Section 1: 10-Q (10-Q)

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, 2020

OR

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

For the transition period from x **to** x

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	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, $0.01 par value per share	**GWB**	**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 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 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 ☒

As of 7/24/20, the number of shares of the registrant's Common Stock outstanding was 55,014,047.

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 "**Company**" refers to Great Western Bancorp, Inc., a Delaware corporation, and its consolidated subsidiaries;
- "**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;
- "**ALLL**" refers to allowance for loan and lease losses;
- "**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;
- "**Capital Rules**" or "**Basel III**" refers to the Basel Committee's December 2010 final capital framework for strengthening international capital standards;
- "**CARES Act**" refers to The Coronavirus Aid, Relief, and Economic Security Act;
- "**CECL**" refers to the current expected credit loss model in ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments;*
- "**COVID-19**" or "**COVID-19 pandemic**" refers to the Coronavirus Disease 2019;
- "**CRE**" refers to commercial real estate;
- "**Exchange Act**" refers to the Securities Exchange Act of 1934;
- "**FASB**" refers to the Financial Accounting Standards Board;
- "**FDIC**" refers to the Federal Deposit Insurance Corporation;
- "**FHLB**" refers to the Federal Home Loan Bank;
- "**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;
- "**HELOC**" refers to home equity lines of credit;
- "**HF Financial**" refers to HF Financial Corporation;
- "**IRS**" refers to the Internal Revenue Service;
- "**LIBOR**" refers to London Interbank Offered Rate, and is a benchmark interest rate index for various adjustable rate products;
- "**NYSE**" refers to the New York Stock Exchange;
- "**PPP**" refers to Small Business Administration Paycheck Protection Program;
- "**RPA**" refers to a risk participation agreement;
- "**Sarbanes-Oxley Act**" refers to the Sarbanes-Oxley Act of 2002;
- "**SBA**" refers to Small Business Administration;
- "**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; and
- "**TDR**" refer to a troubled debt restructuring.

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 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 "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:

- the severity, magnitude and duration of the COVID-19 pandemic and the direct and indirect impact of such pandemic, as well as responses to the pandemic by the government, business and consumers, on our operations and personnel, commercial activity and demand across our business and our customers' business;
- the disruption of global, national, state and local economies associated with the COVID-19 pandemic, which could affect our liquidity and capital positions, impair the ability of our borrowers to repay outstanding loans, impair collateral values and further increase our allowance for credit losses;
- 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 impact on our business, operations, financial condition, liquidity, results of operations, prospects and trading prices of our shares arising out of the COVID-19 pandemic;
- our ability to anticipate interest rate changes and manage interest rate risk;
- uncertainty about the discontinued use of the London Inter Bank Offered Rate and transition to an alternative rate;
- 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;
- 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;
- 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 impairment of our 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, social instability and changes in governmental policies;
- the effects of adverse weather conditions, particularly on our agricultural borrowers;

- the impact of, and changes in applicable laws, regulations and accounting standards, policies and interpretations, including the impact of the Tax Reform Act;
- increases in our FDIC insurance premiums, or the collection of special assessments by the FDIC;
- legal, compliance and reputational risks, including litigation and regulatory risks;
- our ability to use technology to provide products and services that will satisfy customer demands and create efficiencies in operations and to manage risks associated therewith;
- our ability to attract and retain senior management experienced in the banking and financial services industries;
- 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 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 "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended September 30, 2019.

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, 2019. 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, 2020	September 30, 2019
Assets		
Cash and due from banks	**$ 168,545**	$ 201,487
Interest-bearing bank deposits	**143,040**	41,987
Cash and cash equivalents	**311,585**	243,474
Securities available for sale	**1,972,626**	1,783,208
Loans, net of unearned discounts and deferred fees, including $0 and $31,891 of loans covered by a FDIC loss share agreement at June 30, 2020 and September 30, 2019, respectively; $735,363 and $812,991 of loans at fair value under the fair value option at June 30, 2020 and September 30, 2019, respectively; and $12,840 and $7,351 of loans held for sale at June 30, 2020 and September 30, 2019, respectively	**10,313,999**	9,706,763
Allowance for loan and lease losses	**(148,158)**	(70,774)
Net loans	**10,165,841**	9,635,989
Premises and equipment, including $705 and $2,757 of property held for sale at June 30, 2020 and September 30, 2019, respectively	**119,834**	120,645
Accrued interest receivable	**57,955**	58,699
Other repossessed property, including $0 of property covered by a FDIC loss share agreement at both June 30, 2020 and September 30, 2019	**19,231**	36,764
Goodwill	**—**	739,023
Cash surrender value of life insurance policies	**31,443**	30,796
Net deferred tax assets	**53,586**	7,286
Other assets	**202,227**	132,417
Total assets	**$ 12,934,328**	$ 12,788,301
Liabilities and stockholders' equity		
Noninterest-bearing	**$ 2,592,376**	$ 1,956,025
Interest-bearing	**8,558,238**	8,344,314
Total deposits	**11,150,614**	10,300,339
Securities sold under agreements to repurchase	**70,362**	68,992
FHLB advances and other borrowings	**355,000**	340,000
Subordinated debentures and subordinated notes payable	**108,792**	108,636
Accrued expenses and other liabilities	**88,916**	70,085
Total liabilities	**11,773,684**	10,888,052
Stockholders' equity		
Common stock, $0.01 par value, authorized 500,000,000 shares; 55,014,047 shares issued and outstanding at June 30, 2020 and 56,283,659 shares issued and outstanding at September 30, 2019	**550**	563
Additional paid-in capital	**1,183,242**	1,228,714
Retained earnings	**(68,305)**	657,475
Accumulated other comprehensive income	**45,157**	13,497
Total stockholders' equity	**1,160,644**	1,900,249
Total liabilities and stockholders' equity	**$ 12,934,328**	$ 12,788,301

See accompanying notes.

GREAT WESTERN BANCORP, INC.

Consolidated Statements of Income (Unaudited)

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

	Three Months Ended June 30,		Nine months ended June 30,	
	2020	**2019**	**2020**	**2019**
Interest income				
Loans	**$ 109,227**	$ 126,392	**$ 342,014**	$ 372,156
Investment securities	**10,532**	11,430	**33,359**	30,575
Federal funds sold and other	**112**	377	**1,278**	1,416
Total interest income	**119,871**	138,199	**376,651**	404,147
Interest expense				
Deposits	**10,011**	28,615	**50,818**	79,507
FHLB advances and other borrowings	**2,539**	2,538	**8,807**	6,464
Subordinated debentures and subordinated notes payable	**1,070**	1,417	**3,619**	4,177
Total interest expense	**13,620**	32,570	**63,244**	90,148
Net interest income	**106,251**	105,629	**313,407**	313,999
Provision for loan and lease losses	**21,641**	26,077	**101,539**	38,965
Net interest income after provision for loan and lease losses	**84,610**	79,552	**211,868**	275,034
Noninterest income				
Service charges and other fees	**7,731**	10,321	**28,328**	32,219
Wealth management fees	**2,773**	2,234	**8,859**	6,592
Mortgage banking income, net	**2,422**	1,055	**5,179**	3,366
Net gain (loss) on sale of securities	**—**	322	**—**	(191)
Net (decrease) increase in fair value of loans at fair value	**(22,118)**	16,429	**(1,510)**	49,662
Net realized and unrealized loss on derivatives	**(3,681)**	(20,904)	**(40,379)**	(50,252)
Other	**1,190**	1,309	**3,490**	4,313
Total noninterest (loss) income	**(11,683)**	10,766	**3,967**	45,709
Noninterest expense				
Salaries and employee benefits	**39,042**	33,899	**112,259**	103,206
Data processing and communication	**5,817**	6,234	**17,713**	17,475
Occupancy and equipment	**5,251**	4,934	**15,941**	15,599
Professional fees	**7,382**	3,923	**16,409**	11,181
Advertising	**750**	1,145	**2,573**	3,299
Net loss on repossessed property and other related expenses	**2,475**	595	**8,508**	4,062
Goodwill and intangible assets impairment	**—**	—	**742,352**	—
Other	**6,332**	5,270	**16,677**	14,864
Total noninterest expense	**67,049**	56,000	**932,432**	169,686
Income (loss) before income taxes	**5,878**	34,318	**(716,597)**	151,057
Provision for (benefit from) income taxes	**478**	7,535	**(24,653)**	33,977
Net income (loss)	**$ 5,400**	$ 26,783	**$ (691,944)**	$ 117,080
Basic earnings per common share				
Weighted average common shares outstanding	**55,082,621**	56,995,007	**55,788,751**	57,321,561
Basic earnings per share	**$ 0.10**	$ 0.47	**$ (12.40)**	$ 2.04
Diluted earnings per common share				
Weighted average diluted common shares outstanding	**55,145,619**	57,110,103	**55,788,751**	57,408,023
Diluted earnings per share	**$ 0.10**	$ 0.47	**$ (12.40)**	$ 2.04
Dividends per share				
Dividends paid	**$ 8,252**	$ 17,081	**$ 41,906**	$ 45,852
Dividends per share	**$ 0.15**	$ 0.30	**$ 0.75**	$ 0.80

See accompanying notes.

GREAT WESTERN BANCORP, INC.

Consolidated Statements of Comprehensive Income (Unaudited)

(Dollars in Thousands)

	Three Months Ended June 30,		Nine months ended June 30,	
	2020	**2019**	**2020**	**2019**
Net income (loss)	**$ 5,400**	$ 26,783	**$ (691,944)**	$ 117,080
Other comprehensive income, net of tax				
Securities available for sale:				
Net unrealized holding gain arising during the period	**11,838**	23,690	**42,019**	53,882
Reclassification adjustment for net (gain) loss realized in net income	**—**	(322)	**—**	191
Income tax expense	**(2,919)**	(5,761)	**(10,359)**	(13,329)
Net change in unrealized gain on securities available for sale	**8,919**	17,607	**31,660**	40,744
Comprehensive income (loss)	**$ 14,319**	$ 44,390	**$ (660,284)**	$ 157,824

See accompanying notes.

GREAT WESTERN BANCORP, INC.

Consolidated Statements 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 (Loss) Income	Total
Balance, April 1, 2019		$ 569	$ 1,245,657	$ 614,540	$ (8,372)	$ 1,852,394
Net income	$ 26,783	—	—	26,783	—	26,783
Other comprehensive income, net of tax	17,607	—	—	—	17,607	17,607
Total comprehensive income	$ 44,390					
Stock-based compensation, net of tax		—	1,425	—	—	1,425
Cash dividends:						
Common stock, $0.30 per share		—	—	(17,081)	—	(17,081)
Balance, June 30, 2019		$ 569	$ 1,247,082	$ 624,242	$ 9,235	$ 1,881,128
Balance, April 1, 2020		**$ 550**	**$ 1,190,381**	**$ (73,705)**	**$ 36,238**	**$ 1,153,464**
Net income	**$ 5,400**	**—**	**—**	**5,400**	**—**	**5,400**
Other comprehensive income, net of tax	**8,919**	**—**	**—**	**—**	**8,919**	**8,919**
Total comprehensive income	**$ 14,319**					
Stock-based compensation, net of tax		**—**	**1,113**	**—**	**—**	**1,113**
Cash dividends:						
Common stock, $0.15 per share		**—**	**(8,252)**	**—**	**—**	**(8,252)**
Balance, June 30, 2020		**$ 550**	**$ 1,183,242**	**$ (68,305)**	**$ 45,157**	**$ 1,160,644**

See accompanying notes.

	Comprehensive Income (Loss)	Common Stock Par Value	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total
Balance, October 1, 2018		$ 589	$ 1,318,457	$ 553,014	$ (31,509)	$ 1,840,551
Net income	$ 117,080	—	—	117,080	—	117,080
Other comprehensive income, net of tax	40,744	—	—	—	40,744	40,744
Total comprehensive income	$ 157,824					
Stock-based compensation, net of tax		1	3,263	—	—	3,264
Repurchase common stock		(21)	(74,638)	—	—	(74,659)
Cash dividends:						
Common stock, $0.80 per share		—	—	(45,852)	—	(45,852)
Balance, June 30, 2019		$ 569	$ 1,247,082	$ 624,242	$ 9,235	$ 1,881,128
Balance, October 1, 2019		**$ 563**	**$ 1,228,714**	**$ 657,475**	**$ 13,497**	**$ 1,900,249**
Net (loss)	**$ (691,944)**	**—**	**—**	**(691,944)**	**—**	**(691,944)**
Other comprehensive income, net of tax	**31,660**	**—**	**—**	**—**	**31,660**	**31,660**
Total comprehensive (loss)	**$ (660,284)**					
Cumulative effect adjustment related to ASU adoption [1]		**—**	**—**	**(182)**	**—**	**(182)**
Stock-based compensation, net of tax		**1**	**2,749**	**—**	**—**	**2,750**
Repurchase of common stock		**(14)**	**(39,969)**	**—**	**—**	**(39,983)**
Cash dividends:						
Common stock, $0.75 per share		**—**	**(8,252)**	**(33,654)**	**—**	**(41,906)**
Balance, June 30, 2020		**$ 550**	**$ 1,183,242**	**$ (68,305)**	**$ 45,157**	**$ 1,160,644**

[1] Related to the Company's adoption of ASU 2016-02 and subsequent related ASUs on October 1, 2019. See Note 2, "New Accounting Pronouncements," for additional information.

GREAT WESTERN BANCORP, INC.

Consolidated Statements of Cash Flows (Unaudited)

(Dollars in Thousands)

	Nine Months Ended June 30, 2020	Nine Months Ended June 30, 2019
Operating activities		
Net (loss) income	**$ (691,944)**	$ 117,080
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	**13,152**	8,415
Amortization of FDIC indemnification asset	**1,012**	1,154
Net loss on sale of securities and other assets	**6,649**	2,727
Net gain on sale of loans	**(5,840)**	(3,971)
Provision for loan and lease losses	**101,539**	38,965
Goodwill and intangible assets impairment	**742,352**	—
Provision for (reversal of) loan servicing rights loss	**6**	(1)
Stock-based compensation	**2,750**	3,264
Originations of residential real estate loans held for sale	**(231,420)**	(171,233)
Proceeds from sales of residential real estate loans held for sale	**231,771**	174,420
Net deferred income taxes	**(56,659)**	21
Changes in:		
Accrued interest receivable	**744**	1,598
Other assets	**(71,570)**	(24,363)
Accrued interest payable and other liabilities	**20,128**	158
Net cash provided by operating activities	**62,670**	148,234
Investing activities		
Purchase of securities available for sale	**(540,697)**	(666,901)
Proceeds from sales of securities available for sale	**—**	145,627
Proceeds from maturities of securities available for sale	**387,950**	158,464
Net increase in loans	**(633,971)**	(519,597)
(Payment) recovery of covered losses from FDIC indemnification claims	**(46)**	26
Purchase of premises and equipment	**(4,988)**	(11,980)
Proceeds from sale of premises and equipment	**—**	605
Proceeds from sale of repossessed property	**18,798**	8,422
Purchase of FHLB stock	**(113,437)**	(72,948)
Proceeds from redemption of FHLB stock	**112,992**	59,869
Net cash paid in business acquisition	**(4,711)**	—
Net cash used in investing activities	**(778,110)**	(898,413)
Financing activities		
Net increase in deposits	**850,367**	502,568
Net increase (decrease) in securities sold under agreements to repurchase and other short-term borrowings	**1,370**	(33,982)
Proceeds from FHLB advances and other long-term borrowings	**680,000**	795,000
Repayments on FHLB advances and other long-term borrowings	**(665,000)**	(465,000)
Common stock repurchased	**(39,983)**	(74,659)
Taxes paid related to net share settlement of equity awards	**(1,297)**	(1,236)
Dividends paid	**(41,906)**	(45,852)
Net cash provided by financing activities	**783,551**	676,839
Net increase (decrease) in cash and cash equivalents	**68,111**	(73,340)
Cash and cash equivalents, beginning of period	**243,474**	298,696
Cash and cash equivalents, end of period	**$ 311,585**	$ 225,356
Supplemental disclosure of cash flow information		
Cash payments for interest	**$ 71,423**	$ 81,585
Cash payments for income taxes	**$ 21,089**	$ 37,708
Supplemental disclosure of noncash investing and financing activities		
Loans transferred to repossessed properties	**$ (7,762)**	$ (23,625)

See accompanying notes.

1. Nature of Operations and Summary of Significant Policies

Nature of Operations

The Company is a bank holding company organized under the laws of Delaware and is listed on the NYSE under the symbol "GWB". The primary business of the Company is ownership of its wholly-owned subsidiary, Great Western Bank. The Bank is a full-service regional bank focused on relationship-based business and agri-business banking in Arizona, Colorado, Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota and South Dakota. The Company and the Bank are subject to the regulation of certain federal and/or state agencies and undergo periodic examinations by those regulatory authorities. Substantially all of the Company's income is generated from banking operations.

Basis of Presentation

The accompanying unaudited consolidated interim financial statements have been prepared in accordance with U.S. GAAP and reflect all adjustments that are, in the opinion of management, necessary for the fair presentation of the financial position and results of operations for the periods presented. All such adjustments are of a normal recurring nature.

Certain previously reported amounts have been reclassified to conform to the current presentation.

The unaudited interim consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended September 30, 2019, 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 on the consolidated financial statements and accompanying notes. Actual results could differ from these estimates.

Changes in Significant Accounting Policies

Pursuant to the Company's adoption of ASU 2016-02 and subsequent related ASUs as of October 1, 2019, the Company updated its accounting policy related to leases. See Note 12 for new disclosures and policy information related to the Company's leases. There were no other significant changes to the Company's accounting policies from those disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2019 that could have a material effect on the Company's consolidated financial statements.

Subsequent Events

The Company has evaluated all events or transactions that occurred through the date the Company issued these financial statements. Other than those described below, there were no material events or transactions that would require recognition in the consolidated financial statements or disclosure in the notes to the consolidated financial statements.

On July 29, 2020, the Board of Directors of the Company declared a dividend of $0.01 per common share payable on August 27, 2020 to stockholders of record as of close of business on August 13, 2020.

2. New Accounting Standards

Accounting Standards Adopted in Fiscal Year 2020

In August 2017, the FASB issued ASU 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*, which amended the hedge accounting recognition and presentation requirements in ASC 815 to improve the transparency and understandability of information conveyed to financial statement users about an entity's risk management activities to better align the entity's financial reporting for hedging relationships with those risk management activities and to reduce the complexity of and simplify the application of hedge accounting. ASU 2017-12 was effective for the Company on October 1, 2019. For the periods presented, the Company did not designate any derivative financial instruments as formal hedging relationships, and therefore, did not utilize hedge accounting. As such, ASU 2017-12 did not impact the Company's consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842),* which requires that lessees recognize the assets and liabilities arising from leases on the balance sheet and disclose key information about leasing arrangements. Lessees are required to recognize an obligation for future lease payments measured on a discounted basis and a related right-of-use asset. ASU 2016-02 does not significantly change lease accounting requirements applicable to lessors; however, certain changes were made to align, where necessary, lessor accounting with the lessee accounting model and ASC Topic 606, *Revenue from Contracts with Customers*. In July 2018, the FASB issued ASU 2018-10, *Codification Improvements to Topic 842, Leases*, and ASU 2018-11, *Leases (Topic 842), Targeted Improvements*, which made technical corrections and improvements to the previous ASU issued, including a modified retrospective transition method that allows entities to apply the standard as of the adoption date. In December 2018, the FASB issued ASU 2018-20, *Leases (Topic 842): Narrow-Scope Improvements for Lessors*, which allowed lessors to exclude sales tax from consideration of the contract through a policy election and clarified treatment of certain lessor costs and variable payments for contracts with lease and nonlease components. The Company adopted this guidance beginning October 1, 2019 using the modified retrospective transition method and all practical expedients available other than the use of hindsight with respect to determining the lease term and assessing impairment of its right-of-use assets. As of the date of adoption, the Company's right-of-use assets and lease liabilities recorded in other assets and accrued expenses and other liabilities on the consolidated balance sheets were $19.9 million and $20.9 million, respectively, arising from operating leases in which the Company is the lessee. The Company also recognized a cumulative effect adjustment of $0.2 million as a result of remeasuring a pre-existing lease impairment as of the date of adoption. These ASUs did not have a material impact on the timing of expense or income recognition in the Company's consolidated statements of income.

Accounting Standards Not Yet Adopted in Fiscal Year 2020

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework - Changes in the Disclosure Requirements for Fair Value Measurement*, which eliminates, adds and modifies certain disclosure requirements for fair value measurements. Among the changes, entities will no longer be required to disclose the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, but will be required to disclose the range and weighted average used to develop significant unobservable inputs for Level 3 fair value measurements. ASU 2018-13 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted. Entities are also allowed to elect to early adopt the eliminated or modified disclosure requirements and delay adoption of the new disclosure requirements until after their effective date. As ASU 2018-13 only revises disclosure requirements, the Company does not believe this ASU will have a material impact on the consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which addresses timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. ASU 2016-13 requires institutions to measure all expected credit losses related to financial assets measured at amortized costs with an expected loss model based on historical experience, current conditions and reasonable and supportable forecasts relevant to affect the collectability of the financial assets, which is referred to as the current expected credit loss model. ASU 2016-13 requires enhanced disclosures, including qualitative and quantitative requirements, to help understand significant estimates and judgments used in estimating credit losses, as well as provide additional information about the amounts recorded in the financial statements. From November 2018 through February 2020, the FASB issued ASUs which made technical corrections and improvements to the previous ASU issued (ASU 2018-19, *Codification Improvements to Topic 326, Financial Instruments, Credit Losses;* ASU 2019-04, *Codification Improvements to Topic 326, Financial Instruments - Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments;* ASU 2019-11, *Codification Improvements to Topic 326, Financial Instruments - Credit Losses;* and ASU 2020-02, *Financial Instruments - Credit Losses (Topic 326) and Leases (Topic 842)*). The ASUs require the use of the modified retrospective approach for adoption. These ASUs will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted after December 15, 2018. The Company continues to be on track to implement the standard on October 1, 2020 as we ran parallel processing with the current allowance method as of June 30, 2020. Our CECL allowance methodology will be driven by our PD risk ratings, our charge-off history and adjusted for the economic outlook as provided by Oxford Economics as of the date of adoption. Changes in the reserve associated with the Day 1 transition will not be reflected in net income, but directly through retained earnings and will be gradually phased into regulatory capital ratios over the next 3-5 years. The CECL standard does not apply to the fair value portfolio and as such there will be no Day 1 change to this portfolio. 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 estimated.

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*, which aims to simplify the accounting for income taxes by removing certain exceptions to the general principles and also simplification of areas such as franchise taxes, step-up in tax basis goodwill, separate entity financial statements and interim recognition of enactment of tax laws or rate changes. The ASU will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020, with early adoption permitted. The Company is currently evaluating the potential impact of ASU 2019-12 on the consolidated financial statements.

In January 2020, the FASB issued ASU 2020-01, *Investments - Equity Securities (Topic 321), Investments - Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815): Clarifying the Interactions between Topic 321, Topic 323 and Topic 815*, which clarifies that an entity should consider observable transactions that require it to either apply or discontinue the equity method of accounting for the purposes of applying the fair value measurement alternative. The ASU will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020, with early adoption permitted. The Company does not expect adoption to have a material impact on the consolidated financial statements.

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, which provides optional expedients and exceptions for a limited time period to ease the potential burden in accounting for reference rate reform on financial reporting. The amendments in ASU 2020-04 are elective for entities with contracts, including derivative contracts, that reference LIBOR or some other reference rate that are expected to be discontinued. For the Company's cash flow hedges, ASU 2020-04 allows: (i) an entity to change the reference rate without having to designate the hedging relationship; (ii) for cash flow hedges in which the designated hedged risk is LIBOR, allows an entity to assert that it remains probable that the hedged forecasted transaction will occur; and (iii) allows an entity to change the designated method used to assess hedge effectiveness and simplifies or temporarily suspends the assessment of hedge effectiveness for hedging relationships. ASU 2020-04 must be applied prospectively and was effective immediately upon issuance and remains effective through December 31, 2022. The Company is currently evaluating the impact that adopting this new accounting standard will have on the consolidated financial statements.

3. 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.

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(dollars in thousands)			
As of June 30, 2020				
U.S. Treasury securities	$ 49,795	$ 553	$ —	$ 50,348
Mortgage-backed securities:				
Government National Mortgage Association	546,739	13,251	(101)	559,889
Federal Home Loan Mortgage Corporation	575,530	19,400	(2)	594,928
Federal National Mortgage Association	385,813	15,840	(6)	401,647
Small Business Assistance Program	295,662	9,802	(158)	305,306
States and political subdivision securities	58,137	1,319	—	59,456
Other	1,006	46	—	1,052
Total	$ 1,912,682	$ 60,211	$ (267)	$ 1,972,626

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(dollars in thousands)			
As of September 30, 2019				
U.S. Treasury securities	$ 94,178	$ 599	$ (32)	$ 94,745
Mortgage-backed securities:				
Government National Mortgage Association	501,139	3,374	(3,027)	501,486
Federal Home Loan Mortgage Corporation	463,974	8,840	(770)	472,044
Federal National Mortgage Association	322,340	5,409	(398)	327,351
Small Business Assistance Program	316,502	3,674	(154)	320,022
States and political subdivision securities	66,145	494	(116)	66,523
Other	1,006	31	—	1,037
Total	$ 1,765,284	$ 22,421	$ (4,497)	$ 1,783,208

The amortized cost and approximate fair value of debt securities available for sale as of June 30, 2020 and September 30, 2019, 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 penalty.

	June 30, 2020		September 30, 2019	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
	(dollars in thousands)			
Due in one year or less	$ 64,555	$ 65,163	$ 58,377	$ 58,343
Due after one year through five years	31,856	32,628	89,836	90,601
Due after five years through ten years	11,521	12,013	12,110	12,324
Due after ten years	—	—	—	—
	107,932	109,804	160,323	161,268
Mortgage-backed securities	1,803,744	1,861,770	1,603,955	1,620,903
Securities without contractual maturities	1,006	1,052	1,006	1,037
Total	$ 1,912,682	$ 1,972,626	$ 1,765,284	$ 1,783,208

There were no sales of securities available for sale for both the three and nine months ended June 30, 2020. There were $48.4 million and $145.6 million of proceeds from the sales of securities available for sale for the three and nine months ended June 30, 2019, respectively. No gross gains (pre-tax) were realized on the sales for the three and nine months ended June 30, 2020, while $0.3 million was realized for both the three and nine months ended June 30, 2019, using the specific identification method. No gross losses (pre-tax) were realized on the sales for the three and nine months ended June 30, 2020, and $0.0 million and $0.5 million gross losses (pre-tax) were realized on the sales for the three and nine months ended June 30, 2019, respectively, using the specific identification method. The Company recognized no other-than-temporary impairment for the three and nine months ended June 30, 2020 and 2019.

