WEST BANCORPORATION INC
Form 10-Q
April 25, 2019
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2019

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes x No o

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

Large accelerated filer o

Accelerated filer	x
Non-accelerated filer	o
Smaller reporting company	x
Emerging growth company	o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

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

Yes o No x

As of April 24, 2019, there were 16,357,752 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)

(in thousands, except share and per share data)	March 31, 2019	December 31, 2018
ASSETS		
Cash and due from banks	$45,461	$46,369
Federal funds sold	2,078	1,105
Cash and cash equivalents	47,539	47,474
Investment securities available for sale, at fair value	433,963	453,758
Federal Home Loan Bank stock, at cost	11,639	12,037
Loans	1,748,830	1,721,830
Allowance for loan losses	(16,737)	(16,689)
Loans, net	1,732,093	1,705,141
Premises and equipment, net	30,510	21,491
Accrued interest receivable	8,577	7,631
Bank-owned life insurance	34,401	34,249
Deferred tax assets, net	5,374	6,518
Other assets	7,995	8,269
Total assets	$2,312,091	$2,296,568
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Noninterest-bearing demand	$388,686	$400,530
Interest-bearing demand	309,975	336,089
Savings	1,007,634	950,501
Time of $250 or more	40,689	55,745
Other time	161,339	151,664
Total deposits	1,908,323	1,894,529
Federal funds purchased	17,735	19,985
Subordinated notes, net	20,428	20,425
Federal Home Loan Bank advances, net	128,247	137,878
Long-term debt	25,011	27,040
Accrued expenses and other liabilities	16,077	5,688
Total liabilities	2,115,821	2,105,545
COMMITMENTS AND CONTINGENCIES (NOTE 8)		
STOCKHOLDERS' EQUITY		
Preferred stock, $0.01 par value; authorized 50,000,000 shares; no shares issued and outstanding at March 31, 2019 and December 31, 2018	—	—
Common stock, no par value; authorized 50,000,000 shares; 16,357,752 and 16,295,494 shares issued and outstanding at March 31, 2019 and December 31, 2018, respectively	3,000	3,000
Additional paid-in capital	24,898	25,128
Retained earnings	173,349	169,709

Accumulated other comprehensive loss	(4,977)	(6,814)
Total stockholders' equity	196,270	191,023
Total liabilities and stockholders' equity	$ 2,312,091	$ 2,296,568

See Notes to Consolidated Financial Statements.

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

	Three Months Ended March 31,	
(in thousands, except per share data)	2019	2018
Interest income:		
Loans, including fees	$20,388	$16,474
Investment securities:		
Taxable	2,328	1,813
Tax-exempt	837	1,362
Federal funds sold	98	81
Total interest income	23,651	19,730
Interest expense:		
Deposits	5,964	3,012
Federal funds purchased	87	27
Subordinated notes	252	248
Federal Home Loan Bank advances	1,273	832
Long-term debt	186	195
Total interest expense	7,762	4,314
Net interest income	15,889	15,416
Provision for loan losses	—	150
Net interest income after provision for loan losses	15,889	15,266
Noninterest income:		
Service charges on deposit accounts	611	649
Debit card usage fees	375	399
Trust services	483	445
Increase in cash value of bank-owned life insurance	152	158
Realized investment securities losses, net	(88)	—
Other income	586	262
Total noninterest income	2,119	1,913
Noninterest expense:		
Salaries and employee benefits	5,460	4,513
Occupancy	1,233	1,223
Data processing	680	676
FDIC insurance	219	162
Professional fees	234	234
Director fees	251	249
Other expenses	1,467	1,230
Total noninterest expense	9,544	8,287
Income before income taxes	8,464	8,892
Income taxes	1,565	1,508
Net income	$6,899	$7,384
Basic earnings per common share	$0.42	$0.46
Diluted earnings per common share	$0.42	$0.45

See Notes to Consolidated Financial Statements.

