WEST BANCORPORATION INC
Form 10-Q
April 28, 2016

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

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2016

or

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from __________ to __________

Commission File Number: 0-49677

WEST BANCORPORATION, INC.
(Exact Name of Registrant as Specified in its Charter)

IOWA	42-1230603
(State of Incorporation)	(I.R.S. Employer Identification No.)

1601 22nd Street, West Des Moines, Iowa	50266
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (515) 222-2300

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 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 x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes x No o

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

Large accelerated filer	o	Accelerated filer	x
Non-accelerated filer	o	Smaller reporting company	o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No x

As of April 27, 2016, there were 16,132,540 shares of common stock, no par value, outstanding.

WEST BANCORPORATION, INC.

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PART I - FINANCIAL INFORMATION
Item 1. Financial Statements
West Bancorporation, Inc. and Subsidiary
Consolidated Balance Sheets
(unaudited)

(dollars in thousands)	March 31, 2016	December 31, 2015
ASSETS		
Cash and due from banks	$48,919	$ 57,329
Federal funds sold	7,804	15,322
Cash and cash equivalents	56,723	72,651
Investment securities available for sale, at fair value	311,335	320,714
Investment securities held to maturity, at amortized cost (fair value of $51,455 and $51,918 at March 31, 2016 and December 31, 2015, respectively)	50,526	51,259
Federal Home Loan Bank stock, at cost	12,353	12,447
Loans	1,274,929	1,246,688
Allowance for loan losses	(15,280)	(14,967)
Loans, net	1,259,649	1,231,721
Premises and equipment, net	17,298	11,562
Accrued interest receivable	5,273	4,688
Bank-owned life insurance	32,688	32,834
Deferred tax assets, net	5,457	6,670
Other assets	3,817	3,850
Total assets	$1,755,119	$ 1,748,396
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Noninterest-bearing demand	$457,409	$ 486,707
Interest-bearing demand	247,300	267,824
Savings	632,934	570,391
Time of $250,000 or more	13,248	14,749
Other time	94,856	101,058
Total deposits	1,445,747	1,440,729
Federal funds purchased	1,685	2,760
Short-term borrowings	17,000	19,000
Subordinated notes, net of discount	20,388	20,385
Federal Home Loan Bank advances, net of discount	98,758	98,385
Long-term debt, net of discount	7,592	8,405
Accrued expenses and other liabilities	7,023	6,355
Total liabilities	1,598,193	1,596,019
COMMITMENTS AND CONTINGENCIES (NOTE 8)		
STOCKHOLDERS' EQUITY		
Preferred stock, $0.01 par value; authorized 50,000,000 shares; no shares issued and outstanding at March 31, 2016 and December 31, 2015	—	—
Common stock, no par value; authorized 50,000,000 shares; 16,106,540 and 16,064,435 shares issued and outstanding at March 31, 2016 and December 31, 2015, respectively	3,000	3,000

Additional paid-in capital	20,262	20,067
Retained earnings	132,865	129,740
Accumulated other comprehensive income (loss)	799	(430)
Total stockholders' equity	156,926	152,377
Total liabilities and stockholders' equity	$ 1,755,119	$ 1,748,396

See Notes to Consolidated Financial Statements.

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West Bancorporation, Inc. and Subsidiary
Consolidated Statements of Income
(unaudited)

	Three Months Ended March 31,	
(dollars in thousands, except per share data)	2016	2015
Interest income:		
Loans, including fees	$13,466	$12,622
Investment securities:		
Taxable	1,155	1,125
Tax-exempt	883	764
Federal funds sold	20	10
Total interest income	15,524	14,521
Interest expense:		
Deposits	705	571
Federal funds purchased	2	2
Short-term borrowings	14	26
Subordinated notes	187	171
Federal Home Loan Bank advances	872	724
Long-term debt	45	64
Total interest expense	1,825	1,558
Net interest income	13,699	12,963
Provision for loan losses	200	—
Net interest income after provision for loan losses	13,499	12,963
Noninterest income:		
Service charges on deposit accounts	596	620
Debit card usage fees	447	435
Trust services	297	325
Increase in cash value of bank-owned life insurance	168	189
Gain from bank-owned life insurance	443	—
Realized investment securities gains, net	—	11
Other income	279	280
Total noninterest income	2,230	1,860
Noninterest expense:		
Salaries and employee benefits	4,256	3,990
Occupancy	951	1,049
Data processing	579	574
FDIC insurance	218	202
Professional fees	234	204
Director fees	240	188
Other expenses	1,321	1,239
Total noninterest expense	7,799	7,446
Income before income taxes	7,930	7,377
Income taxes	2,234	2,274
Net income	$5,696	$5,103
Basic earnings per common share	$0.35	$0.32
Diluted earnings per common share	$0.35	$0.32

Cash dividends declared per common share	$0.16	$0.14

See Notes to Consolidated Financial Statements.