Securities with an estimated fair value of approximately $1.05 billion and $863.9 million at June 30, 2020 and September 30, 2019, respectively, were pledged as collateral on public deposits, securities sold under agreements to repurchase, and for other purposes as required by contractual obligation or 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 6% and 36% of the Company’s investment portfolio at estimated fair value at June 30, 2020 and September 30, 2019, 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 the Company will be required to sell the securities before the recovery of their amortized cost basis, which may be maturity, the Company does not consider the securities to be other-than-temporarily impaired at June 30, 2020 or September 30, 2019.

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.

	Less than 12 months		12 months or more		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
	(dollars in thousands)					
As of June 30, 2020						
U.S. Treasury securities	$ —	$ —	$ —	$ —	$ —	$ —
Mortgage-backed securities	77,331	(213)	34,258	(54)	111,589	(267)
States and political subdivision securities	—	—	—	—	—	—
Other	—	—	—	—	—	—
Total	$ 77,331	$ (213)	$ 34,258	$ (54)	$ 111,589	$ (267)

	Less than 12 months		12 months or more		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
	(dollars in thousands)					
As of September 30, 2019						
U.S. Treasury securities	$ —	$ —	$ 44,729	$ (32)	$ 44,729	$ (32)
Mortgage-backed securities	94,612	(205)	474,979	(4,144)	569,591	(4,349)
States and political subdivision securities	—	—	23,693	(116)	23,693	(116)
Other	—	—	—	—	—	—
Total	$ 94,612	$ (205)	$ 543,401	$ (4,292)	$ 638,013	$ (4,497)

As of June 30, 2020 and September 30, 2019, the Company had 17 and 169 securities, respectively, in an unrealized loss position.

4. Loans

The following table presents the composition of loans as of June 30, 2020 and September 30, 2019.

	June 30, 2020	September 30, 2019
	(dollars in thousands)	
Commercial real estate	$ 5,355,493	$ 5,092,410
Agriculture	1,815,121	2,008,644
Commercial non-real estate	2,226,759	1,719,956
Residential real estate	862,821	812,208
Consumer	61,452	51,925
Other	34,713	47,541
Ending balance	10,356,359	9,732,684
Less: Unamortized discount on acquired loans	(9,098)	(13,655)
Unearned net deferred fees and costs and loans in process	(33,262)	(12,266)
Total	$ 10,313,999	$ 9,706,763

The loan segments above include loans covered by a FDIC non-commercial loss sharing agreement, which ended June 4, 2020, totaling $31.9 million as of September 30, 2019, residential real estate loans held for sale totaling $12.8 million and $7.4 million at June 30, 2020 and September 30, 2019, respectively, and $735.4 million and $813.0 million of loans accounted for at fair value at June 30, 2020 and September 30, 2019, respectively.

Unearned net deferred fees and costs totaled $33.8 million and $13.9 million as of June 30, 2020 and September 30, 2019, respectively. Loans in process represent loans that have been funded as of the balance sheet dates but not classified into a loan category and loan payments received as of the balance sheet dates that have not been applied to individual loan accounts. Loans in process totaled $(0.5) million and $(1.6) million at June 30, 2020 and September 30, 2019, respectively.

Loans guaranteed by agencies of the U.S. government totaled $865.8 million and $154.2 million at June 30, 2020 and September 30, 2019, respectively.

Principal balances of residential real estate loans sold totaled $50.6 million and $69.8 million for the three months ended June 30, 2020 and 2019, respectively, and $226.0 million and $170.4 million for the nine months ended June 30, 2020 and 2019, respectively.

Nonaccrual

Interest income on loans is accrued daily on the outstanding balances. A loan is placed on nonaccrual status when management believes, after considering collection efforts and other factors, the borrowers' condition is such that collection of interest is doubtful, which is generally 90 days past due. When loans are placed on nonaccrual status, accrual of interest is discontinued and interest receivable is reversed against interest income in the current period. Interest payments received thereafter are applied as a reduction to the remaining principal balance as long as concern exists as to the ultimate collection of the principal. Loans are removed from nonaccrual status when they become current as to both principal and interest and concern no longer exists as to the collectability of principal and interest.

The following table presents the Company's nonaccrual loans at June 30, 2020 and September 30, 2019, excluding ASC 310-30 loans. Loans greater than 90 days past due and still accruing interest as of June 30, 2020 and September 30, 2019, were $0.0 million and $11.2 million, respectively.

	June 30, 2020	September 30, 2019
	(dollars in thousands)	
Nonaccrual loans		
Commercial real estate	$ 96,765	$ 14,973
Agriculture	150,009	77,880
Commercial non-real estate	20,414	9,502
Residential real estate	4,607	2,661
Consumer	79	74
Total	$ 271,874	$ 105,090

Credit Quality Information

The Company assigns all non-consumer loans a credit quality risk rating. These ratings are Pass, Watch, Substandard, Doubtful and Loss. Loans with a Pass and Watch rating represent those loans not classified on the Company's rating scale as problem credits, with loans with a Watch rating being monitored and updated at least quarterly by management. Substandard loans are those where a well-defined weakness has been identified that may put full collection of contractual debt at risk. Doubtful loans are those where a well-defined weakness has been identified and a loss of contractual debt is probable. Substandard and doubtful loans are monitored and updated monthly. All non-consumer loan risk ratings are monitored by management and updated as deemed appropriate. The Company generally does not risk rate residential real estate or consumer loans unless a default event such as bankruptcy or extended nonperformance takes place. Alternatively, standard credit scoring systems are used to assess credit risks of residential real estate and consumer loans.

The following table presents the composition of the loan portfolio by internally assigned grade as of June 30, 2020 and September 30, 2019. This table is presented net of unamortized discount on acquired loans and excludes loans measured at fair value with changes in fair value reported in earnings of $735.4 million at June 30, 2020 and $813.0 million at September 30, 2019.

As of June 30, 2020	Commercial Real Estate	Agriculture	Commercial Non-Real Estate	Residential Real Estate [1]	Consumer [1]	Other	Total
	(dollars in thousands)						
Credit Risk Profile by Internally Assigned Grade							
Grade:							
Pass	$ 4,544,252	$ 1,095,048	$ 1,936,134	$ 835,956	$ 60,512	$ 34,713	$ 8,506,615
Watchlist	175,893	234,251	48,334	11,392	710	—	470,580
Substandard	173,324	344,027	99,828	13,156	102	—	630,437
Doubtful	49	3,394	799	14	3	—	4,259
Loss	—	—	—	—	—	—	—
Ending balance	4,893,518	1,676,720	2,085,095	860,518	61,327	34,713	9,611,891
Loans covered by a FDIC loss sharing agreement	—	—	—	—	—	—	—
Total	$ 4,893,518	$ 1,676,720	$ 2,085,095	$ 860,518	$ 61,327	$ 34,713	$ 9,611,891

[1] The Company generally does not risk rate residential real estate or consumer loans unless a default event such as a bankruptcy or extended nonperformance takes place. Alternatively, standard credit scoring systems are used to assess credit risks of residential real estate and consumer loans.

As of September 30, 2019	Commercial Real Estate	Agriculture	Commercial Non-Real Estate	Residential Real Estate [1]	Consumer [1]	Other	Total
	(dollars in thousands)						
Credit Risk Profile by Internally Assigned Grade							
Grade:							
Pass	$ 4,433,530	$ 1,346,436	$ 1,424,357	$ 763,797	$ 50,796	$ 47,541	$ 8,066,457
Watchlist	85,256	179,965	103,514	6,297	755	—	375,787
Substandard	54,242	322,327	42,048	6,863	205	—	425,685
Doubtful	56	5,811	296	55	2	—	6,220
Loss	—	—	—	—	—	—	—
Ending balance	4,573,084	1,854,539	1,570,215	777,012	51,758	47,541	8,874,149
Loans covered by a FDIC loss sharing agreement	—	—	—	31,891	—	—	31,891
Total	$ 4,573,084	$ 1,854,539	$ 1,570,215	$ 808,903	$ 51,758	$ 47,541	$ 8,906,040

[1] The Company generally does not risk rate residential real estate or consumer loans unless a default event such as a bankruptcy or extended nonperformance takes place. Alternatively, standard credit scoring systems are used to assess credit risks of residential real estate and consumer loans.

Past Due Loans

The following table presents the Company's past due loans at June 30, 2020 and September 30, 2019. This table is presented net of unamortized discount on acquired loans and excludes loans measured at fair value with changes in fair value reported in earnings of $735.4 million at June 30, 2020 and $813.0 million at September 30, 2019.

	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Current	Total Financing Receivables
	(dollars in thousands)					
As of June 30, 2020						
Commercial real estate	$ 93	$ 30,393	$ 28,683	$ 59,169	$ 4,834,349	$ 4,893,518
Agriculture	82,476	5,842	69,351	157,669	1,519,051	1,676,720
Commercial non-real estate	21	323	15,595	15,939	2,069,156	2,085,095
Residential real estate	916	1,143	3,407	5,466	855,052	860,518
Consumer	15	13	20	48	61,279	61,327
Other	—	—	—	—	34,713	34,713
Ending balance	83,521	37,714	117,056	238,291	9,373,600	9,611,891
Loans covered by a FDIC loss sharing agreement	—	—	—	—	—	—
Total	$ 83,521	$ 37,714	$ 117,056	$ 238,291	$ 9,373,600	$ 9,611,891

	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Current	Total Financing Receivables
	(dollars in thousands)					
As of September 30, 2019						
Commercial real estate	$ 3,587	$ 570	$ 2,475	$ 6,632	$ 4,566,452	$ 4,573,084
Agriculture	13,411	1,267	33,089	47,767	1,806,772	1,854,539
Commercial non-real estate	3,932	120	4,424	8,476	1,561,739	1,570,215
Residential real estate	311	676	939	1,926	775,086	777,012
Consumer	61	110	7	178	51,580	51,758
Other	—	—	—	—	47,541	47,541
Ending balance	21,302	2,743	40,934	64,979	8,809,170	8,874,149
Loans covered by a FDIC loss sharing agreement	536	410	331	1,277	30,614	31,891
Total	$ 21,838	$ 3,153	$ 41,265	$ 66,256	$ 8,839,784	$ 8,906,040

Impaired Loans

The following table presents the Company's impaired loans. This table excludes purchased credit impaired loans and loans measured at fair value with changes in fair value reported in earnings.

	June 30, 2020			September 30, 2019		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
	(dollars in thousands)					
Impaired loans:						
With an allowance recorded:						
Commercial real estate	$ 84,064	$ 85,941	$ 18,993	$ 26,003	$ 26,297	$ 4,159
Agriculture	88,107	91,439	10,835	98,392	104,350	8,234
Commercial non-real estate	28,684	32,127	9,846	21,331	21,777	6,062
Residential real estate	5,513	6,034	2,101	3,829	4,311	1,795
Consumer	106	116	32	207	214	97
Total impaired loans with an allowance recorded	206,474	215,657	41,807	149,762	156,949	20,347
With no allowance recorded:						
Commercial real estate	89,000	127,589	—	28,272	66,631	—
Agriculture	260,026	278,906	—	231,087	255,308	—
Commercial non-real estate	72,458	80,692	—	21,579	31,414	—
Residential real estate	5,389	7,801	—	3,290	5,454	—
Consumer	1	108	—	1	108	—
Total impaired loans with no allowance recorded	426,874	495,096	—	284,229	358,915	—
Total impaired loans	$ 633,348	$ 710,753	$ 41,807	$ 433,991	$ 515,864	$ 20,347

The following table presents the average recorded investment on impaired loans and interest income recognized on impaired loans for the three and nine months ended June 30, 2020 and 2019.

	Three Months Ended June 30,				Nine Months Ended June 30,			
	2020		2019		2020		2019	
	Average Recorded Investment	Interest Income Recognized While on Impaired Status	Average Recorded Investment	Interest Income Recognized While on Impaired Status	Average Recorded Investment	Interest Income Recognized While on Impaired Status	Average Recorded Investment	Interest Income Recognized While on Impaired Status
	(dollars in thousands)							
Commercial real estate	$ 152,871	$ 1,684	$ 40,199	$ 718	$ 113,146	$ 5,350	$ 39,399	$ 1,415
Agriculture	348,006	3,421	253,240	7,147	354,202	16,722	196,563	10,349
Commercial non-real estate	97,310	678	26,381	468	84,849	5,079	24,518	1,146
Residential real estate	10,901	120	6,911	123	9,957	513	6,831	305
Consumer	117	2	261	8	148	6	237	19
Total	$ 609,205	$ 5,905	$ 326,992	$ 8,464	$ 562,302	$ 27,670	$ 267,548	$ 13,234

Valuation adjustment reductions made to repossessed properties totaled $2.0 million and $0.1 million for the three months ended June 30, 2020 and 2019, respectively. Valuation adjustment reductions made to repossessed properties totaled $6.8 million and $2.0 million for the nine months ended June 30, 2020 and 2019, respectively. The adjustments are included in net loss on repossessed property and other related expenses in noninterest expense.

Troubled Debt Restructurings

Included in certain loan categories in the impaired loans are TDRs that were classified as impaired. These TDRs do not include purchased credit impaired loans. When the Company grants concessions to borrowers such as reduced interest rates or extensions of loan periods that would not be considered other than because of borrowers' financial difficulties, the modification is considered a TDR. Specific reserves included in the allowance for loan and lease losses for TDRs were $7.9 million and $10.3 million at June 30, 2020 and September 30, 2019, respectively. There were nominal and $0.2 million of commitments to lend additional funds to borrowers whose loans were modified in a TDR as of June 30, 2020 and September 30, 2019, respectively.

The following table presents the recorded value of the Company's TDR balances as of June 30, 2020 and September 30, 2019.

	June 30, 2020		September 30, 2019	
	Accruing	Nonaccrual	Accruing	Nonaccrual
	(dollars in thousands)			
Commercial real estate	$ 31,627	$ 1,762	$ 17,145	$ 904
Agriculture	2,989	47,791	22,929	24,762
Commercial non-real estate	8,645	5,508	4,398	4,257
Residential real estate	285	86	263	102
Consumer	4	36	107	48
Total	$ 43,550	$ 55,183	$ 44,842	$ 30,073

TDRs are generally restructured through either a rate modification, term extension, payment modification or due to a bankruptcy. The following table presents a summary of all accruing loans restructured in TDRs for the three and nine months ended June 30, 2020 and 2019.

	Three Months Ended June 30,						Nine Months Ended June 30,					
	2020			2019			2020			2019		
		Recorded Investment			Recorded Investment			Recorded Investment			Recorded Investment	
	Number	Pre-Modification	Post-Modification	Number	Pre-Modification	Post-Modification	Number	Pre-Modification	Post-Modification	Number	Pre-Modification	Post-Modification
	(dollars in thousands)											
Commercial real estate	1	$ 12,001	$ 12,001	2	$ 15,466	$ 15,466	2	$ 14,880	$ 14,880	2	$ 15,466	$ 15,466
Agriculture	—	—	—	16	11,537	11,537	2	993	993	16	11,537	11,537
Commercial non-real estate	—	—	—	—	—	—	4	5,096	5,096	—	—	—
Residential real estate	—	—	—	—	—	—	1	50	50	—	—	—
Consumer	—	—	—	—	—	—	—	—	—	1	89	89
Total accruing	1	$ 12,001	$ 12,001	18	$ 27,003	$ 27,003	9	$ 21,019	$ 21,019	19	$ 27,092	$ 27,092
Change in recorded investment due to principal paydown at time of modification	—	$ —	$ —	—	$ —	$ —	—	$ —	$ —	—	$ —	$ —
Change in recorded investment due to chargeoffs at time of modification	—	—	—	—	—	—	—	—	—	—	—	—

The following table presents a summary of all nonaccruing loans restructured in TDRs for the three and nine months ended June 30, 2020 and 2019.

	Three Months Ended June 30,						Nine Months Ended June 30,					
	2020			2019			2020			2019		
		Recorded Investment			Recorded Investment			Recorded Investment			Recorded Investment	
	Number	Pre-Modification	Post-Modification	Number	Pre-Modification	Post-Modification	Number	Pre-Modification	Post-Modification	Number	Pre-Modification	Post-Modification
	(dollars in thousands)											
Commercial real estate	—	$ —	$ —	1	$ 882	$ 882	1	$ 2,216	$ 2,216	1	$ 882	$ 882
Agriculture	1	19,342	19,342	9	5,802	5,802	11	20,797	20,797	9	5,802	5,802
Commercial non-real estate	3	922	922	2	3,699	3,699	5	1,752	1,752	2	3,699	3,699
Residential real estate	—	—	—	—	—	—	—	—	—	—	—	—
Consumer	—	—	—	—	—	—	—	—	—	—	—	—
Total nonaccruing	4	$ 20,264	$ 20,264	12	$ 10,383	$ 10,383	17	$ 24,765	$ 24,765	12	$ 10,383	$ 10,383
Change in recorded investment due to principal paydown at time of modification	—	$ —	$ —	—	$ —	$ —	—	$ —	$ —	—	$ —	$ —
Change in recorded investment due to chargeoffs at time of modification	—	—	—	—	—	—	—	—	—	—	—	—

The following table presents loans that were modified as TDRs within the previous 12 months and for which there was a payment default for the three and nine months ended June 30, 2020 and 2019, respectively.

	Three Months Ended June 30,				Nine Months Ended June 30,			
	2020		2019		2020		2019	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
	(dollars in thousands)							
Commercial real estate	1	$ 1,720	—	$ —	1	$ 1,720	—	$ —
Agriculture	5	166	—	—	10	1,261	—	—
Commercial non-real estate	4	1,308	—	—	4	1,308	—	—
Residential real estate	—	—	—	—	—	—	—	—
Consumer	—	—	—	—	—	—	—	—
Total	10	$ 3,194	—	$ —	15	$ 4,289	—	$ —

For purposes of the table above, a loan is considered to be in payment default once it is 90 days or more contractually past due under the modified terms. The table includes loans that experienced a payment default during the period, but may be performing in accordance with the modified terms as of the balance sheet date. There were $0.0 million for both the three months ended June 30, 2020 and 2019, respectively, and $0.3 million and $0.0 million for the nine months ended June 30, 2020 and 2019, respectively, of loans removed from TDR status as they were restructured at market terms and are performing.

5. Allowance for Loan and Lease Losses

The allowance for loan and lease losses under the incurred loss model is determined based on an ongoing evaluation, driven primarily by monitoring changes in loan risk grades, delinquencies, and other credit risk indicators, which are inherently subjective. The Company considers the uncertainty related to certain industry sectors and the extent of credit exposure to specific borrowers within the portfolio. In addition, consideration is given to concentration risks associated with the various loan portfolios, current economic conditions and other environmental factors that might impact the portfolio. The Company also considers changes, if any, in underwriting activities, the loan portfolio composition (including product mix and geographic, industry, or customer-specific concentrations), trends in loan performance, the level of allowance coverage relative to similar banking institutions under an incurred loss model and macroeconomic factors, such as changes in unemployment rates, gross domestic product, and consumer bankruptcy filings.

Changes to the allowance for loan and lease losses are made by charges to the provision for loan and lease losses, which is reflected on the consolidated statements of income. Past due status is monitored as an indicator of credit deterioration. Loans that are 90 days or more past due are put on nonaccrual status unless a repayment is eminent. Loans deemed to be uncollectible are charged off against the allowance for loan and lease losses. Recoveries of amounts previously charged-off are credited to the allowance for loan and lease losses.

The allowance for loan and lease losses consist of reserves for probable losses that have been identified related to specific borrowing relationships that are individually evaluated for impairment ("specific reserve"), as well as probable losses inherent in the loan portfolio that are not specifically identified ("collective reserve").

The specific reserve relates to impaired loans. A loan is impaired when, based on current information and events, it is probable the Company will be unable to collect all amounts due (interest as well as principal) according to the contractual terms of the loan agreement. Specific reserves are determined on a loan-by-loan basis based on management’s best estimate of the Company's exposure, given the current payment status of the loan, the present value of expected payments, and the value of any underlying collateral. Impaired loans also include loans modified in TDRs. Generally, the impairment related to troubled debt restructurings is measured based on the fair value of the collateral, less cost to sell, or the present value of expected payments relative to the unpaid principal balance. If the impaired loan is identified as collateral dependent, then the fair value of the collateral method of measuring the amount of the impairment is utilized. This method requires obtaining an independent appraisal of the collateral and reducing the appraised value by applying a discount factor to the appraised value, if necessary, and including costs to sell.

Management’s estimate for collective reserves reflects losses incurred in the loan portfolio as of the consolidated balance sheet reporting date. Incurred loss estimates primarily are based on historical loss experience and portfolio mix. Incurred loss estimates may be adjusted for qualitative factors such as current economic conditions and current portfolio trends including credit quality, concentrations, aging of the portfolio, and/or significant policy and underwriting changes, which may not be reflected in the historical loss experience.

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Notes to Consolidated Financial Statements (Unaudited)

The following tables present the Company's allowance for loan and lease losses roll forward for the three and nine months ended June 30, 2020 and 2019.

Three Months Ended June 30, 2020	Commercial Real Estate	Agriculture	Commercial Non-Real Estate	Residential Real Estate	Consumer	Other	Total
	(dollars in thousands)						
Beginning balance, April 1, 2020	$ 64,414	$ 29,526	$ 31,766	$ 8,356	$ 777	$ 1,111	$ 135,950
Charge-offs	(1,335)	(4,250)	(3,210)	(92)	(20)	(1,700)	(10,607)
Recoveries	121	735	131	48	16	123	1,174
Provision	15,392	3,418	359	229	138	2,065	21,601
Impairment of ASC 310-30 loans	31	—	—	—	9	—	40
Ending balance, June 30, 2020	$ 78,623	$ 29,429	$ 29,046	$ 8,541	$ 920	$ 1,599	$ 148,158

Three Months Ended June 30, 2019	Commercial Real Estate	Agriculture	Commercial Non-Real Estate	Residential Real Estate	Consumer	Other	Total
	(dollars in thousands)						
Beginning balance, April 1, 2019	$ 15,603	$ 33,725	$ 13,049	$ 4,326	$ 374	$ 926	$ 68,003
Charge-offs	(45)	(12,759)	(4,608)	(182)	(18)	(357)	(17,969)
Recoveries	169	—	79	48	15	124	435
Provision	1,606	15,159	8,567	451	150	267	26,200
(Improvement) impairment of ASC 310-30 loans	(9)	—	49	(163)	—	—	(123)
Ending balance, June 30, 2019	$ 17,324	$ 36,125	$ 17,136	$ 4,480	$ 521	$ 960	$ 76,546

Nine Months Ended June 30, 2020	Commercial Real Estate	Agriculture	Commercial Non-Real Estate	Residential Real Estate	Consumer	Other	Total
	(dollars in thousands)						
Beginning balance, October 1, 2019	$ 16,827	$ 30,819	$ 17,567	$ 4,095	$ 427	$ 1,039	$ 70,774
Charge-offs	(2,789)	(13,378)	(8,269)	(379)	(65)	(2,760)	(27,640)
Recoveries	355	2,143	303	360	64	260	3,485
Provision	64,249	10,110	19,445	4,023	464	3,060	101,351
(Improvement) impairment of ASC 310-30 loans	(19)	(265)	—	442	30	—	188
Ending balance, June 30, 2020	$ 78,623	$ 29,429	$ 29,046	$ 8,541	$ 920	$ 1,599	$ 148,158

Nine Months Ended June 30, 2019	Commercial Real Estate	Agriculture	Commercial Non-Real Estate	Residential Real Estate	Consumer	Other	Total
	(dollars in thousands)						
Beginning balance, October 1, 2018	$ 16,777	$ 28,121	$ 13,610	$ 4,749	$ 257	$ 1,026	$ 64,540
Charge-offs	(990)	(19,704)	(6,079)	(824)	(351)	(751)	(28,699)
Recoveries	428	274	306	335	143	254	1,740
Provision	1,537	27,434	9,250	82	472	431	39,206
(Improvement) impairment of ASC 310-30 loans	(428)	—	49	138	—	—	(241)
Ending balance, June 30, 2019	$ 17,324	$ 36,125	$ 17,136	$ 4,480	$ 521	$ 960	$ 76,546

The following tables provide details regarding the allowance for loan and lease losses and balance by type of allowance as of June 30, 2020 and September 30, 2019. These tables are presented net of unamortized discount on acquired loans and excludes loans of $735.4 million measured at fair value, loans held for sale of $12.8 million, and guaranteed loans of $858.7 million for June 30, 2020 and loans measured at fair value of $813.0 million, loans held for sale of $7.4 million, and guaranteed loans of $145.9 million for September 30, 2019.

As of June 30, 2020	Commercial Real Estate	Agriculture	Commercial Non-Real Estate	Residential Real Estate	Consumer	Other	Total
	(dollars in thousands)						
Allowance for loan and lease losses							
Individually evaluated for impairment	$ 18,993	$ 10,835	$ 9,846	$ 2,101	$ 32	$ —	$ 41,807
Collectively evaluated for impairment	59,489	18,594	19,171	5,946	858	1,599	105,657
ASC 310-30 loans	141	—	29	494	30	—	694
Total allowance	$ 78,623	$ 29,429	$ 29,046	$ 8,541	$ 920	$ 1,599	$ 148,158
Financing Receivables							
Individually evaluated for impairment	$ 173,064	$ 348,133	$ 101,142	$ 10,902	$ 107	$ —	$ 633,348
Collectively evaluated for impairment	4,622,868	1,280,973	1,246,654	809,258	60,880	34,713	8,055,346
ASC 310-30 loans	20,903	3,086	136	27,210	340	—	51,675
Loans Outstanding	$ 4,816,835	$ 1,632,192	$ 1,347,932	$ 847,370	$ 61,327	$ 34,713	$ 8,740,369

As of September 30, 2019	Commercial Real Estate	Agriculture	Commercial Non-Real Estate	Residential Real Estate	Consumer	Other	Total
	(dollars in thousands)						
Allowance for loan and lease losses							
Individually evaluated for impairment	$ 4,159	$ 8,234	$ 6,062	$ 1,795	$ 97	$ —	$ 20,347
Collectively evaluated for impairment	12,509	22,320	11,476	2,188	330	1,039	49,862
ASC 310-30 loans	159	265	29	112	—	—	565
Total allowance	$ 16,827	$ 30,819	$ 17,567	$ 4,095	$ 427	$ 1,039	$ 70,774
Financing Receivables							
Individually evaluated for impairment	$ 54,275	$ 329,479	$ 42,910	$ 7,119	$ 208	$ —	$ 433,991
Collectively evaluated for impairment	4,418,611	1,501,164	1,480,949	763,645	51,112	47,541	8,263,022
ASC 310-30 loans	22,124	2,756	221	30,280	438	—	55,819
Loans Outstanding	$ 4,495,010	$ 1,833,399	$ 1,524,080	$ 801,044	$ 51,758	$ 47,541	$ 8,752,832

For acquired loans not accounted for under ASC 310-30 (purchased non-impaired), the Company utilizes specific and collective reserve calculation methods similar to originated loans. The required ALLL for these loans is included in the individually evaluated for impairment bucket of the ALLL if the loan is rated substandard or worse, and in the collectively evaluated for impairment bucket for pass rated loans.

