WEST BANCORPORATION INC
Form 10-Q
July 26, 2018

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 June 30, 2018

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, a smaller reporting company or an emerging growth company. See the 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	o	
Accelerated filer	x	
Non-accelerated filer	o	(Do not check if a smaller reporting company)
Smaller reporting company	o	
Emerging growth company	o	

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. 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 July 25, 2018, there were 16,295,494 shares of common stock, no par value, outstanding.

WEST BANCORPORATION, INC.
INDEX

Table of Contents

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

(in thousands, except share and per share data)	June 30, 2018	December 31, 2017
ASSETS		
Cash and due from banks	$36,964	$34,952
Federal funds sold	28,139	12,997
Cash and cash equivalents	65,103	47,949
Investment securities available for sale, at fair value	526,793	444,219
Investment securities held to maturity, at amortized cost (fair value $45,890 at December 31, 2017)	—	45,527
Federal Home Loan Bank stock, at cost	9,202	9,174
Loans	1,534,404	1,510,500
Allowance for loan losses	(16,518)	(16,430)
Loans, net	1,517,886	1,494,070
Premises and equipment, net	22,053	23,022
Accrued interest receivable	7,864	7,344
Bank-owned life insurance	33,928	33,618
Deferred tax assets, net	5,826	4,645
Other assets	8,511	4,809
Total assets	$2,197,166	$2,114,377
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Noninterest-bearing demand	$381,281	$395,888
Interest-bearing demand	326,567	395,052
Savings	1,004,926	850,216
Time of $250 or more	29,382	16,965
Other time	149,773	152,692
Total deposits	1,891,929	1,810,813
Federal funds purchased	860	545
Subordinated notes, net	20,418	20,412
Federal Home Loan Bank advances, net	77,124	76,382
Long-term debt	19,611	22,917
Accrued expenses and other liabilities	4,872	5,210
Total liabilities	2,014,814	1,936,279
COMMITMENTS AND CONTINGENCIES (NOTE 8)		
STOCKHOLDERS' EQUITY		
Preferred stock, $0.01 par value; authorized 50,000,000 shares; no shares issued and outstanding at June 30, 2018 and December 31, 2017	—	—
Common stock, no par value; authorized 50,000,000 shares; 16,295,494 and 16,215,672 shares issued and outstanding at June 30, 2018 and December 31, 2017, respectively	3,000	3,000

Additional paid-in capital	23,653	23,463
Retained earnings	161,867	153,527
Accumulated other comprehensive loss	(6,168)	(1,892)
Total stockholders' equity	182,352	178,098
Total liabilities and stockholders' equity	$2,197,166	$2,114,377

See Notes to Consolidated Financial Statements.

4

Table of Contents

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands, except per share data)	2018	2017	2018	2017
Interest income:				
Loans, including fees	$17,168	$16,042	$33,642	$31,011
Investment securities:				
Taxable	1,886	1,239	3,699	2,266
Tax-exempt	1,306	815	2,668	1,593
Federal funds sold	177	70	258	87
Total interest income	20,537	18,166	40,267	34,957
Interest expense:				
Deposits	3,798	1,781	6,810	2,976
Federal funds purchased	52	23	79	69
Subordinated notes	284	223	532	435
Federal Home Loan Bank advances	907	948	1,739	1,865
Long-term debt	197	98	392	130
Total interest expense	5,238	3,073	9,552	5,475
Net interest income	15,299	15,093	30,715	29,482
Provision for loan losses	—	—	150	—
Net interest income after provision for loan losses	15,299	15,093	30,565	29,482
Noninterest income:				
Service charges on deposit accounts	627	631	1,276	1,231
Debit card usage fees	433	458	832	898
Trust services	575	436	1,020	828
Increase in cash value of bank-owned life insurance	152	163	310	317
Gain from bank-owned life insurance	—	—	—	307
Realized investment securities gains (losses), net	(25)	229	(25)	226
Other income	261	399	523	669
Total noninterest income	2,023	2,316	3,936	4,476
Noninterest expense:				
Salaries and employee benefits	4,775	4,449	9,288	8,786
Occupancy	1,258	1,131	2,481	2,228
Data processing	674	708	1,350	1,396
FDIC insurance	165	150	327	363
Professional fees	178	248	412	541
Director fees	261	246	510	457
Write-down of premises	333	—	333	—
Other expenses	1,314	1,240	2,544	2,444
Total noninterest expense	8,958	8,172	17,245	16,215
Income before income taxes	8,364	9,237	17,256	17,743
Income taxes	1,600	2,872	3,108	5,272
Net income	$6,764	$6,365	$14,148	$12,471
Basic earnings per common share	$0.42	$0.39	$0.87	$0.77
Diluted earnings per common share	$0.41	$0.39	$0.86	$0.76

