes	(7,458)	3,107
Changes in:		
Accrued interest receivable	4,647	3,081
Other assets	4,576	(3,143)
FDIC clawback liability	801	708
Accrued interest payable and other liabilities	31,619	4,456
Net cash provided by operating activities	136,701	132,378
Investing activities		
Purchase of securities available for sale	(195,042)	(327,955)
Proceeds from sales of securities available for sale	145,934	55,149
Proceeds from maturities of securities available for sale	186,483	205,609
Net increase in loans	(408,571)	(474,849)
(Payment) reimbursement of covered losses from FDIC indemnification claims	(706)	1,666
Purchase of premises and equipment	(6,660)	(2,108)
Proceeds from sale of premises and equipment	641	2,765
Proceeds from sale of repossessed property	4,693	31,329
Purchase of FHLB stock	(34,495)	(40,027)
Proceeds from redemption of FHLB stock	27,471	39,662
Net cash paid in business acquisition	(15,669)	—
Net cash used in investing activities	(295,921)	(508,759)
Financing activities		
Net increase in deposits	230,191	305,508
Net (decrease) in securities sold under agreements to repurchase	(131,910)	(128)
Net increase in FHLB advances and other borrowings	322,155	15,426
Dividends paid	(23,201)	(13,893)
Net cash provided by financing activities	397,235	306,913
Net increase (decrease) in cash and due from banks	238,015	(69,468)
Cash and due from banks, beginning of period	237,770	256,639
Cash and due from banks, end of period	$475,785	$187,171

Supplemental disclosure of cash flow information		
Cash payments for interest	$22,652	$23,650
Cash payments for income taxes	$44,476	$42,088
Supplemental disclosure of noncash investing and financing activities		
Loans transferred to repossessed properties	$(1,817)	$(7,447)
Repossessed property transferred to premises and equipment	$(840)	$—

See accompanying notes.

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. The primary business of the Company is ownership of its wholly owned subsidiary, Great Western Bank (the “Bank”). The Bank is a full-service regional bank focused on relationship-based business and agribusiness banking in Arizona, Colorado, Iowa, Kansas, 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, 2015, which includes a description of significant accounting policies. The results of operations for interim periods are not necessarily indicative of the results that may be expected for the year or any other period.

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

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

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 comprehensive 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 (with certain exceptions for debt securities noted below) 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 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 comprehensive income.

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, consumer, residential real estate, and other loans to customers primarily in Arizona, Colorado, Iowa, Kansas, Missouri, Minnesota, 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, and income-producing commercial and agricultural properties. 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 ("ASC 310-30 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, 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.

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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 residential real estate, commercial real estate, commercial non real estate, agriculture, consumer and other lending.

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 commercial real estate lending class includes loans made to small and middle market businesses, including multifamily properties. Loans in this class are secured by commercial real estate. 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 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 agriculture lending class includes loans made to small and mid-size agricultural businesses and individuals. Loans in this class are generally secured by operating 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 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 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 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 owned 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 re-underwritten and 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 comprehensive 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 the loan is well secured and in the process of collection. 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 applying a discount factor to the appraised value, if necessary, and including costs to sell.

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

The 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 segment) to determine if a provision is required.

While management uses the best information available to establish the allowance for loan and lease losses, future adjustments may be necessary if economic conditions differ substantially from the assumptions used in performing the estimates.

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.

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 comprehensive 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.

Loan Servicing Rights

The Company records a servicing asset for contractually separated servicing from the underlying mortgage loans. Fair value is based on market prices for comparable mortgage servicing contracts, when available or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. The asset is amortized into mortgage banking income, net on the consolidated statement of comprehensive 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 statement of comprehensive 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 $0.2 million was recorded at June 30, 2016.

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 statement of consolidated comprehensive income.

Goodwill

Goodwill represents the cost in excess of the fair value of net assets acquired (including identifiable intangibles) in transactions accounted for as business acquisitions. Goodwill is evaluated annually for impairment or more frequently if events and circumstances exist that indicates that a goodwill impairment test should be performed. The Company performs its impairment evaluation as of June 30 of each fiscal year. If the implied fair value of goodwill is lower than its carrying amount, goodwill impairment is indicated and goodwill is written down to its implied fair value. Subsequent increases in goodwill are not recognized in the consolidated financial statements. No goodwill impairment was recognized during the three and nine months ended June 30, 2016 and 2015.