The Company maintains an ALLL for acquired loans accounted for under ASC 310-30 as a result of impairment to loan pools arising from the periodic re-valuation of these loans. Any impairment in the individual pool is generally recognized in the current period as provision for loan and lease losses. Any improvement in the estimated cash flows, is generally not recognized immediately, but is instead reflected as an adjustment to the related loan pools yield on a prospective basis once any previously recorded impairment has been recaptured.

The ALLL for ASC 310-30 loans totaled $0.7 million and $0.6 million at June 30, 2020 and September 30, 2019, respectively. For the three and nine months ended June 30, 2020, loan pools accounted for under ASC 310-30 had a negligible and $0.2 million net impairment of provision, respectively. For the three and nine months ended June 30, 2019, loan pools accounted for under ASC 310-30 had a net reversal of provision of $0.1 million and $0.2 million, respectively.

The reserve for unfunded loan commitments was $3.3 million and $0.5 million at June 30, 2020 and September 30, 2019, respectively and is recorded in accrued expenses and other liabilities on the consolidated balance sheets.

6. Accounting for Certain Loans Acquired with Deteriorated Credit Quality

In June 2010 and May 2016, the Company acquired certain loans in the TierOne Bank and HF Financial transactions, respectively, that had deteriorated credit quality known as ASC 310-30 loans or purchased credit impaired loans. Several factors were considered when evaluating whether a loan was considered a purchased credit impaired loan, including the delinquency status of the loan, updated borrower credit status, geographic information and updated loan-to-values. Further, these purchased credit impaired loans had differences between contractual amounts owed and cash flows expected to be collected, that were at least in part, due to credit quality. U.S. GAAP allows purchasers to aggregate purchased credit impaired loans acquired in the same fiscal quarter in one or more pools, provided that the loans have common risk characteristics. A pool is then accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows.

Loan pools are periodically reassessed to determine expected cash flows. In determining the expected cash flows, the timing of cash flows and prepayment assumptions for smaller, homogeneous loans are based on statistical models that take into account factors such as the loan interest rate, credit profile of the borrowers, the years in which the loans were originated, and whether the loans are fixed or variable rate loans. Prepayments may be assumed on large individual loans that consider similar prepayment factors listed above for smaller homogeneous loans.

The re-assessment of purchased credit impaired loans resulted in the following changes in the accretable yield during the three and nine months ended June 30, 2020 and 2019.

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2020	2019	2020	2019
	(dollars in thousands)			
Balance, beginning of period	$ 19,340	$ 33,680	$ 26,047	$ 34,973
Accretion	(1,854)	(1,771)	(5,547)	(6,114)
Reclassification to nonaccretable difference	(776)	(3,142)	(3,790)	(92)
Balance, end of period	$ 16,710	$ 28,767	$ 16,710	$ 28,767

The reclassifications to nonaccretable difference noted in the table above represent instances where specific pools of loans are expected to perform worse over the remaining lives of the loans than expected at the prior re-assessment date.

The following table provides purchased credit impaired loans at June 30, 2020 and September 30, 2019.

	June 30, 2020			September 30, 2019		
	Outstanding Balance [1]	Recorded Investment [2]	Carrying Value [3]	Outstanding Balance [1]	Recorded Investment [2]	Carrying Value [3]
	(dollars in thousands)					
Commercial real estate	$ 87,125	$ 20,903	$ 20,762	$ 90,295	$ 22,124	$ 21,965
Agriculture	4,119	3,086	3,086	4,462	2,756	2,491
Commercial non-real estate	7,016	136	107	7,190	221	192
Residential real estate	31,603	27,210	26,716	35,413	30,280	30,168
Consumer	399	340	310	493	438	438
Total lending	$ 130,262	$ 51,675	$ 50,981	$ 137,853	$ 55,819	$ 55,254

[1] Represents the legal balance of ASC 310-30 loans.

[2] Represents the book balance of ASC 310-30 loans.

[3] Represents the book balance of ASC 310-30 loans net of the related allowance for loan and lease losses.

7. FDIC Indemnification Asset

Under the terms of the purchase and assumption agreement with the FDIC with regard to the TierOne Bank acquisition, the Company is reimbursed for a portion of the losses incurred on covered assets under the non-commercial loss share agreement, which ended on June 4, 2020. As covered assets are resolved, whether through repayment, short sale of the underlying collateral, the foreclosure on or sale of collateral, or the sale or charge-off of loans or other repossessed property, any differences between the carrying value of the covered assets versus the payments received during the resolution process that are reimbursable by the FDIC are recognized as reductions in the FDIC indemnification asset. Any gains or losses realized from the resolution of covered assets reduce or increase, respectively, the amount recoverable from the FDIC.

The following table represents a summary of the activity related to the FDIC indemnification asset for the three and nine months ended June 30, 2020 and 2019.

	Three Months Ended June 30, 2020	Three Months Ended June 30, 2019	Nine Months Ended June 30, 2020	Nine Months Ended June 30, 2019
	(dollars in thousands)			
Balance, beginning of period	$ 481	$ 1,552	$ 1,079	$ 2,502
Amortization	(371)	(301)	(1,012)	(1,154)
Changes in expected reimbursements from FDIC for changes in expected credit losses	—	2	—	(11)
Changes in reimbursable expenses	—	—	—	(41)
Payments (reimbursements) of covered losses to (from) the FDIC	3	17	46	(26)
Balance, end of period	$ 113	$ 1,270	$ 113	$ 1,270

The loss claims filed are subject to review, approval, and annual audits by the FDIC or its assigned agents for compliance with the terms in the loss sharing agreement which ended June 4, 2020. The final claim certificate was filed in July 2020.

8. Derivative Financial Instruments

The Company uses interest rate swaps and interest rate caps/floors to manage its interest rate risk and market risk in accommodating the needs of its customers. Interest rate swaps include both traditional interest rate swaps and interest rate swaps which can be canceled by the customer on specified dates at no cost, typically referred to as swaptions. The Company recognizes all derivatives on the consolidated balance sheet at fair value in either other assets or accrued expenses and other liabilities as appropriate.

The following table presents the notional amounts and gross fair values of all derivative assets and liabilities held by the Company as of June 30, 2020 and September 30, 2019.

	June 30, 2020			September 30, 2019		
	Notional Amount	Gross Asset Fair Value	Gross Liability Fair Value	Notional Amount	Gross Asset Fair Value	Gross Liability Fair Value
	(dollars in thousands)					
Derivatives not designated as hedging instruments:						
Interest rate swaps						
Financial institution counterparties	$ 1,280,039	$ —	$ (71,128)	$ 1,259,765	$ 35	$ (38,755)
Customer counterparties	644,755	90,304	—	499,643	48,652	—
Interest rate caps						
Financial institution counterparties	12,738	2	—	100	2	—
Customer counterparties	12,738	—	(2)	100	—	(2)
Risk participation agreements	78,141	—	(37)	56,833	—	(58)
Mortgage loan commitments	90,951	10	—	56,665	—	(11)
Mortgage loan forward sale contracts	99,542	—	(10)	61,872	11	—
Total	$ 2,218,904	$ 90,316	$ (71,177)	$ 1,934,978	$ 48,700	$ (38,826)

Netting of Derivatives

The Company records the derivatives on a net basis when a right of offset exists, based on transactions with a single counterparty that are subject to a legally enforceable master netting agreement. When bilateral netting agreements or similar agreements exist between the Company and its counterparties that create a single legal claim or obligation to pay or receive the net amount in settlement of the individual derivative contracts, the Company reports derivative assets and liabilities on a net by derivative contract by counterparty basis.

The following tables provide information on the Company's netting adjustments as of June 30, 2020 and September 30, 2019.

	Gross Fair Value	Fair Value Offset Amount	Cash Collateral	Net Amount Presented on the Consolidated Balance Sheet
	(dollars in thousands)			
As of June 30, 2020				
Total Derivative Assets	$ 90,316	$ (6,859)	$ 22,293	$ 105,750
Total Derivative Liabilities [1]	(71,177)	6,859	64,305	(13)

[1] There was an additional $25.2 million of collateral held for initial margin with a Futures Clearing Merchant for clearing derivatives at June 30, 2020 and is included in other assets in the consolidated balance sheets.

	Gross Fair Value	Fair Value Offset Amount	Cash Collateral	Net Amount Presented on the Consolidated Balance Sheet
	(dollars in thousands)			
As of September 30, 2019				
Total Derivative Assets	$ 48,700	$ (2,445)	$ 12,279	$ 58,534
Total Derivative Liabilities [1]	(38,826)	2,445	36,368	(13)

[1] There was an additional $18.3 million of collateral held for initial margin with a Futures Clearing Merchant for clearing derivatives at September 30, 2019 and is included in other assets in the consolidated balance sheets.

As with any financial instrument, derivative financial instruments have inherent risk including adverse changes in interest rates. The Company's exposure to derivative credit risk is defined as the possibility of sustaining a loss due to the failure of the counterparty to perform in accordance with the terms of the contract. Credit risks associated with interest rate swaps are similar to those relating to traditional on-balance sheet financial instruments. The Company manages interest rate swap credit risk with the same standards and procedures applied to its commercial lending activities.

Credit-risk-related contingent features

The Company has agreements with its derivative counterparties that contain a provision where if the Company or the derivative counterparty fails to maintain its status as a well/adequately capitalized institution, then the other party has the right to terminate the derivative positions and the Company or the derivative counterparty would be required to settle its obligations under the agreements. The Company has minimum collateral pledging thresholds with its Swap Dealers and Futures Clearing Merchant.

The Company enters into RPAs with some of its derivative counterparties to assume the credit exposure related to interest rate derivative contracts. The Company's loan customer enters into an interest rate swap directly with a derivative counterparty and the Company agrees through an RPA to take on the counterparty's risk of loss on the interest rate swap due to a default by the customer.

The effect of derivatives on the consolidated statements of income for the three and nine months ended June 30, 2020 and 2019 was as follows.

		Amount of Loss Recognized in Consolidated Statements of Income			
		Three Months Ended June 30,		Nine Months Ended June 30,	
	Location of Loss Recognized in Consolidated Statements of Income	2020	2019	2020	2019
		(dollars in thousands)			
Derivatives not designated as hedging instruments:					
Interest rate swaps and other derivatives	Net realized and unrealized loss on derivatives	$ (3,681)	$ (20,904)	$ (40,379)	$ (50,252)
Mortgage loan commitments	Net realized and unrealized loss on derivatives	(627)	23	21	44
Mortgage loan forward sale contracts	Net realized and unrealized loss on derivatives	627	(23)	(21)	(44)

9. The Fair Value Option for Certain Loans

The Company has elected to measure certain long-term loans at fair value to assist in managing the interest rate risk for longer-term loans. This fair value option was elected upon the origination of these loans. Interest income is recognized in the same manner as interest on non-fair value loans.

See Note 18 for additional disclosures regarding the fair value of the fair value option loans.

Long-term loans for which the fair value option has been elected had a net favorable difference between the aggregate fair value and the aggregate unpaid loan principal balance and written loan commitment amount of approximately $35.4 million at June 30, 2020 and a net favorable difference of approximately $34.2 million at September 30, 2019. The total unpaid principal balance of these long-term loans was approximately $699.9 million and $778.8 million at June 30, 2020 and September 30, 2019, respectively. The fair value of these loans is included in total loans in the consolidated balance sheets and are grouped with commercial real estate, agricultural and commercial non-real estate loans in Note 4. As of June 30, 2020 and September 30, 2019, there were loans with a fair value of $36.2 million and $16.5 million, respectively, which were greater than 90 days past due or in nonaccrual status with an unpaid principal balance of $62.6 million and $17.8 million, respectively.

Changes in fair value for items for which the fair value option has been elected were a decrease in fair value of $22.1 million and $1.5 million for the three and nine months ended June 30, 2020, respectively, and an increase in fair value of $16.4 million and $49.7 million for the three and nine months ended June 30, 2019, respectively. These changes in fair value are reported in noninterest income (loss) within the consolidated statements of income.

For long-term loans, $23.3 million and $35.9 million for the three and nine months ended June 30, 2020, respectively, and $4.8 million and $5.6 million for the three and nine months ended June 30, 2019, respectively, of the total change in fair value is attributable to changes in specific credit risk. The gains or losses attributable to changes in instrument-specific credit risk were determined based on an assessment of existing market conditions and credit quality of the underlying loan for the specific portfolio of loans.

10. Goodwill

The following table presents the Company's carrying amount of goodwill as of June 30, 2020 and September 30, 2019.

	June 30, 2020	September 30, 2019
	(dollars in thousands)	
Balance, beginning of period	$ 739,023	$ 739,023
Goodwill acquired during the period	1,539	—
Goodwill impairment during the period	(740,562)	—
Balance, end of period	$ —	$ 739,023

In accordance with ASC 350-20, the Company conducts a goodwill impairment test at least annually, or more frequently as events occur or circumstances change that would more-likely-than-not reduce the fair value below its carrying amount. In the second quarter of fiscal year 2020, the onset of the COVID-19 pandemic prompted the Company to assess qualitative and quantitative factors to determine whether it was more-likely-than-not the fair value of the Company was less than the carrying amount.

The Company assessed relevant events and circumstances, including macroeconomic conditions, industry and market considerations, overall financial performance, changes in the composition or carrying amount of assets and liabilities, the market price of the Company's common stock and other relevant facts. The Company performed both a market capitalization approach and a discounted cash flow approach to determine the fair value of the Company. As a result of the analysis, the Company recognized a goodwill impairment charge of $0.0 million and $740.6 million for the three and nine months ended June 30, 2020. No goodwill impairment charge was recognized for the three and nine months ended June 30, 2019.

11. Core Deposits and Other Intangibles

The following table presents a summary of intangible assets subject to amortization as of June 30, 2020 and September 30, 2019.

	Core Deposit Intangible	Brand Intangible	Customer Relationships Intangible	Other Intangible	Total
			(dollars in thousands)		
As of June 30, 2020					
Gross carrying amount	$ 7,339	$ —	$ 3,172	$ 538	$ 11,049
Accumulated amortization	(4,133)	—	(183)	(308)	(4,624)
Net intangible assets	$ 3,206	$ —	$ 2,989	$ 230	$ 6,425
As of September 30, 2019					
Gross carrying amount	$ 7,339	$ 8,464	$ —	$ 538	$ 16,341
Accumulated amortization	(3,518)	(6,392)	—	(257)	(10,167)
Net intangible assets	$ 3,821	$ 2,072	$ —	$ 281	$ 6,174

Amortization expense of intangible assets were $0.3 million and $1.2 million for the three and nine months ended June 30, 2020, respectively, and $0.4 million and $1.2 million for the three and nine months ended June 30, 2019, respectively.

In the second quarter of fiscal year 2020, the onset of the COVID-19 pandemic prompted the Company to assess its intangible assets for impairment. The Company believed the brand intangible asset was closely aligned with the goodwill of the Company, which was determined to be impaired as of March 31, 2020. As a result, the Company recognized an intangible asset impairment of $0.0 million and $1.8 million for the three and nine months ended June 30, 2020. No intangible asset impairment charge was recognized for the three and nine months ended June 30, 2019.

The estimated amortization expense of intangible assets assumes no activities, such as acquisitions, which would result in additional amortizable intangible assets. Estimated amortization expense of intangible assets in subsequent fiscal years is as follows.

Fiscal year	Amount
	(dollars in thousands)
Remaining in 2020	$ 261
2021	1,014
2022	929
2023	831
2024	742
2025 and thereafter	2,648
Total	$ 6,425

12. Leases

ASC Topic 842, *Leases* ("ASC 842"), became effective for the Company on October 1, 2019. ASC 842 requires a lease, whether classified as an operating lease or a financing lease, be accounted for as a right-of-use asset ("ROU asset") with a related lease liability recorded at the present value of the lease payments. The ROU asset represents the Company's right to use an underlying asset for the lease term and is included in other assets on the Company's consolidated balance sheets. The lease liability represents the Company's obligation to make lease payments and is included in accrued expenses and other liabilities on the Company's consolidated balance sheets. The cost of the lease is recognized on a straight-line basis over the lease term as lease expense. As permitted by ASC 842, the Company elected not to reassess (i) whether any expired or existing contracts are leases or contain leases, (ii) the lease classification of any expired or existing leases, and (iii) the initial direct costs for existing leases.

Subsequent to the adoption of ASC 842, the Company assesses contracts at inception to determine whether the contract is a lease or contains an embedded lease. A ROU asset and lease liability is recorded on the consolidated balance sheet for all leases except those with an original lease term of twelve months or less. Most of these leases include one or more renewal options, and certain leases also include lessee termination options. As these renewal options are not generally considered reasonably certain of exercise, they are not included in the lease term.

The Company leases certain branch and corporate offices, land and ATM facilities through operating leases with terms typically ranging from 1 to 15 years, with the longest term having a lease expiration of March 31, 2034. The Company has no significant financing leases as of June 30, 2020.

The following table summarizes the ROU asset and lease liability as of June 30, 2020.

	June 30, 2020
	(dollars in thousands)
ROU asset	$ 23,732
Total lease liability	24,587
Weighted average remaining lease term	6.45 years
Weighted average discount rate [1]	1.87 %

[1] The Company uses its incremental borrowing rate to calculate the present value of lease payments when the interest rate implicit in the lease is not disclosed.

Total lease expense incurred by the Company was $1.8 million and $5.4 million for the three and nine months ended June 30, 2020, respectively, principally made up of contractual lease payments for operating leases.

As of June 30, 2020, the Company had no operating leases that had not yet commenced.

The following table presents supplemental cash flow information related to leases for the three and nine months ended June 30, 2020:

	Three Months Ended June 30, 2020	Nine Months Ended June 30, 2020
	(dollars in thousands)	
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows paid for operating leases	$ 1,400	$ 4,226
Right-of-use assets obtained in exchange for lease liabilities:		
Operating leases	$ 2,415	$ 8,046

The following table presents a maturity analysis of the Company's operating lease liability as of June 30, 2020.

Fiscal year	Amount
	(dollars in thousands)
Remaining in 2020	$ 1,469
2021	5,127
2022	4,450
2023	3,925
2024	3,419
2025 and thereafter	7,845
Total undiscounted lease payments	26,235
Less: Amounts representing interest	(1,648)
Lease liability	$ 24,587

13. Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase generally mature overnight following the transaction date. Securities underlying the agreements had an amortized cost of approximately $87.9 million and $94.7 million and fair value of approximately $89.9 million and $94.4 million at June 30, 2020 and September 30, 2019, respectively. In most cases, in alignment with the repurchase agreements in place with customers, the Company over-collateralizes the agreements at 102% of total funds borrowed to protect the purchaser from changes in market value. Additionally, the Company utilizes held-in-custody procedures to ensure the securities sold under repurchase agreements are unencumbered.

The following tables present the gross obligation by the class of collateral pledged and the remaining contractual maturity of the agreements at June 30, 2020 and September 30, 2019.

	June 30, 2020				
	Remaining Contractual Maturity of the Agreements				
	Overnight and Continuous	Up to 30 Days	30-90 Days	Greater than 90 Days	Total
	(dollars in thousands)				
Repurchase agreements					
Mortgage-backed securities	$ 70,362	$ —	$ —	$ —	$ 70,362
Total repurchase agreements	$ 70,362	$ —	$ —	$ —	$ 70,362

	September 30, 2019				
	Remaining Contractual Maturity of the Agreements				
	Overnight and Continuous	Up to 30 Days	30-90 Days	Greater than 90 Days	Total
	(dollars in thousands)				
Repurchase agreements					
Mortgage-backed securities	$ 68,992	$ —	$ —	$ —	$ 68,992
Total repurchase agreements	$ 68,992	$ —	$ —	$ —	$ 68,992

14. FHLB Advances and Other Borrowings

FHLB advances and other borrowings consist of the following at June 30, 2020 and September 30, 2019.

	June 30, 2020	September 30, 2019
	(dollars in thousands)	
Short-term borrowings:		
Notes payable to FHLB, interest rate of 0.29%, maturing in July 2020	$ 30,000	$ —
FHLB fed funds advance, matured in April 2020	—	15,000
Long-term borrowings:		
Notes payable to FHLB, interest rates from 2.36% to 3.66% and maturity dates from March 2021 to September 2024 collateralized by real estate loans, with various call dates at the option of the FHLB	325,000	325,000
Total	$ 355,000	$ 340,000

As of June 30, 2020 and September 30, 2019, the Company had a borrowing capacity of $1.01 billion and $1.44 billion, respectively, with the FRB Discount Window. Principal balances of loans pledged to FRB Discount Window to collateralize the borrowing totaled $1.27 billion at June 30, 2020 and $1.72 billion at September 30, 2019. The Company has secured this line for contingency funding.

As of June 30, 2020 and September 30, 2019, based on its collateral pledged, the additional borrowing capacity of the Company with the FHLB was $1.84 billion and $1.80 billion, respectively.

Principal balances of loans pledged to the FHLB to collateralize notes payable totaled $3.98 billion and $4.20 billion at June 30, 2020 and September 30, 2019, respectively. The Company purchased letters of credit from the FHLB to pledge as collateral on public deposits. The amount outstanding was $0.0 million and $170.0 million at June 30, 2020 and September 30, 2019, respectively. The Company had additional letters of credit from the FHLB of $14.6 million and $14.9 million at June 30, 2020 and September 30, 2019, respectively, for other purposes.

As of June 30, 2020, FHLB advances and other borrowings are due or callable (whichever is earlier) in subsequent fiscal years as follows.

Fiscal year	**Amount**
	(dollars in thousands)
Remaining in 2020	$ 30,000
2021	120,000
2022	60,000
2023	85,000
2024	60,000
2025 and thereafter	—
Total	$ 355,000

15. Subordinated Debentures and Subordinated Notes Payable

Junior Subordinated Deferrable Interest Debentures

The Company has seven trusts which were created or assumed as part of prior acquisitions that as of June 30, 2020 have 73,400 shares in the aggregate issued and outstanding, $1,000 par value, of Company Obligated Mandatorily Redeemable Preferred Securities ("Preferred Securities"). These seven trusts were established and exist for the sole purpose of issuing Preferred Securities and investing the proceeds in junior subordinated deferrable interest debentures ("Debentures") issued by the Company. The Debentures constitute the sole assets of the seven trusts. The Preferred Securities provide for cumulative cash distributions calculated at a rate based on three month LIBOR plus a range from 1.48% to 3.35% adjusted quarterly. The Company may, at one or more times, defer interest payments on the Debentures for up to 20 consecutive quarters following suspension of dividends on all capital stock, but not beyond the respective maturity date. At the end of any deferral period, all accumulated and unpaid interest must be paid. The Debentures have redemption dates ranging from January 7, 2033 to October 1, 2037; however, the Company has the option to shorten the respective maturity date for all seven Preferred Securities as the initial call option date has passed. Holders of the Preferred Securities have no voting rights. The Preferred Securities are unsecured and rank junior in priority of the payment to all of the Company's indebtedness and senior to the Company's common and preferred stock. The trusts' ability to pay amounts due on the Preferred Securities is solely dependent upon the Company making payment on the related Debentures. The Company's obligation under the Debentures and relevant trust agreements constitute a full, irrevocable, and unconditional guarantee on a subordinated basis by it of the obligations of the trusts under the Preferred Securities.

For regulatory purposes, the Debentures qualify as elements of capital. As of June 30, 2020 and September 30, 2019, Debentures, net of fair value adjustment, of $73.8 million and $73.7 million, respectively, were eligible for treatment as Tier 1 capital.

Relating to the trusts, the Company held as assets $2.5 million in common shares at June 30, 2020 and September 30, 2019, which are included in other assets on the consolidated balance sheets.

Subordinated Notes Payable

In 2015, the Company issued $35.0 million of 4.875% fixed-to-floating rate subordinated notes that mature on August 15, 2025 through a private placement. At June 30, 2020, the subordinated notes qualified as Tier 2 capital, however eligibility as Tier 2 capital will be reduced by 20% in the quarter ending September 2020. The notes have an interest rate of 4.875% per annum, payable semi-annually on each February 15 and August 15, which commenced on February 15, 2016 until August 15, 2020, or the date of earlier redemption, and then from August 15, 2020 to the stated maturity date or earlier redemption, the notes will bear interest at a rate per annum equal to three month LIBOR for the related interest period plus 3.15%, payable quarterly on each November 15, February 15, April 15 and August 15. The notes are subordinated in right of payment to all of the Company's senior indebtedness and effectively subordinated to all existing and future debt and all other liabilities of the Company's subsidiary bank. The Company may elect to redeem the notes (subject to regulatory approval), in whole or in part, on any early redemption date which is any interest payment date on or after August 15, 2020 at a redemption price equal to 100% of the principal amount plus any accrued and unpaid interest. Other than on an early redemption date, the notes cannot be accelerated except upon certain events of bankruptcy, insolvency or reorganization. Unamortized debt issuance costs related to these notes, which are included in Subordinated Debentures and Subordinated Notes Payable, were negligible and $0.1 million at June 30, 2020 and September 30, 2019, respectively. Proceeds from the private placement of subordinated notes repaid outstanding subordinated debt.

Subordinated debentures and subordinated notes payable are summarized as follows.

	June 30, 2020		September 30, 2019	
	Amount Outstanding	Common Shares Held in Other Assets	Amount Outstanding	Common Shares Held in Other Assets
	(dollars in thousands)			
Junior subordinated debentures payable to non-consolidated trusts				
GW Statutory Trust IV, variable rate of 2.85%, plus 3 month LIBOR	$ 23,093	$ 693	$ 23,093	$ 693
GW Statutory Trust VI, variable rate of 1.48%, plus 3 month LIBOR	30,928	928	30,928	928
SSB Trust II, variable rate of 1.85%, plus 3 month LIBOR	2,062	62	2,062	62
HF Capital Trust III, variable rate of 3.35%, plus 3 month LIBOR	5,155	155	5,155	155
HF Capital Trust IV, variable rate of 3.10%, plus 3 month LIBOR	7,217	217	7,217	217
HF Capital Trust V, variable rate of 1.83%, plus 3 month LIBOR	5,310	310	5,310	310
HF Capital Trust VI, variable rate of 1.65%, plus 3 month LIBOR	2,155	155	2,155	155
Total junior subordinated debentures payable	75,920	$ 2,520	75,920	$ 2,520
Less: fair value adjustment [1]	(2,122)		(2,223)	
Total junior subordinated debentures payable, net of fair value adjustment	73,798		73,697	
Subordinated notes payable				
Fixed to floating rate, 4.875% per annum	35,000		35,000	
Less: unamortized debt issuance costs	(6)		(61)	
Total subordinated notes payable	34,994		34,939	
Total subordinated debentures and subordinated notes payable	$ 108,792		$ 108,636	

[1] Adjustment reflects the fair value adjustments related to the junior subordinated deferrable interest debentures assumed as part of the HF Financial acquisition

16. Profit Sharing Plan

The Company participates in a multiple employer 401(k) profit sharing plan ("401(k) Plan"). All employees are eligible to participate, beginning with the first day of the month coincident with or immediately following the completion of one year of service and having reached the age of 21. In addition to employee contributions, the Company may contribute discretionary amounts for eligible participants. Contribution rates for participating employees must be equal. The Company contributed $1.8 million and $5.1 million to the 401(k) Plan for the three and nine months ended June 30, 2020, respectively, and $1.5 million and $4.4 million for the three and nine months ended June 30, 2019, respectively.

