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

FORM 10-Q

(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2022

or

☐ 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**

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, no par value	WTBA	The Nasdaq Global Select Market

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 ☒ No ☐

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 ☒ No ☐

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	☐
Accelerated filer	☒
Non-accelerated filer	☐
Smaller reporting company	☐
Emerging growth company	☐

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. ☐

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

Yes ☐ No ☒

As of April 27, 2022, there were 16,631,413 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 Sheet
(unaudited)

(in thousands, except share and per share data)	March 31, 2022	December 31, 2021
ASSETS		
Cash and due from banks	$ 21,896	$ 17,555
Federal funds sold	122,359	175,270
Cash and cash equivalents	144,255	192,825
Securities available for sale, at fair value	797,912	758,822
Federal Home Loan Bank stock, at cost	10,269	9,965
Loans	2,485,366	2,456,196
Allowance for loan losses	(27,623)	(28,364)
Loans, net	2,457,743	2,427,832
Premises and equipment, net	40,898	34,568
Accrued interest receivable	10,083	8,890
Bank-owned life insurance	43,836	43,609
Deferred tax assets, net	20,877	10,819
Other assets	21,196	12,871
Total assets	$ 3,547,069	$ 3,500,201
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Noninterest-bearing demand	$ 710,697	$ 720,136
Interest-bearing demand	554,235	548,242
Savings	1,632,690	1,550,636
Time of $250 or more	46,486	53,019
Other time	147,144	143,972
Total deposits	3,091,252	3,016,005
Federal funds purchased	—	2,880
Subordinated notes, net	20,468	20,465
Federal Home Loan Bank advances	125,000	125,000
Long-term debt	51,486	51,521
Accrued expenses and other liabilities	22,383	24,002
Total liabilities	3,310,589	3,239,873
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, 2022 and December 31, 2021	—	—
Common stock, no par value; authorized 50,000,000 shares; 16,631,413 and 16,554,846 shares issued and outstanding at March 31, 2022 and December 31, 2021, respectively	3,000	3,000
Additional paid-in capital	29,421	30,183
Retained earnings	246,827	237,782
Accumulated other comprehensive loss	(42,768)	(10,637)
Total stockholders' equity	236,480	260,328
Total liabilities and stockholders' equity	$ 3,547,069	$ 3,500,201

See Notes to Consolidated Financial Statements.

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

(in thousands, except per share data)	Three Months Ended March 31, 2022	2021
Interest income:		
Loans, including fees	$ 23,286	$ 24,038
Securities:		
Taxable	2,889	1,645
Tax-exempt	858	558
Federal funds sold	82	69
Total interest income	27,115	26,310
Interest expense:		
Deposits	2,151	1,877
Federal funds purchased	—	1
Subordinated notes	248	249
Federal Home Loan Bank advances	630	983
Long-term debt	258	79
Total interest expense	3,287	3,189
Net interest income	23,828	23,121
Provision for loan losses	(750)	500
Net interest income after provision for loan losses	24,578	22,621
Noninterest income:		
Service charges on deposit accounts	580	582
Debit card usage fees	472	442
Trust services	629	652
Increase in cash value of bank-owned life insurance	227	220
Realized securities gains, net	—	4
Other income	481	565
Total noninterest income	2,389	2,465
Noninterest expense:		
Salaries and employee benefits	6,298	5,608
Occupancy	1,086	1,228
Data processing	624	602
FDIC insurance	337	404
Professional fees	217	283
Director fees	168	191
Other expenses	1,932	1,955
Total noninterest expense	10,662	10,271
Income before income taxes	16,305	14,815
Income taxes	3,121	3,063
Net income	$ 13,184	$ 11,752
Basic earnings per common share	$ 0.80	$ 0.71
Diluted earnings per common share	$ 0.78	$ 0.70

See Notes to Consolidated Financial Statements.

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

	Three Months Ended March 31,	
(in thousands)	**2022**	2021
Net income	**$ 13,184**	$ 11,752
Other comprehensive income (loss):		
Unrealized gains (losses) on securities:		
Unrealized holding losses arising during the period	**(54,595)**	(8,338)
Plus: reclassification adjustment for net gains realized in net income	**—**	(4)
Income tax benefit	**13,813**	2,102
Other comprehensive loss on securities	**(40,782)**	(6,240)
Unrealized gains (losses) on derivatives:		
Unrealized holding gains arising during the period	**10,536**	7,763
Plus: reclassification adjustment for net losses realized in net income	**1,045**	4,970
Income tax expense	**(2,930)**	(3,208)
Other comprehensive income on derivatives	**8,651**	9,525
Total other comprehensive income (loss)	**(32,131)**	3,285
Comprehensive income (loss)	**$ (18,947)**	$ 15,037

See Notes to Consolidated Financial Statements.

