WEST BANCORPORATION INC
Form 10-Q
July 28, 2016

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

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 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 July 27, 2016, there were 16,132,540 shares of common stock, no par value, outstanding.

WEST BANCORPORATION, INC.

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

(dollars in thousands)	June 30, 2016	December 31, 2015
ASSETS		
Cash and due from banks	$42,688	$57,329
Federal funds sold	5,456	15,322
Cash and cash equivalents	48,144	72,651
Investment securities available for sale, at fair value	291,939	320,714
Investment securities held to maturity, at amortized cost (fair value of $50,565 and $51,918 at June 30, 2016 and December 31, 2015, respectively)	48,963	51,259
Federal Home Loan Bank stock, at cost	12,439	12,447
Loans	1,380,841	1,246,688
Allowance for loan losses	(15,829)	(14,967)
Loans, net	1,365,012	1,231,721
Premises and equipment, net	18,719	11,562
Accrued interest receivable	4,713	4,688
Bank-owned life insurance	32,797	32,834
Deferred tax assets, net	4,984	6,670
Other assets	3,975	3,850
Total assets	$1,831,685	$1,748,396
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Noninterest-bearing demand	$458,197	$486,707
Interest-bearing demand	264,241	267,824
Savings	677,497	570,391
Time of $250,000 or more	12,870	14,749
Other time	97,457	101,058
Total deposits	1,510,262	1,440,729
Federal funds purchased	1,240	2,760
Short-term borrowings	26,000	19,000
Subordinated notes, net of discount	20,392	20,385
Federal Home Loan Bank advances, net of discount	99,131	98,385
Long-term debt, net of discount	6,779	8,405
Accrued expenses and other liabilities	6,902	6,355
Total liabilities	1,670,706	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 June 30, 2016 and December 31, 2015	—	—
Common stock, no par value; authorized 50,000,000 shares; 16,132,540 and 16,064,435 shares issued and outstanding at June 30, 2016 and December 31, 2015, respectively	3,000	3,000
Additional paid-in capital	20,668	20,067

Retained earnings	135,598	129,740
Accumulated other comprehensive income (loss)	1,713	(430)
Total stockholders' equity	160,979	152,377
Total liabilities and stockholders' equity	$ 1,831,685	$ 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 June 30,		Six Months Ended June 30,	
(dollars in thousands, except per share data)	2016	2015	2016	2015
Interest income:				
Loans, including fees	$14,303	$12,999	$27,769	$25,621
Investment securities:				
Taxable	1,076	1,042	2,231	2,167
Tax-exempt	819	756	1,702	1,520
Federal funds sold	11	22	31	32
Total interest income	16,209	14,819	31,733	29,340
Interest expense:				
Deposits	824	551	1,529	1,122
Federal funds purchased	1	2	3	4
Short-term borrowings	17	1	31	27
Subordinated notes	177	176	364	347
Federal Home Loan Bank advances	879	673	1,751	1,397
Long-term debt	38	62	83	126
Total interest expense	1,936	1,465	3,761	3,023
Net interest income	14,273	13,354	27,972	26,317
Provision for loan losses	500	200	700	200
Net interest income after provision for loan losses	13,773	13,154	27,272	26,117
Noninterest income:				
Service charges on deposit accounts	619	651	1,215	1,271
Debit card usage fees	475	469	922	904
Trust services	294	317	591	642
Increase in cash value of bank-owned life insurance	164	178	332	367
Gain from bank-owned life insurance	—	—	443	—
Realized investment securities gains, net	60	36	60	47
Other income	291	271	570	551
Total noninterest income	1,903	1,922	4,133	3,782
Noninterest expense:				
Salaries and employee benefits	4,234	4,005	8,490	7,995
Occupancy	983	1,010	1,934	2,059
Data processing	627	569	1,206	1,143
FDIC insurance	224	209	442	411
Professional fees	196	177	430	381
Director fees	230	228	470	416
Other expenses	1,325	1,245	2,646	2,484
Total noninterest expense	7,819	7,443	15,618	14,889
Income before income taxes	7,857	7,633	15,787	15,010
Income taxes	2,381	2,361	4,615	4,635
Net income	$5,476	$5,272	$11,172	$10,375
Basic earnings per common share	$0.34	$0.33	$0.69	$0.65
Diluted earnings per common share	$0.34	$0.33	$0.69	$0.65

Cash dividends declared per common share	$0.17	$0.16	$0.33	$0.30

See Notes to Consolidated Financial Statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(dollars in thousands)	2016	2015	2016	2015
Net income	$5,476	$5,272	$11,172	$10,375
Other comprehensive income (loss):				
Unrealized gains (losses) on available for sale securities:				
Unrealized holding gains (losses) arising during the period	1,785	(2,589)	4,470	(560)
Less: reclassification adjustment for net gains realized in net income	(60)	(36)	(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	(91)	(9)	(115)	(19)
Income tax benefit (expense)	(621)	1,001	(1,632)	238
Other comprehensive income (loss) on available for sale securities	1,013	(1,633)	2,663	(388)
Unrealized gains (losses) on derivatives arising during the period:	(307)	378	(1,137)	(735)
Less: reclassification adjustment for net loss on derivatives realized in net income	120	—	244	74
Less: reclassification adjustment for amortization of derivative termination costs	27	14	54	16
Income tax benefit (expense)	61	(149)	319	245
Other comprehensive income (loss) on derivatives	(99)	243	(520)	(400)
Total other comprehensive income (loss)	914	(1,390)	2,143	(788)
Comprehensive income	$6,390	$3,882	$13,315	$9,587

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	—	—	—	—	10,375	—	10,375
Other comprehensive (loss), net of tax	—	—	—	—	—	(788)	(788)
Cash dividends declared, $0.30 per common share	—	—	—	—	(4,812)	—	(4,812)
Stock-based compensation costs	—	—	—	496	—	—	496
Issuance of common stock upon vesting of restricted stock units, net of shares withheld for payroll taxes	—	40,035	—	(179)	—	—	(179)
Excess tax benefits from vesting of restricted stock units	—	—	—	124	—	—	124
Balance, June 30, 2015	$ —	16,058,769	$ 3,000	$ 19,412	$ 123,513	$ (534)	$ 145,391
Balance, December 31, 2015	$ —	16,064,435	$ 3,000	$ 20,067	$ 129,740	$ (430)	$ 152,377
Net income	—	—	—	—	11,172	—	11,172
Other comprehensive income, net of tax	—	—	—	—	—	2,143	2,143
Cash dividends declared, $0.33 per common share	—	—	—	—	(5,314)	—	(5,314)
Stock-based compensation costs	—	—	—	872	—	—	872
Issuance of common stock upon vesting of restricted stock units, net of shares withheld for payroll taxes	—	68,105	—	(348)	—	—	(348)
Excess tax benefits from vesting of restricted stock units	—	—	—	77	—	—	77
Balance, June 30, 2016	$ —	16,132,540	$ 3,000	$ 20,668	$ 135,598	$ 1,713	$ 160,979

See Notes to Consolidated Financial Statements.