17. Stock-Based Compensation

On September 26, 2014, the Board of Directors adopted, and on October 10, 2014, NAB, at that time the Company's controlling shareholder, approved the Great Western Bancorp, Inc. 2014 Omnibus Incentive Compensation Plan ("2014 Plan"), the Great Western Bancorp, Inc. 2014 Non-Employee Director Plan ("2014 Director Plan"), and the Great Western Bancorp, Inc. Executive Incentive Compensation Plan ("Bonus Plan"), collectively ("the Plans"), which provide for the issuance of restricted share units and performance based share units to certain officers, employees and directors of the Company. On February 22, 2018, the Company's stockholders approved amendments to the 2014 Plan and the 2014 Director Plan to increase the number of shares available for future grants under the Plans. The Plans were primarily established to enhance the Company's ability to attract, retain and motivate employees. The Company's Board of Directors, the Compensation Committee of the Board of Directors ("Compensation Committee"), or executive management upon delegation of the Compensation Committee has exclusive authority to select the employees and others, including directors, to receive the awards and to establish the terms and conditions of each award made pursuant to the Company's stock-based compensation plans.

Stock units issued under the Company's restricted and performance based stock plans may not be sold or otherwise transferred until the vesting period has been met and, if applicable, performance objectives have been obtained. During the vesting periods, participants do not have voting rights and dividends are accumulated until the time upon which the award vests. Upon specified events, as defined in the Plans, stock unit awards that have not vested and/or performance hurdles that have not been met will be forfeited.

Based on the substantive terms of each award, restricted and performance-based awards are classified as equity awards and accounted for under the treasury stock method. The fair value of equity-classified awards is based on the market price of the stock on the measurement date and is amortized as compensation expense on a straight-line basis over the vesting or performance period.

Stock compensation is recognized based on the number of awards to vest using actual forfeiture amounts. For performance-based stock awards, an estimate is made of the number of shares expected to vest as a result of actual performance against the performance targets to determine the amount of compensation expense to be recognized. The estimate is reevaluated quarterly and total compensation expense is adjusted for any change in the current period. Stock-based compensation expense is included in salaries and employee benefits expense in the consolidated statements of income. Stock compensation expense was $1.1 million and $4.0 million for the three and nine months ended June 30, 2020, respectively, and $1.4 million and $4.5 million for the three and nine months ended June 30, 2019, respectively. Related income tax benefits recognized were $0.3 million and $1.0 million for the three and nine months ended June 30, 2020, respectively and $0.4 million and $1.1 million for the three and nine months ended June 30, 2019, respectively.

The following is a summary of the Plans' restricted share and performance-based stock award activity as of June 30, 2020 and September 30, 2019. The number of performance shares granted in the following table are reflected at the amount of achievement of the pre-established targets.

	June 30, 2020		September 30, 2019	
	Common Shares	Weighted-Average Grant Date Fair Value	Common Shares	Weighted-Average Grant Date Fair Value
Restricted Shares				
Restricted shares, beginning of fiscal year	190,805	$ 37.20	163,287	$ 37.86
Granted	146,466	30.78	106,753	37.27
Vested	(84,096)	38.61	(76,210)	38.64
Forfeited	(3,742)	36.48	(3,025)	38.67
Canceled	—	—	—	—
Restricted shares, end of period	249,433	$ 32.96	190,805	$ 37.20
Vested, but not issuable at end of period	62,992	$ 33.98	50,770	$ 33.88
Performance Shares				
Performance shares, beginning of fiscal year	173,332	$ 38.50	175,196	$ 36.29
Granted	(44,629)	(57.47)	60,583	32.77
Vested	(54,861)	39.43	(59,937)	30.79
Forfeited	(4,407)	37.97	(2,510)	39.25
Canceled	—	—	—	—
Performance shares, end of period	69,435	$ 35.12	173,332	$ 38.50
Vested, but not issuable at end of period	5,612	$ 18.00	5,612	$ 18.00

As of June 30, 2020, there was $6.5 million of unrecognized compensation cost related to non-vested restricted stock awards expected to be recognized over a period of 2.4 years. The fair value of the vested, but not issued stock awards was $0.9 million and $1.9 million at June 30, 2020 and September 30, 2019, respectively.

18. Fair Value Measurements

The Company measures, monitors and discloses certain of its assets and liabilities on a fair value basis. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value guidance also establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The guidance describes the following three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities;

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; and

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Level 1 inputs are considered to be the most transparent and reliable and Level 3 inputs are considered to be the least transparent and reliable. The Company assumes the use of the principal market to conduct a transaction of each particular asset or liability being measured and then considers the assumptions that market participants would use when pricing the asset or liability. Whenever possible, the Company first looks for quoted prices for identical assets or liabilities in active markets (Level 1 inputs) to value each asset or liability. However, when inputs from identical assets or liabilities on active markets are not available, the Company utilizes market observable data for similar assets and liabilities. The Company maximizes the use of observable inputs and limits the use of unobservable inputs to occasions when observable inputs are not available. The need to use unobservable inputs generally results from the lack of market liquidity of the actual financial instrument or of the underlying collateral. Although in some instances, third party price indications may be available, limited trading activity can challenge the observability of these quotations.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy.

Securities Available for Sale

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include U.S. Treasury securities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows and classified as Level 2 securities. Level 2 securities include mortgage-backed, states and political subdivisions, and other securities. Where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. Level 3 securities were immaterial at June 30, 2020 and September 30, 2019.

Interest Rate Swaps and Loans

Interest rate swaps are valued by the Company's Swap Dealers using cash flow valuation techniques with observable market data inputs. The fair value of loans accounted for under the fair value option represents the net carrying value of the loan, plus the equal and opposite amount of the value of the swap needed to offset the interest rate risk and an adjustment for credit risk based on the Company's assessment of existing market conditions for the specific portfolio of loans. This is used due to the strict prepayment penalties put in the loan terms to cover the cost of exiting the interest rate swap of the loans in the case of early prepayment or termination. The adjustment for credit risk on loans accounted for under the fair value option is not significant to the overall fair value of the loans. The fair values estimated by the Company's Swap Dealers use interest rates that are observable or that can be corroborated by observable market data and, therefore, are classified within Level 2 of the valuation hierarchy. The Company has entered into Collateral Agreements with its Swap Dealers and Futures Clearing Merchant which entitle it to receive collateral to cover market values on derivatives which are in asset position, thus a credit risk adjustment on interest rate swaps is not warranted. The Company regularly enters into interest rate lock commitments on mortgage loans to be held for sale with corresponding forward sales contracts related to these interest rate lock commitments, the fair values of which are calculated by applying observable market values from Fannie Mae TBA pricing to each interest rate lock commitment and forward sales contract, therefore, are classified within Level 2 of the valuation hierarchy. The Company also has back-to-back swaps with loan customers, with corresponding swaps with an outside third party in exact offsetting terms.

Loan Servicing Rights

Fair value is determined at a tranche level, based on market prices for comparable mortgage servicing contracts (Level 3), when available, or alternatively based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model utilizes interest rate, prepayment speed, and default rate assumptions that market participants would use in estimating future net servicing income and that can be validated against market data (Level 3).

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying consolidated balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2020 and September 30, 2019.

	Fair Value	Level 1	Level 2	Level 3
	(dollars in thousands)			
As of June 30, 2020				
U.S. Treasury securities	$ 50,348	$ 50,348	$ —	$ —
Mortgage-backed securities	1,861,770	—	1,861,770	—
States and political subdivision securities	59,456	—	55,659	3,797
Other	1,052	—	1,052	—
Total securities available for sale	$ 1,972,626	$ 50,348	$ 1,918,481	$ 3,797
Derivatives-assets	$ 105,750	$ —	$ 105,750	$ —
Derivatives-liabilities	13	—	13	—
Fair value loans	735,363	—	735,363	—
Loan servicing rights	1,594	—	—	1,594
As of September 30, 2019				
U.S. Treasury securities	$ 94,745	$ 94,745	$ —	$ —
Mortgage-backed securities	1,620,903	—	1,620,903	—
States and political subdivision securities	66,523	—	62,403	4,120
Other	1,037	—	1,037	—
Total securities available for sale	$ 1,783,208	$ 94,745	$ 1,684,343	$ 4,120
Derivatives-assets	$ 58,534	$ —	$ 58,534	$ —
Derivatives-liabilities	13	—	13	—
Fair value loans	812,991	—	812,991	—
Loan servicing rights	2,255	—	—	2,255

The following table presents the changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the three and nine months ended June 30, 2020 and 2019.

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2020	2019	2020	2019
	(dollars in thousands)			
Other securities available for sale				
Balance, beginning of period	$ 3,986	$ 1,311	$ 4,120	$ 970
Additions	—	3,000	—	3,350
Principal paydown	(189)	(191)	(323)	(200)
Balance, end of period	$ 3,797	$ 4,120	$ 3,797	$ 4,120
Loan servicing rights				
Balance, beginning of period	$ 1,863	$ 2,674	$ 2,255	$ 3,087
Realized and unrealized loss [1]	(269)	(193)	(661)	(606)
Balance, end of period	$ 1,594	$ 2,481	$ 1,594	$ 2,481

[1] Realized and unrealized loss related to loan servicing rights are reported as a component of mortgage banking income, net on the consolidated statements of income

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value on a nonrecurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy.

Other Repossessed Property

Other repossessed property consists of loan collateral that has been repossessed through foreclosure. This collateral is comprised of commercial and residential real estate and other repossessed assets. Other repossessed property is recorded initially at fair value of the collateral less estimated selling costs. Subsequent to foreclosure, valuations are updated periodically, and the assets may be marked down further to fair value less selling costs, reflecting a valuation allowance. Fair value measurements may be based upon appraisals, third-party price opinions, or internally developed pricing methods. These measurements are classified as Level 3.

Impaired Loans (Collateral Dependent)

Loans for which it is probable that the Company will not collect all principal and interest due according to contractual terms are measured for impairment. Allowable methods for estimating fair value include using the fair value of the collateral for collateral dependent loans or, where a loan is determined not to be collateral dependent, using the discounted cash flow method.

If the impaired loan is identified as collateral dependent, then the fair value method of measuring the amount of the impairment is utilized. This method requires obtaining a current independent appraisal of the collateral and applying a discount factor, if necessary, to the appraised value and including costs to sell. Because many of these inputs are not observable, the measurements are classified as Level 3.

Mortgage Loans Held for Sale

Fair value of mortgage loans held for sale is based on either quoted prices for the same or similar loans, or values obtained from third parties, or are estimated for portfolios of loans with similar financial characteristics and are therefore considered a Level 2 valuation.

Property Held for Sale

This real estate property is carried in premises and equipment as property held for sale at fair value based upon the transactional price if available, or the appraised value of the property.

The following table presents the fair value measurement of assets and liabilities measured at fair value on a nonrecurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2020 and September 30, 2019.

	Fair Value	Level 1	Level 2	Level 3
		(dollars in thousands)		
As of June 30, 2020				
Other repossessed property	$ 17,348	$ —	$ —	$ 17,348
Impaired loans	591,541	—	—	591,541
Mortgage loans held for sale, at lower of cost or fair value	12,840	—	12,840	—
Property held for sale	705	—	—	705
As of September 30, 2019				
Other repossessed property	$ 34,721	$ —	$ —	$ 34,721
Impaired loans	413,644	—	—	413,644
Mortgage loans held for sale, at lower of cost or fair value	7,351	—	7,351	—
Property held for sale	2,757	—	—	2,757

The valuation techniques and significant unobservable inputs used to measure Level 3 fair value measurements at June 30, 2020 were as follows.

	Fair Value of Assets / (Liabilities) at June 30, 2020	Valuation Technique(s)	Unobservable Input	Range	Weighted Average
			(dollars in thousands)		
Other repossessed property	$ 17,348	Appraisal value	Property specific adjustment	N/A	N/A
Impaired loans	591,541	Appraisal value	Property specific adjustment	N/A	N/A
Property held for sale	705	Appraisal value	Property specific adjustment	N/A	N/A

Disclosures about Fair Value of Financial Instruments

Significant assets and liabilities that are not considered financial instruments are accounted for at amortized cost and include premises and equipment, deferred income taxes, goodwill, and core deposit and other intangibles. Additionally, in accordance with the disclosure guideline, receivables and payables due in one year or less, insurance contracts, equity investments not accounted for at fair value, and deposits with no defined or contractual maturities are excluded. Off-balance sheet instruments (commitments to extend credit and standby letters of credit) are generally short-term and at variable rates. Therefore, both the carrying amount and the estimated fair value associated with these instruments are immaterial.

Fair values for on-balance sheet instruments as of June 30, 2020 and September 30, 2019 are as follows.

	Level in Fair Value Hierarchy	June 30, 2020		September 30, 2019	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
		(dollars in thousands)			
Assets					
Cash and cash equivalents	Level 1	$ 311,585	$ 311,585	$ 243,474	$ 243,474
Loans, net, excluding fair valued loans, loans held for sale and impaired loans [1]	Level 3	8,974,255	9,091,344	8,472,777	8,533,612
Liabilities					
Time deposits	Level 2	1,433,538	1,440,485	2,095,676	2,101,239
FHLB advances and other borrowings	Level 2	355,000	373,811	340,000	351,517
Securities sold under repurchase agreements	Level 2	70,362	70,362	68,992	68,992
Subordinated debentures and subordinated notes payable	Level 2	108,792	96,330	108,636	101,164

[1] Includes $33.8 million and $13.0 million of net deferred loan fees at June 30, 2020 and September 30, 2019, respectively, of which carrying value approximates fair value.

19. Earnings per Share

Basic earnings per common share is calculated by dividing net income available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per common share is calculated by dividing net income available to common shareholders by the weighted average number of common shares outstanding determined for the basic earnings per share calculation plus the dilutive effect of stock compensation using the treasury stock method.

The following information was used in the computation of basic and diluted earnings per share (EPS) for the three and nine months ended June 30, 2020 and 2019.

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2020	2019	2020	2019
	(dollars in thousands, except per share data)			
Net income	$ 5,400	$ 26,783	$ (691,944)	$ 117,080
Weighted average common shares outstanding	55,082,621	56,995,007	55,788,751	57,321,561
Dilutive effect of stock based compensation	62,998	115,096	—	86,462
Weighted average common shares outstanding for diluted earnings per share calculation	55,145,619	57,110,103	55,788,751	57,408,023
Basic earnings per share	$ 0.10	$ 0.47	$ (12.40)	$ 2.04
Diluted earnings per share	$ 0.10	$ 0.47	$ (12.40)	$ 2.04

The Company had 9,570 and no shares of unvested performance stock as of June 30, 2020 and 2019, respectively, which were not included in the computation of diluted earnings per common share because performance conditions for vesting had not been met. The Company had 125,544 and 33,864 shares of anti-dilutive stock awards outstanding as of June 30, 2020 and 2019, respectively.

20. Revenue Recognition

The Company recognizes revenue from contracts with customers in accordance with ASC Topic 606, *Revenue from Contracts with Customers*. The core principle requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration it expects to be entitled to receive in exchange for those goods or services recognized as performance obligations are satisfied.

The majority of the Company's revenue-generating transactions are not subject to ASC Topic 606, including revenue generated from financial instruments, such as loans, letters of credit, derivatives and investment securities, as well as revenue related

to mortgage servicing activities, as these activities are subject to other GAAP and discussed elsewhere within Item 8. Financial Statements and Supplementary Data, "Note 1. Nature of Operations and Summary of Significant Accounting Policies" in our Annual Report on Form 10-K for the fiscal year ended September 30, 2019. Descriptions of the Company's revenue-generating activities that are within the scope of ASC Topic 606, which are presented in the consolidated income statements as components of noninterest income, are as follows:

Service charges and fees on deposit accounts. Service charges on deposit accounts are earned for account maintenance and overdraft, wire and treasury management services. Revenue is recognized at the time the services are performed and is included in service charges and other fees within noninterest income on the consolidated statements of income.

Interchange and merchant services income. Interchange and merchant services income are earned from credit and debit card payment processing through card association networks, merchant services and other card related services. Fees for these services are primarily based on interchange rates set by the networks and transaction volumes and are recognized as transactions are processed and settled with networks on behalf of card holders. These fees are presented net of direct expenses, including reward costs, associated with credit and debit card interchange income in service charges and other fees which are included in noninterest income on the consolidated statements of income.

Wealth management and trust fee income. Wealth management and trust fees are earned for asset management, custody and recordkeeping, investment advisory and administrative services. Revenue is recognized as the services are performed. Brokerage charges are recorded as a net reduction in wealth management fees which are included in noninterest income on the consolidated statements of income.

Other noninterest income. Other noninterest income primarily includes such items as letter of credit fees, gains on sale of loans held for sale and servicing fees, none of which are subject to the requirements of ASC Topic 606.

The following table presents total noninterest income segregated between contracts with customers within the scope of ASC Topic 606 and those within the scope of other GAAP Topics. The following additionally presents revenues from customers that are included within noninterest income.

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2020	2019	2020	2019
	(dollars in thousands)			
Noninterest income				
Service charges and other fees	$ 7,731	$ 10,321	$ 28,328	$ 32,219
Wealth management fees	2,773	2,234	8,859	6,592
Other	745	617	2,077	2,317
Noninterest income from contracts with customers within the scope of ASC Topic 606	11,249	13,172	39,264	41,128
Noninterest income within the scope of other GAAP Topics [1]	(22,932)	(2,406)	(35,297)	4,581
Total noninterest income	$ (11,683)	$ 10,766	$ 3,967	$ 45,709

[1] The Company presents out of scope noninterest income for the purpose of reconciling noninterest income amounts within the scope of ASC Topic 606 to noninterest income amounts presented on the Company's consolidated statements of income.

21. Acquisition Activity

Effective October 1, 2019, the Company purchased and assumed the management of $306.0 million of trust assets managed in Colorado from Independent Bank, a wholly owned subsidiary of Independent Bank Group, Inc., for $4.7 million. The Company accounted for the purchase under the acquisition method in accordance with ASC Topic 805, *Business Combinations*. Accordingly, the purchase price is allocated to the fair value of the assets acquired and liabilities assumed as of the date of acquisition. The following table summarizes the consideration paid and the allocation of the purchase price to net assets as of the acquisition date.

	Amount
	(dollars in thousands)
Total consideration paid	$4,711
Customer relationship intangible	$3,172
Goodwill	$1,539

The foregoing purchase price allocation on the acquisition is considered final and no subsequent adjustments to the purchase price allocation are expected. Goodwill related to this acquisition was not deductible for tax purposes. See Note 10 for additional disclosure regarding goodwill. The customer relationship intangible is being amortized over an estimated useful life of 13 years. See Note 11 for additional disclosure regarding intangible assets.

ITEM 2. 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 elsewhere in this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K for the fiscal year ended September 30, 2019, previously filed with the SEC. 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" in this Quarterly Report on Form 10-Q and "Item 1A. Risk Factors" in both our Annual Report on Form 10-K for the fiscal year ended September 30, 2019 and our Quarterly Report on Form 10-Q for the quarter ended March 31, 2020.

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.

Unless otherwise noted, references to "the current period" or "the current quarter" refer to the fiscal quarter ended June 30, 2020 and references to "the comparable period" or "the comparable quarter" refer to the fiscal quarter ended June 30, 2019.

Tax Equivalent Presentation

All references to net interest income, net interest margin, interest income on non-ASC 310-30 loans, yield on non-ASC 310-30 loans and the related non-GAAP adjusted financial measure of each item are presented on a FTE basis unless otherwise noted.

Overview

We are a full-service regional bank holding company focused on relationship-based business and agri-business banking. We serve our customers through 175 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 and communication costs primarily associated with maintaining our Bank's loan and deposit functions; (iv) occupancy expenses for maintaining our Bank's facilities; (v) professional fees, including FDIC insurance assessments; (vi) business development; and (vii) 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.

Impact and Response to COVID-19 Pandemic

We conduct business in nine states, including Arizona, Colorado, Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota and South Dakota. Many of these states have placed significant restrictions on businesses and individuals as a result of the COVID-19 pandemic. While many of these initial restrictions have been lifted, the recent surge of infections in some of these states raises the possibility that certain restrictions could re-imposed to contain further spread. As a financial institution, we are considered an essential business and therefore continue to operate on a modified basis to comply with governmental restrictions and public health authority guidelines. We have reopened 140 branches in the markets where COVID-19 cases have remained lower, only seven branches are fully closed to the general public, and the remaining branches are still being transacted through drive-up facilities, online, telephone or by appointment. Although we believe these arrangements will be fluid as the restrictions are re-evaluated by governmental authorities, we continue to operate and maintain our customer relationships. The health and safety of our employees and customers is a major concern to our management and every effort is being made to have employees work from home or, if working from one of our locations is required, to maintain appropriate social distancing and observe other health precautions.

Through this time of disruption we have remained open for business supporting our customers while implementing our business continuity plan to mitigate the risks of the spread of COVID-19 to our employees and customers. A majority of our employees who can work outside of our offices are doing so. Social distancing, restrictions on in-person meetings and conferences, company travel restrictions and increased sanitary protocols all remain in place and are all intended to offer the best protection for our employees and customers and enhance our ability to provide our banking services. We are supporting our employees with paid time off, work from home flexibility, PTO cash out, volunteer time off, and a new focus for our internal Diversity & Inclusion Council. Finally, we are supporting our customers with PPP lending, having provided $724.4 million in loans to over 4,600 customers, improved engagement with customers in impacted segments, and a commitment to working with customers for solutions as we approach the end of the first round of payment deferrals.

Financial results for the first nine months of fiscal year 2020 include several items linked to the impact of the COVID-19 pandemic. Most significantly, during the second quarter of fiscal year 2020 we recognized an impairment of $742.4 million recorded in noninterest expense, $622.4 million of which stemmed from goodwill related to the acquisition of our Bank in 2008 by NAB, $118.2 million from goodwill related to subsequent acquisitions and $1.8 million from certain intangible assets, all of which were considered impaired given the market and valuation disruption during the period. The expense was offset in part by a related benefit from income taxes of $29.3 million.

In addition, the COVID-19 impacts for the first nine months of fiscal year 2020 include $73.8 million in several credit and other related charges for loan and other real estate reserves, including a $59.7 million charge for general allowance increases in provision expense under the incurred loss model, $7.1 million and $3.3 million of charges for fair value credit risk and derivative reserves in noninterest income, respectively, a $3.3 million write down on an OREO hotel property negatively impacted by COVID-19 pandemic travel restrictions, and $0.4 million of charges for the reserve on unfunded commitments in noninterest expenses. All of these pretax expenses are offset in part by a related benefit from income taxes of $17.2 million. See "—Non-GAAP Financial Measures" section in this document for further discussion of the above items. Our management believes additional increases in credit and other related charges are likely to occur if the effects of the COVID-19 restrictions continue to negatively impact the loan portfolio.

Furthermore, the onset of the COVID-19 pandemic has significantly heightened the level of challenges, risks and uncertainties facing our business and continuation of operations, including the following:

- Market interest rates have declined significantly and these reductions, especially if prolonged, could adversely affect our net interest income, net interest margin and earnings;
- We anticipate a potential slowdown in demand for our products and services, including the demand for traditional loans, although we believe the decline will likely be offset, in whole or in part, due to the new volume of PPP loans under the CARES Act and other governmental programs established in response to the pandemic;
- We anticipate an increase in risk of delinquencies, defaults and foreclosures, as well as declining collateral values and further impairment of the ability of our borrowers to repay their loans, all of which may result in additional credit charges and other losses in our loan portfolio;
- The COVID-19 pandemic restrictions have created significant volatility and disruption in the financial markets, which may require us to recognize an elevated level of other than temporary impairments on investment securities in our portfolio as the fair value of these securities is negatively impacted by the economic slowdown;
- Declines in fair value of investment securities in our portfolio could reduce the unrealized gains reported as part of our consolidated comprehensive income (loss); and
- In meeting our objective to maintain our capital levels and liquidity position through the COVID-19 pandemic, our Board of Directors could determine to forego payment of future dividends in order to maintain and/or strengthen our capital and liquidity position.

Highlights for the Three and Nine Months Ended June 30, 2020

Net income was $5.4 million, or $0.10 per diluted share, for the third quarter of fiscal year 2020, compared to net income of $26.8 million, or $0.47 per diluted share, for the same period in fiscal year 2019, a decrease of $21.4 million. The decline in net income in the current quarter was primarily due to a $22.5 million decrease in noninterest income mainly due to changes in the fair value of loans combined with a $5.1 million increase in net interest income after provision for loan and lease losses. Our efficiency ratio was 69.4% and 47.2% for the third quarter of fiscal year 2020 and 2019, respectively. For more information on our efficiency ratio, including a reconciliation to the most directly comparable GAAP financial measure, see "—Non-GAAP Financial Measures" section.

Net interest margin, which measures our ability to maintain interest rates on interest earning assets above those of interest bearing liabilities, was 3.57%, 3.59% and 3.70%, respectively, for the three months ended June 30, 2020, March 31, 2020 and June 30, 2019. Adjusted net interest margin, which reflects the realized gain (loss) on interest rate swaps, was 3.47%, 3.55% and 3.71%, 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 decreased by 13 and 24 basis points, respectively, compared to the same quarter in fiscal year 2019. Net interest margin decreased between the two periods primarily due to loan yields, which decreased 80 basis points reflecting PPP loans yielding 3.11% offset by a 74 basis point decrease in the cost of deposits to 0.37%, due to continued repricing tied to lower indices from rate cuts in March 2020. A $3.4 million increase in the current quarter of the cost of interest rate swaps compared to the same period in fiscal year 2019 is the primary driver of the more pronounced decrease in adjusted net interest margin compared to the decrease in net interest margin. For more information on our adjusted net interest margin, including a reconciliation to the most directly comparable GAAP financial measure, see "—Non-GAAP Financial Measures" section.