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

(in thousands, except share and per share data)

	Three Months Ended March 31, 2022						
	Preferred Stock	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2021	**$ —**	**16,554,846**	**$ 3,000**	**$ 30,183**	**$ 237,782**	**$ (10,637)**	**$ 260,328**
Net income	—	—	—	—	**13,184**	—	**13,184**
Other comprehensive loss, net of tax	—	—	—	—	—	**(32,131)**	**(32,131)**
Cash dividends declared, $0.25 per common share	—	—	—	—	**(4,139)**		**(4,139)**
Stock-based compensation costs	—	—	—	**757**	—	—	**757**
Issuance of common stock upon vesting of restricted stock units, net of shares withheld for payroll taxes	—	**76,567**	—	**(1,519)**	—	—	**(1,519)**
Balance, March 31, 2022	**$ —**	**16,631,413**	**$ 3,000**	**$ 29,421**	**$ 246,827**	**$ (42,768)**	**$ 236,480**

	Three Months Ended March 31, 2021						
	Preferred Stock	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2020	$ —	16,469,272	$ 3,000	$ 28,823	$ 203,718	$ (11,846)	$ 223,695
Net income	—	—	—	—	11,752	—	11,752
Other comprehensive income, net of tax	—	—	—	—	—	3,285	3,285
Cash dividends declared, $0.22 per common share	—	—	—	—	(3,623)	—	(3,623)
Stock-based compensation costs	—	—	—	633	—	—	633
Issuance of common stock upon vesting of restricted stock units, net of shares withheld for payroll taxes	—	71,109	—	(1,213)	—	—	(1,213)
Balance, March 31, 2021	$ —	16,540,381	$ 3,000	$ 28,243	$ 211,847	$ (8,561)	$ 234,529

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)	**2022**	2021
Cash Flows from Operating Activities:		
Net income	**$ 13,184**	$ 11,752
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	**(750)**	500
Net amortization and accretion	**666**	382
Securities gains, net	**—**	(4)
Stock-based compensation	**757**	633
Increase in cash value of bank-owned life insurance	**(227)**	(220)
Depreciation	**307**	373
Provision for deferred income taxes	**824**	446
Change in assets and liabilities:		
Increase in accrued interest receivable	**(1,193)**	(1,477)
(Increase) decrease in other assets	**249**	(2,883)
Increase in accrued expenses and other liabilities	**1,702**	5,547
Net cash provided by operating activities	**15,519**	15,049
Cash Flows from Investing Activities:		
Proceeds from sales of securities available for sale	**—**	18,775
Proceeds from maturities and calls of securities available for sale	**25,730**	18,577
Purchases of securities available for sale	**(120,077)**	(72,650)
Purchases of Federal Home Loan Bank stock	**(384)**	(856)
Proceeds from redemption of Federal Home Loan Bank stock	**80**	165
Net increase in loans	**(29,161)**	(23,352)
Purchases of premises and equipment	**(6,951)**	(963)
Net cash used in investing activities	**(130,763)**	(60,304)
Cash Flows from Financing Activities:		
Net increase (decrease) in deposits	**75,247**	(18,901)
Net decrease in federal funds purchased	**(2,880)**	(1,315)
Principal payments on long-term debt	**(35)**	(639)
Common stock dividends paid	**(4,139)**	(3,623)
Restricted stock units withheld for payroll taxes	**(1,519)**	(1,213)
Net cash provided by (used in) financing activities	**66,674**	(25,691)
Net decrease in cash and cash equivalents	**(48,570)**	(70,946)
Cash and Cash Equivalents:		
Beginning	**192,825**	396,435
Ending	**$ 144,255**	$ 325,489
Supplemental Disclosures of Cash Flow Information:		
Cash payments for:		
Interest	**$ 3,218**	$ 3,531
Income taxes	**—**	—

See Notes to Consolidated Financial Statements.

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, 2021 filed with the SEC on February 24, 2022. 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, 2022 and December 31, 2021 and net income, comprehensive income, changes in stockholders' equity and cash flows for the three months ended March 31, 2022 and 2021. 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 and West Bank's special purpose subsidiaries. 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 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 update, 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 is determined in a similar manner to other financial assets measured at amortized cost basis; however, the initial allowance for credit losses is added to the purchase price rather than being reported as a credit loss expense. Only subsequent changes in the allowance for credit losses are recorded as a credit loss expense for these assets. Off-balance-sheet arrangements such as commitments to extend credit, guarantees, and standby letters of credit that are not considered derivatives under ASC 815 and are not unconditionally cancellable are also within the scope of this update. Credit losses relating to available for sale debt securities should be recorded through an allowance for credit losses.