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

	Three Months Ended March 31,	
(in thousands)	2019	2018
Net income	$6,899	$7,384
Other comprehensive income (loss) :		
Unrealized gains (losses) on investment securities:		
Unrealized holding gains (losses) arising during the period	4,917	(6,965)
Unrealized gains on investment securities transferred from held to maturity to available for sale	—	363
Plus: reclassification adjustment for net losses realized in net income	88	—
Less: other reclassification adjustment	—	(36)
Income tax benefit (expense)	(1,251)	1,661
Other comprehensive income (loss) on investment securities	3,754	(4,977)
Unrealized gains (losses) on derivatives:		
Unrealized holding gains (losses) arising during the period	(2,441)	1,545
Plus: reclassification adjustment for net (gain) loss on derivatives realized in net income	(137)	37
Plus: reclassification adjustment for amortization of derivative termination costs	23	23
Income tax benefit (expense)	638	(402)
Other comprehensive income (loss) on derivatives	(1,917)	1,203
Total other comprehensive income (loss)	1,837	(3,774)
Comprehensive income	$8,736	$3,610

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)

	Three Months Ended March 31, 2019						
	Preferred Stock	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2018	$ —	16,295,494	$ 3,000	$ 25,128	$ 169,709	$ (6,814)	$ 191,023
Net income	—	—	—	—	6,899	—	6,899
Other comprehensive income, net of tax	—	—	—	—	—	1,837	1,837
Cash dividends declared, $0.20 per common share	—	—	—	—	(3,259)		(3,259)
Stock-based compensation costs	—	—	—	631	—	—	631
Issuance of common stock upon vesting of restricted stock units, net of shares withheld for payroll taxes	—	62,258	—	(861)	—	—	(861)
Balance, March 31, 2019	$ —	16,357,752	$ 3,000	$ 24,898	$ 173,349	$ (4,977)	$ 196,270

	Three Months Ended March 31, 2018						
	Preferred Stock	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2017	$ —	16,215,672	$ 3,000	$ 23,463	$ 153,527	$ (1,892)	$ 178,098
Reclassification of stranded tax effects of rate change	—	—	—	—	370	(370)	—
Net income	—	—	—	—	7,384	—	7,384
Other comprehensive loss, net of tax	—	—	—	—	—	(3,774)	(3,774)
Cash dividends declared, $0.18 per common share	—	—	—	—	(2,919)	—	(2,919)
Stock-based compensation costs	—	—	—	529	—	—	529
Issuance of common stock upon vesting of restricted stock units, net of shares withheld for payroll taxes	—	55,822	—	(1,076)	—	—	(1,076)
Balance, March 31, 2018	$ —	16,271,494	$ 3,000	$ 22,916	$ 158,362	$ (6,036)	$ 178,242

See Notes to Consolidated Financial Statements.

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

	Three Months Ended March 31,	
(in thousands)	2019	2018
Cash Flows from Operating Activities:		
Net income	$6,899	$7,384
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	—	150
Net amortization and accretion	1,020	1,252
Investment securities losses, net	88	—
Stock-based compensation	631	529
Increase in cash value of bank-owned life insurance	(152)	(158)
Gain on sale of premises	(307)	—
Depreciation	345	353
Deferred income taxes	531	279
Change in assets and liabilities:		
(Increase) decrease in accrued interest receivable	(946)	57
Increase in other assets	(782)	(149)
Decrease in accrued expenses and other liabilities	(682)	(124)
Net cash provided by operating activities	6,645	9,573
Cash Flows from Investing Activities:		
Proceeds from sales of securities available for sale	62,274	—
Proceeds from maturities and calls of investment securities	8,882	9,464
Purchases of securities available for sale	(47,068)	(10,000)
Purchases of Federal Home Loan Bank stock	(11,539)	(2,134)
Proceeds from redemption of Federal Home Loan Bank stock	11,937	1,178
Net (increase) decrease in loans	(26,952)	8,102
Proceeds from sale of premises	604	—
Purchases of premises and equipment	(113)	(13)
Net cash provided by (used in) investing activities	(1,975)	6,597
Cash Flows from Financing Activities:		
Net increase (decrease) in deposits	13,794	(72,655)
Net increase (decrease) in federal funds purchased	(2,250)	51,275
Principal payments on Federal Home Loan Bank advances	(60,000)	—
Proceeds from Federal Home Loan Bank advances	50,000	—
Principal payments on long-term debt	(2,029)	(1,278)
Common stock dividends paid	(3,259)	(2,919)
Restricted stock units withheld for payroll taxes	(861)	(1,076)
Net cash used in financing activities	(4,605)	(26,653)
Net increase (decrease) in cash and cash equivalents	65	(10,483)
Cash and Cash Equivalents:		
Beginning	47,474	47,949
Ending	$47,539	$37,466