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 periods ended June 30, 2016 and 2015.

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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. These contracts do not qualify for hedge accounting. 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 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 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 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.

Income Taxes

The Company was required to file a consolidated income tax return with National Americas Investment, Inc. ("NAI") (a wholly owned indirect subsidiary of NAB) until NAI's dissolution on October 17, 2014. Income taxes are allocated pursuant to a tax-sharing arrangement, whereby the Company will pay federal and state income taxes as if it were filing on a stand-alone basis. 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.

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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 during the quarter 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 accounting purposes, mortality assumptions at June 30, 2016 were based on the RP-2014 mortality tables and the MP 2015 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 at June 30, 2016 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.

The Company recognizes the over- or under-funded status of a plan as an other asset or other liability in the consolidated balance sheet 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.

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Comprehensive Income

Comprehensive income consists of net income and other comprehensive income, net of applicable income taxes. Other comprehensive income (loss) consists entirely of unrealized appreciation (depreciation) on available-for-sale securities.

Subsequent Events

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

On July 28, 2016, the board of directors of the Company declared a dividend of $0.14 per common share payable on August 24, 2016 to stockholders of record as of close of business on August 12, 2016.

2. New Accounting Pronouncements

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 collectibility 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 is currently evaluating the potential impact of ASU 2016-13 on our 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 addresses several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. 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. The Company is currently evaluating the potential impact of ASU 2016-09 on our 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. ASU 2015-16 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 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 addresses certain aspects of recognition, measurement, presentation and disclosure of financial instruments. 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 is currently evaluating the potential impact of ASU 2016-01 on our financial statements.

In September 2015, the FASB issued ASU No. 2015-16, Business Combinations (Topic 805) - Simplifying the Accounting for Measurement-Period Adjustments, which requires that adjustments to provisional amounts that are identified during the measurement period of a business combination be recognized in the reporting period in which the adjustment amounts are determined. Furthermore, the income statement effects of such adjustments, if any, must be calculated as if the accounting had been completed at the acquisition date. The portion of the amount recorded in current-period earnings that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. Under previous guidance, adjustments to

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provisional amounts identified during the measurement period are to be recognized retrospectively. ASU 2015-16 will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Earlier application is permitted for financial statements that have not been issued, therefore the Company has elected to early adopt this ASU as of and for its quarter ended June 30, 2016. The adoption of ASU 2015-16 in the third quarter of 2016 did not have a material impact on the Company's consolidated balance sheet or consolidated statement of comprehensive income. See also Note 3 to these consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), which implements a common revenue standard that clarifies the principles for recognizing revenue. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. 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 Company is currently evaluating the potential impact of these standards on our financial statements.

3. 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. Total merger consideration of $142.0 million was paid by the Company in the acquisition, which resulted in goodwill of $40.7 million, as shown in the table below. With this acquisition, the Company expanded its presence into North Dakota and Minnesota through the addition of 23 bank offices and experienced in-market teams. The Company projects increased revenues from additional locations and customers and cost savings will be recognized in future periods through the elimination of redundant operations. The following summarizes consideration paid and an allocation of purchase price to net assets acquired.

	Number of Shares	Amount
(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		101,312
Goodwill		$40,653

Goodwill of $40.7 million arising from the acquisition arose as a result of consideration in excess of net assets acquired. The amount of goodwill that is expected to be deductible for income tax purposes is $0.0 million. The fair value of intangible assets created in the acquisition was $7.9 million related to core deposits and other intangible assets.

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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:

(In thousands)	Fair Value
Identifiable assets acquired:	
Cash and due from banks	$18,818
Investment securities	165,052
Net 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	36,639
Total identifiable assets acquired	$1,122,041
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	101,312
Net purchase price	141,965
Goodwill	$40,653

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 foregoing purchase price allocations on the acquisition are preliminary and will be finalized upon the receipt of final valuations on certain assets and liabilities. Upon receipt of final fair value estimates, which must be within one year of the acquisition date, the Company will make any final adjustments to the purchase price allocation and retrospectively adjust any goodwill recorded. Material adjustments to acquisition date estimated fair values would be recorded in the reporting period in which the adjustment amounts are determined. Information regarding the Company’s loan discount and related deferred tax asset, core deposit intangible asset and related deferred tax liability, as well as income taxes payable and the related deferred tax balances recorded in the acquisition may be adjusted as the Company refines its estimates. 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. The disclosure of HF Financial's post-acquisition revenue and net income is not practical due to the combining of HF Financial’s operations with and into the Company as of the acquisition date. Acquisition-related transaction expenses associated with the HF Financial acquisition totaled $12.2 million and $12.9 million during the three and nine months ended June 30, 2016, respectively, and $0.0 million for the three and nine months ended June 30, 2015.

