WEST BANCORPORATION INC
Form 10-Q
October 30, 2015

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, 2015

or

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from __________ to __________

Commission File Number: 0-49677

WEST BANCORPORATION, INC.
(Exact Name of Registrant as Specified in its Charter)

IOWA	42-1230603
(State of Incorporation)	(I.R.S. Employer Identification No.)

1601 22nd Street, West Des Moines, Iowa	50266
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (515) 222-2300

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes x No o

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

Large accelerated filer	o	Accelerated filer	x
Non-accelerated filer	o	Smaller reporting company	o

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

Yes o No x

As of October 29, 2015, there were 16,064,435 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 data)	September 30, 2015	December 31, 2014
ASSETS		
Cash and due from banks	$36,194	$27,936
Federal funds sold	18,592	11,845
Cash and cash equivalents	54,786	39,781
Investment securities available for sale, at fair value	325,617	272,790
Investment securities held to maturity, at amortized cost (fair value of $51,260 and $51,501 at September 30, 2015 and December 31, 2014, respectively)	51,280	51,343
Federal Home Loan Bank stock, at cost	14,210	15,075
Loans	1,240,038	1,184,045
Allowance for loan losses	(14,660)	(13,607)
Loans, net	1,225,378	1,170,438
Premises and equipment, net	11,115	9,988
Accrued interest receivable	5,041	4,425
Bank-owned life insurance	32,657	32,107
Deferred tax assets, net	6,713	6,333
Other assets	6,370	13,553
Total assets	$1,733,167	$1,615,833
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Noninterest-bearing demand	$447,386	$362,827
Interest-bearing demand	241,250	241,722
Savings	578,775	527,277
Time of $250,000 or more	13,622	18,985
Other time	106,103	119,651
Total deposits	1,387,136	1,270,462
Federal funds purchased	2,660	2,975
Short-term borrowings	59,000	66,000
Subordinated notes	20,619	20,619
Federal Home Loan Bank advances, net of discount	98,008	96,888
Long-term debt	9,730	12,676
Accrued expenses and other liabilities	6,797	6,038
Total liabilities	1,583,950	1,475,658
COMMITMENTS AND CONTINGENCIES (NOTE 8)		
STOCKHOLDERS' EQUITY		
Preferred stock, $0.01 par value; authorized 50,000,000 shares; no shares issued and outstanding at September 30, 2015 and December 31, 2014	—	—

Common stock, no par value; authorized 50,000,000 shares; 16,064,435 and 16,018,734 shares issued and outstanding at September 30, 2015 and December 31, 2014, respectively	3,000	3,000
Additional paid-in capital	19,732	18,971
Retained earnings	126,369	117,950
Accumulated other comprehensive income	116	254
Total stockholders' equity	149,217	140,175
Total liabilities and stockholders' equity	$1,733,167	$1,615,833

See Notes to Consolidated Financial Statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands, except per share data)	2015	2014	2015	2014
Interest income:				
Loans, including fees	$13,313	$11,934	$38,934	$34,936
Investment securities:				
Taxable	1,017	1,191	3,184	3,793
Tax-exempt	789	721	2,309	2,095
Federal funds sold	28	14	60	43
Total interest income	15,147	13,860	44,487	40,867
Interest expense:				
Deposits	500	592	1,622	1,851
Federal funds purchased	2	2	6	8
Short-term borrowings	5	3	32	15
Subordinated notes	179	242	526	588
Federal Home Loan Bank advances	698	660	2,095	1,959
Long-term debt	57	72	183	233
Total interest expense	1,441	1,571	4,464	4,654
Net interest income	13,706	12,289	40,023	36,213
Provision for loan losses	200	100	400	250
Net interest income after provision for loan losses	13,506	12,189	39,623	35,963
Noninterest income:				
Service charges on deposit accounts	663	713	1,934	2,106
Debit card usage fees	463	443	1,367	1,306
Trust services	302	363	944	1,013
Revenue from residential mortgage banking	45	457	132	1,059
Increase in cash value of bank-owned life insurance	183	198	550	534
Realized investment securities gains, net	—	210	47	716
Other income	279	238	743	759
Total noninterest income	1,935	2,622	5,717	7,493
Noninterest expense:				
Salaries and employee benefits	4,056	3,961	12,051	12,059
Occupancy	1,031	1,072	3,090	3,107
Data processing	595	546	1,738	1,626
FDIC insurance	209	190	620	561
Other real estate owned	—	3	—	398
Professional fees	194	249	575	734
Director fees	226	183	642	525
Other expenses	1,238	1,182	3,722	3,742
Total noninterest expense	7,549	7,386	22,438	22,752
Income before income taxes	7,892	7,425	22,902	20,704
Income taxes	2,466	2,362	7,101	6,502
Net income	$5,426	$5,063	$15,801	$14,202

