WEST BANCORPORATION INC
Form 10-Q
October 27, 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 September 30, 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 October 26, 2016, there were 16,137,999 shares of common stock, no par value, outstanding.

WEST BANCORPORATION, INC.

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West Bancorporation, Inc. and Subsidiary
Consolidated Balance Sheets
(unaudited)

(dollars in thousands)	September 30, 2016	December 31, 2015
ASSETS		
Cash and due from banks	$ 44,526	$ 57,329
Federal funds sold	6,324	15,322
Cash and cash equivalents	50,850	72,651
Investment securities available for sale, at fair value	278,411	320,714
Investment securities held to maturity, at amortized cost (fair value of $49,943 and $51,918 at September 30, 2016 and December 31, 2015, respectively)	48,405	51,259
Federal Home Loan Bank stock, at cost	12,467	12,447
Loans	1,382,895	1,246,688
Allowance for loan losses	(15,958)	(14,967)
Loans, net	1,366,937	1,231,721
Premises and equipment, net	21,023	11,562
Accrued interest receivable	5,230	4,688
Bank-owned life insurance	32,956	32,834
Deferred tax assets, net	4,843	6,670
Other assets	3,708	3,850
Total assets	$ 1,824,830	$ 1,748,396
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Noninterest-bearing demand	$ 483,434	$ 486,707
Interest-bearing demand	264,640	267,824
Savings	637,044	570,391
Time of $250,000 or more	10,818	14,749
Other time	95,720	101,058
Total deposits	1,491,656	1,440,729
Federal funds purchased	920	2,760
Short-term borrowings	34,500	19,000
Subordinated notes, net of discount	20,395	20,385
Federal Home Loan Bank advances, net of discount	99,509	98,385
Long-term debt, net of discount	5,952	8,405
Accrued expenses and other liabilities	7,034	6,355
Total liabilities	1,659,966	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 September 30, 2016 and December 31, 2015	—	—
Common stock, no par value; authorized 50,000,000 shares; 16,137,999 and 16,064,435 shares issued and outstanding at September 30, 2016 and December 31, 2015, respectively	3,000	3,000

Additional paid-in capital	21,056	20,067
Retained earnings	138,668	129,740
Accumulated other comprehensive income (loss)	2,140	(430)
Total stockholders' equity	164,864	152,377
Total liabilities and stockholders' equity	$ 1,824,830	$ 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 September 30,		Nine Months Ended September 30,	
(dollars in thousands, except per share data)	2016	2015	2016	2015
Interest income:				
Loans, including fees	$14,898	$13,313	$42,667	$38,934
Investment securities:				
Taxable	991	1,017	3,222	3,184
Tax-exempt	780	789	2,482	2,309
Federal funds sold	27	28	58	60
Total interest income	16,696	15,147	48,429	44,487
Interest expense:				
Deposits	872	500	2,401	1,622
Federal funds purchased	1	2	4	6
Short-term borrowings	8	5	39	32
Subordinated notes	169	179	533	526
Federal Home Loan Bank advances	894	698	2,645	2,095
Long-term debt	31	57	114	183
Total interest expense	1,975	1,441	5,736	4,464
Net interest income	14,721	13,706	42,693	40,023
Provision for loan losses	200	200	900	400
Net interest income after provision for loan losses	14,521	13,506	41,793	39,623
Noninterest income:				
Service charges on deposit accounts	632	663	1,847	1,934
Debit card usage fees	450	463	1,372	1,367
Trust services	355	302	946	944
Increase in cash value of bank-owned life insurance	160	183	492	550
Gain from bank-owned life insurance	—	—	443	—
Realized investment securities gains, net	—	—	60	47
Other income	322	324	892	875
Total noninterest income	1,919	1,935	6,052	5,717
Noninterest expense:				
Salaries and employee benefits	4,154	4,056	12,644	12,051
Occupancy	1,038	1,031	2,972	3,090
Data processing	643	595	1,849	1,738
FDIC insurance	272	209	714	620
Professional fees	189	194	619	575
Director fees	202	226	672	642
Other expenses	1,495	1,238	4,141	3,722
Total noninterest expense	7,993	7,549	23,611	22,438
Income before income taxes	8,447	7,892	24,234	22,902
Income taxes	2,634	2,466	7,249	7,101
Net income	$5,813	$5,426	$16,985	$15,801
Basic earnings per common share	$0.36	$0.34	$1.05	$0.98

Diluted earnings per common share	$0.36	$0.34	$1.05	$0.98
Cash dividends declared per common share	$0.17	$0.16	$0.50	$0.46

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(dollars in thousands)	2016	2015	2016	2015
Net income	$5,813	$5,426	$16,985	$15,801
Other comprehensive income (loss):				
Unrealized gains on available for sale securities:				
Unrealized holding gains arising during the period	301	1,765	4,771	1,205
Less: reclassification adjustment for net gains realized in net income	—	—	(60)	(47)
Less: reclassification adjustment for amortization of net unrealized gains to interest income on securities transferred from available for sale to held to maturity	(7)	(10)	(122)	(29)
Income tax (expense)	(112)	(667)	(1,744)	(429)
Other comprehensive income on available for sale securities	182	1,088	2,845	700
Unrealized gains (losses) on derivatives:				
Unrealized holding gains (losses) arising during the period	248	(735)	(889)	(1,470)
Less: reclassification adjustment for net loss on derivatives realized in net income	118	—	362	74
Less: reclassification adjustment for amortization of derivative termination costs	28	28	82	44
Income tax benefit (expense)	(149)	269	170	514
Other comprehensive income (loss) on derivatives	245	(438)	(275)	(838)
Total other comprehensive income (loss)	427	650	2,570	(138)
Comprehensive income	$6,240	$6,076	$19,555	$15,663

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	—	—	—	—	15,801	—	15,801
Other comprehensive (loss), net of tax	—	—	—	—	—	(138)	(138)
Cash dividends declared, $0.46 per common share	—	—	—	—	(7,382)	—	(7,382)
Stock-based compensation costs	—	—	—	831	—	—	831
Issuance of common stock upon vesting of restricted stock units, net of shares withheld for payroll taxes	—	45,701	—	(225)	—	—	(225)
Excess tax benefits from vesting of restricted stock units	—	—	—	155	—	—	155
Balance, September 30, 2015	$ —	16,064,435	$ 3,000	$ 19,732	$ 126,369	$ 116	$ 149,217
Balance, December 31, 2015	$ —	16,064,435	$ 3,000	$ 20,067	$ 129,740	$ (430)	$ 152,377
Net income	—	—	—	—	16,985	—	16,985
Other comprehensive income, net of tax	—	—	—	—	—	2,570	2,570
Cash dividends declared, $0.50 per common share	—	—	—	—	(8,057)	—	(8,057)
Stock-based compensation costs	—	—	—	1,278	—	—	1,278
Issuance of common stock upon vesting of restricted stock units, net of shares withheld for payroll taxes	—	73,564	—	(394)	—	—	(394)
Excess tax benefits from vesting of restricted stock units	—	—	—	105	—	—	105
Balance, September 30, 2016	$ —	16,137,999	$ 3,000	$ 21,056	$ 138,668	$ 2,140	$ 164,864

See Notes to Consolidated Financial Statements.

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

	Nine Months Ended September 30,	
(dollars in thousands)	2016	2015
Cash Flows from Operating Activities:		
Net income	$16,985	$15,801
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	900	400
Net amortization and accretion	3,293	2,718
Loss on disposition of premises and equipment	—	4
Investment securities gains, net	(60)	(47)
Stock-based compensation	1,278	831
Increase in cash value of bank-owned life insurance	(492)	(550)
Gain from bank-owned life insurance	(443)	—
Depreciation	740	700
Deferred income taxes	253	(295)
Excess tax benefits from vesting of restricted stock units	(105)	(155)
Change in assets and liabilities:		
(Increase) in accrued interest receivable	(542)	(616)
Decrease in other assets	248	3,728
Increase (decrease) in accrued expenses and other liabilities	152	(95)
Net cash provided by operating activities	22,207	22,424
Cash Flows from Investing Activities:		
Proceeds from sales of securities available for sale	1,544	16,946
Proceeds from maturities and calls of investment securities	46,190	36,899
Purchases of securities available for sale	—	(106,971)
Purchases of Federal Home Loan Bank stock	(16,907)	(15,827)
Proceeds from redemption of Federal Home Loan Bank stock	16,887	16,692
Net increase in loans	(136,116)	(55,340)
Purchases of premises and equipment	(10,201)	(1,831)
Proceeds of principal and earnings from bank-owned life insurance	812	—
Proceeds from settlement of other assets	—	3,593
Net cash used in investing activities	(97,791)	(105,839)
Cash Flows from Financing Activities:		
Net increase in deposits	50,927	116,674
Net (decrease) in federal funds purchased	(1,840)	(315)
Net increase (decrease) in short-term borrowings	15,500	(7,000)
Principal payments on long-term debt	(2,458)	(2,946)
Interest rate swap termination costs paid	—	(541)
Common stock dividends paid	(8,057)	(7,382)
Restricted stock units withheld for payroll taxes	(394)	(225)
Excess tax benefits from vesting of restricted stock units	105	155
Net cash provided by financing activities	53,783	98,420
Net increase (decrease) in cash and cash equivalents	(21,801)	15,005
Cash and Cash Equivalents:		

Beginning	72,651	39,781
Ending	$50,850	$54,786
Supplemental Disclosures of Cash Flow Information:		
Cash payments for:		
Interest	$5,742	$4,493
Income taxes	5,160	4,110

See Notes to Consolidated Financial Statements.