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Supplemental unaudited pro forma information

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.

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2016	2015	2016	2015
(In thousands, except per share data)				
Net interest income	$125,539	$93,999	$316,922	$275,746
Net income	35,245	30,795	99,927	77,067
Basic earnings per share	0.62	0.53	1.79	1.33
Fully diluted earnings per share	0.62	0.53	1.78	1.33

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
(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
	(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

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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 (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
As of June 30, 2016				
U.S. Treasury securities	$226,751	$ 5,246	$ —	$231,997
U.S. Agency securities	49,641	366	—	50,007
Mortgage-backed securities:				
Government National Mortgage Association	705,180	5,786	(1,388)	709,578
Federal National Mortgage Association	178,320	1,814	—	180,134
Small Business Assistance Program	146,746	2,550	—	149,296
States and political subdivision securities	33,934	192	(28)	34,098
Corporate debt securities	4,997	2	—	4,999
Other	1,013	42	—	1,055
Total	$1,346,582	$ 15,998	$ (1,416)	$1,361,164

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
As of September 30, 2015				
U.S. Treasury securities	$250,986	$ 3,811	$ —	$254,797
U.S. Agency securities	74,412	643	—	75,055
Mortgage-backed securities:				
Government National Mortgage Association	842,460	3,663	(4,503)	841,620
Federal National Mortgage Association	46,449	96	—	46,545
Small Business Assistance Program	101,415	233	(213)	101,435
States and political subdivision securities	1,849	1	—	1,850
Corporate debt securities	4,996	—	(13)	4,983
Other	1,006	36	—	1,042
Total	$1,323,573	$ 8,483	$ (4,729)	$1,327,327

The amortized cost and approximate fair value of debt securities available for sale as of June 30, 2016 and September 30, 2015, by contractual maturity, are shown below. Maturities of mortgage-backed securities may differ from contractual maturities because the mortgages underlying the securities may be called or repaid without any penalties.

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	June 30, 2016		September 30, 2015	
(In Thousands)	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	$53,129	$53,503	$76,261	$76,905
Due after one year through five years	254,775	260,136	255,982	259,780
Due after five years through ten years	7,297	7,340	—	—
Due after ten years	122	122	—	—
	315,323	321,101	332,243	336,685
Mortgage-backed securities	1,030,246	1,039,008	990,324	989,600
Securities without contractual maturities	1,013	1,055	1,006	1,042
Total	$1,346,582	$1,361,164	$1,323,573	$1,327,327

Proceeds from sales of securities available for sale were $120.9 million and $0.0 million for the three months ended June 30, 2016 and 2015, respectively, and $145.9 million and $55.1 million for the nine months ended June 30, 2016 and 2015, respectively. Gross gains (pre-tax) of $0.1 million and $0.0 million and gross losses (pre-tax) of $0.0 million and $0.0 million were realized on the sales for the three months ended June 30, 2016 and 2015, respectively. Gross gains (pre-tax) of $0.2 million and $0.6 million and gross losses (pre-tax) of $0.0 million and $0.5 million were realized on the sales for the nine months ended June 30, 2016 and 2015, respectively, using the specific identification method. The Company recognized an other-than-temporary impairment in net loss on sale of securities in the consolidated statements of comprehensive income of $0.0 million and $0.4 million on two security holdings attributable to credit for the three and nine months ended June 30, 2016. There was no other-than-temporary impairment recognized for the three and nine months ended June 30, 2015.

Securities with an estimated fair value of approximately $1.08 billion and $894.3 million at June 30, 2016 and September 30, 2015, 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 15% and 36% of the Company's investment portfolio at June 30, 2016 and September 30, 2015, 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 June 30, 2016 or September 30, 2015.

