

Great Western Bancorp, Inc.  
Form 10-K  
November 27, 2018

---

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

---

Form 10-K  
(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934

For the Fiscal Year Ended September 30, 2018

Or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 001-36688

---

Great Western Bancorp, Inc.

(Exact name of registrant as specified in its charter)

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

225 South Main Avenue  
Sioux Falls, South Dakota 57104  
(Address of principal executive offices) (Zip Code)  
(605) 334-2548

Registrant's telephone number, including area code

---

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

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

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

None

---

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes  No

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Annual Report on Form 10-K or any amendment to this Form 10-K.

Edgar Filing: Great Western Bancorp, Inc. - Form 10-K

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

Smaller reporting company  Emerging growth company

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

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

The aggregate market value of the voting stock held by non-affiliates of the registrant as of March 31, 2018 was \$2,371,749,531.

As of November 20, 2018, the number of shares of the registrant's Common Stock outstanding was 57,666,187.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's definitive proxy statement for the annual meeting of shareholders to be held on February 21, 2019, and to be filed pursuant to Regulation 14A within 120 days after the registrant's fiscal year ended September 30, 2018, are incorporated by reference under Part III.

---

---

GREAT WESTERN BANCORP, INC.

ANNUAL REPORT ON FORM 10-K

TABLE OF CONTENTS

EXPLANATORY NOTE

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

PART I.

Item 1. Business 6

Item 1A. Risk Factors 28

Item 1B. Unresolved Staff Comments 50

Item 2. Properties 50

Item 3. Legal Proceedings 51

Item 4. Mine Safety Disclosures 51

PART II.

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities 51

Item 6. Selected Financial Data 53

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations 57

Item 7A. Quantitative and Qualitative Disclosures About Market Risk 87

Item 8. Financial Statements and Supplementary Data 89

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure 138

Item 9A. Controls and Procedures 138

Item 9B. Other Information 141

PART III.

Item 10. Directors, Executive Officers and Corporate Governance 141

Item 11. Executive Compensation 141

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters 141

Item 13. Certain Relationships and Related Transactions and Director Independence 141

Item 14. Principal Accountant Fees and Services 141

PART IV.

Item 15. Exhibits and Financial Statement Schedules 141

SIGNATURES 145

#### EXPLANATORY NOTE

Except as otherwise stated or the context otherwise requires, references in this Annual Report on Form 10-K to: "we," "our," "us" and our "Company" refers to Great Western Bancorp, Inc., a Delaware corporation, and its consolidated subsidiaries;

our "Bank" refers to Great Western Bank, a South Dakota banking corporation;

our "states" refers to the nine states (Arizona, Colorado, Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota and South Dakota) in which we currently conduct our business;

our "footprint" refers to the geographic markets within our states in which we currently conduct our business;

"ALLL" refers to allowance for loan and lease losses;

"AML" refers to anti-money laundering;

"ASC" refers to Accounting Standards Codification;

"ASC 310-30 loans" or "purchased credit impaired loans" refers to certain loans that had deteriorated credit quality at acquisition;

"ASU" refers to Accounting Standards Update;

"BCFP" refers to the Bureau of Consumer Financial Protection, formerly known as the Consumer Financial Protection Bureau;

"BHC Act" refers to the Bank Holding Company Act;

"BSA" refers to the Bank Secrecy Act;

"CAN-SPAM Act" refers to the Controlling the Assault of Non-Solicited Pornography and Marketing Act;

"Capital Rules" or "Basel III" refers to the Basel Committee's December 2010 final capital framework for strengthening international capital standards;

"CDD Rule" refers to the Customer Due Diligence Requirements for Financial Institutions rule;

"COSO" refers to the Committee of Sponsoring Organizations of the Treadway Commission;

"CRA" refers to the Community Reinvestment Act of 1977;

"CRE" refers to commercial real estate;

"DGCL" refers to the Delaware General Corporation Law;

"Exchange Act" refers to the Securities Exchange Act of 1934;

"FASB" refers to the Financial Accounting Standards Board;

"FDIA" refers to the Federal Deposit Insurance Act;

"FDIC" refers to the Federal Deposit Insurance Corporation;

"FFIEC" refers to the Federal Financial Institutions Examination Council;

"FHLB" refers to the Federal Home Loan Bank;

"FHLMC" refers to the Federal Home Loan Mortgage Corporation;

"FinCEN" refers to the Financial Crimes Enforcement Network;

"FINRA" refers to the Financial Industry Regulatory Authority;

"FNMA" refers to the Federal National Mortgage Association;

"FOMC" refers to the Federal Open Market Committee of the Federal Reserve System;

"FRB" or "Federal Reserve" refers to the Board of Governors of the Federal Reserve System;

"FTE" refers to fully-tax equivalent;

"GAAP" or "U.S. GAAP" refers to U.S. generally accepted accounting principles;

- "GSE" refers to a Government Sponsored Enterprise;
- "GWBCI" refers to Great Western Bancorporation, Inc., our predecessor, which was an Iowa corporation formed in 1968 which was previously the holding company for our Bank;
- "HELOC" refers to home equity lines of credit;
- "HF Financial" refers to HF Financial Corporation;
- "HUD" refers to the U.S. Department of Housing and Urban Development;
- "IRA" refers to an individual retirement account;
- "IRS" refers to the Internal Revenue Service;
- "MERS" refers to the Mortgage Electronic Registration Systems, Inc.;
- "NAB" refers to National Australia Bank Limited, an Australian public company that was our ultimate parent company prior to our initial public offering in October 2014 and, until July 31, 2015, our principal ultimate stockholder;
- "NAH" refers to National Americas Holdings LLC, a Delaware limited liability company formed in 2008 by NAB to facilitate NAB's purchase of our Bank;
- "NYSE" refers to the New York Stock Exchange;
- "OFAC" refers to the Office of Foreign Assets Control;
- "RPA" refers to a risk participation agreement;
- "Sarbanes-Oxley Act" refers to the Sarbanes-Oxley Act of 2002;
- "SBS" refers to strategic business services of our Bank;
- "SD Division of Banking" refers to the Division of Banking of the South Dakota Department of Labor and Regulation;
- "SEC" refers to the Securities and Exchange Commission;
- "Securities Act" refers to the Securities Act of 1933;
- "Tax Reform Act" refers to the Tax Cuts and Jobs Act of 2017;
- "TDR" refer to a troubled debt restructuring; and
- "USA PATRIOT Act" refers to the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001.

#### CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. These forward-looking statements reflect our current views with respect to, among other things, future events and our financial performance. These statements are often, but not always, made through the use of words or phrases such as "anticipates," "believes," "can," "could," "may," "predicts," "potential," "should," "will," "estimate," "plans," "projects," "continuing," "ongoing," "expects," "views," "intends" and similar words or phrases. 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 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" or the following:

- current and future economic and market conditions in the United States generally or in our states in particular, including the rate of growth and employment levels;
- our ability to anticipate interest rate changes and manage interest rate risk;



our ability to achieve loan and deposit growth;

the relative strength or weakness of the commercial, agricultural and real estate markets where our borrowers are located, including without limitation related asset and market prices;

declines in asset prices and the market prices for agricultural products or changes in governmental support programs for the agricultural sector;

our ability to effectively execute our strategic plan and manage our growth;

our ability to successfully manage our credit risk and the sufficiency of our allowance for loan and lease loss;

our ability to develop and effectively use the quantitative models we rely upon in our business;

our ability to effectively compete with other financial services companies and the effects of competition in the financial services industry on our business;

operational risks or risk management failures by us or critical third parties, including without limitation with respect to data processing, information systems, cyber-security, technological changes, vendor problems, business interruption and fraud risks;

fluctuations in the values of our assets and liabilities and off-balance sheet exposures;

unanticipated changes in our liquidity position, including but not limited to changes in our access to sources of liquidity and capital to address our liquidity needs;

possible changes in trade, monetary and fiscal policies of, and other activities undertaken by, governments, agencies, central banks and similar organizations, including the potential negative effects of imposed and proposed tariffs and retaliatory tariffs on products that our customers may import or export, including among others, agricultural products;

possible impairment of our goodwill and other intangible assets, or any adjustment of the valuation of our deferred tax assets;

the effects of geopolitical instability, including war, terrorist attacks, and man-made and natural disasters;

the impact of, and changes in applicable laws, regulations and accounting standards, policies and interpretations, including the impact of the Tax Reform Act;

legal, compliance and reputational risks, including litigation and regulatory risks;

our inability to receive dividends from our Bank and to service debt, pay dividends to our common stockholders and satisfy obligations as they become due;

expected cost savings in connection with the consolidation of recent acquisitions may not be fully realized or realized within the expected time frames, and deposit attrition, customer loss and revenue loss following completed acquisitions may be greater than expected; and

our ability to meet our obligations as a public company, including our obligations under Section 404 of the Sarbanes-Oxley Act to maintain an effective system of internal control over financial reporting.

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

PART I

ITEM 1. BUSINESS

Our Business

We are a full-service regional bank holding company focused on relationship-based business and agri-business banking. We serve our customers through 174 branches in attractive markets in nine states: Arizona, Colorado, Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota and South Dakota. We were established more than 80 years ago and have achieved strong market positions by developing and maintaining extensive local relationships in the communities we serve. By leveraging our business and agri-business focus, highly efficient operating model, robust approach to risk management and presence in attractive markets, we have achieved steady and profitable growth—both organically and through disciplined acquisitions. We have successfully completed nine acquisitions since 2006, including our 2010 FDIC assisted acquisition of TierOne Bank, which represented approximately \$2.54 billion in acquired assets, and our 2016 acquisition of HF Financial, which represented approximately \$1.12 billion of acquired assets. Our net income was \$157.9 million for fiscal year 2018 and our loans and total assets were \$9.45 billion and \$12.12 billion, respectively, at September 30, 2018.

We focus on business and agri-business banking, complemented by retail banking and wealth management services. Our loan portfolio consists primarily of business loans, comprised of CRE loans, agri-business loans and commercial non-real estate loans. At September 30, 2018, our business and agri-business loans collectively accounted for 90.1% of our total loan portfolio. In addition, 68.4% of our aggregate loan portfolio, which comprised 49.0% of CRE loans, 10.5% of agriculture real estate loans and 8.9% of residential real estate loans, was primarily secured by interests in real estate predominantly located in the states in which we operate. In addition, some of our other lending occasionally involves taking real estate as primary or secondary collateral. We offer small and mid-sized businesses a focused suite of financial products and have established strong relationships across a diversified range of sectors, including key areas supporting regional growth such as hospitality/tourism, agri-business services, freight and transport and healthcare. We have developed extensive expertise in CRE and agri-business lending, which serves two of the most prominent industries across our markets, and we offer a variety of financial services designed to meet the specific needs of such customers. We also provide a range of deposit and loan products to our retail customers through several channels, including our branch network, online banking system, mobile banking applications and customer care centers. In our wealth management business, we seek to expand our private banking, financial planning, investment management and insurance operations to better position us to capture an increased share of the business of managing the private wealth of many of our business and agri-business customers.

Our banking model seeks to balance the best of being a "big enough" and a "small enough" bank, providing capabilities typical of a much larger bank, such as diversified product specialists, customized banking solutions and multiple delivery channels, with a customer-focused culture usually associated with smaller banks. Our focus on balancing these capabilities with a service-oriented culture is embedded within our operations and is enhanced by focusing on our core competencies. We are well recognized



within our markets for our relationship-based banking model that provides for local, efficient decision making. We believe we serve our customers in a manner that is responsive, flexible and accessible. Our relationship bankers strive to build deep, long-term relationships with customers and understand the customers' specific needs to identify appropriate financial solutions. We believe we have been successful in attracting customers and bankers from larger competitors because of our flexible approach and the speed and efficiency with which we provide banking solutions to our customers while maintaining disciplined underwriting standards.

#### Our Business Strategy

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

##### Attract and Retain High-Quality Relationship Bankers

A key component of our growth in our existing markets and entry into new markets has been our ability to attract and retain high-quality relationship bankers. Since October 1, 2014, we have expanded our existing markets by opening loan production offices or branches in 9 new markets. Also since that date we have recruited approximately 55 new business and agri-business relationship bankers (out of a total of approximately 199 business and agri-business relationship bankers at September 30, 2018), with average industry experience of over 14 years when hired. We believe we have been successful in recruiting qualified relationship bankers due primarily to our decentralized management approach, focused product suite and flexible and customer-focused culture while continuing to provide sophisticated banking capabilities to serve our customers' needs. We intend to continue to hire experienced relationship bankers to execute our relationship-driven banking model. We utilize a variable compensation structure designed to incentivize our business and agri-business relationship bankers by tying their compensation to both the performance of the Company and their individual overall performance. We measure individual business banker performance based on revenue, loans originated, deposits raised and asset quality/risk, among other performance measurements. We believe this structure establishes the appropriate incentives to serve our customers' needs, maintain strong performance and satisfy our risk management objectives. By leveraging the strong networks and reputation of our experienced relationship bankers, we believe we can continue to grow our loan portfolio and deposit base as well as offer customers a range of products and services to fulfill their financial needs.

##### Optimize Footprint in Existing and Complementary Markets

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

##### Deepen Customer Relationships

We believe that our reputation, expertise and relationship-based banking model enable us to deepen our relationships with our customers. We look to leverage our relationships with existing customers by offering a range of products and services suitable to their needs such as online and mobile banking for consumer customers. We have sought to grow our customer deposit base by attracting more deposits from our business and agri-business customers. We offer alternative cash management solutions intended to help retain business customers. We seek to expand and enhance our wealth management platform through focused product offerings that we believe will appeal to our more affluent customers. We intend to continue to capitalize on opportunities to capture more business from existing customers throughout our banking network. During fiscal year 2018, we opened two new branches to expand our business banking and retail deposit raising initiatives in addition to continually improving our product offerings and presence in

existing locations.

**Continue to Improve Efficiency and Manage Costs**

We believe that our focus on operational efficiency is critical to our profitability and future growth. We intend to carefully manage our cost structure and continuously refine and implement internal processes to create further efficiencies and enhance our earnings. We believe our scalable systems, risk management infrastructure and operating model will better enable us to achieve further operational efficiencies as we grow our business.

7

---

#### Opportunistically Pursue Acquisitions

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

#### Our Operating Model

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

#### Our Prior Relationship With NAB

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

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

## Our Business Lines

### Business Banking

Business banking is a key focus of our business model and is one of our core competencies. We provide business banking services to small and mid-sized businesses across a diverse range of industries, including key sectors supporting regional growth such as hospitality/tourism, ancillary agri-business services (e.g., farm equipment suppliers and grain and seed merchants), freight and transport and healthcare (e.g., hospitals, physicians, care facilities and dentists). We offer our business banking customers a focused range of financial products designed to meet the specific needs of their businesses, including loans, lines of credit, cash management services, online business deposit and wire transfer services, in addition to noninterest-bearing demand accounts, interest-bearing non-transaction accounts and corporate credit cards. At September 30, 2018, business banking represented \$2.98 billion in deposits, an increase of \$112.6 million from September 30, 2017, and \$6.33 billion in loans, an increase of \$485.6 million over the same period, which represents 30.7% and 67.0%, respectively, of our total deposits and loans.

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

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

The following table presents the composition of our business lending as of September 30, 2018.

September 30, 2018

	South Dakota	Iowa / Kansas / Missouri	Nebraska	Arizona	Colorado	North Dakota / Minnesota	Other <sup>2</sup>	Total	% of Total Loan Unpaid Principal Balance
(dollars in thousands)									
Non-owner-occupied CRE loans <sup>1</sup>	\$544,517	\$642,318	\$444,160	\$269,854	\$363,120	\$106,695	\$(23,427)	\$2,347,237	24.8 %
Owner-occupied CRE loans <sup>1</sup>	290,901	393,089	248,478	139,071	233,937	29,004	—	1,334,480	14.1 %
Construction and development loans <sup>1</sup>	109,659	102,345	119,864	156,328	131,993	13,771	3,733	637,693	6.8 %
Multifamily residential real estate loans <sup>1</sup>	114,011	66,366	49,349	7,233	16,759	55,122	1,080	309,920	3.3 %
Commercial non-real estate loans <sup>1</sup>	287,744	800,598	377,368	63,506	128,185	7,169	35,417	1,699,987	18.0 %
Total business loans	\$1,346,832	\$2,004,716	\$1,239,219	\$635,992	\$873,994	\$211,761	\$16,803	\$6,329,317	67.0 %

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

<sup>2</sup> Balances in this column represent acquired workout loans and certain other loans managed by our workout staff, commercial and consumer credit card loans, fair value adjustments related to acquisitions and loans for which we have

elected the fair value option, which could result in a negative carrying amount in the event of a net negative fair value adjustment.

The following charts present the compositions of our CRE and commercial non-real estate loan portfolios, aggregated by customer exposure as of September 30, 2018, which are diversified across loan sizes.

### Agri-business Banking

In addition to business banking, we consider agri-business lending one of our core competencies. We have been providing banking services to the agricultural community since our Bank was founded. We have developed extensive expertise and brand recognition in agri-business lending, which is one of the larger sectors that we serve. We provide loans and banking services to agri-business customers across our geographic footprint. We predominantly lend to grain and protein producers who produce a range of agricultural commodities. Our agri-business customers range in size from small family farms to large commercial farming operations. At September 30, 2018, our agri-business loan portfolio was \$2.18 billion, representing 23.1% of our Bank's \$9.42 billion in total lending. Our agri-business loan portfolio was balanced at September 30, 2018, among the major types of agri-cultural production undertaken in our footprint, with grains (primarily corn, soybeans and wheat) representing 31.2% of our agri-business loan portfolio; proteins (primarily beef cattle, dairy products and hogs) representing 52.7% of our agri-business loan portfolio; and other products (including cotton, trees, fruits and nuts and vegetables, among others) representing 16.1% of our agri-business loan portfolio, as set forth in the chart below.

The composition of our agri-business lending portfolio is also geographically diversified across our footprint in our six business regions, as set forth in the table below.

	September 30, 2018		
	Agri-business Loans	% of Agri-business Loan Portfolio	
	(dollars in thousands)		
South Dakota	\$686,184	31.5	%
Iowa, Kansas and Missouri	389,341	17.8	%
Nebraska	147,366	6.8	%
Arizona	785,107	36.0	%
Colorado	182,002	8.3	%
North Dakota and Minnesota	3,121	0.1	%
Other <sup>1</sup>	(10,433 )	(0.5 )	%
Total	\$2,182,688	100.0	%

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

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

### Retail Banking

Retail banking provides a source of low-cost funding and deposit-related fee income. At September 30, 2018, our branch network consisted of 174 branch offices located in 130 communities. Our branch network enhances our ability to gather deposits, expand our brand presence, service our customers' needs, originate loans and maintain our customer relationships.



We offer traditional banking products to our retail customers, including noninterest-bearing demand accounts, interest-bearing demand accounts and time deposits. As the banking industry continues to experience broader customer acceptance of online and mobile banking tools for conducting basic banking functions and retail customers use branch locations with less frequency than they have historically, we serve our customers through a wide range of non-branch channels; including online, telephone and mobile banking platforms. In addition, we continue to optimize our branch network and have closed and/or relocated many less profitable branches. We continue to strive to optimize the effectiveness of our distribution channels and increase our operational efficiency to adapt to increasing customer preferences for self-service banking capabilities. At September 30, 2018, we had ATMs at 163, or 93.7%, of our branches and had another 11 company-owned ATMs at off-site locations. We are part of the MoneyPass and SHAZAM networks, enabling our customers to withdraw cash surcharge-free and service charge-free at over 35,000 ATM locations across the country.

The following table presents our retail branch network spread among our six regions.

	September 30, 2018		
	Number of branches	% of branches	
South Dakota	38	21.9	%
Iowa, Kansas and Missouri	55	31.6	%
Nebraska	50	28.7	%
Arizona	8	4.6	%
Colorado	20	11.5	%
North Dakota and Minnesota	3	1.7	%
Total	174	100.0	%

We also provide a variety of loan products to individuals. At September 30, 2018, our residential real estate and consumer portfolio was \$887.3 million, representing 9.4% of our total lending, and comprised residential mortgage loans, home equity loans and home equity lines of credit and general lines of credit, auto loans and other loans. We also have a small amount of consumer credit card balances outstanding. In addition to retail loans held in our portfolio, we also originate residential mortgage loans for resale (including their servicing) on the secondary market and, in the fiscal year ended September 30, 2018, we sold \$266.5 million of these loans and serviced \$613.3 million of mortgage loans. At September 30, 2018, we had a retail and mortgage loan officer base of 425 individuals. Home equity originations (including residential mortgages) are sourced almost exclusively through our branch network. Our home equity loan portfolio is conservatively underwritten, including assessment of the borrower's income, FICO score and the loan-to-value ratio. See "—Loans—Underwriting Principles" for discussion of our credit underwriting standards.