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

(dollars in thousands)	Six Months Ended June 30, 2016	2015
Cash Flows from Operating Activities:		
Net income	$11,172	$10,375
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	700	200
Net amortization and accretion	2,220	1,808
Loss on disposition of premises and equipment	—	4
Investment securities gains, net	(60)	(47)
Stock-based compensation	872	496
Increase in cash value of bank-owned life insurance	(332)	(367)
Gain from bank-owned life insurance	(443)	—
Depreciation	492	460
Deferred income taxes	373	119
Excess tax benefits from vesting of restricted stock units	(77)	(124)
Change in assets and liabilities:		
(Increase) decrease in accrued interest receivable	(25)	39
(Increase) decrease in other assets	(50)	3,844
Decrease in accrued expenses and other liabilities	(346)	(382)
Net cash provided by operating activities	14,496	16,425
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	32,475	24,724
Purchases of securities available for sale	—	(15,180)
Purchases of Federal Home Loan Bank stock	(14,167)	(10,586)
Proceeds from redemption of Federal Home Loan Bank stock	14,175	13,493
Net increase in loans	(133,991)	(32,776)
Purchases of premises and equipment	(7,649)	(1,397)
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	(106,801)	(1,183)
Cash Flows from Financing Activities:		
Net increase in deposits	69,533	96,148
Net increase (decrease) in federal funds purchased	(1,520)	3,935
Net increase (decrease) in short-term borrowings	7,000	(66,000)
Principal payments on long-term debt	(1,630)	(1,630)
Interest rate swap termination costs paid	—	(541)
Common stock dividends paid	(5,314)	(4,812)
Restricted stock units withheld for payroll taxes	(348)	(179)
Excess tax benefits from vesting of restricted stock units	77	124
Net cash provided by financing activities	67,798	27,045
Net increase (decrease) in cash and cash equivalents	(24,507)	42,287
Cash and Cash Equivalents:		
Beginning	72,651	39,781

Ending	$48,144	$82,068
Supplemental Disclosures of Cash Flow Information:		
Cash payments for:		
Interest	$3,756	$3,023
Income taxes	2,520	1,340
Supplemental Disclosure of Noncash Investing and Financing Activities:		
Purchase of security available for sale, pending settlement	$—	$475

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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 the financial position as of June 30, 2016 and December 31, 2015, net income and comprehensive income for the three and six months ended June 30, 2016 and 2015, and cash flows for the six months ended June 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.

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

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

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

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 the 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 assessing the impact that this guidance will have on its consolidated financial statements.

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(dollars in thousands, except per share data)

2. Earnings per Common Share

Basic earnings per common share are computed by dividing net income by the weighted average number of common shares outstanding for the period. Diluted earnings per common share reflect the potential dilution that could occur if the Company's outstanding restricted stock units were vested. The dilutive effect was computed using the treasury stock method, which assumes all stock-based awards were exercised and the hypothetical proceeds from exercise were used by the Company to purchase common stock at the average market price during the period. The incremental shares, to the extent they would have been dilutive, were included in the denominator of the diluted earnings per common share calculation. The calculations of earnings per common share and diluted earnings per common share for the three and six months ended June 30, 2016 and 2015 are presented in the following table.

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands, except per share data)	2016	2015	2016	2015
Net income	$5,476	$5,272	$11,172	$10,375
Weighted average common shares outstanding	16,126	16,054	16,098	16,037
Weighted average effect of restricted stock units outstanding	34	39	44	52
Diluted weighted average common shares outstanding	16,160	16,093	16,142	16,089
Basic earnings per common share	$0.34	$0.33	$0.69	$0.65
Diluted earnings per common share	$0.34	$0.33	$0.69	$0.65

Restricted stock units totaling 110,765 and 124,186 were anti-dilutive and therefore excluded from the computation of diluted earnings per common share for the three and six months ended June 30, 2016, respectively. Restricted stock units totaling 133,214 and 72,619 were anti-dilutive for the three and six months ended June 30, 2015, respectively.

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3. Investment Securities

The following tables show the amortized cost, gross unrealized gains and losses, and fair value of investment securities, by investment security type as of June 30, 2016 and December 31, 2015.

	June 30, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Securities available for sale:				
U.S. government agencies and corporations	$2,538	$ 109	$ —	$2,647
State and political subdivisions	64,940	2,720	—	67,660
Collateralized mortgage obligations [1]	118,067	1,012	(110)	118,969
Mortgage-backed securities [1]	91,478	1,432	—	92,910
Trust preferred security	1,778	—	(675)	1,103
Corporate notes	8,613	41	(4)	8,650
	$287,414	$ 5,314	$ (789)	$291,939
Securities held to maturity:				
State and political subdivisions	$48,963	$ 1,753	$ (151)	$50,565

	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 $137,478 and $78,553 as of June 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 June 30, 2016 compared to December 31, 2015 was primarily due to an increase in public fund deposits.

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(dollars in thousands, except per share data)

The amortized cost and fair value of investment securities available for sale as of June 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.

	June 30, 2016	
	Amortized Cost	Fair Value
Due in one year or less	$4,089	$4,107
Due after one year through five years	14,834	15,153
Due after five years through ten years	30,407	31,679
Due after ten years	28,539	29,121
	77,869	80,060
Collateralized mortgage obligations and mortgage-backed securities	209,545	211,879
	$287,414	$291,939

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

	June 30, 2016	
	Amortized Cost	Fair Value
Due in one year or less	$538	$535
Due after one year through five years	487	486
Due after five years through ten years	19,380	19,880
Due after ten years	28,558	29,664
	$48,963	$50,565

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Proceeds from sales	$1,544	$6,889	$1,544	$16,946
Gross gains on sales	60	43	60	54
Gross losses on sales	—	7	—	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 June 30, 2016 and December 31, 2015.

	June 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	—	—	15,073	(110)	15,073	(110)
Mortgage-backed securities	—	—	—	—	—	—
Trust preferred security	—	—	1,103	(675)	1,103	(675)
Corporate notes	1,006	(1)	527	(3)	1,533	(4)
	$1,006	$ (1)	$16,703	$ (788)	$17,709	$ (789)
Securities held to maturity:						
State and political subdivisions	$448	$ (2)	$4,580	$ (149)	$5,028	$ (151)

	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 June 30, 2016, the available for sale and held to maturity securities with unrealized losses that have existed for longer than one year included 15 state and political subdivision securities, five collateralized mortgage obligation securities, one trust preferred security and one corporate note.

The Company believes the unrealized losses on investments available for sale and held to maturity as of June 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 does not consider these investments to have OTTI as of June 30, 2016.

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4. Loans and Allowance for Loan Losses

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

	June 30, 2016	December 31, 2015
Commercial	$380,267	$349,051
Real estate:		
Construction, land and land development	223,541	174,602
1-4 family residential first mortgages	49,206	51,370
Home equity	19,727	21,749
Commercial	699,830	644,176
Consumer and other loans	9,487	6,801
	1,382,058	1,247,749
Net unamortized fees and costs	(1,217)	(1,061)
	$1,380,841	$1,246,688

Real estate loans of approximately $630,000 and $590,000 were pledged as security for Federal Home Loan Bank (FHLB) advances as of June 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 June 30, 2016 and December 31, 2015.

	June 30, 2016	December 31, 2015
Troubled debt restructured loans[1]:		
Commercial	$ 96	$ 102
Real estate:		
Construction, land and land development	—	60
1-4 family residential first mortgages	20	86
Home equity	—	—
Commercial	389	445
Consumer and other loans	—	—
Total troubled debt restructured loans	$ 505	$ 693

(1) Included in this table were two TDR loans as of June 30, 2016 and three TDR loans as of December 31, 2015, with balances of $485 and $613, respectively, categorized as nonaccrual.

There were no loan modifications considered to be TDR that occurred during the three and six months ended June 30, 2016. There was one loan modification considered to be TDR that occurred during the three months ended June 30, 2015 with a pre- and post-modification recorded investment of $20. There were two loan modifications considered to be TDR that occurred during the six months ended June 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 June 30, 2016 and June 30, 2015, and that have subsequently had a payment default, totaled $20 and $110, 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 June 30, 2016 and December 31, 2015.