Basic earnings per common share	$0.34	$0.32	$0.98	$0.89
Diluted earnings per common share	$0.34	$0.32	$0.98	$0.89
Cash dividends declared per common share	$0.16	$0.12	$0.46	$0.35

See 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,	
(in thousands)	2015	2014	2015	2014
Net income	$5,426	$5,063	$15,801	$14,202
Other comprehensive income (loss):				
Unrealized gains on securities for which a portion of an other than temporary impairment has been recorded in earnings:				
Unrealized holding gains arising during the period	—	225	—	583
Less: reclassification adjustment for impairment losses realized in net income	—	—	—	—
Income tax (expense)	—	(86)	—	(222)
Other comprehensive income on available for sale securities with other than temporary impairment	—	139	—	361
Unrealized gains (losses) on securities without other than temporary impairment:				
Unrealized holding gains arising during the period	1,765	88	1,205	7,473
Less: reclassification adjustment for net gains realized in net income	—	(210)	(47)	(716)
Less: reclassification adjustment for amortization of net unrealized gains on securities transferred from available for sale to held to maturity, realized in interest income	(10)	(3)	(29)	(3)
Income tax benefit (expense)	(667)	48	(429)	(2,566)
Other comprehensive income (loss) on available for sale securities without other than temporary impairment	1,088	(77)	700	4,188
Unrealized gains (losses) on derivatives arising during the period	(735)	387	(1,470)	(2,386)
Less: reclassification adjustment for net loss on derivatives realized in net income	—	73	74	73
Less: reclassification adjustment for amortization of derivative termination costs	28	—	44	—
Income tax benefit (expense)	269	(175)	514	879

Other comprehensive income (loss) on derivatives	(438)	285	(838)	(1,434)
Total other comprehensive income (loss)	650	347	(138)	3,115
Comprehensive income	$6,076	$5,410	$15,663	$17,317

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, 2013	$—	15,976,204	$3,000	$18,411	$105,752	$ (3,538)	$123,625
Net income	—	—	—	—	14,202	—	14,202
Other comprehensive income, net of tax	—	—	—	—	—	3,115	3,115
Cash dividends declared, $0.35 per common share	—	—	—	—	(5,600)	—	(5,600)
Stock-based compensation costs	—	—	—	456	—	—	456
Issuance of common stock upon vesting of restricted stock units, net of shares withheld for payroll taxes	—	42,530	—	(189)	—	—	(189)
Excess tax benefits from vesting of restricted stock units	—	—	—	116	—	—	116
Balance, September 30, 2014	$—	16,018,734	$3,000	$18,794	$114,354	$ (423)	$135,725
Balance, December 31, 2014	$—	16,018,734	$3,000	$18,971	$117,950	$ 254	$140,175
Net income	—	—	—	—	15,801	—	15,801
Other comprehensive (loss), net of tax	—	—	—	—	—	(138)	(138)
Cash dividends declared, $0.46 per common share	—	—	—	—	(7,382)	—	(7,382)
Stock-based compensation costs	—	—	—	831	—	—	831
Issuance of common stock upon vesting of restricted stock units, net of shares withheld for payroll taxes	—	45,701	—	(225)	—	—	(225)
Excess tax benefits from vesting of restricted stock units	—	—	—	155	—	—	155
Balance, September 30, 2015	$—	16,064,435	$3,000	$19,732	$126,369	$ 116	$149,217

See Notes to Consolidated Financial Statements.