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West Bancorporation, Inc. and Subsidiary
Consolidated Statements of Comprehensive Income
(unaudited)

	Three Months Ended March 31,	
(dollars in thousands)	2016	2015
Net income	$5,696	$5,103
Other comprehensive income (loss):		
Unrealized gains on available for sale securities:		
Unrealized holding gains arising during the period	2,685	2,029
Less: reclassification adjustment for net gains realized in net income	—	(11)
Less: reclassification adjustment for amortization of net unrealized gains to interest income on securities transferred from available for sale to held to maturity	(24)	(10)
Income tax (expense)	(1,011)	(763)
Other comprehensive income on available for sale securities	1,650	1,245
Unrealized (losses) on derivatives arising during the period:	(830)	(1,113)
Less: reclassification adjustment for net loss on derivatives realized in net income	124	74
Less: reclassification adjustment for amortization of derivative termination costs	27	2
Income tax benefit	258	394
Other comprehensive (loss) on derivatives	(421)	(643)
Total other comprehensive income	1,229	602
Comprehensive income	$6,925	$5,705

See Notes to Consolidated Financial Statements.

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West Bancorporation, Inc. and Subsidiary
Consolidated Statements of Stockholders' Equity
(unaudited)

(in thousands, except share and per share data)	Preferred Stock	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2014	$ —	16,018,734	$3,000	$18,971	$117,950	$ 254	$140,175
Net income	—	—	—	—	5,103	—	5,103
Other comprehensive income, net of tax	—	—	—	—	—	602	602
Cash dividends declared, $0.14 per common share	—	—	—	—	(2,242)	—	(2,242)
Stock-based compensation costs	—	—	—	178	—	—	178
Issuance of common stock upon vesting of restricted stock units, net of shares withheld for payroll taxes	—	20,535	—	(179)	—	—	(179)
Excess tax benefits from vesting of restricted stock units	—	—	—	84	—	—	84
Balance, March 31, 2015	$ —	16,039,269	$3,000	$19,054	$120,811	$ 856	$143,721
Balance, December 31, 2015	$ —	16,064,435	$3,000	$20,067	$129,740	$ (430)	$152,377
Net income	—	—	—	—	5,696	—	5,696
Other comprehensive income, net of tax	—	—	—	—	—	1,229	1,229
Cash dividends declared, $0.16 per common share	—	—	—	—	(2,571)	—	(2,571)
Stock-based compensation costs	—	—	—	461	—	—	461
Issuance of common stock upon vesting of restricted stock units, net of shares withheld for payroll taxes	—	42,105	—	(348)	—	—	(348)
Excess tax benefits from vesting of restricted stock units	—	—	—	82	—	—	82
Balance, March 31, 2016	$ —	16,106,540	$3,000	$20,262	$132,865	$ 799	$156,926

See Notes to Consolidated Financial Statements.

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West Bancorporation, Inc. and Subsidiary
Consolidated Statements of Cash Flows
(unaudited)

	Three Months Ended March 31,	
(dollars in thousands)	2016	2015
Cash Flows from Operating Activities:		
Net income	$5,696	$5,103
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	200	—
Net amortization and accretion	1,106	898
Loss on disposition of premises and equipment	—	1
Investment securities gains, net	—	(11)
Stock-based compensation	461	178
Increase in cash value of bank-owned life insurance	(168)	(189)
Gain from bank-owned life insurance	(443)	—
Depreciation	241	230
Deferred income taxes	460	165
Excess tax benefits from vesting of restricted stock units	(82)	(84)
Change in assets and liabilities:		
Increase in accrued interest receivable	(585)	(689)
Decrease in other assets	252	2,697
Decrease in accrued expenses and other liabilities	(39)	(971)
Net cash provided by operating activities	7,099	7,328
Cash Flows from Investing Activities:		
Proceeds from sales of securities available for sale	—	10,057
Proceeds from maturities and calls of investment securities	12,072	10,146
Purchases of securities available for sale	—	(10,107)
Purchases of Federal Home Loan Bank stock	(7,527)	(8,187)
Proceeds from redemption of Federal Home Loan Bank stock	7,621	10,747
Net increase in loans	(28,128)	(131)
Purchases of premises and equipment	(5,977)	(1,041)
Proceeds of principal and earnings from bank-owned life insurance	621	—
Proceeds from settlement of other assets	—	3,593
Net cash provided by (used in) investing activities	(21,318)	15,077
Cash Flows from Financing Activities:		
Net increase in deposits	5,018	94,958
Net increase (decrease) in federal funds purchased	(1,075)	1,125
Net decrease in short-term borrowings	(2,000)	(66,000)
Principal payments on long-term debt	(815)	(815)
Interest rate swap termination costs paid	—	(158)
Common stock dividends paid	(2,571)	(2,242)
Restricted stock units withheld for payroll taxes	(348)	(179)
Excess tax benefits from vesting of restricted stock units	82	84
Net cash provided by (used in) financing activities	(1,709)	26,773
Net increase (decrease) in cash and cash equivalents	(15,928)	49,178
Cash and Cash Equivalents:		
Beginning	72,651	39,781