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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 of the Company contain all adjustments necessary to fairly present its financial position as of September 30, 2016 and December 31, 2015, net income and comprehensive income for the three and nine months ended September 30, 2016 and 2015, and cash flows for the nine months ended September 30, 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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(dollars in thousands, except per share data)

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 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.

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. The income statement reflects 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 is determined in a similar manner to other financial assets measured at amortized cost basis; however, the initial allowance for credit losses is added to the purchase price rather than being reported as a credit loss expense. Only subsequent changes in the allowance for credit losses are 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 amendment. 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 is currently planning for the implementation of this accounting standard. It is too early to assess the impact that this guidance will have on the Company's consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230). The amendments in this update provide guidance for eight specific cash flow classification issues for which current guidance is unclear or does not exist, thereby reducing diversity in practice. For public companies, the update is effective for 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.

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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 nine months ended September 30, 2016 and 2015 are presented in the following table.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands, except per share data)	2016	2015	2016	2015
Net income	$5,813	$5,426	$16,985	$15,801
Weighted average common shares outstanding	16,135	16,062	16,110	16,045
Weighted average effect of restricted stock units outstanding	51	38	47	47
Diluted weighted average common shares outstanding	16,186	16,100	16,157	16,092
Basic earnings per common share	$0.36	$0.34	$1.05	$0.98
Diluted earnings per common share	$0.36	$0.34	$1.05	$0.98

Restricted stock units totaling 87,600 and 106,231 were anti-dilutive and therefore excluded from the computation of diluted earnings per common share for the three and nine months ended September 30, 2016, respectively. Restricted stock units totaling 139,500 and 95,157 were anti-dilutive for the three and nine months ended September 30, 2015, respectively.

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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 September 30, 2016 and December 31, 2015.

	September 30, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Securities available for sale:				
U.S. government agencies and corporations	$2,531	$ 89	$ —	$2,620
State and political subdivisions	64,590	2,590	—	67,180
Collateralized mortgage obligations [1]	110,200	1,053	(56)	111,197
Mortgage-backed securities [1]	86,136	1,713	—	87,849
Trust preferred security	1,781	—	(600)	1,181
Corporate notes	8,346	38	—	8,384
	$273,584	$ 5,483	$ (656)	$278,411
Securities held to maturity:				
State and political subdivisions	$48,405	$ 1,719	$ (181)	$49,943

	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 $133,770 and $78,553 as of September 30, 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. The increase in the amount of pledged investment securities as of September 30, 2016 compared to December 31, 2015 was primarily due to an increase in public fund deposits.

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 September 30, 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.

	September 30, 2016	
	Amortized Cost	Fair Value
Due in one year or less	$4,517	$4,530
Due after one year through five years	14,764	15,054
Due after five years through ten years	31,747	33,020
Due after ten years	26,220	26,761
	77,248	79,365
Collateralized mortgage obligations and mortgage-backed securities	196,336	199,046
	$273,584	$278,411

The amortized cost and fair value of investment securities held to maturity as of September 30, 2016, by contractual maturity, are shown below. Certain securities have call features that allow the issuer to call the securities prior to maturity.

	September 30, 2016	
	Amortized Cost	Fair Value
Due in one year or less	$—	$—
Due after one year through five years	486	484
Due after five years through ten years	19,375	19,850
Due after ten years	28,544	29,609
	$48,405	$49,943

The details of the sales of investment securities available for sale for the three and nine months ended September 30, 2016 and 2015 are summarized in the following table.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Proceeds from sales	$ —	$ —	$1,544	$16,946
Gross gains on sales	—	—	60	54
Gross losses on sales	—	—	—	7

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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 September 30, 2016 and December 31, 2015.

	September 30, 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	—	—	—	—	—	—
Collateralized mortgage obligations	2,098	(1)	5,922	(55)	8,020	(56)
Mortgage-backed securities	—	—	—	—	—	—
Trust preferred security	—	—	1,181	(600)	1,181	(600)
Corporate notes	—	—	—	—	—	—
	$2,098	$ (1)	$7,103	$ (655)	$9,201	$ (656)
Securities held to maturity:						
State and political subdivisions	$621	$ (7)	$4,009	$ (174)	$4,630	$ (181)

	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 September 30, 2016, the available for sale and held to maturity securities with unrealized losses that have existed for longer than one year included 11 state and political subdivision securities, two 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 September 30, 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 did not consider these investments to have OTTI as of September 30, 2016.

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4. Loans and Allowance for Loan Losses

Loans consisted of the following segments as of September 30, 2016 and December 31, 2015.

	September 30, 2016	December 31, 2015
Commercial	$ 352,774	$ 349,051
Real estate:		
Construction, land and land development	208,046	174,602
1-4 family residential first mortgages	48,890	51,370
Home equity	18,618	21,749
Commercial	747,447	644,176
Consumer and other loans	8,424	6,801
	1,384,199	1,247,749
Net unamortized fees and costs	(1,304)	(1,061)
	$ 1,382,895	$ 1,246,688

Real estate loans of approximately $640,000 and $590,000 were pledged as security for Federal Home Loan Bank (FHLB) advances as of September 30, 2016 and December 31, 2015, 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 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 September 30, 2016 and December 31, 2015.

	September 30, 2016	December 31, 2015
Troubled debt restructured loans[(1)]:		
Commercial	$ 94	$ 102
Real estate:		
Construction, land and land development	—	60
1-4 family residential first mortgages	—	86
Home equity	—	—
Commercial	370	445
Consumer and other loans	—	—
Total troubled debt restructured loans	$ 464	$ 693

(1) Included in this table were two TDR loans as of September 30, 2016 and three TDR loans as of December 31, 2015, with balances of $464 and $613, respectively, categorized as nonaccrual.

There were no loan modifications considered to be TDR that occurred during the three and nine months ended September 30, 2016. There were no loan modifications considered to be TDR that occurred during the three months ended September 30, 2015, and two loan modifications considered to be TDR that occurred during the nine months ended September 30, 2015 with a pre- and post-modification recorded investment of $130.

The recorded investment in TDR loans that have been modified within the twelve months preceding September 30, 2016 and September 30, 2015, and that have subsequently had a payment default, totaled $0 and $107, respectively. 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 September 30, 2016 and December 31, 2015.

	September 30, 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	116	116	—	352	360	—
Home equity	—	—	—	—	—	—
Commercial	370	370	—	482	482	—
Consumer and other loans	—	—	—	—	—	—
	486	486	—	894	1,505	—
With an allowance recorded:						
Commercial	127	127	127	142	142	142
Real estate:						
Construction, land and land development	—	—	—	—	—	—
1-4 family residential first mortgages	—	—	—	—	—	—
Home equity	249	249	249	270	270	270
Commercial	141	141	141	155	155	155
Consumer and other loans	—	—	—	—	—	—
	517	517	517	567	567	567
Total:						
Commercial	127	127	127	142	142	142
Real estate:						
Construction, land and land development	—	—	—	60	663	—
1-4 family residential first mortgages	116	116	—	352	360	—
Home equity	249	249	249	270	270	270
Commercial	511	511	141	637	637	155
Consumer and other loans	—	—	—	—	—	—
	$1,003	$ 1,003	$ 517	$1,461	$ 2,072	$ 567

The balance of impaired loans at September 30, 2016 and December 31, 2015 was composed of 7 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 and nine months ended September 30, 2016 and 2015.