In December 2019, the FASB issued ASU No. 2019-10, Financial Instruments-Credit Losses (Topic 326). This update amends the effective date of ASU No. 2016-13 for certain entities, including smaller reporting companies until fiscal years beginning after December 15, 2022, including interim periods within those fiscal periods. Early adoption is permitted. The one-time determination date for identifying as a smaller reporting company was November 15, 2019. The Company met the definition of a smaller reporting company as of that date and plans to adopt the standard with the amended effective date. The Company does not plan to early adopt this standard, but continues to work through implementation. The Company continues collecting and retaining loan and credit data and evaluating various 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, characteristics and quality of our loan and securities portfolios, as well as the general economic conditions and forecasts as of the adoption date.

In April 2019, the FASB issued ASU No. 2019-04, *Codification Improvements to Financial Instruments - Credit Losses (ASC 326), Derivatives and Hedging (ASC 815), and Financial Instruments (ASC 825)*. The amendments in the ASU improve the Codification by eliminating inconsistencies and providing clarifications. The amended guidance in this ASU related to the credit losses will be effective for the Company for fiscal years and interim periods beginning after December 15, 2022. The Company is currently evaluating the impact of the ASU on the Company's consolidated financial statements.

In March 2022, the FASB issued ASU No. 2022-02, *Financial Instruments - Credit Losses (ASC 326): Troubled Debt Restructurings and Vintage Disclosures*. The amendments in this ASU improve the usefulness of information provided to investors about certain loan refinancing, restructurings, and write-offs. The amendments eliminate the accounting guidance for troubled debt restructurings (TDRs) by creditors that have adopted ASU No. 2016-13. It also enhances disclosure requirements for certain loan refinancings and restructurings by creditors made to borrowers experiencing financial difficult. Lastly, the amendments require that a public business entity disclose current-period gross write-offs by year of origination for financing receivables and net investment in leases. The Company is currently evaluating the impact of the ASU on the Company's consolidated financial statements.

In March 2020, the FASB issued ASU No. 2020-04, Reference Rate Reform (Topic 848): *Facilitation of the Effects of Reference Rate Reform on Financial Reporting.* The amendments in this update provide optional guidance for a limited period of time to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform on financial reporting. It provides optional expedients and exceptions for applying generally accepted accounting principles to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. The amendments in this update are effective for all entities as of March 12, 2020 through December 31, 2022. The Company is currently evaluating the impact of the reference rate reform on the Company's consolidated financial statements.

In January 2021, the FASB issued ASU No. 2021-01, Reference Rate Reform (Topic 848): *Scope*. The amendments in this update refine the scope for certain optional expedients and exceptions for contract modifications and hedge accounting to apply to derivative contracts and certain hedging relationships affected by the discounting transition. The amendments in this update are effective for all entities as of March 12, 2020 through December 31, 2022. The Company is currently evaluating the impact of the reference rate reform 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, 2022 and 2021 are presented in the following table.

	Three Months Ended March 31,	
(in thousands, except per share data)	**2022**	2021
Net income	**$ 13,184**	$ 11,752
Weighted average common shares outstanding	**16,561**	16,475
Weighted average effect of restricted stock units outstanding	**279**	226
Diluted weighted average common shares outstanding	**16,840**	16,701
Basic earnings per common share	**$ 0.80**	$ 0.71
Diluted earnings per common share	**$ 0.78**	$ 0.70
Number of anti-dilutive common stock equivalents excluded from diluted earnings per share computation	**18**	67

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

3. Securities Available for Sale

The following tables show the amortized cost, gross unrealized gains and losses, and fair value of securities available for sale, by security type as of March 31, 2022 and December 31, 2021.

	March 31, 2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Securities available for sale:				
State and political subdivisions	**$ 244,668**	**$ 384**	**$ (22,016)**	**$ 223,036**
Collateralized mortgage obligations [1]	**382,410**	**84**	**(24,717)**	**357,777**
Mortgage-backed securities [1]	**180,495**	**13**	**(14,397)**	**166,111**
Collateralized loan obligations	**37,907**	**—**	**(200)**	**37,707**
Corporate notes	**13,750**	**3**	**(472)**	**13,281**
	$ 859,230	**$ 484**	**$ (61,802)**	**$ 797,912**

	December 31, 2021			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Securities available for sale:				
State and political subdivisions	$ 231,903	$ 3,161	$ (2,617)	$ 232,447
Collateralized mortgage obligations [1]	325,406	1,627	(6,260)	320,773
Mortgage-backed securities [1]	157,607	167	(2,714)	155,060
Collateralized loan obligations	37,880	59	(157)	37,782
Corporate notes	12,750	62	(52)	12,760
	$ 765,546	$ 5,076	$ (11,800)	$ 758,822

(1) Collateralized mortgage obligations and mortgage-backed securities consist of residential and commercial mortgage pass-through securities and collateralized mortgage obligations guaranteed by FNMA, FHLMC, GNMA and SBA.

Securities with an amortized cost of approximately $286,672 and $295,961 as of March 31, 2022 and December 31, 2021, 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 amortized cost and fair value of securities available for sale as of March 31, 2022, 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.

