

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

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 June 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 (IRS Employer
incorporation or organization) Identification Number)

225 South Main Avenue
Sioux Falls, South Dakota 57104
(Address of principal executive offices) (Zip Code)
(605) 334-2548
Registrant's telephone number, including area code

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No
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
(Do not check if a smaller reporting company)

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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 August 1, 2018, the number of shares of the registrant's Common Stock outstanding was 58,911,563.

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

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

• “we,” “our,” “us” and our “company” refers to Great Western Bancorp, Inc., a Delaware corporation, and its consolidated subsidiaries;

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

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

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

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

• “HF Financial” refers to HF Financial Corporation; and

• “FHLB” refers to Federal Home Loan Bank.

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 “Part I, Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations” or “Part II, Item 1A Risk Factors” 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, including the potential negative effects of imposed and proposed 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 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 and in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2018.

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) | |
|---|---------------|-----------------------|
| | June 30, 2018 | September 30, 2017 |
| Assets | | |
| Cash and due from banks | \$ 162,885 | \$ 170,657 |
| Interest-bearing bank deposits | 131,729 | 189,739 |
| Cash and cash equivalents | 294,614 | 360,396 |
| Securities available for sale | 1,372,711 | 1,367,960 |
| Loans, net of unearned discounts and deferred fees, including \$46,477 and \$57,537 of loans covered by a FDIC loss share agreement at June 30, 2018 and September 30, 2017, respectively, and \$888,247 and \$1,016,576 of loans at fair value under the fair value option at June 30, 2018 and September 30, 2017, respectively, and \$6,805 and \$7,456 of loans held for sale at June 30, 2018 and September 30, 2017, respectively | 9,379,819 | 8,968,553 |
| Allowance for loan and lease losses | (64,688 |) (63,503 |
| Net loans | 9,315,131 | 8,905,050 |
| Premises and equipment, including \$1,107 and \$5,147 of property held for sale at June 30, 2018 and September 30, 2017, respectively | 107,364 | 112,209 |
| Accrued interest receivable | 51,979 | 53,176 |
| Other repossessed property, including \$131 and \$0 of property covered by FDIC loss share agreements at June 30, 2018 and September 30, 2017, respectively | 10,221 | 8,985 |
| Goodwill | 739,023 | 739,023 |
| Cash surrender value of life insurance policies | 30,245 | 29,619 |
| Net deferred tax assets | 31,487 | 42,400 |
| Other assets | 56,273 | 71,193 |
| Total assets | \$ 12,009,048 | \$ 11,690,011 |
| Liabilities and stockholders' equity | | |
| Deposits | | |
| Noninterest-bearing | \$ 1,793,293 | \$ 1,856,126 |
| Interest-bearing | 7,792,025 | 7,121,487 |
| Total deposits | 9,585,318 | 8,977,613 |
| Securities sold under agreements to repurchase | 105,478 | 132,636 |
| FHLB advances and other borrowings | 335,000 | 643,214 |
| Subordinated debentures and subordinated notes payable | 108,426 | 108,302 |
| Accrued expenses and other liabilities | 58,085 | 73,246 |
| Total liabilities | 10,192,307 | 9,935,011 |
| Stockholders' equity | | |
| Common stock, \$0.01 par value, authorized 500,000,000 shares; 58,911,563 shares issued and outstanding at June 30, 2018 and 58,834,066 shares issued and outstanding at September 30, 2017 | 589 | 588 |
| Additional paid-in capital | 1,317,327 | 1,314,039 |
| Retained earnings | 525,462 | 445,747 |
| Accumulated other comprehensive (loss) | (26,637 |) (5,374 |
| Total stockholders' equity | 1,816,741 | 1,755,000 |
| Total liabilities and stockholders' equity | \$ 12,009,048 | \$ 11,690,011 |
| See accompanying notes. | | |

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GREAT WESTERN BANCORP, INC.