Cash dividends declared per common share	$0.20	$0.18	$0.38	$0.35

See Notes to Consolidated Financial Statements.

5

Table of Contents

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	2018	2017	2018	2017
Net income	$6,764	$6,365	$14,148	$12,471
Other comprehensive income (loss) :				
Unrealized gains (losses) on investment securities:				
Unrealized holding gains (losses) arising during the period	(1,226)	2,218	(8,191)	3,825
Unrealized gains on investment securities transferred from held to maturity to available for sale	—	—	363	—
Plus: reclassification adjustment for net (gains) losses realized in net income	25	(229)	25	(226)
Less: other reclassification adjustment	—	(193)	(36)	(200)
Income tax benefit (expense)	301	(683)	1,962	(1,292)
Other comprehensive income (loss) on investment securities	(900)	1,113	(5,877)	2,107
Unrealized gains (losses) on derivatives:				
Unrealized holding gains (losses) arising during the period	1,003	(356)	2,548	(347)
Plus: reclassification adjustment for net (gain) loss on derivatives realized in net income	(2)	79	35	169
Plus: reclassification adjustment for amortization of derivative termination costs	24	27	47	54
Income tax benefit (expense)	(257)	95	(659)	47
Other comprehensive income (loss) on derivatives	768	(155)	1,971	(77)
Total other comprehensive income (loss)	(132)	958	(3,906)	2,030
Comprehensive income	$6,632	$7,323	$10,242	$14,501

See Notes to Consolidated Financial Statements.

Table of Contents

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, 2016	$ —	16,137,999	$ 3,000	$ 21,462	$ 141,956	$ (1,042)	$ 165,376
Net income	—	—	—	—	12,471	—	12,471
Other comprehensive income, net of tax	—	—	—	—	—	2,030	2,030
Cash dividends declared, $0.35 per common share	—	—	—	—	(5,661)	—	(5,661)
Stock-based compensation costs	—	—	—	1,223	—	—	1,223
Issuance of common stock upon vesting of restricted stock units, net of shares withheld for payroll taxes	—	73,162	—	(553)	—	—	(553)
Balance, June 30, 2017	$ —	16,211,161	$ 3,000	$ 22,132	$ 148,766	$ 988	$ 174,886
Balance, December 31, 2017	$ —	16,215,672	$ 3,000	$ 23,463	$ 153,527	$ (1,892)	$ 178,098
Reclassification of stranded tax effects of rate change	—	—	—	—	370	(370)	—
Net income	—	—	—	—	14,148	—	14,148
Other comprehensive loss, net of tax	—	—	—	—	—	(3,906)	(3,906)
Cash dividends declared, $0.38 per common share	—	—	—	—	(6,178)	—	(6,178)
Stock-based compensation costs	—	—	—	1,266	—	—	1,266
Issuance of common stock upon vesting of restricted stock units, net of shares withheld for payroll taxes	—	79,822	—	(1,076)	—	—	(1,076)
Balance, June 30, 2018	$ —	16,295,494	$ 3,000	$ 23,653	$ 161,867	$ (6,168)	$ 182,352

See Notes to Consolidated Financial Statements.