	March 31, 2022	
	Amortized Cost	Fair Value
Due after five years through ten years	**$ 65,187**	**$ 63,263**
Due after ten years	**231,138**	**210,761**
	296,325	**274,024**
Collateralized mortgage obligations and mortgage-backed securities	**562,905**	**523,888**
	$ 859,230	**$ 797,912**

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

The details of the sales of securities available for sale for the three months ended March 31, 2022 and 2021 are summarized in the following table.

	Three Months Ended March 31,	
	2022	2021
Proceeds from sales	$ —	$ 18,775
Gross gains on sales	—	162
Gross losses on sales	—	158

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, 2022 and December 31, 2021.

	March 31, 2022					
	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	**$ 164,711**	**$ (16,085)**	**$ 34,130**	**$ (5,931)**	**$ 198,841**	**$ (22,016)**
Collateralized mortgage obligations	**336,765**	**(23,465)**	**10,131**	**(1,252)**	**346,896**	**(24,717)**
Mortgage-backed securities	**125,926**	**(10,227)**	**38,310**	**(4,170)**	**164,236**	**(14,397)**
Collateralized loan obligations	**37,707**	**(200)**	**—**	**—**	**37,707**	**(200)**
Corporate notes	**12,278**	**(472)**	**—**	**—**	**12,278**	**(472)**
	$ 677,387	**$ (50,449)**	**$ 82,571**	**$ (11,353)**	**$ 759,958**	**$ (61,802)**

	December 31, 2021					
	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	$ 121,574	$ (1,223)	$ 33,894	$ (1,394)	$ 155,468	$ (2,617)
Collateralized mortgage obligations	241,320	(6,149)	2,352	(111)	243,672	(6,260)
Mortgage-backed securities	140,168	(2,714)	—	—	140,168	(2,714)
Collateralized loan obligations	22,821	(157)	—	—	22,821	(157)
Corporate notes	4,198	(52)	—	—	4,198	(52)
	$ 530,081	$ (10,295)	$ 36,246	$ (1,505)	$ 566,327	$ (11,800)

As of March 31, 2022, securities available for sale with unrealized losses included 75 state and political subdivision securities, 72 collateralized mortgage obligation securities, 25 mortgage-backed securities, six collateralized loan obligation securities and seven corporate notes. Collateralized loan obligation securities are debt securities backed by pools of senior secured commercial loans to a diverse group of companies across a broad spectrum of industries. At March 31, 2022, the Company only owned collateralized loan obligations that were AAA- or AA-rated. The Company believes the unrealized losses on securities available for sale as of March 31, 2022 were due to market interest rate conditions rather than reduced estimated cash flows. At March 31, 2022, the Company did not intend to sell these securities, did not anticipate that these securities will be required to be sold before anticipated recovery, and expected 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, 2022.

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, 2022 and December 31, 2021.

	March 31, 2022	December 31, 2021
Commercial	$ 466,874	$ 492,815
Real estate:		
Construction, land and land development	388,424	359,258
1-4 family residential first mortgages	65,978	66,216
Home equity	9,213	8,422
Commercial	1,555,001	1,530,218
Consumer and other	4,068	3,797
	2,489,558	2,460,726
Net unamortized fees and costs	(4,192)	(4,530)
	$ 2,485,366	$ 2,456,196

Included in commercial loans at March 31, 2022 and December 31, 2021, were $9,398 and $22,206, respectively, of loans originated in the Paycheck Protection Program (PPP). The PPP was established by the Coronavirus Aid, Relief and Economic Security Act (CARES Act), enacted on March 27, 2020, and expanded by the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act, enacted on December 27, 2020 and the American Rescue Plan Act, enacted on March 11, 2021, in response to the Coronavirus Disease 2019 (COVID-19) pandemic. The PPP is administered by the Small Business Administration (SBA). PPP loans may be forgiven by the SBA and are 100 percent guaranteed by the SBA. Therefore, no allowance for loan losses is allocated to PPP loans.

Real estate loans of approximately $1,170,000 and $1,190,000 were pledged as security for Federal Home Loan Bank (FHLB) advances as of March 31, 2022 and December 31, 2021, 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 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 specific component of the allowance for loan losses.

TDR loans totaled $8,458 and $8,599 as of March 31, 2022 and December 31, 2021 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, 2022 and 2021. A specific reserve of $2,500 related to TDR loans was recorded at March 31, 2022 and December 31, 2021. No TDR loans that were modified within the 12 months preceding March 31, 2022 and 2021 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 for loan losses and loans with a related allowance and the amount of that allowance as of March 31, 2022 and December 31, 2021.