Consolidated Statements of Income (Unaudited)

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

| | Three Months Ended | | Nine Months Ended | |
|--|--------------------|------------|-------------------|------------|
| | June 30, | June 30, | June 30, | June 30, |
| | 2018 | 2017 | 2018 | 2017 |
| Interest income | | | | |
| Loans | \$ 116,522 | \$ 101,593 | \$ 334,196 | \$ 301,005 |
| Investment securities | 7,471 | 6,803 | 21,526 | 19,719 |
| Federal funds sold and other | 424 | 163 | 882 | 728 |
| Total interest income | 124,417 | 108,559 | 356,604 | 321,452 |
| Interest expense | | | | |
| Deposits | 16,460 | 9,478 | 40,116 | 24,596 |
| FHLB advances and other borrowings | 1,963 | 1,080 | 6,941 | 4,033 |
| Subordinated debentures and subordinated notes payable | 1,322 | 1,113 | 3,699 | 3,299 |
| Total interest expense | 19,745 | 11,671 | 50,756 | 31,928 |
| Net interest income | 104,672 | 96,888 | 305,848 | 289,524 |
| Provision for loan and lease losses | 3,515 | 5,796 | 12,972 | 16,854 |
| Net interest income after provision for loan and lease losses | 101,157 | 91,092 | 292,876 | 272,670 |
| Noninterest income | | | | |
| Service charges and other fees | 12,655 | 14,572 | 37,879 | 41,983 |
| Wealth management fees | 2,242 | 2,433 | 6,761 | 7,116 |
| Mortgage banking income, net | 1,352 | 1,828 | 4,178 | 6,130 |
| Net gain on sale of securities | 15 | — | 6 | 44 |
| Net (decrease) increase in fair value of loans at fair value | (7,370) | 6,060 | (30,872) | (63,158) |
| Net realized and unrealized gain on derivatives | 8,093 | (9,088) | 29,602 | 51,481 |
| Other | 1,952 | 1,522 | 6,801 | 4,878 |
| Total noninterest income | 18,939 | 17,327 | 54,355 | 48,474 |
| Noninterest expense | | | | |
| Salaries and employee benefits | 35,122 | 32,868 | 101,661 | 96,872 |
| Data processing and communication | 7,177 | 7,370 | 23,251 | 20,965 |
| Occupancy and equipment | 4,974 | 4,866 | 15,112 | 14,812 |
| Professional fees | 4,297 | 4,141 | 12,564 | 10,535 |
| Advertising | 1,260 | 1,059 | 3,441 | 3,029 |
| Net loss recognized on repossessed property and other related expenses | 305 | 152 | 1,519 | 1,208 |
| Amortization of core deposits and other intangibles | 416 | 538 | 1,268 | 1,927 |
| Acquisition expenses | — | — | — | 710 |
| Other | 4,312 | 3,928 | 13,059 | 11,254 |
| Total noninterest expense | 57,863 | 54,922 | 171,875 | 161,312 |
| Income before income taxes | 62,233 | 53,497 | 175,356 | 159,832 |
| Provision for income taxes | 16,359 | 18,437 | 59,720 | 52,707 |
| Net income | \$ 45,874 | \$ 35,060 | \$ 115,636 | \$ 107,125 |
| Basic earnings per common share | | | | |
| Weighted average common shares outstanding | 58,948,944 | 58,790,314 | 58,930,963 | 58,776,546 |
| Basic earnings per share | \$ 0.78 | \$ 0.60 | \$ 1.96 | \$ 1.82 |
| Diluted earnings per common share | | | | |
| Weighted average diluted common shares outstanding | 59,170,058 | 59,130,632 | 59,134,635 | 59,065,402 |
| Diluted earnings per share | \$ 0.78 | \$ 0.59 | \$ 1.96 | \$ 1.81 |
| Dividends per share | | | | |
| Dividends paid | \$ 14,724 | \$ 11,752 | \$ 38,274 | \$ 31,722 |

| | | | | |
|-------------------------|--------|--------|--------|--------|
| Dividends per share | \$0.25 | \$0.20 | \$0.65 | \$0.54 |
| See accompanying notes. | | | | |

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GREAT WESTERN BANCORP, INC.

Consolidated Statements of Comprehensive Income (Unaudited)

(Dollars in Thousands)

| | Three Months Ended June 30, | | Nine Months Ended June 30, | |
|---|--------------------------------|----------|-------------------------------|-----------|
| | 2018 | 2017 | 2018 | 2017 |
| Net income | \$45,874 | \$35,060 | \$115,636 | \$107,125 |
| Other comprehensive (loss) gain, net of tax: | | | | |
| Securities available for sale: | | | | |
| Net unrealized holding (loss) gain arising during the period | (5,671) | 1,896 | (26,596) | (17,757) |
| Reclassification adjustment for net gain realized in net income | (15) | — | (6) | (44) |
| Income tax benefit (expense) | 1,402 | (721) | 7,692 | 6,764 |
| Net change in unrealized (loss) gain on securities available for sale | (4,284) | 1,175 | (18,910) | (11,037) |
| Comprehensive income | \$41,590 | \$36,235 | \$96,726 | \$96,088 |
| See accompanying notes. | | | | |

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GREAT WESTERN BANCORP, INC.

