

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

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

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

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

| | |
|--|-----------|
| <u>EXPLANATORY NOTE</u> | |
| <u>CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS</u> | |
| <u>PART I. FINANCIAL INFORMATION</u> | <u>5</u> |
| <u>Item 1. Financial Statements (Unaudited)</u> | <u>5</u> |
| <u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | <u>39</u> |
| <u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u> | <u>67</u> |
| <u>Item 4. Controls and Procedures</u> | <u>68</u> |
| <u>PART II. OTHER INFORMATION</u> | <u>69</u> |
| <u>Item 1. Legal Proceedings</u> | <u>69</u> |
| <u>Item 1A. Risk Factors</u> | <u>69</u> |
| <u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u> | <u>69</u> |
| <u>Item 3. Defaults Upon Senior Securities</u> | <u>69</u> |
| <u>Item 4. Mine Safety Disclosures</u> | <u>69</u> |
| <u>Item 5. Other Information</u> | <u>69</u> |
| <u>Item 6. Exhibits</u> | <u>70</u> |
| <u>SIGNATURES</u> | <u>71</u> |
| <u>INDEX TO EXHIBITS</u> | <u>72</u> |

2-

EXPLANATORY NOTE

Except as otherwise stated or the context otherwise requires, references in this Quarterly Report on Form 10-Q to: “we,” “our,” “us” and our “company” refers to Great Western Bancorp, Inc., a Delaware corporation, and its consolidated subsidiaries.

•our bank” refers to Great Western Bank, a South Dakota banking corporation;

•“NAB” refers to National Australia Bank Limited, an Australian public company that was our ultimate parent company prior to our initial public offering in October 2014 and, until July 31, 2015, was our principal stockholder;

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

•our “footprint” refers to the geographic markets within our states in which we currently conduct our business.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

•current and future economic and market conditions in the United States generally or in our states in particular, including the rate of growth and employment levels;

•our ability to anticipate interest rate changes and manage interest rate risk;

•our ability to achieve loan and deposit growth;

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

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

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

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

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

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

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

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

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

possible changes in trade, monetary and fiscal policies of, and other activities undertaken by, governments, agencies, central banks and similar organizations;

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

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

the impact of, and changes in applicable laws, regulations and accounting standards, policies and interpretations, including the impact of the Tax Cuts and Jobs Act of 2017;

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

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

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

our ability to meet our obligations as a public company, including our obligations under Section 404 of the Sarbanes-Oxley Act of 2002 to maintain an effective system of internal control over financial reporting; and

- other risks and uncertainties inherent to our business, including those discussed under the heading "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended September 30, 2017.

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

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

GREAT WESTERN BANCORP, INC.

Consolidated Balance Sheets

(Dollars in Thousands, Except Share and Per Share Data)

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

See accompanying notes.

5-

GREAT WESTERN BANCORP, INC.

Consolidated Statements of Income (Unaudited)

(Dollars in Thousands, Except Share and Per Share Data)

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

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

| | | |
|-------------------------------------|------------|------------|
| Diluted earnings per common share | | |
| Weighted average shares outstanding | 59,087,729 | 58,991,905 |
| Diluted earnings per share | \$0.49 | \$ 0.63 |
| Dividends per share | | |
| Dividends paid | \$11,770 | \$ 9,981 |
| Dividends per share | \$0.20 | \$ 0.17 |
| See accompanying notes. | | |

6-

GREAT WESTERN BANCORP, INC.

Consolidated Statements of Comprehensive Income (Unaudited)

(Dollars in Thousands)

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

7-

GREAT WESTERN BANCORP, INC.

Consolidated Statement of Stockholders' Equity (Unaudited)

(Dollars in Thousands, Except Share and Per Share Data)

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