#### Wealth Management

We also provide our customers with a selection of wealth management solutions, including financial planning, private banking, investment management and trust services through associations with third party vendors, including registered broker-dealers and our investment adviser. Our investment representatives offer our customers investment management services through our branch network which entails overseeing and recommending investment allocations between asset classes based on a review of a client's risk tolerance. These representatives also offer and sell insurance solutions, including life insurance, and offer trust services, including personal trusts and estate planning. At September 30, 2018 our investment representatives had \$631.9 million in assets under management, and, through our trust services group, we had \$1.21 billion in assets under management, for a combined total of \$1.85 billion in assets under management. Enhancing and expanding our wealth management business is an important component of our strategic plan, as we believe it can deepen our customer relationships, create opportunities to provide a wider range of financial services products to our customers and drive stable and recurring revenue.

#### Loans

##### Overview

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





The following chart sets forth the composition of our loan portfolio by loan category as of September 30, 2018. Our underwriting principles, discussed below, require portfolio diversification across geographies, industries and customers. Our lending is diversified both geographically, predominantly across our nine footprint states, and across our loan categories referenced above and within each of these categories. For example, within agri-business lending, our portfolio is diversified across grain, protein and other types of agri-business. Our commercial non-real estate and owner-occupied CRE lending categories are well diversified, with no individual industry comprising more than 10.0% of lending in these combined categories. See "—Our Business Lines—Agri-business Banking" for information about the composition of our agri-business loan portfolio and "—Our Business Lines—Business Banking" for information about the composition of our business banking loan portfolio. At a customer level, our largest exposure represents 0.7% of our total loans, and our top ten loan exposures represent approximately 5.4% of our total loans at September 30, 2018.

#### Underwriting Principles

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

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

We also assess the presence and viability of one or more acceptable secondary sources of repayment to mitigate potential future borrower cash flow deterioration. To improve the reliability of secondary sources of repayment, we prefer originating loans on a secured basis, and at September 30, 2018, less than 1.0% of our total lending was on an unsecured basis. We typically engage in unsecured lending only in situations involving long-standing customers of sound net worth and above-average liquidity with strong repayment ability (other than in connection with credit cards we issue).

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

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

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

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

Price cycles and volatility—Agricultural commodity prices are both cyclical and volatile, and we seek to manage these factors by diversifying our portfolio across a range of agri-business customers including grain producers and protein producers (e.g., generally, low grain prices assist protein producers since their businesses use grains as inputs) and by determining and applying appropriate advance rate guidelines to agricultural commodities used as collateral, as discussed above.

Weather, disease and other perils—Severe weather, natural disasters, acts of war or terrorism and other external events could significantly impact our business and the business of our borrowers. We seek to mitigate our exposure to this risk through our geographic diversification which is predominantly across nine states and a number of agricultural products. Federally subsidized crop insurance coverage is also available for over 120 kinds of crops, typically of 50% to 85% of a grower's average yield, against various agriculture-related perils, including flood, drought, hail, fire, disease, insect damage, wildlife and earthquake.

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

#### Deposits

Deposits are our primary source of funds to support our revenue-generating assets. We offer traditional deposit products to consumers, businesses and other customers with a variety of rates and terms. Deposits at our Bank are insured by the FDIC up to statutory limits. We price our deposit products with a view to maximizing our share of each customer's financial services business and prudently managing our cost of funds. At September 30, 2018, we held \$9.73 billion of total deposits. At September 30, 2018, our deposit base consisted of \$3.78 billion, or 38.9%, in interest-bearing and noninterest-bearing transaction accounts, \$4.10 billion, or 42.1%, in interest-bearing non-transaction accounts, and \$1.85 billion, or 19.0%, in time deposits.

Our deposit base is diversified across our geographic footprint, as illustrated by the following table showing the composition of our deposit base by the geographic region of our branches at September 30, 2018.

	September 30, 2018			
	Number of Branches	Deposits	% of Deposits	
	(dollars in thousands)			
South Dakota	38	\$2,422,208	24.9	%
Iowa, Kansas and Missouri	55	2,757,408	28.3	%
Nebraska	50	2,472,297	25.4	%
Arizona	8	399,212	4.1	%

Edgar Filing: Great Western Bancorp, Inc. - Form 10-K

Colorado	20	1,228,762	12.6	%
North Dakota and Minnesota	3	50,359	0.5	%
Corporate and other	—	403,253	4.2	%
Total	174	\$9,733,499	100.0	%

Our deposit base is also diversified by client type. As of September 30, 2018, no individual depositor represented more than 1.3% of our total deposits, and our top ten depositors represented 6.6% of our total deposits. We continue our strategy of focusing on cost-effective transaction accounts as well as our focus on gathering business deposits, which are typically transaction accounts by

nature. At September 30, 2018, our deposit base included \$959.4 million of municipal deposits, against which we were required to hold \$622.1 million of collateral. Municipal deposits represent approximately 639 customers with an average balance per customer of \$1.5 million.

Via the internet, we also offer certain traditional consumer deposit products available for customers within our footprint. Our online consumer banking platform is full-featured with quick and secure access to activity, statements and other features including rewards where customers can earn cash back by using their bank card at select merchants, and Mobile Banking where customers can access accounts on eligible devices, review account balances, transfer funds, deposit checks and pay bills from the convenience of their smart device.

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

#### Investments

We have historically invested excess deposits in high-quality, liquid investment securities including residential agency mortgage-backed securities and, to a lesser extent, U.S. Treasury securities, corporate debt securities and securities issued by U.S. states and political subdivisions. Our investment portfolio serves as a means to collateralize FHLB borrowings and public funds deposits, to earn net spread income on excess deposits and to maintain liquidity and balance interest rate risk.

The following table sets forth the composition of our investment portfolio by category as of September 30, 2018.

	September 30, 2018		
	Investments	% of	
	(dollars in thousands)	Investments	
U.S. Treasury securities	\$ 168,394	11.8	%
Mortgage-backed securities:			
Government National Mortgage Association	442,458	31.0	%
Federal Home Loan Mortgage Corporation	297,380	20.8	%
Federal National Mortgage Association	188,192	13.2	%
Small Business Assistance Program	260,458	18.2	%
States and political subdivision securities	69,566	4.9	%
Other	1,006	0.1	%
Total	\$ 1,427,454	100.0	%

#### Marketing and Sales

Our goal of increasing our share of financial services in our market areas is driven by a technology, marketing, communication and sales strategy which aims to strengthen the bank brand and generate public awareness through innovative marketing and public relations initiatives leveraging both traditional and emerging social media channels in new ways to advance the brand and create meaningful connections with existing and potential customers. We believe strongly that by leading with a culture of service, we will have more opportunity to provide our products and services and to create deeper customer relationships. A successful marketing program will attract customers to visit our Bank. Combined with a highly tuned service environment and well-trained associates, this leads to our strong service culture and is a key element in our ability to attract both talented associates and loyal customers.

### Risk Oversight and Management

We believe risk management is another core competency of our business. As we have grown, our risk team and its capabilities have expanded. Our risk management consists of comprehensive policies and processes and seeks to emphasize personal ownership and accountability for risk with all our employees. We expect our people to focus on managing our risks, and we support this with appropriate oversight and governance and a framework based on three lines of defense (including an internal audit team who report directly to the Audit Committee of our Board of Directors). We delegate authority for our risk management oversight and governance to a number of executive and senior management committees, each responsible for overseeing various aspects of our risk management process. Various board committees, including the Risk Committee of our Board of Directors, provide oversight over our risk management function. The Economic Growth, Regulatory Relief and Consumer Protection Act was enacted in May 2018 and provides certain regulatory relief with respect to non-bank financial companies supervised by the Federal Reserve and certain bank holding companies, by, among other things, increasing the asset threshold for mandatory risk committees from \$10 billion to \$50 billion in total assets. Our assets do not exceed \$50 billion, but in the interests of good corporate governance, risk management and oversight, we believe it is extremely important to maintain and continue our Risk Committee of the Board of Directors.

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

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

### Risk Framework and Appetite

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

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

### Credit Risk Management

Credit risk is the potential for loss arising from a customer, counterparty or issuer failing to meet its contractual obligations to us. Our strategy for managing credit risk includes well-defined, centralized credit policies, uniform underwriting criteria, clearly delegated authority levels and accountability, ongoing risk monitoring and review processes for credit exposures and portfolio diversification by geography, industry and customer. We segment our loan portfolio into a number of asset classes for purposes of developing and documenting our credit risk management procedures and determining associated allowance for loan and lease losses, including CRE, agriculture, commercial non-real estate, real estate, consumer and other lending. For a discussion of our underwriting standards, see "—Loans—Underwriting Principles."

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

We have well-established procedures for managing loans that either show early signs of weakness or appear to have actually weakened. These procedures include moving a loan to our "watch" list when we have early concerns. Loans on our watch list receive more intense focus, along with more senior-level monitoring and reporting, a requirement of higher credit authority approval for any further lending increase and action plans for improving the prospects for such loans. Loans that we rate "substandard" (or lower) that are over \$250,000 will generally fall under the management or consultation of our SBS team, our specialist loan rehabilitations, workout and other real estate owned asset team.

These loans are actively managed, with the primary goal of SBS rehabilitating the loans to "performing" status. If rehabilitation is not feasible, a loan workout strategy is developed and put into execution to maximize our Bank's recovery of loan proceeds and other costs to which our Bank is legally entitled. SBS also oversees the litigation of troubled assets, when appropriate. In addition, appropriate reserves and charge-offs are made based on assessment of potential realization levels and related costs.

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

#### Operational Risk

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

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

#### Competition

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

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



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

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

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

#### Intellectual Property

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

#### Information Technology Systems

We devote significant resources to maintain stable, reliable, efficient and scalable information technology systems. We utilize a single, highly integrated core processing system from a third party vendor across our business that improves cost efficiency and acquisition integration. As advantageous, we work with our third party vendors to maximize the efficiency of our use of their applications. We use integrated systems to originate and process loans and deposit accounts, which reduces processing time, improves customer experience and reduces costs. Most customer records are maintained digitally. During fiscal year 2018, we have continued to execute on information security, digital banking, and cash management banking services initiatives and have implemented a new consumer online account opening service to continue to enhance the overall client experience.

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

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

#### Employees

As of September 30, 2018, we had 1,664 total employees, which included 1,528 full-time employees and 136 part-time employees. Of our 1,664 employees, 1,197 are in core banking (i.e., non-line of business branch network employees, including relationship bankers), 85 employees are in lines of business (e.g., mortgage, credit cards, investments), 30 employees are in finance, 200 employees are in support services (i.e., employees in operations, IT and projects), 99 employees are in risk and credit management, 14 employees are in internal audit and 39 employees are in other functions. We believe our relationship with our employees to be generally good. We have not experienced any material employment-related issues or interruptions of services due to labor disagreements and are not a party to any collective bargaining agreements.

#### Executive Officers of the Registrant

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

Name	Age	Position
Ken Karels	61	Chief Executive Officer and Chairperson of the Board
Doug Bass	57	President and Chief Operating Officer
Peter Chapman	45	Chief Financial Officer and Executive Vice President
Tim Kintner	60	Regional President and Executive Vice President
Michael Gough	57	Chief Credit Officer and Executive Vice President

Karlyn Knieriem 51 Chief Risk Officer and Executive Vice President

17

---

Kenneth Karels has served as our Chief Executive Officer and on our Board of Directors since 2010 and was elected Chairman in 2017. Mr. Karels is also the Chairman and Chief Executive Officer of our Bank and serves on the Boards of Directors of our Bank and our Bank's other subsidiaries. Mr. Karels' duties include overall leadership and executive oversight of our Bank. Mr. Karels has over 40 years of banking experience and expertise in all areas of bank management and strategic bank acquisitions. He also served as our President from 2010 until September 30, 2018 and has served in several different capacities at our Bank since February 2002, including President, Regional President and Chief Operating Officer for the Bank's branch distribution channel including agriculture, business and retail lending and deposits functions. During his executive tenure, Mr. Karels has helped grow our Bank from \$5.2 billion in assets at September 30, 2009 to over \$12 billion in assets today. Before joining our Bank, Mr. Karels served as President and Chief Executive Officer at Marquette Bank, Milbank, SD, where he was employed for 25 years. In addition, Mr. Karels also serves as a member of the Federal Advisory Council to the Board of Governors of the Federal Reserve Bank, on the board of Avera Health Systems, the board of Valley Queen Cheese and the board of the South Dakota Education Enhancement and Funding Corporation.

Doug Bass has served as President and Chief Operating Officer of our Company and our Bank since 2018. Mr. Bass is responsible for overall loan and deposit growth, De novo office expansion, operating efficiency, our wealth management and mortgage banking lines, People & Culture, and for implementing technological and strategic initiatives for our Company. In total, Mr. Bass has over 36 years of banking experience. Mr. Bass has worked in various capacities with our Company and Bank since 2009, including serving as an Executive Vice President of our Company and Regional President of our Bank since 2010. Mr. Bass has expertise in all areas of bank management within our Bank. Before joining our Bank, Mr. Bass served as President of First American Bank Group. Previously Mr. Bass served in various capacities over 15 years with Firststar Corporation, which is now known as US Bank, including as President and Chief Executive Officer of Firststar's Sioux City and Council Bluffs operations in western Iowa and as Manager of Correspondent Banking for its eastern Iowa operations, which also included responsibility for commercial banking and agri-business lending.

Peter Chapman has served as our Chief Financial Officer and Executive Vice President since 2013 and on GWBCI's Board of Directors from January 2013 until October 2014. Mr. Chapman is also the Chief Financial Officer and Executive Vice President of our Bank. In 2017, Mr. Chapman also began overseeing all of our banking operations within the states of Minnesota and North Dakota. Mr. Chapman has over 20 years of industry experience and is responsible for all aspects of our financial and regulatory reporting together with planning and strategy and treasury management of our balance sheet. From 2010 until he was appointed as our Chief Financial Officer in November 2012, Mr. Chapman served as the General Manager, Finance Performance Management & Non Traded Businesses for NAB's Wholesale Banking business. From 2007 through 2010, Mr. Chapman served as Head of Financial Control at NAB and was responsible for oversight and delivery of NAB's external financial reporting and internal management reporting. From 2004 through 2007, Mr. Chapman was Manager, and then Senior Manager, in NAB's Group Accounting Policy team. From 1995 through 2004, Mr. Chapman held various roles with Ernst & Young's Financial Services Audit Division, including Group Manager of its Melbourne, Australia office's Financial Services Audit practice, and he was seconded to Ernst & Young's New York office from 1998 through 2000. Mr. Chapman has been a Chartered Accountant with the Institute of Chartered Accountants Australia since 1998 and is currently a Fellow of the Institute.

Timothy Kintner has served as our Executive Vice President and as Regional President of our Bank since 2018. Mr. Kintner oversees all of our banking operations in South Dakota and our retail banking operations. Mr. Kintner has over 30 years of banking experience and has expertise in all areas of bank management and strategic bank planning. Before joining our Bank, Mr. Kintner held the position of Executive Vice President – Regional Banking Markets and Community Relations for Bankers Trust Company in Des Moines, IA since 2013. Prior to that, he served as President and CEO of Bankers Trust in Cedar Rapids, IA and President of Marquette Bank in Cedar Rapids, IA. Mr. Kintner also spent several years in senior management positions with Wells Fargo.

Michael Gough has served as Chief Credit Officer of our Bank since 2014 and Executive Vice President of our Company since July 2017. Mr. Gough is responsible for the overall direction and operations of the credit department, including loan and portfolio quality, and oversees our commercial credit and collection policies, procedures and processes. Mr. Gough has been employed with our Bank for over 22 years. Prior to his appointment as the Bank's

Chief Credit Officer, Mr. Gough started and managed the Bank's SBS team which manages troubled assets including real estate and equipment that were acquired through foreclosure. Preceding his role as SBS Manager for the Bank, Mr. Gough served as the Executive Vice President of Credit for the Bank's South Dakota Charter, which in 2007 was merged with and became the successor to the Bank's Nebraska and Iowa charters.

Karlyn Knieriem has served as the Company's Chief Risk Officer since 2018 and is also an Executive Vice President of our Company. Ms. Knieriem is responsible for the overall direction and operations of the risk department, including Enterprise Risk Management, Bank Secrecy Act, Compliance and Risk Asset Review. Ms. Knieriem joined our Bank in 2016 as Head of Enterprise Risk Management. Ms. Knieriem has 20 years of experience in the financial services industry, including a 17-year career with First National Bank of Omaha, where she worked in a number of senior leadership positions including 11 years as Vice President/Managing Director – Treasury.

### Supervision and Regulation

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

#### Regulatory Agencies

We are a bank holding company under the BHC Act. Consequently, we and our subsidiaries are subject to supervision, regulation and examination by the Federal Reserve. The BHC Act provides generally for "umbrella" regulation of bank holding companies and functional regulation of holding company subsidiaries by applicable regulatory agencies. We are also subject to the disclosure and regulatory requirements of the Exchange Act administered by the SEC, and, following the listing of our common stock, the rules adopted by the NYSE, applicable to listed companies.

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

#### Permissible Activities for Bank Holding Companies

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

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

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

#### Permissible Activities for Banks

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

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

#### Acquisitions by Bank Holding Companies

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

#### Dividends

Our Company is a legal entity separate and distinct from its banking and other subsidiaries. As a bank holding company, we are subject to certain restrictions on our ability to pay dividends under applicable banking laws and regulations. Federal bank regulators are authorized to determine under certain circumstances relating to the financial condition of a bank holding company or a bank that the payment of dividends would be an unsafe or unsound practice and to prohibit payment thereof. In particular, federal bank regulators have stated that paying dividends that deplete a banking organization's capital base to an inadequate level would be an unsafe and unsound banking practice and that banking organizations should generally pay dividends only out of current operating earnings. In addition, in the current financial and economic environment, the Federal Reserve has indicated that bank holding companies should carefully review their dividend policy and has discouraged payment ratios that are at maximum allowable levels unless both asset quality and capital are very strong.

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

#### Transactions with Affiliates

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

Federal law also limits a bank's authority to extend credit to its directors, executive officers and 10% (or greater) stockholders, as well as to entities controlled by such persons. Among other things, extensions of credit to insiders are required to be made on terms that are substantially the same as, and follow credit underwriting procedures that are not



less stringent than, those prevailing for comparable transactions with unaffiliated persons. In addition, the terms of such extensions of credit may not involve more than the normal risk of non-repayment or present other unfavorable features and may not exceed certain limitations on the amount of credit extended to such persons individually and in the aggregate.

20

---

### Source of Strength

Federal Reserve policy and federal law require bank holding companies to act as a source of financial and managerial strength to their subsidiary banks. Under this requirement, we are expected to commit resources to support our Bank, including at times when we may not be in a financial position to provide such resources, and it may not be in our, or our stockholders' or creditors', best interests to do so. In addition, any capital loans we make to our Bank are subordinate in right of payment to depositors and to certain other indebtedness of our Bank. In the event of our bankruptcy, any commitment by us to a federal bank regulatory agency to maintain the capital of our Bank will be assumed by the bankruptcy trustee and entitled to priority of payment.

### Safety and Soundness Standards

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

### Deposit Insurance

**FDIC Insurance Assessments.** As an FDIC-insured bank, our Bank must pay deposit insurance assessments to the FDIC based on its average total assets minus its average tangible equity. Our Bank's assessment rates are currently based on its risk classification (i.e., the level of risk it poses to the FDIC's deposit insurance fund). Institutions classified as higher risk pay assessments at higher rates than institutions that pose a lower risk. With the acquisition of HF Financial in 2016, our total assets exceeded \$10 billion as of the quarter ended June 30, 2016. Since our Bank's total consolidated assets have exceeded \$10 billion for four consecutive quarters, the FDIC uses a performance score and a loss-severity score to calculate the assessment rate. In calculating these scores, the FDIC uses a bank's capital level and regulatory supervisory ratings and certain financial measures to assess an institution's ability to withstand asset-related stress and funding-related stress. The FDIC also has the ability to make discretionary adjustments to the total score based upon significant risk factors that are not adequately captured in the calculations. In addition to ordinary assessments described above, the FDIC has the ability to impose special assessments in certain instances. The FDIC's deposit insurance fund is currently underfunded, and the FDIC has raised assessment rates and imposed special assessments on certain institutions during recent years to raise funds. In October 2010, the FDIC adopted a restoration plan to ensure that the fund reserve ratio reaches 1.35% by September 30, 2020, as required by the Dodd-Frank Act. In March of 2016, the FDIC approved a final rule to meet this requirement by 2018. To meet the minimum reserve ratio by 2018, during the third calendar quarter of 2016 the FDIC began assessing banks with consolidated assets of more than \$10 billion a surcharge assessment of 0.045%. The surcharge continued through October 1, 2018, when the reserve ratio exceeded 1.35%.