Table of Contents

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

	Six Months Ended June 30,	
(in thousands)	2018	2017
Cash Flows from Operating Activities:		
Net income	$14,148	$12,471
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	150	—
Net amortization and accretion	2,528	1,835
Investment securities (gains) losses, net	25	(226)
Stock-based compensation	1,266	1,223
Increase in cash value of bank-owned life insurance	(310)	(317)
Gain from bank-owned life insurance	—	(307)
Depreciation	703	673
Write-down of premises	333	—
Deferred income taxes	122	690
Change in assets and liabilities:		
Increase in accrued interest receivable	(520)	(72)
Increase in other assets	(1,204)	(257)
Decrease in accrued expenses and other liabilities	(254)	(1,114)
Net cash provided by operating activities	16,987	14,599
Cash Flows from Investing Activities:		
Proceeds from sales of securities available for sale	9,216	53,020
Proceeds from maturities and calls of investment securities	20,937	28,122
Purchases of securities available for sale	(76,796)	(138,436)
Purchases of Federal Home Loan Bank stock	(6,854)	(12,074)
Proceeds from redemption of Federal Home Loan Bank stock	6,826	11,764
Net increase in loans	(23,966)	(35,135)
Purchases of premises and equipment	(67)	(431)
Proceeds of principal and earnings from bank-owned life insurance	—	451
Net cash used in investing activities	(70,704)	(92,719)
Cash Flows from Financing Activities:		
Net increase in deposits	81,116	28,470
Net increase in federal funds purchased	315	5,470
Proceeds from long-term debt	—	22,000
Principal payments on long-term debt	(3,306)	(1,656)
Common stock dividends paid	(6,178)	(5,661)
Restricted stock units withheld for payroll taxes	(1,076)	(553)
Net cash provided by financing activities	70,871	48,070
Net increase (decrease) in cash and cash equivalents	17,154	(30,050)
Cash and Cash Equivalents:		
Beginning	47,949	76,836
Ending	$65,103	$46,786

Supplemental Disclosures of Cash Flow Information:
Cash payments for:

Interest	$9,457	$5,361
Income taxes	2,020	3,780
Supplemental Disclosure of Noncash Investing Activities:		
Transfer of investment securities held to maturity to available for sale	$45,527	$—

See Notes to Consolidated Financial Statements.

8

Table of Contents

West Bancorporation, Inc. and Subsidiary
Notes to Consolidated Financial Statements
(unaudited)
(dollars 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 (SEC). 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, 2017. In the opinion of management, the accompanying consolidated financial statements of the Company contain all adjustments necessary to fairly present its financial position as of June 30, 2018 and December 31, 2017, net income and comprehensive income for the three and six months ended June 30, 2018 and 2017, and changes in stockholders' equity and cash flows for the six months ended June 30, 2018 and 2017. 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 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 was liquidated in March 2018). 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.

Current accounting developments: In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). 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. The core principle is that a company should recognize revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. For public companies, this update was effective for interim and annual periods beginning after December 15, 2017. The Company adopted the guidance effective January 1, 2018, using the modified retrospective method. The implementation of the new standard did not result in a change to the accounting for any in-scope revenue streams; as such, no cumulative effect adjustment to opening retained earnings was recorded. The Company's revenue is primarily composed of interest income on financial instruments, including investment securities and loans, which are excluded from the scope of Topic 606. Also excluded from the scope of Topic 606 is revenue from bank-owned life insurance, loan fees and letter of credit fees. Approximately 90 percent of the Company's revenue is outside the scope of this update. Topic 606 is applicable to deposit account related fees, including general service fees charged for deposit account maintenance and activity and transaction-based fees charged for certain services, such as debit card, wire transfer or overdraft activities. Revenue is recognized when the performance obligation is completed, which is generally after a transaction is completed or monthly for account maintenance services. Topic 606 is also applicable to trust services, which include periodic fees earned from trusts and investment management agency accounts, estate administration, custody accounts, individual retirement accounts, and other related services. Fees are charged based on standard agreements or by statute and are recognized over the period of time the Company provides the contracted services.