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

	June 30, 2016					
	Less than 12 months		12 months or more		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
Mortgage-backed securities	$101	$ (1)	$199,274	$ (1,387)	$199,375	$ (1,388)
Corporate debt securities	—	—	—	—	—	—

States and political subdivision securities	4,393	(28)	—	—	4,393	(28)
Total	$4,494	$ (29)	$199,274	$ (1,387)	$203,768	$ (1,416)

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	September 30, 2015					
	Less than 12 months		12 months or more		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
Mortgage-backed securities	$58,604	$ (236)	$412,058	$ (4,480)	$470,662	$ (4,716)
Corporate debt securities	4,984	(13)	—	—	4,984	(13)
States and political subdivision securities	—	—	—	—	—	—
Total	$63,588	$ (249)	$412,058	$ (4,480)	$475,646	$ (4,729)

As of June 30, 2016 and September 30, 2015, the Company had 30 and 31 securities, respectively, in an unrealized loss position.

The majority of the Company’s investments in nonmarketable equity securities are stock of the Federal Home Loan Bank ("FHLB"). The carrying value of Federal Home Loan Bank stock was $48.8 million and $35.7 million as of June 30, 2016 and September 30, 2015, respectively, and is reported in other assets on the consolidated balance sheets. No indicators of impairment related to FHLB stock were identified during the three and nine months ended June 30, 2016 and 2015, respectively.

The components of accumulated other comprehensive income (loss) from net unrealized gains (losses) on securities available for sale for the three and nine months ended June 30, 2016 and 2015, respectively are as follows (in thousands):

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2016	2015	2016	2015
Beginning balance accumulated other comprehensive income (loss)	$4,709	$2,111	$2,318	$(6,157)
Net unrealized holding gain arising during the period	6,837	(6,099)	11,024	7,186
Reclassification adjustment for net gain (loss) realized in net income	134	—	(196)	(51)
Net change in unrealized gain before income taxes	6,971	(6,099)	10,828	7,135
Income tax (expense)	(2,649)	2,254	(4,115)	(2,712)
Net change in unrealized gain on securities after taxes	4,322	(3,845)	6,713	4,423
Ending balance accumulated other comprehensive income	$9,031	$(1,734)	$9,031	$(1,734)

5. Loans

The composition of loans as of June 30, 2016 and September 30, 2015, is as follows (in thousands):

	June 30, 2016	September 30, 2015
Residential real estate	$1,032,355	$921,827
Commercial real estate	3,657,024	2,845,748
Commercial non real estate	1,746,257	1,610,828
Agriculture	2,101,601	1,861,465
Consumer	79,814	73,049
Other	45,444	38,371
Ending balance	8,662,495	7,351,288
Less:		
Unamortized discount on acquired loans	(42,793)	(19,264)
Unearned net deferred fees and costs and loans in process	(12,728)	(6,826)
Total	$8,606,974	$7,325,198

The loan breakouts above include loans covered by FDIC loss sharing agreements totaling $80.1 million and $97.0 million as of June 30, 2016 and September 30, 2015, respectively, residential real estate loans held for sale totaling $21.3 million and $9.9 million at June 30, 2016 and September 30, 2015, respectively, and $1.16 billion and $1.12 billion of loans and written loan commitments accounted for at fair value at June 30, 2016 and September 30, 2015, respectively.

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Unamortized net deferred fees and costs totaled $7.7 million and $7.5 million as of June 30, 2016 and September 30, 2015, 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 $5.0 million and $(0.7) million at June 30, 2016 and September 30, 2015, respectively.

Loans guaranteed by agencies of the U.S. government totaled $128.0 million and $105.0 million at June 30, 2016 and September 30, 2015, respectively.

Principal balances of residential real estate loans sold totaled $64.2 million and $79.5 million for the three months ended June 30, 2016 and 2015, respectively, and $172.8 million and $213.4 million for the nine months ended June 30, 2016 and 2015, respectively.

Nonaccrual

The following table presents the Company's nonaccrual loans at June 30, 2016 and September 30, 2015 (in thousands), excluding ASC 310-30 loans. Loans greater than 90 days past due and still accruing interest as of June 30, 2016 and September 30, 2015, were not significant.