	June 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	142	142	—	352	360	—
Home equity	—	—	—	—	—	—
Commercial	388	388	—	482	482	—
Consumer and other loans	—	—	—	—	—	—
	530	530	—	894	1,505	—
With an allowance recorded:						
Commercial	132	132	132	142	142	142
Real Estate:						
Construction, land and land development	—	—	—	—	—	—
1-4 family residential first mortgages	—	—	—	—	—	—
Home equity	259	259	259	270	270	270
Commercial	146	146	146	155	155	155
Consumer and other loans	—	—	—	—	—	—
	537	537	537	567	567	567
Total:						
Commercial	132	132	132	142	142	142
Real Estate:						
Construction, land and land development	—	—	—	60	663	—
1-4 family residential first mortgages	142	142	—	352	360	—
Home equity	259	259	259	270	270	270
Commercial	534	534	146	637	637	155
Consumer and other loans	—	—	—	—	—	—
	$1,067	$ 1,067	$ 537	$1,461	$ 2,072	$ 567

The balance of impaired loans at June 30, 2016 and December 31, 2015 was composed of 8 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 six months ended June 30, 2016 and 2015.

	Three Months Ended June 30,				Six Months Ended June 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	$—	$ —	$164	$ —	$—	$ —	$164	$ —
Real estate:								
Construction, land and land development	—	—	354	4	16	—	360	7
1-4 family residential first mortgages	255	—	307	—	295	1	284	—
Home equity	—	—	—	—	—	—	—	—
Commercial	402	—	1,229	—	422	—	937	—
Consumer and other loans	—	—	4	—	—	—	2	—
	657	—	2,058	4	733	1	1,747	7
With an allowance recorded:								
Commercial	135	—	245	—	138	—	265	2
Real estate:								
Construction, land and land development	—	—	—	—	—	—	353	6
1-4 family residential first mortgages	—	—	—	—	—	—	—	—
Home equity	261	—	222	—	264	—	224	—
Commercial	148	—	165	—	150	—	168	—
Consumer and other loans	—	—	—	—	—	—	—	—
	544	—	632	—	552	—	1,010	8
Total:								
Commercial	135	—	409	—	138	—	429	2
Real estate:								
Construction, land and land development	—	—	354	4	16	—	713	13
1-4 family residential first mortgages	255	—	307	—	295	1	284	—
Home equity	261	—	222	—	264	—	224	—
Commercial	550	—	1,394	—	572	—	1,105	—
Consumer and other loans	—	—	4	—	—	—	2	—
	$1,201	$ —	$2,690	$ 4	$1,285	$ 1	$2,757	$ 15

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

	June 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	$12	$ —	$ —	$ 12	$380,123	$ 132	$380,267
Real estate:							
Construction, land and land development	—	—	—	—	223,541	—	223,541
1-4 family residential first mortgages	—	—	—	—	49,084	122	49,206
Home equity	—	—	—	—	19,468	259	19,727
Commercial	—	—	—	—	699,296	534	699,830
Consumer and other	—	—	—	—	9,487	—	9,487
Total	$12	$ —	$ —	$ 12	$1,380,999	$ 1,047	$1,382,058

	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 June 30, 2016 and December 31, 2015.

	June 30, 2016				
	Pass	Watch	Substandard	Doubtful	Total
Commercial	$375,440	$3,528	$ 1,299	$ —	$380,267
Real estate:					
Construction, land and land development	222,503	—	1,038	—	223,541
1-4 family residential first mortgages	48,275	789	142	—	49,206
Home equity	19,377	82	268	—	19,727
Commercial	678,136	21,025	669	—	699,830
Consumer and other	9,474	—	13	—	9,487
Total	$1,353,205	$25,424	$ 3,429	$ —	$1,382,058

	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 six months ended June 30, 2016 and 2015.

	Three Months Ended June 30, 2016						
	Commercial	Real Estate Construction and Land	1-4 Family Residential	Home Equity	Commercial	Consumer and Other	Total
Beginning balance	$4,143	$2,662	$ 396	$519	$ 7,484	$ 76	$15,280
Charge-offs	—	—	(93)	—	—	—	(93)
Recoveries	99	12	10	17	3	1	142
Provision [(1)]	199	130	80	(53)	119	25	500
Ending balance	$4,441	$2,804	$ 393	$483	$ 7,606	$ 102	$15,829

	Three Months Ended June 30, 2015						
	Commercial	Real Estate Construction and Land	1-4 Family Residential	Home Equity	Commercial	Consumer and Other	Total
Beginning balance	$4,498	$1,744	$ 433	$505	$ 6,669	$ 29	$13,878
Charge-offs	(18)	—	(15)	—	—	—	(33)
Recoveries	303	—	1	10	3	2	319
Provision [(1)]	(47)	(44)	26	(41)	310	(4)	200
Ending balance	$4,736	$1,700	$ 445	$474	$ 6,982	$ 27	$14,364

	Six Months Ended June 30, 2016						
	Commercial	Real Estate Construction and Land	1-4 Family Residential	Home Equity	Commercial	Consumer and Other	Total
Beginning balance	$4,369	$2,338	$ 508	$481	$ 7,254	$ 17	$14,967
Charge-offs	—	—	(93)	—	—	—	(93)
Recoveries	141	56	21	24	6	7	255
Provision [(1)]	(69)	410	(43)	(22)	346	78	700
Ending balance	$4,441	$2,804	$ 393	$483	$ 7,606	$ 102	$15,829

	Six Months Ended June 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	(56)	—	(15)	—	—	—	(71)
Recoveries	327	250	2	35	6	8	628
Provision (1)	50	(701)	(8)	(95)	963	(9)	200
Ending balance	$4,736	$1,700	$ 445	$474	$ 6,982	$ 27	$14,364

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

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The following tables present a breakdown of the allowance for loan losses disaggregated on the basis of impairment analysis method by segment as of June 30, 2016 and December 31, 2015.

	June 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	$132	$—	$ —	$ 259	$ 146	$ —	$537
Collectively evaluated for impairment	4,309	2,804	393	224	7,460	102	15,292
Total	$4,441	$2,804	$ 393	$ 483	$ 7,606	$ 102	$15,829

	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 June 30, 2016 and December 31, 2015.

	June 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	$132	$—	$ 142	$259	$ 534	$ —	$1,067
Collectively evaluated for impairment	380,135	223,541	49,064	19,468	699,296	9,487	1,380,991
Total	$380,267	$223,541	$ 49,206	$19,727	$ 699,830	$ 9,487	$1,382,058

	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, 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 six months ended June 30, 2016 or 2015, and the Company estimates there will be approximately $578 of cash payments and reclassification from accumulated other comprehensive income to interest expense through June 30, 2017. As of June 30, 2016 and December 31, 2015, the Company pledged $1,580 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 June 30, 2016 and December 31, 2015.

Interest Rate Swap	Notional Amount	Fair Value	Balance Sheet Category	Receive Rate	Pay Rate	Maturity
June 30, 2016	$30,000	$1,668	Other Liabilities	0.95 %	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 six months ended June 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)
June 30, 2016	$(1,137)	Interest Expense	$(298)	Other Income	$ —
June 30, 2015	(735)	Interest Expense	(90)	Other Income	—

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6. Deferred Income Taxes

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

	June 30, 2016	December 31, 2015
Deferred tax assets:		
Allowance for loan losses	$6,015	$ 5,687
Intangibles	617	771
Accrued expenses	583	898
Restricted stock compensation	164	358
Net unrealized losses on interest rate swaps	792	473
State net operating loss carryforward	1,235	1,183
Capital loss carryforward	355	355
Other	37	34
	9,798	9,759
Deferred tax liabilities:		
Net deferred loan fees and costs	334	350
Premises and equipment	762	674
Net unrealized gains on securities available for sale	1,842	210
Other	286	317
	3,224	1,551
Net deferred tax assets before valuation allowance	6,574	8,208
Valuation allowance	(1,590)	(1,538)
Net deferred tax assets	$4,984	$ 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 six months ended June 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	(347)	(456)	(803)
Amounts reclassified from accumulated other comprehensive income	(41)	56	15
Net current period other comprehensive income (loss)	(388)	(400)	(788)
Balance, June 30, 2015	$ 28	$ (562)	$ (534)

Balance, December 31, 2015	$ 342	$ (772)	$ (430)
Other comprehensive income (loss) before reclassifications	2,772	(705)	2,067
Amounts reclassified from accumulated other comprehensive income	(109)	185	76
Net current period other comprehensive income (loss)	2,663	(520)	2,143
Balance, June 30, 2016	$ 3,005	$ (1,292)	$ 1,713

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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 June 30, 2016 and December 31, 2015.