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 requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes, 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 was effective for interim and annual periods beginning after December 15, 2017. The Company adopted the guidance effective January 1, 2018, using the modified retrospective method. Upon adoption, the fair value of the Company's loan portfolio is now presented using an exit price method. Also, the Company is no longer required to disclose the methodologies used for estimating fair value of financial assets and liabilities that are not measured at fair value on a recurring or nonrecurring basis. The remaining requirements of this update did not have a material impact on the Company's consolidated financial statements.

Table of Contents

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

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 guidance is intended to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet for leases with terms of more than 12 months. 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 currently leases its main location and space for six other branch offices and operational departments under operating leases that will result in recognition of lease assets and lease liabilities on the consolidated balance sheets under the update. The amount of assets and liabilities added to the balance sheet are estimated to be approximately $10,000 which does not have a material impact on the Company's consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments—Credit Losses (Topic 326). The amendments in this update require a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial assets to present the net carrying value at the amount expected to be collected on the financial assets. Under the updates, the income statement will reflect the measurement of credit losses for newly recognized financial assets, as well as the expected increases or decreases of expected credit losses that have taken place during the period. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectibility of the reported amount of financial assets. An entity must use judgment in determining the relevant information and estimation methods that are appropriate in its circumstances. The allowance for credit losses for purchased financial assets with a more-than-insignificant amount of credit deterioration since origination that are measured at amortized cost basis will be determined in a similar manner to other financial assets measured at amortized cost basis; however, the initial allowance for credit losses will be added to the purchase price rather than being reported as a credit loss expense. Only subsequent changes in the allowance for credit losses will be recorded as a credit loss expense for these assets. Off-balance-sheet arrangements such as commitments to extend credit, guarantees and standby letters of credit that are not considered derivatives under ASC 815 and are not unconditionally cancellable are also within the scope of this update. Credit losses relating to available for sale debt securities should be recorded through an allowance for credit losses. For public companies, the update is effective for annual periods beginning after December 15, 2019, including interim periods within those fiscal years. All entities may adopt the amendments in this update earlier as of fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. An entity will apply the amendments in this update on a modified retrospective basis through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. The Company does not plan to early adopt this standard, but is currently planning for the implementation. It is too early to assess the impact that this guidance will have on the Company's consolidated financial statements.

In August 2017, the FASB issued ASU No. 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. The amendments in this update make targeted changes to the existing hedge accounting model to better align the accounting rules with a company’s risk management activities, and to simplify the application of the hedge accounting model. The update expands the types of transactions eligible for hedge accounting, eliminates the requirement to separately measure and present hedge ineffectiveness, and simplifies the way assessments of hedge ineffectiveness may be performed. The update also permits a one-time reclassification of prepayable debt securities from held to maturity classification to available for sale. For public companies, the update is effective for annual periods beginning after December 15, 2018, with early adoption permitted, including in an interim period. The amendments' presentation and disclosure guidance is required on a prospective basis. The Company adopted the guidance effective January 1, 2018. The requirements of this update related to the Company's hedging activities did not have any impact on the Company's consolidated financial statements. Upon adoption, the Company elected to transfer all its held to maturity securities portfolio to available for sale. The transferred securities had an amortized cost basis of $45,527 and a fair value of $45,890. Upon transfer, the Company recorded an adjustment of $273 to accumulated other comprehensive income, net of deferred income taxes, for the unrealized gains and losses related to the transferred securities.