Supplemental Disclosures of Cash Flow Information:
Cash payments for:

Interest	$7,414	$4,196
Income taxes	—	—
Supplemental Disclosure of Noncash Investing Activities:		
Establishment of lease liability and right-of-use asset	$10,092	$—
Transfer of investment securities held to maturity to available for sale	—	45,527

See Notes to Consolidated Financial Statements.

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

1. Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared by West Bancorporation, Inc. (the Company) pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements have been condensed or omitted pursuant to such rules and regulations. Although management believes that the disclosures are adequate to make the information presented understandable, it is suggested that these interim consolidated financial statements be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2018 filed with the SEC on February 28, 2019. In the opinion of management, the accompanying consolidated financial statements of the Company contain all adjustments necessary to fairly present its financial position as of March 31, 2019 and December 31, 2018, and net income, comprehensive income, changes in stockholders' equity and cash flows for the three months ended March 31, 2019 and 2018. The results for these interim periods may not be indicative of results for the entire year or for any other period.

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

The accompanying unaudited consolidated financial statements include the accounts of the Company, West Bank, West Bank's special purpose subsidiaries and West Bank's wholly-owned subsidiary WB Funding Corporation (which was liquidated in March 2018). All significant intercompany transactions and balances have been eliminated in consolidation. In accordance with GAAP, West Bancorporation Capital Trust I is recorded on the books of the Company using the equity method of accounting and is not consolidated.

Current accounting developments: In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). The guidance in the update supersedes the requirements in ASC Topic 840, Leases. The guidance is intended to increase transparency and comparability among organizations by recognizing right-of-use assets and lease liabilities on the balance sheet. For public companies, this update was effective for interim and annual periods beginning after December 15, 2018. The Company adopted this guidance in the first quarter of 2019. Upon adoption, the Company elected a practical expedient which allows existing leases to retain their classification as operating leases. The Company has elected to account for lease and related nonlease components as a single lease component. The Company has also elected to not recognize right-of-use assets and lease liabilities arising from short-term leases. Implementation of the guidance resulted in the recording of a right-of-use asset and lease liability on the balance sheet; however it does not have a material impact on the Company's other consolidated financial statements. See additional disclosures in Note 9.

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

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West Bancorporation, Inc. and Subsidiary
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The Company is developing its approach for determining the expected credit losses under the new guidance. The Company continues collecting and retaining historical loan and credit data and is currently evaluating alternative loss estimation models. While we currently cannot reasonably estimate the impact of adopting this standard, we expect the impact will be influenced by the composition, risk characteristics and quality of our loan and securities portfolios, as well as the general economic conditions and forecasts as of the adoption date. We expect that the new guidance will result in an increase to the allowance for loan losses given that the allowance will be required to cover the full remaining expected life of the portfolio, rather than the incurred loss under the current accounting standard. The magnitude of this increase is still being evaluated. We are also reviewing the impact of additional disclosures required under ASU 2016-13 on our ongoing financial reporting procedures.

In August 2018, the FASB issued ASU No. 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement. The amendments in this update modify the disclosure requirements for fair value measurements by removing, modifying, or adding certain disclosures. The update is effective for interim and annual periods in fiscal years beginning after December 15, 2019, with early adoption permitted for the removed disclosures and delayed adoption until fiscal year 2020 permitted for the new disclosures. The removed and modified disclosures will be adopted on a retrospective basis, and the new disclosures will be adopted on a prospective basis. The adoption will not have a material effect on the Company’s consolidated financial statements.