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

**Other Assessments.** In addition, the Deposit Insurance Funds Act of 1996 authorized the Financing Corporation to impose assessments on deposit insurance fund applicable deposits in order to service the interest on the Financing Corporation's bond obligations from deposit insurance fund assessments. The amount assessed on individual institutions is in addition to the amount, if any, paid for deposit insurance according to the FDIC's risk-related

assessment rate schedules. Assessment rates may be adjusted quarterly to reflect changes in the assessment base.

**Interstate Branching**

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

#### Prohibitions Against Tying Arrangements

Banks are subject to the prohibitions of 12 U.S.C. Section 1972 on certain tying arrangements. We are prohibited, subject to some exceptions, from extending credit to or offering any other service, or fixing or varying the consideration for such extension of credit or service, on the condition that the customer obtain some additional service from the institution or its affiliates or not obtain services of a competitor of the institution.

#### Community Reinvestment Act of 1977

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

#### Future Legislation and Regulation

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

#### Depositor Preference

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

#### Financial Privacy

The federal bank regulators have adopted rules limiting the ability of banks and other financial institutions to disclose non-public information about consumers to unaffiliated third parties. As a financial institution, our internal systems and vendor-outsourced storage solutions contain a significant amount of sensitive data, including personal information, related to our customers. We are therefore subject to compliance obligations under federal and state information security laws, among others, including the Gramm-Leach-Bliley Act, which institute limitations on data sharing. These limitations require disclosure of privacy policies to consumers and, in some circumstances, allow consumers to prevent disclosure of certain personal information to an unaffiliated third party. These regulations affect how consumer information is transmitted through diversified financial companies and conveyed to outside vendors. We are also subject to various regulatory guidance as updated from time to time and implemented by the FFIEC, an interagency body of the FDIC, the Office of the Comptroller of the Currency, the Federal Reserve, the National Credit Union Administration and various state regulatory authorities. FFIEC guidance is provided in areas such as data privacy, disaster recovery, information security, and third party vendor management to identify potential risks related to our services that could adversely affect our banking and financial services clients. There have been increased public attention regarding the use of personal information, accompanied by legislation and regulations intended to strengthen data protection, information security and consumer and personal privacy. The law in these areas continues to develop, the number of jurisdictions adopting such laws continues to increase and these laws may be inconsistent from state to state.

In May 2018, the European Union ("EU") adopted a comprehensive general data privacy regulation ("GDPR"). GDPR brings heightened scrutiny of data processing activities and higher fines and sanctions for non-compliance with data protection legislation. In addition, the GDPR widens the territorial scope of EU privacy rules to organizations located outside the EU if they offer goods or services to or monitor EU citizen behaviors and introduces new compliance

obligations, including financial penalties for non-compliance. We believe the applicability of the GDPR to us is minimal as we do not offer good or services to EU residents or monitor their behaviors. In addition, other federal, state or local governments may try to implement similar legislation, which could result in different privacy standards for different geographical regions.

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

Various federal banking laws and regulations, including rules adopted by the Federal Reserve pursuant to the requirements of the Dodd-Frank Act, impose heightened requirements on certain large banks and bank holding companies. Most of these rules apply primarily to bank holding companies with at least \$50 billion in total consolidated assets, but certain rules also apply to banks and bank holding companies with at least \$10 billion in total consolidated assets. With the acquisition of HF Financial on May 16, 2016, our total consolidated assets exceeded \$10 billion. Because our Bank's total consolidated assets equal or exceed \$10 billion, we or our Bank, as applicable, will, among other requirements:

be subject to the maximum permissible interchange fee for swipe transactions, equal to no more than 21 cents plus 5 basis points of the transaction value for many types of debit interchange transactions, as described below in

"—Interchange Fees";

calculate our FDIC deposit assessment base using the performance score and a loss-severity score system described above in "—Deposit Insurance;" and

be examined for compliance with federal consumer protection laws primarily by the BCFP as described below in "—Consumer Financial Protection."

Prior to exceeding \$10 billion in total consolidated assets, we began analyzing these rules to ensure we were prepared to comply with these rules as applicable.

#### The Volcker Rule

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

#### Interchange Fees

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

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

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

the previous calendar year. For more information on interchange fees, see "Part I, Item 1A. Risk Factors—Reductions in interchange fees will reduce our associated income."

### Consumer Financial Protection

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

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

The consumer protection provisions of the Dodd-Frank Act and the examination, supervision and enforcement of those laws and implementing regulations by the BCFP have created a more intense and complex environment for consumer finance regulation. The BCFP has significant authority to implement and enforce federal consumer finance laws, including the Truth in Lending Act, the Equal Credit Opportunity Act and new requirements for financial services products provided for in the Dodd-Frank Act, as well as the authority to identify and prohibit unfair, deceptive or abusive acts and practices. The BCFP has broad rulemaking authority for a wide range of consumer financial laws that apply to all banks including, among other things, the authority to prohibit "unfair, deceptive, or abusive" acts and practices. The review of products and practices to prevent such acts and practices is a continuing focus of the BCFP, and of banking regulators more broadly. In addition, the Dodd-Frank Act provides the BCFP with broad supervisory, examination and enforcement authority over various consumer financial products and services, including the ability to require reimbursements and other payments to customers for alleged legal violations and to impose significant penalties, as well as injunctive relief that prohibits lenders from engaging in allegedly unlawful practices. The BCFP also has the authority to obtain cease and desist orders providing for affirmative relief or monetary penalties. The Dodd-Frank Act does not prevent states from adopting stricter consumer protection standards. State regulation of financial products and potential enforcement actions could also adversely affect our business, financial condition or results of operations.

### Incentive Compensation

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



entity.

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

### Regulatory Capital Requirements, Basel III and the Capital Rules

The Federal Reserve monitors the capital adequacy of our holding company on a consolidated basis, and the FDIC and the SD Division of Banking monitor the capital adequacy of our Bank based on the Capital Rules, also known as the Basel III Capital Rules, which went into effect January 1, 2015, subject to certain phase-in provisions. The risk-based guidelines are intended to make regulatory capital requirements sensitive to differences in credit and market risk profiles among banks and bank holding companies, to account for off-balance sheet exposure and to minimize disincentives for holding liquid assets. Assets and off-balance sheet items are assigned to weighted risk categories, and capital is classified in one of the following tiers depending on its characteristic:

**Common Equity Tier 1 ("CET1") Capital** CET1 capital for us includes common equity, surplus and retained earnings less goodwill, most intangible assets and certain other assets. The Capital Rules require bank holding companies and banks to include Accumulated Other Comprehensive Income ("AOCI") into CET1 unless the bank and bank holding company use a one-time election to exclude AOCI from its regulatory capital metrics on January 1<sup>st</sup>, 2015. We elected to exclude AOCI from CET1.

**Tier 1 (Core) Capital**-Tier 1 capital for us includes CET1 and qualifying trust preferred securities at the holding company level, less goodwill, most intangible assets and certain other assets.

**Tier 2 (Supplementary) Capital**-Tier 2 capital for us includes qualifying subordinated debt and a limited amount of allowance for loan and lease losses.

Bank holding companies and banks are also currently required to comply with minimum leverage requirements, measured based on the ratio of a bank holding company's or a bank's, as applicable, Tier 1 capital to adjusted quarterly average total assets (as defined for regulatory purposes). These requirements generally necessitate a minimum Tier 1 leverage ratio of 4% for all bank holding companies and banks. To be considered "well capitalized" under the regulatory framework for prompt corrective action, our Bank must maintain minimum Tier 1 leverage ratios of at least 5%. See "—Prompt Corrective Regulatory Action."

Under the Basel III Capital Rules, the minimum capital ratios are (i) 4.5% CET1 to risk-weighted assets, (ii) 6% Tier 1 capital (that is, CET1 plus Additional Tier 1 capital) to risk-weighted assets and (iii) 8% total capital (that is, Tier 1 capital plus Tier 2 capital) to risk-weighted assets.

The current Capital Rules also include a capital conservation buffer designed to absorb losses during periods of economic stress. The capital conservation buffer is composed entirely of CET1, on top of these minimum risk-weighted asset ratios. In addition, the Capital Rules provide for a countercyclical capital buffer applicable only to certain covered institutions. We do not expect the countercyclical capital buffer to be applicable to us or our Bank. Banking institutions with a ratio of CET1 to risk-weighted assets above the minimum but below the capital conservation buffer (or below the combined capital conservation buffer and countercyclical capital buffer, when the latter is applied) will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall.

The implementation of the capital conservation buffer began on January 1, 2016 at the 0.625% level and will be phased in over a three-year period (increasing by 0.625% on each subsequent January 1, until it reaches 2.5% on January 1, 2019). When fully phased-in, the Capital Rules will require us, and our Bank, to maintain an additional capital conservation buffer of 2.5% of CET1, effectively resulting in minimum ratios of (i) 7% CET1 to risk-weighted assets, (ii) 8.5% Tier 1 capital to risk-weighted assets, and (iii) 10.5% total capital to risk-weighted assets.

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

The Capital Rules prescribe a standardized approach for risk weightings that, depending on the nature of the assets, generally range from 0% for U.S. government securities, 20%-50% for U.S. government agencies and municipal bonds, 50%-150% for loans and up to 600% for certain equity exposures.

With respect to our Bank, the Capital Rules also revised the prompt corrective action regulations pursuant to Section 38 of the FDIA. See "—Prompt Corrective Regulatory Action."

We believe that, as of September 30, 2018, we and our Bank would meet all capital adequacy requirements under the Capital Rules on a fully phased-in basis as if such requirements were then in effect.

### Prompt Corrective Regulatory Action

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

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

An institution is deemed to be "adequately capitalized" if it has a total risk-based capital ratio of 8% or greater, a Tier 1 risk-based capital ratio of 6% or greater, a common equity Tier 1 risk-based capital ratio of 4.5% or greater, and generally a leverage capital ratio of 4% or greater. The Capital Rules do not change the total risk-based capital requirements for any prompt corrective action category.

As of September 30, 2018, we and our Bank were well capitalized with Tier 1 capital ratios of 12.0% and 11.6%, respectively, total capital ratios of 13.0% and 12.2%, respectively, Tier 1 leverage ratios of 10.7% and 10.3%, respectively, and a CET1 ratio of 11.3% and 11.6%, respectively, as calculated under Basel III which went into effect on January 1, 2015. For more information on these financial measures, including reconciliations to our and our Bank's Tier 1 capital ratio, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Capital."

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

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

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

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

prevailing market rates.

Institutions that are undercapitalized or significantly undercapitalized and either fail to submit an acceptable capital restoration plan or fail to implement an approved capital restoration plan may be subject to a number of requirements and restrictions, including orders to sell sufficient voting stock to become adequately capitalized, requirements to reduce total assets and cessation of receipt of deposits from correspondent banks. Critically undercapitalized depository institutions failing to submit or implement an acceptable capital restoration plan are subject to appointment of a receiver or conservator.

#### Anti-Money Laundering and the USA PATRIOT ACT

The Company is subject to a variety of laws and regulations that involve money laundering, financial recordkeeping and proceeds from crime, including the BSA, as amended by Title III of the USA PATRIOT Act and any related or similar rules, regulations or guidelines, issued, administered or enforced by governmental authorities in the U.S. such as the Department of the Treasury's FinCEN and the FFIEC. A major focus of governmental policy on financial institutions in recent years has been aimed at anti-money laundering and terrorist financing. The USA Patriot Act substantially broadened the scope of United States anti-money laundering laws and regulations by imposing significant new compliance and due diligence obligations, creating new crimes and penalties and expanding the extra-territorial jurisdiction of the United States in these areas: customer identification programs, money laundering, terrorist financing, identifying and reporting suspicious activities and currency transactions, currency crimes, and cooperation between financial institutions and law enforcement authorities. We are required, as part of our BSA/AML program, to designate a BSA Officer, maintain a BSA/AML training program, maintain internal controls to effectuate the BSA/AML program, implement independent testing of the BSA/AML program, and as of May 11, 2018, comply with FinCEN's new CDD Rule. The CDD Rule adds a new requirement for us to identify and verify the identity of natural persons ("beneficial owners") of legal entity customers who own, control and profit from companies when those companies open accounts. The CDD Rule has four core requirements. It requires covered financial institutions to establish and maintain written policies and procedures that are reasonably designed to (1) identify and verify the identity of customers; (2) identify and verify the identity of the beneficial owners of companies opening accounts; (3) understand the nature and purpose of customer relationships to develop customer risk profiles; and (4) conduct ongoing monitoring to identify and report suspicious transactions and, on a risk basis, to maintain and update customer information. With respect to the new requirement to obtain beneficial ownership information, financial institutions will have to identify and verify the identity of any individuals who own 25 percent or more of a legal entity, and an individual who controls the legal entity.

Financial institutions are prohibited from entering into specified financial transactions and account relationships and must use enhanced due diligence procedures in their dealings with certain types of high-risk customers and implement a written customer identification program. Financial institutions must take certain steps to assist government agencies in detecting and preventing money laundering and report certain types of suspicious transactions. Among other provisions, the USA Patriot Act requires financial institutions to have anti-money laundering programs in place and requires banking regulators to consider a holding company's effectiveness in combating-money laundering when ruling on certain merger or acquisition applications. Failure of a financial institution to maintain and implement adequate programs to combat money laundering and terrorist financing, or to comply with all of the relevant laws or regulations, could have serious legal and reputational consequences for the institution, including causing applicable bank regulatory authorities not to approve merger or acquisition transactions when regulatory approval is required or to prohibit such transactions even if approval is not required. Regulatory authorities have imposed cease and desist orders and civil money penalties against institutions found to be violating these obligations.

#### Office of Foreign Assets Control Regulation

The U.S. Treasury Department's OFAC administers and enforces economic and trade sanctions against targeted foreign countries and regimes, under authority of various laws, including designated foreign countries, nationals and others. OFAC publishes lists of specially designated targets and countries. We and our Bank are responsible for, among other things, blocking accounts of, and transactions with, such targets and countries, prohibiting unlicensed trade and financial transactions with them and reporting blocked transactions after their occurrence. Failure to comply with these sanctions could have serious legal and reputational consequences, including causing applicable bank regulatory authorities not to approve merger or acquisition transactions when regulatory approval is required or to prohibit such transactions even if approval is not required.

#### Available Information

Our internet address is [www.greatwesternbank.com](http://www.greatwesternbank.com). Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to these reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act are available free of charge through our website (by clicking on the Investor Relations link at the bottom of the page) as soon as reasonably practicable after the filing or furnishing of such material with the SEC.



## ITEM 1A. RISK FACTORS

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

### Risks Related to Our Business

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

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

While during 2018, the U.S. economy has shown signs of recovery, in recent years economic growth and business activity across a wide range of industries and regions in the U.S. has been slow and uneven. There are continuing concerns related to the level of U.S. government debt and fiscal actions that may be taken to address that debt, depressed oil prices and ongoing federal budget negotiations that may have a destabilizing effect on financial markets. There can be no assurance that economic conditions will continue to improve, and these conditions could worsen. Economic pressure on consumers and uncertainty regarding continuing economic improvement may result in changes in consumer and business spending, borrowing and saving habits. Such conditions could have a material adverse effect on the credit quality of our loans or our business, financial condition or results of operations.

The agricultural economy in our states, which is important to our financial performance as a major agricultural lender, has been affected by declines in prices and the rates of price growth for various crops and other agricultural commodities. Similarly, weaker prices could reduce the cash flows generated by farms and the value of agricultural land in our local markets and thereby increase the risk of default by our borrowers or reduce the foreclosure value of agricultural land and equipment that serve as collateral for certain of our loans. Further declines in commodity prices or collateral values may increase the incidence of default by our borrowers. Moreover, weaker prices might threaten farming operations in the United States, reducing market demand for agricultural lending. In particular, farm income has seen recent declines, and in line with the downturn in farm income, farmland prices are coming under pressure.



We monitor and review our agriculture portfolio to identify loans potentially affected by declines in agricultural commodity prices and lower collateral values and, where available, seek from the borrower credit enhancements such as additional collateral or government guarantees.

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

Changes in U.S. trade policies and other factors beyond the Company's control, including the imposition of tariffs and retaliatory tariffs, may adversely impact our business, financial condition and results of operations.

Following the U.S. presidential election in 2016, there has been discussion and dialogue regarding potential changes to U.S. trade policies, legislation, treaties and tariffs, including trade policies and tariffs affecting other countries, including China, the European Union, Canada and Mexico and retaliatory tariffs by such countries. Tariffs and retaliatory tariffs have been imposed, and additional tariffs and retaliation tariffs have been proposed. Such tariffs, retaliatory tariffs or other trade restrictions on products and materials that our customers import or export, including among others, agricultural products, could cause the prices of our customers' products to increase which could reduce demand for such products, or reduce our customer margins, and adversely impact their revenues, financial results and ability to service debt; which, in turn, could adversely affect our financial condition and results of operations. In addition, to the extent changes in the political environment have a negative impact on us or on the markets in which we operate our business, results of operations and financial condition could be materially and adversely impacted in the future. It remains unclear what the U.S. Administration or foreign governments will or will not do with respect to tariffs already imposed, additional tariffs that may be imposed, or international trade agreements and policies. On October 1, 2018, the United States, Canada and Mexico agreed to a new trade deal to replace the North American Free Trade Agreement ("NAFTA"), which is subject to congressional approval which is not expected until 2019 and various components of the agreement are not effective until 2020. The full impact of this agreement on us, our customers and on the economic conditions in our states is currently unknown. A trade war or other governmental action related to tariffs or international trade agreements or policies has the potential to negatively impact ours and/or our customers' costs, demand for our customers' products, and/or the U.S. economy or certain sectors thereof and, thus, adversely impact our business, financial condition and results of operations.

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

As of September 30, 2018, our business lending, which consists of our CRE and commercial non-real estate loans, represented approximately \$6.33 billion, or 67.0%, of our loan portfolio. Our CRE loans secured by owner-occupied property and commercial non-real estate loans secured by business assets and guarantees from owners, which together form the core of our business banking focus, totaled approximately \$3.03 billion, or 32.1%, of our loan portfolio at September 30, 2018, with undisbursed loan commitments for these loans amounting to an additional \$778.2 million. We also had approximately \$3.29 billion of other CRE loans (i.e., construction and development loans, multifamily residential real estate loans and CRE loans secured by commercial property that is not owner-occupied) at September 30, 2018, or 34.9% of our loan portfolio, including hospitality/tourism sector loans of \$953.4 million and construction and development loans of \$637.7 million. Because payments on commercial non-real estate loans, owner-occupied CRE loans and other CRE loans are often dependent on the successful operation or development of the property or business involved, repayment of such loans may be more sensitive than other types of loans to adverse conditions in the real estate market or the general economy. Collateral of all types, and particularly that of a specialized nature, may also experience significant declines in value in the short-/medium-term or the longer-term. These types of loans may have a greater risk of loss than residential mortgage lending, in part, because these loans are generally larger or more complex to underwrite than residential mortgages. In particular, real estate construction, acquisition and development loans have certain risks not present in other types of loans, including risks associated with construction cost overruns, project completion risk, general contractor credit risk and risks associated with the ultimate sale or use of the completed construction. If a decline in economic conditions or other issues cause difficulties for our borrowers of these types of business loans, if we fail to evaluate the credit of these loans accurately when we underwrite them or if we do not continue to monitor adequately the performance of these loans, our lending portfolio could experience delinquencies, defaults and credit losses that could have a material adverse effect on our business, financial condition or results of operations.

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

At September 30, 2018, our agricultural loans, consisting primarily of agricultural operating loans (e.g., loans to farm and ranch owners and operators) and agricultural real estate loans, were \$2.18 billion, representing 23.1% of our total

loan portfolio. At September 30, 2018, agricultural operating loans totaled \$1.19 billion, or 12.6% of our loan portfolio; and agricultural real estate loans totaled \$991.5 million, or 10.5%, of our loan portfolio. The primary livestock of our customers to whom we have extended agricultural loans include dairy cows, hogs and feeder cattle, and the primary crops of our customers to whom we have extended agricultural loans include corn, soybeans and, to a lesser extent, wheat and cotton. In addition, we estimate that 7.0% of our commercial non-real estate loans and owner-occupied CRE loans were agriculture-related loans at September 30, 2018.