In February 2018, the FASB issued ASU No. 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. The amendment in this update allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the December 22, 2017, enactment of the reduced federal corporate income tax rate, which became effective in 2018. For public companies, the update is effective for annual periods beginning after December 15, 2018, with early adoption permitted. The amendment can be adopted at the beginning of the period or on a retrospective basis. The Company adopted the amendment effective January 1, 2018, using the beginning of period method. The reclassified amount was $370.

Table of Contents

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

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 and six months ended June 30, 2018 and 2017 are presented in the following table.

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands, except per share data)	2018	2017	2018	2017
Net income	$6,764	$6,365	$14,148	$12,471
Weighted average common shares outstanding	16,289	16,204	16,254	16,173
Weighted average effect of restricted stock units outstanding	102	106	146	131
Diluted weighted average common shares outstanding	16,391	16,310	16,400	16,304
Basic earnings per common share	$0.42	$0.39	$0.87	$0.77
Diluted earnings per common share	$0.41	$0.39	$0.86	$0.76
Number of anti-dilutive common stock equivalents excluded from diluted earnings per share computation	130	1	69	8

Table of Contents

West Bancorporation, Inc. and Subsidiary
Notes to Consolidated Financial Statements
(unaudited)
(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 June 30, 2018 and December 31, 2017.

	June 30, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Securities available for sale:				
U.S. Treasuries	$39,535	$ —	$(31)	$39,504
State and political subdivisions	179,445	281	(3,822)	175,904
Collateralized mortgage obligations (1)	167,778	11	(4,950)	162,839
Mortgage-backed securities (1)	56,421	—	(1,391)	55,030
Asset-backed securities (2)	42,071	—	(609)	41,462
Trust preferred security	2,144	—	(144)	2,000
Corporate notes	50,852	135	(933)	50,054
	$538,246	$ 427	$(11,880)	$526,793

	December 31, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Securities available for sale:				
State and political subdivisions	$146,331	$ 928	$(946)	$146,313
Collateralized mortgage obligations (1)	162,631	28	(2,727)	159,932
Mortgage-backed securities (1)	60,956	20	(547)	60,429
Asset-backed securities (2)	45,539	8	(352)	45,195
Trust preferred security	2,134	—	(128)	2,006
Corporate notes	30,278	331	(265)	30,344
	$447,869	$ 1,315	$(4,965)	$444,219
Securities held to maturity:				
State and political subdivisions	$45,527	$ 460	$(97)	$45,890

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

(2) Pass-through asset-backed securities guaranteed by the SBA, representing participating interests in pools of long-term debentures issued by state and local development companies certified by the SBA.

On January 1, 2018, the Company adopted the amendments of ASU No. 2017-12 and, as a result, elected to transfer all securities classified as held to maturity to available for sale. At the date of reclassification, the held to maturity securities portfolio was carried at an amortized cost of $45,527. The reclassification of securities between categories was accounted for at fair value. At the date of reclassification, the securities had a fair value of $45,890 and net unrealized holding gains of $273, which were recorded net of tax in other comprehensive income. The transfer enhanced liquidity and increased flexibility with regard to asset-liability management and balance sheet composition.

Investment securities with an amortized cost of approximately $142,522 and $120,338 as of June 30, 2018 and December 31, 2017, 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.

Table of Contents

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

The amortized cost and fair value of investment securities available for sale as of June 30, 2018, 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, mortgage-backed securities and asset-backed securities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Therefore, collateralized mortgage obligations, mortgage-backed securities and asset-backed securities are not included in the maturity categories within the following maturity summary.

	June 30, 2018	
	Amortized Cost	Fair Value
Due in one year or less	$19,904	$19,889
Due after one year through five years	22,887	22,853
Due after five years through ten years	86,692	85,373
Due after ten years	142,493	139,347
	271,976	267,462
Collateralized mortgage obligations, mortgage-backed securities and asset-backed securities	266,270	259,331
	$538,246	$526,793

The details of the sales of investment securities available for sale for the three and six months ended June 30, 2018 and 2017 are summarized in the following table.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Proceeds from sales	$9,216	$44,021	$9,216	$53,020
Gross gains on sales	34	291	34	330
Gross losses on sales	59	62	59	104

Table of Contents

West Bancorporation, Inc. and Subsidiary
Notes to Consolidated Financial Statements
(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 June 30, 2018 and December 31, 2017.