	March 31, 2022			December 31, 2021		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:						
Commercial	**$ —**	**$ —**	**$ —**	$ —	$ —	$ —
Real estate:						
Construction, land and land development	**—**	**—**	**—**	—	—	—
1-4 family residential first mortgages	**342**	**342**	**—**	349	349	—
Home equity	**—**	**—**	**—**	—	—	—
Commercial	**—**	**—**	**—**	—	—	—
Consumer and other	**—**	**—**	**—**	—	—	—
	342	**342**	**—**	349	349	—
With an allowance recorded:						
Commercial	**—**	**—**	**—**	—	—	—
Real estate:						
Construction, land and land development	**—**	**—**	**—**	—	—	—
1-4 family residential first mortgages	**—**	**—**	**—**	—	—	—
Home equity	**—**	**—**	**—**	—	—	—
Commercial	**8,458**	**8,458**	**2,500**	8,599	8,599	2,500
Consumer and other	**—**	**—**	**—**	—	—	—
	8,458	**8,458**	**2,500**	8,599	8,599	2,500
Total:						
Commercial	**—**	**—**	**—**	—	—	—
Real estate:						
Construction, land and land development	**—**	**—**	**—**	—	—	—
1-4 family residential first mortgages	**342**	**342**	**—**	349	349	—
Home equity	**—**	**—**	**—**	—	—	—
Commercial	**8,458**	**8,458**	**2,500**	8,599	8,599	2,500
Consumer and other	**—**	**—**	**—**	—	—	—
	$ 8,800	**$ 8,800**	**$ 2,500**	$ 8,948	$ 8,948	$ 2,500

The balance of impaired loans at March 31, 2022 and December 31, 2021 was composed of two different borrowers. The Company has no commitments to advance additional funds on any of the impaired loans.

(dollars in thousands, except per share data)

The following table summarizes the average recorded investment and interest income recognized on impaired loans by segment for the three months ended March 31, 2022 and 2021.

	Three Months Ended March 31,			
	2022		2021	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:				
Commercial	**$ —**	**$ —**	$ —	$ —
Real estate:				
Construction, land and land development	**—**	**—**	—	—
1-4 family residential first mortgages	**345**	**—**	374	—
Home equity	**—**	**—**	—	—
Commercial	**—**	**—**	—	—
Consumer and other	**—**	**—**	—	—
	345	**—**	374	—
With an allowance recorded:				
Commercial	**—**	**—**	—	—
Real estate:				
Construction, land and land development	**—**	**—**	—	—
1-4 family residential first mortgages	**—**	**—**	—	—
Home equity	**—**	**—**	—	—
Commercial	**8,529**	**—**	15,817	—
Consumer and other	**—**	**—**	—	—
	8,529	**—**	15,817	—
Total:				
Commercial	**—**	**—**	—	—
Real estate:				
Construction, land and land development	**—**	**—**	—	—
1-4 family residential first mortgages	**345**	**—**	374	—
Home equity	**—**	**—**	—	—
Commercial	**8,529**	**—**	15,817	—
Consumer and other	**—**	**—**	—	—
	$ 8,874	**$ —**	$ 16,191	$ —

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The following tables provide an analysis of the payment status of the recorded investment in loans as of March 31, 2022 and December 31, 2021.

	March 31, 2022						
	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Nonaccrual Loans	Total Loans
Commercial	$ —	$ —	$ —	$ —	$ **466,874**	$ —	$ **466,874**
Real estate:							
Construction, land and land development	—	—	—	—	**388,424**	—	**388,424**
1-4 family residential first mortgages	—	—	—	—	**65,636**	**342**	**65,978**
Home equity	—	—	—	—	**9,213**	—	**9,213**
Commercial	—	—	—	—	**1,546,543**	**8,458**	**1,555,001**
Consumer and other	—	—	—	—	**4,068**	—	**4,068**
Total	$ —	$ —	$ —	$ —	$ **2,480,758**	$ **8,800**	$ **2,489,558**

	December 31, 2021						
	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Nonaccrual Loans	Total Loans
Commercial	$ —	$ —	$ —	$ —	$ 492,815	$ —	$ 492,815
Real estate:							
Construction, land and land development	—	—	—	—	359,258	—	359,258
1-4 family residential first mortgages	—	—	—	—	65,867	349	66,216
Home equity	—	—	—	—	8,422	—	8,422
Commercial	—	—	—	—	1,521,619	8,599	1,530,218
Consumer and other	—	—	—	—	3,797	—	3,797
Total	$ —	$ —	$ —	$ —	$ 2,451,778	$ 8,948	$ 2,460,726

(dollars in thousands, except per share data)

The following tables present the recorded investment in loans by credit quality indicator and loan segment as of March 31, 2022 and December 31, 2021.

