WEST BANCORPORATION INC
Form 10-Q
October 26, 2012
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2012

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

Telephone Number: (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 definition of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer o Accelerated filer x

Non-accelerated filer	o	Smaller reporting company	o

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

Yes o No x

As of October 25, 2012, there were 17,403,882 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)	September 30, 2012	December 31, 2011
ASSETS		
Cash and due from banks	$37,707	$35,772
Federal funds sold and other short-term investments	4,120	51,332
Cash and cash equivalents	41,827	87,104
Securities available for sale	311,083	283,145
Federal Home Loan Bank stock, at cost	11,667	11,352
Loans held for sale	6,471	4,089
Loans	854,205	838,959
Allowance for loan losses	(15,637)	(16,778)
Loans, net	838,568	822,181
Premises and equipment, net	5,551	5,396
Accrued interest receivable	4,423	4,183
Bank-owned life insurance	25,563	25,724
Other real estate owned	8,894	10,967
Deferred tax assets	6,625	8,409
Other assets	7,294	6,974
Total assets	$1,267,966	$1,269,524
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Noninterest-bearing demand	$291,497	$268,887
Interest-bearing demand	151,686	158,141
Savings	316,931	343,312
Time of $100,000 or more	88,957	98,743
Other time	79,855	88,290
Total deposits	928,926	957,373
Federal funds purchased and securities sold under agreements to repurchase	73,084	55,841
Subordinated notes	20,619	20,619
Federal Home Loan Bank advances	105,000	105,000
Accrued expenses and other liabilities	7,694	7,240
Total liabilities	1,135,323	1,146,073
STOCKHOLDERS' EQUITY		
Preferred stock, $0.01 par value; authorized 50,000,000 shares; no shares issued and outstanding at September 30, 2012, and December 31, 2011	—	—
Common stock, no par value; authorized 50,000,000 shares; 17,403,882 shares issued and outstanding at September 30, 2012, and December 31, 2011	3,000	3,000
Additional paid-in capital	33,742	33,687
Retained earnings	93,697	86,110

Accumulated other comprehensive income	2,204	654
Total stockholders' equity	132,643	123,451
Total liabilities and stockholders' equity	$1,267,966	$1,269,524

See accompanying Notes to Consolidated Financial Statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(dollars in thousands, except per share data)	2012	2011	2012	2011
Interest income:				
Loans, including fees	$10,928	$11,674	$33,324	$35,101
Securities:				
Taxable securities	1,118	1,043	3,217	3,283
Tax-exempt securities	471	549	1,485	1,723
Federal funds sold and other short-term investments	36	43	129	170
Total interest income	12,553	13,309	38,155	40,277
Interest expense:				
Demand deposits	203	480	792	1,309
Savings deposits	251	275	840	863
Time deposits	600	980	1,972	3,171
Federal funds purchased and securities sold under agreements to repurchase	23	42	89	131
Subordinated notes	189	177	568	531
Long-term borrowings	1,030	1,030	3,068	3,057
Total interest expense	2,296	2,984	7,329	9,062
Net interest income	10,257	10,325	30,826	31,215
Provision for loan losses	300	—	300	950
Net interest income after provision for loan losses	9,957	10,325	30,526	30,265
Noninterest income:				
Service charges on deposit accounts	768	864	2,236	2,419
Debit card usage fees	403	368	1,193	1,093
Trust services	201	175	595	601
Gains and fees on sales of residential mortgages	816	358	2,144	814
Increase in cash value of bank-owned life insurance	181	223	571	667
Gain from bank-owned life insurance	—	—	841	637
Investment securities impairment losses	(6)	(22)	(179)	(22)
Realized investment securities gains, net	—	—	246	—
Other income	185	245	648	789
Total noninterest income	2,548	2,211	8,295	6,998
Noninterest expense:				
Salaries and employee benefits	3,686	3,373	10,893	9,598
Occupancy	880	841	2,612	2,478
Data processing	576	500	1,582	1,430
FDIC insurance expense	183	216	516	1,111
Other real estate owned expense	240	1,650	1,228	1,930
Professional fees	276	297	855	756
Consulting fees	191	98	498	198