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2016		2015		2016		2015	
	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	$—	$ —	$132	$ —	$—	$ —	$151	$ —
Real estate:								
Construction, land and land development	—	—	255	3	11	—	319	10
1-4 family residential first mortgages	124	—	316	—	242	1	295	—
Home equity	—	—	—	—	—	—	—	—
Commercial	377	—	1,565	—	407	—	1,088	—
Consumer and other loans	—	—	3	—	—	—	3	—
	501	—	2,271	3	660	1	1,856	10
With an allowance recorded:								
Commercial	130	—	146	—	135	—	222	2
Real estate:								
Construction, land and land development	—	—	—	—	—	—	247	6
1-4 family residential first mortgages	—	—	—	—	—	—	—	—
Home equity	254	—	231	—	261	—	227	—
Commercial	143	—	161	—	148	—	166	—
Consumer and other loans	—	—	—	—	—	—	—	—
	527	—	538	—	544	—	862	8
Total:								
Commercial	130	—	278	—	135	—	373	2
Real estate:								
Construction, land and land development	—	—	255	3	11	—	566	16
1-4 family residential first mortgages	124	—	316	—	242	1	295	—
Home equity	254	—	231	—	261	—	227	—
Commercial	520	—	1,726	—	555	—	1,254	—
Consumer and other loans	—	—	3	—	—	—	3	—
	$1,028	$ —	$2,809	$ 3	$1,204	$ 1	$2,718	$ 18

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The following tables provide an analysis of the payment status of the recorded investment in loans as of September 30, 2016 and December 31, 2015.

	September 30, 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	$137	$ 40	$ —	$177	$352,470	$ 127	$352,774
Real estate:							
Construction, land and land development	—	—	—	—	208,046	—	208,046
1-4 family residential first mortgages	65	—	—	65	48,709	116	48,890
Home equity	—	—	—	—	18,369	249	18,618
Commercial	—	—	—	—	746,936	511	747,447
Consumer and other	—	—	—	—	8,424	—	8,424
Total	$202	$ 40	$ —	$242	$1,382,954	$ 1,003	$1,384,199

	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 September 30, 2016 and December 31, 2015.

	September 30, 2016				
	Pass	Watch	Substandard	Doubtful	Total
Commercial	$347,894	$3,635	$ 1,245	$ —	$352,774
Real estate:					
Construction, land and land development	207,007	—	1,039	—	208,046
1-4 family residential first mortgages	48,050	724	116	—	48,890
Home equity	18,278	—	340	—	18,618
Commercial	726,265	20,541	641	—	747,447
Consumer and other	8,412	—	12	—	8,424
Total	$1,355,906	$24,900	$ 3,393	$ —	$1,384,199

	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 and nine months ended September 30, 2016 and 2015.

	Three Months Ended September 30, 2016						
		Real Estate					
	Commercial	Construction and Land	1-4 Family Residential	Home Equity	Commercial	Consumer and Other	Total
Beginning balance	$4,441	$2,804	$ 393	$483	$ 7,606	$ 102	$15,829
Charge-offs	(25)	(140)	—	—	—	(6)	(171)
Recoveries	53	—	37	6	4	—	100
Provision [1]	(318)	8	(84)	(25)	621	(2)	200
Ending balance	$4,151	$2,672	$ 346	$464	$ 8,231	$ 94	$15,958

	Three Months Ended September 30, 2015						
		Real Estate					
	Commercial	Construction and Land	1-4 Family Residential	Home Equity	Commercial	Consumer and Other	Total
Beginning balance	$4,736	$1,700	$ 445	$474	$ 6,982	$ 27	$14,364
Charge-offs	(152)	—	—	—	—	(2)	(154)
Recoveries	201	—	2	43	3	1	250
Provision [1]	(327)	189	(30)	(16)	388	(4)	200
Ending balance	$4,458	$1,889	$ 417	$501	$ 7,373	$ 22	$14,660

	Nine Months Ended September 30, 2016						
		Real Estate					
	Commercial	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	(25)	(140)	(93)	—	—	(6)	(264)
Recoveries	194	56	58	30	10	7	355
Provision [1]	(387)	418	(127)	(47)	967	76	900
Ending balance	$4,151	$2,672	$ 346	$464	$ 8,231	$ 94	$15,958

	Nine Months Ended September 30, 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	(208)	—	(15)	—	—	(2)	(225)
Recoveries	528	250	4	78	9	9	878
Provision [(1)]	(277)	(512)	(38)	(111)	1,351	(13)	400
Ending balance	$4,458	$1,889	$ 417	$ 501	$ 7,373	$ 22	$14,660

(1) The negative provisions for the various segments are either related to the decline in balance for 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 September 30, 2016 and December 31, 2015.

	September 30, 2016						
	Commercial	Real Estate Construction and Land	1-4 Family Residential	Home Equity	Commercial	Consumer and Other	Total
Ending balance:							
Individually evaluated for impairment	$127	$—	$ —	$ 249	$ 141	$ —	$517
Collectively evaluated for impairment	4,024	2,672	346	215	8,090	94	15,441
Total	$4,151	$2,672	$ 346	$ 464	$ 8,231	$ 94	$15,958

	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 September 30, 2016 and December 31, 2015.

	September 30, 2016						
	Commercial	Real Estate Construction and Land	1-4 Family Residential	Home Equity	Commercial	Consumer and Other	Total
Ending balance:							
Individually evaluated for impairment	$127	$—	$ 116	$249	$ 511	$ —	$1,003
Collectively evaluated for impairment	352,647	208,046	48,774	18,369	746,936	8,424	1,383,196
Total	$352,774	$208,046	$ 48,890	$18,618	$ 747,447	$ 8,424	$1,384,199

	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	$60	$ 352	$270	$ 637	$ —	$1,461
Collectively evaluated for impairment	348,909	174,542	51,018	21,479	643,539	6,801	1,246,288
Total	$349,051	$174,602	$ 51,370	$21,749	$ 644,176	$ 6,801	$1,247,749

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5. Derivatives

In 2012 and 2013, the Company entered into forward-starting interest rate swap transactions to effectively convert variable rate FHLB advances and junior subordinated notes to fixed rate debt as of the forward-starting dates. The swap transactions were designated as cash flow hedges. Three interest rate swaps, with a total notional amount of $70,000, have been terminated, subject to termination fees totaling $541. The termination fees will be reclassified from accumulated other comprehensive income to interest expense over the remaining life of the underlying cash flows, which will be through June 2020. The remaining interest rate swap, with a notional amount of $30,000, became effective in December 2015. No amount of ineffectiveness was included in net income for the nine months ended September 30, 2016 or 2015, and the Company estimates there will be approximately $513 of cash payments and reclassification from accumulated other comprehensive income to interest expense through the twelve months ended September 30, 2017. Derivative contracts are executed with a Credit Support Annex, which is a bilateral ratings-sensitive agreement that requires collateral postings at established credit threshold levels. These agreements protect the interests of the Company and its counterparties should either party suffer a credit rating deterioration. As of September 30, 2016 and December 31, 2015, the Company pledged $1,270 and $740, respectively, of collateral to the counterparty in the form of cash on deposit with a third party.

The table below identifies the balance sheet category and fair values of the Company's derivative instruments designated as cash flow hedges as of September 30, 2016 and December 31, 2015.

Interest Rate Swap	Notional Amount	Fair Value	Balance Sheet Category	Receive Rate	Pay Rate	Maturity
September 30, 2016	$30,000	$1,302	Other Liabilities	1.17 %	2.52%	9/21/2020
December 31, 2015	30,000	774	Other Liabilities	0.88 %	2.52%	9/21/2020

The following table identifies the pre-tax losses recognized on the Company's derivative instruments designated as cash flow hedges for the nine months ended September 30, 2016 and 2015.

	Effective Portion			Ineffective Portion	
	Amount of Pre-tax (Loss)	Reclassified from AOCI into Income		Recognized in Income on Derivatives	
Interest Rate Swap	Recognized in OCI	Category	Amount of Gain (Loss)	Category	Amount of Gain (Loss)
September 30, 2016	$(889)	Interest Expense	$(444)	Other Income	$ —
September 30, 2015	(1,470)	Interest Expense	(118)	Other Income	—

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6. Deferred Income Taxes

Net deferred tax assets consisted of the following as of September 30, 2016 and December 31, 2015.

	September 30, 2016	December 31, 2015
Deferred tax assets:		
Allowance for loan losses	$ 6,064	$ 5,687
Intangibles	540	771
Accrued expenses	597	898
Restricted stock compensation	291	358
Net unrealized losses on interest rate swaps	643	473
State net operating loss carryforward	1,252	1,183
Capital loss carryforward	355	355
Other	38	34
	9,780	9,759
Deferred tax liabilities:		
Net deferred loan fees and costs	330	350
Premises and equipment	776	674
Net unrealized gains on securities available for sale	1,954	210
Other	270	317
	3,330	1,551
Net deferred tax assets before valuation allowance	6,450	8,208
Valuation allowance	(1,607)	(1,538)
Net deferred tax assets	$ 4,843	$ 6,670

The Company has recorded a valuation allowance against the tax effect of the state net operating loss carryforwards and federal and state capital loss carryforwards, as management believes it is more likely than not that such carryforwards will expire without being utilized.
The federal and state capital loss carryforwards expire at the end of 2016.

7. Accumulated Other Comprehensive Income (Loss)

The following table summarizes the changes in the balances of each component of accumulated other comprehensive income (loss), net of tax, for the nine months ended September 30, 2016 and 2015.