	June 30, 2016	December 31, 2015
Commitments to extend credit	$586,490	$ 558,633
Standby letters of credit	7,673	8,720
	$594,163	$ 567,353

West Bank has executed Mortgage Partnership Finance (MPF) Master Commitments (Commitments) with the FHLB of Des Moines to deliver 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 mortgage loans. The term of the most recent Commitment was through January 16, 2015 and was not renewed. At June 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 $279. The outstanding balance of mortgage loans sold under the MPF Program was $127,778 and $139,152 at June 30, 2016 and December 31, 2015, respectively.

Contractual commitments: The Company has remaining commitments to invest in five qualified affordable housing projects totaling $6,133 as of June 30, 2016.

During 2015, the Company began construction on a new office in Rochester, Minnesota. Progress billings of approximately $3,290 have been paid on the $6,668 contract through June 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 can 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. West Bank believes it has additional defenses to this claim and intends to continue vigorously defending the action. The case has been remanded to the district court. Discovery is continuing, and a trial date of June 19, 2017, has been set. The amount of potential loss, if any, cannot now be reasonably estimated due to significant additional unresolved factual and legal issues that must be determined through further proceedings.

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 six months ended June 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, collateralized mortgage obligations, mortgage-backed securities, state and political subdivision 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. 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.

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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 June 30, 2016 and December 31, 2015.

	June 30, 2016			
	Total	Level 1	Level 2	Level 3
Financial assets:				
Investment securities available for sale:				
U.S. government agencies and corporations	$2,647	$ —	$2,647	$ —
State and political subdivisions	67,660	—	67,660	—
Collateralized mortgage obligations	118,969	—	118,969	—
Mortgage-backed securities	92,910	—	92,910	—
Trust preferred security	1,103	—	1,103	—
Corporate notes	8,650	8,350	300	—
Financial liabilities:				
Derivative instrument, interest rate swap	$1,668	$ —	$1,668	$ —

	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 June 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 June 30, 2016 and December 31, 2015.

	Fair Value Hierarchy Level	June 30, 2016 Carrying Amount	June 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	$42,688	$42,688	$57,329	$57,329
Federal funds sold	Level 1	5,456	5,456	15,322	15,322
Investment securities available for sale	See previous table	291,939	291,939	320,714	320,714
Investment securities held to maturity	Level 2	48,963	50,565	51,259	51,918
Federal Home Loan Bank stock	Level 1	12,439	12,439	12,447	12,447
Loans, net(1)	Level 2	1,365,012	1,367,726	1,231,721	1,235,336
Accrued interest receivable	Level 1	4,713	4,713	4,688	4,688
Financial liabilities:					
Deposits	Level 2	$1,510,262	$1,510,368	$1,440,729	$1,440,762
Federal funds purchased	Level 1	1,240	1,240	2,760	2,760
Short-term borrowings	Level 1	26,000	26,000	19,000	19,000
Subordinated notes, net	Level 2	20,392	12,686	20,385	11,674
Federal Home Loan Bank advances, net	Level 2	99,131	99,316	98,385	98,812
Long-term debt, net	Level 2	6,779	6,699	8,405	8,314
Accrued interest payable	Level 1	348	348	343	343
Interest rate swap	Level 2	1,668	1,668	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 June 30, 2016 and December 31, 2015, respectively, which are Level 3.

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” or similar 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; 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 SIX MONTHS ENDED JUNE 30, 2016

OVERVIEW

The following discussion describes the consolidated operations and financial condition of the Company, which includes 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 six months ended June 30, 2016 are compared to the results for the same periods in 2015, and the consolidated financial condition of the Company as of June 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 June 30, 2016 was $5,476, or $0.34 per diluted common share, compared to $5,272, or $0.33 per diluted common share, for the three months ended June 30, 2015. The Company's annualized return on average assets (ROA) and return on average equity (ROE) for the three months ended June 30, 2016 were 1.22 and 13.90 percent, respectively, compared to 1.28 and 14.64 percent, respectively, for the three months ended June 30, 2015.

The increase in net income for the three months ended June 30, 2016 compared to the three months ended June 30, 2015 was mainly due to higher net interest income, which was partially offset by an increased provision for loan losses and a 5.1 percent increase in noninterest expense. The $919, or 6.9 percent, increase in net interest income was fueled by an increase of $122,049, or 10.1 percent, in average loans outstanding for the three months ended June 30, 2016 compared to the same time period in 2015. The provision for loan losses was increased to $500 for the three months ended June 30, 2016 from $200 for the three months ended June 30, 2015 in conjunction with the loan growth.

Net income for the six months ended June 30, 2016 was $11,172, or $0.69 per diluted common share, compared to $10,375, or $0.65 per diluted common share, for the six months ended June 30, 2015. The Company's annualized ROA and ROE for the six months ended June 30, 2016 were 1.27 and 14.33 percent, respectively, compared to 1.28 and 14.61 percent, respectively, for the first half of 2015.

The increase in net income for the six months ended June 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 half of 2016 compared to the first half of 2015 were increases in the provision for loan losses and noninterest expense.

Net interest income for the six months ended June 30, 2016 grew $1,655, or 6.3 percent, compared to the six months ended June 30, 2015. Similar to the three months ended June 30, 2016, the increase in net interest income was primarily due to the $94,719 increase in average loans outstanding for the first half of 2016 compared to the first half of 2015. In association with the loan growth, the Company recorded a provision for loan losses of $700 for the six months ended June 30, 2016, compared to a $200 provision in the six months ended June 30, 2015.

The Company recognized tax-exempt gain from bank-owned life insurance of $443 in the six months ended June 30, 2016 due to the losses of one of our colleagues and a former employee. Partially offsetting this tax-exempt income was an increase of approximately $171 in noninterest expense for the six months ended June 30, 2016 due to the recognition of costs associated with the death of the employee. The remaining $558 increase in noninterest expense for the six months ended June 30, 2016 compared to the same period in 2015 was mainly due to increased salaries and benefit costs, and normal increases in other operating costs.

Total loans outstanding increased $134,153, or 10.8 percent, during the first half of 2016 from December 31, 2015 to June 30, 2016. Management believes loan growth will continue in the second half of 2016 as the demand for commercial, construction and development, and commercial real estate loans remains strong in all three of the Company's markets, but expects it to do so at a slower rate than in the first half of 2016. The credit quality of the loan portfolio remains strong as evidenced by the Company's Texas ratio, which was 0.60 percent as of June 30, 2016. As of June 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.

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Each quarter throughout the year, the Company's four key performance metrics are compared to 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 three months ended March 31, 2016 (latest data available), the Company's metrics for the six months ended June 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. Six months ended June 30, 2016	Peer Group Range Three months ended March 31, 2016
Return on average assets	1.27%	0.32% - 1.40%
Return on average equity	14.33%	2.37% - 13.65%
Efficiency ratio*	46.76%	54.14% - 79.21%
Texas ratio*	0.60%	3.61% - 26.94%

* A lower ratio is more desirable.

Previously announced construction continues on a permanent office in Rochester, Minnesota. The new facility will replace a leased office and is expected to open in the fourth quarter of 2016. We believe the more prominent location of the new office will enhance our ability to expand the customer base in that market.