Other expenses	1,072	1,343	3,598	3,669
Total noninterest expense	7,104	8,318	21,782	21,170
Income before income taxes	5,401	4,218	17,039	16,093
Income taxes	1,649	1,135	4,927	4,557
Net income	3,752	3,083	12,112	11,536
Preferred stock dividends and accretion of discount	—	—	—	(2,387)
Net income available to common stockholders	$3,752	$3,083	$12,112	$9,149
Basic earnings per common share	$0.22	$0.18	$0.70	$0.53
Diluted earnings per common share	$0.22	$0.18	$0.69	$0.53
Cash dividends declared per common share	$0.10	$0.05	$0.26	$0.10

See accompanying Notes to Consolidated Financial Statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(dollars in thousands)	2012	2011	2012	2011
Net income	$3,752	$3,083	$12,112	$11,536
Other comprehensive income, before tax:				
Unrealized gains (losses) on securities for which a portion of an other than temporary impairment has been recorded in earnings before tax:				
Unrealized holding gains (losses) arising during the period	139	(225)	31	18
Less: reclassification adjustment for impairment losses realized in net income	6	22	179	22
Net unrealized gains (losses) on securities with other than temporary impairment before tax expense	145	(203)	210	40
Unrealized gains on securities without other than temporary impairment before tax:				
Unrealized holding gains arising during the period	758	902	2,536	5,604
Less: reclassification adjustment for net gains realized in net income	—	—	(246)	—
Net unrealized gains on other securities before tax expense	758	902	2,290	5,604
Other comprehensive income before tax	903	699	2,500	5,644
Tax expense related to other comprehensive income	(343)	(266)	(950)	(2,145)
Other comprehensive income, net of tax:	560	433	1,550	3,499
Comprehensive income	$4,312	$3,516	$13,662	$15,035

See accompanying Notes to Consolidated Financial Statements.

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

(dollars in thousands, except per share data)	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2010	$34,508	$3,000	$34,387	$76,188	$ (2,647)	$145,436
Net income	—	—	—	11,536	—	11,536
Other comprehensive income	—	—	—	—	3,499	3,499
Preferred stock discount accretion	1,492	—	—	(1,492)	—	—
Redemption of preferred stock	(36,000)	—	—	—	—	(36,000)
Repurchase of common stock warrant	—	—	(700)	—	—	(700)
Cash dividends declared, $0.10 per common share	—	—	—	(1,740)	—	(1,740)
Preferred stock dividends declared	—	—	—	(895)	—	(895)
Balance, September 30, 2011	$—	$3,000	$33,687	$83,597	$ 852	$121,136
Balance, December 31, 2011	$—	$3,000	$33,687	$86,110	$ 654	$123,451
Net income	—	—	—	12,112	—	12,112
Other comprehensive income	—	—	—	—	1,550	1,550
Cash dividends declared, $0.26 per common share	—	—	—	(4,525)	—	(4,525)
Stock-based compensation costs	—	—	55	—	—	55
Balance, September 30, 2012	$—	$3,000	$33,742	$93,697	$ 2,204	$132,643

See accompanying Notes to Consolidated Financial Statements.

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

	Nine Months Ended September 30,	
(dollars in thousands)	2012	2011
Cash Flows from Operating Activities:		
Net income	$12,112	$11,536
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	300	950
Net amortization and accretion	3,238	2,216
(Gain) loss on disposition of premises and equipment	124	(10)
Investment securities gains, net	(246)	—
Investment securities impairment losses	179	22
Stock-based compensation	55	—
Gain on sale of loans	(1,773)	(710)
Proceeds from sales of loans held for sale	88,344	39,727
Originations of loans held for sale	(88,953)	(37,937)
Gain on sale of other real estate owned	(109)	(361)
Write-down of other real estate owned	1,203	2,211
Gain from bank-owned life insurance	(841)	(637)
Increase in value of bank-owned life insurance	(571)	(667)
Depreciation	515	448
Deferred income taxes	834	769
Change in assets and liabilities:		
(Increase) decrease in accrued interest receivable	(240)	591
(Increase) decrease in other assets	(331)	2,912
Increase (decrease) in accrued expenses and other liabilities	454	(445)
Net cash provided by operating activities	14,294	20,615
Cash Flows from Investing Activities:		
Proceeds from sales, calls, and maturities of securities available for sale	66,533	68,004
Purchases of securities available for sale	(95,132)	(55,156)
Purchases of Federal Home Loan Bank stock	(1,642)	(681)
Proceeds from redemption of Federal Home Loan Bank stock	1,327	469
Net (increase) decrease in loans	(16,505)	18,070
Net proceeds from sales of other real estate owned	798	6,300
Proceeds from sales of premises and equipment	—	51
Purchases of premises and equipment	(794)	(591)
Proceeds of principal and earnings from bank-owned life insurance	1,573	1,192
Net cash provided by (used in) investing activities	(43,842)	37,658
Cash Flows from Financing Activities:		
Net decrease in deposits	(28,447)	(53,533)
Net increase in federal funds purchased and securities sold under agreements to repurchase	17,243	1,108
Net decrease in other short-term borrowings	—	(1,469)
Common stock dividends paid	(4,525)	(1,740)
Preferred stock dividends paid	—	(1,120)
Redemption of preferred stock	—	(36,000)
Repurchase of common stock warrant	—	(700)