	March 31, 2022				
	Pass	Watch	Substandard	Doubtful	Total
Commercial	**$ 466,615**	**$ 259**	**$ —**	**$ —**	**$ 466,874**
Real estate:					
Construction, land and land development	**388,370**	**54**	**—**	**—**	**388,424**
1-4 family residential first mortgages	**65,367**	**154**	**457**	**—**	**65,978**
Home equity	**9,213**	**—**	**—**	**—**	**9,213**
Commercial	**1,486,246**	**60,297**	**8,458**	**—**	**1,555,001**
Consumer and other	**4,068**	**—**	**—**	**—**	**4,068**
Total	**$ 2,419,879**	**$ 60,764**	**$ 8,915**	**$ —**	**$ 2,489,558**

	December 31, 2021				
	Pass	Watch	Substandard	Doubtful	Total
Commercial	$ 492,545	$ 270	$ —	$ —	$ 492,815
Real estate:					
Construction, land and land development	359,203	55	—	—	359,258
1-4 family residential first mortgages	65,596	156	464	—	66,216
Home equity	8,422	—	—	—	8,422
Commercial	1,458,075	63,544	8,599	—	1,530,218
Consumer and other	3,797	—	—	—	3,797
Total	$ 2,387,638	$ 64,025	$ 9,063	$ —	$ 2,460,726

All loans are subject to the assessment of a credit quality indicator. Risk ratings are assigned for each loan at the time of approval, and they change as circumstances dictate during the term of the loan. The Company utilizes a 9-point risk rating scale as shown below, with ratings 1 - 5 included in the Pass column, rating 6 included in the Watch column, ratings 7 - 8 included in the Substandard column and rating 9 included in the Doubtful column. All loans classified as impaired that are included in the specific evaluation of the allowance for loan losses are included in the Substandard column along with all other loans with ratings of 7 - 8.

Risk rating 1: The loan is secured by cash equivalent collateral.

Risk rating 2: The loan is secured by properly margined marketable securities, bonds or cash surrender value of life insurance.

Risk rating 3: The borrower is in strong financial condition and has strong debt service capacity. The loan is performing as agreed, and the financial characteristics and trends of the borrower exceed industry statistics.

Risk rating 4: The borrower's financial condition is satisfactory and stable. The borrower has satisfactory debt service capacity, and the loan is well secured. The loan is performing as agreed, and the financial characteristics and trends fall in line with industry statistics.

Risk rating 5: The borrower's financial condition is less than satisfactory. The loan is still generally paying as agreed, but strained cash flows may cause some slowness in payments. The collateral values adequately preclude loss on the loan. Financial characteristics and trends lag industry statistics. There may be noncompliance with loan covenants.

Risk rating 6: The borrower's financial condition is deficient. Payment delinquencies may be more common. Collateral values still protect from loss, but margins are narrow. The loan may be reliant on secondary sources of repayment, including liquidation of collateral and guarantor support.

Risk rating 7: The loan is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Well-defined weaknesses exist that jeopardize the liquidation of the debt. The Company is inadequately protected by the valuation or paying capacity of the collateral pledged. If deficiencies are not corrected, there is a distinct possibility that a loss will be sustained.

Risk rating 8: All the characteristics of rating 7 exist with the added condition that the loan is past due more than 90 days or there is reason to believe the Company will not receive its principal and interest according to the terms of the loan agreement.

Risk rating 9: All the weaknesses inherent in risk ratings 7 and 8 exist with the added condition that collection or liquidation, on the basis of currently known facts, conditions and values, is highly questionable and improbable. A loan reaching this category would most likely be charged off.

Credit quality indicators for all loans and the Company's risk rating process are dynamic and updated on a continuous basis. Risk ratings are updated as circumstances that could affect the repayment of an individual loan are brought to management's attention through an established monitoring process. Individual bankers initiate changes as appropriate for ratings 1 through 5, and changes for ratings 6 through 9 are initiated via communications with management. The likelihood of loss increases as the risk rating increases and is generally preceded by a loan appearing on the Watch List, which consists of all loans with a risk rating of 6 or worse. Written action plans with firm target dates for resolution of identified problems are maintained and reviewed on a quarterly basis for all segments of loans included on the Watch List.

In addition to the Company's internal credit monitoring practices and procedures, an outsourced independent credit review function is in place to further assess assigned internal risk classifications and monitor compliance with internal lending policies and procedures.

In all portfolio segments, the primary risks are that a borrower's income stream diminishes to the point that the borrower is not able to make scheduled principal and interest payments and any collateral securing the loan declines in value. The risk of declining collateral values is present for most types of loans.

Commercial loans consist primarily of loans to businesses for various purposes, including revolving lines to finance current operations, inventory and accounts receivable, and capital expenditure loans to finance equipment and other fixed assets. These loans generally have short maturities, have either adjustable or fixed interest rates, and are either unsecured or secured by inventory, accounts receivable and/or fixed assets. For commercial loans, the primary source of repayment is from the operation of the business.

Real estate loans include various types of loans for which the Company holds real property as collateral, and consist of loans on commercial properties and single and multifamily residences. Real estate loans are typically structured to mature or reprice every five to ten years with payments based on amortization periods up to 30 years. The majority of construction loans are to contractors and developers for construction of commercial buildings or residential real estate. These loans typically have maturities of up to 24 months. The Company's loan policy includes minimum appraisal and other credit guidelines.