Ending	$56,723	$88,959
Supplemental Disclosures of Cash Flow Information:		
Cash payments for:		
Interest	$1,811	$1,569
Income taxes	—	40

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West Bancorporation, Inc. and Subsidiary
Notes to Consolidated Financial Statements
(unaudited)
(in thousands, except per share data)

1. Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared by West Bancorporation, Inc. (the Company) pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements have been condensed or omitted pursuant to such rules and regulations. Although management believes that the disclosures are adequate to make the information presented understandable, it is suggested that these interim consolidated financial statements be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2015. In the opinion of management, the accompanying consolidated financial statements contain all adjustments necessary to fairly present the financial position of the Company as of March 31, 2016 and December 31, 2015, and net income, comprehensive income and cash flows of the Company for the three months ended March 31, 2016 and 2015. The results for these interim periods may not be indicative of results for the entire year or for any other period.

The consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) established by the Financial Accounting Standards Board (FASB). References to GAAP issued by the FASB in these footnotes are to the FASB Accounting Standards Codification™, sometimes referred to as the Codification or ASC. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses for the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term are the fair value and other than temporary impairment (OTTI) of financial instruments and the allowance for loan losses.

The accompanying unaudited consolidated financial statements include the accounts of the Company, West Bank and West Bank's wholly-owned subsidiary WB Funding Corporation (which owned an interest in a limited liability company that was sold in the fourth quarter of 2015). All significant intercompany transactions and balances have been eliminated in consolidation. In accordance with GAAP, West Bancorporation Capital Trust I is recorded on the books of the Company using the equity method of accounting and is not consolidated.

Reclassification: Certain amounts in prior year consolidated financial statements have been reclassified, with no effect on net income, comprehensive income or stockholders' equity, to conform with current period presentation.

Current accounting developments: In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606): Summary and Amendments that Create Revenue from Contracts with Customers (Topic 606) and Other Assets and Deferred Costs—Contracts with Customers (Subtopic 340-40). The guidance in this update supersedes the revenue recognition requirements in ASC Topic 605, Revenue Recognition, and most industry-specific guidance throughout the industry topics of the Codification. For public companies, this update will be effective for interim and annual periods beginning after December 15, 2017. The Company is currently assessing the impact that this guidance will have on its consolidated financial statements, but does not expect the guidance to have a material impact on the Company's consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-03, Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. The update simplifies the presentation of debt issuance costs by requiring that debt issuance costs be presented in the balance sheet as a direct deduction from the carrying amount of debt liability, consistent with debt discounts or premiums. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this update. For public companies, this update was effective for interim and annual periods beginning after December 15, 2015, and was applied retrospectively. The adoption of this guidance required a balance sheet reclassification of unamortized debt issuance costs, which did not have a material impact on the Company's consolidated financial statements.

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In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The update enhances the reporting model for financial instruments to provide users of financial statements with more decision-useful information by updating certain aspects of recognition, measurement, presentation and disclosure of financial instruments. Among other changes, the update includes requiring changes in fair value of equity securities with readily determinable fair value to be recognized in net income and clarifies that entities should evaluate the need for a valuation allowance on a deferred tax asset related to available for sale securities in combination with the entities' other deferred tax assets. For public companies, this update will be effective for interim and annual periods beginning after December 15, 2017, and is to be applied on a modified retrospective basis. The Company is currently assessing the impact that this guidance will have on its consolidated financial statements, but does not expect the guidance to have a material impact on the Company's consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). The guidance in the update supersedes the requirements in ASC Topic 840, Leases. The update will require business entities to recognize lease assets and liabilities on the balance sheet and to disclose key information about leasing arrangements. A lessee would recognize a liability to make lease payments and a right-of-use asset representing its right to use the leased asset for the lease term. For public companies, this update will be effective for interim and annual periods beginning after December 15, 2018, and is to be applied on a modified retrospective basis. The Company is currently assessing the impact that this guidance will have on its consolidated financial statements, but does not expect the guidance to have a material impact on the Company's consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, Compensation—Stock Compensation (Topic 718). The update simplifies several aspects of accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The guidance also allows an entity to make an entity-wide accounting policy election to either estimate expected forfeitures or account for forfeitures as they occur. For public companies, the update is effective for annual periods beginning after December 15, 2016. Portions of the amended guidance are to be applied using a modified retrospective transition method and others require prospective application. The Company is currently assessing the impact that this guidance will have on its consolidated financial statements, but does not expect the guidance to have a material impact on the Company's consolidated financial statements.