Total loans were $10.31 billion at June 30, 2020 compared to $9.71 billion at September 30, 2019, an increase of $607.2 million, or 6.3%. The growth was mainly attributable to an increase in the commercial non-real estate segment of $506.8 million, or 29.5%, an increase in the CRE segment of $263.1 million, or 5.2%, offset by a reduction in the agriculture segment of $193.5 million, or 9.6%. The increase in commercial non-real estate segment was largely due to $697.0 million in new PPP loans outstanding offset with paydowns during the period. The increase in the CRE segment was due to diversified growth across multifamily and non-owner-occupied CRE. The decrease in the agriculture segment was due to $219.8 million reduction from declines in dairy, beef cattle and other agriculture segments offset with approximately $26.3 million in PPP loans.

Deposits were $11.15 billion at June 30, 2020, an increase of $850.3 million, or 8.3%, compared to $10.30 billion at September 30, 2019, due to a $1.47 billion increase in checking and savings deposits across both business and consumer accounts as a result of inflows from PPP proceeds and consumer stimulus receipts offset with a $0.4 million reduction in business and consumer time deposits and a $0.2 million decrease in public and brokered deposits. Interest-bearing deposits were $8.56 billion, a 2.6% increase, and noninterest-bearing deposits were $2.59 billion, a 32.5% increase. FHLB and other borrowings increased by $15.0 million, or 4.4%, as a result of more favorable rates during the quarter.

At June 30, 2020, nonaccrual loans, including ASC 310-30 loans, were $274.5 million, an increase of $167.3 million compared to September 30, 2019, driven by a small number of relationships in agriculture industries as they progress through the workout process and two watch rated senior care credits that deteriorated due to COVID-19 impacts. Loans "Substandard" were $698.5 million, an increase of $226.0 million, or 47.8%, over the same period. The increase in loans graded "Substandard" was primarily due to downgrades in the agriculture and agriculture-related commercial non-real estate segments, combined with the further deterioration of one of the senior care credits mentioned previously. Total other repossessed property balances were $19.2 million as of June 30, 2020, a decrease of $17.5 million, or 47.7%, compared to September 30, 2019.

Provision for loan and lease losses was $21.6 million for the third quarter of fiscal year 2020, compared to $26.1 million for the same period of fiscal year 2019, a decrease of $4.5 million between the periods due to higher charge-offs in the prior period, concentrated in the agriculture and commercial non-real estate segments of the loan portfolio. Net charge-offs for the third quarter of fiscal year 2020 were $9.4 million, or 0.37% of average total loans on an annualized basis, compared to net charge-offs of $17.5 million, or 0.72% of average total loans on an annualized basis for the comparable period in fiscal year 2019, with the majority of net charge-offs concentrated in the agriculture and commercial non-real estate segments of the loan portfolio. The ratio of ALLL to total loans was 1.44% at June 30, 2020 compared to 0.73% at September 30, 2019. The balance of the ALLL increased to $148.2 million at June 30, 2020 from $70.8 million at September 30, 2019.

Tier 1 capital, total capital and Tier 1 leverage ratios were 11.3%, 12.9% and 9.3%, respectively, at June 30, 2020, compared to 11.7%, 12.7% and 10.1%, respectively, at September 30, 2019. In addition, our Common Equity Tier 1 ratio was 10.6% and 11.0% at June 30, 2020 and September 30, 2019, respectively. Our tangible common equity to tangible assets ratio was 8.9% at June 30, 2020 and 9.6% at September 30, 2019. 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, including a reconciliation to the most directly comparable GAAP financial measure, see "—Non-GAAP Financial Measures" section.

Key Factors Affecting Our Business and Financial Performance

As discussed in our Annual Report on Form 10-K for the fiscal year ended September 30, 2019, our financial performance is impacted by a number of external factors outside our control, as well as our ability to execute on the key components of our strategy for continued success and future growth. There have been no material changes to these factors or key components of our strategy except as otherwise supplemented within our Quarterly Report on Form 10-Q for the quarter ended March 31, 2020 and this Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2020.

Results of Operations—Three and Nine Months Ended June 30, 2020 and 2019

Overview

The following table highlights certain key financial and performance information for the three and nine months ended June 30, 2020 and 2019.

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2020	2019	2020	2019
	(dollars in thousands, except share and per share amounts)			
Operating Data:				
Interest income (FTE)	$ 121,472	$ 139,623	$ 381,289	$ 408,503
Interest expense	13,620	32,570	63,244	90,148
Noninterest income	(11,683)	10,766	3,967	45,709
Noninterest expense	67,049	56,000	932,432	169,686
Provision for loan and lease losses	21,641	26,077	101,539	38,965
Net income	5,400	26,783	(691,944)	117,080
Adjusted net income [1]	5,400	26,783	77,754	117,080
Common shares outstanding	55,014,047	56,939,032	55,014,047	56,939,032
Weighted average diluted common shares outstanding	55,145,619	57,110,103	55,788,751	57,408,023
Earnings per common share - diluted	$ 0.10	$ 0.47	$ (12.40)	$ 2.04
Adjusted earnings per common share - diluted [1]	0.10	0.47	1.39	2.04
Performance Ratios:				
Net interest margin (FTE) [1,2]	3.57 %	3.70 %	3.61 %	3.75 %
Adjusted net interest margin (FTE) [1,2]	3.47 %	3.71 %	3.55 %	3.76 %
Return on average total assets [2]	0.17 %	0.84 %	(7.22)%	1.25 %
Return on average common equity [2]	1.9 %	5.8 %	(55.6)%	8.5 %
Return on average tangible common equity [1,2]	2.0 %	9.7 %	2.5 %	14.5 %
Efficiency ratio [1]	69.4 %	47.2 %	58.7 %	46.3 %

[1] 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, including a reconciliation to the most directly comparable GAAP financial measure, see "—Non-GAAP Financial Measures" section.

[2] Annualized for all partial year periods.

Net Interest Income

The following table presents net interest income, net interest margin and adjusted net interest margin for the three and nine months ended June 30, 2020 and 2019.

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2020	2019	2020	2019
	(dollars in thousands)			
Net interest income:				
Total interest income (FTE)	$ 121,472	$ 139,623	$ 381,289	$ 408,503
Less: Total interest expense	13,620	32,570	63,244	90,148
Net interest income (FTE)	$ 107,852	$ 107,053	$ 318,045	$ 318,355
Net interest margin (FTE) and adjusted net interest margin (FTE) [1]				
Average interest-earning assets	$ 12,156,505	$ 11,617,521	$ 11,763,523	$ 11,349,960
Average interest-bearing liabilities	11,493,387	10,889,519	11,049,204	10,637,014
Net interest margin (FTE)	3.57 %	3.70 %	3.61 %	3.75 %
Adjusted net interest margin (FTE) [1]	3.47 %	3.71 %	3.55 %	3.76 %

[1] 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, including a reconciliation to the most directly comparable GAAP financial measure, see "—Non-GAAP Financial Measures" section.

Net interest income was $107.9 million for the third quarter of fiscal year 2020, compared to $107.1 million for the same period in fiscal year 2019, an increase of $0.8 million, or 0.7%. Net interest income was $318.0 million for the first nine months of fiscal year 2020, compared to $318.4 million for the same period in fiscal year 2019, a decrease of $0.3 million, or 0.1%. For both the quarter and first nine months of fiscal year 2020, loan and securities yields were lower combined with deposit rate cuts. The average balance of interest-earning assets was higher for the quarter compared to the first nine months of fiscal year 2020, which contributed to the increase in net interest income for the quarter versus the slight decrease in net interest income for the nine month period.

Net interest margin was 3.57% and 3.70% for the third quarter of fiscal year 2020 and 2019, respectively, a decrease of 13 basis points, while the adjusted net interest margin was 3.47% and 3.71% for the same periods, respectively, a decrease of 24 basis points. Net interest margin was 3.61% and 3.75% for the first nine months of fiscal year 2020, respectively, a decrease of 14 basis points, while the adjusted net interest margin was 3.55% and 3.76% for the same periods, respectively, a decrease of 21 basis points. The lower in net interest margin for both the three and nine month periods was primarily driven by loan yields, which decreased 80 and 46 basis points, respectively, and securities yields, which decreased 41 and 23 basis points, respectively, resulting from the impact of repricing following the rate cuts in March 2020, partially offset by the yield on deposits, which decreased 74 and 39 basis points, respectively. A $3.4 million and $5.9 million increase in the cost of interest rate swaps between the three and nine month periods in fiscal year 2020 and the comparable period in fiscal year 2019, respectively, is the primary driver for the more pronounced decrease in adjusted net interest margin compared to the decrease in net interest margin. For more information on our adjusted net interest margin, including a reconciliation to the most directly comparable GAAP financial measure, see "—Non-GAAP Financial Measures" section.

The following tables present 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 the current and comparable three and nine month periods, respectively. Loans on nonaccrual status that had interest accrued as of the date of nonaccrual are 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 $741.5 million at June 30, 2020 and $778.5 million at June 30, 2019, are typically entered at lower interest rate arrangements than comparable non-exempt loans and securities. The amount of interest income reflected in the following table 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 later in this section. 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.

	Three Months Ended					
	June 30, 2020			June 30, 2019		
	Average Balance	Interest (FTE)	Yield / Cost [1]	Average Balance	Interest (FTE)	Yield / Cost [1]
	(dollars in thousands)					
Assets						
Interest-bearing bank deposits [2]	$ 144,805	$ 112	0.31 %	$ 51,640	$ 377	2.93 %
Investment securities	1,987,648	10,532	2.13 %	1,807,747	11,430	2.54 %
Non-ASC 310-30 loans, net [3]	9,974,802	109,326	4.41 %	9,699,433	125,522	5.19 %
ASC 310-30 loans, net	49,250	1,502	12.27 %	58,701	2,294	15.67 %
Loans, net	10,024,052	110,828	4.45 %	9,758,134	127,816	5.25 %
Total interest-earning assets	12,156,505	121,472	4.02 %	11,617,521	139,623	4.82 %
Noninterest-earning assets	598,159			1,213,087		
Total assets	$ 12,754,664	$ 121,472	3.83 %	$ 12,830,608	$ 139,623	4.36 %
Liabilities and Stockholders' Equity						
Noninterest-bearing deposits	$ 2,414,567			$ 1,875,649		
Interest-bearing deposits	6,974,915	$ 5,604	0.32 %	6,391,396	$ 18,493	1.16 %
Time deposits	1,430,246	4,407	1.24 %	2,091,603	10,122	1.94 %
Total deposits	10,819,728	10,011	0.37 %	10,358,648	28,615	1.11 %
Securities sold under agreements to repurchase	64,645	15	0.09 %	60,551	41	0.27 %
FHLB advances and other borrowings	500,248	2,524	2.03 %	361,736	2,497	2.77 %
Subordinated debentures and subordinated notes payable	108,766	1,070	3.96 %	108,584	1,417	5.23 %
Total borrowings	673,659	3,609	2.15 %	530,871	3,955	2.99 %
Total interest-bearing liabilities	11,493,387	$ 13,620	0.48 %	10,889,519	$ 32,570	1.20 %
Noninterest-bearing liabilities	97,553			76,957		
Stockholders' equity	1,163,724			1,864,132		
Total liabilities and stockholders' equity	$ 12,754,664			$ 12,830,608		
Net interest spread			3.35 %			3.16 %
Net interest income and net interest margin (FTE)		$ 107,852	3.57 %		$ 107,053	3.70 %
Less: Tax equivalent adjustment		1,601			1,424	
Net interest income and net interest margin - ties to Statements of Comprehensive Income		$ 106,251	3.52 %		$ 105,629	3.65 %

[1] Annualized for all partial-year periods.

[2] Interest income includes $0.1 million and $0.2 million for the third quarter of fiscal years 2020 and 2019, respectively, resulting from interest earned on derivative collateral included in other assets on the consolidated balance sheets.

[3] Interest income includes $0.2 million and $0.3 million for the third quarter of fiscal years 2020 and 2019, respectively, resulting from accretion of purchase accounting discount associated with acquired loans.

	Nine Months Ended					
	June 30, 2020			June 30, 2019		
	Average Balance	Interest (FTE)	Yield / Cost [1]	Average Balance	Interest (FTE)	Yield / Cost [1]
	(dollars in thousands)					
Assets						
Interest-bearing bank deposits [2]	$ 78,164	$ 1,278	2.18 %	$ 68,989	$ 1,416	2.74 %
Investment securities	1,959,681	33,359	2.27 %	1,634,023	30,575	2.50 %
Non-ASC 310-30 loans, net [3]	9,675,039	342,042	4.72 %	9,583,477	370,343	5.17 %
ASC 310-30 loans, net	50,639	4,610	12.16 %	63,471	6,169	12.99 %
Loans, net	9,725,678	346,652	4.76 %	9,646,948	376,512	5.22 %
Total interest-earning assets	11,763,523	381,289	4.33 %	11,349,960	408,503	4.81 %
Noninterest-earning assets	1,046,576			1,195,398		
Total assets	$ 12,810,099	$ 381,289	3.98 %	$ 12,545,358	$ 408,503	4.35 %
Liabilities and Stockholders' Equity						
Noninterest-bearing deposits	$ 2,111,445			$ 1,846,467		
Interest-bearing deposits	6,585,100	$ 31,060	0.63 %	6,301,910	$ 52,094	1.11 %
Time deposits	1,655,059	19,758	1.59 %	2,022,702	27,413	1.81 %
Total deposits	10,351,604	50,818	0.66 %	10,171,079	79,507	1.05 %
Securities sold under agreements to repurchase	62,513	70	0.15 %	67,879	140	0.28 %
FHLB advances and other borrowings	526,372	8,737	2.22 %	289,526	6,324	2.92 %
Subordinated debentures and subordinated notes payable	108,715	3,619	4.45 %	108,530	4,177	5.15 %
Total borrowings	697,600	12,426	2.38 %	465,935	10,641	3.05 %
Total interest-bearing liabilities	11,049,204	$ 63,244	0.76 %	10,637,014	$ 90,148	1.13 %
Noninterest-bearing liabilities	97,475			73,636		
Stockholders' equity	1,663,420			1,834,708		
Total liabilities and stockholders' equity	$ 12,810,099			$ 12,545,358		
Net interest spread			3.22 %			3.22 %
Net interest income and net interest margin (FTE)		$ 318,045	3.61 %		$ 318,355	3.75 %
Less: Tax equivalent adjustment		4,638			4,356	
Net interest income and net interest margin - ties to Statements of Comprehensive Income		$ 313,407	3.56 %		$ 313,999	3.70 %

[1] Annualized for all partial-year periods.

[2] Interest income includes $0.8 million and $0.3 million for the first nine months of fiscal years 2020 and 2019, respectively, resulting from interest earned on derivative collateral included in other assets on the consolidated balance sheets.

[3] Interest income includes $1.2 million and $1.0 million for the first nine months of fiscal years 2020 and 2019, respectively, resulting from accretion of purchase accounting discount associated with acquired loans.

Interest Income

The following table presents interest income for the three and nine months ended June 30, 2020 and 2019.

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2020	2019	2020	2019
	(dollars in thousands)			
Interest income:				
Loans (FTE)	$ 110,828	$ 127,816	$ 346,652	$ 376,512
Investment securities	10,532	11,430	33,359	30,575
Federal funds sold and other	112	377	1,278	1,416
Total interest income (FTE)	121,472	139,623	381,289	408,503
Less: Tax equivalent adjustment	1,601	1,424	4,638	4,356
Total interest income (GAAP)	$ 119,871	$ 138,199	$ 376,651	$ 404,147

Total interest income consists primarily of interest income on loans and interest income on our investment portfolio. Total interest income was $121.5 million for the third quarter of fiscal year 2020, compared to $139.6 million for the same period of fiscal year 2019, a decrease of $18.1 million, or 13.0%. Total interest income was $381.3 million for the first nine months of fiscal year 2020, compared to $408.5 million for the same period in fiscal year 2019, a decrease of $27.2 million, or 6.7%. Significant components of interest income are described in further detail below.

Loans. Interest income on all loans decreased to $110.8 million in third quarter of fiscal year 2020 from $127.8 million in the same period in fiscal year 2019, a decrease of $17.0 million, or 13.3%. Interest income on all loans decreased to $346.7 million for the first nine months of fiscal year 2020, from $376.5 million in the same period in fiscal year 2019, a decrease of $29.8 million, or 7.9%. The decreases in loan yields for both periods were partially attributable to lower loan interest income driven by decreases of 80 and 46 basis points, respectively, between the periods reflecting the impact of PPP loans which yield a lower rate. For the three and nine months ended June 30, 2020, interest income on ASC 310-30 loans, which are purchased credit impaired loans with a different income recognition model, decreased $0.8 million, or 34.5%, and $1.6 million, or 25.3%, respectively, primarily driven by runoff of the acquired loan portfolios.

Our yield on loans is also 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 4.41% for the third quarter of fiscal year 2020, a decrease of 78 basis points compared to the same period in fiscal year 2019. The average tax equivalent yield on non-ASC 310-30 loans was 4.72% for the first nine months of fiscal year 2020, a decrease of 45 basis points compared to the same period in fiscal year 2019. 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 4.29% for the third quarter of fiscal year 2020, a 91 basis point decrease compared to the same period in fiscal year 2019. The adjusted yield on non-ASC 310-30 loans was 4.65% for the first nine months of fiscal year 2020, a decrease of 53 basis points, compared to the same period in fiscal year 2019. For more information on our adjusted yield on non-ASC 310-30 loans, including a reconciliation to the most directly comparable GAAP financial measure, see "—Non-GAAP Financial Measures" section.

The average duration, net of interest rate swaps, of the loan portfolio was 1.6 years as of June 30, 2020. Approximately 53%, or $5.49 billion, of the portfolio is comprised of fixed rate loans, of which $735.4 million of loans are fixed rate loans with an original term of 5 years or greater for which we have entered into equal and offsetting fixed-to-floating interest rate swaps. These loans effectively behave as floating rate loans. For floating and variable rate loans in the portfolio, approximately 37% are indexed to Wall Street Journal Prime, 29% to 5-year Treasuries and the balance to various other indices. Approximately 20% of our total loans' rates are floored, with an average interest rate floor 114 basis points above market rates as of June 30, 2020.

Loan-related fee income of $1.9 million is included in interest income for the third quarter of fiscal year 2020, compared to $1.7 million for the same period in fiscal year 2019. Loan-related fee income of $6.1 million is included in interest income for the first nine months of fiscal year 2020, compared to $4.8 million for the same period in fiscal year 2019. 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 $0.4 million and $0.3 million for the third quarter of fiscal years 2020 and 2019, respectively, and $1.0 million and $1.2 million for the first nine months of fiscal years 2020 and 2019, respectively, is included as a reduction to interest income.

Investment Portfolio. The carrying value of investment securities and FHLB stock, which is included in other assets in the consolidated balance sheets, totaled $2.00 billion as of June 30, 2020. Interest income on investments includes income earned on investment securities and FHLB stock. Interest income on investments was $10.5 million for the third quarter of fiscal year 2020, a decrease of $0.9 million, or 7.9%, from $11.4 million for the same period in fiscal year 2019, driven by an increase in average investment balance of $179.9 million, or 10.0%, offset by a yield decrease to 2.13% from 2.54% for the same periods. Interest income on investments was $33.4 million for the first nine months of fiscal year 2020, an increase of $2.8 million, or 9.1%, from $30.6 million for the same period in fiscal year 2019, primarily due to an increase in average investment balance of $325.7 million, or 19.9%, offset by a yield decrease to 2.27% from 2.50%.

The weighted average life of the investment portfolio was 3.3 and 3.7 years at June 30, 2020 and September 30, 2019, respectively. Average investments represented 16.4% and 15.6% of total average interest-earning assets for the third quarter of fiscal years 2020 and 2019, respectively.

Interest Expense

The following table presents interest expense for the three and nine months ended June 30, 2020 and 2019.

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2020	2019	2020	2019
	(dollars in thousands)			
Interest expense				
Deposits	$ 10,011	$ 28,615	$ 50,818	$ 79,507
FHLB advances and other borrowings	2,539	2,538	8,807	6,464
Subordinated debentures and subordinated notes payable	1,070	1,417	3,619	4,177
Total interest expense	$ 13,620	$ 32,570	$ 63,244	$ 90,148

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 decreased $19.0 million, or 58.2%, to $13.6 million in the third quarter of fiscal year 2020, from $32.6 million in the same period in fiscal year 2019. Total interest expense decreased $26.9 million, or 29.8%, to $63.2 million in the first nine months of fiscal year 2020, from $90.1 million in the same period in fiscal year 2019. 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 $10.0 million and $28.6 million for the third quarter of fiscal years 2020 and 2019, respectively, a decrease of $18.6 million, or 65.0%. Interest expense on deposits was $50.8 million and $79.5 million for the first nine months of fiscal year 2020 and 2019, respectively, a decrease of $28.7 million, or 36.1%. The decreases for both periods were a result of decreasing cost of deposits offset with increases in average deposit balances. Average deposit balances increased to $10.35 billion for the first nine months of fiscal year 2020, from $10.17 billion for the comparable period in fiscal year 2019, an increase of $180.5 million, or 1.8%. The cost of deposits decreased to 0.66% for the first nine months of fiscal year 2020 from 1.05% for the same period of fiscal year 2019.

Average noninterest-bearing demand account balances increased to 22.3% of average total deposits for the third quarter of fiscal year 2020 from 18.1% for the comparable period in fiscal year 2019. Total average other liquid accounts, consisting of interest-bearing demand deposits, increased to 64.5% of total average deposits for the third quarter of fiscal year 2020, compared to 61.7% of total average deposits for the comparable period in fiscal year 2019, while time deposit accounts decreased to 13.2% of average total deposits for the third quarter of fiscal year 2020, compared to 20.2% in the comparable period in fiscal year 2019.

FHLB Advances and Other Borrowings. Interest expense on FHLB advances and other borrowings was $2.5 million for both the third quarters of fiscal year 2020 and 2019, reflecting a weighted average cost of 2.03% and 2.77%, respectively, for the same periods. The average balance of FHLB advances and other borrowings was $526.4 million for the first nine months of fiscal year 2020 compared to $289.5 million for the same period in fiscal year 2019. Interest expense on FHLB advances and other borrowings was $8.8 million for the first nine months of fiscal year 2020 and $6.5 million for the same period in fiscal year 2019, an increase of $2.3 million, or 36.2%, representing a weighted average cost of 2.22% and 2.92%, respectively, for the same periods. 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 2.56% and 2.60% at June 30, 2020 and 2019, respectively, and the average tenor was 24 and 21 months for the same periods.

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 June 30, 2020, we had pledged $3.98 billion of loans to the FHLB, against which we had borrowed $355.0 million.

Subordinated Debentures and Subordinated Notes Payable. Interest expense on our outstanding junior subordinated debentures and subordinated notes payable was $1.1 million in third quarter of fiscal year 2020 and $1.4 million in the comparable period in fiscal year 2019, a decrease of $0.3 million, or 24.5%. Interest expense on our outstanding junior subordinated debentures and subordinated notes payable was $3.6 million for the first nine months of fiscal year 2020 and $4.2 million in the comparable period in fiscal year 2019, a decrease of $0.6 million, or 13.4%. The weighted average contractual rate on outstanding junior subordinated debentures was 2.85% and 4.67% at June 30, 2020 and 2019, respectively. The weighted average contractual rate on outstanding subordinated notes was 4.88% at both June 30, 2020 and 2019.

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 for the current and comparable quarter and nine months periods 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.

	Current Quarter vs Comparable Quarter			Current 9 month period vs Comparable 9 month period		
	Volume	Rate	Total	Volume	Rate	Total
			(dollars in thousands)			
Increase (decrease) in interest income:						
Cash and cash equivalents	$ 277	$ (542)	$ (265)	$ 188	$ (326)	$ (138)
Investment securities	1,062	(1,960)	(898)	5,776	(2,992)	2,784
Non-ASC 310-30 loans	3,478	(19,674)	(16,196)	3,630	(31,931)	(28,301)
ASC 310-30 loans	(335)	(457)	(792)	(1,173)	(386)	(1,559)
Loans	3,143	(20,131)	(16,988)	2,457	(32,317)	(29,860)
Total increase (decrease)	4,482	(22,633)	(18,151)	8,421	(35,635)	(27,214)
Increase (decrease) in interest expense:						
Interest-bearing deposits	1,552	(14,441)	(12,889)	2,256	(23,290)	(21,034)
Time deposits	(2,659)	(3,056)	(5,715)	(4,575)	(3,080)	(7,655)
Securities sold under agreements to repurchase	2	(28)	(26)	(10)	(60)	(70)
FHLB advances and other borrowings	805	(778)	27	4,229	(1,816)	2,413
Subordinated debentures and subordinated notes payable	2	(349)	(347)	7	(565)	(558)
Total (decrease) increase	(298)	(18,652)	(18,950)	1,907	(28,811)	(26,904)
Increase (decrease) in net interest income (FTE)	$ 4,780	$ (3,981)	$ 799	$ 6,514	$ (6,824)	$ (310)

Provision for Loan and Lease Losses

We recognized provision for loan and lease losses of $21.6 million for the third quarter of fiscal year 2020 compared to a provision for loan and lease losses of $26.1 million for the comparable period in fiscal year 2019, a decrease of $4.5 million between the periods due to higher charge-offs in the prior period, concentrated in the agriculture and commercial non-real estate segments of the loan portfolio. Provision for loan and lease losses was $101.5 million for the first nine months of fiscal year 2020, compared to $39.0 million for the comparable period in fiscal year 2019, an increase of $62.5 million between the periods primarily due to incurred loss partially resulting from the COVID-19 pandemic. This increase did not contemplate the potential impact of CECL implementation, which is effective for the Company October 1, 2020. See "—Overview—Impact and Response to COVID-19 Pandemic" section in this document for further discussion on the increase in provision for loan and lease losses.

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2020	2019	2020	2019
		(dollars in thousands)		
Provision for loan and lease losses, non-ASC 310-30 loans *	$ 21,601	$ 26,200	$ 101,351	$ 39,206
Provision for (reduction in) loan and lease losses, ASC 310-30 loans	40	(123)	188	(241)
Provision for loan and lease losses, total	$ 21,641	$ 26,077	$ 101,539	$ 38,965

* 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 believe that the following table, which summarizes each component of the total credit-related charges incurred during the current and comparable quarters and nine month periods, is helpful to understanding the overall impact on our quarterly results of operations. Net other repossessed property charges includes other repossessed property operating costs, valuation adjustments and (loss) gain 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 repayment 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 the portion of the fair value adjustment related to expected credit losses in the portfolio of loans carried at fair value. Beginning in the third quarter of 2020, we will no longer separate credit-related charges between those related or unrelated to the COVID-19 pandemic as it becomes more difficult to attribute losses caused or not caused by the pandemic the longer it continues.

