

Great Western Bancorp, Inc.
Form 10-Q
May 14, 2015

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

Form 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2015

Or

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

For the transition period from _____ to _____

Commission File Number 001-36688

Great Western Bancorp, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

47-1308512

(IRS Employer
Identification Number)

100 North Phillips Avenue

Sioux Falls, South Dakota

(Address of principal executive offices)

(605) 334-2548

Registrant's telephone number, including area code

57104

(Zip Code)

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

Title of Each Class

Common Stock, \$0.01 par value per share

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

None

Name of Each Exchange on Which Registered

New York Stock Exchange

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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

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

As of April 20, 2015, the number of shares of the registrant's Common Stock outstanding was 57,886,114.

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

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EXPLANATORY NOTE

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

“we,” “our,” “us” and our “company” refer to:

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

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

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

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

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

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

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

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

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

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

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

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

- current and future economic and market conditions in the United States generally or in our states in particular, including the rate of growth and employment levels;
- the effect of the current low interest rate environment or changes in market interest rates;
- the geographic concentration of our operations, and our concentration on originating business and agribusiness loans;
- the relative strength or weakness of the agricultural and commercial credit sectors and of the real estate markets in the markets in which our borrowers are located;
- declines in the market prices for agricultural products;
- our ability to effectively execute our strategic plan and manage our growth;
- our ability to successfully manage our credit risk and the sufficiency of our allowance for loan loss;
- our ability to attract and retain skilled employees or changes in our management personnel;
- our ability to effectively compete with other financial services companies and the effects of competition in the financial services industry on our business;
- changes in the demand for our products and services;
- the effectiveness of our risk management and internal disclosure controls and procedures;
- fluctuations in the values of our assets and liabilities and off-balance sheet exposures;
- our ability to attract and retain customer deposits;
- our access to sources of liquidity and capital to address our liquidity needs;
- possible changes in trade, monetary and fiscal policies of, and other activities undertaken by, governments, agencies, central banks and similar organizations;
- our ability to identify and address cyber-security risks;
- any failure or interruption of our information and communications systems;
- our ability to keep pace with technological changes;
- our ability to successfully develop and commercialize new or enhanced products and services;
- possible impairment of our goodwill and other intangible assets, or any adjustment of the valuation of our deferred tax assets;
- the effects of problems encountered by other financial institutions;
- the effects of geopolitical instability, including war, terrorist attacks, and man-made and natural disasters;
- the effects of the failure of any component of our business infrastructure provided by a third party;
- the impact of, and changes in applicable laws, regulations and accounting standards and policies;

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

The foregoing factors should not be considered an exhaustive list and should be read together with the other cautionary statements included in this Quarterly Report on Form 10-Q, our Annual Report on Form 10-K for the fiscal year ended September 30, 2014 and our Quarterly Report on Form 10-Q for the period ended December 31, 2014. If one or more events related to these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may differ materially from what we anticipate. Accordingly, you should not place undue reliance on any such forward-looking statements. Any forward-looking statement speaks only as of the date on which it is made, and we do not undertake any obligation to update or review any forward-looking statement, whether as a result of new information, future developments or otherwise.

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

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GREAT WESTERN BANCORP, INC.

Consolidated Balance Sheets (Unaudited)

(In Thousands, Except Share and Per Share Data)