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

	Nine Months Ended September 30,	
(in thousands)	2015	2014
Cash Flows from Operating Activities:		
Net income	$15,801	$14,202
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	400	250
Net amortization and accretion	2,718	2,843
(Gain) loss on disposition of premises and equipment	4	(1)
Investment securities gains, net	(47)	(716)
Stock-based compensation	831	456
Gain on sale of loans held for sale	(14)	(954)
Proceeds from sales of loans held for sale	840	49,250
Originations of loans held for sale	—	(46,409)
Gain on sales of other real estate owned	—	(21)
Write-down of other real estate owned	—	346
Increase in cash value of bank-owned life insurance	(550)	(534)
Depreciation	700	623
Deferred income taxes	(295)	(84)
Excess tax benefits from vesting of restricted stock units	(155)	(116)
Change in assets and liabilities:		
Increase in accrued interest receivable	(616)	(542)
Decrease in other assets	2,902	1,687
Increase (decrease) in accrued expenses and other liabilities	(95)	1,070
Net cash provided by operating activities	22,424	21,350
Cash Flows from Investing Activities:		
Proceeds from sales of securities available for sale	16,946	36,582
Proceeds from maturities and calls of securities available for sale	36,899	43,478
Purchases of securities available for sale	(106,971)	(67,770)
Purchases of Federal Home Loan Bank stock	(15,827)	(12,448)
Proceeds from redemption of Federal Home Loan Bank stock	16,692	10,335
Net increase in loans	(55,340)	(92,438)
Proceeds from sales of other real estate owned	—	1,363
Proceeds from sales of premises and equipment	—	13
Purchases of premises and equipment	(1,831)	(3,757)
Purchase of bank-owned life insurance	—	(5,000)
Proceeds from settlement of other assets	3,593	—
Net cash (used in) investing activities	(105,839)	(89,642)
Cash Flows from Financing Activities:		
Net increase in deposits	116,674	41,420
Net decrease in federal funds purchased	(315)	(12,752)
Net increase (decrease) in short-term borrowings	(7,000)	40,000
Principal payments on long-term debt	(2,946)	(2,444)
Interest rate swap termination costs paid	(541)	—
Common stock dividends paid	(7,382)	(5,600)

Restricted stock units withheld for payroll taxes	(225)	(189)
Excess tax benefits from vesting of restricted stock units	155	116
Net cash provided by financing activities	98,420	60,551
Net increase (decrease) in cash and cash equivalents	15,005	(7,741)
Cash and Cash Equivalents:		
Beginning	39,781	42,425
Ending	$54,786	$34,684

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

	Nine Months Ended September 30,	
(in thousands)	2015	2014
Supplemental Disclosures of Cash Flow Information:		
Cash payments for:		
Interest	$4,493	$4,628
Income taxes	4,110	3,650
Supplemental Disclosure of Noncash Investing and Financing Activities:		
Transfer of loans to other real estate owned	—	394

See Notes to Consolidated Financial Statements.

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, 2014. In the opinion of management, the accompanying consolidated financial statements contain all adjustments necessary to fairly present the financial position as of September 30, 2015 and December 31, 2014, net income and comprehensive income for the three and nine months ended September 30, 2015 and 2014, and cash flows for the nine months ended September 30, 2015 and 2014. 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 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 owns an interest in a limited liability company). West Bank's 99.99 percent owned subsidiary ICD IV, LLC (a community development entity) was liquidated during the third quarter of 2014 because the underlying loan matured. 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 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 January 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-04, Receivables—Troubled Debt Restructuring by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans Upon Foreclosure. The update clarifies when an in substance foreclosure occurs, that is, when a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan. This is the point when the consumer mortgage loan should be derecognized and the real property recognized. For public companies, this update was effective for interim and annual periods beginning after December 31, 2014. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 660): 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 is 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 will be effective for interim and annual periods beginning after December 15, 2015, and is to be applied retrospectively. Early adoption is permitted. The Company has determined that this guidance will not have a material impact on the Company's consolidated financial statements.

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(unaudited)
(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 nine months ended September 30, 2015 and 2014 are presented in the following table.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net income	$5,426	$5,063	$15,801	$14,202
Weighted average common shares outstanding	16,062	16,016	16,045	15,999
Weighted average effect of restricted stock units outstanding	38	24	47	39
Diluted weighted average common shares outstanding	16,100	16,040	16,092	16,038
Basic earnings per common share	$0.34	$0.32	$0.98	$0.89
Diluted earnings per common share	$0.34	$0.32	$0.98	$0.89

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

3. Investment Securities

The following tables show the amortized cost, gross unrealized gains and losses and fair value of investment securities, by investment security type as of September 30, 2015 and December 31, 2014.