	Unrealized Gains on Securities	Unrealized Gains (Losses) on Derivatives	Accumulated Other Comprehensive Income (Loss)
Balance, December 31, 2014	$ 416	$ (162)	$ 254
Other comprehensive income (loss) before reclassifications	747	(911)	(164)
Amounts reclassified from accumulated other comprehensive income	(47)	73	26
Net current period other comprehensive income (loss)	700	(838)	(138)
Balance, September 30, 2015	$ 1,116	$ (1,000)	$ 116

Balance, December 31, 2015	$ 342	$ (772)	$ (430)
Other comprehensive income (loss) before reclassifications	2,958	(550)	2,408
Amounts reclassified from accumulated other comprehensive income	(113)	275	162
Net current period other comprehensive income (loss)	2,845	(275)	2,570
Balance, September 30, 2016	$ 3,187	$ (1,047)	$ 2,140

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8. Commitments and Contingencies

Financial instruments with off-balance-sheet risk: The Company is party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated balance sheets. The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations that it uses for on-balance-sheet instruments. The Company's commitments consisted of the following approximate amounts as of September 30, 2016 and December 31, 2015.

	September 30, 2016	December 31, 2015
Commitments to extend credit	$ 571,604	$ 558,633
Standby letters of credit	6,547	8,720
	$ 578,151	$ 567,353

West Bank previously executed Mortgage Partnership Finance (MPF) Master Commitments (Commitments) with the FHLB of Des Moines to deliver residential mortgage loans and to guarantee the payment of any realized losses that exceed the FHLB's first loss account for mortgages delivered under the Commitments. West Bank receives credit enhancement fees from the FHLB for providing this guarantee and continuing to assist with managing the credit risk of the MPF Program residential mortgage loans. At September 30, 2016, the liability represented by the present value of the credit enhancement fees less any expected losses in the mortgages delivered under the Commitments was approximately $249. The outstanding balance of mortgage loans sold under the MPF Program was $119,968 and $139,152 at September 30, 2016 and December 31, 2015, respectively.

Contractual commitments: The Company has remaining commitments to invest in five qualified affordable housing projects totaling $6,072 as of September 30, 2016.

During 2015, the Company began construction on a new office in Rochester, Minnesota. Progress billings of approximately $4,953 have been paid on the $6,668 contract through September 30, 2016.

Contingencies: On September 29, 2010, West Bank was sued in a class action lawsuit filed in the Iowa District Court for Polk County. Plaintiffs, Darla and Jason T. Legg, asserted nonsufficient funds fees charged by West Bank on debit card transactions were usurious under the Iowa Consumer Credit Code and that the sequence West Bank formerly used to post debit card transactions for payment violated various alleged duties of good faith and ordinary care. Plaintiffs sought alternative remedies including injunctive relief, damages (including treble damages), punitive damages, refund of bank fees, and attorney fees. The trial court entered orders on preliminary motions on March 4, 2014. It dismissed one of Plaintiffs' claims and found that factual disputes precluded summary judgment in West Bank's favor on the remaining claims. In addition, the court certified two classes for further proceedings. West Bank appealed the adverse rulings to the Iowa Supreme Court. On January 22, 2016, the Iowa Supreme Court filed two opinions that affirmed and reversed parts of the trial court rulings. The court reversed the trial court by holding the Iowa Consumer Credit Code usury claim and an unjust enrichment claim should be dismissed. Certification of classes on those claims was also reversed. The court affirmed the trial court by holding that the Plaintiffs could proceed with a breach of express contract claim based on a 2006 change in debit card payment sequencing coupled with the alleged lack of notice concerning that change. During the third quarter of 2016, the parties to the lawsuit participated in a mediation and reached a settlement agreement in principle, which has not yet been finalized, executed, or approved by the court. As part of the proposed settlement, West Bank does not admit to any liability or wrongdoing, and the settlement agreement would include a release of all claims brought or that could have been brought in the lawsuit and would result in a dismissal of the lawsuit with prejudice. In the quarter ended September 30, 2016, West Bank recorded an expense of $250, which is the amount West Bank expects to pay in the settlement. The proposed settlement agreement is subject to court approval and will require notice to be sent to class members providing them with an opportunity to opt out of the class or object to the settlement. West Bank will seek preliminary court approval of the proposed settlement in the fourth quarter of 2016.

Except as described above, neither the Company nor West Bank is a party, and no property of these entities is subject, to any other material pending legal proceedings, other than ordinary routine litigation incidental to West Bank's business. The Company does not know of any proceeding contemplated by a governmental authority against the Company or West Bank.

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9. Fair Value Measurements

Accounting guidance on fair value measurements and disclosures defines fair value and establishes a framework for measuring the fair value of assets and liabilities using a hierarchy system. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the reporting entity transacts business.

The Company's balance sheet contains investment securities available for sale and derivative instruments that are recorded at fair value on a recurring basis. The three-level valuation hierarchy for disclosure of fair value is as follows:

Level 1 uses quoted market prices in active markets for identical assets or liabilities.

Level 2 uses observable market-based inputs or unobservable inputs that are corroborated by market data.

Level 3 uses unobservable inputs that are not corroborated by market data.

The Company's policy is to recognize transfers between Levels at the end of each reporting period, if applicable. There were no transfers between Levels of the fair value hierarchy during the nine months ended September 30, 2016.

The following is a description of valuation methodologies used for financial assets and liabilities recorded at fair value on a recurring basis.

Investment securities available for sale: When available, quoted market prices are used to determine the fair value of investment securities. If quoted market prices are not available, the Company determines fair value based on various sources and may apply matrix pricing with observable prices for similar bonds where a price for the identical bond is not observable. The fair values of these securities are determined by pricing models that consider observable market data such as interest rate volatilities, LIBOR yield curve, credit spreads, prices from market makers and live trading systems. Level 1 securities include certain corporate bonds and preferred stocks, and would include U.S. Treasuries, if any were held. Level 2 securities include U.S. government and agency securities, state and political subdivision securities, collateralized mortgage obligations, mortgage-backed securities, and one trust preferred security. The Company currently holds no investment securities classified as Level 3.

Generally, management obtains the fair value of investment securities at the end of each reporting period via a third party pricing service. Management, with the assistance of an independent investment advisory firm, reviewed the valuation process used by the third party and believed that process was valid. On a quarterly basis, management corroborates the fair values of investment securities by obtaining pricing from an independent investment advisory firm and compares the two sets of fair values. Any significant variances are reviewed and investigated. In addition, the Company has instituted a practice of further testing the fair values of a sample of securities. For that sample, the prices are further validated by management, with assistance from an independent investment advisory firm, by obtaining details of the inputs used by the pricing service. Those inputs were independently tested, and management concluded the fair values were consistent with GAAP requirements and securities were properly classified in the fair value hierarchy.

Derivative instrument: The Company's derivative instrument consists of an interest rate swap, which is accounted for as a cash flow hedge. The Company's derivative position is classified within Level 2 of the fair value hierarchy and is valued using models generally accepted in the financial services industry and that use actively quoted or observable market input values from external market data providers and/or non-binding broker-dealer quotations. The fair value of the derivative is determined using discounted cash flow models. These models’ key assumptions include the contractual terms of the contract along with significant observable inputs, including interest rates, yield curves, nonperformance risk and volatility.

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The following tables present the balances of financial assets and liabilities measured at fair value on a recurring basis by level as of September 30, 2016 and December 31, 2015.

	September 30, 2016			
	Total	Level 1	Level 2	Level 3
Financial assets:				
Investment securities available for sale:				
U.S. government agencies and corporations	$ 2,620	$ —	$ 2,620	$ —
State and political subdivisions	67,180	—	67,180	—
Collateralized mortgage obligations	111,197	—	111,197	—
Mortgage-backed securities	87,849	—	87,849	—
Trust preferred security	1,181	—	1,181	—
Corporate notes	8,384	8,084	300	—
Financial liabilities:				
Derivative instrument, interest rate swap	$ 1,302	$ —	$ 1,302	$ —

	December 31, 2015			
	Total	Level 1	Level 2	Level 3
Financial assets:				
Investment securities available for sale:				
U.S. government agencies and corporations	$ 2,692	$ —	$ 2,692	$ —
State and political subdivisions	73,079	—	73,079	—
Collateralized mortgage obligations	132,615	—	132,615	—
Mortgage-backed securities	101,088	—	101,088	—
Trust preferred security	1,105	—	1,105	—
Corporate notes and equity securities	10,135	9,835	300	—
Financial liabilities:				
Derivative instrument, interest rate swap	$ 774	$ —	$ 774	$ —

Certain assets are measured at fair value on a nonrecurring basis. That is, they are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). As of September 30, 2016 and December 31, 2015, impaired loans of $0 and $98, respectively, for which a fair value adjustment was recorded were classified as Level 3. Impaired loans are evaluated and valued at the lower of cost or fair value when the loan is identified as impaired. Fair value is measured based on the value of the collateral securing these loans. The types of collateral vary widely and could include accounts receivables, inventory, a variety of equipment and real estate. Evaluations of the underlying assets are completed for each impaired loan with a specific reserve. Collateral evaluations are reviewed and discounted as appropriate based on knowledge of the specific type of collateral. In the case of real estate, an independent appraisal may be obtained. Types of discounts considered included aging of receivables, condition of the collateral, potential market for the collateral and estimated disposal costs. These discounts will vary from loan to loan and may be discounted based on management's opinions concerning market developments or the client's business.