	March 31, 2015	September 30, 2014
Assets		
Cash and due from banks	\$358,440	\$256,639
Securities available for sale	1,402,508	1,341,242
Investment in affiliates	1,683	1,683
Loans, net of allowance for loan losses of \$52,426 and \$47,518 at March 31, 2015 and September 30, 2014, respectively (includes \$187,649 and \$234,036 of loans covered by FDIC loss share agreements at March 31, 2015 and September 30, 2014, respectively, \$1,060,598 and \$985,411 of loans and written loan commitments carried at fair value under the fair value option at March 31, 2015 and September 30, 2014, respectively, and \$9,006 and \$10,381 of loans held for sale at March 31, 2015 and September 30, 2014, respectively)	7,020,039	6,739,949
Premises and equipment	100,560	103,707
Accrued interest receivable	37,933	42,609
Other repossessed property (includes \$8,575 and \$10,628 of property covered under FDIC loss share agreements at March 31, 2015 and September 30, 2014, respectively)	43,565	49,580
FDIC indemnification asset	19,895	26,678
Goodwill	697,807	697,807
Core deposits and other intangibles	9,603	14,229
Net deferred tax assets	43,701	44,703
Other assets	45,911	52,603
Total assets	\$9,781,645	\$9,371,429
Liabilities and stockholders' equity		
Deposits:		
Noninterest-bearing	\$1,374,589	\$1,303,015
Interest-bearing	6,113,109	5,749,165
Total deposits	7,487,698	7,052,180
Securities sold under agreements to repurchase	163,343	161,687
FHLB advances and other borrowings	475,019	575,094
Related party notes payable	41,295	41,295
Subordinated debentures	56,083	56,083
Fair value of derivatives	48,814	13,092
Accrued interest payable	4,469	5,273
Income tax payable	—	4,915
Accrued expenses and other liabilities	35,372	40,720
Total liabilities	8,312,093	7,950,339
Stockholders' equity		
Common stock, \$0.01 par value, authorized 500,000,000 shares; issued and outstanding at March 31, 2015 and September 30, 2014 - 57,886,114 shares	579	579
Additional paid-in capital	1,260,844	1,260,124
Retained earnings	206,018	166,544
Accumulated other comprehensive income (loss)	2,111	(6,157)
Total stockholders' equity	1,469,552	1,421,090
Total liabilities and stockholders' equity	\$9,781,645	\$9,371,429
See accompanying notes.		

GREAT WESTERN BANCORP, INC.

Consolidated Statements of Comprehensive Income (Unaudited)

(In Thousands, Except Share and Per Share Data)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2015	2014	2015	2014
Interest and dividend income				
Loans	\$82,394	\$77,933	\$166,738	\$159,336
Taxable securities	5,379	6,623	11,066	13,592
Nontaxable securities	13	14	26	28
Dividends on securities	258	199	508	400
Federal funds sold and other	160	117	444	301
Total interest and dividend income	88,204	84,886	178,782	173,657
Interest expense				
Deposits	5,984	6,431	11,999	13,310
Securities sold under agreements to repurchase	150	143	296	289
FHLB advances and other borrowings	893	803	1,839	1,840
Related party notes payable	227	226	459	460
Subordinated debentures and other	325	326	655	660
Total interest expense	7,579	7,929	15,248	16,559
Net interest income	80,625	76,957	163,534	157,098
Provision for loan losses	9,679	(2,690)	)12,998	(3,565)
Net interest income after provision for loan losses	70,946	79,647	150,536	160,663
Noninterest income				
Service charges and other fees	8,871	9,371	19,269	20,033
Net gain on sale of loans	1,580	947	3,124	2,563
Casualty insurance commissions	233	299	549	557
Investment center income	654	588	1,227	1,179
Net gain on sale of securities	0	6	51	6
Trust department income	938	1,000	2,006	1,905
Net increase (decrease) in fair value of loans at fair value	15,208	8,730	32,308	(380)
Net realized and unrealized gain (loss) on derivatives	(21,698)	) (12,436)	) (46,303)	) (7,599)
Other	1,150	1,635	2,605	2,702
Total noninterest income	6,936	10,140	14,836	20,966
Noninterest expense				
Salaries and employee benefits	24,673	23,029	48,761	47,050
Occupancy expenses, net	3,984	4,486	8,008	8,719
Data processing	4,708	4,723	9,536	9,751
Equipment expenses	925	995	1,881	2,022
Advertising	946	1,088	1,674	2,172
Communication expenses	1,225	1,242	2,398	2,356
Professional fees	3,603	3,105	7,175	6,003
Net (gain) from sale of repossessed property and other assets	(16)	) (278)	) (384)	) (849)
Amortization of core deposits and other intangibles	2,313	4,691	4,626	9,379