Nonaccrual loans	June 30, 2016	September 30, 2015
Residential real estate	$5,834	$ 7,642
Commercial real estate	10,331	9,556
Commercial non real estate	11,678	14,281
Agriculture	62,356	24,569
Consumer	88	107
Total	$90,287	$ 56,155

Credit Quality Information

The composition of the loan portfolio by internally assigned grade is as follows as of June 30, 2016 and September 30, 2015. This table (in thousands) is presented net of unamortized discount on acquired loans and excludes loans measured at fair value with changes in fair value reported in earnings of $1.16 billion at June 30, 2016 and $1.12 billion at September 30, 2015:

As of June 30, 2016	Residential Real Estate	Commercial Real Estate	Commercial Non Real Estate	Agriculture	Consumer	Other	Total
Credit Risk Profile by Internally Assigned Grade							
Grade:							
Pass	$921,503	$3,128,241	$1,148,620	$1,426,550	$78,478	$45,444	$6,748,836
Watchlist	5,212	108,694	69,731	212,049	207	—	395,893
Substandard	10,705	61,864	29,504	135,222	315	—	237,610
Doubtful	103	155	523	—	—	—	781
Loss	—	—	—	—	—	—	—
Ending balance	937,523	3,298,954	1,248,378	1,773,821	79,000	45,444	7,383,120
Loans covered by FDIC loss sharing agreements	80,137	—	—	—	—	—	80,137
Total	$1,017,660	$3,298,954	$1,248,378	$1,773,821	$79,000	$45,444	$7,463,257

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As of September 30, 2015	Residential Real Estate	Commercial Real Estate	Commercial Non Real Estate	Agriculture	Consumer	Other	Total
Credit Risk Profile by Internally Assigned Grade							
Grade:							
Pass	$ 799,359	$ 2,384,980	$ 1,053,091	$ 1,272,312	$ 72,705	$ 38,371	$ 5,620,818
Watchlist	4,890	66,024	50,242	189,144	78	—	310,378
Substandard	11,877	56,905	60,801	53,837	223	—	183,643
Doubtful	323	200	682	256	7	—	1,468
Loss	—	—	—	—	—	—	—
Ending balance	816,449	2,508,109	1,164,816	1,515,549	73,013	38,371	6,116,307
Loans covered by FDIC loss sharing agreements	97,030	—	—	—	—	—	97,030
Total	$ 913,479	$ 2,508,109	$ 1,164,816	$ 1,515,549	$ 73,013	$ 38,371	$ 6,213,337

Past Due Loans

The following table (in thousands) presents the Company’s past due loans at June 30, 2016 and September 30, 2015. 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 $1.16 billion at June 30, 2016 and $1.12 billion at September 30, 2015.

As of June 30, 2016	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Current	Total Financing Receivables
Residential real estate	$ 1,242	$ 877	$ 1,399	$ 3,518	$ 934,005	$ 937,523
Commercial real estate	42	224	5,433	5,699	3,293,255	3,298,954
Commercial non real estate	182	436	8,589	9,207	1,239,171	1,248,378
Agriculture	4,343	7,972	4,735	17,050	1,756,771	1,773,821
Consumer	157	26	7	190	78,810	79,000
Other	—	—	—	—	45,444	45,444
Ending balance	5,966	9,535	20,163	35,664	7,347,456	7,383,120
Loans covered by FDIC loss sharing agreements	849	496	260	1,605	78,532	80,137
Total	$ 6,815	$ 10,031	$ 20,423	$ 37,269	$ 7,425,988	$ 7,463,257

As of September 30, 2015	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Current	Total Financing Receivables
Residential real estate	$ 486	$ 858	$ 2,776	$ 4,120	$ 812,329	$ 816,449
Commercial real estate	1,708	1,204	4,247	7,159	2,500,950	2,508,109
Commercial non real estate	697	7,944	4,072	12,713	1,152,103	1,164,816
Agriculture	2,161	175	6,264	8,600	1,506,949	1,515,549
Consumer	232	8	37	277	72,736	73,013
Other	—	—	—	—	38,371	38,371
Ending balance	5,284	10,189	17,396	32,869	6,083,438	6,116,307
Loans covered by FDIC loss sharing agreements	2,455	594	873	3,922	93,108	97,030
Total	$ 7,739	$ 10,783	$ 18,269	$ 36,791	$ 6,176,546	$ 6,213,337

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

	June 30, 2016			September 30, 2015		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
Impaired loans:						
With an allowance recorded:						
Residential real estate	$10,983	$11,942	$ 3,173	$12,364	$12,602	$ 2,784
Commercial real estate	69,602	70,665	7,602	67,751	69,722	4,644
Commercial non real estate	31,066	33,260	5,045	65,495	76,647	5,657
Agriculture	135,222	137,479	11,761	54,093	54,699	3,950
Consumer	327	510	69	230	359	50
Total	$247,200	$253,856	$ 27,650	$199,933	$214,029	$ 17,085