2. Earnings per Common Share

Basic earnings per common share are computed by dividing net income by the weighted average number of common shares outstanding for the period. Diluted earnings per common share reflect the potential dilution that could occur if the Company's outstanding restricted stock units were vested. The dilutive effect was computed using the treasury stock method, which assumes all stock-based awards were exercised and the hypothetical proceeds from exercise were used by the Company to purchase common stock at the average market price during the period. The incremental shares, to the extent they would have been dilutive, were included in the denominator of the diluted earnings per common share calculation. The calculations of earnings per common share and diluted earnings per common share for the three months ended March 31, 2019 and 2018 are presented in the following table.

	Three Months Ended March 31,	
(in thousands, except per share data)	2019	2018
Net income	$6,899	$7,384
Weighted average common shares outstanding	16,300	16,219
Weighted average effect of restricted stock units outstanding	80	189
Diluted weighted average common shares outstanding	16,380	16,408
Basic earnings per common share	$0.42	$0.46
Diluted earnings per common share	$0.42	$0.45
	225	8

Number of anti-dilutive common stock equivalents excluded from diluted earnings per share computation

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

3. Investment Securities

The following tables show the amortized cost, gross unrealized gains and losses, and fair value of investment securities, by investment security type as of March 31, 2019 and December 31, 2018.

	March 31, 2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Securities available for sale:				
State and political subdivisions	$89,788	$ 63	$(1,088)	$88,763
Collateralized mortgage obligations (1)	183,630	14	(2,788)	180,856
Mortgage-backed securities (1)	61,596	37	(802)	60,831
Asset-backed securities (2)	30,872	24	(114)	30,782
Collateralized loan obligations	19,888	—	(1)	19,887
Trust preferred security	2,156	—	(156)	2,000
Corporate notes	51,859	113	(1,128)	50,844
	$439,789	$ 251	$(6,077)	$433,963

	December 31, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Securities available for sale:				
State and political subdivisions	$152,293	$ 156	$(3,293)	$149,156
Collateralized mortgage obligations (1)	161,392	—	(4,388)	157,004
Mortgage-backed securities (1)	64,813	—	(1,435)	63,378
Asset-backed securities (2)	32,076	2	(175)	31,903
Trust preferred security	2,153	—	(253)	1,900
Corporate notes	51,862	124	(1,569)	50,417
	$464,589	$ 282	$(11,113)	$453,758

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

Investment securities with an amortized cost of approximately $100,467 and $126,531 as of March 31, 2019 and December 31, 2018, respectively, were pledged to secure access to the Federal Reserve discount window, for public fund deposits, and for other purposes as required or permitted by law or regulation.

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

The amortized cost and fair value of investment securities available for sale as of March 31, 2019, by contractual maturity, are shown below. Certain securities have call features that allow the issuer to call the securities prior to maturity. Expected maturities may differ from contractual maturities for collateralized mortgage obligations, mortgage-backed securities and asset-backed securities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Therefore, collateralized mortgage obligations, mortgage-backed securities and asset-backed securities are not included in the maturity categories within the following maturity summary.

	March 31, 2019	
	Amortized Cost	Fair Value
Due after one year through five years	$16,473	$16,567
Due after five years through ten years	62,206	61,069
Due after ten years	85,012	83,858
	163,691	161,494
Collateralized mortgage obligations, mortgage-backed securities and asset-backed securities	276,098	272,469
	$439,789	$433,963

The details of the sales of investment securities available for sale for the three months ended March 31, 2019 and 2018 are summarized in the following table.

	Three Months Ended March 31,	
	2019	2018
Proceeds from sales	$62,274	$ —
Gross gains on sales	133	—
Gross losses on sales	221	—

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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 March 31, 2019 and December 31, 2018.