Net cash used in financing activities	(15,729)	(93,454)
Net decrease in cash and cash equivalents	(45,277)	(35,181)
Cash and Cash Equivalents:		
Beginning	87,104	87,954
Ending	$41,827	$52,773

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

	Nine Months Ended September 30,	
(dollars in thousands)	2012	2011
Supplemental Disclosures of Cash Flow Information:		
Cash payments for:		
Interest	$7,392	$9,639
Income taxes	2,986	3,244
Supplemental Disclosure of Noncash Investing and Financing Activities:		
Transfer of loans to other real estate owned	$672	$1,583
Sale of other real estate owned financed by issuance of a loan	800	620

See accompanying 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 information)

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, 2011. In the opinion of management, the accompanying consolidated financial statements contain all adjustments necessary to present fairly the financial position as of September 30, 2012, and December 31, 2011, the net income and comprehensive income for the three and nine months ended September 30, 2012 and 2011, and cash flows for the nine months ended September 30, 2012 and 2011. 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 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 financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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 other than temporary impairment (OTTI), the valuation of other real estate owned, and the allowance for loan losses.

The accompanying unaudited consolidated financial statements include the accounts of the Company, West Bank, West Bank's wholly-owned subsidiary WB Funding Corporation (which owns an interest in a partnership), and West Bank's 99.99 percent owned subsidiary ICD IV, LLC (a community development entity). 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.

Certain items in the financial statements as of September 30, 2011, were reclassified to be consistent with the classifications used in the September 30, 2012, financial statements. The reclassification had no effect on net income or stockholders' equity.

Current accounting developments: In April 2011, the FASB issued guidance to improve the accounting for repurchase agreements and other agreements that both entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. This guidance removes from the assessment of effective control in the accounting for repurchase agreements (a) the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee, and (b) the collateral maintenance implementation guidance related to that criterion. The guidance was effective for the first interim and annual periods beginning after December 15, 2011. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

In May 2011, the FASB issued amended guidance to improve the comparability of fair value measurements presented and disclosed in financial statements made in accordance with GAAP and International Financial Reporting Standards. The guidance does not extend the use of fair value accounting, but provides guidance on how it should be applied in situations where it is already required or permitted. The guidance is included in the Codification as part of ASC 820. The guidance was effective for public companies during interim and annual periods beginning after December 15, 2011. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

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2. Critical Accounting Policies

Management has identified its most critical accounting policies to be those related to asset impairment judgments, including fair value and OTTI of available for sale investment securities, the valuation of other real estate owned, and the allowance for loan losses.

Securities available for sale are reported at fair value, with unrealized gains and losses reported as a separate component of accumulated other comprehensive income, net of deferred income taxes. The Company evaluates each of its investment securities whose value has declined below amortized cost to determine whether the decline in fair value is OTTI. The investment portfolio is evaluated for OTTI by segregating the portfolio into two segments and applying the appropriate OTTI model. Investment securities classified as available for sale are generally evaluated for OTTI under FASB ASC 320, Investments - Debt and Equity Securities. However, certain purchased beneficial interests in securitized financial assets, including asset-backed securities and collateralized debt obligations that had credit ratings below AA at the time of purchase, are evaluated using the model outlined in FASB ASC 325, Beneficial Interests in Securitized Financial Assets.

In determining OTTI under the FASB ASC 320 model, the review takes into consideration the severity and duration of the decline in fair value, the length of time expected for recovery, the financial condition of the issuer, and other qualitative factors, as well as whether the Company intends to sell the security or whether it is more likely than not the Company will be required to sell the debt security before its anticipated recovery.

Under the FASB ASC 325 model for the second segment of the portfolio, the Company compares the present value of the remaining cash flows as estimated at the preceding evaluation date to the current expected remaining cash flows. An OTTI is deemed to have occurred if there has been an adverse change in the remaining expected future cash flows.