There are no impaired loans without a valuation allowance, other than those loans for which the Company has claim to collateral with value(s) in excess of the outstanding loan amount, after allowing for the cost of liquidating the collateral as of June 30, 2016 and September 30, 2015.
The average recorded investment on impaired loans and interest income recognized on impaired loans for the three and nine months ended June 30, 2016 and 2015, respectively, are as follows (in thousands):

	Three Months Ended June 30, 2016		Three Months Ended June 30, 2015		Nine Months Ended June 30, 2016		Nine Months Ended June 30, 2015	
	Average Recorded Investment	Interest Income Recognized while on Impaired Status	Average Recorded Investment	Interest Income Recognized while on Impaired Status	Average Recorded Investment	Interest Income Recognized while on Impaired Status	Average Recorded Investment	Interest Income Recognized while on Impaired Status
Residential real estate	$11,743	$ 438	$12,413	$ 453	$11,899	$ 877	$12,336	$ 1,398
Commercial real estate	78,962	3,193	75,665	3,106	76,159	6,666	72,287	9,498
Commercial non real estate	37,322	1,162	49,705	2,308	44,365	2,284	45,409	5,753
Agriculture	118,056	5,359	44,405	1,232	102,065	11,054	42,186	3,019
Consumer	314	38	238	24	293	80	249	75
Total	$246,397	$ 10,190	$182,426	$ 7,123	$234,781	$ 20,961	$172,467	$ 19,743

Valuation adjustments made to repossessed properties for the three months ended June 30, 2016 and 2015, totaled $0.5 million and $1.2 million, respectively and $1.0 million and $5.6 million for the nine months ended June 30, 2016 and 2015, 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 $10.0 million and $3.6 million at June 30, 2016 and September 30, 2015, respectively. Commitments to lend additional funds to borrowers whose loans were modified in a TDR were $0.2 million and $2.3 million as of June 30, 2016 and September 30, 2015, respectively.

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The following table presents the recorded value of the Company's TDR balances as of June 30, 2016 and September 30, 2015 (in thousands):

	June 30, 2016		September 30, 2015	
	Accruing	Nonaccrual	Accruing	Nonaccrual
Residential real estate	$413	$ 1,090	$452	$ 1,547
Commercial real estate	17,851	3,429	30,917	4,725
Commercial non real estate	7,255	1,539	8,928	833
Agriculture	19,610	32,723	20,041	6,857
Consumer	32	9	33	4
Total	$45,161	$ 38,790	$60,371	$ 13,966

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The following table presents a summary of all accruing loans restructured in TDRs during the three months ended June 30, 2016 and 2015, respectively:

	Three Months Ended June 30,					
	2016			2015		
		Recorded Investment			Recorded Investment	
(in thousands)	Number	Pre-Modification	Post-Modification	Number	Pre-Modification	Post-Modification
Residential real estate						
Rate modification	—	$ —	$ —	—	$ —	$ —
Term extension	1	42	42	1	35	35
Payment modification	—	—	—	—	—	—
Bankruptcy	—	—	—	—	—	—
Other	—	—	—	—	—	—
Total residential real estate	1	42	42	1	35	35
Commercial real estate						
Rate modification	—	—	—	—	—	—
Term extension	—	—	—	1	574	574
Payment modification	—	—	—	—	—	—
Bankruptcy	—	—	—	—	—	—
Other	—	—	—	—	—	—
Total commercial real estate	—	—	—	1	574	574
Commercial non real estate						
Rate modification	—	—	—	—	—	—
Term extension	3	57	57	—	—	—
Payment modification	1	878	878	—	—	—
Bankruptcy	—	—	—	—	—	—
Other	—	—	—	—	—	—
Total commercial non real estate	4	935	935	—	—	—
Agriculture						
Rate modification	—	—	—	—	—	—
Term extension	—	—	—	—	—	—
Payment modification	—	—	—	—	—	—
Bankruptcy	—	—	—	—	—	—
Other	—	—	—	—	—	—
Total agriculture	—	—	—	—	—	—
Consumer						
Rate modification	—	—	—			