	June 30, 2018					
	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. Treasuries	$39,504	$ (31)	$—	$ —	$39,504	$ (31)
State and political subdivisions	141,075	(3,520)	8,983	(302)	150,058	(3,822)
Collateralized mortgage obligations	99,125	(2,650)	55,565	(2,300)	154,690	(4,950)
Mortgage-backed securities	46,113	(1,305)	8,015	(86)	54,128	(1,391)
Asset-backed securities	33,110	(305)	8,352	(304)	41,462	(609)
Trust preferred security	—	—	2,000	(144)	2,000	(144)
Corporate notes	36,823	(745)	2,312	(188)	39,135	(933)
	$395,750	$ (8,556)	$85,227	$ (3,324)	$480,977	$ (11,880)

	December 31, 2017					
	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:						
State and political subdivisions	$86,750	$ (946)	$—	$ —	$86,750	$ (946)
Collateralized mortgage obligations	107,526	(1,583)	46,396	(1,144)	153,922	(2,727)
Mortgage-backed securities	53,974	(547)	—	—	53,974	(547)
Asset-backed securities	38,652	(352)	—	—	38,652	(352)
Trust preferred security	—	—	2,006	(128)	2,006	(128)
Corporate notes	14,735	(265)	—	—	14,735	(265)
	$301,637	$ (3,693)	$48,402	$ (1,272)	$350,039	$ (4,965)
Securities held to maturity:						
State and political subdivisions	$12,611	$ (70)	$1,740	$ (27)	$14,351	$ (97)

As of June 30, 2018, the available for sale securities with unrealized losses included two U.S. Treasuries, 204 state and political subdivision securities, 44 collateralized mortgage obligation securities, 16 mortgage-backed securities, seven asset-backed securities, one trust preferred security and 15 corporate notes. The Company believed the unrealized losses on investments available for sale as of June 30, 2018 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 did not consider these investments to have other than temporary impairment as of June 30, 2018.

14

Table of Contents

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

4. Loans and Allowance for Loan Losses

Loans consisted of the following segments as of June 30, 2018 and December 31, 2017.

	June 30, 2018	December 31, 2017
Commercial	$326,820	$347,482
Real estate:		
Construction, land and land development	182,681	207,451
1-4 family residential first mortgages	49,679	51,044
Home equity	13,859	13,811
Commercial	956,810	886,114
Consumer and other	6,524	6,363
	1,536,373	1,512,265
Net unamortized fees and costs	(1,969)	(1,765)
	$1,534,404	$1,510,500

Real estate loans of approximately $750,000 and $810,000 were pledged as security for Federal Home Loan Bank (FHLB) advances as of June 30, 2018 and December 31, 2017, respectively.

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 the terms of the loan. 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 90 days past due 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.

Table of Contents

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

TDR loans totaled $724 and $220 as of June 30, 2018 and December 31, 2017, respectively, and were included in the nonaccrual category. There was one loan modification considered to be TDR, with a pre- and post-modification recorded investment of $560, that occurred during the three and six months ended June 30, 2018. There were no loan modifications considered to be TDR that occurred during the three and six months ended June 30, 2017. No TDR loans that were modified within the twelve months preceding June 30, 2018 and June 30, 2017 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.

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 June 30, 2018 and December 31, 2017.