Item	Included within F/S Line Item(s):	Three Months Ended June 30, 2020	Three Months Ended June 30, 2019	Nine Months Ended June 30, 2020	Nine Months Ended June 30, 2019
		(Dollars in thousands)			
Charges unrelated to COVID-19 pandemic					
Provision for loan and lease losses	Provision for loan and lease losses	$ 21,641	$ 26,077	$ 41,827	$ 38,965
Net other repossessed property charges	Net loss on repossessed property and other related expenses	2,475	595	5,194	4,062
Net reversal of interest income on nonaccrual loans	Interest income on loans	1,070	173	4,164	469
Increase in unfunded commitment reserve	Other noninterest expense	2,215	—	2,415	—
Net credit loss on derivatives	Net realized and unrealized loss on derivatives	1,709	—	1,709	—
Loan fair value adjustment related to credit	Net decrease in fair value of loans at fair value	23,292	4,817	28,849	5,579
Subtotal charges unrelated to COVID-19 pandemic		$ 52,402	$ 31,662	$ 84,158	$ 49,075
Charges related to COVID-19 pandemic					
Provision for loan and lease losses	Provision for loan and lease losses	$ —	$ —	$ 59,712	$ —
Net other repossessed property charges	Net loss on repossessed property and other related expenses	—	—	3,314	—
Net reversal of interest income on nonaccrual loans	Interest income on loans	—	—	—	—
Increase in unfunded commitment reserve	Other noninterest expense	—	—	444	—
Net credit loss on derivatives	Net realized and unrealized loss on derivatives	—	—	—	—
Loan fair value adjustment related to credit	Net decrease in fair value of loans at fair value	—	—	7,100	—
Subtotal charges related to COVID-19 pandemic		$ —	$ —	$ 70,570	$ —
Total credit-related charges		$ 52,402	$ 31,662	$ 154,728	$ 49,075

In determining the credit-related charges, we continue to evaluate the impact of COVID-19 on our loan portfolio. Industries such as hotels & resorts, restaurants, oil & energy, retail malls, airlines and healthcare have experienced significant revenue loss due to COVID-19. Within our portfolio we have identified the following segments with elevated risk: hotels & resorts with $1.20 billion, or 11.6% of total loans, restaurants with $160.2 million, or 1.6% of total loans, arts and entertainment with $129.6 million, or 1.3% of total loans, senior care with $358.9 million, or 3.5% of total loans, and skilled nursing with $248.9 million, or 2.4% of total loans. Loan exposure in such other identified industries is either immaterial or has not shown general distress thus far. At this time it is difficult to determine ultimate impact upon our portfolio, but we are of the view the credit-related adjustments reflect the best estimate of incurred losses in our portfolio as of June 30, 2020.

Noninterest Income

The following table presents noninterest income for the three and nine months ended June 30, 2020 and 2019.

	Three Months Ended June 30, 2020	Three Months Ended June 30, 2019	Nine Months Ended June 30, 2020	Nine Months Ended June 30, 2019
	(dollars in thousands)			
Noninterest income				
Service charges and other fees	$ 7,731	$ 10,321	$ 28,328	$ 32,219
Wealth management fees	2,773	2,234	8,859	6,592
Mortgage banking income, net	2,422	1,055	5,179	3,366
Net gain (loss) on sale of securities	—	322	—	(191)
Other	1,190	1,309	3,490	4,313
Subtotal, product and service fees	14,116	15,241	45,856	46,299
Net (decrease) increase in fair value of loans at fair value	(22,118)	16,429	(1,510)	49,662
Net realized and unrealized loss on derivatives	(3,681)	(20,904)	(40,379)	(50,252)
Subtotal, loans at fair value and related derivatives	(25,799)	(4,475)	(41,889)	(590)
Total noninterest (loss) income	$ (11,683)	$ 10,766	$ 3,967	$ 45,709

Our noninterest income is comprised of the various fees we charge our customers for products and services we provide and the impact of changes in fair value of loans for which we have elected the fair value treatment and realized and unrealized gains (losses) on the related interest rate swaps we utilize to manage interest rate risk on these loans. While we are required under U.S. GAAP to present both components within total noninterest income, we believe it is helpful to analyze the two broader components of noninterest income separately to better understand the underlying performance of the business.

Noninterest income was $(11.7) million for the third quarter of fiscal year 2020 compared to $10.8 million for the same period in fiscal year 2019, a decrease of $22.5 million. Noninterest income was $4.0 million for the first nine months of fiscal year 2020 compared to $45.7 million for the same period in fiscal year 2019, a decrease of $41.7 million. Significant components of noninterest income are described in further detail below.

Product and Service Fees. We recognized $14.1 million of noninterest income related to product and service fees in the third quarter of fiscal year 2020, a decrease of $1.1 million, or 7.4%, compared to the same period in fiscal year 2019. We recognized $45.9 million of noninterest income related to product and service fees in the first nine months of fiscal year 2020, a decrease of $0.4 million, or 1.0%, compared to the same period in fiscal year 2019. The decreases for both periods was primarily related to lower service charges and interchange revenue driven by declines in transaction activity from COVID-19 pandemic impacts.

Loans at fair value and related derivatives. As discussed in "—Analysis of Financial Condition—Derivatives," changes in the fair value of loans for which we have elected the fair value treatment and realized and unrealized gains and losses on the related derivatives are recognized within noninterest income. For the third quarter of fiscal year 2020, these items accounted for $(25.8) million of noninterest (loss) compared to $(4.5) million of noninterest (loss) for the same period in fiscal year 2019. For the first nine months of fiscal year 2020, these items accounted for $(41.9) million of noninterest (loss) compared to $(0.6) million of noninterest (loss) for the same period in fiscal year 2019. The change for both periods was driven by a net loss related to the change in fair value of loans for which the Company has elected the fair value option within which was a credit charge of $21.9 million for one senior care facility and the net realized and unrealized gain (loss) of the related derivatives. We believe that the current realized loss on the derivatives economically offsets the interest income earned on the related loans. We present elsewhere the adjusted net interest income and adjusted net interest margin reflecting the metrics we use to manage the business.

Noninterest Expense

The following table presents noninterest expense for the three and nine months ended June 30, 2020 and 2019.

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2020	2019	2020	2019
	(dollars in thousands)			
Noninterest expense				
Salaries and employee benefits	$ 39,042	$ 33,899	$ 112,259	$ 103,206
Data processing and communication	5,817	6,234	17,713	17,475
Occupancy and equipment	5,251	4,934	15,941	15,599
Professional fees	7,382	3,923	16,409	11,181
Advertising	750	1,145	2,573	3,299
Net loss on repossessed property and other related expenses	2,475	595	8,508	4,062
Goodwill and intangible assets impairment	—	—	742,352	—
Other	6,332	5,270	16,677	14,864
Total noninterest expense	$ 67,049	$ 56,000	$ 932,432	$ 169,686

Our noninterest expense consists primarily of salaries and employee benefits, data processing and communication, occupancy and equipment, professional fees and net loss on repossessed property, goodwill and intangible assets impairment and other related expenses. Noninterest expense was $67.0 million and $56.0 million for the third quarter of fiscal year 2020 and 2019, respectively, an increase of $11.0 million, or 19.7% The increase was primarily driven by an increase in salaries and employee benefits related to annual merit increases effective in January combined with a one-time PTO payout offered to employees for $1.1 million, severance costs of $1.6 million, an increase in net loss on repossessed property and other related expenses of $1.9 million and a $2.2 million increase in unfunded loan commitment reserve and consulting costs invested to support strategy and loan portfolio review.

Noninterest expense was $932.4 million and $169.7 million for the first nine months of fiscal year 2020 and 2019, respectively. Included within noninterest expense in the first nine months of fiscal year 2020 was goodwill impairment of $740.6 million, impairment of certain intangible assets of $1.8 million, a credit related charge of $3.3 million for one OREO hotel property negatively impacted by COVID-19 travel restrictions and $0.4 million increase in reserve for unfunded commitments. Excluding these items, noninterest expense was $186.3 million for the first nine months of fiscal year 2020, an increase of $16.6 million, or 9.8%, compared to the same period in fiscal year 2019. The remaining increases were driven by an increase in salaries and employee benefits related to annual merit increases effective in January, combined with a one-time PTO payout offered to employees for $1.1 million, severance costs of $1.6 million, and an increase in unfunded loan commitment reserve combined with consulting costs invested to support strategy and loan portfolio review noted previously.

Our efficiency ratio was 69.4% and 47.2% for the third quarter of fiscal years 2020 and 2019, respectively and 58.7% and 46.3% for the first nine months of fiscal years 2020 and 2019, respectively. The increases for both periods were mainly due to the decrease in net revenues attributable to emergency rate cuts and decreased deposit service charges from lower account activity combined with increased expense results from both one-off and recurring costs. For more information on our efficiency ratio, including a reconciliation to the most directly comparable GAAP financial measures, see "—Non-GAAP Financial Measures" section.

Provision for Income Taxes

The provision for income taxes varies due to the amount of taxable income, the level and effectiveness of tax-advantaged assets and tax credit funds and the rates charged by federal and state authorities. The provision for income taxes of $0.5 million for the third quarter of fiscal year 2020 represents an effective tax rate of 8.1% compared to a provision of $7.5 million, or an effective tax rate of 22.0%, for the comparable period of fiscal year 2019. The benefit for income taxes of $24.7 million for the first nine months of fiscal year 2020 represents an effective tax rate of 3.4%, compared to a provision of $34.0 million or an effective tax rate of 22.5% for the same period in fiscal year 2019. The substantial drop in the effective tax rate for both periods was due to the impairment of goodwill and certain intangible assets and provision for loan and lease losses in the current period. A sizable portion of the goodwill impairment was related to non-tax-deductible goodwill for which no tax benefit was recorded. Excluding the COVID-19 pandemic related goodwill and certain intangible assets impairment and additional provision for loan and lease losses, the effective tax rate would have been 21.8% for the first nine months of fiscal year 2020.

Return on Assets and Equity

The following table presents our return on average total assets, return on average common equity and return on average tangible common equity for the dates presented.

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2020	2019	2020	2019
Return on average total assets	0.17 %	0.84 %	(7.22)%	1.25 %
Return on average common equity	1.9 %	5.8 %	(55.6)%	8.5 %
Return on average tangible common equity [1]	2.0 %	9.7 %	2.5 %	14.5 %

[1] 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, including a reconciliation to the most directly comparable GAAP financial measure, see "—Non-GAAP Financial Measures" section.

Analysis of Financial Condition

The following table highlights certain key financial and performance information as of the dates indicated.

	As of June 30, 2020	As of September 30, 2019
	(dollars in thousands)	
Balance Sheet and Other Information:		
Total assets	$ 12,934,328	$ 12,788,301
Loans [1]	10,313,999	9,706,763
Allowance for loan and lease losses	148,158	70,774
Deposits	11,150,614	10,300,339
Stockholders' equity	1,160,644	1,900,249
Tangible common equity [2]	1,154,219	1,155,052
Tier 1 capital ratio	11.3 %	11.7 %
Total capital ratio	12.9 %	12.7 %
Tier 1 leverage ratio	9.3 %	10.1 %
Common equity tier 1 ratio	10.6 %	11.0 %
Tangible common equity / tangible assets [2]	8.9 %	9.6 %
Book value per share - GAAP	$ 21.10	$ 33.76
Tangible book value per share [2]	$ 20.98	$ 20.52
Nonaccrual loans / total loans	2.66 %	1.10 %
Net charge-offs (recoveries) / average total loans [3]	0.33 %	0.36 %
Allowance for loan and lease losses / total loans	1.44 %	0.73 %

[1] Loans include unpaid principal balance net of unamortized discount on acquired loans and unearned net deferred fees and costs and loans in process.

[2] 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, including a reconciliation to the most directly comparable GAAP financial measure, see "—Non-GAAP Financial Measures" section.

[3] Annualized for partial year periods, except for September 30, 2019, which was for the twelve month period.

Our total assets were $12.93 billion at June 30, 2020, compared with $12.79 billion at September 30, 2019, an increase of $146.0 million, or 1.1%. The increase in total assets during the first nine months of fiscal year 2020 was principally attributable to an increase in net loans of $529.9 million, or 5.5%, an increase in investment securities of $189.4 million, an increase of $47.2 million, or 80.7%, in derivative assets offset by a full impairment of goodwill of $739.0 million, At June 30, 2020, loans were $10.31 billion, compared to $9.71 billion at September 30, 2019. See "—Loan Portfolio" within this section for further discussion on the growth in net loans. During the first nine months of fiscal year 2020, total deposits increased by $850.3 million, or 8.3%, compared to September 30, 2019 due to a $1.33 billion increase in checking and savings deposits across both business and consumer accounts as a result of inflows from PPP proceeds and consumer stimulus receipts offset with a $0.4 million reduction in business and consumer time deposits and a $0.1 million decrease in public and brokered deposits.

Loan Portfolio

The following table presents our loan portfolio by category at each of the dates indicated.

	June 30, 2020	September 30, 2019
	(dollars in thousands)	
Unpaid principal balance:		
Commercial real estate [1]		
Originated	$ 5,151,626	$ 4,824,827
Acquired	203,867	267,583
Total	5,355,493	5,092,410
Agriculture [1]		
Originated	1,758,437	1,932,722
Acquired	56,684	75,922
Total	1,815,121	2,008,644
Commercial non-real estate [1]		
Originated	2,206,630	1,691,026
Acquired	20,129	28,930
Total	2,226,759	1,719,956
Residential real estate		
Originated	770,235	696,403
Acquired	92,586	115,805
Total	862,821	812,208
Consumer		
Originated	58,169	47,324
Acquired	3,283	4,601
Total	61,452	51,925
Other lending		
Originated	34,713	47,541
Acquired	—	—
Total	34,713	47,541
Total originated	9,979,810	9,239,843
Total acquired	376,549	492,841
Total unpaid principal balance	10,356,359	9,732,684
Less: Unamortized discount on acquired loans	(9,098)	(13,655)
Less: Unearned net deferred fees and costs and loans in process	(33,262)	(12,266)
Total loans	10,313,999	9,706,763
Allowance for loan and lease losses	(148,158)	(70,774)
Loans, net	$ 10,165,841	$ 9,635,989

[1] Unpaid principal balance for commercial non-real estate, agriculture and commercial 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.

During the first nine months of fiscal year 2020, total loans increased by 6.3%, or $607.2 million, compared to September 30, 2019. The net loan growth was mainly attributable to an increase in the commercial non-real estate segment of $506.8 million, or 29.5%, an increase in the CRE segment of $263.1 million, or 5.2%, offset by a reduction in the agriculture segment of $193.5 million, or 9.6%. The increase in commercial non-real estate segment was largely due to $697.0 million in new PPP loans outstanding offset with paydowns during the period. The increase in the CRE segment was due to diversified growth across multifamily and non-owner-occupied CRE. The decrease in the agriculture segment was due to $219.8 million reduction from declines in dairy, beef cattle and other agriculture segments offset with approximately $26.3 million in PPP loans. Over the same time period, residential real estate, consumer and other loan balances remained stable.

The following table presents an analysis of the unpaid principal balance of our loan portfolio at June 30, 2020, by borrower and collateral type and by each of the six major geographic areas we use to manage our markets.

	June 30, 2020								
	South Dakota	Iowa / Missouri	Nebraska / Kansas	Arizona	Colorado	North Dakota / Minnesota	Other [2]	Total	%
	(dollars in thousands)								
Commercial real estate [1]	$ 1,107,685	$ 1,300,100	$ 1,163,249	$ 565,437	$ 933,737	$ 267,747	$ 17,538	$ 5,355,493	51.7 %
Agriculture [1]	554,051	326,785	119,978	692,702	111,566	332	9,707	1,815,121	17.5 %
Commercial non-real estate [1]	381,658	686,662	623,879	154,406	221,262	8,511	150,381	2,226,759	21.5 %
Residential real estate	239,429	226,815	190,033	47,220	124,703	19,036	15,585	862,821	8.3 %
Consumer	14,905	23,878	18,060	408	2,663	1,058	480	61,452	0.6 %
Other lending	—	—	—	—	—	—	34,713	34,713	0.4 %
Total	$ 2,297,728	$ 2,564,240	$ 2,115,199	$ 1,460,173	$ 1,393,931	$ 296,684	$ 228,404	$ 10,356,359	100.0 %
% by location	22.2 %	24.8 %	20.4 %	14.1 %	13.4 %	2.9 %	2.2 %	100.0 %	

[1] Unpaid principal balance for commercial non-real estate, agriculture and commercial 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.

[2] Balances in this column represent acquired workout loans and certain other loans managed by our 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 table presents additional detail regarding our agriculture, CRE and residential real estate loans at June 30, 2020.

	June 30, 2020
	(dollars in thousands)
Construction and development	$ 407,024
Owner-occupied CRE	1,436,615
Non-owner-occupied CRE	2,965,971
Multifamily residential real estate	545,883
Commercial real estate	5,355,493
Agriculture real estate	861,989
Agriculture operating loans	953,132
Agriculture	1,815,121
Commercial non-real estate	2,226,759
Home equity lines of credit	153,137
Closed-end first lien	573,477
Closed-end junior lien	32,541
Residential construction	103,666
Residential real estate	862,821
Consumer	61,452
Other	34,713
Total unpaid principal balance	$ 10,356,359

Commercial Real Estate. CRE includes owner-occupied CRE, non-owner-occupied CRE, construction and development lending, and multi-family residential real estate. While CRE lending is a significant component of our overall loan portfolio, we are committed to managing our exposure to riskier construction and development lending specifically, and to CRE lending in general, by targeting relationships with sound management and financials, which are priced to reflect the amount of risk we accept as the lender.

Agriculture. Agriculture loans include farm operating loans and loans collateralized by farm land. According to the American Banker's Association, at March 31, 2020, we were ranked the fifth-largest farm lender bank in the United States measured by total dollar volume of farm loans. We consider agriculture lending one of our core lending areas. We target a portfolio composition for agriculture loans not to exceed 225% of total capital according to our Risk Appetite Statement approved by our Board of Directors. Within our agriculture portfolio, loans are diversified across a wide range of subsectors with the majority of the portfolio concentrated within various types of grain, livestock and dairy products, and across different geographical segments within our footprint. Over recent years, our borrowers have experienced volatile commodity prices, and the adverse effects of recently imposed and proposed tariffs on the export of agricultural products, effects of waivers of the amount of ethanol to be blended into the country's gasoline production and isolated areas of flooding within parts of the Midwest in which certain of our agricultural borrowers conduct their operations. While these events, the impacts of the COVID-19 pandemic or a further downturn in the agriculture economy, could directly and adversely affect our agricultural loan portfolio and

indirectly and adversely impact other lending categories including commercial non-real estate, CRE, residential real estate and consumer, we believe there continues to typically be strong secondary sources of repayment for the agriculture loan portfolio.

Commercial Non-Real Estate. Commercial non-real estate, or business lending, represents one of our core competencies. We believe that providing a tailored range of integrated products and services, including lending, to small- and medium-enterprise customers is the business at which we excel and through which we can generate favorable returns for our stockholders. We offer a number of different products including working capital and other shorter-term lines of credit, fixed-rate loans and variable rate loans with interest rate swaps over a wide range of terms, and variable-rate loans with varying terms.

Residential Real Estate. Residential real estate lending reflects 1-to-4-family real estate construction loans, closed-end first-lien mortgages (primarily single-family long-term first mortgages resulting from acquisitions of other banks), closed-end junior-lien mortgages and HELOCs. Our closed-end first-lien mortgages include a small percentage of single-family first mortgages that we originate and do not subsequently sell into the secondary market, including some jumbo products, adjustable rate mortgages and rural home mortgages. Conversely, a large percentage of our total single-family first mortgage originations are sold into the secondary market in order to meet our interest rate risk management objectives.

Consumer. Our consumer lending offering comprises a relatively small portion of our total loan portfolio, and predominantly reflects small-balance secured and unsecured products marketed by our branches.

Other Lending. Other lending includes all other loan relationships that do not fit within the categories above, primarily consumer and commercial credit cards, customer deposit account overdrafts, and lease receivables.

The following table presents the maturity distribution of our loan portfolio as of June 30, 2020. The maturity dates were determined based on the contractual maturity date of the loan.

	June 30, 2020			
	1 Year or Less	>1 Through 5 Years	>5 Years	Total
	(dollars in thousands)			
Maturity distribution:				
Commercial real estate	$ 685,115	$ 2,199,502	$ 2,470,876	$ 5,355,493
Agriculture	871,668	605,165	338,288	1,815,121
Commercial non-real estate	665,455	1,196,430	364,874	2,226,759
Residential real estate	220,379	206,400	436,042	862,821
Consumer	9,065	38,586	13,801	61,452
Other lending	34,713	—	—	34,713
Total	$ 2,486,395	$ 4,246,083	$ 3,623,881	$ 10,356,359

The following table presents the distribution, as of June 30, 2020, of our loans that were due after one year between fixed and variable interest rates.

	June 30, 2020		
	Fixed	Variable	Total
	(dollars in thousands)		
Maturity distribution:			
Commercial real estate	$ 2,297,000	$ 2,373,378	$ 4,670,378
Agriculture	718,615	224,838	943,453
Commercial non-real estate	515,675	1,045,629	1,561,304
Residential real estate	335,821	306,621	642,442
Consumer	41,500	10,887	52,387
Total	$ 3,908,611	$ 3,961,353	$ 7,869,964

Other Repossessed Property

In the normal course of business, we obtain title to real estate and other assets when borrowers are unable to meet their contractual obligations and we initiate foreclosure proceedings, or via deed in lieu of foreclosure actions. Other repossessed property assets are considered nonperforming assets. When we obtain title to an asset, we evaluate how best to maintain and protect our interest in the property and seek to liquidate the asset at an acceptable price in a timely manner. Our total other repossessed property carrying value was $19.2 million as of June 30, 2020, a decrease of $17.5 million, or 47.7%, compared to September 30, 2019, due primarily to two large relationship liquidations and the write down of the value of a hotel property negatively impacted by COVID-19 travel restrictions.

The following table presents our other repossessed property balances for the period indicated.

	Three Months Ended June 30, 2020	Nine Months Ended June 30, 2020
	(dollars in thousands)	
Balance, beginning of period	$ 27,289	$ 36,764
Additions to other repossessed property	255	7,762
Valuation adjustments and other	(2,020)	(6,776)
Sales	(6,293)	(18,519)
Balance, end of period	$ 19,231	$ 19,231

Asset Quality

We place an asset on nonaccrual status when management believes, after considering collection efforts and other factors, the borrower's condition is such that collection of interest is doubtful, which is generally 90 days past due. If a borrower has failed to comply with the original contractual terms, further action may be required, including a downgrade in the risk rating, movement to nonaccrual status, a charge-off or the establishment of a specific reserve. If there is a collateral shortfall, we generally work with the borrower for a principal reduction, pledge of additional collateral or guarantee. If these alternatives are not available, we engage in formal collection activities. Restructured loans for which we grant payment or significant interest rate concessions are placed on nonaccrual status until collectability improves and a satisfactory payment history is established, generally by the receipt of at least six consecutive payments.

The following table presents the dollar amount of nonaccrual loans, other repossessed property, restructured performing loans and accruing loans over 90 days past due, at the end of the dates indicated. We entered into a non-commercial loss-sharing agreement with the FDIC related to certain assets (loans and other repossessed property) acquired from TierOne Bank on June 4, 2010. Loans covered by a FDIC loss-sharing agreement are generally pooled with other similar loans and are accreting purchase discount into income each period. Subject to compliance with the applicable loss-sharing agreement, we are indemnified by the FDIC at a rate of 80% for any future credit losses for single-family real estate loans and other repossessed property covered by the FDIC loss-sharing agreement through June 4, 2020.

	June 30, 2020	September 30, 2019
	(dollars in thousands)	
Nonaccrual loans [1]		
Commercial real estate [2]	$ 97,108	$ 14,973
Agriculture [2]	150,092	77,880
Commercial non-real estate [2]	20,414	9,502
Residential real estate		
Loans covered by a FDIC loss-sharing agreement	—	2,190
Loans not covered by a FDIC loss-sharing agreement	6,782	2,572
Total	6,782	4,762
Consumer [2]	79	74
Total nonaccrual loans covered by a FDIC loss-sharing agreement	—	2,190
Total nonaccrual loans not covered by a FDIC loss-sharing agreement	274,475	105,001
Total nonaccrual loans	274,475	107,191
Other repossessed property	19,231	36,764
Total nonperforming assets	293,706	143,955
Performing TDRs	43,550	44,842
Total nonperforming and restructured assets	$ 337,256	$ 188,797
Accruing loans 90 days or more past due	$ —	$ 11,180
Nonperforming TDRs included in total nonaccrual loans	55,183	30,073
Percent of total assets		
Nonaccrual loans not covered by a FDIC loss-sharing agreement	2.12 %	0.82 %
Total nonaccrual loans	2.12 %	0.84 %
Other repossessed property	0.15 %	0.29 %
Nonperforming assets [3]	2.27 %	1.13 %
Nonperforming and restructured assets [3]	2.61 %	1.48 %

[1] [illegible]

[2] [illegible]

[3] Includes nonaccrual loans, which includes nonperforming restructured loans.

At June 30, 2020 and September 30, 2019, our nonperforming assets were 2.27% and 1.13%, respectively, of total assets. Nonaccrual loans were $274.5 million as of June 30, 2020, which represented a total increase in nonaccrual loans of $167.3 million compared to September 30, 2019. The increase is being driven by a small number of relationships in agriculture industries as they progress through the workout process and two watch rated senior care credits that deteriorated due to COVID-19 impacts.

We recognized approximately $3.1 million of interest income on loans that were on nonaccrual for the first nine months of fiscal year 2020. Excluding loans covered by the FDIC non-commercial loss-sharing agreement, we had average nonaccrual loans (calculated as a two-point average) of $189.7 million outstanding during the first nine months of fiscal year 2020. Based on the average loan portfolio yield for these loans for the first nine months of fiscal year 2020, we estimate that interest income would have been $6.7 million higher during this period had these loans been accruing.

We consistently monitor all loans internally rated "watch" or worse because that rating indicates we have identified some potential weakness emerging; but loans rated "watch" will not necessarily become problem loans or become impaired. Aside from the loans on the watch list, we do not believe we have any potential problem loans that are not already identified as nonaccrual, past due or restructured as it is our policy to promptly reclassify loans as soon as we become aware of doubts as to the borrowers' ability to meet repayment terms.

When we grant concessions to borrowers that we would not otherwise grant if not for the borrowers' financial difficulties, such as reduced interest rates or extensions of loan periods, we consider these modifications TDRs.

The following table outlines total TDRs, split between performing and nonperforming loans, at each of the dates indicated.