2. Earnings per Common Share

Basic earnings per common share are computed by dividing net income by the weighted average number of common shares outstanding for the period. Diluted earnings per common share reflect the potential dilution that could occur if the Company's outstanding restricted stock units were vested. The dilutive effect was computed using the treasury stock method, which assumes all stock-based awards were exercised and the hypothetical proceeds from exercise were used by the Company to purchase common stock at the average market price during the period. The incremental shares, to the extent they would have been dilutive, were included in the denominator of the diluted earnings per common share calculation. The calculations of earnings per common share and diluted earnings per common share for the three months ended March 31, 2016 and 2015 are presented in the following table.

(in thousands, except per share data)	Three Months Ended March 31, 2016	2015
Net income	$5,696	$5,103
Weighted average common shares outstanding	16,070	16,020
Weighted average effect of restricted stock units outstanding	41	65
Diluted weighted average common shares outstanding	16,111	16,085
Basic earnings per common share	$0.35	$0.32
Diluted earnings per common share	$0.35	$0.32

Restricted stock units totaling 151,630 were anti-dilutive and therefore excluded from the computation of diluted earnings per common share for the three months ended March 31, 2016. No restricted stock units were anti-dilutive for the three months ended March 31, 2015.

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(dollars in thousands, except per share data)

3. Investment Securities

The following tables show the amortized cost, gross unrealized gains and losses, and fair value of investment securities, by investment security type as of March 31, 2016 and December 31, 2015.

	March 31, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Securities available for sale:				
U.S. government agencies and corporations	$2,545	$ 128	$ —	$2,673
State and political subdivisions	71,390	1,926	(7)	73,309
Collateralized mortgage obligations (1)	126,142	819	(318)	126,643
Mortgage-backed securities (1)	96,568	924	(13)	97,479
Trust preferred security	1,776	—	(701)	1,075
Corporate notes and equity securities	10,113	68	(25)	10,156
	$308,534	$ 3,865	$ (1,064)	$311,335
Securities held to maturity:				
State and political subdivisions	$50,526	$ 1,154	$ (225)	$51,455

	December 31, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Securities available for sale:				
U.S. government agencies and corporations	$2,551	$ 141	$ —	$2,692
State and political subdivisions	71,431	1,669	(21)	73,079
Collateralized mortgage obligations (1)	133,414	491	(1,290)	132,615
Mortgage-backed securities (1)	101,299	485	(696)	101,088
Trust preferred security	1,773	—	(668)	1,105
Corporate notes and equity securities	10,130	61	(56)	10,135
	$320,598	$ 2,847	$ (2,731)	$320,714
Securities held to maturity:				
State and political subdivisions	$51,259	$ 883	$ (224)	$51,918

(1) All collateralized mortgage obligations and mortgage-backed securities consist of residential mortgage pass-through securities guaranteed by GNMA or issued by FNMA and real estate mortgage investment conduits guaranteed by FHLMC or GNMA.

Investment securities with an amortized cost of approximately $76,391 and $78,553 as of March 31, 2016 and December 31, 2015, respectively, were pledged to secure access to the Federal Reserve discount window, for public fund deposits, and for other purposes as required or permitted by law or regulation.

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The amortized cost and fair value of investment securities available for sale as of March 31, 2016, by contractual maturity, are shown below. Certain securities have call features that allow the issuer to call the securities prior to maturity. Expected maturities may differ from contractual maturities for collateralized mortgage obligations and mortgage-backed securities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Therefore, collateralized mortgage obligations and mortgage-backed securities are not included in the maturity categories within the following maturity summary. Equity securities have no maturity date.

	March 31, 2016	
	Amortized Cost	Fair Value
Due in one year or less	$4,380	$4,395
Due after one year through five years	17,065	17,386
Due after five years through ten years	28,647	29,486
Due after ten years	34,248	34,421
	84,340	85,688
Collateralized mortgage obligations and mortgage-backed securities	222,710	224,122
Equity securities	1,484	1,525
	$308,534	$311,335

The amortized cost and fair value of investment securities held to maturity as of March 31, 2016, by contractual maturity, are shown below. Certain securities have call features that allow the issuer to call the securities prior to maturity.

	March 31, 2016	
	Amortized Cost	Fair Value
Due after one year through five years	$276	$271
Due after five years through ten years	16,665	16,940
Due after ten years	33,585	34,244
	$50,526	$51,455

The details of the sales of investment securities for the three months ended March 31, 2016 and 2015 are summarized in the following table.

	Three Months Ended March 31,	
	2016	2015
Proceeds from sales	$—	$10,057
Gross gains on sales	—	11
Gross losses on sales	—	—

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West Bancorporation, Inc. and Subsidiary
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(unaudited)
(dollars in thousands, except per share data)

The following tables show the fair value and gross unrealized losses, aggregated by investment type and length of time that individual securities have been in a continuous loss position, as of March 31, 2016 and December 31, 2015.