	June 30, 2018			December 31, 2017		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:						
Commercial	$990	$ 990	$ —	$—	$ —	$ —
Real estate:						
Construction, land and land development	—	—	—	—	—	—
1-4 family residential first mortgages	116	116	—	91	91	—
Home equity	172	172	—	172	172	—
Commercial	724	724	—	220	220	—
Consumer and other	—	—	—	—	—	—
	2,002	2,002	—	483	483	—
With an allowance recorded:						
Commercial	—	—	—	—	—	—
Real estate:						
Construction, land and land development	—	—	—	—	—	—
1-4 family residential first mortgages	—	—	—	—	—	—
Home equity	16	16	16	21	21	21
Commercial	109	109	109	118	118	118
Consumer and other	—	—	—	—	—	—
	125	125	125	139	139	139
Total:						
Commercial	990	990	—	—	—	—
Real estate:						
Construction, land and land development	—	—	—	—	—	—
1-4 family residential first mortgages	116	116	—	91	91	—
Home equity	188	188	16	193	193	21
Commercial	833	833	109	338	338	118
Consumer and other	—	—	—	—	—	—
	$2,127	$ 2,127	$ 125	$622	$ 622	$ 139

The balance of impaired loans at June 30, 2018 and December 31, 2017 was composed of seven and five different borrowers, respectively. The Company has no commitments to advance additional funds on any of the impaired loans.

Table of Contents

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

The following table summarizes the average recorded investment and interest income recognized on impaired loans by segment for the three and six months ended June 30, 2018 and 2017.

	Three Months Ended June 30,				Six Months Ended June 30,			
	2018		2017		2018		2017	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:								
Commercial	$902	$ —	$ 35	$ —	$543	$ —	$ 35	$ —
Real estate:								
Construction, land and land development	—	—	—	—	—	—	—	—
1-4 family residential first mortgages	119	—	101	—	117	—	104	—
Home equity	172	—	29	—	172	—	34	—
Commercial	768	—	290	—	529	—	305	—
Consumer and other	—	—	—	—	—	—	—	—
	1,961	—	455	—	1,361	—	478	—
With an allowance recorded:								
Commercial	—	—	85	—	—	—	87	—
Real estate:								
Construction, land and land development	—	—	—	—	—	—	—	—
1-4 family residential first mortgages	—	—	—	—	—	—	—	—
Home equity	17	—	247	—	18	—	258	—
Commercial	112	—	130	—	114	—	132	—
Consumer and other	—	—	—	—	—	—	—	—
	129	—	462	—	132	—	477	—
Total:								
Commercial	902	—	120	—	543	—	122	—
Real estate:								
Construction, land and land development	—	—	—	—	—	—	—	—
1-4 family residential first mortgages	119	—	101	—	117	—	104	—
Home equity	189	—	276	—	190	—	292	—
Commercial	880	—	420	—	643	—	437	—
Consumer and other	—	—	—	—	—	—	—	—
	$2,090	$ —	$ 917	$ —	$1,493	$ —	$ 955	$ —

Table of Contents

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

The following tables provide an analysis of the payment status of the recorded investment in loans as of June 30, 2018 and December 31, 2017.

	June 30, 2018						
	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	$65	$ —	$ —	$ 65	$325,765	$ 990	$326,820
Real estate:							
Construction, land and land development	—	—	—	—	182,681	—	182,681
1-4 family residential first mortgages	—	—	—	—	49,563	116	49,679
Home equity	30	—	—	30	13,641	188	13,859
Commercial	—	—	—	—	955,977	833	956,810
Consumer and other	—	—	—	—	6,524	—	6,524
Total	$95	$ —	$ —	$ 95	$1,534,151	$ 2,127	$1,536,373

	December 31, 2017						
	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	$40	$ 20	$ —	$60	$347,422	$ —	$347,482
Real estate:							
Construction, land and land development	—	—	—	—	207,451	—	207,451
1-4 family residential first mortgages	—	75	—	75	50,878	91	51,044
Home equity	—	—	—	—	13,618	193	13,811
Commercial	—	—	—	—	885,776	338	886,114
Consumer and other	—	—	—	—	6,363	—	6,363
Total	$40	$ 95	$ —	$135	$1,511,508	$ 622	$1,512,265

18

Table of Contents

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

The following tables present the recorded investment in loans by credit quality indicator and loan segment as of June 30, 2018 and December 31, 2017.