	June 30, 2020	September 30, 2019
	(dollars in thousands)	
Commercial real estate		
Performing TDRs	$ 31,627	$ 17,145
Nonperforming TDRs	1,762	904
Total	33,389	18,049
Agriculture		
Performing TDRs	2,989	22,929
Nonperforming TDRs	47,791	24,762
Total	50,780	47,691
Commercial non-real estate		
Performing TDRs	8,645	4,398
Nonperforming TDRs	5,508	4,257
Total	14,153	8,655
Residential real estate		
Performing TDRs	285	263
Nonperforming TDRs	86	102
Total	371	365
Consumer		
Performing TDRs	4	107
Nonperforming TDRs	36	48
Total	40	155
Total performing TDRs	43,550	44,842
Total nonperforming TDRs	55,183	30,073
Total TDRs	$ 98,733	$ 74,915

As of June 30, 2020, total performing TDRs decreased $1.3 million, or 2.9%, compared to September 30, 2019, primarily due to the payoff of one large relationship in the agriculture loan portfolio offset by one new commercial real estate relationship during the period. Total nonperforming TDRs increased $25.1 million, or 83.5%, compared to September 30, 2019 primarily due to one new relationship in the agriculture portfolio.

The following table presents nonaccrual loans, TDRs, and other repossessed property covered by the loss-sharing agreement; a rollforward of the allowance for loan and lease losses for loans covered by the loss-sharing agreement; a rollforward of allowance for loan and lease losses for ASC 310-30 loans covered by the loss-sharing agreement; and a rollforward of other repossessed property covered by the loss-sharing agreement at and for the periods presented.

	At and for the Nine Months Ended June 30, 2020	At and for the Fiscal Year Ended September 30, 2019
	(dollars in thousands)	
Assets covered by a FDIC loss-sharing agreement		
Nonaccrual loans [1]	$ —	$ 2,190
TDRs	—	43
Other repossessed property	—	—
Allowance for loan and lease losses, loans covered by a FDIC loss-sharing agreement		
Balance, beginning of period	$ 113	$ 262
Additional impairment recorded	442	309
Recoupment of previously-recorded impairment	—	(379)
Charge-offs	(61)	(79)
Expiration of loss-sharing arrangement	(494)	—
Balance, end of period	$ —	$ 113
Other repossessed property covered by a loss-sharing agreement		
Balance, beginning of period	$ —	$ 131
Additions to other repossessed property	—	—
Sales	—	(131)
Balance, end of period	$ —	$ —

[1] Includes nonperforming restructured loans

Allowance for Loan and Lease Losses

We establish an allowance for the inherent risk of probable losses within our loan portfolio. The allowance for loan and lease losses is management's best estimate of probable credit losses that are incurred in the loan portfolio. We determine the allowance for loan and lease losses based on an ongoing evaluation, driven primarily by monitoring changes in loan risk grades, delinquencies and other credit risk indicators, which is an inherently subjective process. We consider the uncertainty related to certain industry sectors and the extent of credit exposure to specific borrowers within the portfolio. In addition, we consider concentration risks associated with the various loan portfolios, current economic conditions and other environmental factors that might impact the portfolio. All of these estimates are susceptible to significant change. Changes to the allowance for loan and lease losses are made by charges to the provision for loan and lease losses. Loans deemed to be uncollectible are charged off against the allowance for loan and lease losses. Recoveries of amounts previously charged-off are credited to the allowance for loan and lease losses.

Our allowance for loan and lease losses consists of two components. For non-impaired loans, we calculate a weighted average loss ratio of 12-, 36- and 60-month historical realized losses by collateral type; adjust as necessary for our interpretation of current economic conditions, environmental factors and current portfolio trends including credit quality, concentrations, aging of the portfolio and/or significant policy and underwriting changes not entirely covered by the calculated historical loss rates; and apply the loss rates to outstanding loan balances in each collateral category. We calculate the weighted average ratio of 12-, 36- and 60-month historical realized losses for each collateral type by dividing the average net annual charge-offs by the average outstanding loans of such type subject to the calculation for each of the 12-, 36- and 60-month periods, then averaging those three results. For impaired loans, we estimate our exposure for each individual relationship, given the current payment status of the loan and the value of the underlying collateral as supported by third party appraisals, broker's price opinions, and/or the borrower's financial statements and internal valuation assessments, each adjusted for liquidation costs. Any shortfall between the liquidation value of the underlying collateral and the recorded investment value of the loan is considered the required specific reserve amount. Actual losses in any period may exceed allowance amounts. We evaluate and adjust our allowance for loan and lease losses, and the allocation of the allowance between loan categories, each month.

The following table presents an analysis of our allowance for loan and lease losses, including provisions for loan and lease losses, charge-offs and recoveries, for the periods indicated.

	At and for the Nine Months Ended June 30, 2020	At and for the Fiscal Year Ended September 30, 2019
	(dollars in thousands)	
Allowance for loan and lease losses:		
Balance, beginning of period	$ 70,774	$ 64,540
Provision charged to expense	101,351	41,506
Impairment (improvement) of ASC 310-30 loans	188	(559)
Charge-offs:		
Commercial real estate	(2,789)	(1,511)
Agriculture	(13,378)	(24,847)
Commercial non-real estate	(8,269)	(7,895)
Residential real estate	(379)	(998)
Consumer	(65)	(452)
Other lending	(2,760)	(1,358)
Total charge-offs	(27,640)	(37,061)
Recoveries:		
Commercial real estate	355	567
Agriculture	2,143	385
Commercial non-real estate	303	392
Residential real estate	360	468
Consumer	64	174
Other lending	260	362
Total recoveries	3,485	2,348
Net loan charge-offs	(24,155)	(34,713)
Balance, end of period	$ 148,158	$ 70,774
Average total loans for the period [1]	$ 9,820,350	$ 9,741,293
Total loans at period end [1]	10,313,999	9,706,763
Ratios		
Net charge-offs to average total loans [3]	0.33 %	0.36 %
Allowance for loan and lease losses to:		
Total loans	1.44 %	0.73 %
Nonaccruing loans [2]	53.98 %	67.40 %

[1] [illegible]
[2] Nonaccruing loans excludes loans covered by a FDIC loss sharing agreement.
[3] Annualized for partial year periods.

In the first nine months of fiscal year 2020, net charge-offs were $24.2 million, or 0.33%, of average total loans on an annualized basis, comprised of $27.6 million of charge-offs and $3.4 million of recoveries. The charge-offs were concentrated in the agriculture and commercial non-real estate segments in the loan portfolio. For fiscal year 2019, net charge-offs were $34.7 million, or 0.36%, of average total loans.

At June 30, 2020, the allowance for loan and lease losses was 1.44% of our total loan portfolio, a 71 basis point increase, compared to 0.73% at September 30, 2019. The balance of the ALLL increased to $148.2 million from $70.8 million over the same period due to incurred loss resulting from COVID-19 pandemic. This increase did not contemplate the potential impact of CECL implementation, which is effective for the Company October 1, 2020. In determining the credit-related charges, we continue to evaluate the impact of COVID-19 on our loan portfolio. Industries such as hotels & resorts, restaurants, oil & energy, retail malls, airlines and healthcare have experienced significant revenue loss due to COVID-19. Within our portfolio we have identified the following segments with elevated risk: hotels & resorts with $1.20 billion, or 11.6% of total loans, restaurants with $160.2 million, or 1.6% of total loans, arts and entertainment with $129.6 million, or 1.3% of total loans, senior care with $358.9 million, or 3.5% of total loans, and skilled nursing with $248.9 million, or 2.4% of total loans. Loan exposure in such other identified industries is either immaterial or has not shown general distress thus far. At this time it is difficult to determine ultimate impact upon our portfolio, but we are of the view the credit-related adjustments reflect the best estimate of incurred losses in our portfolio as of June 30, 2020.

Additionally, a portion of our loans which are carried at fair value, totaling $735.4 million at June 30, 2020 and $813.0 million at September 30, 2019, respectively, have no associated allowance for loan and lease losses, but rather have a fair value adjustment related to credit risk included within their carrying value, thus driving the overall ratio of allowance for loan and lease losses to total loans lower. The amount of fair value adjustment related to credit risk on these loans was $40.0 million and $6.8 million at June 30, 2020 and September 30, 2019, respectively, or 0.39% and 0.07% of total loans, respectively. Finally, total purchase discount remaining on all acquired loans equates to 0.09% and 0.14% of total loans at June 30, 2020 and September 30, 2019, respectively.

The following table presents management's allocation of the allowance for loan and lease losses by loan category, in both dollars and percentage of our total allowance for loan and lease losses, to specific loans in those categories at the dates indicated.

	June 30, 2020		September 30, 2019	
	Amount	Percent	Amount	Percent
	(dollars in thousands)			
Allocation of allowance for loan and lease losses:				
Commercial real estate	$ 78,623	53.1 %	$ 16,827	23.8 %
Agriculture	29,429	19.9 %	30,819	43.5 %
Commercial non-real estate	29,046	19.6 %	17,567	24.8 %
Residential real estate	8,541	5.7 %	4,095	5.8 %
Consumer	920	0.6 %	427	0.6 %
Other lending	1,599	1.1 %	1,039	1.5 %
Total	$ 148,158	100.0 %	$ 70,774	100.0 %

Management will continue to evaluate the loan portfolio and assess economic conditions in order to determine future allowance levels and the amount of loan and lease loss provisions. We review the appropriateness of our allowance for loan and lease losses on a monthly basis. Management monitors closely all past due and restructured loans in assessing the appropriateness of its allowance for loan and lease losses. In addition, we follow procedures for reviewing and grading all substantial commercial and agriculture relationships at least annually. Based predominantly upon the review and grading process, we determine the appropriate level of the allowance in response to our assessment of the probable risk of loss inherent in our loan portfolio. Management makes additional loan and lease loss provisions when the results of our problem loan assessment methodology or overall allowance testing of appropriateness indicates additional provisions are required.

The review of problem loans is an ongoing process during which management may determine that additional charge-offs are required or additional loans should be placed on nonaccrual status. We have also recorded an allowance for unfunded lending related commitments that represents our estimate of incurred losses on the portion of lending commitments that borrowers have not advanced. The balance of the allowance for unfunded lending-related commitments was $3.3 million and $0.5 million at June 30, 2020 and September 30, 2019, respectively, and is recorded in accrued expenses and other liabilities in the consolidated balance sheet.

Investment Securities

The following table presents the amortized cost of each category of our investment portfolio at the dates indicated.

	June 30, 2020	September 30, 2019
	(dollars in thousands)	
U.S. Treasury securities	$ 49,795	$ 94,178
Mortgage-backed securities:		
Government National Mortgage Association	546,739	501,139
Federal Home Loan Mortgage Corporation	575,530	463,974
Federal National Mortgage Association	385,813	322,340
Small Business Assistance Program	295,662	316,502
States and political subdivision securities	58,137	66,145
Other	1,006	1,006
Total	$ 1,912,682	$ 1,765,284

We generally invest 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, to maintain liquidity and to balance interest rate risk. Since September 30, 2019, the fair value of the portfolio has increased by $189.4 million, or 10.6%.

The following table presents the aggregate amortized cost of each investment category of the investment portfolio and the weighted average yield for each investment category for each maturity period held at June 30, 2020. Maturities of mortgage-backed securities may differ from contractual maturities because the mortgages underlying the securities may be called or prepaid without any penalties. The weighted-average yield ("WA Yield") on these assets is presented in the following table based on the contractual rate, as opposed to a tax equivalent yield concept.

	June 30, 2020													
	Due in one year or less		Due after one year through five years		Due after five years through ten years		Due after ten years		Mortgage-backed securities		Securities without contractual maturities		Total	
	Amount	WA Yield	Amount	WA Yield	Amount	WA Yield	Amount	WA Yield	Amount	WA Yield	Amount	WA Yield	Amount	WA Yield
	(dollars in thousands)													
U.S. Treasury securities	$ 49,795	2.85 %	$ —	— %	$ —	— %	$ —	— %	$ —	— %	$ —	— %	$ 49,795	2.85 %
Mortgage-backed securities	—	— %	—	— %	—	— %	—	— %	1,803,744	2.07 %	—	— %	1,803,744	2.07 %
States and political subdivision securities [1,2]	14,760	1.59 %	31,856	1.77 %	11,521	2.53 %	—	— %	—	— %	—	— %	58,137	1.87 %
Other	—	— %	—	— %	—	— %	—	— %	—	— %	1,006	— %	1,006	— %
Total	$ 64,555	2.56 %	$ 31,856	1.77 %	$ 11,521	2.53 %	$ —	— %	$ 1,803,744	2.07 %	$ 1,006	— %	$ 1,912,682	2.08 %

[1]

[2]

Declines in the fair value of investment securities available for sale that are deemed to be other-than-temporary are recognized in earnings as a realized loss, and a new cost basis for the securities is established. In evaluating other-than-temporary impairment, we consider the length of time and extent to which the fair value has been less than amortized cost, the financial condition and near-term prospects of the issuer, and our intent and ability to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value in the near term. Declines in the fair value of debt securities below amortized cost are deemed to be other-than-temporary in circumstances where: (1) we have the intent to sell a security; (2) it is more-likely-than-not that we will be required to sell the security before recovery of its amortized cost basis; or (3) we do not expect to recover the entire amortized cost basis of the security. If we intend to sell a security or if it is more-likely-than-not that we will be required to sell the security before recovery, an other-than-temporary impairment loss is recognized in earnings equal to the difference between the security’s amortized cost basis and its fair value. If we do not intend to sell the security or it is not more-likely-than-not that it will be required to sell the security before recovery, the other-than-temporary impairment write-down is separated into an amount representing credit loss, which is recognized in earnings, and an amount related to all other factors, which is recognized in other comprehensive income (loss).

Deposits

We obtain funds from depositors by offering consumer and business interest-bearing accounts and term time deposits. At June 30, 2020 and September 30, 2019, our total deposits were $11.15 billion and $10.30 billion, respectively, representing an increase of $850.3 million, or 8.3%, due to a $1.33 billion increase in checking and savings deposits across both business and consumer accounts as a result of inflows from PPP proceeds and consumer stimulus receipts offset with a $0.4 million reduction in business and consumer time deposits and a $0.1 million decrease in public and brokered deposits.

The following table presents the balances and weighted average cost of our deposit portfolio at the following dates.

	June 30, 2020		September 30, 2019	
	Amount	Weighted Avg. Cost	Amount	Weighted Avg. Cost
	(dollars in thousands)			
Noninterest-bearing demand	$ 2,592,376	— %	$ 1,956,025	— %
Interest-bearing demand	7,124,700	0.27 %	6,248,638	1.00 %
Time deposits, greater than $250,000	381,806	1.64 %	493,530	2.30 %
Time deposits, less than or equal to $250,000	1,051,732	0.97 %	1,602,146	1.68 %
Total	$ 11,150,614	0.32 %	$ 10,300,339	0.98 %

At June 30, 2020 and September 30, 2019, we had $397.1 million and $706.5 million, respectively, in brokered deposits, a decrease of $309.4 million, or 43.8%.

Municipal public deposits constituted $1.26 billion and $1.04 billion of our deposit portfolio at June 30, 2020, and September 30, 2019, respectively, of which $881.0 million and $691.9 million, respectively, were required to be collateralized. Our top 10 depositors were responsible for 7.2% and 7.0% of our total deposits at June 30, 2020 and September 30, 2019, respectively.

The following table presents deposits by region.

	June 30, 2020	September 30, 2019
	(dollars in thousands)	
South Dakota	$ 2,780,567	$ 2,575,833
Iowa / Missouri	3,203,564	2,799,597
Nebraska / Kansas	2,936,751	2,611,332
Arizona	589,055	508,308
Colorado	1,326,052	1,237,052
North Dakota / Minnesota	27,307	55,258
Corporate and other	287,318	512,959
Total deposits	$ 11,150,614	$ 10,300,339

We fund a portion of our assets with time deposits that have balances greater than $250,000 and that have maturities generally in excess of six months. At June 30, 2020 and September 30, 2019, our time deposits greater than $250,000 totaled $381.8 million and $493.5 million, respectively. The following table presents the maturities of our time deposits greater than $250,000 and less than or equal to $250,000 in size at June 30, 2020.

	June 30, 2020	
	Greater than $250,000	Less than or equal to $250,000
	(dollars in thousands)	
Remaining maturity:		
Three months or less	$ 124,329	$ 283,074
Over three through six months	90,815	265,440
Over six through twelve months	109,144	332,597
Over twelve months	57,518	170,621
Total	$ 381,806	$ 1,051,732
Percent of total deposits	3.4 %	9.4 %

At both June 30, 2020 and September 30, 2019, the average remaining maturity of all time deposits was approximately 8 months. The average time deposits amount per account was approximately $39,280 and $45,936 at June 30, 2020 and September 30, 2019, respectively.

Derivatives

Prior to 2017 we entered into fixed-rate loans having original maturities of 5 years or greater (typically between 5 and 15 years) with certain of our commercial and agri-business banking customers to assist them in facilitating their risk management strategies. We mitigated our interest rate risk associated with certain of these loans by entering into equal and offsetting fixed-to-floating interest rate swap agreements for these loans with swap counterparties. We elected to account for the loans at fair value under ASC 825, *Fair Value Option*. Changes in the fair value of these loans are recorded in earnings as a component of noninterest income in the relevant period. The related interest rate swaps are recognized as either assets or liabilities in our financial statements and any gains or losses on these swaps, both realized and unrealized, are recorded in earnings as a component of noninterest income. The interest rate swaps are fully effective from an interest rate risk perspective, as gains and losses on our swaps are directly offset by changes in fair value of the fair value option loans (*i.e.*, swap interest rate risk adjustments are directly offset by associated loan interest rate risk adjustments). Consequently, any changes in noninterest income associated with changes in fair value resulting from interest rate movement, as opposed to changes in credit quality, on the loans are directly offset by equal and opposite unrealized charges to or reductions in noninterest income for the related interest rate swap. Any changes in the fair value of the loans related to credit quality and the current realized gain (loss) on derivatives are not offsetting amounts within noninterest income. To ensure the correlation of movements in fair value between the interest rate swap and the related loan, we pass on all economic costs associated with our interest rate swap activity resulting from loan customer prepayments (partial or full) to the customer.

In addition, we enter into interest rate derivative contracts to support the business needs of our customers. These interest rate swaps sales are used to enable customers to achieve a long-term fixed rate by selling the customer a long-term variable rate loan indexed to LIBOR plus a credit spread whereby the Bank enters into an interest rate swap with our customer where the customer pays a fixed rate of interest set at the time of origination on the interest rate swap and then the customer receives a floating rate equal to the rate paid on the loan, thus resulting in a fixed rate of interest over the life of the interest rate swap. We then enter into a mirrored interest rate swap with a swap dealer where we pay and receive the same fixed and floating rate as we pay and receive from the interest rate swap we have with our customer. As the interest paid and received by us on the two swaps net to zero, we are left with the variable rate of the long-term loan.

We enter into RPAs with some of our derivative counterparties to assume the credit exposure related to interest rate derivative contracts. Our loan customer enters into an interest rate swap directly with a derivative counterparty and we agree through an RPA to take on the counterparty's risk of loss on the interest rate swap due to a default by the customer. The notional amounts of RPAs sold were $78.1 million and $56.8 million as of June 30, 2020 and September 30, 2019, respectively. Assuming all underlying loan customers defaulted on their obligation to perform under the interest rate swap with a derivative counterparty, the exposure from these RPAs would be nominal and $0.1 million at June 30, 2020 and September 30, 2019, respectively, based on the fair value of the underlying swaps.

Short-Term Borrowings

Our primary sources of short-term borrowings include securities sold under repurchase agreements and certain FHLB advances maturing within 12 months. The following table presents certain information with respect to only our borrowings with original maturities less than 12 months at and for the periods noted.

	At and for the Nine Months Ended June 30, 2020	At and for the Fiscal Year Ended September 30, 2019
	(dollars in thousands)	
Short-term borrowings:		
Securities sold under agreements to repurchase	$ 70,362	$ 68,992
FHLB advances	30,000	15,000
Total short-term borrowings	$ 100,362	$ 83,992
Maximum amount outstanding at any month-end during the period	$ 539,809	$ 371,649
Average amount outstanding during the period	263,885	175,133
Weighted average rate for the period	0.80 %	1.72 %
Weighted average rate as of date indicated	0.15 %	0.91 %

Other Borrowings

In addition to FHLB short-term advances, we also had FHLB long-term borrowings of $325.0 million outstanding as of both June 30, 2020 and September 30, 2019.

We had outstanding $73.8 million and $73.7 million of junior subordinated debentures to affiliated trusts in connection with the issuance of trust preferred securities by such trusts as of June 30, 2020 and September 30, 2019, respectively. We are permitted under applicable laws and regulations to count these trust preferred securities as part of our Tier 1 capital.

We issued $35.0 million of fixed-to-floating rate subordinated notes that mature on August 15, 2025 through a private placement. The notes, which qualify as Tier 2 capital under Capital Rules in effect at June 30, 2020, have an interest rate of 4.875% per annum, payable semi-annually on each February 15 and August 15, commencing on February 15, 2016 until August 15, 2020. During the third quarter of fiscal year 2020, we incurred $1.1 million in interest expense on all outstanding subordinated debentures and notes compared to $1.4 million in the same period in fiscal year 2019. During the first nine months of fiscal years 2020 and 2019, interest expense on all outstanding subordinated debentures and notes was $3.6 million and $4.2 million, respectively.

Off-Balance Sheet Commitments, Commitments, Guarantees and Contractual Obligations

The following table summarizes the maturity of our contractual obligations and other commitments to make future payments at June 30, 2020. Customer deposit obligations categorized as "not determined" include noninterest-bearing demand accounts and interest-bearing demand accounts with no stated maturity date.

	June 30, 2020					
	Less Than 1 Year	1 to 2 Years	2 to 5 Years	>5 Years	Not Determined	Total
	(dollars in thousands)					
Contractual Obligations:						
Customer deposits	$ 1,182,179	$ 160,206	$ 67,758	$ 175	$ 9,740,296	$ 11,150,614
Securities sold under agreement to repurchase	70,362	—	—	—	—	70,362
FHLB advances and other borrowings	120,000	60,000	175,000	—	—	355,000
Subordinated debentures	—	—	—	75,920	—	75,920
Subordinated notes payable	—	—	—	35,000	—	35,000
Accrued interest payable	7,912	—	—	—	—	7,912
Interest on FHLB advances	8,587	5,882	6,190	—	—	20,659
Interest on subordinated debentures	2,162	2,162	6,485	19,942	—	30,751
Interest on subordinated notes payable	1,706	1,706	5,119	213	—	8,744
Other Commitments:						
Commitments to extend credit—non-credit card	$ 1,310,880	$ 215,841	$ 363,932	$ 188,046	$ —	$ 2,078,699
Commitments to extend credit—credit card	130,341	—	—	—	—	130,341
Letters of credit	71,779	—	—	—	—	71,779

We rent certain premises and equipment under operating leases. See Note 12 to the consolidated financial statements for additional information on long-term lease arrangements.

Instruments with Off-Balance Sheet Risk

In the normal course of business, we enter into various transactions that are not included in our consolidated financial statements in accordance with U.S. GAAP. These transactions include commitments to extend credit to our customers and letters of credit. Commitments to extend credit are agreements to lend to a customer provided there is no violation of any condition established in the commitment. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Letters of credit are conditional commitments issued primarily to support or guarantee the performance of a customer's obligations to a third party. The credit risk involved in issuing letters of credit is essentially the same as originating a loan to the customer. We manage the risks associated with these arrangements by evaluating each customer's creditworthiness prior to issuance through a process similar to that used by us in deciding whether to extend credit to the customer.

The following table presents the total notional amounts of all commitments by us to extend credit and letters of credit as of the dates indicated.

	June 30, 2020	September 30, 2019
	(dollars in thousands)	
Commitments to extend credit	$ 2,209,040	$ 2,229,678
Letters of credit	71,779	68,983
Total	$ 2,280,819	$ 2,298,661

Liquidity

Liquidity refers to our ability to maintain resources that are adequate to fund operations and meet present and future financial obligations through either the sale or maturity of existing assets or by obtaining additional funding through liability management. We consider the effective and prudent management of liquidity to be fundamental to our health and strength. Our objective is to manage our cash flow and liquidity reserves so that they are adequate to fund our obligations and other commitments on a timely basis and at a reasonable cost.

Our liquidity risk is managed through a comprehensive framework of policies and limits overseen by our Bank's asset and liability committee. We continuously monitor and make adjustments to our liquidity position by adjusting the balance between sources and uses of funds as we deem appropriate. Our primary measures of liquidity include monthly cash flow analyses under ordinary business activities and conditions and under situations simulating a severe run on our Bank. We also monitor our Bank's deposit to loan ratio to ensure high quality funding is available to support our strategic lending growth objectives, and have internal management targets for the FDIC's liquidity ratio, net short-term non-core funding dependence ratio and non-core liabilities to total assets ratio. The results of these measures and analyses are incorporated into our contingency funding plan, which provides the basis for the identification of our liquidity needs. We also acquire brokered deposits when the cost of funds is advantageous to other funding sources.

Great Western Bancorp, Inc. Our primary source of liquidity is cash obtained from dividends paid by our Bank. We primarily use our cash for the payment of dividends, when and if declared by our Board of Directors, and the payment of interest on our outstanding junior subordinated debentures and subordinated notes. We also use cash, as necessary, to satisfy the needs of our Bank through equity contributions and for acquisitions. At June 30, 2020, our holding company had $38.9 million of cash. During the third quarter of fiscal year 2020, we declared and paid a dividend of $0.15 per common share. The outstanding amount under our private placement subordinated capital notes was $35.0 million at June 30, 2020. Our management believes that the sources of available liquidity are adequate to meet all reasonably foreseeable short-term and intermediate-term demands. We may consider raising additional capital in public or private offerings of debt or equity securities. To this end, on June 1, 2020 we filed a shelf registration statement with the SEC registering an indeterminate amount of our common stock, debt securities and other securities which we may decide to issue in the future. The specific terms of any shares or other securities we choose to issue will be based on current market conditions and will be described in a supplement to the prospectus contained in the shelf registration statement.

Great Western Bank. Our Bank maintains sufficient liquidity by maintaining minimum levels of excess cash reserves (measured on a daily basis), a sufficient amount of unencumbered, highly liquid assets and access to contingent funding. At June 30, 2020, our Bank had cash of $311.6 million (inclusive of $38.9 million of cash from our holding company) and $1.97 billion of highly-liquid securities held in our investment portfolio, of which $1.05 billion were pledged as collateral on public deposits, securities sold under agreements to repurchase, and for other purposes as required or permitted by law. The balance could be sold to meet liquidity requirements. Our Bank had $355.0 million in FHLB borrowings at June 30, 2020, with additional available lines of $1.84 billion. Our Bank also had an additional borrowing capacity of $1.01 billion with the FRB Discount Window. Our Bank primarily uses liquidity to meet loan requests and commitments (including commitments under letters of credit), to accommodate outflows in deposits and to take advantage of interest rate market opportunities. At June 30, 2020, we had a total of $2.28 billion of outstanding exposure under commitments to extend credit and issued letters of credit. Our management believes that the sources of available liquidity are adequate to meet all our Bank's reasonably foreseeable short-term and intermediate-term demands.