At its meeting on July 27, 2016, the Board of Directors declared a quarterly dividend of $0.17 per common share. The dividend is payable on August 24, 2016, to stockholders of record as of August 10, 2016. The dividend was increased $0.01 to the $0.17 level in April 2016 and represents the highest quarterly dividend amount paid by the Company.

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RESULTS OF OPERATIONS

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

	Three Months Ended June 30,				Six Months Ended June 30,			
	2016	2015	Change	Change %	2016	2015	Change	Change %
Net income	$5,476	$5,272	$204	3.87 %	$11,172	$10,375	$797	7.68 %
Average assets	1,801,631	1,654,456	147,175	8.90 %	1,772,865	1,639,132	133,733	8.16 %
Average stockholders' equity	158,432	144,384	14,048	9.73 %	156,776	143,228	13,548	9.46 %
Return on average assets	1.22 %	1.28 %	(0.06)%		1.27 %	1.28 %	(0.01)%	
Return on average equity	13.90 %	14.64 %	(0.74)%		14.33 %	14.61 %	(0.28)%	
Net interest margin	3.52 %	3.59 %	(0.07)%		3.52 %	3.59 %	(0.07)%	
Efficiency ratio*	46.62 %	46.88 %	(0.26)%		46.76 %	47.55 %	(0.79)%	
Dividend payout ratio	50.08 %	48.74 %	1.34 %		47.56 %	46.38 %	1.18 %	
Average equity to average assets ratio	8.79 %	8.73 %	0.06 %		8.84 %	8.74 %	0.1 %	

	As of June 30,		
	2016	2015	Change
Texas ratio*	0.60 %	3.43 %	(2.83)%
Equity to assets ratio	8.79 %	8.79 %	— %
Tangible common equity ratio	8.79 %	8.79 %	— %

* 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 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 June 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	$368,631	$329,414	$39,217	11.91 %	$3,888	$3,469	$419	12.08 %	4.24%	4.22%	0.02 %
Real estate (3)	953,102	870,593	82,509	9.48 %	10,576	9,697	879	9.06 %	4.46%	4.47%	(0.01)%
Consumer and other	8,736	8,413	323	3.84 %	82	80	2	2.50 %	3.80%	3.81%	(0.01)%
Total loans	1,330,469	1,208,420	122,049	10.10 %	14,546	13,246	1,300	9.81 %	4.40%	4.40%	— %
Investment securities:											
Taxable	244,849	216,954	27,895	12.86 %	1,076	1,042	34	3.26 %	1.76%	1.92%	(0.16)%
Tax-exempt (3)	120,106	102,256	17,850	17.46 %	1,234	1,145	89	7.77 %	4.11%	4.48%	(0.37)%
Total investment securities	364,955	319,210	45,745	14.33 %	2,310	2,187	123	5.62 %	2.53%	2.74%	(0.21)%
Federal funds sold	8,276	34,300	(26,024)	(75.87)%	11	22	(11)	(50.00)%	0.51%	0.26%	0.25 %
Total interest-earning assets (3)	$1,703,700	$1,561,930	$141,770	9.08 %	16,867	15,455	1,412	9.14 %	3.98%	3.97%	0.01 %
Interest-bearing liabilities:											
Deposits:											
Interest-bearing demand, savings and money market	$923,591	$835,119	$88,472	10.59 %	627	327	300	91.74 %	0.27%	0.16%	0.11 %
Time deposits	108,396	142,826	(34,430)	(24.11)%	197	224	(27)	(12.05)%	0.73%	0.63%	0.10 %
Total deposits	1,031,987	977,945	54,042	5.53 %	824	551	273	49.55 %	0.32%	0.23%	0.09 %
Other borrowed funds	141,947	136,747	5,200	3.80 %	1,112	914	198	21.66 %	3.15%	2.68%	0.47 %

Total interest-bearing liabilities	$1,173,934	$1,114,692	$59,242	5.31 %	1,936	1,465	471	32.15 %	0.66%	0.53%	0.13 %
Tax-equivalent net interest income					$14,931	$13,990	$941	6.73 %			
Net interest spread									3.32%	3.44%	(0.12)%
Net interest margin									3.52%	3.59%	(0.07)%

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Data for the six months ended June 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	$359,133	$321,730	$37,403	11.63 %	$7,503	$6,668	$835	12.52 %	4.20%	4.18%	0.02 %
Real estate (3)	924,806	866,728	58,078	6.70 %	20,602	19,260	1,342	6.97 %	4.48%	4.48%	— %
Consumer and other	8,075	8,837	(762)	(8.62)%	155	168	(13)	(7.74)%	3.87%	3.84%	0.03 %
Total loans	1,292,014	1,197,295	94,719	7.91 %	28,260	26,096	2,164	8.29 %	4.40%	4.40%	— %
Investment securities:											
Taxable	250,765	223,816	26,949	12.04 %	2,231	2,167	64	2.95 %	1.78%	1.94%	(0.16)%
Tax-exempt (3)	122,130	102,758	19,372	18.85 %	2,566	2,300	266	11.57 %	4.20%	4.48%	(0.28)%
Total investment securities	372,895	326,574	46,321	14.18 %	4,797	4,467	330	7.39 %	2.57%	2.74%	(0.17)%
Federal funds sold	11,453	24,818	(13,365)	(53.85)%	31	32	(1)	(3.13)%	0.54%	0.26%	0.28 %
Total interest-earning assets (3)	$1,676,362	$1,548,687	$127,675	8.24 %	33,088	30,595	2,493	8.15 %	3.97%	3.98%	(0.01)%
Interest-bearing liabilities:											
Deposits:											
Interest-bearing demand, savings and money market	$892,329	$818,015	$74,314	9.08 %	1,164	651	513	78.80 %	0.26%	0.16%	0.10 %
Time deposits	110,216	138,566	(28,350)	(20.46)%	365	471	(106)	(22.51)%	0.67%	0.69%	(0.02)%
Total deposits	1,002,545	956,581	45,964	4.81 %	1,529	1,122	407	36.27 %	0.31%	0.24%	0.07 %
Other borrowed funds	141,773	153,448	(11,675)	(7.61)%	2,232	1,901	331	17.41 %	3.17%	2.50%	0.67 %
Total interest-bearing liabilities	$1,144,318	$1,110,029	$34,289	3.09 %	3,761	3,023	738	24.41 %	0.66%	0.55%	0.11 %
Tax-equivalent net interest income					$29,327	$27,572	$1,755	6.37 %			

Net interest spread	3.31 %	3.43 %	(0.12)%
Net interest margin	3.52 %	3.59 %	(0.07)%

(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. 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. Management continually develops and applies strategies to maintain the net interest margin.

The net interest margin for both the three and six months ended June 30, 2016 declined 7 basis points to 3.52 percent compared to the three and six months ended June 30, 2015. The Board of Governors of the Federal Reserve System (the Federal Reserve) increased the target federal funds interest rate by 25 basis points in December 2015, the first interest rate change in seven years. As a result of that market increase, the Company increased the interest rates on certain deposit categories in the same month. The other primary drivers of the decline in the net interest margin for the three and six months ended June 30, 2016 compared to the three and six months ended June 30, 2015, were the reduction in yield on investment securities and the increase in the rate on other borrowed funds. Despite the decline in the net interest margin, tax-equivalent net interest income for the three and six months ended June 30, 2016 increased $941 and $1,755, respectively, compared to the same time periods in 2015. The increase in net interest income for both 2016 periods compared to the three and six months ended June 30, 2015 was primarily 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.

Tax-equivalent interest income on loans increased $1,300 for the three months ended June 30, 2016 compared to the three months ended June 30, 2015. For the six months ended June 30, 2016, tax-equivalent interest income on loans increased $2,164 compared to the same time period in 2015. The improvement for both time periods was due to the significant increase in average loan balances outstanding. The yield held steady for the three and six months ended June 30, 2016 compared to the three and six months ended June 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 six months ended June 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 21 and 17 basis points, respectively, for the three and six months ended June 30, 2016 compared to the same periods last year. The increase in average balances was primarily attributable to purchases in the second half of 2015. No investment securities were purchased during the three or six months ended June 30, 2016.