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GAAP requires disclosure of the fair value of financial assets and financial liabilities, including those that are not measured and reported at fair value on a recurring or nonrecurring basis. The methodologies for estimating the fair value of financial assets and financial liabilities that are measured at fair value on a recurring or nonrecurring basis are discussed above. The methodologies for other financial assets and financial liabilities are discussed below.

Cash and due from banks: The carrying amount approximates fair value.

Federal funds sold: The carrying amount approximates fair value.

Investment securities held to maturity: The fair values of these securities, which are all state and political subdivisions, are determined by the same method previously described for investment securities available for sale.

FHLB stock: The fair value of this restricted stock is estimated at its carrying value and redemption price of $100 per share.

Loans: The fair values of fixed rate loans are estimated using discounted cash flow analysis based on observable market interest rates currently being offered for loans with similar terms to borrowers with similar credit quality. The carrying values of variable rate loans approximate their fair values.

Deposits: The carrying amounts for demand and savings deposits, which represent the amounts payable on demand, approximate their fair values. The fair values for time deposits are estimated using discounted cash flow analysis, based on observable market interest rates currently being offered on time deposits with similar terms.

Accrued interest receivable and payable: The fair values of both accrued interest receivable and payable approximate their carrying amounts.

Borrowings: The carrying amounts of federal funds purchased, short-term borrowings, variable rate FHLB advances, and variable rate long-term borrowings approximate their fair values. Fair values of subordinated notes, a fixed rate FHLB advance and other long-term borrowings are estimated using discounted cash flow analysis, based on observable market interest rates currently being offered with similar terms.

Commitments to extend credit and standby letters of credit: The approximate fair values of commitments and standby letters of credit are based on the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and creditworthiness of the counterparties.

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The following table presents the carrying amounts and approximate fair values of financial assets and liabilities as of September 30, 2016 and December 31, 2015.

	Fair Value Hierarchy Level	September 30, 2016 Carrying Amount	September 30, 2016 Approximate Fair Value	December 31, 2015 Carrying Amount	December 31, 2015 Approximate Fair Value
Financial assets:					
Cash and due from banks	Level 1	$44,526	$44,526	$57,329	$57,329
Federal funds sold	Level 1	6,324	6,324	15,322	15,322
Investment securities available for sale	See previous table	278,411	278,411	320,714	320,714
Investment securities held to maturity	Level 2	48,405	49,943	51,259	51,918
Federal Home Loan Bank stock	Level 1	12,467	12,467	12,447	12,447
Loans, net(1)	Level 2	1,366,937	1,370,122	1,231,721	1,235,336
Accrued interest receivable	Level 1	5,230	5,230	4,688	4,688
Financial liabilities:					
Deposits	Level 2	$1,491,656	$1,491,634	$1,440,729	$1,440,762
Federal funds purchased	Level 1	920	920	2,760	2,760
Short-term borrowings	Level 1	34,500	34,500	19,000	19,000
Subordinated notes, net	Level 2	20,395	12,646	20,385	11,674
Federal Home Loan Bank advances, net	Level 2	99,509	99,631	98,385	98,812
Long-term debt, net	Level 2	5,952	5,879	8,405	8,314
Accrued interest payable	Level 1	336	336	343	343
Interest rate swap	See previous table	1,302	1,302	774	774
Off-balance-sheet financial instruments:					
Commitments to extend credit	Level 3	—	—	—	—
Standby letters of credit	Level 3	—	—	—	—

(1) All loans are Level 2 except impaired loans of $0 and $98 as of September 30, 2016 and December 31, 2015, respectively, which are Level 3.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

"SAFE HARBOR" CONCERNING FORWARD-LOOKING STATEMENTS

Certain statements in this report, other than purely historical information, including estimates, projections, statements relating to the Company's business plans, objectives and expected operating results, and the assumptions upon which those statements are based, are “forward-looking statements” within the meanings of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). Forward-looking statements may appear throughout this report. These forward-looking statements are generally identified by the words “believes,” “expects,” “intends,” “anticipates,” “projects,” “future,” “may,” “should,” “will,” “strategy,” “plan,” “opportunity,” “will be,” “will likely result,” “will continue” o references, or references to estimates, predictions or future events. Such forward-looking statements are based upon certain underlying assumptions, risks and uncertainties. Because of the possibility that the underlying assumptions are incorrect or do not materialize as expected in the future, actual results could differ materially from these forward-looking statements. Risks and uncertainties that may affect future results include: interest rate risk; competitive pressures; pricing pressures on loans and deposits; changes in credit and other risks posed by the Company's loan and investment portfolios, including declines in commercial or residential real estate values or changes in the allowance for loan losses dictated by new market conditions or regulatory requirements; actions of bank and nonbank competitors; changes in local, national and international economic conditions; changes in regulatory requirements, limitations and costs; changes in customers' acceptance of the Company's products and services; cyber-attacks; unexpected outcomes of existing or new litigation involving the Company; and any other risks described in the “Risk Factors” sections of this and other reports filed by the Company with the Securities and Exchange Commission. The Company undertakes no obligation to revise or update such forward-looking statements to reflect current or future events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

CRITICAL ACCOUNTING POLICIES

The discussion and analysis of the Company's financial condition and results of operations are based upon the Company's consolidated financial statements that have been prepared in accordance with GAAP. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, income and expenses. These estimates are based upon historical experience and on various other assumptions that management believes are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. The estimates and judgments that management believes have the most effect on the Company's reported financial position and results of operations are described as critical accounting policies in the Company's Annual Report on Form 10-K for the year ended December 31, 2015, as filed with the Securities and Exchange Commission on March 3, 2016. There have been no significant changes in the critical accounting policies or the assumptions and judgments utilized in applying these policies since the year ended December 31, 2015.

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THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016

OVERVIEW

The following discussion describes the consolidated operations and financial condition 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). Results of operations for the three and nine months ended September 30, 2016 are compared to the results for the same periods in 2015, and the consolidated financial condition of the Company as of September 30, 2016 is compared to balances as of December 31, 2015. The Company operates in three markets: central Iowa, which is generally the greater Des Moines metropolitan area; eastern Iowa, which is the area including and surrounding Iowa City and Coralville, Iowa; and the Rochester, Minnesota area.

Net income for the three months ended September 30, 2016 was $5,813, or $0.36 per diluted common share, compared to $5,426, or $0.34 per diluted common share, for the three months ended September 30, 2015. The Company's annualized return on average assets (ROA) and return on average equity (ROE) for the three months ended September 30, 2016 were 1.26 and 14.20 percent, respectively, compared to 1.28 and 14.63 percent, respectively, for the three months ended September 30, 2015.

The increase in net income for the three months ended September 30, 2016 compared to the three months ended September 30, 2015 was mainly due to higher net interest income. The $1,015, or 7.4 percent, increase in net interest income was fueled by an increase of $155,408, or 12.7 percent, in average loans outstanding for the three months ended September 30, 2016 compared to the same time period in 2015. Partially offsetting the increase in net interest income for the third quarter of 2016 compared to the same period in 2015 was a 5.9 percent increase in noninterest expense. The increase in noninterest expense included a $250 proposed settlement agreement in a class action lawsuit and normal increases in other operating costs. As previously disclosed, the class action litigation was originally filed in September 2010 and has involved considerable management time and expense. As part of the proposed litigation settlement, West Bank does not admit to any liability or wrongdoing, and the settlement agreement, subject to court approval, would include a release of all claims brought or that could have been brought in the lawsuit and would result in a dismissal of the lawsuit with prejudice. West Bank will seek preliminary court approval of the proposed settlement in the fourth quarter of 2016.

Net income for the nine months ended September 30, 2016 was $16,985, or $1.05 per diluted common share, compared to $15,801, or $0.98 per diluted common share, for the nine months ended September 30, 2015. The Company's annualized ROA and ROE for the nine months ended September 30, 2016 were 1.26 and 14.29 percent, respectively, compared to 1.28 and 14.62 percent, respectively, for the first nine months of 2015.

The increase in net income for the nine months ended September 30, 2016 compared to the same period in 2015 was primarily due to growth in net interest income associated with loan growth and the recognition of tax-exempt gain from bank-owned life insurance. Partially offsetting these increases for the first nine months of 2016 compared to the first nine months of 2015 were increases in the provision for loan losses and noninterest expense.