Consumer loans include loans extended to individuals for household, family and other personal expenditures not secured by real estate. The majority of the Company's consumer lending is for vehicles, consolidation of personal debts and household improvements. The repayment source for consumer loans, including 1-4 family residential and home equity loans, is typically wages.

The allowance for loan losses is established through a provision for loan losses charged to expense. The allowance is an amount that management believes will be adequate to absorb probable losses on existing loans based on an evaluation of the collectability of loans and prior loss experience. This evaluation also takes into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, the review of specific problem loans, and the current economic conditions that may affect the borrower's ability to pay. Loans are charged-off against the allowance for loan losses when management believes that collectability of the principal is unlikely. While management uses the best information available to make its evaluations, future adjustments to the allowance may be necessary if there are significant changes in economic conditions or the other factors relied upon.

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The allowance for loan losses consists of specific and general components. The specific component relates to loans that meet the definition of impaired. The general component covers the remaining loans and is based on historical loss experience adjusted for qualitative factors such as delinquency trends, loan growth, economic elements and local market conditions. These same policies are applied to all segments of loans. In addition, regulatory agencies, as an integral part of their examination processes, periodically review the Company's allowance for loan losses, and may require the Company to make additions to the allowance based on their judgment about information available to them at the time of their examinations.

The following tables detail the changes in the allowance for loan losses by segment for the three months ended March 31, 2022 and 2021.

	Three Months Ended March 31, 2022						
		Real Estate					
	Commercial	Construction and Land	1-4 Family Residential	Home Equity	Commercial	Consumer and Other	Total
Beginning balance	**$ 4,776**	**$ 3,646**	**$ 339**	**$ 91**	**$ 19,466**	**$ 46**	**$ 28,364**
Charge-offs	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Recoveries	**4**	**—**	**1**	**1**	**3**	**—**	**9**
Provision [(1)]	**(72)**	**352**	**8**	**9**	**(1,052)**	**5**	**(750)**
Ending balance	**$ 4,708**	**$ 3,998**	**$ 348**	**$ 101**	**$ 18,417**	**$ 51**	**$ 27,623**

	Three Months Ended March 31, 2021						
		Real Estate					
	Commercial	Construction and Land	1-4 Family Residential	Home Equity	Commercial	Consumer and Other	Total
Beginning balance	$ 4,718	$ 2,634	$ 360	$ 114	$ 21,535	$ 75	$ 29,436
Charge-offs	—	—	—	—	—	—	—
Recoveries	67	—	1	1	3	—	72
Provision [(1)]	(167)	109	69	(25)	519	(5)	500
Ending balance	$ 4,618	$ 2,743	$ 430	$ 90	$ 22,057	$ 70	$ 30,008

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

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The following tables present a breakdown of the allowance for loan losses disaggregated on the basis of impairment analysis method by segment as of March 31, 2022 and December 31, 2021.

	March 31, 2022						
		Real Estate					
	Commercial	Construction and Land	1-4 Family Residential	Home Equity	Commercial	Consumer and Other	Total
Ending balance:							
Individually evaluated for impairment	**$ —**	**$ —**	**$ —**	**$ —**	**$ 2,500**	**$ —**	**$ 2,500**
Collectively evaluated for impairment	**4,708**	**3,998**	**348**	**101**	**15,917**	**51**	**25,123**
Total	**$ 4,708**	**$ 3,998**	**$ 348**	**$ 101**	**$ 18,417**	**$ 51**	**$ 27,623**

	December 31, 2021						
		Real Estate					
	Commercial	Construction and Land	1-4 Family Residential	Home Equity	Commercial	Consumer and Other	Total
Ending balance:							
Individually evaluated for impairment	$ —	$ —	$ —	$ —	$ 2,500	$ —	$ 2,500
Collectively evaluated for impairment	4,776	3,646	339	91	16,966	46	25,864
Total	$ 4,776	$ 3,646	$ 339	$ 91	$ 19,466	$ 46	$ 28,364

The following tables present the recorded investment in loans, exclusive of unamortized fees and costs, disaggregated on the basis of impairment analysis method by segment as of March 31, 2022 and December 31, 2021.

	March 31, 2022						
		Real Estate					
	Commercial	Construction and Land	1-4 Family Residential	Home Equity	Commercial	Consumer and Other	Total
Ending balance:							
Individually evaluated for impairment	**$ —**	**$ —**	**$ 342**	**$ —**	**$ 8,458**	**$ —**	**$ 8,800**
Collectively evaluated for impairment	**466,874**	**388,424**	**65,636**	**9,213**	**1,546,543**	**4,068**	**2,480,758**
Total	**$ 466,874**	**$ 388,424**	**$ 65,978**	**$ 9,213**	**$ 1,555,001**	**$ 4,068**	**$ 2,489,558**