Agricultural markets are highly sensitive to real and perceived changes in the supply and demand of agricultural products. As over 84% of our agricultural lending (excluding commercial non-real estate loans and owner-occupied CRE loans) is to farms producing grain, beef cattle, dairy products or hogs, our performance is closely related to the performance of, and supply and demand in, these agricultural sub-sectors. Weaker commodity prices could reduce the cash flows of our borrowers and the value of agricultural land in our markets and thereby increase the risk of default by our borrowers or reduce the foreclosure value of agricultural land and

equipment that serves as collateral for certain of our loans. The imposition of tariffs and retaliatory tariffs or other trade restrictions on agriculture products and materials that our customers import or export, could negatively impact our customers, their financial results and ability to service debt, which, in turn, could adversely affect our financial condition and results of operations. In addition, weakness in the agricultural economy could negatively impact our agricultural related commercial non-real estate and CRE loans.

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

- adverse weather conditions (such as hail, drought and floods), restrictions on water supply or other conditions that prevent the planting of a crop or limit crop yields, or that affect crop harvesting;

- loss of crops or livestock due to disease or other factors;

- declines in the market prices or demand for agricultural products (both domestically and internationally), for any reason;

- increases in production costs (such as the costs of labor, rent, feed, fuel and fertilizer);

- adverse changes in interest rates, currency exchange rates, agricultural land values or other factors that may affect delinquency levels and credit losses on agricultural loans;

- the impact of government policies and regulations (including changes in price supports, subsidies,

- government-sponsored crop insurance, minimum ethanol content requirements for gasoline, tariffs, trade barriers and health and environmental regulations);

- access to technology and the successful implementation of production technologies; and

- changes in the general economy that could affect the availability of off-farm sources of income and prices of real estate for borrowers.

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

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

At September 30, 2018, 68.4% of our aggregate loan portfolio, comprising our CRE loans (representing 49.0% of our aggregate loan portfolio), residential real estate loans (representing 8.9% of our aggregate loan portfolio) and agriculture real estate loans (representing 10.5% of our aggregate loan portfolio), was primarily secured by interests in real estate predominantly located in the states in which we operate. In addition, some of our other lending occasionally involves taking real estate as primary or secondary collateral. Real property values in these states may be different from, and in some instances worse than, real property values in other markets or in the United States as a whole, and may be affected by a variety of factors outside of our control and the control of our borrowers, including national and local economic conditions generally. Declines in real property prices, including prices for homes, commercial properties and farmland, in the states in which we operate could result in a deterioration of the credit quality of our borrowers, an increase in the number of loan delinquencies, defaults and charge-offs, and reduced demand for our products and services generally. Our CRE loans, in particular, totaled approximately \$4.63 billion at September 30, 2018, or 49.0% of our loan portfolio, and may have a greater risk of loss than residential mortgage loans, in part because these loans are generally larger or more complex to underwrite, monitor and service. Agricultural real estate loans may be affected by similar factors to those that affect agricultural loans generally, including adverse weather conditions, disease and declines in the market prices for agricultural products or farm real estate. In addition, declines

in real property values in the states in which we operate could reduce the value of any collateral we realize following a default on these loans and could adversely affect our ability to continue to grow our loan portfolio consistent with our underwriting standards. Our failure to effectively mitigate these risks could have a material adverse effect on our business, financial condition or results of operations.

30

---

We are subject to interest rate risk which, among other things, could affect our earnings and the value of certain of our assets.

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

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

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

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

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

Changes in interest rates could also have a negative impact on our results of operations by reducing the ability of borrowers to repay their current loan obligations or by reducing our margins and profitability. As of September 30, 2018, 52.2% of our loans were advanced to our customers on a variable or adjustable-rate basis and another 9.2% of

our loans were advanced to our customers on a fixed-rate basis where we utilized derivative instruments to swap our economic exposure to a variable-rate basis. As a result, an increase in interest rates could result in increased loan defaults, foreclosures and charge-offs and could necessitate further increases to the allowance for loan and lease losses, any of which could have a material adverse effect on our business, financial condition or results of operations. In addition, a decrease in interest rates could negatively impact our margins and profitability.

As of September 30, 2018, we had \$1.84 billion of noninterest-bearing demand deposits and \$7.89 billion of interest-bearing demand deposits. If we need to offer higher interest rates on checking accounts to maintain current clients or attract new clients, our interest expense will increase, perhaps materially. Furthermore, if we fail to offer interest in a sufficient amount to keep these demand deposits, our core deposits may be reduced, which would require us to obtain funding in other ways or risk slowing our future asset growth.

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

The operation of our business requires us to manage credit risk. As a lender, we are exposed to the risk that our borrowers will be unable to repay their loans according to their terms, and that the collateral securing repayment of their loans, if any, may not be sufficient to ensure repayment. In addition, there are risks inherent in making any loan, including risks with respect to the period of time over which the loan may be repaid, risks relating to proper loan underwriting, risks resulting from changes in economic and industry conditions and risks inherent in dealing with individual borrowers. In order to successfully manage credit risk, we must, among other things, maintain disciplined and prudent underwriting standards and ensure that our bankers follow those standards. The weakening of these standards for any reason, such as an attempt to attract higher yielding loans, a lack of discipline or diligence by our employees in underwriting and monitoring loans, our inability to adequately adapt policies and procedures to changes in economic or any other conditions affecting borrowers may negatively impact the quality of our loan portfolio, result in loan defaults, foreclosures and additional charge-offs and necessitate that we significantly increase our allowance for loan and lease losses. As a result, our inability to successfully manage credit risk could have a material adverse effect on our business, financial condition or results of operations.

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

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

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

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



for using the fair value option.

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

32

---

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

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

A new accounting standard may require us to increase our allowance for loan and lease losses.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. ASU 2016 13 replaces the incurred loss model with an expected loss model, which is referred to as the current expected credit loss (“CECL”) model. The CECL model is applicable to the measurement of credit losses on the financial assets measured at amortized cost, including but not limited to loan receivables. It also applies to off balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments) and net investments in leases recognized by a lessor. For all other assets within the scope of CECL, a cumulative effect adjustment will be recognized in retained earnings as of the beginning of the first reporting period in which the guidance is effective. The ASU is effective for public business entities for fiscal years after December 15, 2019, including interim periods within those fiscal years. In anticipation of the ASU, the Company has entered into a contract with a third party to partner with to develop processes and procedures to ensure compliance with the CECL requirements. This will change the current method of providing allowances for loan losses, which could require us to increase our allowance for loan and lease losses, and will likely increase the types of data we need to collect and review to determine the appropriate level of the allowance for loan and lease losses. The Company is currently evaluating the potential impact on our consolidated financial statements, however, since the magnitude of the anticipated change in the allowance for credit losses will be impacted by economic conditions and trends in the Company's portfolio at the time of adoption, the quantitative impact cannot yet be reasonably determined.

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

Liquidity risk is the risk that we will not be able to meet our obligations, including financial commitments, as they come due and is inherent in our operations. This risk can increase due to a number of factors, including an over-reliance on a particular source of funding (including, for example, short-term and overnight funding) or market-wide phenomena such as market dislocation and major disasters. Like many banking companies, we rely on customer deposits to meet a considerable portion of our funding, and we continue to seek customer deposits to maintain this funding base. We obtain deposits directly from retail and commercial customers and "brokered deposits" through third parties that offer our deposit products to their customers. As of September 30, 2018, we had \$9.13 billion in direct deposits (which includes deposits from banks and financial institutions and deposits related to prepaid cards) and \$600.2 million in deposits originated through brokerage firms (including network deposit sweeps). A key

part of our liquidity plan and funding strategy is to expand our direct deposits as a source of funding. However, these deposits are subject to potentially dramatic fluctuations in availability or price due to certain factors outside our control, such as a loss of confidence by customers in us or the banking sector generally, customer perceptions of our financial health and general reputation, increasing competitive pressures from other financial services firms for retail or corporate customer deposits, changes in interest rates and returns on other investment classes, which could result in significant outflows of deposits within short periods of time or significant changes in pricing necessary to maintain current or attract additional deposits.

Competition among U.S. banks for customer deposits is intense, may increase the cost of retaining current deposits or procuring new deposits, and may otherwise negatively affect our ability to grow our deposit base. Any changes we make to the rates offered on our deposit products to remain competitive with other financial institutions may adversely affect our profitability and liquidity. Interest-bearing accounts earn interest at rates established by management based on competitive market factors. Maintaining and attracting new deposits is integral to our business and a major decline in deposits or failure to attract deposits in the future,

including any such decline or failure related to an increase in interest rates paid by our competitors on interest-bearing accounts, could have an adverse effect on our results of operations and financial condition. The demand for the deposit products we offer may also be reduced due to a variety of factors, such as demographic patterns, changes in customer preferences, reductions in consumers' disposable income, regulatory actions that decrease customer access to particular products, or the availability of competing products. An inability to grow, or any material decrease in, our deposits could have a material adverse effect on our cost of funds and our ability to satisfy our liquidity needs. Maintaining a diverse and appropriate funding strategy remains challenging, and any tightening of credit markets could have a material adverse impact on us. In particular, our funding from corporate and financial institution counterparties may cease to be available if such counterparties seek to reduce their credit exposures to banks and other financial institutions, which could be reflected, for example, in reductions in unsecured deposits supplied by these counterparties. Under such circumstances, we may need to seek funds from alternative sources, potentially at higher costs than our current sources.

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

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

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

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

We operate in a highly competitive industry and market area.

We operate in the highly competitive financial services industry and face significant competition for customers from financial institutions located both within and beyond our principal markets. We compete with commercial banks, savings banks, credit unions, non-bank financial services companies and other financial institutions operating within or near the areas we serve, particularly nationwide and regional banks and larger community banking institutions that target the same customers we do. We also face competition for agricultural loans from participants in the nationwide Farm Credit System and global banks. In addition, as customer preferences and expectations continue to evolve, technology has lowered barriers to entry and made it possible for non-banks to offer products and services traditionally provided by banks, such as automatic transfer and automatic payment systems. Customer loyalty can be

influenced by a competitor's new products, especially offerings that could provide cost savings or a higher return to the customer. We may not be able to compete successfully with other financial institutions and financial service providers in our market, and we may have to pay higher interest rates to attract deposits, accept lower yields to attract loans and pay higher wages for new employees, resulting in reduced profitability. Further, increased lending activity by our competitors following the 2008 recession has led to increased competitive pressures on loan rates and terms. Continued loan pricing pressure could have a further negative effect on our loan yields and net interest margin. Many of our non-bank competitors are not subject to the same extensive regulations that govern our activities and may have greater flexibility in competing for business. Several of our competitors are also larger and have significantly more resources, greater name recognition and larger market shares, enabling them to maintain numerous banking locations, provide technology-based banking tools we do not provide, maintain a wider range of product offerings, mount extensive promotional and advertising campaigns and be more aggressive than us in competing for loans and deposits. The financial services industry could become even more competitive as a

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

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

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

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

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

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

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

Failed bank acquisitions involve risks similar to acquiring operating banks even though the FDIC might provide assistance to mitigate certain risks, such as sharing in exposure to loan and lease losses and providing indemnification against certain liabilities of the failed institution. However, because these acquisitions are typically conducted by the FDIC in a manner that does not allow the time typically taken for a due diligence review or for preparing the integration of an acquired institution, we may face additional risks in transactions with the FDIC. These risks include, among other things, accuracy or completeness of due diligence materials, the loss of customers and core deposits, strain on management resources related to collection and management of problem loans and problems related to integration and retention of personnel and operating systems. There can be no assurance that we will be successful in overcoming these risks or any other problems encountered in connection with acquisitions (including FDIC-assisted transactions), nor that any FDIC-assisted opportunities will be available to us in our markets. Our inability to

overcome these risks could have a material adverse effect on our business, financial condition or results of operations.

35

---

In addition, we must generally satisfy a number of meaningful conditions prior to completing any acquisition, including, in certain cases, federal and state bank regulatory approval. Bank regulators consider a number of factors when determining whether to approve a proposed transaction, including the effect of the transaction on financial stability and the ratings and compliance history of all institutions involved, including the CRA, examination results and anti-money-laundering and BSA compliance records of all institutions involved. Failure to comply with such requirements could also have serious legal and reputational consequences, including causing delay in approval or denial of merger or acquisition transactions, or expansionary activities, when regulatory approval is required, or to prohibit such transactions even if approval is not required.

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

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

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

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

Reductions in interchange fees will reduce our associated income.

An interchange fee is a fee merchants pay to the interchange network in exchange for the use of the network's infrastructure and payment facilitation, and which is paid to debit, credit and prepaid card issuers to compensate them for the costs associated with card issuance and operation. In the case of credit cards, this includes the risk associated with lending money to customers. We earn interchange fees on these debit and credit card transactions, including \$17.7 million in fees during the fiscal year ended September 30, 2018. The Durbin Amendment to the Dodd-Frank Act limits the amount of interchange fees that may be charged for debit and prepaid card transactions with respect to financial institutions with over \$10.0 billion in total assets. Because our total assets exceeded \$10.0 billion as of December 31, 2016, the interchange fee caps required by the Durbin Amendment negatively impacted debit card fees we receive that commenced in July 2017. To the extent interchange fees are further reduced, our income from those fees will be reduced, which could have a material adverse effect on our business and results of operations. See "Item 1. Business—Supervision and Regulation—Interchange Fees" for further discussion. In addition, the payment card industry is subject to the operating regulations and procedures set forth by payment card networks, and our failure to comply with these operating regulations, which may change from time to time, could subject us to various penalties or fees or the termination of our license to use the payment card networks, all of which could have a material adverse effect on our business, financial condition or results of operations.



Operational risks are inherent in our business.

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

36

---

actions have been or will be effective in controlling each of the operational risks faced by us. Any weakness in these systems or controls, or any breaches or alleged breaches of such laws or regulations, could result in increased regulatory scrutiny, enforcement actions or legal proceedings and could have an adverse impact on our business, financial condition or results of operations.

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

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

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

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

The access by unauthorized persons to, or the improper disclosure by us of, confidential information regarding our customers or our own proprietary information, software, methodologies and business secrets could result in significant legal and financial exposure, supervisory liability, damage to our reputation or a loss of confidence in the security of our systems, products and services, which could have a material adverse effect on our business, financial condition or results of operations. In addition, our industry continues to experience well-publicized attacks or breaches affecting others in our industry that have heightened concern by consumers generally about the security of using credit cards, which have caused some consumers, including our customers, to use our credit cards less in favor of alternative methods of payment and has led to increased regulatory focus on, and potentially new regulations relating to, these matters. Further cyber-attacks or other breaches in the future, whether affecting us or others, could intensify consumer concern and regulatory focus and result in reduced use of our cards and increased costs, all of which could have a material adverse effect on our business. To the extent we are involved in any future cyber-attacks or other breaches, our brand and reputation could be affected, which could also have a material adverse effect on our business, financial condition or results of operations.

Our information systems may experience an interruption.

Our communications, information and technology systems supporting our operations are important to our efficiency and vulnerable to unforeseen problems. Our operations depend on our ability, as well as that of third party service providers, to protect computer systems and network infrastructure against damage from fires, other natural disasters; power or telecommunications failures; acts of terrorism or wars or other catastrophic events; or other physical break-ins. Any failures or disruptions in our communications, information and technology systems, or our failure to adequately address them, could negatively affect our customer relationship management, general ledger, deposit, loan or other systems. If we experience a disruption in the provision of any functions or services performed by third parties, we may have difficulty in finding alternative providers on terms favorable to us and in reasonable timeframes. The occurrence of any failures or interruptions of our communications, information and technology systems could damage our reputation, result in a loss of customer business, subject us to additional regulatory scrutiny or expose us to civil litigation and possible financial liability, any of which could have a material adverse effect on our business, financial condition or results of operations.

We continually encounter technological change.

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

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

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

Our customers rely on us to deliver superior, personalized financial services with the highest standards of ethics, performance, professionalism and compliance. Damage to our reputation could undermine the confidence of our current customers and our ability to attract potential customers. Such damage could also impair the confidence of our counterparties and vendors and ultimately affect our ability to effect transactions. Maintenance of our reputation depends not only on our success in maintaining our service-focused culture and controlling and mitigating the various risks described herein, but also on our success in identifying and appropriately addressing issues that may arise in areas such as potential conflicts of interest, anti-money laundering, client personal information and privacy issues, employee, customer and other third party fraud, record-keeping, regulatory investigations and any litigation that may arise from the failure or perceived failure of us to comply with legal and regulatory requirements. Maintaining our reputation also depends on our ability to successfully prevent third parties from infringing on the "Great Western Bank" brand and associated trademarks and our other intellectual property. Defense of our reputation, trademarks and other intellectual property, including through litigation, could result in costs that could have a material adverse effect on our business, financial condition or results of operations.

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

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

Financial services institutions that deal with each other are interconnected as a result of trading, investment, liquidity management, clearing, counterparty and other relationships. Within the financial services industry, loss of public

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

We may need to raise additional capital in the future, and such capital may not be available when needed or at all. We may need to raise additional capital, in the form of additional debt or equity, in the future to have sufficient capital resources and liquidity to meet our commitments and fund our business needs and future growth, particularly if the quality of our assets or earnings were to deteriorate significantly. Our ability to raise additional capital, if needed, will depend on, among other things, conditions in the capital markets at that time, which are outside of our control, and our financial condition. Economic conditions and a loss of confidence in financial institutions may increase our cost of funding and limit access to certain customary sources of capital, including inter-bank borrowings, repurchase agreements and borrowings from the discount window of the Federal Reserve System.

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

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

As of September 30, 2018, we owned \$1.39 billion of investment securities. The fair value of our investment securities may be adversely affected by market conditions, including changes in interest rates, and the occurrence of any events adversely affecting the issuer of particular securities in our investments portfolio. We analyze our securities on a quarterly basis to determine if an other-than-temporary impairment has occurred. The process for determining whether impairment is other-than-temporary usually requires complex, subjective judgments about the future financial performance of the issuer in order to assess the probability of receiving all contractual principal and interest payments on the security. Because of changing economic and market conditions affecting issuers, we may be required to recognize other-than-temporary impairment in future periods, which could have a material adverse effect on our business, financial condition or results of operations.

The value of our goodwill and other intangible assets may decline in the future.

As of September 30, 2018, we had \$749.8 million of goodwill, other intangible assets and loan servicing rights.

Goodwill represents the cost in excess of the fair value of net assets acquired (including identifiable intangibles) in transactions accounted for as business acquisitions. We review our goodwill for impairment at least annually, or more frequently if events or changes in circumstances indicate that the carrying value of the asset might be impaired. We determine impairment by comparing the implied fair value of the goodwill with the carrying amount of that goodwill. If the carrying amount of the goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to the excess. A significant decline in our expected future cash flows, a material change in interest rates, a significant adverse change in the business climate, slower growth rates or a significant or sustained decline in the price of our common stock may necessitate taking charges in the future related to the impairment of our goodwill and other intangible assets. We cannot provide assurance that we will not be required to record any charges for goodwill impairment in the future. If we conclude that such a write-down of goodwill and other intangible assets has become necessary, we will record the appropriate charge in the period in which it becomes known to us, which could have a material adverse effect on our business, financial condition or results of operations.

We rely on the mortgage secondary market for some of our liquidity.

We originate and sell a majority of our residential mortgage loans and their servicing rights, including \$266.5 million of residential mortgage loans sold during fiscal year 2018. This does not include the loan servicing portfolio acquired from HF Financial, approximately \$613.3 million, and portfolio loans consisting of ARMs and other non-conforming loans of approximately \$837.6 million, each at September 30, 2018. We rely on FNMA and other purchasers to purchase loans in order to reduce our credit risk and provide funding for additional loans we desire to originate. We cannot provide assurance that these purchasers will not materially limit their purchases from us due to capital constraints or other factors, including, with respect to FNMA, a change in the criteria for conforming loans. In addition, various proposals have been made to reform the U.S. residential mortgage finance market, including the role of FNMA. The exact effects of any such reforms are not yet known, but may limit our ability to sell conforming loans to FNMA. In addition, residential mortgage lending is highly regulated, and our inability to comply with all federal

and state regulations and investor guidelines regarding the origination, underwriting documentation and servicing of residential mortgage loans may also impact our ability to continue selling residential mortgage loans. If we are unable to continue to sell loans in the secondary market, our ability to fund, and thus originate, additional residential mortgage loans may be adversely affected, which could have a material adverse effect on our business, financial condition or results of operations.

We are subject to a variety of risks in connection with any sale of loans we may conduct.

When we sell mortgage loans, we are required to make customary representations and warranties to the purchaser about the mortgage loans and the manner in which they were originated and serviced. If any of these representations and warranties are incorrect, we may be required to indemnify the purchaser for any related losses, or we may be required to repurchase or provide substitute mortgage loans for part or all of the affected loans. We may also be required to repurchase loans as a result of borrower fraud or in the event of early payment default by the borrower on a loan we have sold. If the level of repurchase and indemnity activity becomes material, it could have a material adverse effect on our liquidity, business, financial condition or results of operations.

We may also, from time to time, engage in selling or participating all or part of certain commercial, agricultural or other types of loans. Such sales entail similar risks to those described above.