Net interest income for the nine months ended September 30, 2016 grew $2,670, or 6.7 percent, compared to the nine months ended September 30, 2015. Similar to the three months ended September 30, 2016, the increase in net interest income was primarily due to the $115,064 increase in average loans outstanding for the first nine months of 2016 compared to the first nine months of 2015. In association with the loan growth, the Company recorded a provision for loan losses of $900 for the nine months ended September 30, 2016, compared to a $400 provision in the nine months ended September 30, 2015.

The Company recognized tax-exempt gain from bank-owned life insurance of $443 in the nine months ended September 30, 2016 due to the losses of one of our colleagues as well as a former employee. Partially offsetting this tax-exempt income was an increase of approximately $171 in noninterest expense for the nine months ended September 30, 2016 due to the recognition of costs associated with the death of the employee. The remaining $1,002 increase in noninterest expense for the nine months ended September 30, 2016 compared to the same period in 2015 was due to the combination of increased salaries and benefit costs, the litigation settlement mentioned above and normal increases in other operating costs.

The Company has reached an agreement with its insurance carrier for reimbursement of $300 of defense costs related to the class action litigation and a 50 percent reimbursement rate for future class action litigation-related defense costs incurred to conclude the proposed settlement. The $300 reimbursement will be recognized upon receipt, which is expected to be in the fourth quarter of 2016.

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Total loans outstanding increased $136,207, or 10.9 percent, during the first nine months of 2016. The credit quality of the loan portfolio remains strong as evidenced by the Company's Texas ratio, which was 0.55 percent as of September 30, 2016. As of September 30, 2016, the allowance for loan losses was 1.15 percent of outstanding loans, and management believes it was adequate to absorb any losses inherent in the loan portfolio.

Each quarter throughout the year, the Company's four key performance metrics are compared to those of our identified peer group of 16 companies. The group of 16 publicly traded peer financial institutions against which we compare our performance each quarter consists of BankFinancial Corporation, Farmers Capital Bank Corporation, First Business Financial Services, Inc., First Defiance Financial Corp., First Mid-Illinois Bancshares, Inc., Hills Bancorporation, Horizon Bancorp, Isabella Bank Corporation, Mercantile Bank Corporation, MidWestOne Financial Group, Inc., MutualFirst Financial, Inc., Nicolet Bankshares, Inc., Peoples Bancorp, QCR Holdings, Inc., Southwest Bancorp and Waterstone Financial, Inc. The members of the peer group are selected based on their business focus, scope and location of operations, size and other considerations. The Company is in the middle of the group in terms of asset size. The group is periodically reviewed, with changes made primarily to reflect merger and acquisition activity. Our goal is to perform at or near the top of these peers relative to what we consider to be four key metrics: return on average assets, return on average equity, efficiency ratio and Texas ratio. We believe these measures encompass the factors that define the performance of a community bank. When contrasted with the peer group's metrics for the six months ended June 30, 2016 (latest data available), the Company's metrics for the nine months ended September 30, 2016 were better than those of each company in the peer group as shown in the table below, except for one peer that had a higher ROA.

	West Bancorporation, Inc.	Peer Group Range
	Nine months ended September 30, 2016	Six months ended June 30, 2016
Return on average assets	1.26%	0.36% - 1.34%
Return on average equity	14.29%	2.60% - 10.73%
Efficiency ratio*	46.59%	54.47% - 77.57%
Texas ratio*	0.55%	3.73% - 23.59%

* A lower ratio is more desirable.

Previously announced construction continues on a new office in Rochester, Minnesota. The new facility will replace a leased office and is expected to open in November 2016. We believe the more prominent location of the new office along with the addition of an experienced consumer banker will enhance our ability to expand the customer base in that market.

During the third quarter of 2016, the Company elected to become a financial holding company. The election provides the Company with additional flexibility to engage in a broader range of financial activities through affiliates than are permissible for bank holding companies that are not financial holding companies. While the Company does not currently have a plan to engage in any new activities, the election affords the ability to respond more quickly to market developments and opportunities.

At its meeting on October 26, 2016, the Board of Directors declared a quarterly dividend of $0.17 per common share. The dividend is payable on November 23, 2016, to stockholders of record as of November 9, 2016. The dividend was increased $0.01 to the $0.17 level in April 2016 and represents the highest quarterly dividend amount ever paid by the Company.

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RESULTS OF OPERATIONS

The following table shows selected financial results and measures for the three and nine months ended September 30, 2016 compared with the same periods in 2015.

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2016	2015	Change	Change %	2016	2015	Change	Change %
Net income	$5,813	$5,426	$387	7.13 %	$16,985	$15,801	$1,184	7.49 %
Average assets	1,838,125	1,678,005	160,120	9.54 %	1,794,777	1,652,232	142,545	8.63 %
Average stockholders' equity	162,867	147,120	15,747	10.70%	158,821	144,540	14,281	9.88 %
Return on average assets	1.26 %	1.28 %	(0.02)%		1.26 %	1.28 %	(0.02)%	
Return on average equity	14.20 %	14.63 %	(0.43)%		14.29 %	14.62 %	(0.33)%	
Net interest margin	3.50 %	3.59 %	(0.09)%		3.51 %	3.59 %	(0.08)%	
Efficiency ratio*	46.25 %	46.30 %	(0.05)%		46.59 %	47.12 %	(0.53)%	
Dividend payout ratio	47.19 %	47.36 %	(0.17)%		47.43 %	46.72 %	0.71 %	
Average equity to average assets ratio	8.86 %	8.77 %	0.09 %		8.85 %	8.75 %	0.10 %	

	As of September 30,		
	2016	2015	Change
Texas ratio*	0.55 %	2.35 %	(1.80)%
Equity to assets ratio	9.03 %	8.61 %	0.42 %
Tangible common equity ratio	9.03 %	8.61 %	0.42 %

* A lower ratio is more desirable.

Definitions of ratios:
- Return on average assets - annualized net income divided by average assets.
- Return on average equity - annualized net income divided by average stockholders' equity.
- Net interest margin - annualized tax-equivalent net interest income divided by average interest-earning assets.
- Efficiency ratio - noninterest expense (excluding other real estate owned expense) divided by noninterest income (excluding net securities gains and gains/losses on disposition of premises and equipment) plus tax-equivalent net interest income.
- Dividend payout ratio - dividends paid to common stockholders divided by net income.
- Texas ratio - total nonperforming assets divided by tangible common equity plus the allowance for loan losses.
- Equity to assets ratio - equity divided by assets.
- Tangible common equity ratio - common equity less intangible assets divided by tangible assets.

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Net Interest Income

The following tables present average balances and related interest income or interest expense, with the resulting annualized average yield or rate by category of interest-earning assets or interest-bearing liabilities. Interest income and the resulting net interest income are shown on a fully taxable basis.
Data for the three months ended September 30:

	Average Balance				Interest Income/Expense				Yield/Rate		
	2016	2015	Change	Change-%	2016	2015	Change	Change-%	2016	2015	Change
Interest-earning assets:											
Loans: (1) (2)											
Commercial	$365,632	$337,915	$27,717	8.20 %	$3,874	$3,564	$310	8.70 %	4.22%	4.18%	0.04 %
Real estate (3)	1,003,492	877,732	125,760	14.33 %	11,166	9,921	1,245	12.55 %	4.43%	4.48%	(0.05)%
Consumer and other	9,983	8,052	1,931	23.98 %	102	84	18	21.43 %	4.06%	4.12%	(0.06)%
Total loans	1,379,107	1,223,699	155,408	12.70 %	15,142	13,569	1,573	11.59 %	4.37%	4.40%	(0.03)%
Investment securities:											
Taxable	230,054	211,297	18,757	8.88 %	991	1,017	(26)	(2.56)%	1.72%	1.93%	(0.21)%
Tax-exempt (3)	115,934	107,408	8,526	7.94 %	1,176	1,195	(19)	(1.59)%	4.06%	4.45%	(0.39)%
Total investment securities	345,988	318,705	27,283	8.56 %	2,167	2,212	(45)	(2.03)%	2.50%	2.78%	(0.28)%
Federal funds sold	20,783	43,725	(22,942)	(52.47)%	26	28	(2)	(7.14)%	0.51%	0.26%	0.25 %
Total interest-earning assets (3)	$1,745,878	$1,586,129	$159,749	10.07 %	17,335	15,809	1,526	9.65 %	3.95%	3.95%	— %
Interest-bearing liabilities:											
Deposits:											
Interest-bearing demand, savings and money market	$944,809	$815,195	$129,614	15.90 %	678	302	376	124.50 %	0.29%	0.15%	0.14 %
Time deposits	110,223	121,356	(11,133)	(9.17)%	194	198	(4)	(2.02)%	0.70%	0.65%	0.05 %
Total deposits	1,055,032	936,551	118,481	12.65 %	872	500	372	74.40 %	0.33%	0.21%	0.12 %
Other borrowed funds	132,583	139,302	(6,719)	(4.82)%	1,103	941	162	17.22 %	3.31%	2.68%	0.63 %