	March 31, 2016					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Gross Unrealized (Losses)	Fair Value	Gross Unrealized (Losses)	Fair Value	Gross Unrealized (Losses)
Securities available for sale:						
U.S. government agencies and corporations	$—	$ —	$—	$ —	$—	$ —
State and political subdivisions	932	(7)	—	—	932	(7)
Collateralized mortgage obligations	27,033	(55)	26,353	(263)	53,386	(318)
Mortgage-backed securities	9,825	(13)	—	—	9,825	(13)
Trust preferred security	—	—	1,075	(701)	1,075	(701)
Corporate notes and equity securities	4,024	(25)	—	—	4,024	(25)
	$41,814	$ (100)	$27,428	$ (964)	$69,242	$ (1,064)
Securities held to maturity:						
State and political subdivisions	$1,886	$ (8)	$5,896	$ (217)	$7,782	$ (225)

	December 31, 2015					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Gross Unrealized (Losses)	Fair Value	Gross Unrealized (Losses)	Fair Value	Gross Unrealized (Losses)
Securities available for sale:						
U.S. government agencies and corporations	$—	$ —	$—	$ —	$—	$ —
State and political subdivisions	321	(1)	2,053	(20)	2,374	(21)
Collateralized mortgage obligations	53,043	(449)	38,286	(841)	91,329	(1,290)
Mortgage-backed securities	67,662	(600)	7,200	(96)	74,862	(696)
Trust preferred security	—	—	1,105	(668)	1,105	(668)
Corporate notes and equity securities	4,500	(56)	—	—	4,500	(56)
	$125,526	$ (1,106)	$48,644	$ (1,625)	$174,170	$ (2,731)
Securities held to maturity:						
State and political subdivisions	$2,832	$ (42)	$7,341	$ (182)	$10,173	$ (224)

As of March 31, 2016, the available for sale and held to maturity securities with unrealized losses that have existed for longer than one year included 19 state and political subdivision securities, eight collateralized mortgage obligation securities and one trust preferred security.

The Company believes the unrealized losses on investments available for sale and held to maturity as of March 31, 2016, were due to market conditions, rather than reduced estimated cash flows. The Company does not intend to sell these securities, does not anticipate that these securities will be required to be sold before anticipated recovery, and expects full principal and interest to be collected. Therefore, the Company does not consider these investments to have OTTI as of March 31, 2016.

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West Bancorporation, Inc. and Subsidiary
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(unaudited)
(dollars in thousands, except per share data)

4. Loans and Allowance for Loan Losses

Loans consisted of the following segments as of March 31, 2016 and December 31, 2015.

	March 31, 2016	December 31, 2015
Commercial	$354,450	$349,051
Real estate:		
Construction, land and land development	194,446	174,602
1-4 family residential first mortgages	51,060	51,370
Home equity	21,316	21,749
Commercial	647,637	644,176
Consumer and other loans	7,036	6,801
	1,275,945	1,247,749
Net unamortized fees and costs	(1,016)	(1,061)
	$1,274,929	$1,246,688

Real estate loans of approximately $590,000 were pledged as security for Federal Home Loan Bank (FHLB) advances as of March 31, 2016 and December 31, 2015.

Loans are stated at the principal amounts outstanding, net of unamortized loan fees and costs, with interest income recognized on the interest method based upon those outstanding loan balances. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using the interest method. Loans are reported by the portfolio segments identified above and are analyzed by management on this basis. All loan policies identified below apply to all segments of the loan portfolio.

Delinquencies are determined based on the payment terms of the individual loan agreements. The accrual of interest on past due and other impaired loans is generally discontinued at 90 days past due or when, in the opinion of management, the borrower may be unable to make all payments pursuant to contractual terms. Unless considered collectible, all interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income, if accrued in the current year, or charged to the allowance for loan losses, if accrued in the prior year. Generally, all payments received while a loan is on nonaccrual status are applied to the principal balance of the loan. Loans are returned to accrual status when all principal and interest amounts contractually due are brought current and future payments are reasonably assured.

A loan is classified as a troubled debt restructured (TDR) loan when the Company separately concludes that a borrower is experiencing financial difficulties and a concession is granted that would not otherwise be considered. Concessions may include a restructuring of the loan terms to alleviate the burden of the borrower's cash requirements, such as an extension of the payment terms beyond the original maturity date or a change in the interest rate charged. TDR loans with extended payment terms are accounted for as impaired until performance is established. A change to the interest rate would change the classification of a loan to a TDR loan if the restructured loan yields a rate that is below a market rate for that of a new loan with comparable risk. TDR loans with below-market rates are considered impaired until fully collected. TDR loans may also be reported as nonaccrual or past due 90 days if they are not performing per the restructured terms.