	June 30, 2018				
	Pass	Watch	Substandard	Doubtful	Total
Commercial	$321,507	$3,307	$ 2,006	$ —	$326,820
Real estate:					
Construction, land and land development	181,452	1,229	—	—	182,681
1-4 family residential first mortgages	48,692	791	196	—	49,679
Home equity	13,491	80	288	—	13,859
Commercial	928,223	19,374	9,213	—	956,810
Consumer and other	6,493	—	31	—	6,524
Total	$1,499,858	$24,781	$ 11,734	$ —	$1,536,373

	December 31, 2017				
	Pass	Watch	Substandard	Doubtful	Total
Commercial	$344,586	$901	$ 1,995	$ —	$347,482
Real estate:					
Construction, land and land development	206,719	732	—	—	207,451
1-4 family residential first mortgages	49,905	890	249	—	51,044
Home equity	13,466	54	291	—	13,811
Commercial	856,789	20,574	8,751	—	886,114
Consumer and other	6,327	36	—	—	6,363
Total	$1,477,792	$23,187	$ 11,286	$ —	$1,512,265

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's financial condition is satisfactory and stable. The borrower has satisfactory debt service capacity, and the loan is well secured. The loan is performing as agreed, and the financial characteristics and trends 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.

Table of Contents

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

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 loans included on the Watch List.

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 to ten 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.

Table of Contents

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

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 and six months ended June 30, 2018 and 2017.

	Three Months Ended June 30, 2018						
	Commercial	Real Estate Construction and Land	1-4 Family Residential	Home Equity	Commercial	Consumer and Other	Total
Beginning balance	$3,582	$1,853	$ 320	$ 186	$ 10,442	$ 82	$16,465
Charge-offs	(13)	—	—	—	—	—	(13)
Recoveries	51	—	3	5	4	3	66
Provision (1)	53	58	(19)	(9)	(77)	(6)	—
Ending balance	$3,673	$1,911	$ 304	$ 182	$ 10,369	$ 79	$16,518

	Three Months Ended June 30, 2017						
	Commercial	Real Estate Construction and Land	1-4 Family Residential	Home Equity	Commercial	Consumer and Other	Total
Beginning balance	$3,800	$2,914	$ 315	$ 447	$ 8,848	$ 103	$16,427
Charge-offs	(133)	—	—	—	—	—	(133)
Recoveries	81	95	1	7	3	5	192
Provision (1)	54	(457)	34	(82)	456	(5)	—
Ending balance	$3,802	$2,552	$ 350	$ 372	$ 9,307	$ 103	$16,486

	Six Months Ended June 30, 2018						
	Commercial	Real Estate Construction and Land	1-4 Family Residential	Home Equity	Commercial	Consumer and Other	Total
Beginning balance	$3,866	$2,213	$ 319	$ 186	$ 9,770	$ 76	$16,430
Charge-offs	(208)	—	—	(1)	—	—	(209)
Recoveries	110	—	7	11	7	12	147
Provision (1)	(95)	(302)	(22)	(14)	592	(9)	150
Ending balance	$3,673	$1,911	$ 304	$ 182	$ 10,369	$ 79	$16,518

	Six Months Ended June 30, 2017						
	Commercial	Real Estate Construction and Land	1-4 Family Residential	Home Equity	Commercial	Consumer and Other	Total
Beginning balance	$3,881	$2,639	$ 317	$478	$ 8,697	$ 100	$16,112
Charge-offs	(193)	—	—	—	—	—	(193)
Recoveries	140	398	2	15	6	6	567
Provision [(1)]	(26)	(485)	31	(121)	604	(3)	—
Ending balance	$3,802	$2,552	$				