Total interest-bearing liabilities	$1,187,615	$1,075,853	$111,762	10.39 %	1,975	1,441	534	37.06 %	0.66 %	0.53 %	0.13 %
Tax-equivalent net interest income					$15,360	$14,368	$992	6.90 %			
Net interest spread									3.29 %	3.42 %	(0.13)%
Net interest margin									3.50 %	3.59 %	(0.09)%

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Data for the nine months ended September 30:

	Average Balance				Interest Income/Expense				Yield/Rate		
	2016	2015	Change	Change-%	2016	2015	Change	Change-%	2016	2015	Change
Interest-earning assets:											
Loans: (1) (2)											
Commercial	$361,315	$327,185	$34,130	10.43 %	$11,377	$10,232	$1,145	11.19 %	4.21%	4.18%	0.03 %
Real estate (3)	951,226	870,436	80,790	9.28 %	31,768	29,181	2,587	8.87 %	4.46%	4.48%	(0.02)%
Consumer and other	8,716	8,572	144	1.68 %	257	252	5	1.98 %	3.94%	3.93%	0.01 %
Total loans	1,321,257	1,206,193	115,064	9.54 %	43,402	39,665	3,737	9.42 %	4.39%	4.40%	(0.01)%
Investment securities:											
Taxable	243,811	219,597	24,214	11.03 %	3,222	3,184	38	1.19 %	1.76%	1.93%	(0.17)%
Tax-exempt (3)	120,049	104,325	15,724	15.07 %	3,742	3,495	247	7.07 %	4.16%	4.47%	(0.31)%
Total investment securities	363,860	323,922	39,938	12.33 %	6,964	6,679	285	4.27 %	2.55%	2.75%	(0.20)%
Federal funds sold	14,586	31,190	(16,604)	(53.24)%	57	60	(3)	(5.00)%	0.53%	0.26%	0.27 %
Total interest-earning assets (3)	$1,699,703	$1,561,305	$138,398	8.86 %	50,423	46,404	4,019	8.66 %	3.96%	3.97%	(0.01)%
Interest-bearing liabilities:											
Deposits:											
Interest-bearing demand, savings and money market	$909,950	$817,065	$92,885	11.37 %	1,842	953	889	93.28 %	0.27%	0.16%	0.11 %
Time deposits	110,218	132,766	(22,548)	(16.98)%	559	669	(110)	(16.44)%	0.68%	0.67%	0.01 %
Total deposits	1,020,168	949,831	70,337	7.41 %	2,401	1,622	779	48.03 %	0.31%	0.23%	0.08 %
Other borrowed funds	138,687	148,681	(9,994)	(6.72)%	3,335	2,842	493	17.35 %	3.21%	2.56%	0.65 %
Total interest-bearing liabilities	$1,158,855	$1,098,512	$60,343	5.49 %	5,736	4,464	1,272	28.49 %	0.66%	0.54%	0.12 %
Tax-equivalent net interest income					$44,687	$41,940	$2,747	6.55 %			

Net interest spread	3.30%	3.43%	(0.13)%
Net interest margin	3.51%	3.59%	(0.08)%

(1) Average loan balances include nonaccrual loans. Interest income recognized on nonaccrual loans has been included.

(2) Interest income on loans includes amortization of loan fees and costs and prepayment penalties collected, which are not material.

(3) Tax-exempt income has been adjusted to a tax-equivalent basis using an incremental federal income tax rate of 35 percent and is adjusted to reflect the effect of the nondeductible interest expense associated with owning tax-exempt investment securities and loans.

The Company's largest component of net income is net interest income. Fluctuations in net interest income can result from the combination of changes in the average balances of asset and liability categories and changes in interest rates. Interest rates earned and paid are affected by general economic conditions, particularly changes in market interest rates, and by competitive factors, government policies and the actions of regulatory authorities. The Board of Governors of the Federal Reserve System increased the targeted federal funds interest rate by 25 basis points in December 2015, the first interest rate change in seven years. No additional changes to the targeted federal funds interest rate have been made to date in 2016.

Net interest margin is a measure of the net return on interest-earning assets and is computed by dividing annualized tax-equivalent net interest income by total average interest-earning assets for the period. The net interest margin for the three and nine months ended September 30, 2016 declined nine and eight basis points, respectively, compared to the three and nine months ended September 30, 2015. The primary drivers of the decline in the net interest margin for both the three and nine months ended September 30, 2016 compared to the same respective periods in 2015 were an increase in interest rates paid on certain deposit categories, a reduction in yield on investment securities due to calls of higher yielding securities, and an increase in the rate paid on other borrowed funds. Despite the decline in the net interest margin, tax-equivalent net interest income for the three and nine months ended September 30, 2016 increased $992 and $2,747, respectively, compared to the same time periods in 2015. The increase in net interest income for both 2016 periods compared to the three and nine months ended September 30, 2015 was largely due to the increase in average outstanding loans. Management expects the persisting low interest rate environment to continue to put pressure on the net interest margin throughout the remainder of 2016. Management continually develops and applies strategies to maintain the net interest margin.

Tax-equivalent interest income on loans increased $1,573 and $3,737, respectively, for the three and nine months ended September 30, 2016 compared to the three and nine months ended September 30, 2015. The improvement for both time periods was due to the significant increase in average loan balances outstanding. The average yields on loans decreased slightly for the three and nine months ended September 30, 2016 compared to the three and nine months ended September 30, 2015, respectively. The Company continues to focus on expanding existing and entering into new customer relationships while maintaining strong credit quality. The yield on the Company's loan portfolio is affected by the mix of the loans in the portfolio, the interest rate environment, the effects of competition, the level of nonaccrual loans and reversals of previously accrued interest on charged-off loans. The political and economic environments can also influence the volume of new loan originations and the mix of variable rate versus fixed rate loans.

The average balance of investment securities was higher during the three and nine months ended September 30, 2016 than during the same periods in 2015, while calls of certain higher-yielding municipal securities and a lower yield on the most recent portfolio purchases caused the overall portfolio yield to decline 28 and 20 basis points, respectively, for the three and nine months ended September 30, 2016 compared to the same periods last year. The increase in average balances was primarily attributable to purchases in the third quarter of 2015. No investment securities were purchased during the nine months ended September 30, 2016.

The average balance of interest-bearing demand, savings and money market deposits increased for the three and nine months ended September 30, 2016 compared to the three and nine months ended September 30, 2015, mainly due to an increase in average balances of money market accounts, including public funds from municipalities. The average rate paid on interest-bearing demand, savings and money market deposits for the three and nine months ended September 30, 2016 increased 14 and 11 basis points, respectively, compared to the three and nine months ended September 30, 2015. The increase in interest expense was primarily due to increasing interest rates on certain money market deposit products in late December 2015 and the mix of new deposits in 2016. The average balance of time deposits continued to decline for the three and nine months ended September 30, 2016 compared to the same periods in 2015 as fewer maturing deposits have been renewed due to the historically low interest rates. Meanwhile, interest rates on time deposits increased five basis points for the three months and one basis point for the nine months ended September 30, 2016 compared to the same periods in 2015, primarily due to fees paid at the time new and renewed Certificate of Deposit Account Registry Service deposits were issued.

The average rate paid on other borrowed funds increased 63 and 65 basis points, respectively, for the three and nine months ended September 30, 2016 compared to the three and nine months ended September 30, 2015. The increase in the average rate paid was due to the combination of an interest rate swap that became effective in December 2015, amortization of interest rate swap termination fees paid in 2015, and increases in rates for variable rate FHLB advances and a subordinated note. The decline in the average balance of other borrowed funds for the three and nine months ended September 30, 2016 compared to the same periods in 2015 was caused by lower average overnight borrowings and scheduled principal payments on long-term borrowings.

Provision for Loan Losses and the Related Allowance for Loan Losses

The provision for loan losses represents a charge made to earnings to maintain an adequate allowance for loan losses. The adequacy of the allowance for loan losses is evaluated quarterly by management and reviewed by the Board of Directors. The allowance for loan losses is management's best estimate of probable losses inherent in the loan portfolio as of the balance sheet date. Based upon the evaluations, the provision for loan losses was $200 for both the three months ended September 30, 2016 and 2015. The provision for loan losses was $900 and $400, respectively, for the nine months ended September 30, 2016 and 2015. The increased provision for the nine months ended September 30, 2016 compared to the same time period in 2015 was directly associated with the strong 2016 year-to-date loan growth.