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Other	6,077	6,246	11,854	11,023
Total noninterest expense	48,438	49,327	95,529	97,626
Income before income taxes	29,444	40,460	69,843	84,003
Provision for income taxes	9,720	14,489	23,422	29,428
Net income	\$19,724	\$25,971	\$46,421	\$54,575
Other comprehensive income (loss)—change in net unrealized gain (loss) on securities available-for-sale (net of deferred income tax (expense) benefit of \$(3,159) and \$(3,693) for the three months ended March 31, 2015 and 2014, respectively and \$(4,966) and \$262 for the six months ended March 31, 2015 and 2014, respectively)	5,153	6,321	8,268	(133)
Comprehensive income	\$24,877	\$32,292	\$54,689	\$54,442
Earnings per common share				
Weighted average shares outstanding	57,898,335	57,886,114	57,897,059	57,886,114
Earnings per share	\$0.34	\$0.45	\$0.80	\$0.94
Diluted earnings per common share				
Weighted average shares outstanding	57,916,802	57,886,114	57,906,293	57,886,114
Diluted earnings per share	\$0.34	\$0.45	\$0.80	\$0.94
Dividends per share				
Dividends issued	\$6,947	\$34,000	\$6,947	\$34,000
Dividends per share	\$0.12	\$0.59	\$0.12	\$0.59
See accompanying notes.				

GREAT WESTERN BANCORP, INC.

Consolidated Statement of Stockholders' Equity (Unaudited)

(In Thousands, Except Share and Per Share Data)

	Comprehensive Income	Common Stock Par Value	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, September 30, 2013		\$579	\$1,260,124	\$163,592	\$(7,081)	\$1,417,214
Net income	\$54,575	—	—	54,575	—	54,575
Other comprehensive income (loss), net of tax:						
Net change in net unrealized (loss) on securities available for sale	\$(133)	—	—	—	(133)	(133)
Comprehensive income	\$54,442	—	—	—	—	—
Stock-based compensation	—	—	—	—	—	—
Cash dividends declared:						
Common stock, \$0.59 per share	—	—	—	(34,000)	—	(34,000)
Balance, March 31, 2014		\$579	\$1,260,124	\$184,167	\$(7,214)	\$1,437,656
Balance, September 30, 2014		\$579	\$1,260,124	\$166,544	\$(6,157)	\$1,421,090
Net income	\$46,421	—	—	46,421	—	46,421
Other comprehensive income, net of tax:						
Net change in net unrealized gain on securities available for sale	\$8,268	—	—	—	8,268	8,268
Comprehensive income	\$54,689	—	720	—	—	720
Stock-based compensation	—	—	720	—	—	720
Cash dividends declared:						
Common stock, \$0.12 per share	—	—	—	(6,947)	—	(6,947)
Balance, March 31, 2015		\$579	\$1,260,844	\$206,018	\$2,111	\$1,469,552

See accompanying notes.

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

	Six Months Ended	
	March 31, 2015	March 31, 2014
Operating activities		
Net income	\$46,421	\$54,575
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	12,477	19,315
Net gain on sale of securities	(51	) (6
Net gain on sale of loans	(3,124	) (2,563
Net (gain) loss on sale of premises and equipment	(66	) 1,195
Net gain from sale of repossessed property and other assets	(384	) (849
Provision for loan losses	12,998	(3,565
Provision for repossessed assets	4,324	2,125
Proceeds from FDIC indemnification claims	1,637	2,365
Stock-based compensation	720	—
Originations of residential real estate loans held-for-sale	(132,498	) (84,951
Proceeds from sales of residential real estate loans held-for-sale	136,997	90,412
Net deferred income taxes	(4,066	) (1,489
Changes in:		
Accrued interest receivable	4,676	3,802
Other assets	2,579	1,896
FDIC indemnification asset	5,145	5,550
FDIC clawback liability	385	534
Accrued interest payable and other liabilities	24,272	(10,553
Net cash provided by operating activities	112,442	77,793
Investing activities		
Purchase of securities available for sale	(238,828) —
Proceeds from sales and maturities of securities available for sale	187,457	158,816
Net increase in loans	(301,377	) (207,963
Purchase of premises and equipment	(2,584	) (1,624
Proceeds from sale of premises and equipment	1,438	515
Proceeds from sale of other assets	8,989	9,752
Redemption of FHLB stock	4,112	6,502
Net cash used in investing activities	(340,793	) (34,002
Financing activities		
Net increase in deposits	435,518	304,476
Net increase (decrease) in securities sold under agreements to repurchase	1,656	(12,769
Net decrease in FHLB advances and other borrowings	(100,075	) (160,507
Dividends paid	(6,947	) (34,000
Net cash provided by financing activities	330,152	97,200
Net increase in cash and due from banks	101,801	140,991
Cash and due from banks, beginning of period	256,639	282,157
Cash and due from banks, end of period	\$358,440	\$423,148
Supplemental disclosures of cash flows information		
Cash payments for interest	\$16,052	\$17,790
Cash payments for income taxes	\$33,980	\$33,695
Supplemental schedules of noncash investing and financing activities		

Loans transferred to repossessed assets and other assets \$(6,914) \$(30,829)
See accompanying notes.