The average balance of interest-bearing demand, savings and money market deposits increased for the three and six months ended June 30, 2016 compared to the three and six months ended June 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 six months ended June 30, 2016 increased 11 and 10 basis points, respectively, compared to the three and six months ended June 30, 2015. The increase in rates 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 as fewer customers are willing to lock in low rates in this extended period of historically low interest rates. Meanwhile, interest rates on time deposits increased 10 basis points for the three months ended June 30, 2016 compared to the same period in 2015 primarily due to fees paid at the time new and renewed Certificate of Deposit Account Registry Service deposits were issued. Interest rates on time deposits for the six months ended June 30, 2016 declined 2 basis points compared to the same period in 2015 as maturing time deposits had higher rates than are currently offered.

The average rate paid on other borrowed funds increased 47 and 67 basis points, respectively, for the three and six months ended June 30, 2016 compared to the three and six months ended June 30, 2015. The increase in the average rate paid was due to the combination of amortization of interest rate swap termination fees paid in 2015, an interest rate swap that became effective in December 2015, and an increase in rates for variable rate FHLB advances and the subordinated note. The increase in the average balance of other borrowed funds for the three months ended June 30, 2016 compared to the same three months of 2015 was caused by higher average overnight borrowings. The decline in average other borrowed funds for the six months ended June 30, 2016 compared to the first half of 2015 was due to the the combination of a reduction in average overnight borrowings and 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 for the three months ended June 30, 2016 and 2015 was $500 and $200, respectively. The provision for loan losses was $700 and $200, respectively, for the six months ended June 30, 2016 and 2015. The increased provision for the three and six months ended June 30, 2016 compared to the same time periods in 2015 was directly associated with the strong loan growth in the respective periods.

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 mortgage 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 six months ended June 30, 2016 and 2015 and related ratios.

	Three Months Ended June 30,			Six Months Ended June 30,		
	2016	2015	Change	2016	2015	Change
Balance at beginning of period	$15,280	$13,878	$1,402	$14,967	$13,607	$1,360
Charge-offs	(93)	(33)	(60)	(93)	(71)	(22)
Recoveries	142	319	(177)	255	628	(373)
Net recoveries	49	286	(237)	162	557	(395)
Provision for loan losses charged to operations	500	200	300	700	200	500
Balance at end of period	$15,829	$14,364	$1,465	$15,829	$14,364	$1,465
Average loans outstanding	$1,330,469	$1,208,420		$1,292,014	$1,197,245	
Ratio of annualized net (recoveries) during the period to average loans outstanding	(0.01)%	(0.09)%		(0.03)%	(0.09)%	
Ratio of allowance for loan losses to average loans outstanding	1.19%	1.19%		1.23%	1.20%	

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 declined to 4.7 percent as of June 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 slowing 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 six 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 second quarter of 2016 resulted in the portion of the allowance for loan losses related to loans collectively evaluated for impairment to increase by $892 to a total of $15,292, which was 1.11 percent of loans collectively evaluated for impairment as of June 30, 2016 compared to 1.16 percent as of December 31, 2015. Management believes the resulting allowance for loan losses as of June 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 June 30,			
Noninterest income:	2016	2015	Change	Change %
Service charges on deposit accounts	$619	$651	$(32)	(4.92)%
Debit card usage fees	475	469	6	1.28 %
Trust services	294	317	(23)	(7.26)%
Increase in cash value of bank-owned life insurance	164	178	(14)	(7.87)%
Realized investment securities gains, net	60	36	24	66.67 %
Other income:				
Revenue from residential mortgage banking	43	52	(9)	(17.31)%
Letter of credit fees	27	17	10	58.82 %
All other income	221	202	19	9.41 %
Total other income	291	271	20	7.38 %
Total noninterest income	$1,903	$1,922	$(19)	(0.99)%

	Six Months Ended June 30,			
Noninterest income:	2016	2015	Change	Change %
Service charges on deposit accounts	$1,215	$1,271	$(56)	(4.41)%
Debit card usage fees	922	904	18	1.99 %
Trust services	591	642	(51)	(7.94)%
Increase in cash value of bank-owned life insurance	332	367	(35)	(9.54)%
Gain from bank-owned life insurance	443	—	443	NA
Realized investment securities gains, net	60	47	13	27.66 %
Other income:				
Revenue from residential mortgage banking	65	87	(22)	(25.29)%
Letter of credit fees	57	48	9	18.75 %
All other income	448	416	32	7.69 %
Total other income	570	551	19	3.45 %
Total noninterest income	$4,133	$3,782	$351	9.28 %

Service charges on deposit accounts declined for the three and six months ended June 30, 2016 compared to the three and six months ended June 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 lower during the three and six months ended June 30, 2016 compared to the same time period in 2015 mainly due to fewer one-time estate fees. Partially offsetting the lower amount of one-time fees was growth in the number of accounts and amount of assets held within trust accounts due to ongoing business development efforts.

The increase in cash value of bank-owned life insurance was lower in the three and six months ended June 30, 2016 than in the three and six months ended June 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 $443 for the six months ended June 30, 2016 due to the deaths of a colleague and a former employee.

The Company sold three preferred stocks during the three months ended June 30, 2016 recognizing gains of $60, while net gains on sales of securities of $36 and $47 were recognized during the three and six months ended June 30, 2015, respectively.

Revenue from residential mortgage banking declined in the three and six months ended June 30, 2016 compared to the same period in 2015 as gains on sales of residential mortgage loans last occurred in January 2015. Residential mortgage underwriting and processing were outsourced to a third party at that time. The Company currently receives a fee from that third party for each residential mortgage loan initiated and closed by our retail staff.

Letter of credit fees grew in association with an increase in the amount of standby letters of credit activity for both the three and six months ended June 30, 2016 as compared to the same time periods in 2015.

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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 June 30,			
Noninterest expense:	2016	2015	Change	Change %
Salaries and employee benefits	$4,234	$4,005	$ 229	5.72 %
Occupancy	983	1,010	(27)	(2.67)%
Data processing	627	569	58	10.19 %
FDIC insurance expense	224	209	15	7.18 %
Professional fees	196	177	19	10.73 %
Director fees	230	228	2	0.88 %
Other expenses:				
Marketing	42	64	(22)	(34.38)%
Business development	241	194	47	24.23 %
Insurance expense	80	87	(7)	(8.05)%
Bank service charges and investment advisory fees	184	170	14	8.24 %
Postage and courier	76	78	(2)	(2.56)%
Trust	108	99	9	9.09 %
Consulting fees	81	57	24	42.11 %
Supplies	79	75	4	5.33 %
Low income housing projects amortization	97	76	21	27.63 %
All other	337	345	(8)	(2.32)%
Total other	1,325	1,245	80	6.43 %
Total noninterest expense	$7,819	$7,443	$ 376	5.05 %

	Six Months Ended June 30,			
Noninterest expense:	2016	2015	Change	Change %
Salaries and employee benefits	$8,490	$7,995	$ 495	6.19 %
Occupancy	1,934	2,059	(125)	(6.07)%
Data processing	1,206	1,143	63	5.51 %
FDIC insurance expense	442	411	31	7.54 %
Professional fees	430	381	49	12.86 %
Director fees	470	416	54	12.98 %
Other expenses:				
Marketing	98	127	(29)	(22.83)%
Business development	417	368	49	13.32 %
Insurance expense	168	169	(1)	(0.59)%
Bank service charges and investment advisory fees	373	343	30	8.75 %
Postage and courier	162	166	(4)	(2.41)%
Trust	204	193	11	5.70 %
Consulting fees	147	121	26	21.49 %
Supplies	142	152	(10)	(6.58)%

Low income housing projects amortization	206	122	84	68.85	%
All other	729	723	6	0.83	%
Total other	2,646	2,484	162	6.52	%
Total noninterest expense	$15,618	$14,889	$ 729	4.90	%

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Salaries and employee benefits increased for the three and six months ended June 30, 2016 compared to the three and six months ended June 30, 2015 primarily as the result of higher stock-based compensation costs, increased health insurance costs, increased defined contribution plan expense and higher payroll taxes. The increases in defined contribution plan expense and payroll taxes were primarily associated with a one-time payout of accrued vacation that occurred in the second quarter of 2016 in conjunction with a change in the Company's vacation carryover policy.