In addition, we must report as held for sale any loans which we have undertaken to sell, whether or not a purchase agreement for the loans has been executed. We may therefore be unable to ultimately complete a sale for part or all of the loans we classify as held for sale. We must exercise our judgment in determining when loans must be reclassified from held for investment status to held for sale status under applicable accounting guidelines. Any failure to accurately report loans as held for sale could result in regulatory investigations and monetary penalties. Any of these actions could have a material adverse effect on our business, financial condition or results of operations. Our policy is to carry loans held for sale at the lower of cost or fair value. As a result, prior to being sold, any loans classified as held for sale may be adversely affected by market conditions, including changes in interest rates, by changes in the borrower's creditworthiness, and the value associated with these loans, including any loans originated for sale in the secondary market, may decline prior to being sold. We may be required to reduce the value of any loans we mark held for sale as a result, which could have a material adverse effect on our business, financial condition or results of operations.

The value of our loan servicing rights could be adversely affected by changes in interest rates.

As a residential mortgage servicer in the U.S., we have a portfolio of loan servicing rights. A loan servicing right is the right to service a mortgage loan - collect principal, interest and escrow amounts - for a fee. Loan servicing rights are subject to interest rate risk in that their fair value will fluctuate as a result of changes in the interest rate environment. When interest rates fall, borrowers are usually more likely to prepay their mortgage loans by refinancing them at a lower rate. As the likelihood of prepayment increases, the fair value of our loan servicing rights can decrease. Any decrease in the fair value of our loan servicing rights will reduce earnings in the period in which the decrease occurs, which can result in earnings volatility.

The appraisals and other valuation techniques we use in evaluating and monitoring loans secured by real property may not accurately describe the net value of the collateral that we can realize.

In considering whether to make a loan secured by real property, we generally require an appraisal of the property. However, an appraisal is only an estimate of the value of the property at the time the appraisal is made, and, as real estate values may change significantly in relatively short periods of time (especially in periods of heightened economic uncertainty), this estimate may not accurately describe the net value of the real property collateral after the loan is made. As a result, we may not be able to realize the full amount of any remaining indebtedness when we foreclose on and sell the relevant property. In addition, we rely on appraisals and other valuation techniques to establish the value of our other repossessed property and to determine certain loan impairments. If any of these valuations are inaccurate, our consolidated financial statements may not reflect the correct value of our other repossessed property, and our allowance for loan and lease losses may not reflect accurate loan impairments. This could have a material adverse effect on our business, financial condition or results of operations.

Our operations could be interrupted if certain external vendors on which we rely experience difficulty, terminate their services or fail to comply with banking laws and regulations.

We depend to a significant extent on relationships with third party service providers. Specifically, we utilize third party core banking services and receive credit card and debit card services, branch capture services, Internet banking services and services complementary to our banking products from various third party service providers. If these third party service providers experience difficulties or terminate their services and we are unable to replace them with other service providers, our operations could be interrupted. It may be difficult for us to replace some of our third party vendors, particularly vendors providing our core banking, credit card and debit card services, in a timely manner if



they were unwilling or unable to provide us with these services in the future for any reason. If an interruption were to continue for a significant period of time, it could have a material adverse effect on our business, financial condition or results of operations. Even if we are able to replace them, it may be at higher cost to us, which could have a material adverse effect on our business, financial condition or results of operations. In addition, if a third party provider fails to provide the services we require, fails to meet contractual requirements, such as compliance with applicable laws and regulations, or suffers a cyber-attack or other security breach, our business could suffer economic and reputational harm that could have a material adverse effect on our business, financial condition or results of operations.

40

---

We rely on dividends and other payments from our Bank for substantially all of our revenue.

We are a separate and distinct legal entity from our Bank, and we receive substantially all of our operating cash flows from dividends and other payments from our Bank. These dividends and payments are the principal source of funds to pay dividends on our common stock and interest and principal on any debt we may have. Various federal and state laws and regulations limit the amount of dividends that our Bank may pay to us. In addition, our right to participate in a distribution of assets upon a subsidiary's liquidation or reorganization is subject to the prior claims of the subsidiary's creditors. In the event our Bank is unable to pay dividends to us, we may not be able to service debt, pay obligations, or pay dividends on our common stock. The inability to receive dividends from our Bank could have a material adverse effect on our business, financial condition or results of operations.

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

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

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

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

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

On August 5, 2011, Standard & Poor's ("S&P") cut the credit rating of the U.S. federal government's long-term sovereign debt from AAA to AA+, while also keeping its outlook negative. Moody's had lowered its own outlook for the same debt to "Negative" on August 2, 2011, and Fitch also lowered its outlook for the same debt to "Negative Watch" on October 15, 2013. As of the date of this filing, all three rating agencies show a "Stable" outlook. Further downgrades of the U.S. federal government's sovereign credit rating, and the perceived creditworthiness of U.S. government-backed obligations, could impact our ability to obtain funding that is collateralized by affected instruments and our ability to access capital markets on favorable terms. Such downgrades could also affect the pricing of funding, when funding is available. A downgrade of the credit rating of the U.S. government, or of its agencies, government-sponsored enterprises or related institutions, agencies or instrumentalities, may also adversely affect the market value of such instruments and, further, exacerbate the other risks to which we are subject and any related adverse effects on our business, financial condition or results of operations.

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

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

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

Certain accounting policies are critical to presenting our financial condition and results of operations. They require management to make difficult, subjective or complex judgments about matters that are uncertain. Materially different amounts could be reported under different conditions or using different assumptions or estimates. These critical accounting policies include, but are not limited to, the allowance for loan and lease losses, valuation of assets acquired and liabilities assumed in business combinations, goodwill impairment, core deposits and other intangibles, derivatives and income taxes. Because of the uncertainty of estimates involved in these matters, we may be required to do one or more of the following: significantly increase the allowance for loan and lease losses or sustain loan and lease losses that are significantly higher than the reserve provided; recognize significant impairment on goodwill and other intangible asset balances; reduce the carrying value of an asset measured at fair value; or significantly increase our accrued tax liability. Any of these could have a material adverse effect on our business, financial condition or results of operations. For a discussion of our critical accounting policies, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and the Impact of Accounting Estimates."

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

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

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

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

We may be adversely affected by recent changes in tax laws.

The Tax Reform Act, which was enacted in December 2017, is likely to have both positive and negative effects on our financial performance. Beginning in 2018, the Tax Reform Act reduces the federal tax rate for corporations from 35% to 21% and changes or limits certain tax deductions. Because of the Company's September 30 fiscal year end, a blended statutory rate of 24.5% is applied to all net income before taxes generated during the current fiscal year, which has and will have a favorable impact on our earnings and capital generation abilities. However, the new legislation also enacted limitations on certain deductions that will have an impact on the banking industry, borrowers and the market for single-family residential real estate. These limitations include (1) a lower limit on the deductibility of mortgage interest on single-family residential mortgage loans, (2) the elimination of interest deductions for certain home equity loans, (3) a limitation on the deductibility of business interest expense, and (4) a limitation on the deductibility of property taxes and state and local income taxes. We continue to evaluate the Tax Reform Act and its impact on us.

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

As a public company, we are subject to the reporting requirements of the Exchange Act and are required to implement specific corporate governance practices and adhere to a variety of reporting requirements under the Sarbanes-Oxley Act and the related rules and regulations of the SEC, as well as the rules of the NYSE. The Exchange Act requires us to file annual, quarterly and current reports with respect to our business and financial condition. The Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and internal control over financial reporting. In accordance with Section 404 of the Sarbanes-Oxley Act, our management has conducted its annual assessment of the effectiveness of our internal control over financial reporting and management's report on these internal controls is included in Item 9 of this Annual Report on Form 10-K. Our independent registered public accounting firm is required to attest to the effectiveness of our internal control over financial reporting and its attestation report is also included in Item 9 of this Annual Report on Form 10-K. The process of assessing the effectiveness of

our internal control over financial reporting requires significant documentation of policies, procedures and systems, review of documentation by our internal auditing and accounting staff and testing by our independent registered public accounting firm. This process has involved, and will continue to involve, considerable time and attention, may strain our internal resources and will increase our operating costs. We may experience higher than anticipated operating expenses and outside auditor fees as we continue to comply with these requirements. If our independent registered public accounting firm is unable to express an opinion as to the effectiveness of our internal control over financial reporting, investors may lose confidence in the accuracy and completeness of our financial reports and the market price of our common stock could be negatively affected, and we could become subject to investigations by the NYSE, the SEC or other regulatory authorities, which could require additional financial and management resources. This could have a material adverse effect on our business, financial condition or results of operations.

We may not be able to report our financial results accurately and timely as a publicly listed company if we fail to maintain an effective system of disclosure controls and procedures and internal control over financial reporting.

As a publicly traded company, we are required to file periodic reports containing our consolidated financial statements with the SEC within a specified time following the completion of quarterly and annual periods. Maintaining effective disclosure controls and procedures is necessary to identify information we must disclose in our periodic reports and maintaining effective internal control over financial reporting is necessary to produce reliable financial statements and to prevent fraud. If we fail to maintain effective disclosure controls and procedures or effective internal control over financial reporting, we may experience difficulty in satisfying our SEC reporting obligations. Any failure by us to file our periodic reports with the SEC in a timely manner could harm our reputation and cause investors and potential investors to lose confidence in us and reduce the market price of our common stock, and could result in a suspension or delisting of our common stock from the NYSE.

We must also comply with Section 404 of the Sarbanes-Oxley Act, which requires that we perform an annual evaluation of the effectiveness of our internal control over financial reporting. During the course of our evaluation and testing, we may identify deficiencies, including a material weakness, which would have to be remediated to satisfy SEC rules for attesting to the effectiveness of our internal control over financial reporting. A material weakness is defined by the standards issued by the Public Company Accounting Oversight Board as a deficiency, or combination of deficiencies, in internal control over financial reporting that results in a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. If a material weakness is determined to exist, we have to disclose this deficiency in periodic reports we file with the SEC. The existence of a material weakness would preclude management from concluding that our internal control over financial reporting is effective and would also preclude our independent auditors from attesting to the effectiveness of our internal control over financial reporting. In addition, disclosures of this type in our SEC reports could cause investors to lose confidence in our financial reporting and may negatively affect the market price of our common stock.

In accordance with the requirements of Section 404 of the Sarbanes Oxley Act, our management evaluated the effectiveness of our internal control over financial reporting as of September 30, 2018, and concluded that we maintained an effective system of internal control over financial reporting as of that date. Our management's report on this subject is found in Item 9 of this Annual Report on Form 10-K.

More generally, if we are unable to meet the demands that have been placed upon us as a public company, including the requirements of the Sarbanes-Oxley Act, we may be unable to accurately report our financial results in future periods, or report them within the timeframes required by law or stock exchange regulations. Failure to comply with the Sarbanes-Oxley Act could also potentially subject us to sanctions or investigations by the SEC or other regulatory authorities. Under such circumstances, we may be unable to implement the necessary internal controls in a timely manner, or at all, and future material weaknesses may exist or may be discovered. If we fail to implement the necessary improvements, or if material weaknesses or other deficiencies occur, our ability to accurately and timely report our financial position could be impaired, which could result in late filings of our annual and quarterly reports under the Exchange Act, restatements of our consolidated financial statements, a decline in our stock price, suspension or delisting of our common stock from the NYSE and could have a material adverse effect on our business, results of operations or financial condition. Even if we are able to report our financial statements accurately and in a timely manner, any failure in our efforts to implement the improvements or disclosure of material weaknesses in our future

filings with the SEC could cause our reputation to be harmed and our stock price to decline significantly.

We are subject to environmental liability risk associated with our Bank branches and any real estate collateral we acquire upon foreclosure.

During the ordinary course of business, we may foreclose on and take title to properties securing certain loans that we have originated or acquired. We also have an extensive branch network, owning separate branch locations throughout the areas we serve. For any real property that we may possess, there is a risk that hazardous or toxic substances could be found on these properties. If hazardous or toxic substances are found, we may be liable for remediation costs, as well as for personal injury and property damage and costs of complying with applicable environmental regulatory requirements. Failure to comply with such requirements can result in penalties. Environmental laws may require us to incur substantial expenses and may materially reduce the affected property's value or

limit our ability to use or sell the affected property. In addition, future laws or more stringent interpretations or enforcement policies with respect to existing laws may increase our exposure to environmental liability. Environmental reviews of real property before initiating foreclosure actions may not be sufficient to detect all potential environmental hazards. The remediation costs and any other financial liabilities associated with an environmental hazard could have a material adverse effect on our business, financial condition or results of operations. We may be alleged to have infringed upon intellectual property rights owned by others, or may be unable to protect our intellectual property.

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

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

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

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

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

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



of Accounting Estimates."

**Risks Related to the Regulatory Oversight of Our Business**

The banking industry is highly regulated, and the regulatory framework, together with any future legislative or regulatory changes, may have a significant adverse effect on our business, financial condition or results of operations. The banking industry is extensively regulated and supervised under both federal and state laws and regulations that are intended primarily for the protection of depositors, customers, federal deposit insurance funds and the banking system as a whole, not for the protection of our stockholders and creditors. We are subject to regulation and supervision by the Federal Reserve, and our Bank is subject to regulation and supervision by the FDIC, the SD Division of Banking and the BCFP. The laws and regulations applicable

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

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

We currently utilize incentive-based payment arrangements with our employees as compensation practices. Potential regulatory changes to this practice could have an impact on our current practices and impact our results of operations. We are subject to the compensation-related provisions of the Dodd-Frank Act, which prohibit incentive-based payment arrangements that encourage inappropriate risk taking. Deficiencies identified could be incorporated into the organization's supervisory ratings, which can affect the organization's ability to make acquisitions and take other actions. Enforcement actions may be taken against a banking organization if its incentive compensation arrangements, or related risk management control or governance processes, pose a risk to the organization's safety and soundness and the organization is not taking prompt and effective measures to correct the deficiencies. The scope and content of the U.S. banking regulators' policies on incentive compensation are continuing to develop and are likely to continue evolving in the future.

We are subject to heightened regulatory requirements as our total assets exceed \$10 billion.

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

Compliance with these requirements may necessitate that we hire additional compliance or other personnel, design and implement additional internal controls, or incur other significant expenses, any of which could have a material adverse effect on our business, financial condition or results of operations.

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

Under federal law and longstanding Federal Reserve policy, we are expected to act as a source of financial and managerial strength to our Bank, and to commit resources to support our Bank if necessary. We may be required to

commit additional resources to our Bank at times when we may not be in a financial position to provide such resources or when it may not be in our, or our stockholders' or creditors', best interests to do so. Providing such support is more likely during times of financial stress for us and our Bank, which may make any capital we are required to raise to provide such support more expensive than it might otherwise be. In addition, any capital loans we make to our Bank are subordinate in right of payment to depositors and to certain other indebtedness of our Bank. In the event of our bankruptcy, any commitment by us to a federal banking regulator to maintain the capital of our Bank will be assumed by the bankruptcy trustee and entitled to priority of payment.

45

---

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

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

In particular, the capital requirements applicable to us under the recently adopted Capital Rules implementing the Basel III capital framework in the United States started to be phased-in on January 1, 2015. We are now required to satisfy additional, more stringent, capital adequacy standards than we had in the past. While we expect to meet the requirements of the new Basel III-based Capital Rules, we may fail to do so. Failure to meet minimum capital requirements could result in certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have an adverse material effect on our financial condition and results of operations. In addition, these requirements could have a negative impact on our ability to lend, grow deposit balances, make acquisitions or make capital distributions in the form of dividends or share repurchases. Higher capital levels could also lower our return on equity.

Litigation and regulatory actions, including possible enforcement actions, could subject us to significant fines, penalties, judgments or other requirements resulting in increased expenses or restrictions on our business activities. Our business is subject to increased litigation and regulatory risks as a result of a number of factors, including the highly regulated nature of the financial services industry and the focus of state and federal prosecutors on banks and the financial services industry generally. This focus has only intensified since the financial crisis commencing in 2008 and its aftermath, with regulators and prosecutors focusing on a variety of financial institution practices and requirements, including foreclosure practices, compliance with applicable consumer protection laws, classification of held for sale assets and compliance with anti-money laundering statutes, the BSA and sanctions imposed by the Office of Foreign Assets Control of the U.S. Department of the Treasury.

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

Increases in FDIC insurance premiums may adversely affect our earnings.

Our Bank's deposits are insured by the FDIC up to legal limits and, accordingly, our Bank is subject to FDIC deposit insurance assessments. We generally cannot control the amount of premiums our Bank will be required to pay for FDIC insurance. As our Bank has exceeded \$10 billion in assets, the method for calculating its FDIC assessments has changed and our Bank's FDIC assessments have increased as a result. See "Item 1. Business—Supervision and Regulation—Deposit Insurance." In addition, the FDIC recently increased the deposit insurance fund's target reserve ratio to 2.0% of insured deposits following the Dodd-Frank Act's elimination of the 1.5% cap on the insurance fund's reserve ratio and has put in place a restoration plan to restore the deposit insurance fund to its 1.35% minimum reserve

ratio mandated by the Dodd-Frank Act by September 30, 2020. In March of 2016, the FDIC approved a final rule to meet this requirement by 2018. To meet the minimum reserve ratio by 2018, during the third calendar quarter of 2016 the FDIC began assessing banks with consolidated assets of more than \$10.0 billion a surcharge assessment of 0.045%. The surcharge continued through October 1, 2018, when the reserve ratio exceeded 1.35%. If there is an increase in financial institution failures, in the future our Bank may be required to pay even higher FDIC insurance premiums than the recently increased levels, or the FDIC may charge additional special assessments. Future increases of FDIC insurance premiums or special assessments could have a material adverse effect on our business, financial condition or results of operations.

We are subject to the CRA, fair lending and other laws and regulations, and our failure to comply with these laws and regulations could lead to material penalties.

The CRA, the Equal Credit Opportunity Act, the Fair Housing Act and other fair lending laws and regulations impose non-discriminatory lending and other requirements on financial institutions. The U.S. Department of Justice and other federal agencies, including the FDIC and BCFP, are responsible for enforcing these laws and regulations. A successful challenge to an institution's performance under the CRA, fair lending and other compliance laws and regulations could result in a wide variety of sanctions, including the required payment of damages and civil money penalties, injunctive relief, imposition of restrictions on mergers and acquisitions activity and restrictions on expansion. Private parties may also have the ability to challenge an institution's performance under fair lending laws in private class action litigation. The costs of defending, and any adverse outcome from, any such challenge could damage our reputation or could have a material adverse effect on our business, financial condition or results of operations. Our Bank received an overall rating of "satisfactory" in its most recently completed CRA examination.

Violations of applicable consumer protection laws can result in significant potential liability from litigation brought by customers, including actual damages, restitution and attorney's fees. Federal bank regulators, state attorney generals and state and local consumer protection agencies may also seek to enforce consumer protection requirements and obtain these and other remedies, including regulatory sanctions, customer rescission rights and civil money penalties in the jurisdictions in which we operate. Failure to comply with consumer protection requirements may also result in delays or restrictions on mergers and acquisitions and expansionary activities we may wish to pursue.

Failure to comply with the USA PATRIOT ACT, OFAC, the BSA and related FinCEN and FFIEC Guidelines and regulations could result in material implications.

Regulatory authorities routinely examine financial institutions for compliance with the USA PATRIOT ACT, OFAC, the BSA and related FinCEN and FFIEC Guidelines. Failure to maintain and implement adequate programs as required by these obligations to combat terrorist financing, elder abuse, human trafficking, anti-money laundering and other suspicious activity and to fully comply with all of the relevant laws or regulations, could have serious legal, financial and reputational consequences for us, causing applicable bank regulatory authorities not to approve merger or acquisition transactions when regulatory approval is required or to prohibit such transactions even if approval is not required. Regulatory authorities have imposed cease and desist orders and significant civil money penalties against institutions found to be violating these regulations.

Providing treasury management services to money services businesses and/or their agents, and money transmitters exposes us to enhanced risks from non-compliance with a variety of laws and regulations.

We provide treasury management services to certain money transmitters and money services businesses. Financial institutions that open and maintain accounts for money services businesses are expected to apply the requirements of the USA PATRIOT Act and the BSA, as they do with all account holders, on a risk-assessed basis, as well as other FinCEN rules and applicable state laws. As with any category of account holder, there will be money services businesses that pose lower risk of money laundering or lack of compliance with other laws and regulations and those that pose a significant risk. Providing treasury management services to money services businesses represents a higher compliance and regulatory risk, and failure to comply with all statutory and regulatory requirements could result in fines or sanctions.

Failure to comply with mortgage loan servicing standards, guidelines, laws and regulations may result in substantial penalties, additional costs or losses.