Based upon its ongoing assessment of credit quality within the loan portfolio, the Company maintains a Watch List, which includes loans classified as Doubtful, Substandard and Watch according to the Company's classification criteria. These loans involve the anticipated potential for payment defaults or collateral inadequacies. A loan on the Watch List is considered impaired when management believes it is probable the Company will be unable to collect all contractual principal and interest payments due in accordance with the terms of the loan agreement. Impaired loans are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as a practical expedient, at the loan's observable market price or the fair value of the collateral if the loan is collateral dependent. The amount of impairment, if any, and any subsequent changes are included in the allowance for loan losses.

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The table below presents the TDR loans by segment as of March 31, 2016 and December 31, 2015.

	March 31, 2016	December 31, 2015
Troubled debt restructured loans[1]:		
Commercial	$ 99	$ 102
Real estate:		
Construction, land and land development	—	60
1-4 family residential first mortgages	82	86
Home equity	—	—
Commercial	416	445
Consumer and other loans	—	—
Total troubled debt restructured loans	$ 597	$ 693

(1) There were three TDR loans included in this table as of March 31, 2016 and December 31, 2015, with balances of $577 and $613, respectively, categorized as nonaccrual.

There were no loan modifications considered to be TDR that occurred during the three months ended March 31, 2016, and one loan modification considered to be TDR that occurred during the three months ended March 31, 2015 with a pre- and post-modification recorded investment of $110.

No TDR loans that were modified within the twelve months preceding March 31, 2016 and 2015 have subsequently had a payment default. A TDR loan is considered to have a payment default when it is past due 30 days or more.

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The following table summarizes the recorded investment in impaired loans by segment, broken down by loans with no related allowance for loan losses and loans with a related allowance and the amount of that allowance as of March 31, 2016 and December 31, 2015.

	March 31, 2016			December 31, 2015		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:						
Commercial	$—	$ —	$ —	$—	$ —	$ —
Real Estate:						
Construction, land and land development	—	—	—	60	663	—
1-4 family residential first mortgages	340	348	—	352	360	—
Home equity	—	—	—	—	—	—
Commercial	416	416	—	482	482	—
Consumer and other loans	—	—	—	—	—	—
	756	764	—	894	1,505	—
With an allowance recorded:						
Commercial	137	137	137	142	142	142
Real Estate:						
Construction, land and land development	—	—	—	—	—	—
1-4 family residential first mortgages	—	—	—	—	—	—
Home equity	263	263	263	270	270	270
Commercial	150	150	150	155	155	155
Consumer and other loans	—	—	—	—	—	—
	550	550	550	567	567	567
Total:						
Commercial	137	137	137	142	142	142
Real Estate:						
Construction, land and land development	—	—	—	60	663	—
1-4 family residential first mortgages	340	348	—	352	360	—
Home equity	263	263	263	270	270	270
Commercial	566	566	150	637	637	155
Consumer and other loans	—	—	—	—	—	—
	$1,306	$ 1,314	$ 550	$1,461	$ 2,072	$ 567

The balance of impaired loans at March 31, 2016 and December 31, 2015 was composed of 11 and 13 different borrowers, respectively. The Company has no commitments to advance additional funds on any of the impaired loans.

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The following table summarizes the average recorded investment and interest income recognized on impaired loans by segment for the three months ended March 31, 2016 and 2015.

	Three Months Ended March 31,			
	2016		2015	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:				
Commercial	$—	$ —	$165	$ —
Real estate:				
Construction, land and land development	28	—	367	3
1-4 family residential first mortgages	347	1	271	—
Home equity	—	—	—	—
Commercial	440	—	543	—
Consumer and other loans	—	—	1	—
	815	1	1,347	3
With an allowance recorded:				
Commercial	140	—	290	2
Real estate:				
Construction, land and land development	—	—	618	6
1-4 family residential first mortgages	—	—	—	—
Home equity	267	—	226	—
Commercial	152	—	171	—
Consumer and other loans	—	—	—	—
	559	—	1,305	8
Total:				
Commercial	140	—	455	2
Real estate:				
Construction, land and land development	28	—	985	9
1-4 family residential first mortgages	347	1	271	—
Home equity	267	—	226	—
Commercial	592	—	714	—
Consumer and other loans	—	—	1	—
	$1,374	$ 1	$2,652	$ 11

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The following tables provide an analysis of the payment status of the recorded investment in loans as of March 31, 2016 and December 31, 2015.