When contrasted with the three and six months ended June 30, 2015, occupancy costs declined for the three and six months ended June 30, 2016, primarily as the result of the February 2016 purchase of the Waukee, Iowa, branch facility. The reduction reflects a one-time reversal of previously accrued rent related to the terms of the previous lease. Ongoing operating costs for that location are expected to remain lower than rental costs.

The increase in data processing expense for the three months ended June 30, 2016 compared to the same time period in 2015 was primarily because of implementation of additional security measures during the second quarter.

Federal Deposit Insurance Corporation (FDIC) insurance expense increased for the three and six months ended June 30, 2016 compared to the three and six months ended June 30, 2015 due to growth in total assets. On April 26, 2016, the FDIC issued a final rule to revise the assessment rate system for small depository institutions (generally, those institutions with less than $10 billion in total assets.) The final rule goes into effect the quarter after the FDIC insurance fund's reserve ratio reaches 1.15 percent of insured deposits, which is expected to have occurred by June 30, 2016. The Company's analysis projects that the new rule will increase the Company's annual cost of FDIC insurance by approximately $115,000.

Professional fees increased for the three and six months ended June 30, 2016 compared to the same time periods in 2015 chiefly due to increased legal fees associated with defense costs for the previously disclosed litigation.

Director fees increased for the six months ended June 30, 2016 compared to the same period in 2015 as a result of higher stock-based compensation costs. Director fees for the second half of 2016 are expected to be lower than the director fees for the first half of 2016 as the result of one director, who was not replaced, retiring from the Board of Directors in late April.

The decline in marketing expense for the three and six months ended June 30, 2016 compared to the three and six months ended June 30, 2015 is expected to be temporary as additional costs will be incurred when the new Rochester office opens in the fourth quarter. The increase in business development costs for the three and six months ended June 30, 2016 compared to the same time periods in 2015 was the result of expanded efforts to cultivate new and expanded customer relationships.

Consulting fees increased for the three and six months ended June 30, 2016 compared to the three and six months ended June 30, 2015 due to data analysis conducted in association with the previously mentioned litigation.

The year-to-date June 30, 2016 increase in the cost of low income housing project amortization compared to the six months ended June 30, 2015 was related to the Company making commitments to invest in additional projects. The projected expense for the year ended December 31, 2016 is approximately $410 compared to $228 for the year ended December 31, 2015.

Income Tax Expense

The Company recorded income tax expense of $2,381 (30.3 percent of pre-tax income) and $4,615 (29.2 percent of pre-tax income) for the three and six months ended June 30, 2016, respectively, compared with $2,361 (30.9 percent of pre-tax income) and $4,635 (30.9 percent of pre-tax income) for the three and six months ended June 30, 2015, respectively. The Company's consolidated income tax rate differs from the federal statutory income tax rate primarily due to tax-exempt interest income, the tax-exempt increase in cash value of bank-owned life insurance, disallowed interest expense and state income taxes. For the six months ended June 30, 2016, the tax rate was also lower than the statutory income tax rate due to $443 of tax-exempt gain from bank-owned life insurance. The tax rate for the first six months of 2016 and 2015 was also impacted by year-to-date federal low income housing tax credits of approximately $175 and $150, respectively.

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FINANCIAL CONDITION

The Company had total assets of $1,831,685 as of June 30, 2016, an increase of 4.76 percent compared to total assets as of December 31, 2015. The most significant changes in the balance sheet were increases in loans, premises and equipment, and deposits, and decreases in cash and cash equivalents and securities available for sale. A summary of changes in the components of the balance sheet is described below.

Investment Securities

The balance of investment securities available for sale declined by $28,775 during the six months ended June 30, 2016, which was attributed primarily to normal principal paydowns on mortgage-backed securities and collateralized mortgage obligations and calls of state and political subdivision securities. The Company also sold equity securities during the second quarter of 2016 for a total of $1,544, resulting in a gain of $60. These cash flows were used to fund loan growth.

As of June 30, 2016, approximately 73 percent of the available for sale investment securities portfolio consisted of government agency guaranteed collateralized mortgage obligations and mortgage-backed securities. In the current low interest rate environment, management believes both provide relatively good yields, have little to no credit risk and provide fairly consistent cash flows.

Loans and Nonperforming Assets

Loans outstanding increased $134,153 from $1,246,688 as of December 31, 2015, to $1,380,841 as of June 30, 2016. Growth in the loan portfolio during the first six months of 2016 was primarily the result of increases of $31,216 in commercial loans, $48,939 in construction loans and $55,654 in commercial real estate loans. Approximately $38,000 of new commercial real estate loans were made to entities managed by a related party. The Company continues to focus on business development efforts in all of its markets. Management believes loan growth will continue in all three of our markets during the remainder of 2016, however, not at the level experienced in the first six months of 2016.

Credit quality of the Company's loan portfolio remains strong and stable. The Company's Texas ratio, which is computed by dividing total nonperforming assets by tangible common equity plus the allowance for loan losses, was 0.60 percent as of June 30, 2016, compared to 0.87 percent as of December 31, 2015. The ratio for both dates was significantly better than the March 31, 2016 peer group average (latest data available), which was approximately 10.40 percent, according to data in the March 2016 Bank Holding Company Performance Report, which is prepared by the Division of Supervision and Regulation of the Federal Reserve.

The following table sets forth the amount of nonperforming loans and assets held by the Company and common ratio measurements of those items as of the dates shown.

	June 30, 2016	December 31, 2015	Change
Nonaccrual loans	$1,047	$ 1,381	$(334)
Loans past due 90 days and still accruing interest	—	—	—
Troubled debt restructured loans [1]	20	80	(60)
Total nonperforming loans	1,067	1,461	(394)
Other real estate owned	—	—	—

Total nonperforming assets	$1,067	$ 1,461	$(394)
Nonperforming loans to total loans	0.08 %	0.12 %	(0.04)%
Nonperforming assets to total assets	0.06 %	0.08 %	(0.02)%

(1) While TDR loans are commonly reported by the industry as nonperforming, those not classified in the nonaccrual category are accruing interest due to payment performance. TDR loans on nonaccrual status are categorized as nonaccrual. There were two TDR loans as of June 30, 2016, and three TDR loans as of December 31, 2015, with aggregate balances of $485 and $613, respectively, categorized as nonaccrual.

For additional information, refer to the “Provision for Loan Losses and the Related Allowance for Loan Losses” in this section, and Notes 4 and 9 to the financial statements.

Premises and Equipment

Premises and equipment increased $7,157 since December 31, 2015, to $18,719 as of June 30, 2016. In February 2016, the Company purchased a branch facility for $4,512 that had previously been leased. The Company also continues with the construction of a new office in Rochester, Minnesota.

Deposits

Deposits increased $69,533 during the first six months of 2016, or 4.83 percent, compared to December 31, 2015. Savings deposits, which include money market and insured cash sweep money market accounts, increased $107,106 from December 31, 2015 to June 30, 2016 primarily due to growth in public funds deposits. Interest-bearing demand accounts declined $3,583, and noninterest-bearing demand accounts declined $28,510 from December 31, 2015 to June 30, 2016. These changes were due to the combination of business development efforts and normal fluctuations, as corporate customers' liquidity needs vary at any given time. Total time deposits declined $5,480 during the first six months of 2016 due to the continued low interest rate environment. As of June 30, 2016, a significant related party relationship maintained total deposit balances with West Bank of approximately $151,000.