As a residential mortgage servicer in the U.S., we have a portfolio of loan servicing rights. A loan servicing right is the right to service a mortgage loan - collect principal, interest and escrow amounts - for a fee. The housing GSE, such as FNMA, the FHLMC and the FHLB, that own the mortgages that we service in our loan servicing rights portfolio have mortgage servicing standards. HUD and state housing finance agencies govern and establish guidelines for the servicing of GSE mortgages. The failure to comply with these standards and guidelines, as well as other applicable federal and state laws and regulations, could result in penalties assessed by HUD, the GSEs and/or our other regulators, or we could be forced to sell all or part of our loan servicing rights portfolio. In addition, we are subject to certain legal and contractual requirements for how we hold, transfer, use or enforce promissory notes, security instruments and other documents for residential mortgage loans that we service. Further, we currently use MERS for our servicing efforts. If documentation requirements were not met, or if the use of MERS or the MERS system is

found not valid or effective, we could be obligated to, or choose to, take remedial actions and may be subject to additional costs or losses.

Regulations relating to privacy, information security and data protection could increase our costs, affect or limit how we collect and use personal information and adversely affect our business opportunities.

We are subject to various privacy, information security and data protection laws, including requirements concerning security breach notification, and we could be negatively impacted by these laws. For example, our business is subject to the Gramm-Leach-Bliley Act which, among other things: (i) imposes certain limitations on our ability to share non-public personal information about our customers with non-affiliated third parties; (ii) requires that we provide certain disclosures to customers about our information

collection, sharing and security practices and afford customers the right to "opt out" of any information sharing by us with non-affiliated third parties (with certain exceptions) and (iii) requires we develop, implement and maintain a written comprehensive information security program containing appropriate safeguards based on our size and complexity, the nature and scope of our activities, and the sensitivity of customer information we process, as well as plans for responding to data security breaches. Various state and federal banking regulators and states have also enacted data security breach notification requirements with varying levels of individual, consumer, regulatory or law enforcement notification in certain circumstances in the event of a security breach. Moreover, legislators and regulators in the United States are increasingly adopting or revising privacy, information security and data protection laws that potentially could have a significant impact on our current and planned privacy, data protection and information security-related practices, our collection, use, sharing, retention and safeguarding of consumer or employee information, and some of our current or planned business activities. This could also increase our costs of compliance and business operations and could reduce income from certain business initiatives. This includes increased privacy-related enforcement activity at the federal level, by the Federal Trade Commission, as well as at the state level, such as with regard to mobile applications.

Compliance with current or future privacy, data protection and information security laws (including those regarding security breach notification) affecting customer or employee data to which we are subject could result in higher compliance and technology costs and could restrict our ability to provide certain products and services, which could have a material adverse effect on our business, financial conditions or results of operations. Our failure to comply with privacy, data protection and information security laws could result in potentially significant regulatory or governmental investigations or actions, litigation, fines, sanctions and damage to our reputation, which could have a material adverse effect on our business, financial condition or results of operations.

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

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

#### Risks Related to Our Common Stock

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

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

- actual or anticipated variations in our quarterly results of operations;
- recommendations or research reports about us or the financial services industry in general published by securities analysts;
- the failure of securities analysts to cover, or continue to cover, us;
- operating and stock price performance of other companies that investors deem comparable to us;
- news reports relating to trends, concerns and other issues in the financial services industry;
- perceptions in the marketplace regarding us, or our reputation, competitors or other financial institutions;
- future sales of our common stock;
- departure of our management team or other key personnel;
- new technology used, or services offered, by competitors;



significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving us or our competitors;  
failure to integrate acquisitions or realize anticipated benefits from acquisitions;

existing or increased regulatory and compliance requirements, changes or proposed changes in laws or regulations, or differing interpretations thereof affecting our business, or enforcement of these laws and regulations;

- litigation and governmental investigations; and
- geopolitical conditions such as acts or threats of terrorism or military conflicts.

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

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

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

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

We have filed a registration statement with the SEC registering 1,497,222 shares of our common stock for issuance pursuant to awards granted under our equity incentive plans. We have granted awards covering 723,595 shares of our common stock under these plans as of September 30, 2018. We may increase the number of shares registered for this purpose from time to time. Once we issue these shares, their holders will be able to sell them in the public market.

We have also filed a shelf registration statement with the SEC registering an indeterminate amount of our common stock, preferred stock, depositary shares, debt securities, subscription rights, warrants and units which we may decide to issue in the future. To the extent that we choose to issue our common stock or our preferred stock, or rights relating to our common stock or preferred stock (through the issuance of depositary shares, subscription rights, warrants or units), such issuances will increase the number of our shares of capital stock outstanding, or that may become outstanding in the future through the exercise of such rights, and the holders of these shares will be able to sell them in the public market. The specific terms of any shares of capital stock or rights related thereto to be issued under our shelf registration statement will be determined by us prior to issuance based on current market conditions and will be described in a supplement to the prospectus contained in such registration statement.

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

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

Certain banking laws and certain provisions of our certificate of incorporation may have an anti-takeover effect. Provisions of federal banking laws, including regulatory approval requirements, could make it difficult for a third party to acquire us, even if doing so would be perceived to be beneficial to our stockholders. Acquisition of 10% or more of any class of voting stock of a bank holding company or depository institution, including shares of our common stock, generally creates a rebuttable presumption that the acquirer "controls" the bank holding company or depository institution and the acquisition of such control would be subject to federal regulatory approval. In addition, a bank holding company must obtain the prior approval of the Federal Reserve

before, among other things, acquiring direct or indirect ownership or control of more than 5% of the voting shares of any bank, including our Bank.

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

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

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

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

#### ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

#### ITEM 2. PROPERTIES

Our corporate headquarters is located at 225 S. Main Ave, Sioux Falls, South Dakota 57104, and in Sioux Falls we have two leased facilities for our data center and operations center. In addition to our corporate headquarters, we operate from 174 branch offices located in 130 communities in Arizona, Colorado, Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota and South Dakota. We lease 50 of our branch offices, all on market terms, and we

own the remainder of our offices, including our corporate headquarters. All of our banking offices are in free-standing, permanent facilities. We generally believe our existing and contracted-for facilities are adequate to meet our requirements.

50

---

### ITEM 3. LEGAL PROCEEDINGS

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

### ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

## PART II

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

Our common stock is traded on the New York Stock Exchange under the symbol "GWB." As of November 20, 2018, the Company had 17,890 holders of record. Information regarding the trading price and dividends paid on our common stock for each quarterly period within the two most recent fiscal years is set forth in the table below.

	High	Low	Dividends Paid
Fiscal Year 2018:			
First Quarter	\$43.36	\$37.65	\$ 0.20
Second Quarter	45.00	38.82	0.20
Third Quarter	46.03	38.26	0.25
Fourth Quarter	44.60	40.52	0.25
Fiscal Year 2017:			
First Quarter	\$44.11	\$31.51	\$ 0.17
Second Quarter	45.61	39.10	0.17
Third Quarter	45.62	36.42	0.20
Fourth Quarter	41.87	33.27	0.20

#### Dividends

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

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

Because we are a holding company and do not engage directly in other business activities of a material nature, our ability to pay dividends on our stock depends primarily upon our receipt of dividends from our Bank, the payment of

which is subject to numerous limitations under federal and state banking laws, regulations and policies. In general, dividends by our Bank may only be declared from its net profits and may be declared no more than once per calendar quarter. The approval of the South Dakota Director of Banking is required if our Bank seeks to pay aggregate dividends during any calendar year that would exceed the sum of its net profits from the year to date and retained net profits from the preceding two years, minus any required transfers to surplus. Moreover, under the FDIA an insured depository institution may not pay any dividends if the institution is undercapitalized or if the payment of

the dividend would cause the institution to become undercapitalized. In addition, the federal bank regulatory agencies have issued policy statements providing that FDIC-insured depository institutions and their holding companies should generally pay dividends only out of their current operating earnings. See "Item 1. Business—Supervision and Regulation—Dividends" for more information on federal and state banking laws, regulations and policies limiting our and our Bank's ability to declare and pay dividends. The current and future dividend policy of our Bank is also subject to the discretion of its Board of Directors. Our Bank is not obligated to pay dividends to us. For additional information, see "Item 1A. Risk Factors—Risks Related to Our Business—We rely on dividends and other payments from our Bank for substantially all of our revenue" and "Item 1A. Risk Factors—Risks Related to Our Common Stock—We may not pay dividends on our common stock in the future."

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

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

#### Securities Authorized for Issuance under Equity Compensation Plans

The following table provides information as of September 30, 2018 about our common stock that may be issued under our equity compensation plans, which consist of the Great Western Bancorp, Inc. 2014 Omnibus Incentive Compensation Plan and the Great Western Bancorp, Inc. 2014 Non-Employee Director Plan. On February 22, 2018, our stockholders approved an amendment to each of our equity compensation plans increasing the number of authorized shares available for future grants.

	Number of securities to be issued upon exercise of outstanding restricted and performance based stock compensation (a)	Weighted average exercise price of outstanding restricted and performance based stock compensation (b)	Number of securities available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders <sup>1</sup>	285,500	\$ 36.10	773,627
Equity compensation plans not approved by security holders	—	—	—
Total	285,500	\$ 36.10	773,627

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

#### Purchases of Equity Securities

During the quarter ended September 30, 2018, we did not purchase any of our common stock. On October 26, 2016, our Board of Directors approved a stock repurchase program wherein we may repurchase of up to \$100.0 million of our common stock ("Repurchase Program"). The Repurchase Program permits shares to be repurchased in the open market, including pursuant to any trading plan that may be adopted in accordance with Rule 10b5-1 of the SEC.

Repurchases may be made at management's discretion at prices management considers to be attractive, subject to the availability of stock, general market conditions, the applicable trading price, future alternative advantageous uses for capital, and our financial performance. Open market purchases will be conducted in accordance with the limitations set forth in Rule 10b-18 of the SEC and other applicable legal requirements. At September 30, 2018, we had \$94.4 million available for future purchases of our common stock under the Repurchase Program.

The Repurchase Program has no time limit and may be suspended, terminated or modified at any time for any reason, including market conditions, the cost of repurchasing shares, the availability of alternative investment opportunities, liquidity, and other factors deemed appropriate. These factors may also affect the timing and amount of share



repurchases. The Repurchase Program does not obligate us to purchase any particular number of shares. Any shares acquired will be canceled and become authorized but unissued shares, available for future issuance.

#### Total Shareholder Return Performance Graph

The following graph compares the cumulative total stockholder return on our common stock, since a trading market was established on October 15, 2014, to the cumulative total returns for the Standard & Poor's ("S&P") 500 Index, Russell 2000 Index and Keefe, Bruyette & Woods ("KBW") Regional Bank Index. We have determined to compare our performance to the KBW Regional Bank Index for purpose of the graph as it includes most of the peer banks we typically use for comparison purposes. The graph assumes that \$100 was invested on October 15, 2014 in our common stock and the above indexes. The cumulative total return on each investment is as of September 30, 2018 and assumes reinvestment of dividends.

	As of
	September
	30, 2018
Great Western Bancorp Inc.	\$ 252.93
S&P 500	\$ 168.35
Russell 2000	\$ 168.68
KBW Regional Bank Index	\$ 169.60

#### ITEM 6. SELECTED FINANCIAL DATA

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

At and for Fiscal Years Ended September 30,  
2018      2017      2016      2015      2014  
(Dollars in thousands except share and per share  
amounts)

#### Income Statement Data:

Interest income	\$481,837	\$434,515	\$388,982	\$358,044	\$348,502
Interest expense	74,000	45,320	33,524	29,884	32,052
Net interest income	407,837	389,195	355,458	328,160	316,450
Provision for loan and lease losses	17,986	21,539	16,955	19,041	684
Net interest income, after provision for loan and lease losses	389,851	367,656	338,503	309,119	315,766
Noninterest income	73,609	63,214	49,253	39,227	43,755
Noninterest expense	231,425	216,643	207,640	186,794	200,222
Income before income taxes	232,035	214,227	180,116	161,552	159,299
Provision for income taxes	74,119	69,441	58,863	52,487	54,347
Net income	\$157,916	\$144,786	\$121,253	\$109,065	\$104,952

Edgar Filing: Great Western Bancorp, Inc. - Form 10-K

	At and for Fiscal Years Ended September 30,					
	2018	2017	2016	2015	2014	
	(Dollars in thousands except share and per share amounts)					
<b>Other Financial Info / Performance Ratios:</b>						
Net interest margin	3.89	% 3.90	% 3.89	% 3.87	% 3.97	%
Adjusted net interest margin <sup>1</sup>	3.84	% 3.76	% 3.66	% 3.62	% 3.74	%
Return on average total assets	1.34	% 1.27	% 1.16	% 1.12	% 1.14	%
Return on average common equity	8.8	% 8.5	% 7.9	% 7.5	% 7.3	%
Return on average tangible common equity <sup>1</sup>	15.3	% 15.4	% 15.1	% 15.4	% 16.6	%
Efficiency ratio <sup>1</sup>	47.1	% 46.5	% 49.6	% 48.0	% 50.4	%
Dividends per common share	\$0.90	\$0.74	\$0.56	\$0.36	\$1.76	
Dividend payout ratio	33.7	% 30.2	% 26.1	% 18.8	% 97.2	%
Earnings per common share - diluted	\$2.67	\$2.45	\$2.14	\$1.90	\$1.81	
Adjusted earnings per common share - diluted <sup>1</sup>	\$2.90	\$2.46	\$2.31	\$1.90	\$1.81	
<b>Balance Sheet Data:</b>						
Loans <sup>2</sup>	\$9,415,924	\$8,968,553	\$8,682,644	\$7,325,198	\$6,787,467	
Allowance for loan and lease losses	64,540	63,503	64,642	57,200	47,518	
Securities	1,385,650	1,367,960	1,315,860	1,327,327	1,341,242	
Goodwill	739,023	739,023	739,023	697,807	697,807	
Total assets	12,116,808	11,690,011	11,531,180	9,798,654	9,371,429	
Total deposits	9,733,499	8,977,613	8,604,790	7,387,065	7,052,180	
Total liabilities	10,276,257	9,935,011	9,867,789	8,339,308	7,950,339	
Total stockholder's equity	1,840,551	1,755,000	1,663,391	1,459,346	1,421,090	
<b>Asset Quality Ratios:</b>						
Nonaccrual loans / total loans	1.52	% 1.54	% 1.46	% 0.93	% 1.16	%
Allowance for loan and lease losses / total loans	0.69	% 0.71	% 0.74	% 0.78	% 0.70	%
Net charge-offs / average total loans	0.18	% 0.26	% 0.12	% 0.13	% 0.14	%
<b>Capital Ratios:</b>						
Tier 1 capital ratio	12.0	% 11.4	% 11.1	% 10.9	% 11.8	%
Total capital ratio	13.0	% 12.5	% 12.2	% 12.1	% 12.9	%
Tier 1 leverage ratio	10.7	% 10.3	% 9.5	% 9.1	% 9.1	%
Common equity tier 1 ratio	11.3	% 10.7	% 10.2	% 10.1	% *	%
Tangible common equity to tangible assets <sup>1</sup>	9.6	% 9.2	% 8.5	% 8.3	% 8.2	%
Book value per share - GAAP	\$31.24	\$29.83	\$28.34	\$26.43	\$24.55	
Tangible book value per share <sup>1</sup>	\$18.57	\$17.11	\$15.55	\$13.66	\$12.25	

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

<sup>2</sup> Loans include unpaid principal balance net of unamortized discount on acquired loans and unearned net deferred fees and costs and loans in process.

\* Not applicable for period presented

**Non-GAAP Financial Measures Reconciliations**

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

At and for Fiscal Years Ended September 30,  
2018      2017      2016      2015      2014  
(Dollars in thousands except share and per share amounts)

Edgar Filing: Great Western Bancorp, Inc. - Form 10-K

Adjusted net income and adjusted earnings per common share:

Net income - GAAP	\$ 157,916	\$ 144,786	\$ 121,253	\$ 109,065	\$ 104,952
Add: Acquisition expenses, net of tax	—	440	9,729	—	—
Add: Deferred taxes revaluation	13,586	—	—	—	—
Adjusted net income	\$ 171,502	\$ 145,226	\$ 130,982	\$ 109,065	\$ 104,952
Weighted average diluted common shares outstanding	59,131,650	59,029,382	56,729,350	57,500,878	57,886,114
Earnings per common share - diluted	\$ 2.67	\$ 2.45	\$ 2.14	\$ 1.90	\$ 1.81
Adjusted earnings per common share - diluted	\$ 2.90	\$ 2.46	\$ 2.31	\$ 1.90	\$ 1.81

54

---

Edgar Filing: Great Western Bancorp, Inc. - Form 10-K

	At and for Fiscal Years Ended September 30,					
	2018	2017	2016	2015	2014	
	(Dollars in thousands except share and per share amounts)					
Tangible net income and return on average tangible common equity:						
Net income - GAAP	\$ 157,916	\$ 144,786	\$ 121,253	\$ 109,065	\$ 104,952	
Add: Amortization of intangible assets, net of tax	1,460	2,044	2,384	6,230	12,971	
Tangible net income	\$ 159,376	\$ 146,830	\$ 123,637	\$ 115,295	\$ 117,923	
Average common equity	\$ 1,788,153	\$ 1,702,225	1,541,844	1,456,223	1,430,772	
Less: Average goodwill and other intangible assets	747,513	749,393	721,726	707,920	719,573	
Average tangible common equity	\$ 1,040,640	\$ 952,832	\$ 820,118	\$ 748,303	\$ 711,199	
Return on average common equity *	8.8	% 8.5	% 7.9	% 7.5	% 7.3	%
Return on average tangible common equity **	15.3	% 15.4	% 15.1	% 15.4	% 16.6	%

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

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

Adjusted net interest income and adjusted net interest margin (fully-tax equivalent basis):

Net interest income - GAAP	\$ 407,837	\$ 389,195	\$ 355,458	\$ 328,160	\$ 316,450	
Add: Tax equivalent adjustment	6,597	8,599	7,534	6,576	4,663	
Net interest income (FTE)	414,434	397,794	362,992	334,736	321,113	
Add: Current realized derivative gain (loss)	(5,365 )	(14,395 )	(20,727 )	(21,642 )	(18,255 )	
Adjusted net interest income (FTE)	\$ 409,069	\$ 383,399	\$ 342,265	\$ 313,094	\$ 302,858	
Average interest-earning assets	\$ 10,647,357	\$ 10,209,741	\$ 9,339,858	\$ 8,641,719	\$ 8,093,861	
Net interest margin (FTE) *	3.89	% 3.90	% 3.89	% 3.87	% 3.97	%
Adjusted net interest margin (FTE) **	3.84	% 3.76	% 3.66	% 3.62	% 3.74	%

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

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

Adjusted interest income and adjusted yield (fully-tax equivalent basis), on non-ASC 310-30 loans:

Interest income - GAAP	\$ 439,789	\$ 396,481	\$ 356,271	\$ 324,281	\$ 314,801	
Add: Tax equivalent adjustment	6,597	8,599	7,534	6,576	4,663	
Interest income (FTE)	446,386	405,080	363,805	330,857	319,464	
Add: Current realized derivative gain (loss)	(5,365 )	(14,395 )	(20,727 )	(21,642 )	(18,255 )	
Adjusted interest income (FTE)	\$ 441,021	\$ 390,685	\$ 343,078	\$ 309,215	\$ 301,209	
Average non-ASC 310-30 loans	\$ 9,106,519	\$ 8,581,615	\$ 7,736,454	\$ 6,889,738	\$ 6,311,857	
Yield (FTE) *	4.90	% 4.72	% 4.70	% 4.80	% 5.06	%
Adjusted yield (FTE) **	4.84	% 4.55	% 4.43	% 4.49	% 4.77	%

Edgar Filing: Great Western Bancorp, Inc. - Form 10-K

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

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

Efficiency ratio:

Total revenue - GAAP	\$481,446	\$452,409	\$404,711	\$367,387	\$360,205
Add: Tax equivalent adjustment	6,597	8,599	7,534	6,576	4,663
Total revenue (FTE)	\$488,043	\$461,008	\$412,245	\$373,963	\$364,868

Noninterest expense	\$231,425	\$216,643	\$207,640	\$186,794	\$200,222
Less: Amortization of intangible assets	1,662	2,358	3,264	7,110	16,215
Tangible noninterest expense	\$229,763	\$214,285	\$204,376	\$179,684	\$184,007

Efficiency ratio *	47.1	% 46.5	% 49.6	% 48.0	% 50.4	%
--------------------	------	--------	--------	--------	--------	---

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

Tangible common equity and tangible common equity to tangible assets:

Total stockholders' equity	\$1,840,551	\$1,755,000	\$1,663,391	\$1,459,346	\$1,421,090
Less: Goodwill and other intangible assets	746,735	748,397	750,755	704,926	712,036
Tangible common equity	\$1,093,816	\$1,006,603	\$912,636	\$754,420	\$709,054

Total assets	\$12,116,808	\$11,690,011	\$11,531,180	\$9,798,654	\$9,371,429
Less: Goodwill and other intangible assets	746,735	748,397	750,755	704,926	712,036
Tangible assets	\$11,370,073	\$10,941,614	\$10,780,425	\$9,093,728	\$8,659,393

Tangible common equity to tangible assets	9.6	% 9.2	% 8.5	% 8.3	% 8.2	%
---	-----	-------	-------	-------	-------	---

Edgar Filing: Great Western Bancorp, Inc. - Form 10-K

At and for Fiscal Years Ended September 30,  
2018 2017 2016 2015 2014  
(Dollars in thousands except share and per share amounts)

Tangible book value per share:					
Total stockholders' equity	\$1,840,551	\$1,755,000	\$1,663,391	\$1,459,346	\$1,421,090
Less: Goodwill and other intangible assets	746,735	748,397	750,755	704,926	712,036
Tangible common equity	\$1,093,816	\$1,006,603	\$912,636	\$754,420	\$709,054
Common shares outstanding	58,917,147	58,834,066	58,693,304	55,219,596	57,886,114
Book value per share - GAAP	\$31.24	\$29.83	\$28.34	\$26.43	\$24.55
Tangible book value per share	\$18.57	\$17.11	\$15.55	\$13.66	\$12.25

Selected Quarterly Results of Operations

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

For Quarters Ended:

Sept. 30, Jun. 30, Mar. 31, Dec. 31, Sept. 30, Jun. 30, Mar. 31, Dec. 31,  
2018 2018 2018 2017 2017 2017 2017 2016

(Dollars in thousands except share and per share amounts)

Operating

Data:

Interest income	\$125,234	\$124,417	\$117,233	\$114,954	\$113,063	\$108,559	\$106,238	\$106,655
Interest expense	23,244	19,745	16,680	14,332	13,391	11,671	10,494	9,764
Provision for loan and lease losses	5,015	3,515	4,900	4,557	4,685	5,796	4,009	7,049
Noninterest income	19,255	18,939	18,742	16,674	14,740	17,327	15,489	15,658
Noninterest expense	59,550	57,863	59,144	54,868	55,332	54,922	53,852	52,537
Net income	42,281	45,874	40,532	29,230	37,662	35,060	35,162	36,903
Net interest income	101,990	104,672	100,553	100,622	99,672	96,888	95,744	96,891
Adjusted net interest income (FTE) <sup>1</sup>	103,258	105,571	100,529	99,711	99,080	95,722	94,051	94,547
Net interest margin (FTE) <sup>1</sup>	3.79%	3.97%	3.92%	3.89%	3.93%	3.92%	3.91%	3.82%
Adjusted net interest margin (FTE) <sup>1</sup>	3.77%	3.94%	3.86%	3.80%	3.82%	3.79%	3.76%	3.65%
Earnings per common share - diluted	\$0.72	\$0.78	\$0.69	\$0.49	\$0.64	\$0.59	\$0.60	\$0.63
Adjusted earnings per	\$0.72	\$0.78	\$0.69	\$0.72	\$0.64	\$0.59	\$0.60	\$0.63

common share  
- diluted <sup>1</sup>

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

#### Non-GAAP Quarterly Financial Measures Reconciliations

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

For Quarters Ended:

Sept. 30, 2018	Jun. 30, 2018	Mar. 31, 2018	Dec. 31, 2017	Sept. 30, 2017	Jun. 30, 2017	Mar. 31, 2017	Dec. 31, 2016
----------------------	------------------	------------------	------------------	-------------------	------------------	------------------	------------------

(Dollars in thousands except share and per share amounts)

Adjusted net income and  
adjusted earnings per common  
share:

Net income - GAAP	\$42,281	\$45,874	\$40,532	\$29,230	\$37,662	\$35,060	\$35,162	\$36,903
Add: Acquisition expenses, net of tax	—	—	—	—	—	—	—	440
Add: Deferred taxes revaluation	—	—	—	13,586	—	—	—	—
Adjusted net income	\$42,281	\$45,874	\$40,532	\$42,816	\$37,662	\$35,060	\$35,162	\$37,343

Weighted average diluted common shares outstanding	59,122,699	59,170,058	59,146,117	59,087,729	58,914,144	59,130,632	59,073,669	58,991,905
Earnings per common share - diluted	\$0.72	\$0.78	\$0.69	\$0.49	\$0.64	\$0.59	\$0.60	\$0.63
Adjusted earnings per common share - diluted	\$0.72	\$0.78	\$0.69	\$0.72	\$0.64	\$0.59	\$0.60	\$0.63



Edgar Filing: Great Western Bancorp, Inc. - Form 10-K

For Quarters Ended:

Sept. 30, Jun. 30, Mar. 31, Dec. 31, Sept. 30, Jun. 30, Mar. 31, Dec. 31,  
2018 2018 2018 2017 2017 2017 2017 2016

(Dollars in thousands except share and per share amounts)

Adjusted net interest income and adjusted net interest margin (fully-tax equivalent basis):

Net interest income - GAAP	\$101,990	\$104,672	\$100,553	\$100,622	\$99,672	\$96,888	\$95,744	\$96,891
Add: Tax equivalent adjustment	1,687	1,729	1,616	1,565	2,122	2,154	2,182	2,142
Net interest income (FTE)	103,677	106,401	102,169	102,187	101,794	99,042	97,926	99,033
Add: Current realized derivative gain (loss)	(419 )	(830 )	(1,640 )	(2,476 )	(2,714 )	(3,320 )	(3,875 )	(4,486 )
Adjusted net interest income (FTE)	\$103,258	\$105,571	\$100,529	\$99,711	\$99,080	\$95,722	\$94,051	\$94,547

Average interest-earning assets	\$10,857,168	\$10,748,078	\$10,571,300	\$10,412,882	\$10,283,401	\$10,124,404	\$10,144,875	\$10,286,284
Net interest margin (FTE) *	3.79	% 3.97	% 3.92	% 3.89	% 3.93	% 3.92	% 3.91	% 3.82
Adjusted net interest margin (FTE) **	3.77	% 3.94	% 3.86	% 3.80	% 3.82	% 3.79	% 3.76	% 3.65

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

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

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The historical consolidated financial data discussed below reflects our historical results of operations and financial condition and should be read in conjunction with our financial statements and related notes thereto presented in Item 8 of this Annual Report on Form 10-K. In addition to historical financial data, this discussion includes certain forward-looking statements regarding events and trends that may affect our future results. Such statements are subject to risks and uncertainties that could cause our actual results to differ materially. See "Cautionary Note Regarding Forward-Looking Statements." For a more complete discussion of the factors that could affect our future results, see "Item 1A. Risk Factors."

Any discrepancies included in this filing between totals and the sums of percentages and dollar amounts presented, or between rounded dollar amounts, are due to rounding.

Tax Equivalent Presentation

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

#### Overview

We are a full-service regional bank holding company focused on relationship-based business and agri-business banking. We serve our customers through 174 branches in attractive markets in nine states: Arizona, Colorado, Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota and South Dakota.

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

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

Due to the Tax Reform Act of 2017, a blended statutory federal tax rate of 24.5% was applied to net income before taxes generated during fiscal year 2018, compared to 35% for fiscal year 2017. The Company's tax equivalent adjustment to net interest income and net interest margin was \$6.6 million for fiscal year 2018, compared to \$8.6 million for fiscal year 2017, on a consistent asset base. This change reduced net interest margin and adjusted net interest margin by approximately two basis points for fiscal year 2018 and increased our efficiency ratio by a negligible amount for the same period. For more information on our net interest margin, adjusted net interest margin and efficiency ratio, see "—Non-GAAP Financial Measures" and for a reconciliation to the most directly comparable GAAP financial measure, see "Item 6. Selected Financial Data—Non-GAAP Financial Measures Reconciliations."

#### Correction of Prior Period Balances

The consolidated statements of income have been revised to correct an immaterial classification error in loan interest income and noninterest income related to credit card interchange income for all periods presented. The reclassification had no effect on net income, earnings per share, retained earnings or capital ratios for all periods presented; however, our net interest margin and adjusted net interest margin were reduced by five to eight basis points compared to what was originally reported for the prior comparable periods. Periods not presented herein will be revised, as applicable, as they are included in future filings. For more information on the reclassification of credit card interchange income, see "—Notes to Consolidated Financial Statements, 1. Nature of Operations and Summary of Significant Policies" section. For more information on our efficiency ratio, net interest margin and adjusted net interest margin, see "—Non-GAAP Financial Measures" and for a reconciliation to the most directly comparable GAAP financial measure, see "Item 6. Selected Financial Data—Non-GAAP Financial Measures Reconciliations."

#### Highlights for the Fiscal Year Ended September 30, 2018

Net income was \$157.9 million, or \$2.67 per diluted share, for fiscal year 2018, compared to net income of \$144.8 million, or \$2.45 per diluted share, for fiscal year 2017, an increase of \$13.1 million, or 9.1%. Total revenue (non-FTE) for fiscal year 2018 grew by 6.4%, combined with a decrease in provision for loan and lease losses of 16.5%, partially offset by noninterest expenses growth of 6.8%. Total revenue (non-FTE) is the sum of net interest income (non-FTE) and noninterest income. Our efficiency ratio, which measures our ability to manage noninterest expenses, remained strong during fiscal year 2018 at 47.1%, compared to 46.5% for fiscal year 2017. For more information on our efficiency ratio, see "—Non-GAAP Financial Measures" and for a reconciliation to the most directly comparable GAAP financial measure, see "Item 6. Selected Financial Data—Non-GAAP Financial Measures Reconciliations."

Net interest margin, which measures our ability to maintain interest rates on interest earning assets above those of interest-bearing liabilities, was 3.89%, 3.90% and 3.89%, respectively, for fiscal years 2018, 2017 and 2016. Adjusted net interest margin, which adjusts for the realized gain (loss) on interest rate swaps, was 3.84%, 3.76% and 3.66%, respectively, for the same periods. We believe our adjusted net interest margin is more representative of our underlying performance and is the measure we use internally to evaluate our results. Net interest margin and adjusted net interest margin were 1 basis points lower and 8 basis points higher, respectively, compared to fiscal year 2017. Net interest margin decreased between the two periods primarily due to a 25 basis point increase in the cost of interest-bearing deposits and moderate increases in the cost of borrowings, partially offset by a 25 basis point increase in the yield on interest-earning assets, driven by higher average loan balances as a proportion of interest earning assets and increasing loan yields. A \$9.0 million reduction in the current fiscal year of the cost of interest rate swaps compared to fiscal year 2017 is the primary driver of the more pronounced increase in adjusted net interest margin compared to net interest margin. For more information on our adjusted net interest margin, see "—Non-GAAP Financial Measures" and for a reconciliation to the most directly comparable GAAP financial measure, see "Item 6. Selected Financial Data—Non-GAAP Financial Measures Reconciliations."

Total loans were \$9.42 billion as of September 30, 2018, compared to \$8.97 billion as of September 30, 2017. The majority of growth was focused in the CRE segment of the portfolio, which grew by \$504.5 million, or 12.2%, partially offset by a reduction in the residential real estate segment of \$95.3 million, or 10.2%. Deposits as of September 30, 2018 were \$9.73 billion, an increase of \$755.9 million, or 8.4%, from \$8.98 billion as of September 30, 2017, as a result of deposit funding, including brokered deposits, being more cost effective than FHLB borrowings. Loans classified as "Watch" status were \$343.3 million as of September 30, 2018, an increase of \$31.7 million, or 10.2%, compared to \$311.6 million at September 30, 2017, while loans classified as "Substandard" were \$252.7

million, an increase of \$19.9 million, or 8.5%, compared to \$232.8 million over the same periods. The increases were primarily driven by a small number of agriculture relationships. Nonaccrual loans, including ASC 310-30 loans, were \$143.2 million at September 30, 2018 an increase of \$4.9 million, or 3.5%, compared to \$138.3 million at September 30, 2017. Other repossessed property balances increased by \$14.1 million, or 156.8%, during the fiscal year due to the addition of one large property.

Provision for loan and lease losses was \$18.0 million for fiscal year 2018, compared to \$21.5 million for fiscal year 2017. The provision was lower due to a lower level of charge-offs recognized between the periods combined with a stable level of specific provisions. Net charge-offs for fiscal year 2018 were \$16.9 million, or 0.18% of average total loans on an annualized basis, with the majority of net charge-offs concentrated in the agricultural, CRE and commercial non-real estate segments of the loan portfolio. Net charge-offs were \$22.7 million, or 0.26% of average total loans on an annualized basis for fiscal year 2017. The ratio of ALLL to total loans was 0.69% at September 30, 2018, a decrease from 0.71% at September 30, 2017. The balance of the ALLL increased to \$64.5 million at September 30, 2018 from \$63.5 million at September 30, 2017.

Tier 1 capital, total capital and Tier 1 leverage ratios were 12.0%, 13.0% and 10.7%, respectively, at September 30, 2018, compared to 11.4%, 12.5% and 10.3%, respectively, at September 30, 2017. In addition, our Common Equity Tier 1 ratio was 11.3% at September 30, 2018, compared to 10.7% at September 30, 2017. Our tangible common equity to tangible assets ratio was 9.6% at September 30, 2018, compared to 9.2% at September 30, 2017. All regulatory capital ratios remain above regulatory minimums to be considered "well capitalized". For more information on our tangible common equity to tangible assets ratio, see "—Non-GAAP Financial Measures" and for a reconciliation to the most directly comparable GAAP financial measure, see "Item 6. Selected Financial Data—Non-GAAP Financial Measures Reconciliations."

#### Key Factors Affecting Our Business and Financial Performance

We believe that stable long-term growth and profitability are the result of building strong customer relationships while maintaining disciplined underwriting standards and continuing to focus on our operational efficiency. We plan to focus on originating high-quality loans and growing our deposit base through our relationship-based business and agri-business banking approach. We believe that continuing to focus on our core strengths will enable us to gain market share and increase profitability. For more information on the key components of our strategy for continued success and future growth, see "Part I, Item 1. Business—Our Business Strategy."

We face a variety of risks that may impact various aspects of our risk profile from time to time. The extent of such impacts may vary depending on factors such as the current economic, political and regulatory environment, merger and acquisition activity and operational challenges. For more information on these risks and our risk management strategies, see "Part I, Item 1. Business" and "Part I, Item 1A. Risk Factors."

Our financial performance is substantially affected by a number of external factors outside of our control, including the following:

- current and future global and domestic economic conditions, including rate of growth and employment levels;
- the monetary policy actions and statements of the Federal Reserve and the FOMC;
- the relative strength or weakness of the commercial, agricultural and real estate markets, including declines in asset and market prices;
- the level of, and direction, timing and magnitude of movement in, interest rates and the shape of the interest rate yield curve;
- changes in the competitive and regulatory landscape;
  - the impact of legislation, regulatory and administrative initiatives and actions;
- the ability of customers, counterparties and issues to perform in accordance with contractual terms, and the resulting impact on our asset quality;
  - loan demand, utilization of credit commitments and standby letters of credit; and
- the impact on customers and changes in customer behavior due to changing business and economic conditions or regulatory or legislative initiatives, including trade agreements, newly enacted federal tax legislation and imposed and proposed tariffs on products our customers may import or export.

In addition, our success will depend upon, among other things:

- our ability to effectively manage capital and liquidity;
- our ability to effectively execute our strategic plan and manage our growth;
- our ability to manage credit risk in our portfolio; and
- the appropriateness of reserves needed for critical accounting estimates and related contingencies.

For additional information, see "Cautionary Note Regarding Forward-Looking Statements." For a more complete discussion of the factors that could affect our future results, see "Item 1A. Risk Factors."

## Results of Operations—Fiscal Years Ended September 30, 2018, 2017 and 2016

## Overview

The following table highlights certain key financial and performance information for fiscal years 2018, 2017 and 2016.

	At and for Fiscal Years Ended			
	September 30,			
	2018	2017	2016	
	(dollars in thousands, except share and per share amounts)			
Operating Data:				
Interest income (FTE)	\$488,434	\$443,114	\$396,516	
Interest expense	74,000	45,320	33,524	
Noninterest income	73,609	63,214	49,253	
Noninterest expense	231,425	216,643	207,640	
Provision for loan and lease losses	17,986	21,539	16,955	
Net income	157,916	144,786	121,253	
Adjusted net income <sup>1</sup>	\$171,502	\$145,226	\$130,982	
Common shares outstanding	58,917,147	58,834,066	58,693,304	
Weighted average diluted common shares outstanding	59,131,650	59,029,382	56,729,350	
Earnings per common share - diluted	\$2.67	\$2.45	\$2.14	
Adjusted earnings per common share - diluted <sup>1</sup>	2.90	2.46	2.31	
Performance Ratios:				
Net interest margin (FTE) <sup>1</sup>	3.89	% 3.90	% 3.89	%
Adjusted net interest margin (FTE) <sup>1</sup>	3.84	% 3.76	% 3.66	%
Return on average total assets	1.34	% 1.27	% 1.16	%
Return on average common equity	8.8	% 8.5	% 7.9	%
Return on average tangible common equity <sup>1</sup>	15.3	% 15.4	% 15.1	%
Efficiency ratio <sup>1</sup>	47.1	% 46.5	% 49.6	%

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

## Net Interest Income

The following tables present net interest income, net interest margin and adjusted net interest margin for fiscal years 2018, 2017 and 2016.

	At and for Fiscal Years Ended September 30,			
	2018	2017	2016	
	(dollars in thousands)			
Net interest income:				
Total interest income (FTE)	\$488,434	\$443,114	\$396,516	
Less: Total interest expense	74,000	45,320	33,524	
Net interest income (FTE)	\$414,434	\$397,794	\$362,992	
Net interest margin (FTE) and adjusted net interest margin (FTE) <sup>1</sup>				
Average interest-earning assets	\$10,647,357	\$10,209,741	\$9,339,858	
Average interest-bearing liabilities	\$9,952,961	\$9,573,937	\$8,760,173	
Net interest margin (FTE)	3.89	% 3.90	% 3.89	%
Adjusted net interest margin (FTE) <sup>1</sup>	3.84	% 3.76	% 3.66	%

<sup>1</sup> This is a non-GAAP financial measure we believe is helpful to interpreting our financial results. For more information on this non-GAAP financial measure, see "—Non-GAAP Financial Measures" and for a reconciliation to

the most directly comparable GAAP financial measure, see "Item 6. Selected Financial Data—Non-GAAP Financial Measures Reconciliations".

Net interest income was \$414.4 million in fiscal year 2018 compared to \$397.8 million in fiscal year 2017, an increase of \$16.6 million, or 4.2%. The increase was driven by higher loan interest income driven by 5.7% of growth in average loans outstanding between the periods combined with a 20 basis point increase in the yield on total loans, partially offset by a 25 basis point increase in the cost of deposits. Net interest income was \$397.8 million in fiscal year 2017 compared to \$363.0 million in fiscal year 2016, an increase of \$34.8 million, or 9.6%. The increase was driven by higher loan interest income driven by 10.8% of growth in average loans outstanding between the periods combined with a 5 basis point increase in the yield on total loans, partially offset by an 8 basis point increase in the cost of deposits.



Net interest margin was 3.89% in fiscal year 2018, compared with 3.90% in fiscal year 2017. Adjusted net interest margin was 3.84% and 3.76%, respectively, over the same periods. The decrease in net interest margin was primarily due to a 27 basis point increase in the cost of interest-bearing liabilities, partially offset by a 25 basis point increase in the yield on interest-earning assets driven by higher average loan balances as a proportion of earning assets and improving loan yields. A \$9.0 million reduction in the cost of interest rate swaps between the periods is the primary driver of the more pronounced increase in adjusted net interest margin compared to net interest margin.

Net interest margin was 3.90% in fiscal year 2017, compared with 3.89% in fiscal year 2016. Adjusted net interest margin was 3.76% and 3.66%, respectively, over the same periods. Net interest margin remained relatively stable primarily due to a 9 basis point rise in the yield on interest-earning assets, offset by a 9 basis point rise in the cost of interest-bearing liabilities. The growth in adjusted net interest margin was driven by a \$6.3 million reduction in the cost of interest rate swaps compared to fiscal year 2016, as a result of increases in short-term LIBOR rates. For more information on our adjusted net interest margin, see "—Non-GAAP Financial Measures" and for a reconciliation to the most directly comparable GAAP financial measure, see "Item 6. Selected Financial Data—Non-GAAP Financial Measures Reconciliations."