	March 31, 2016						
	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Nonaccrual Loans	Total Loans
Commercial	$23	$ —	$ —	$23	$354,290	$ 137	$354,450
Real estate:							
Construction, land and land development	—	—	—	—	194,446	—	194,446
1-4 family residential first mortgages	417	—	—	417	50,323	320	51,060
Home equity	19	—	—	19	21,034	263	21,316
Commercial	34	—	—	34	647,037	566	647,637
Consumer and other	—	—	—	—	7,036	—	7,036
Total	$493	$ —	$ —	$493	$1,274,166	$ 1,286	$1,275,945

	December 31, 2015						
	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Nonaccrual Loans	Total Loans
Commercial	$1	$ 38	$ —	$39	$348,870	$ 142	$349,051
Real estate:							
Construction, land and land development	—	—	—	—	174,602	—	174,602
1-4 family residential first mortgages	317	—	—	317	50,721	332	51,370
Home equity	—	—	—	—	21,479	270	21,749
Commercial	—	—	—	—	643,539	637	644,176
Consumer and other	—	—	—	—	6,801	—	6,801
Total	$318	$ 38	$ —	$356	$1,246,012	$ 1,381	$1,247,749

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The following tables present the recorded investment in loans by credit quality indicator and loan segment as of March 31, 2016 and December 31, 2015.

	March 31, 2016				
	Pass	Watch	Substandard	Doubtful	Total
Commercial	$350,386	$2,673	$ 1,391	$ —	$354,450
Real estate:					
Construction, land and land development	193,408	—	1,038	—	194,446
1-4 family residential first mortgages	49,927	793	340	—	51,060
Home equity	20,974	69	273	—	21,316
Commercial	623,753	22,375	1,509	—	647,637
Consumer and other	7,022	—	14	—	7,036
Total	$1,245,470	$25,910	$ 4,565	$ —	$1,275,945

	December 31, 2015				
	Pass	Watch	Substandard	Doubtful	Total
Commercial	$344,650	$2,936	$ 1,465	$ —	$349,051
Real estate:					
Construction, land and land development	173,373	—	1,229	—	174,602
1-4 family residential first mortgages	50,375	517	478	—	51,370
Home equity	21,401	68	280	—	21,749
Commercial	619,608	22,977	1,591	—	644,176
Consumer and other	6,786	—	15	—	6,801
Total	$1,216,193	$26,498	$ 5,058	$ —	$1,247,749

All loans are subject to the assessment of a credit quality indicator. Risk ratings are assigned for each loan at the time of approval, and they change as circumstances dictate during the term of the loan. The Company utilizes a 9-point risk rating scale as shown below, with ratings 1 - 5 included in the Pass column, rating 6 included in the Watch column, ratings 7 - 8 included in the Substandard column and rating 9 included in the Doubtful column. All loans classified as impaired that are included in the specific evaluation of the allowance for loan losses are included in the Substandard column along with all other loans with ratings of 7 - 8.

Risk rating 1: The loan is secured by cash equivalent collateral.

Risk rating 2: The loan is secured by properly margined marketable securities, bonds or cash surrender value of life insurance.

Risk rating 3: The borrower is in strong financial condition and has strong debt service capacity. The loan is performing as agreed, and the financial characteristics and trends of the borrower exceed industry statistics.

Risk rating 4: The borrower is in satisfactory financial condition and has satisfactory debt service capacity. The loan is performing as agreed, and the financial characteristics and trends of the borrower fall in line with industry statistics.

Risk rating 5: The borrower's financial condition is less than satisfactory. The loan is still generally paying as agreed, but strained cash flows may cause some slowness in payments. The collateral values adequately preclude loss on the loan. Financial characteristics and trends lag industry statistics. There may be noncompliance with loan covenants.

Risk rating 6: The borrower's financial condition is deficient. Payment delinquencies may be more common. Collateral values still protect from loss, but margins are narrow. The loan may be reliant on secondary sources of repayment, including liquidation of collateral and guarantor support.

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Risk rating 7: The loan is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Well-defined weaknesses exist that jeopardize the liquidation of the debt. The Company is inadequately protected by the valuation or paying capacity of the collateral pledged. If deficiencies are not corrected, there is a distinct possibility that a loss will be sustained.

Risk rating 8: All the characteristics of rating 7 exist with the added condition that the loan is past due more than 90 days or there is reason to believe the Company will not receive its principal and interest according to the terms of the loan agreement.

Risk rating 9: All the weaknesses inherent in risk ratings 7 and 8 exist with the added condition that collection or liquidation, on the basis of currently known facts, conditions and values, is highly questionable and improbable. A loan reaching this category would most likely be charged off.

Credit quality indicators for all loans and the Company's risk rating process are dynamic and updated on a continuous basis. Risk ratings are updated as circumstances that could affect the repayment of an individual loan are brought to management's attention through an established monitoring process. Individual lenders initiate changes as appropriate for ratings 1 through 5, and changes for ratings 6 through 9 are initiated via communications with management. The likelihood of loss increases as the risk rating increases and is generally preceded by a loan appearing on the Watch List, which consists of all loans with a risk rating of 6 or worse. Written action plans with firm target dates for resolution of identified problems are maintained and reviewed on a quarterly basis for all segments of criticized loans.

In addition to the Company's internal credit monitoring practices and procedures, an outsourced independent credit review function is in place to further assess assigned internal risk classifications and monitor compliance with internal lending policies and procedures.