Capital

As a bank holding company, we must comply with the capital requirements established by the Federal Reserve, and our Bank must comply with the capital requirements established by the FDIC. The current risk-based guidelines applicable to us and our Bank are based on the Basel III framework, as implemented by the federal bank regulators.

The following table presents our regulatory capital ratios at June 30, 2020 and the standards for both well-capitalized depository institutions and minimum capital requirements. Our capital ratios exceeded applicable regulatory requirements as of that date.

	June 30, 2020			
	Actual			
	Capital Amount	Ratio	Minimum Capital Requirement Ratio [1]	Well Capitalized Ratio
	(dollars in thousands)			
Great Western Bancorp, Inc.				
Tier 1 capital	$ 1,183,662	11.3 %	6.0 %	N/A
Total capital	1,349,520	12.9 %	8.0 %	N/A
Tier 1 leverage	1,183,662	9.3 %	4.0 %	N/A
Common equity Tier 1	1,109,864	10.6 %	4.5 %	N/A
Risk-weighted assets	10,447,952			
Great Western Bank				
Tier 1 capital	$ 1,173,204	11.2 %	6.0 %	8.0 %
Total capital	1,304,028	12.5 %	8.0 %	10.0 %
Tier 1 leverage	1,173,204	9.2 %	4.0 %	5.0 %
Common equity Tier 1	1,173,204	11.2 %	4.5 %	6.5 %
Risk-weighted assets	10,445,248			

[1] Does not include capital conservation buffer, which was 2.5% at June 30, 2020

At June 30, 2020 and September 30, 2019, our Tier 1 capital included an aggregate of $73.8 million and $73.7 million, respectively, of trust preferred securities issued by our subsidiaries, net of fair value adjustment. At June 30, 2020, our Tier 2 capital included $130.9 million of the allowance for loan and lease losses and $35.0 million of private placement subordinated capital notes whose eligibility as Tier 2 capital will be reduced by 20% in the quarter ending September 2020. At September 30, 2019, our Tier 2 capital included $70.8 million of the allowance for loan and lease losses and $35.0 million of private placement subordinated capital notes. Our total risk-weighted assets were $10.45 billion at June 30, 2020.

Non-GAAP Financial Measures

We rely on certain non-GAAP financial measures in making financial and operational decisions about our business. We believe that each of the non-GAAP financial measures presented is helpful in highlighting trends in our business, financial condition and results of operations which might not otherwise be apparent when relying solely on our financial results calculated in accordance with U.S. GAAP. We disclose net interest income and related ratios and analysis on a taxable-equivalent basis, which may also be considered non-GAAP financial measures. We believe this presentation to be the preferred industry measurement of net interest income as it provides a relevant comparison of net interest income arising from taxable and tax-exempt sources. In addition, certain performance measures, including the efficiency ratio and net interest margin utilize net interest income on a taxable-equivalent basis.

In particular, we evaluate our profitability and performance based on our adjusted net income, adjusted earnings per common share, tangible net income and return on average tangible common equity. Our adjusted net income and adjusted earnings per common share exclude the after-tax effect of items with a significant impact to net income that we do not believe to be recurring in nature, (e.g., one-time acquisition expenses as well as the COVID-19 impact on credit and other related charges and the impairment of goodwill and certain intangible assets). Our tangible net income and return on average tangible common equity exclude the effects of amortization expense relating to intangible assets and related tax effects from the acquisition of us by NAB and our acquisitions of other institutions. We believe these measures help highlight trends associated with our financial condition and results of operations by providing net income and return information excluding significant nonrecurring items (for adjusted net income and adjusted earnings per common share) and based on our cash payments and receipts during the applicable period (for tangible net income and return on average tangible common equity).

We also evaluate our profitability and performance based on our adjusted net interest income, adjusted net interest margin, adjusted interest income on non-ASC 310-30 loans and adjusted yield on non-ASC 310-30 loans. We adjust each of these four measures to include the current realized gain (loss) of derivatives we use to manage interest rate risk on certain of our loans, which we believe economically offsets the interest income earned on the loans. Similarly, we evaluate our operational efficiency based on our efficiency ratio, which excludes the effect of amortization of core deposit and other intangibles (a non-cash expense item) and includes the tax benefit associated with our tax-advantaged loans.

We evaluate our financial condition based on the ratio of our tangible common equity to our tangible assets and the ratio of our tangible common equity to common shares outstanding. Our calculation of this ratio excludes the effect of our goodwill and other intangible assets. We believe this measure is helpful in highlighting the common equity component of our capital and because of its focus by federal bank regulators when reviewing the health and strength of financial institutions in recent years and when considering regulatory approvals for certain actions, including capital actions. We also believe the ratio of our tangible common equity to common shares outstanding is helpful in understanding our stockholders' relative ownership position as we undertake various actions to issue and retire common shares outstanding.

Reconciliations for each of these non-GAAP financial measures to the closest GAAP financial measures are included in the following tables. Each of the non-GAAP financial measures presented should be considered in context with our GAAP financial results included in this filing.

	At or for the nine months ended:		At or for the three months ended:				
	June 30, 2020	June 30, 2019	June 30, 2020	March 31, 2020	December 31, 2019	September 30, 2019	June 30, 2019
	(Dollars in thousands except share and per share amounts)						
Adjusted net income and adjusted earnings per common share:							
Net (loss) income - GAAP	$ (691,944)	$ 117,080	$ 5,400	$ (740,618)	$ 43,274	$ 50,285	$ 26,783
Add: COVID-19 related impairment of goodwill and certain intangible assets, net of tax	713,013	—	—	713,013	—	—	—
Add: COVID-19 impact on credit and other related charges, net of tax	56,685	—	—	56,685	—	—	—
Adjusted net income	$ 77,754	$ 117,080	$ 5,400	$ 29,080	$ 43,274	$ 50,285	$ 26,783
Weighted average diluted common shares outstanding	55,788,751	57,408,023	55,145,619	55,906,002	56,457,967	56,804,172	57,110,103
Earnings per common share - diluted	$ (12.40)	$ 2.04	$ 0.10	$ (13.25)	$ 0.77	$ 0.89	$ 0.47
Adjusted earnings per common share - diluted	$ 1.39	$ 2.04	$ 0.10	$ 0.52	$ 0.77	$ 0.89	$ 0.47
Tangible net income and return on average tangible common equity:							
Net (loss) income - GAAP	$ (691,944)	$ 117,080	$ 5,400	$ (740,618)	$ 43,274	$ 50,285	$ 26,783
Add: Amortization of intangible assets and COVID-19 related impairment of goodwill and certain intangible assets, net of tax	714,078	1,022	261	713,440	377	315	335
Tangible net income	$ 22,134	$ 118,102	$ 5,661	$ (27,178)	$ 43,651	$ 50,600	$ 27,118
Average common equity	$ 1,663,420	$ 1,834,708	$ 1,163,724	$ 1,918,035	$ 1,908,519	$ 1,885,785	$ 1,864,132
Less: Average goodwill and other intangible assets	498,644	746,110	6,527	741,257	748,146	745,349	745,718
Average tangible common equity	$ 1,164,776	$ 1,088,598	$ 1,157,197	$ 1,176,778	$ 1,160,373	$ 1,140,436	$ 1,118,414
Return on average common equity *	(55.6)%	8.5 %	1.9 %	(155.3)%	9.0 %	10.6 %	5.8 %
Return on average tangible common equity **	2.5 %	14.5 %	2.0 %	(9.3)%	15.0 %	17.6 %	9.7 %

* Calculated as net income - GAAP divided by average common equity. Annualized for partial-year periods.

** Calculated as tangible net income divided by average tangible common equity. Annualized for partial-year periods.

Adjusted net interest income and adjusted net interest margin (fully-tax equivalent basis):							
Net interest income - GAAP	$ 313,407	$ 313,999	$ 106,251	$ 101,983	$ 105,173	$ 106,709	$ 105,629
Add: Tax equivalent adjustment	4,638	4,356	1,601	1,514	1,523	1,487	1,424
Net interest income							

(FTE)	318,045	318,355	107,852	103,497	106,696	108,196	107,053
Add: Current realized derivative gain (loss)	(5,180)	746	(3,040)	(1,250)	(890)	(127)	321
Adjusted net interest income (FTE)	$ 312,865	$ 319,101	$ 104,812	$ 102,247	$ 105,806	$ 108,069	$ 107,374
Average interest-earning assets	$ 11,763,523	$ 11,349,960	$ 12,156,505	$ 11,590,453	$ 11,543,610	$ 11,609,823	$ 11,617,521
Net interest margin (FTE) *	3.61 %	3.75 %	3.57 %	3.59 %	3.68 %	3.70 %	3.70 %
Adjusted net interest margin (FTE) **	3.55 %	3.76 %	3.47 %	3.55 %	3.65 %	3.69 %	3.71 %

* 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.

	At or for the nine months ended:		At or for the three months ended:				
	June 30, 2020	June 30, 2019	June 30, 2020	March 31, 2020	December 31, 2019	September 30, 2019	June 30, 2019
			(Dollars in thousands except share and per share amounts)				
Adjusted interest income and adjusted yield (fully-tax equivalent basis), on non-ASC 310-30 loans:							
Interest income - GAAP	$ 337,404	$ 365,987	$ 107,725	$ 111,970	$ 117,709	$ 124,923	$ 124,098
Add: Tax equivalent adjustment	4,638	4,356	1,601	1,514	1,523	1,487	1,424
Interest income (FTE)	342,042	370,343	109,326	113,484	119,232	126,410	125,522
Add: Current realized derivative gain (loss)	(5,180)	746	(3,040)	(1,250)	(890)	(127)	321
Adjusted interest income (FTE)	$ 336,862	$ 371,089	$ 106,286	$ 112,234	$ 118,342	$ 126,283	$ 125,843
Average non-ASC 310-30 loans	$ 9,675,039	$ 9,583,477	$ 9,974,802	$ 9,496,153	$ 9,554,161	$ 9,693,395	$ 9,699,433
Yield (FTE) *	4.72 %	5.17 %	4.41 %	4.81 %	4.96 %	5.17 %	5.19 %
Adjusted yield (FTE) **	4.65 %	5.18 %	4.29 %	4.75 %	4.93 %	5.17 %	5.20 %
* Calculated as interest income (FTE) divided by average loans. Annualized for partial-year periods.							
** Calculated as adjusted interest income (FTE) divided by average loans. Annualized for partial-year periods.							
Efficiency ratio:							
Total revenue - GAAP	$ 317,374	$ 359,708	$ 94,568	$ 101,900	$ 120,906	$ 121,732	$ 116,395
Add: Tax equivalent adjustment	4,638	4,356	1,601	1,514	1,523	1,487	1,424
Total revenue (FTE)	$ 322,012	$ 364,064	$ 96,169	$ 103,414	$ 122,429	$ 123,219	$ 117,819
Noninterest expense	$ 932,432	$ 169,686	$ 67,049	$ 808,453	$ 56,930	$ 55,212	$ 56,000
Less: Amortization of intangible assets and COVID-19 related impairment of goodwill and certain intangible assets	743,484	1,173	278	742,779	427	366	385
Tangible noninterest expense	$ 188,948	$ 168,513	$ 66,771	$ 65,674	$ 56,503	$ 54,846	$ 55,615
Efficiency ratio *	58.7 %	46.3 %	69.4 %	63.5 %	46.2 %	44.5 %	47.2 %
* 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	$ 1,160,644	$ 1,881,128	$ 1,160,644	$ 1,153,464	$ 1,920,669	$ 1,900,249	$ 1,881,128
Less: Goodwill and other intangible assets	6,425	745,563	6,425	6,703	749,481	745,197	745,563
Tangible common equity	$ 1,154,219	$ 1,135,565	$ 1,154,219	$ 1,146,761	$ 1,171,188	$ 1,155,052	$ 1,135,565
Total assets	$ 12,934,328	$ 12,954,896	$ 12,934,328	$ 12,387,808	$ 12,851,665	$ 12,788,301	$ 12,954,896
Less: Goodwill and other intangible assets	6,425	745,563	6,425	6,703	749,481	745,197	745,563
Tangible assets	$ 12,927,903	$ 12,209,333	$ 12,927,903	$ 12,381,105	$ 12,102,184	$ 12,043,104	$ 12,209,333
Tangible common equity to tangible assets	8.9 %	9.3 %	8.9 %	9.3 %	9.7 %	9.6 %	9.3 %
Tangible book value per share:							
Total stockholders' equity	$ 1,160,644	$ 1,881,128	$ 1,160,644	$ 1,153,464	$ 1,920,669	$ 1,900,249	$ 1,881,128
Less: Goodwill and other intangible assets	6,425	745,563	6,425	6,703	749,481	745,197	745,563
Tangible common							

equity	$ 1,154,219	$ 1,135,565	$ 1,154,219	$ 1,146,761	$ 1,171,188	$ 1,155,052	$ 1,135,565
Common shares outstanding	55,014,047	56,939,032	55,014,047	55,013,928	56,382,915	56,283,659	56,939,032
Book value per share - GAAP	$ 21.10	$ 33.04	$ 21.10	$ 20.97	$ 34.06	$ 33.76	$ 33.04
Tangible book value per share	$ 20.98	$ 19.94	$ 20.98	$ 20.84	$ 20.77	$ 20.52	$ 19.94

Recent Accounting Pronouncements

See "Note 2. New Accounting Standards" in the accompanying "Notes to Consolidated Financial Statements (Unaudited)" included in this report for a discussion of new accounting pronouncements and their expected impact on our financial statements.

Impact of Inflation and Changing Prices

Our financial statements included in this report have been prepared in accordance with U.S. GAAP, which requires us to measure financial position and operating results primarily in terms of historic dollars. Changes in the relative value of money due to inflation or recession generally are not considered. The primary effect of inflation on our operations is reflected in increased operating costs. In our management's opinion, changes in interest rates affect the financial condition of a financial institution to a far greater degree than changes in the inflation rate. While interest rates are greatly influenced by changes in the inflation rate, they do not necessarily change at the same rate or in the same magnitude as the inflation rate. Interest rates are highly sensitive to many factors that are beyond our control, including changes in the expected rate of inflation, the influence of general and local economic conditions and the monetary and fiscal policies of the United States government, its agencies and various other governmental regulatory authorities.

Critical Accounting Policies and the Impact of Accounting Estimates

See "Note 1. Nature of Operations and Summary of Significant Policies" in the accompanying "Notes to Consolidated Financial Statements (Unaudited)" included in this report for a discussion of changes to our lease accounting policies as a result of adopting ASU 2016-02, "*Leases (Topic 842)*" and subsequent related ASUs in the current fiscal year. The remainder of our critical accounting policies and accounting estimates have had no material changes from those disclosed in our Annual Report on Form 10-K for the fiscal year ended September 30, 2019.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As of June 30, 2020, there have been no material changes in the quantitative and qualitative information about market risk provided pursuant to Item 305 of Regulation S-K as presented in our Annual Report on Form 10-K for the fiscal year ended September 30, 2019.

Evaluation of Interest Rate Risk

We use a net interest income simulation model to measure and evaluate potential changes in our net interest income. We run various hypothetical interest rate scenarios regularly and compare these results against a scenario with no changes in interest rates. Our net interest income simulation model incorporates various assumptions, which we believe are reasonable but which may have a significant impact on results such as: (1) the timing of changes in interest rates, (2) shifts or rotations in the yield curve, (3) re-pricing characteristics for market-rate-sensitive instruments on and off balance sheet, (4) differing sensitivities of financial instruments due to differing underlying rate indices, (5) varying loan prepayment speeds for different interest rate scenarios, (6) the effect of interest rate limitations in our assets, such as floors and caps, (7) the effect of our interest rate swaps, and (8) overall growth and repayment rates and product mix of assets and liabilities. Because of limitations inherent in any approach used to measure interest rate risk, simulation results are not intended as a forecast of the actual effect of a change in market interest rates on our results but rather as a means to better plan and execute appropriate asset-liability management strategies and manage our interest rate risk.

Potential changes to our adjusted net interest income (i.e., GAAP net interest income plus current realized gain or loss on derivatives) in hypothetical rising and declining rate scenarios calculated as of June 30, 2020 are presented in the following table. The projections assume (1) immediate, parallel shifts downward of the yield curve of 100 and 200 basis points and immediate, parallel shifts upward of the yield curve of 100, 200, 300 and 400 basis points and (2) gradual shifts downward of 100 and 200 basis points over 12 months and gradual shifts upward of 100, 200, 300 and 400 basis points over 12 months. In the current interest rate environment, a downward shift of the yield curve of 300 and 400 basis points does not provide us with realistic results. In a downward parallel shift of the yield curve, interest rates at the short-end of the yield curve are not modeled to decline any further than 0%. For the immediate-shift scenarios, we assume short-term rates follow a forward yield curve throughout the forecast period that is dictated by the instantaneously shocked yield curve from the as of date. In the gradual-shift scenarios, we take each rate across the yield curve from the as of date and shock it by 1/12th of the total change in rates each month for twelve months.

Change in Market Interest Rates as of June 30, 2020	Estimated Increase (Decrease) in Annualized Adjusted Net Interest Income for the Quarter Ended June 30, 2020	
	Twelve Months Ending June 30, 2021	Twelve Months Ending June 30, 2022
Immediate Shifts		
+400 basis points	9.52 %	16.90 %
+300 basis points	7.17 %	13.05 %
+200 basis points	4.76 %	9.04 %
+100 basis points	2.35 %	4.88 %
-100 basis points	(0.15)%	(0.97)%
-200 basis points	(0.37)%	(1.12)%
Gradual Shifts		
+400 basis points	0.84 %	
+300 basis points	0.74 %	
+200 basis points	0.65 %	
+100 basis points	0.53 %	
-100 basis points	0.05 %	
-200 basis points	(0.14)%	

We primarily use interest rate swaps to ensure that long-term fixed-rate loans are effectively re-priced as short-term rates change, which we believe would allow us to achieve these results. The results of this simulation analysis are hypothetical, and a variety of factors might cause actual results to differ substantially from what is depicted. For example, if the timing and magnitude of interest rate changes differ from those projected, our net interest income might vary significantly. Non-parallel yield curve shifts, such as a flattening or steepening of the yield curve or changes in interest rate spreads, would also cause our net interest income to be different from that depicted. An increasing interest rate environment could reduce projected net interest income if deposits and other short-term liabilities re-price faster than expected or faster than our assets re-price. Actual results could differ from those projected if we grow assets and liabilities faster or slower than estimated, if we experience a net outflow of deposit liabilities or if our mix of assets and liabilities otherwise changes. Actual results could also differ from those projected if we experience substantially different repayment speeds in our loan portfolio than those assumed in the simulation model. Finally, these simulation results do not contemplate all the actions that we may undertake in response to potential or actual changes in interest rates, such as changes to our loan, investment, deposit, funding or interest rate swap strategies.

For more information on our adjusted net interest income, including a reconciliation to the most directly comparable GAAP financial measures, see "—Non-GAAP Financial Measures" above.

ITEM 4. CONTROLS AND PROCEDURES

(a) *Evaluation of Disclosure Controls and Procedures.* Our management is responsible for establishing and maintaining effective disclosure controls and procedures as defined under Rules 13a-15(e) and 15d-15(e) of the Exchange Act. An evaluation was performed under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as of the period covered by this report. Based on and as of the time of that evaluation, our management, including our Chief Executive Officer and Chief Financial Officer, concluded our disclosure controls and procedures were effective to ensure that information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SECs rules and forms.

(b) *Changes in Internal Control over Financial Reporting.* During the most recently completed fiscal quarter, there have been no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. 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 1A. RISK FACTORS

There are certain risks and uncertainties in our business that could cause our actual results to differ materially from those anticipated. See "Part I, Item 1A. Risk Factors" of the Annual Report on Form 10-K of Great Western Bancorp, Inc., for the fiscal year ended September 30, 2019 (the "2019 Form 10-K"), which includes a detailed discussion of our risk factors. Other than as noted below and as noted under Item 1A. Risk Factors of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2020 (the "Q2 Quarterly Report") with respect to the impact of the COVID-19 pandemic on our business, financial condition and results of operations, our risk factors have not changed significantly from those disclosed in our 2019 Form 10-K. These risk factors should be read carefully in connection with evaluating our business and in connection with the forward-looking statements and other information contained in this Quarterly Report on Form 10-Q. Any of the risks described in our 2019 Form 10-K or in our Q2 Quarterly Report could materially affect our business, consolidated financial condition or future results of operations and the actual outcome of matters as to which forward-looking statements are made. The risk factors described in our 2019 Form 10-K are not the only risks we face. Additional risks and uncertainties not currently known to us, or that we currently deem to be immaterial, also may materially adversely affect our business, consolidated financial condition and/or future results of operations.

Our Bank's participation in the Paycheck Protection Program could expose us to additional risks.

Federal and state governments have enacted laws intending to stimulate the economy in light of the business and market disruptions related to COVID-19. President Trump signed into law three economic stimulus packages, including the $2.0 trillion Coronavirus Relief and Economic Security Act on March 26, 2020, which, among other things, initiated the Small Business Administration Paycheck Protection Program (the "PPP"). On April 16, 2020, the original $349.0 billion of funding under the PPP was exhausted, and on April 24, 2020, the Federal Government allocated an additional $310.0 billion to the program. Our Bank participated as a lender in both the initial and second rounds of the PPP, which was designed to help small businesses maintain their workforce during the COVID-19 pandemic. As of July 20, 2020, we have made over 4,600 PPP loans totaling $724.4 million.

We understand that these loans are fully guaranteed by the SBA and believe the majority of these loans will be forgiven. However, there can be no assurance that the borrowers will use or have used the funds appropriately or will have satisfied the staffing or payment requirements to qualify for forgiveness in whole or in part. Any portion of the loan that is not forgiven must be repaid by the borrower. In the event of a loss resulting from a default on a PPP loan and a determination by the SBA that there was a deficiency in the manner in which the PPP loan was originated, funded or serviced by our Bank, which may or may not be related to an ambiguity in the laws, rules or guidance regarding operation of the PPP, the SBA may deny its liability under the guaranty, reduce the amount of the guaranty, or, if we have already been paid under the guaranty, seek recovery from us of any loss related to the deficiency.

Since the opening of the PPP, several other large banks have been subject to litigation regarding the process and procedures that such banks used in processing applications for the PPP. We and our Bank may be exposed to the risk of similar litigation, from both customers and non-customers that approached the Bank regarding PPP loans, regarding its processes and procedures used in processing applications for the PPP. If any such litigation is filed against the Bank and is not resolved in a manner favorable to the Bank, it may result in significant financial liability or adversely affect our reputation. In addition, litigation can be costly, regardless of outcome. Any financial liability, litigation costs or reputational damage caused by PPP related litigation could have a material adverse impact on our business, financial condition and results of operations.

Our ability to declare and pay dividends is now subject to additional regulatory restrictions.

We are subject to statutory and regulatory limitations on our ability to declare and pay dividends on our common stock. As reported in our Q2 Quarterly Report, the Company recorded a net loss of $740.6 million, ($13.25) per diluted common share for the quarter ended March 31, 2020, due primarily to a $742.4 million goodwill impairment charge. As a result, the Company had negative retained earnings at March 31, 2020. The goodwill impairment did not impact regulatory capital ratios which were previously reported as a total risk-based capital ratio of 12.9% and a Tier 1 common to risk weighted assets ratio of 11.3%. However, due to the negative retained earnings, the Company is now required to notify the FRB prior to declaring and paying a cash dividend to our shareholders and may not pay a dividend if the FRB objects. Additionally, our bank will be required to seek FDIC and SDDB approval for the payment of dividends from our Bank to the Company.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Sales of Unregistered Equity Securities

None.

Purchases of Equity Securities

We did not repurchase any of our common stock during the third quarter of fiscal year September 30, 2020.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6. EXHIBITS

Exhibit Number	Description
10.1 *	Amended and Restated CEO Transition and Retirement Agreement (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed by Great Western Bancorp, Inc. on June 10, 2020 (File No. 001-36688))
11.1	Statement regarding Computation of Per Share Earnings (included as Note 19 to the registrant's unaudited consolidated financial statements)
31.1**	Rule 13a-14(a) Certification of Chief Executive Officer of Great Western Bancorp, Inc. in accordance with Section 302 of the Sarbanes-Oxley Act of 2002
31.2**	Rule 13a-14(a) Certification of Chief Financial Officer of Great Western Bancorp, Inc. in accordance with Section 302 of the Sarbanes-Oxley Act of 2002
32.1**	Section 1350 Certification of Chief Executive Officer of Great Western Bancorp, Inc. in accordance with Section 906 of the Sarbanes-Oxley Act of 2002
32.2**	Section 1350 Certification of Chief Financial Officer of Great Western Bancorp, Inc. in accordance with Section 906 of the Sarbanes-Oxley Act of 2002
101.INS***	XBRL Instance Document
101.SCH***	XBRL Taxonomy Extension Schema Document
101.CAL***	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF***	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB***	XBRL Taxonomy Extension Label Linkbase Document
101.PRE***	XBRL Taxonomy Extension Presentation Linkbase Document

* Indicates management contract or compensatory plan

** Filed herewith

*** Furnished, not filed

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

		Great Western Bancorp, Inc.
Date: July 29, 2020	By:	/s/ Peter Chapman
	Name:	**Peter Chapman**
	Title:	Chief Financial Officer and Executive Vice President (Principal Financial Officer and Authorized Officer)

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Section 2: EX-31.1 (EX-31.1)

Exhibit 31.1

CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Mark Borrecco, President and Chief Executive Officer of Great Western Bancorp, Inc., certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Great Western Bancorp, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's

internal control over financial reporting.

		Great Western Bancorp, Inc.
Date: July 29, 2020	By:	/s/ Mark Borrecco
	Name:	**Mark Borrecco**
	Title:	President and Chief Executive Officer

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Section 3: EX-31.2 (EX-31.2)

Exhibit 31.2

CERTIFICATION OF THE CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Peter Chapman, Chief Financial Officer and Executive Vice President of Great Western Bancorp, Inc., certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Great Western Bancorp, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

		Great Western Bancorp, Inc.
Date: July 29, 2020	By:	/s/ Peter Chapman

Name: **Peter Chapman**
Title: Chief Financial Officer and Executive Vice President

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Section 4: EX-32.1 (EX-32.1)

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Great Western Bancorp, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Mark Borrecco, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Great Western Bancorp, Inc.

Date: July 29, 2020

By: /s/ Mark Borrecco
Name: **Mark Borrecco**
Title: President and Chief Executive Officer

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Section 5: EX-32.2 (EX-32.2)

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Great Western Bancorp, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Peter Chapman, Chief Financial Officer and Executive Vice President of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: July 29, 2020

Great Western Bancorp, Inc.

By: /s/ Peter Chapman

Name: **Peter Chapman**

Title: Chief Financial Officer and Executive Vice President

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