	September 30, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Securities available for sale:				
U.S. government agencies and corporations	$2,558	$171	$—	$2,729
State and political subdivisions	61,610	1,080	(150)	62,540
Collateralized mortgage obligations (1)	141,789	942	(525)	142,206
Mortgage-backed securities (1)	106,391	757	(199)	106,949
Trust preferred security	1,770	—	(734)	1,036
Corporate notes and equity securities	10,146	42	(31)	10,157
	$324,264	$2,992	$(1,639)	$325,617
Securities held to maturity:				
State and political subdivisions	$51,280	$276	$(296)	$51,260

	December 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Securities available for sale:				
U.S. government agencies and corporations	$12,626	$204	$(10)	$12,820
State and political subdivisions	51,234	1,286	(161)	52,359
Collateralized mortgage obligations (1)	126,430	856	(1,416)	125,870
Mortgage-backed securities (1)	65,813	624	(284)	66,153
Trust preferred security	1,763	—	(845)	918
Corporate notes and equity securities	14,729	66	(125)	14,670
	$272,595	$3,036	$(2,841)	$272,790
Securities held to maturity:				
State and political subdivisions	$51,343	$344	$(186)	$51,501

(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 $79,525 and $4,805 as of September 30, 2015 and December 31, 2014, 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 at September 30, 2015 compared to December 31, 2014 was primarily due to an increase in public fund deposits.

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

The amortized cost and fair value of investment securities available for sale as of September 30, 2015, 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. Equity securities have no maturity date.

	September 30, 2015	
	Amortized Cost	Fair Value
Due in one year or less	$1,007	$1,025
Due after one year through five years	19,002	19,424
Due after five years through ten years	23,138	23,521
Due after ten years	31,453	31,025
	74,600	74,995
Collateralized mortgage obligations and mortgage-backed securities	248,180	249,155
Equity securities	1,484	1,467
	$324,264	$325,617

The amortized cost and fair value of investment securities held to maturity as of September 30, 2015, by contractual maturity, are shown below. Certain securities have call features that allow the issuer to call the securities prior to maturity.

	September 30, 2015	
	Amortized Cost	Fair Value
Due after one year through five years	$277	$273
Due after five years through ten years	14,393	14,414
Due after ten years	36,610	36,573
	$51,280	$51,260

The details of the sales of investment securities for the three and nine months ended September 30, 2015 and 2014 are summarized in the following table.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Proceeds from sales	$—	$7,344	$16,946	$36,582
Gross gains on sales	—	334	54	1,050
Gross losses on sales	—	124	7	334

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

The following tables show the fair value and gross unrealized losses, aggregated by investment type and length of time that individual securities have been in a continuous loss position, as of September 30, 2015 and December 31, 2014.

	September 30, 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	11,928	(101)	2,026	(49)	13,954	(150)
Collateralized mortgage obligations	20,423	(35)	40,157	(490)	60,580	(525)
Mortgage-backed securities	60,434	(155)	7,533	(44)	67,967	(199)
Trust preferred security	—	—	1,036	(734)	1,036	(734)
Corporate notes and equity securities	4,040	(20)	481	(11)	4,521	(31)
	$96,825	$(311)	$51,233	$(1,328)	$148,058	$(1,639)
Securities held to maturity:						
State and political subdivisions	$12,420	$(145)	$6,063	$(151)	$18,483	$(296)

	December 31, 2014					
	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	$10,039	$(10)	$—	$—	$10,039	$(10)
State and political subdivisions	6,614	(90)	5,887	(71)	12,501	(161)
Collateralized mortgage obligations	17,283	(87)	53,318	(1,329)	70,601	(1,416)
Mortgage-backed securities	15,184	(101)	17,126	(183)	32,310	(284)
Trust preferred security	—	—	918	(845)	918	(845)
Corporate notes and equity securities	4,581	(23)	2,881	(102)	7,462	(125)
	$53,701	$(311)	$80,130	$(2,530)	$133,831	$(2,841)
Securities held to maturity:						
State and political subdivisions	$13,048	$(186)	$—	$—	$13,048	$(186)

As of September 30, 2015, the available for sale and held to maturity securities with unrealized losses that have existed for longer than one year included 18 state and political subdivision securities, 11 collateralized mortgage obligation securities, two mortgage-backed securities, one trust preferred security and one equity security.

The Company believes the unrealized losses on investments available for sale and held to maturity as of September 30, 2015, 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 September 30, 2015.

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4. Loans and Allowance for Loan Losses

Loans consisted of the following segments as of September 30, 2015 and December 31, 2014.