In all portfolio segments, the primary risks are that a borrower's income stream diminishes to the point that the borrower is not able to make scheduled principal and interest payments and any collateral securing the loan declines in value. The risk of declining collateral values is present for most types of loans.

Commercial loans consist primarily of loans to businesses for various purposes, including revolving lines to finance current operations, inventory and accounts receivable, and capital expenditure loans to finance equipment and other fixed assets. These loans generally have short maturities, have either adjustable or fixed interest rates, and are either unsecured or secured by inventory, accounts receivable and/or fixed assets. For commercial loans, the primary source of repayment is from the operation of the business.

Real estate loans include various types of loans for which the Company holds real property as collateral, and consist of loans on commercial properties and single and multifamily residences. Real estate loans are typically structured to mature or reprice every five years with payments based on amortization periods up to 30 years. The majority of construction loans are to contractors and developers for construction of commercial buildings or residential real estate. These loans typically have maturities of up to 24 months. The Company's loan policy includes minimum appraisal and other credit guidelines.

Consumer loans include loans extended to individuals for household, family and other personal expenditures not secured by real estate. The majority of the Company's consumer lending is for vehicles, consolidation of personal debts and household improvements. The repayment source for consumer loans, including 1-4 family residential and home equity loans, is typically wages.

The allowance for loan losses is established through a provision for loan losses charged to expense. The allowance is an amount that management believes will be adequate to absorb probable losses on existing loans based on an evaluation of the collectability of loans and prior loss experience. This evaluation also takes into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, the review of specific problem loans, and the current economic conditions that may affect the borrower's ability to pay. Loans are charged-off against the allowance for loan losses when management believes that collectability of the principal is unlikely. While management uses the best information available to make its evaluations, future adjustments to the allowance may be necessary if there are significant changes in economic conditions or the other factors relied upon.

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The allowance for loan losses consists of specific and general components. The specific component relates to loans that meet the definition of impaired. The general component covers the remaining loans and is based on historical loss experience adjusted for qualitative factors such as delinquency trends, loan growth, economic elements and local market conditions. These same policies are applied to all segments of loans. In addition, regulatory agencies, as an integral part of their examination processes, periodically review the Company's allowance for loan losses, and may require the Company to make additions to the allowance based on their judgment about information available to them at the time of their examinations.

The following tables detail the changes in the allowance for loan losses by segment for the three months ended March 31, 2016 and 2015.

	Three Months Ended March 31, 2016						
	Commercial	Real Estate Construction and Land	1-4 Family Residential	Home Equity	Commercial	Consumer and Other	Total
Beginning balance	$4,369	$2,338	$ 508	$481	$ 7,254	$ 17	$14,967
Charge-offs	—	—	—	—	—	—	—
Recoveries	42	44	11	7	3	6	113
Provision [(1)]	(268)	280	(123)	31	227	53	200
Ending balance	$4,143	$2,662	$ 396	$519	$ 7,484	$ 76	$15,280

	Three Months Ended March 31, 2015						
	Commercial	Real Estate Construction and Land	1-4 Family Residential	Home Equity	Commercial	Consumer and Other	Total
Beginning balance	$4,415	$2,151	$ 466	$534	$ 6,013	$ 28	$13,607
Charge-offs	(38)	—	—	—	—	—	(38)
Recoveries	24	250	1	25	3	6	309
Provision [(1)]	97	(657)	(34)	(54)	653	(5)	—
Ending balance	$4,498	$1,744	$ 433	$505	$ 6,669	$ 29	$13,878

(1) The negative provisions for the various segments are either related to the decline in each of those portfolio segments during the time periods disclosed and/or improvement in the credit quality factors related to those portfolio segments.

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The following tables present a breakdown of the allowance for loan losses disaggregated on the basis of impairment analysis method by segment as of March 31, 2016 and December 31, 2015.

	March 31, 2016						
	Commercial	Real Estate Construction and Land	1-4 Family Residential	Home Equity	Commercial	Consumer and Other	Total
Ending balance:							
Individually evaluated for impairment	$137	$—	$ —	$ 263	$ 150	$ —	$550
Collectively evaluated for impairment	4,006	2,662	396	256	7,334	76	14,730
Total	$4,143	$2,662	$ 396	$ 519	$ 7,484	$ 76	$15,280

	December 31, 2015						
	Commercial	Real Estate Construction and Land	1-4 Family Residential	Home Equity	Commercial	Consumer and Other	Total
Ending balance:							
Individually evaluated for impairment	$142	$—	$ —	$ 270	$ 155	$ —	$567
Collectively evaluated for impairment	4,227	2,338	508	211	7,099	17	14,400
Total	$4,369	$2,338	$ 508	$ 481	$ 7,254	$ 17	$14,967

The following tables present the recorded investment in loans, exclusive of unamortized fees and costs, disaggregated on the basis of impairment analysis method by segment as of March 31, 2016 and December 31, 2015.

March 31,
2016