Factors considered in establishing an appropriate allowance include: an assessment of the financial condition of the borrower; the value and adequacy of loan collateral; the condition of the local economy and the condition of the specific industry of the borrower; the levels and trends of loans by segment; and a review of delinquent and classified loans. The quarterly evaluation focuses on factors such as specific loan reviews, changes in the components of the loan portfolio given the current and forecasted economic conditions, and historical loss experience. Any one of the following conditions may result in the review of a specific loan: concern about whether the customer's cash flow or net worth is sufficient to repay the loan; delinquency status; criticism of the loan in a regulatory examination; the suspension of interest accrual; or other factors, including whether the loan has other special or unusual characteristics that suggest special monitoring is warranted. The Company's concentration risks include geographic concentration in central and eastern Iowa and southeastern Minnesota. The local economies are composed primarily of service industries and state and county governments.

West Bank has a significant portion of its loan portfolio in commercial real estate loans, commercial lines of credit, commercial term loans, and construction and land development loans. West Bank's typical commercial borrower is a small- or medium-sized, privately owned business entity. West Bank's commercial loans typically have greater credit risks than residential mortgages or consumer loans because they often have larger balances and repayment usually depends on the borrowers' successful business operations. Commercial loans also involve additional risks because they generally are not fully repaid over the loan period and, thus, may require refinancing or a large payoff at maturity. When the economy turns downward, commercial borrowers may not be able to repay their loans, and the value of their assets, which are usually pledged as collateral, may decrease rapidly and significantly.

While management uses available information to recognize losses on loans, further reduction in the carrying amounts of loans may be necessary based on changes in circumstances, changes in the overall economy in the markets we currently serve, or later acquired information. Identifiable sectors within the general economy are subject to additional volatility, which at any time may have a substantial impact on the loan portfolio. In addition, regulatory agencies, as integral parts of their examination processes, periodically review the credit quality of the loan portfolio and the level of the allowance for loan losses. Such agencies may require West Bank to recognize additional losses based on such agencies' review of information available to them at the time of their examinations.

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West Bank's policy is to charge off loans when, in management's opinion, a loan or a portion of a loan is deemed uncollectible. Concerted efforts are made to maximize subsequent recoveries. The following table summarizes the activity in the Company's allowance for loan losses for the three and nine months ended September 30, 2016 and 2015 and related ratios.

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2016	2015	Change	2016	2015	Change
Balance at beginning of period	$15,829	$14,364	$1,465	$14,967	$13,607	$1,360
Charge-offs	(171)	(154)	(17)	(264)	(225)	(39)
Recoveries	100	250	(150)	355	878	(523)
Net (charge-offs) recoveries	(71)	96	(167)	91	653	(562)
Provision for loan losses charged to operations	200	200	—	900	400	500
Balance at end of period	$15,958	$14,660	$1,298	$15,958	$14,660	$1,298
Average loans outstanding	$1,379,107	$1,223,699		$1,321,257	$1,206,160	
Ratio of annualized net charge-offs (recoveries) during the period to average loans outstanding	0.02%	(0.03)%		(0.01)%	(0.07)%	
Ratio of allowance for loan losses to average loans outstanding	1.16%	1.20%		1.21%	1.22%	

In general, the U.S. economy is growing, but at a lower rate than was considered normal before the financial crisis. Average monthly job growth in 2016 has dropped below 200,000, while the national unemployment rate has increased slightly to 5.0 percent as of September 30, 2016. Activity in the housing market continues at a moderate pace. Interest rates are expected to gradually increase, although any increase may be delayed due to the sluggish world economy. The economic environments in Iowa and Minnesota continue to slowly improve. Based on the current economic indicators, the Company decided to maintain the economic factors within the allowance for loan losses evaluation at the same levels used in 2015. In the first nine months of 2016, the Company continued to use experience factors based on the highest losses calculated over a rolling 12-, 16-, or 20-quarter period. The loan growth in the first nine months of 2016 resulted in the portion of the allowance for loan losses related to loans collectively evaluated for impairment to increase by $1,041 to a total of $15,441, which was 1.12 percent of loans collectively evaluated for impairment as of September 30, 2016 compared to $14,400, or 1.16 percent, as of December 31, 2015. Management believes the resulting allowance for loan losses as of September 30, 2016 was adequate to absorb the losses inherent in the loan portfolio at the end of the quarter.

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Noninterest Income

The following tables show the variance from the prior year in the noninterest income categories shown in the Consolidated Statements of Income. In addition, accounts within the "Other income" category that represent a significant portion of the total or a significant variance are shown below.

	Three Months Ended September 30,			
Noninterest income:	2016	2015	Change	Change %
Service charges on deposit accounts	$632	$663	$(31)	(4.68)%
Debit card usage fees	450	463	(13)	(2.81)%
Trust services	355	302	53	17.55 %
Increase in cash value of bank-owned life insurance	160	183	(23)	(12.57)%
Other income:				
Revenue from residential mortgage banking	51	45	6	13.33 %
Loan fees	22	85	(63)	(74.12)%
Letter of credit fees	23	13	10	76.92 %
Credit card fees	63	53	10	18.87 %
All other income	163	128	35	27.34 %
Total other income	322	324	(2)	(0.62)%
Total noninterest income	$1,919	$1,935	$(16)	(0.83)%

	Nine Months Ended September 30,			
Noninterest income:	2016	2015	Change	Change %
Service charges on deposit accounts	$1,847	$1,934	$(87)	(4.50)%
Debit card usage fees	1,372	1,367	5	0.37 %
Trust services	946	944	2	0.21 %
Increase in cash value of bank-owned life insurance	492	550	(58)	(10.55)%
Gain from bank-owned life insurance	443	—	443	N/A
Realized investment securities gains, net	60	47	13	27.66 %
Other income:				
Revenue from residential mortgage banking	116	132	(16)	(12.12)%
Loan fees	50	122	(72)	(59.02)%
Letter of credit fees	80	61	19	31.15 %
Credit card fees	195	164	31	18.90 %
All other income	451	396	55	13.89 %
Total other income	892	875	17	1.94 %
Total noninterest income	$6,052	$5,717	$335	5.86 %

Service charges on deposit accounts declined for the three and nine months ended September 30, 2016, compared to the three and nine months ended September 30, 2015, primarily due to lower fees resulting from fewer instances of nonsufficient funds, which was partially offset by higher fees from commercial accounts.

Revenue from trust services was higher during the three months ended September 30, 2016 compared to the same time period in 2015, due to the combination of successful, ongoing business development efforts and pricing updates for certain account types.

The increase in cash value of bank-owned life insurance was lower in the three and nine months ended September 30, 2016 than in the three and nine months ended September 30, 2015, as crediting rates within the policies have declined slightly due to the historically low interest rate environment. As previously mentioned, gain from bank-owned life insurance was recognized for the nine months ended September 30, 2016 due to the losses of one of our colleagues as well as a former employee.

The Company sold three preferred stocks during the nine months ended September 30, 2016, recognizing gains of $60, while net gains on sales of securities of $47 were recognized during the nine months ended September 30, 2015.

Loan fees declined for the three and nine months ended September 30, 2016 compared to the same periods in 2015, due to the recognition of a rate lock fee on one loan in the third quarter of 2015. Letter of credit fees grew due to the increase in the amount of standby letters of credit activity for both the three and nine months ended September 30, 2016 as compared to the three and nine months ended September 30, 2015.

Credit card fees increased for the three and nine months ended September 30, 2016 compared to the three and nine months ended September 30, 2015, due to both higher volumes of credit transactions and an increase in the number of credit cards issued through a third party. All other income for the three months ended September 30, 2016 included a discount of $33 related to the purchase of a State of Iowa income tax credit.

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Noninterest Expense

The following tables show the variance from the prior year in the noninterest expense categories shown in the Consolidated Statements of Income. In addition, accounts within the "Other expenses" category that represent a significant portion of the total or a significant variance are shown below.

	Three Months Ended September 30,			
Noninterest expense:	2016	2015	Change	Change %
Salaries and employee benefits	$4,154	$4,056	$ 98	2.42 %
Occupancy	1,038	1,031	7	0.68 %
Data processing	643	595	48	8.07 %
FDIC insurance expense	272	209	63	30.14 %
Professional fees	189	194	(5)	(2.58)%
Director fees	202	226	(24)	(10.62)%
Other expenses:				
Marketing	72	55	17	30.91 %
Business development	157	166	(9)	(5.42)%
Insurance expense	88	96	(8)	(8.33)%
Investment advisory fees	124	130	(6)	(4.62)%
Postage and courier	79	78	1	1.28 %
Trust	106	107	(1)	(0.93)%
Consulting fees	91	70	21	30.00 %
Supplies	75	68	7	10.29 %
Low income housing projects amortization	99	76	23	30.26 %
Miscellaneous losses	247	27	220	814.81 %
All other	357	365	(8)	(2.19)%
Total other	1,495	1,238	257	20.76 %
Total noninterest expense	$7,993	$7,549	$ 444	5.88 %

	Nine Months Ended September 30,			
Noninterest expense:	2016	2015	Change	Change %
Salaries and employee benefits	$12,644	$12,051	$ 593	