When OTTI occurs under either model, the amount of the OTTI recognized in earnings depends on whether the Company intends to sell the security or whether it is more likely than not that it will be required to sell the security before recovery of its amortized cost basis. If the Company intends to sell or it is more likely than not that it will be required to sell the security before recovery of its amortized cost basis, the OTTI is recognized in earnings equal to the entire difference between the investment's amortized cost basis and its fair value at the balance sheet date. If the Company does not intend to sell the security and it is not more likely than not that the entity will be required to sell before recovery of its amortized cost basis, the OTTI is separated into the amount representing the credit loss and the amount related to all other factors. The amount of the total OTTI related to the credit loss is determined based on the present value of cash flows expected to be collected, using the original yield as the discount rate, and is recognized in earnings. The amount of the total OTTI related to other factors is recognized in other comprehensive income, net of applicable taxes. The previous amortized cost basis less the OTTI recognized in earnings becomes the new amortized cost basis of the investment. The assessment of whether an OTTI exists involves a high degree of subjectivity and judgment and is based on the information available to management at the time.

Other real estate owned includes real estate properties acquired through or in lieu of foreclosure. They are initially recorded at fair value less estimated selling costs. After foreclosure, valuations are performed by management at least annually by obtaining updated appraisals or other market information. Any subsequent write-downs are recorded as a charge to operations.

The allowance for loan losses is established through a provision for loan losses charged to expense. Loans are charged against the allowance for loan losses when management believes that collectibility of the principal is unlikely. The Company has policies and procedures for evaluating the overall credit quality of its loan portfolio, including timely identification of potential problem loans. On a quarterly basis, management reviews the appropriate level for the allowance for loan losses, incorporating a variety of risk considerations, both quantitative and qualitative. Quantitative factors include the Company's historical loss experience, delinquency and charge-off trends, collateral values, known information about individual loans, and other factors. Qualitative factors include the general economic environment in the Company's market areas and the expected trend of those economic conditions. 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. To the extent actual results differ from forecasts and management's judgment, the allowance for loan losses may be greater or less than future charge-offs.

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3. Securities Available for Sale

For securities available for sale, the following tables show the amortized cost, unrealized gains and losses (pre-tax) included in accumulated other comprehensive income, and estimated fair value by security type as of September 30, 2012, and December 31, 2011.

	September 30, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
U.S. government agencies and corporations	$17,619	$505	$—	$18,124
State and political subdivisions	54,820	2,746	(132)	57,434
Collateralized mortgage obligations (1)	184,305	3,003	(182)	187,126
Mortgage-backed securities (1)	39,501	1,518	—	41,019
Trust preferred securities	5,934	—	(3,904)	2,030
Corporate notes and other investments	5,349	7	(6)	5,350
	$307,528	$7,779	$(4,224)	$311,083

	December 31, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
U.S. government agencies and corporations	$12,644	$371	$(12)	$13,003
State and political subdivisions	50,172	2,398	(53)	52,517
Collateralized mortgage obligations (1)	173,438	2,301	(241)	175,498
Mortgage-backed securities (1)	34,967	706	(37)	35,636
Trust preferred securities	6,105	—	(4,094)	2,011
Corporate notes and other investments	4,764	—	(284)	4,480
	$282,090	$5,776	$(4,721)	$283,145

(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.

Securities with an amortized cost of $77,683 and $96,062 as of September 30, 2012, and December 31, 2011, respectively, were pledged as collateral on securities sold under agreements to repurchase, and for other purposes as required or permitted by law or regulation. Securities sold under agreements to repurchase are held in safekeeping at a correspondent bank on behalf of the Company.

The amortized cost and fair value of securities available for sale as of September 30, 2012, by contractual maturity are shown in the following table. Certain securities have call features that allow the issuer to call the securities prior to maturity. Expected maturities may differ from contractual maturities in 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 summary.

	September 30, 2012	
	Amortized Cost	Fair Value
Due in one year or less	$936	$941
Due after one year through five years	22,859	23,184
Due after five years through ten years	22,103	23,559

Due after ten years	36,831	34,262
	82,729	81,946
Collateralized mortgage obligations and mortgage-backed securities	223,807	228,145
Equity securities	992	992
	$307,528	$311,083

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The details of the sales of securities for the three and nine months ended September 30, 2012 and 2011, are summarized in the following table.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Proceeds from sales	$—	$—		