The following table presents the distribution of average assets, liabilities and equity, interest income and resulting yields on average interest-earning assets, and interest expense and rates on average interest-bearing liabilities for fiscal years 2018, 2017 and 2016. Loans on nonaccrual status that had interest accrued as of the date of nonaccrual is immediately reversed as a reduction to interest income, while any interest subsequently recovered is recorded in the period of recovery. Tax-exempt loans and securities, totaling \$789.0 million at September 30, 2018 and \$703.1 million at September 30, 2017, are typically entered at lower interest rate arrangements than comparable non-exempt loans and securities. The amount of interest income reflected below has been adjusted to include the amount of tax benefit realized in the period and as such is presented on a fully-tax equivalent basis, the calculation of which is outlined in the discussion of non-GAAP items, see "—Non-GAAP Financial Measures" and for a reconciliation to the most directly comparable GAAP financial measure, see "Item 6. Selected Financial Data—Non-GAAP Financial Measures Reconciliations." ASC 310-30 loans represent loans accounted for in accordance with ASC 310-30 Accounting for Purchased Loans that were credit impaired at the time we acquired them. Non-ASC 310-30 loans represent loans we have originated and loans we have acquired that were not credit impaired at the time we acquired them.

	Fiscal Years Ended September 30,									
	2018			2017			2016			
	Average Balance	Interest (FTE)	Yield / Cost	Average Balance	Interest (FTE)	Yield / Cost	Average Balance	Interest (FTE)	Yield / Cost	
	(dollars in thousands)									
<b>Assets</b>										
Interest-bearing bank deposits	\$75,101	\$1,376	1.83 %	\$123,616	\$922	0.75 %	\$122,651	\$574	0.47 %	
Investment securities	1,384,632	29,171	2.11 %	1,390,453	26,311	1.89 %	1,366,925	24,680	1.81 %	
Non-ASC 310-30 loans, net <sup>3</sup>	9,106,519	446,386	4.90 %	8,581,615	405,080	4.72 %	7,736,454	363,805	4.70 %	
ASC 310-30 loans, net	81,105	11,501	14.18 %	114,057	10,801	9.47 %	113,828	7,457	6.55 %	
Loans, net	9,187,624	457,887	4.98 %	8,695,672	415,881	4.78 %	7,850,282	371,262	4.73 %	
Total interest-earning assets	10,647,357	488,434	4.59 %	10,209,741	443,114	4.34 %	9,339,858	396,516	4.25 %	
Noninterest-earning assets	1,160,802			1,154,861			1,079,503			
Total assets	\$11,808,159	\$488,434	4.14 %	\$11,364,602	\$443,114	3.90 %	\$10,419,361	\$396,516	3.81 %	
<b>Liabilities and Stockholders' Equity</b>										
Noninterest-bearing deposits	\$1,809,470			\$1,806,491			\$1,493,287			
Interest-bearing deposits	5,990,182	\$43,092	0.72 %	5,709,863	\$25,969	0.45 %	5,081,401	\$16,206	0.32 %	

Edgar Filing: Great Western Bancorp, Inc. - Form 10-K

Time deposits	1,483,760	17,020	1.15 %	1,300,987	9,066	0.70%	1,345,693	8,908	0.66%
Total deposits	9,283,412	60,112	0.65 %	8,817,341	35,035	0.40%	7,920,381	25,114	0.32%
Securities sold under agreements to repurchase	108,599	340	0.31 %	122,188	384	0.31 %	160,820	519	0.32%
FHLB advances and other borrowings	452,572	8,508	1.88 %	525,491	5,437	1.03%	580,283	4,154	0.72%
Subordinated debentures and subordinated notes payable	108,378	5,040	4.65 %	108,917	4,464	4.10%	98,689	3,737	3.79%
Total borrowings	669,549	13,888	2.07 %	756,596	10,285	1.36%	839,792	8,410	1.00%
Total interest-bearing liabilities	9,952,961	\$74,000	0.74 %	9,573,937	\$45,320	0.47%	8,760,173	\$33,524	0.38%
Noninterest-bearing liabilities	67,045			88,440			117,344		
Stockholders' equity	1,788,153			1,702,225			1,541,844		
Total liabilities and stockholders' equity	\$11,808,159			\$11,364,602			\$10,419,361		
Net interest spread			3.40 %			3.43 %			3.43 %
Net interest income and net interest margin (FTE) <sup>1</sup>		\$414,434	3.89 %		\$397,794	3.90%		\$362,992	3.89%
Less: Tax equivalent adjustment		\$6,597			\$8,599			\$7,534	
Net interest income and net interest margin - ties to Statements of Comprehensive Income		\$407,837	3.83 %		\$389,195	3.81 %		\$355,458	3.81 %

<sup>1</sup> Interest income includes \$2.7 million, \$4.1 million and \$3.6 million for fiscal year 2018, 2017 and 2016, respectively, resulting from accretion of purchase accounting discount associated with acquired loans.

## Interest Income

The following table presents interest income for fiscal years 2018, 2017 and 2016.

	Fiscal Years Ended September		
	30,		
	2018	2017	2016
	(dollars in thousands)		
Interest income:			
Loans (FTE)	\$457,887	\$415,881	\$371,262
Investment securities	29,171	26,311	24,680
Federal funds sold and other	1,376	922	574
Total interest income (FTE)	488,434	443,114	396,516
Less: Tax equivalent adjustment	6,597	8,599	7,534
Total interest income (GAAP)	481,837	434,515	388,982

Total interest income consists primarily of interest income on loans and interest income on our investment portfolio. Total interest income increased \$45.3 million, or 10.2%, to \$488.4 million for fiscal year 2018, from \$443.1 million for fiscal year 2017, which increased \$46.6 million, or 11.8%, from \$396.5 million for fiscal year 2016. Significant components of interest income are described in further detail below.

**Loans.** Interest income on all loans increased to \$457.9 million in fiscal year 2018 from \$415.9 million in fiscal year 2017, an increase of \$42.0 million, or 10.1%, during the fiscal year. Average net loan balances for fiscal year 2018 were \$9.19 billion, representing a 5.7% increase compared to the same period in fiscal year 2017. The majority of growth was focused in the CRE segment of the portfolio, which grew by \$504.5 million, or 12.2%, partially offset by a reduction in the residential real estate segment of \$95.3 million, or 10.2%. The largest contributors to the growth in the CRE segment during fiscal year 2018 were the non-owner occupied CRE segment, which grew \$321.9 million, or 15.9%, combined with an increase of \$115.0 million, or 9.4%, in the owner-occupied CRE segment and an increase of \$99.0 million, or 18.4%, in the construction and development segment. Interest income on ASC 310-30 loans, which are purchased credit impaired loans with a different income recognition model, increased \$0.7 million between the two periods, primarily driven by accelerated accretion of interest income on one pool of purchased credit impaired loans in fiscal year 2018.

Interest income on all loans increased to \$415.9 million in fiscal year 2017 from \$371.3 million in fiscal year 2016, an increase of 12.0% during the fiscal year. Average net loan balances for fiscal year 2017 were \$8.70 billion, representing a 10.8% increase compared to the same period in fiscal year 2016. Growth was focused in the CRE segment of the portfolio, partially offset by a reduction in the residential real estate segment of the portfolio. The largest contributor to growth during fiscal year 2017 was in non-owner occupied CRE, combined with moderate increases in construction and development and owner-occupied subsegments which were largely offset by a decline in multi-family residential real estate subsegments. Interest income on ASC 310-30 loans increased \$3.3 million between the two periods, primarily driven accelerated accretion of interest income on two pools of purchased credit impaired loans in fiscal year 2017.

Our yield on loans is affected by market interest rates, the level of adjustable-rate loan indices, interest rate floors and caps, customer repayment activity, the level of loans held for sale, portfolio mix, and the level of nonaccrual loans. The average tax equivalent yield on non-ASC 310-30 loans was 4.90% for fiscal year 2018, an 18 basis point increase compared to 4.72% for fiscal year 2017, which was a 2 basis point increase from 4.70% for fiscal year 2016. Adjusted for the current realized gain (loss) on derivatives we use to manage interest rate risk on certain of our loans at fair value, which we believe represents the underlying economics of the transactions, the adjusted yield on non-ASC 310-30 loans was 4.84% for fiscal year 2018, an increase of 29 basis points compared to 4.55% for fiscal year 2017, which was a 12 basis points increase compared to 4.43% for fiscal year 2016. Starting in fiscal year 2016 and continuing through fiscal year 2018, we have begun to benefit from period-over-period increases in LIBOR rates which have reduced the net cost of pay fixed, receive floating interest rate swaps the Company utilizes related to certain fixed rate loans and benchmark rate hikes which have raised interest rates on many of our floating and variable rate loans.

The average duration of the loan portfolio, including the impact of the interest rate swaps on the duration of fair value loans, was a relatively short 1.3 years as of September 30, 2018. Approximately 48%, or \$4.52 billion, of the portfolio is comprised of fixed rate loans, of which \$865.4 million of loans are fixed-rate loans with an original term of 5 years or greater which we have entered into equal and offsetting fixed-to-floating interest rate swaps. These loans effectively behave as floating rate loans. For floating rate loans in the portfolio, approximately 44% are indexed to Wall Street Journal Prime, 29% to 5-year Treasuries and the balance to various other indices. Less than 1% of our total loans' rates are floored, with an average interest rate floor 72 bps above market rates.

Loan-related fee income of \$4.9 million is included in interest income for fiscal year 2018 compared to \$4.3 million for both fiscal years 2017 and 2016. In addition, certain fees collected at loan origination are considered to be a component of yield on the underlying loans and are deferred and recognized into income over the life of the loans. Amortization related to the FDIC indemnification assets of \$2.8 million, \$4.7 million and \$3.8 million for fiscal years 2018, 2017 and 2016, respectively, is included as a reduction to interest income.

Investment Portfolio. The carrying value of investment securities and FHLB stock was \$1.41 billion as of September 30, 2018 and 2017. Interest income on investments includes income earned on investment securities and FHLB stock. Interest income on investments was \$29.2 million for fiscal year 2018, an increase of \$2.9 million, or 10.9%, from \$26.3 million in fiscal year 2017. The increase in interest income was driven by the yield on investments which increased 22 basis points to 2.11% for fiscal year 2018, compared to 1.89% for fiscal year 2017, partially offset by a decrease in average balances.

In fiscal year 2017, interest income on investments increased to \$26.3 million from \$24.7 million in fiscal year 2016, an increase of 6.6%. The increase was driven by an 8 basis point increase in the yield on investments in fiscal year 2017 to 1.89%, compared to 1.81% for fiscal year 2016, combined with an increase in average balances.

The weighted average life of the portfolio was 3.9 years at September 30, 2018, and 3.6 years at September 30, 2017 and 3.3 years at September 30, 2016. Average investments in fiscal years 2018, 2017 and 2016 were 13.0%, 13.6% and 14.6%, respectively, of total average interest-earning assets.

#### Interest Expense

The following table presents interest expense for fiscal years 2018, 2017 and 2016.

	Fiscal Years Ended		
	September 30,		
	2018	2017	2016
	(dollars in thousands)		
Interest expense			
Deposits	\$60,112	\$35,035	\$25,114
FHLB advances and other borrowings	8,848	5,821	4,673
Subordinated debentures and subordinated notes payable	5,040	4,464	3,737
Total interest expense	\$74,000	\$45,320	\$33,524

Total interest expense consists primarily of interest expense on three components: deposits, FHLB advances and other borrowings and our outstanding subordinated debentures and subordinated notes payable. Total interest expense increased \$28.7 million, or 63.3%, to \$74.0 million in fiscal year 2018, from \$45.3 million in fiscal year 2017, which increased \$11.8 million, or 35.2%, from \$33.5 million in fiscal year 2016. Average interest-bearing liabilities increased \$379.0 million, or 4.0%, to \$9.95 billion in fiscal year 2018, from \$9.57 billion in fiscal year 2017, which increased \$813.8 million, or 9.3%, from \$8.76 billion in fiscal year 2016. The average cost of total interest-bearing liabilities increased to 0.74% in fiscal year 2018, compared to 0.47% in fiscal year 2017 and 0.38% in fiscal year 2016. Significant components of interest expense are described in further detail below.

Deposits. Interest expense on deposits, consisting of interest-bearing accounts and time deposits, was \$60.1 million in fiscal year 2018 compared with \$35.0 million in fiscal year 2017, an increase of \$25.1 million, or 71.6%, driven by growth in average deposits outstanding and increasing benchmark interest rates in the cost of deposits. Average deposit balances increased to \$9.28 billion from \$8.82 billion, respectively, for the same periods, an increase of \$466.1 million, or 5.3%. The cost of deposits increased 25 basis points to 0.65% for fiscal year 2018 from 0.40% for fiscal year 2017, reflecting a rise in market interest rates and increased competition for deposit balances. Interest expense on deposits was \$35.0 million in fiscal year 2017 compared with \$25.1 million in fiscal year 2016, an increase of \$9.9 million, or 39.5% driven by growth in average deposits outstanding and increasing benchmark interest rates. Average deposit balances increased \$897.0 million, or 11.3%, to \$8.82 billion from \$7.92 billion, respectively, for the same periods. The cost of deposits increased 8 basis points to 0.40% for fiscal year 2017 from 0.32% for fiscal year 2016, reflecting a rise in market interest rates.

Average noninterest-bearing demand account balances comprised 19.5% of average total deposits for fiscal year 2018 compared with 20.5% for fiscal year 2017, and 18.9% for fiscal year 2016. Total average other liquid accounts, consisting of interest-bearing demand accounts, remained stable in fiscal year 2018 at 64.5% of total average deposits,

compared to 64.8% of total average deposits for fiscal year 2017 and 64.2% in fiscal year 2016, while time deposit accounts increased in fiscal year 2018 to 16.0% of total average deposits compared to 14.8% in fiscal year 2017 and 17.0% in fiscal year 2016. We continue our strategy of focusing on cost-effective transaction accounts as well as our focus on gathering business deposits, which are typically transaction accounts by nature.

FHLB Advances and Other Borrowings. Interest expense on FHLB advances and other borrowings was \$8.8 million for fiscal year 2018, compared to \$5.8 million for fiscal year 2017 and \$4.7 million for fiscal year 2016, reflecting weighted average cost of 1.88%, 1.03% and 0.72%, respectively. Our average balance for FHLB advances and other borrowings decreased to \$452.6 million in fiscal year 2018 from \$525.5 million in fiscal year 2017, which decreased from \$580.3 million in fiscal year 2016. Average FHLB advances and other borrowings as a proportion of total average interest-bearing liabilities were 4.5% for fiscal year 2018, 5.5% for fiscal year 2017 and 6.6% for fiscal year 2016. The average rate paid on FHLB advances is impacted by market rates and the various terms and repricing frequency of the specific outstanding borrowings in each year. The weighted average contractual rate paid on our FHLB advances was 2.58% at September 30, 2018, 1.36% at September 30, 2017 and 0.69% at September 30, 2016. The average tenor of our FHLB advances was 15 months at September 30, 2018, 4 months at September 30, 2017 and 52 months at September 30, 2016. The amount of other borrowings and related interest expense are immaterial in each of fiscal years 2018, 2017 and 2016.

We must collateralize FHLB advances by pledging real estate loans or investments. We pledge more assets than required by our current level of borrowings in order to maintain additional borrowing capacity. Although we may substitute other loans for such pledged loans, we are restricted in our ability to sell or otherwise pledge these loans without substituting collateral or prepaying a portion of the FHLB advances. At September 30, 2018, we had pledged \$3.95 billion of loans to the FHLB, against which we had borrowed \$275.0 million.

Subordinated Debentures and Subordinated Notes Payable. Interest expense on our outstanding junior subordinated debentures and subordinated notes payable was \$5.0 million for fiscal year 2018, \$4.5 million for fiscal year 2017, and \$3.7 million for fiscal year 2016. The weighted average contractual rate on outstanding junior subordinated debentures was 4.55%, 3.53% and 3.01% at September 30, 2018, 2017 and 2016, respectively. The weighted average contractual rate on outstanding subordinated notes payable was 4.88% at each of the periods ended September 30, 2018, 2017 and 2016.

#### Rate and Volume Variances

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

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

	2018 vs 2017			2017 vs 2016		
	Volume	Rate	Total	Volume	Rate	Total
	(dollars in thousands)					
Increase (decrease) in interest income:						
Cash and cash equivalents	\$(474)	)\$928	\$454	\$5	\$343	\$348
Investment securities	(111)	)2,971	2,860	412	1,219	1,631
Non-ASC 310-30 loans	25,362	15,944	41,306	39,189	2,085	41,274
ASC 310-30 loans	(3,691)	)4,391	700	15	3,330	3,345
Loans	21,671	20,335	42,006	39,204	5,415	44,619
Total increase	21,086	24,234	45,320	39,621	6,977	46,598
Increase (decrease) in interest expense:						
Interest-bearing deposits	1,333	15,790	17,123	2,181	7,582	9,763
Time deposits	1,421	6,533	7,954	(311)	)469	158
Securities sold under agreements to repurchase	(44)	)0	(44)	(123)	)13	)136
FHLB advances and other borrowings	(844)	)3,915	3,071	(425)	)1,708	1,283
Subordinated debentures and subordinated notes payable	(22)	)598	576	399	329	728
Total increase	1,844	26,836	28,680	1,721	10,075	11,796
Increase (decrease) in net interest income (FTE)	\$19,242	\$(2,602)	\$16,640	\$37,900	\$(3,098)	\$34,802

Provision for Loan and Lease Losses

We recognized a provision for loan and lease losses of \$18.0 million for fiscal year 2018 compared to a provision for loan and lease losses of \$21.5 million for fiscal year 2017, a decrease of \$3.5 million or 16.5%. The decrease in provision was mostly driven by a lower level of charge-offs recognized between the periods combined with a stable level of specific provisions. Included within the provision for loan and lease losses was a net impairment of \$0.2 million during fiscal year 2018 associated with ASC 310-30 loans. This compares to a net recoupment of \$0.7 million related to this portion of the portfolio recorded in fiscal year 2017.



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

	Fiscal Years Ended September 30,		
	2018	2017	2016
	(dollars in thousands)		
Provision for loan and lease losses, non-ASC 310-30 loans *	\$ 17,754	\$ 22,210	\$ 18,011
Provision for (reduction in) loan and lease losses, ASC 310-30 loans	232	(671)	(1,056)
Provision for loan and lease losses, total	\$ 17,986	\$ 21,539	\$ 16,955

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

#### Total Credit-Related Charges

We recognized other credit-related charges during fiscal year 2018 that were lower compared to fiscal year 2017, which was higher compared to fiscal year 2016. We believe the following table, which summarizes each component of the total credit-related charges incurred during the current and prior fiscal years, is helpful to understanding the overall impact on our yearly results of operations. Net other repossessed property charges include other repossessed property operating costs, valuation adjustments and gain (loss) on sale of other repossessed properties, each of which entered other repossessed property as a result of the former borrower failing to perform on a loan obligation. Reversal of interest income on nonaccrual loans occurs when we become aware that a loan, for which we had been recognizing interest income, will no longer be able to perform according to the terms and conditions of the loan agreement, including repayment of interest owed to us, while a recovery of interest income on nonaccrual loans occurs when we receive payment of interest owed to us. Loan fair value adjustments related to credit relate to the portion of our loan portfolio for which we have elected the fair value option; these amounts reflect expected credit losses in the portfolio.

Item	Included within F/S Line Item(s):	Fiscal Years Ended September 30,		
		2018	2017	2016
		(dollars in thousands)		
Provision for loan and lease losses	Provision for loan and lease losses	\$ 17,986	\$ 21,539	\$ 16,955
Net other repossessed property charges	Net loss on repossessed property and other related expenses	4,369	1,749	1,263
Reversal of interest income on nonaccrual loans	Interest income on loans	1,901	930	1,433
		194	936	1,618

Loan fair value adjustment related to credit	Net increase (decrease) in fair value of loans at fair value				
Total			\$24,450	\$25,154	\$21,269

Total credit-related charges for fiscal year 2018 decreased \$0.7 million, or 2.8%, compared to fiscal year 2017. The decrease in total credit-related charges was primarily driven by a decrease in net charge-offs, partially offset by higher expenses associated with other repossessed property. Total credit-related charges for fiscal year 2017 increased \$3.9 million, or 18.3%, compared to fiscal year 2016 primarily driven by increased net charge-offs driving higher required provisions for loan and lease losses.

Noninterest Income

The following table presents noninterest income for the fiscal years ended September 30, 2018, 2017 and 2016.

	Fiscal Years Ended		
	September 30,		
	2018	2017	2016
	(dollars in thousands)		
Noninterest income			
Service charges and other fees	\$51,077	\$55,725	\$52,925
Wealth management fees	9,219	9,118	7,283
Mortgage banking income, net	5,842	7,928	7,261
Net gain (loss) on sale of securities	6	75	160
Other			