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GREAT WESTERN BANCORP, INC.

Notes to Consolidated Financial Statements (Unaudited)

1. Basis of Presentation

Great Western Bancorp, Inc. (the "Company") is a bank holding company organized under the laws of Delaware. The primary business of the Company is ownership of its wholly owned subsidiary, Great Western Bank (the "Bank"). The Bank is a full-service regional bank focused on relationship-based business and agribusiness banking in Arizona, Colorado, Iowa, Kansas, Missouri, Nebraska, and South Dakota. The Company and the Bank are subject to the regulation of certain federal and/or state agencies and undergo periodic examinations by those regulatory authorities. Substantially all of the Company's income is generated from banking operations. The Company was a majority owned indirect subsidiary of National Australia Bank Limited ("NAB") at March 31, 2015.

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

The unaudited interim consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ending September 30, 2014, which includes a description of significant accounting policies. The results of operations for interim periods are not necessarily indicative of the results that may be expected for the year or any other period.

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

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

On May 6, 2015, NAB sold 23.0 million shares of the Company's common stock, representing 39.7% of the Company's common stock, in the second stage of its planned divestment. After completion of the offering, NAB beneficially owns 28.5% of the Company's outstanding common stock.

On April 28, 2015, the board of directors of the Company declared a dividend of \$0.12 per common share payable on May 29, 2015 to owners of record as of close of business on May 15, 2015.

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

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

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

reflects the impact of the matter described above on previously filed financial statements:

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GREAT WESTERN BANCORP, INC.

Notes to Consolidated Financial Statements (Unaudited)

	Previously Reported Interest Income	Currently Reported Noninterest Income
Six months ended March 31, 2014		
Realized gain on derivatives	\$(8,678	) \$(8,678)
Six months ended March 31, 2013		
Realized gain (loss) on derivatives	\$(6,668	) \$(6,668)
Twelve months ended September 30, 2014		
Realized gain (loss) on derivatives	\$(18,255	) \$(18,255)
Twelve months ended September 30, 2013		
Realized gain (loss) on derivatives	\$(14,217	) \$(14,217)
Twelve months ended September 30, 2012		
Realized gain (loss) on derivatives	\$(9,931	) \$(9,931)

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

GREAT WESTERN BANCORP, INC.

Notes to Consolidated Financial Statements (Unaudited)

	Previously Reported		Currently Reported	
	Interest Income	Noninterest Expense	Noninterest Income	
Six months ended March 31, 2014				
Unrealized gain (loss) on derivatives	\$—	\$(1,078	) \$—	\$(1,078)
Loan fair value change related to interest rates	1,078	—	1,078	—
Loan fair value change related to credit quality	(698	) —	(698)—
	\$380	\$(1,078	) \$380	\$(1,078)
Six months ended March 31, 2013				
Unrealized gain (loss) on derivatives	\$—	\$(14,124	) \$—	\$(14,124)
Loan fair value change related to interest rates	14,124	—	14,124	—
Loan fair value change related to credit quality	(396	) —	(396)—
	\$13,728	\$(14,124	) \$13,728	\$(14,124)
Twelve months ended September 30, 2014				
Unrealized gain (loss) on derivatives	\$—	\$11,922	\$—	\$11,922
Loan fair value change related to interest rates	(11,922	) —	(11,922)—
Loan fair value change related to credit quality	18	—	18	—
	\$(11,904	) \$11,922	\$(11,904	)\$11,922
Twelve months ended September 30, 2013				
Unrealized gain (loss) on derivatives	\$—	\$(40,305	) \$—	\$(40,305)
Loan fair value change related to interest rates	40,305	—	40,305	—
Loan fair value change related to credit quality	855	—	855	—
	\$41,160	\$(40,305	) \$41,160	\$(40,305)
Twelve months ended September 30, 2012				
Unrealized gain (loss) on derivatives	\$—	\$19,369	\$—	\$19,369
Loan fair value change related to interest rates	(19,369	) —	(19,369)—
Loan fair value change related to credit quality	4,276	—	4,276	—
	\$(15,093	) \$19,369	\$(15,093	)\$19,369

2. New Accounting Pronouncements

There have been no new applicable accounting pronouncements issued during the six months ended March 31, 2015.