	September 30, 2015	December 31, 2014
Commercial	$347,598	$316,908
Real estate:		
Construction, land and land development	168,831	154,490
1-4 family residential first mortgages	51,156	53,497
Home equity	22,147	24,500
Commercial	643,588	625,938
Consumer and other loans	7,628	9,318
	1,240,948	1,184,651
Net unamortized fees and costs	(910)	(606)
	$1,240,038	$1,184,045

Real estate loans of approximately $590,000 were pledged as security for Federal Home Loan Bank (FHLB) advances as of September 30, 2015 and December 31, 2014.

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.

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 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.

A loan is classified as a troubled debt restructured (TDR) loan when the Company concludes that a borrower is experiencing financial difficulties and a concession was granted that would not otherwise be considered. Concessions may include a restructuring of the loan terms to alleviate the burden on 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.

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The table below presents the TDR loans by segment as of September 30, 2015 and December 31, 2014.

	September 30, 2015	December 31, 2014
Troubled debt restructured loans[1]:		
Commercial	$107	$—
Real estate:		
Construction, land and land development	158	376
1-4 family residential first mortgages	92	86
Home equity	—	—
Commercial	473	557
Consumer and other loans	—	—
Total troubled debt restructured loans	$830	$1,019

(1) There were three TDR loans as of September 30, 2015 and two TDR loans as of December 31, 2014, with balances of $652 and $643, respectively, categorized as nonaccrual.

There were no loan modifications considered to be TDR that occurred during the three months ended September 30, 2015, and two loan modifications considered to be TDR that occurred during the nine months ended September 30, 2015 with a pre- and post-modification recorded investment totaling $130. There were no loan modifications considered to be TDR that occurred during the three and nine months ended September 30, 2014.

One TDR loan that was modified within the twelve months preceding September 30, 2015, with a recorded investment of $107, has subsequently had a payment default. No TDR loans that were modified within the twelve months preceding September 30, 2014 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.

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The following table summarizes the recorded investment in impaired loans by segment, broken down by loans with no related allowance and loans with a related allowance and the amount of that allowance as of September 30, 2015 and December 31, 2014.

	September 30, 2015			December 31, 2014		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:						
Commercial	$—	$—	$—	$164	$310	$—
Real Estate:						
Construction, land and land development	158	760	—	376	978	—
1-4 family residential first mortgages	371	371	—	257	257	—
Home equity	—	—	—	—	—	—
Commercial	510	510	—	557	557	—
Consumer and other loans	4	4	—	—	—	—
	1,043	1,645	—	1,354	2,102	—
With an allowance recorded:						
Commercial	147	147	147	292	292	150
Real Estate:						
Construction, land and land development	—	—	—	825	825	200
1-4 family residential first mortgages	—	—	—	—	—	—
Home equity	274	274	274	229	229	229
Commercial	160	160	160	172	172	172
Consumer and other loans	—	—	—	—	—	—
	581	581	581	1,518	1,518	751
Total:						
Commercial	147	147	147	456	602	150
Real Estate:						
Construction, land and land development	158	760	—	1,201	1,803	200
1-4 family residential first mortgages	371	371	—	257	257	—
Home equity	274	274	274	229	229	229
Commercial	670	670	160	729	729	172
Consumer and other loans	4	4	—	—	—	—
	$1,624	$2,226	$581	$2,872	$3,620	$751

The balance of impaired loans at September 30, 2015 and December 31, 2014 was composed of 13 and 11 different borrowers, respectively. The Company has no commitments to advance additional funds on any of the impaired loans.

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The following table summarizes the average recorded investment and interest income recognized on impaired loans by segment for the three and nine months ended September 30, 2015 and 2014.

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2015		2014		2015		2014	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:								
Commercial	$132	$ —	$165	$ —	$151	$ —	$303	$ —
Real estate:								
Construction, land and land development	255	3	394	3	319	10	403	11
1-4 family residential first mortgages	316	—	302	—	295	—	378	7
Home equity	—	—	22	—	—	—	9	—
Commercial	1,565	—	663	—	1,088	—	708	3
Consumer and other loans	3	—	—	—	3	—	—	—
	2,271	3	1,546	3	1,856	10	1,801	21
With an allowance recorded:								
Commercial	146	—	573	2	222	2	566	7
Real estate:								
Construction, land and land development	—	—	1,150	13	247	6	1,562	54
1-4 family residential first mortgages	—	—	—	—	—	—	187	—
Home equity	231	—	236	—	227	—	94	—
Commercial	161	—	44	—	166	—	18	—
Consumer and other loans	—	—	—	—	—	—	—	—
	538	—	2,003	15	862	8		