	March 31, 2019					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Gross Unrealized (Losses)	Fair Value	Gross Unrealized (Losses)	Fair Value	Gross Unrealized (Losses)
Securities available for sale:						
State and political subdivisions	$1,700	$(5)	$71,800	$(1,083)	$73,500	$(1,088)
Collateralized mortgage obligations	19,637	(170)	124,232	(2,618)	143,869	(2,788)
Mortgage-backed securities	7,009	(4)	48,125	(798)	55,134	(802)
Asset-backed securities	—	—	20,232	(114)	20,232	(114)
Collateralized loan obligations	19,887	(1)	—	—	19,887	(1)
Trust preferred security	—	—	2,000	(156)	2,000	(156)
Corporate notes	21,720	(338)	19,209	(790)	40,929	(1,128)
	$69,953	$(518)	$285,598	$(5,559)	$355,551	$(6,077)

	December 31, 2018					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Gross Unrealized (Losses)	Fair Value	Gross Unrealized (Losses)	Fair Value	Gross Unrealized (Losses)
Securities available for sale:						
State and political subdivisions	$21,264	$(221)	$102,853	$(3,072)	$124,117	$(3,293)
Collateralized mortgage obligations	32,230	(250)	124,775	(4,138)	157,005	(4,388)
Mortgage-backed securities	10,960	(103)	51,823	(1,332)	62,783	(1,435)
Asset-backed securities	6,668	(31)	16,486	(144)	23,154	(175)
Trust preferred security	—	—	1,900	(253)	1,900	(253)
Corporate notes	19,470	(611)	19,041	(958)	38,511	(1,569)
	$90,592	$(1,216)	$316,878	$(9,897)	$407,470	$(11,113)

As of March 31, 2019, the available for sale securities with unrealized losses included 102 state and political subdivision securities, 43 collateralized mortgage obligation securities, 16 mortgage-backed securities, five asset-backed securities, four collateralized loan obligation securities, one trust preferred security and 16 corporate notes. The Company believes the unrealized losses on securities available for sale as of March 31, 2019 were due to market conditions rather than reduced estimated cash flows. At this time, the Company does not intend to sell these securities, does not anticipate that these securities will be required to be sold before anticipated recovery, and expects full principal and interest to be collected. Therefore, the Company did not consider these securities to have other than temporary impairment as of March 31, 2019.

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

4. Loans and Allowance for Loan Losses

Loans consisted of the following segments as of March 31, 2019 and December 31, 2018.

	March 31, 2019	December 31, 2018
Commercial	$366,654	$358,763
Real estate:		
Construction, land and land development	270,322	245,810
1-4 family residential first mortgages	48,929	49,052
Home equity	13,723	14,469
Commercial	1,044,922	1,050,025
Consumer and other	6,758	6,211
	1,751,308	1,724,330
Net unamortized fees and costs	(2,478)	(2,500)
	$1,748,830	$1,721,830

Real estate loans of approximately $820,000 and $800,000 were pledged as security for Federal Home Loan Bank (FHLB) advances as of March 31, 2019 and December 31, 2018, respectively.

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

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

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

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

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

TDR loans totaled $616 and $652 as of March 31, 2019 and December 31, 2018, respectively, and were included in the nonaccrual category. There were no loan modifications considered to be TDR that occurred during the three months ended March 31, 2019 and 2018. One TDR loan that was modified within the twelve months preceding March 31, 2019, with a recorded investment of $537, has subsequently had a payment default. No TDR loans that were modified within the twelve months preceding March 31, 2018 have subsequently had a payment default. A TDR loan is considered to have a payment default when it is past due 30 days or more.

The following table summarizes the recorded investment in impaired loans by segment, broken down by loans with no related allowance for loan losses and loans with a related allowance and the amount of that allowance as of March 31, 2019 and December 31, 2018.

	March 31, 2019			December 31, 2018		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:						
Commercial	$962	$ 962	$ —	$1,014	$ 1,014	$ —
Real estate:						
Construction, land and land development	—	—	—	—	—	—
1-4 family residential first mortgages	100	100	—	106	106	—
Home equity	39	39	—	41	41	—
Commercial	616	616	—	652	652	—
Consumer and other	—	—	—	—	—	—
	1,717	1,717	—	1,813	1,813	—
With an allowance recorded:						
Commercial	14	14	14	15	15	15
Real estate:						
Construction, land and land development	—	—	—	—	—	—
1-4 family residential first mortgages	—	—	—	—	—	—
Home equity	—	—	—	—	—	—
Commercial	96	96	96	100	100	100
Consumer and other	—	—	—	—	—	—
	110	110	110	115	115	115
Total:						