Consolidated Statement of Stockholders' Equity (Unaudited)

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

| | Comprehensive Income | Common Stock Par Value | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Total |
|--|-------------------------|------------------------------|----------------------------------|----------------------|--|-------------|
| Balance, September 30, 2016 | | \$ 587 | \$1,312,347 | \$344,923 | \$ 5,534 | \$1,663,391 |
| Net income | \$ 107,125 | — | — | 107,125 | — | 107,125 |
| Other comprehensive (loss), net of tax | (11,037) | — | — | — | (11,037) | (11,037) |
| Total comprehensive income | \$ 96,088 | | | | | |
| Cumulative effect adjustment ¹ | | — | 751 | (488) | — | 263 |
| Stock-based compensation, net of tax | | — | 4,963 | — | — | 4,963 |
| Cash dividends: | | | | | | |
| Common stock, \$0.54 per share | | — | — | (31,722) | — | (31,722) |
| Balance, June 30, 2017 | | \$ 587 | \$1,318,061 | \$419,838 | \$ (5,503) | \$1,732,983 |
| Balance, September 30, 2017 | | \$ 588 | \$1,314,039 | \$445,747 | \$ (5,374) | \$1,755,000 |
| Net income | \$ 115,636 | — | — | 115,636 | — | 115,636 |
| Other comprehensive (loss), net of tax | (18,910) | — | — | — | (18,910) | (18,910) |
| Total comprehensive income | \$ 96,726 | | | | | |
| Stock-based compensation, net of tax | | 1 | 3,288 | — | — | 3,289 |
| Reclassification due to adoption of ASU 2018-02 ² | | — | — | 2,353 | (2,353) | — |
| Cash dividends: | | | | | | |
| Common stock, \$0.65 per share | | — | — | (38,274) | — | (38,274) |
| Balance, June 30, 2018 | | \$ 589 | \$1,317,327 | \$525,462 | \$ (26,637) | \$1,816,741 |

¹ Cumulative effect adjustment relates to adoption of ASU 2016-09, Compensation - Stock Based Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting.

² Reclassification due to adoption of ASU 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. See Note 2, New Accounting Pronouncements and Note 15, Income Taxes, for additional information.

See accompanying notes.

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

| | Nine months ended | |
|---|-------------------|------------------|
| | June 30, 2018 | June 30, 2017 |
| Operating activities | | |
| Net income | \$ 115,636 | \$ 107,125 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 9,496 | 11,187 |
| Amortization of FDIC indemnification asset | 2,244 | 3,473 |
| Net loss on sale of securities and other assets | 2,711 | 1,465 |
| Gain on redemption of subordinated debentures | — | (111) |
| Net gain on sale of loans | (4,924) | (7,381) |
| Provision for loan and lease losses | 12,972 | 16,854 |
| Reversal of provision for loan servicing rights loss | (72) | (6) |
| Stock-based compensation | 3,289 | 5,226 |
| Originations of residential real estate loans held for sale | (189,827) | (209,695) |
| Proceeds from sales of residential real estate loans held for sale | 195,402 | 218,491 |
| Net deferred income taxes | 18,743 | 192 |
| Changes in: | | |
| Accrued interest receivable | 1,197 | 4,053 |
| Other assets | 669 | 737 |
| Accrued interest payable and other liabilities | (14,850) | (67,750) |
| Net cash provided by operating activities | 152,686 | 83,860 |
| Investing activities | | |
| Purchase of securities available for sale | (224,159) | (255,014) |
| Proceeds from sales of securities available for sale | 25,906 | 5,042 |
| Proceeds from maturities of securities available for sale | 163,393 | 179,160 |
| Net increase in loans | (433,428) | (130,643) |
| Payment of covered losses from FDIC indemnification claims | (588) | (571) |
| Purchase of premises and equipment | (5,492) | (4,979) |
| Proceeds from sale of premises and equipment | 4,600 | 4,024 |
| Proceeds from sale of repossessed property | 8,433 | 4,205 |
| Purchase of FHLB stock | (47,372) | (22,945) |
| Proceeds from redemption of FHLB stock | 59,914 | 39,217 |
| Net cash used in investing activities | (448,793) | (182,504) |