Borrowings

Short-term borrowings increased to $26,000 as of June 30, 2016 from $19,000 as of December 31, 2015. The need for overnight funding is primarily dependent on corporate customer deposit fluctuations, loan fundings and loan repayments. Long-term debt declined $1,626 during the first six months of 2016 due to scheduled repayments.

Liquidity and Capital Resources

The objectives of liquidity management are to ensure the availability of sufficient cash flows to meet all financial commitments and to capitalize on opportunities for profitable business expansion. The Company's principal source of funds is deposits. Other sources include loan principal repayments, proceeds from the maturity and sale of investment securities, principal payments on collateralized mortgage obligations and mortgage-backed securities, federal funds purchased, advances from the FHLB, and funds provided by operations. Liquidity management is conducted on both a daily and a long-term basis. Investments in liquid assets are adjusted based on expected loan demand, projected loan and investment securities maturities and payments, expected deposit flows and the objectives set by the Company's asset-liability management policy. The Company had liquid assets (cash and cash equivalents) of $48,144 as of June 30, 2016 compared with $72,651 as of December 31, 2015.

As of June 30, 2016, West Bank had additional borrowing capacity available from the FHLB of approximately $216,000, as well as $67,000 through unsecured federal funds lines of credit with correspondent banks. Net cash from operating activities contributed $14,496 and $16,425 to liquidity for the six months ended June 30, 2016 and 2015, respectively. The combination of high levels of potentially liquid assets, cash flows from operations, and additional borrowing capacity provided the Company with strong liquidity as of June 30, 2016.

The Company's total stockholders' equity increased to $160,979 at June 30, 2016 from $152,377 at December 31, 2015. The increase was primarily the result of net income less dividends paid and an increase in accumulated other comprehensive income.

At June 30, 2016, the Company's tangible common equity as a percent of tangible assets was 8.79 percent compared to 8.72 percent as of December 31, 2015.

The Company and West Bank are subject to various regulatory capital requirements administered by federal and state banking agencies. Failure to meet minimum capital requirements (as shown in the following table) can result in certain mandatory and possibly additional discretionary actions by regulators, which, if undertaken, could have a direct material effect on the Company's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and West Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The Company's and West Bank's capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Management believes the Company and West Bank met all capital adequacy requirements to which they were subject as of June 30, 2016.

(in thousands, except share and per share data)

The Company's and West Bank's capital amounts and ratios are presented in the following table.

	Actual		For Capital Adequacy Purposes With Capital Conservation Buffer		To Be Well-Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of June 30, 2016:						
Total Capital (to Risk-Weighted Assets)						
Consolidated	$195,095	11.58%	$145,255	8.625%	N/A	N/A
West Bank	180,569	10.82%	143,927	8.625%	$166,872	10.00%
Tier 1 Capital (to Risk-Weighted Assets)						
Consolidated	179,266	10.64%	111,573	6.625%	N/A	N/A
West Bank	164,740	9.87 %	110,553	6.625%	133,498	8.00 %
Common Equity Tier 1 Capital (to Risk-Weighted Assets)						
Consolidated	159,266	9.46 %	86,311	5.125%	N/A	N/A
West Bank	164,740	9.87 %	85,522	5.125%	108,467	6.50 %
Tier 1 Capital (to Average Assets)						
Consolidated	179,266	9.97 %	71,929	4.00 %	N/A	N/A
West Bank	164,740	9.24 %	71,344	4.00 %	89,180	5.00 %
As of December 31, 2015:						
Total Capital (to Risk-Weighted Assets)						
Consolidated	$187,790	12.12%	$123,979	8.00 %	N/A	N/A
West Bank	174,450	11.32%	123,279	8.00 %	$154,099	10.00%
Tier 1 Capital (to Risk-Weighted Assets)						
Consolidated	172,807	11.15%	92,984	6.00 %	N/A	N/A
West Bank	159,467	10.35%	92,460	6.00 %	123,279	8.00 %
Common Equity Tier 1 Capital (to Risk-Weighted Assets)						
Consolidated	152,807	9.86 %	69,738	4.50 %	N/A	N/A
West Bank	159,467	10.35%	69,345	4.50 %	100,164	6.50 %
Tier 1 Capital (to Average Assets)						
Consolidated	172,807	9.91 %	69,764	4.00 %	N/A	N/A
West Bank	159,467	9.20 %	69,352	4.00 %	86,690	5.00 %

On January 1, 2015, the Company and West Bank became subject to the rules of the Basel III regulatory capital framework and related Dodd-Frank Wall Street Reform and Consumer Protection Act changes. The new rules included the implementation of a new capital conservation buffer that is added to the minimum requirements for capital adequacy purposes. The capital conservation buffer is subject to a three year phase-in period that began on January 1, 2016 and will be fully phased-in on January 1, 2019 at 2.5 percent. The required phase-in capital conservation buffer during 2016 is 0.625 percent. A banking organization with a conservation buffer of less than the required amount will be subject to limitations on capital distributions, including dividend payments and certain discretionary bonus payments to executive officers. At June 30, 2016, the ratios for the Company and West Bank were sufficient to meet the fully phased-in conservation buffer.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market risk is the risk of earnings volatility that results from adverse changes in interest rates and market prices. The Company's market risk is primarily interest rate risk arising from its core banking activities of lending and deposit taking. Interest rate risk is the risk that the change in market interest rates may adversely affect the Company's net interest income. Management continually develops and implements strategies to mitigate this risk. The analysis of the Company's interest rate risk as of December 31, 2015 was presented in the Company's Form 10-K filed with the Securities and Exchange Commission on March 3, 2016. The Company has not experienced any material changes to its interest rate risk position since December 31, 2015. Management does not believe that the Company's primary market risk exposure and management of that exposure in the first six months of 2016 materially changed compared to those in the year ended December 31, 2015.

Item 4. Controls and Procedures

a. Evaluation of disclosure controls and procedures. As of the end of the period covered by this report, an evaluation of the effectiveness of the Company's disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)) was performed under the supervision, and with the participation, of the Company's Chief Executive Officer and Chief Financial Officer. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this report to ensure that the information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act was recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

b. Changes in internal controls over financial reporting. There were no changes in the Company's internal control over financial reporting that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Part II - OTHER INFORMATION

Item 1. Legal Proceedings

Information required by this item is set forth in Note 8 of the Notes to Consolidated Financial Statements included in Part I Item 1 of this report and is incorporated herein by reference.

Item 1A. Risk Factors

Management does not believe there have been any material changes in the risk factors that were disclosed in the Company's Form 10-K filed with the Securities and Exchange Commission on March 3, 2016.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

During the second quarter of 2016, there were no purchases of the Company's common shares under the previously existing stock repurchase plan. The authorization of that stock repurchase plan expired in April 2016 and was not renewed by the the Board of Directors.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

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Item 6. Exhibits

The following exhibits are filed as part of this report:

Exhibits	Description
31.1	Certification of Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

West Bancorporation, Inc.
(Registrant)

July 28, 2016	By: /s/ David D. Nelson
Date	David D. Nelson
	Chief Executive Officer and President
	(Principal Executive Officer)
July 28, 2016	By: /s/ Douglas R. Gulling
Date	Douglas R. Gulling
	Executive Vice President, Treasurer and Chief Financial Officer
	(Principal Financial Officer)
July 28, 2016	By: /s/ Marie I. Roberts
Date	Marie I. Roberts
	Senior Vice President, Controller and Chief Accounting Officer
	(Principal Accounting Officer)

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