3. Restrictions on Cash and Due from Banks

The Company is required to maintain reserve balances in cash and on deposit with the Federal Reserve based on a percentage of deposits. The total requirement was approximately \$40.2 million and \$50.4 million at March 31, 2015 and September 30, 2014, respectively.

GREAT WESTERN BANCORP, INC.

Notes to Consolidated Financial Statements (Unaudited)

4. Securities Available for Sale

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

	Amortized	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
As of March 31, 2015				
U.S. Treasury securities	\$271,753	\$3,724	\$—	\$275,477
U.S. Agency securities	74,345	456	—	74,801
Mortgage-backed securities:				
Government National Mortgage Association	945,299	4,266	(4,469)	) 945,096
Federal National Mortgage Association	48,495	—	(129)	) 48,366
Small Business Assistance Program	51,086	—	(527)	) 50,559
States and political subdivision securities	2,107	1	—	2,108
Corporate debt securities	4,996	66	—	5,062
Other	1,006	33	—	1,039
	\$1,399,087	\$8,546	\$(5,125)	) \$1,402,508

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

The amortized cost and approximate fair value of debt securities available for sale as of March 31, 2015 and September 30, 2014, by contractual maturity, are shown below. Maturities of mortgage-backed securities may differ from contractual maturities because the mortgages underlying the securities may be called or repaid without any penalties.

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Notes to Consolidated Financial Statements (Unaudited)

(In Thousands)	March 31, 2015		September 30, 2014	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$76,162	\$76,620	\$7,207	\$7,218
Due after one year through five years	272,043	275,766	223,282	223,140
Due after five years through ten years	4,996	5,062	6,299	6,429
	353,201	357,448	236,788	236,787
Mortgage-backed securities	1,044,880	1,044,021	1,113,363	1,103,415
Securities without contractual maturities	1,006	1,039	1,006	1,040
	\$1,399,087	\$1,402,508	\$1,351,157	\$1,341,242

Proceeds from sales of securities available for sale were \$0 and \$4.5 million for the three months ended March 31, 2015 and 2014, respectively, and \$55.1 million and \$4.5 million for the six months ended March 31, 2015 and 2014, respectively. There were no gross gains or gross losses realized on sales for the three months ended March 31, 2015 and 2014, using the specific identification method. Gross gains of \$0.6 million and \$0 and gross losses of \$0.5 million and \$0 were realized on the sales for the six months ended March 31, 2015 and 2014, respectively, also using the specific identification method.

Securities with a carrying value of approximately \$1,174.9 million and \$1,132.3 million at March 31, 2015 and September 30, 2014, respectively, were pledged as collateral on public deposits, securities sold under agreements to repurchase, and for other purposes as required or permitted by law. The counterparties do not have the right to sell or pledge the securities the Company has pledged as collateral.

As detailed in the following tables, certain investments in debt securities, which are approximately 40% and 64% of the Company's investment portfolio at March 31, 2015 and September 30, 2014, respectively, are reported in the consolidated financial statements at an amount less than their amortized cost. Based on evaluation of available evidence, including recent changes in market interest rates, credit rating information, implicit or explicit government guarantees, and information obtained from regulatory filings, management believes the declines in fair value of these securities are temporary. As the Company does not intend to sell the securities and it is not more likely than not that the Company will be required to sell the securities before the recovery of their amortized cost basis, which may be maturity, the Company does not consider the securities to be other than temporarily impaired at March 31, 2015 or September 30, 2014. The Company did not recognize any other-than-temporary impairment for the three and six months ended March 31, 2015 and 2014.

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

	Less than 12 months		March 31, 2015 12 months or more		Total	
	Fair Value	Unrealized	Fair Value	Unrealized	Fair Value	Unrealized
U.S. Treasury securities	\$—	\$—	\$—	\$—	\$—	\$—
U. S. Agency securities	—	—	—	—	\$—	\$—
Mortgage-backed securities						