	December 31, 2021						
		Real Estate					
	Commercial	Construction and Land	1-4 Family Residential	Home Equity	Commercial	Consumer and Other	Total
Ending balance:							
Individually evaluated for impairment	$ —	$ —	$ 349	$ —	$ 8,599	$ —	$ 8,948
Collectively evaluated for impairment	492,815	359,258	65,867	8,422	1,521,619	3,797	2,451,778
Total	$ 492,815	$ 359,258	$ 66,216	$ 8,422	$ 1,530,218	$ 3,797	$ 2,460,726

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5. Derivatives

The Company has entered into various interest rate swap agreements as part of its interest rate risk management strategy. The Company uses interest rate swaps to manage its interest rate risk exposure on certain loans, variable-rate and short-term borrowings, and deposits due to interest rate movements. The notional amounts of the interest rate swaps do not represent amounts exchanged by the counterparties, but rather, the notional amount is used to determine, along with other terms of the derivative, the amounts to be exchanged between the counterparties.

Interest Rate Swaps Designated as a Cash Flow Hedge: The Company had interest rate swaps designated as cash flow hedges with total notional amounts of $255,000 at March 31, 2022 and December 31, 2021. As of March 31, 2022, the Company had swaps with a total notional amount of $125,000 that hedge the interest payments of rolling fixed-rate one-month funding consisting of FHLB advances or brokered deposits. Also as of March 31, 2022, the Company had a swap with a total notional amount of $20,000 that effectively converts variable-rate junior subordinated notes to fixed-rate debt, and swaps with a total notional amount of $110,000 that hedge the interest payments of certain deposit accounts. In March 2021, the Company terminated interest rate swaps with a total notional amount of $50,000. In the second quarter of 2021, the Company repaid $50,000 of FHLB advances related to these terminated swaps as a result of excess liquidity and in response to market conditions. Pre-tax losses of $3,600 were reclassified from accumulated other comprehensive income (AOCI) and recorded in noninterest income at termination.

Derivatives Not Designated as Accounting Hedges: To accommodate customer needs, the Company on occasion offers loan level interest rate swaps to its customers and offsets its exposure from such contracts by entering into mirror image swaps with a swap counterparty (back-to-back swap program). The interest rate swaps are free-standing derivatives and are recorded at fair value. The Company enters into a floating-rate loan and a fixed-rate swap with our customer. Simultaneously, the Company enters into an offsetting fixed-rate swap with a swap counterparty. In connection with each swap transaction, the Company agrees to pay interest to the customer on a notional amount at a variable interest rate and receive interest from the customer on the same notional amount at a fixed interest rate. At the same time, the Company agrees to pay a swap counterparty the same fixed interest rate on the same notional amount and receive the same variable interest rate on the same notional amount. These transactions allow the Company’s customers to effectively convert variable-rate loans to fixed-rate loans. The customer accommodations and any offsetting swaps are treated as non-hedging derivative instruments which do not qualify for hedge accounting.

The Company entered into forward-starting interest rate swaps with a total notional amount of $100,000 in January 2021 that were not accounting hedges. These swaps were terminated in March 2021, and the resulting gains of $3,781 were recorded in noninterest income.

The table below identifies the balance sheet category and fair values of the Company's derivative instruments as of March 31, 2022 and December 31, 2021.

	March 31, 2022	December 31, 2021
Cash Flow Hedges:		
Gross notional amount	**$ 255,000**	$ 255,000
Fair value in other assets	**4,065**	—
Fair value in other liabilities	**—**	(7,517)
Weighted-average floating rate received	**0.66 %**	0.39 %
Weighted-average fixed rate paid	**2.09 %**	2.09 %
Weighted-average maturity in years	**3.9**	4.2
Non-Hedging Derivatives:		
Gross notional amount	**$ 170,992**	$ 172,008
Fair value in other assets	**8,396**	3,887
Fair value in other liabilities	**(8,396)**	(3,887)

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The following table identifies the pre-tax gains or losses recognized on the Company's derivative instruments designated as cash flow hedges for the three months ended March 31, 2022 and 2021.

	Three Months Ended March 31,	
	2022	2021
Pre-tax gain recognized in other comprehensive income	**$ 10,536**	$ 7,763
Reclassification from AOCI into income:		
Increase in interest expense	**$ (1,045)**	$ (1,370)
Decrease in noninterest income, swap termination fees	**—**	(3,600)

The Company estimates there will be approximately $3,651 reclassified from accumulated other comprehensive income to interest expense through the 12 months ending March 31, 2023 related to cash flow hedges.

The Company is exposed to credit risk in the event of nonperformance by interest rate swap counterparties, which is minimized by collateral-pledging provisions in the agreements. Derivative contracts with swap counterparties are executed with a Credit Support Annex, which is a bilateral ratings-sensitive agreement that requires collateral postings at established credit threshold levels. These agreements protect the interests of the Company and its counterparties should either party suffer a credit rating deterioration. As of March 31, 2022 and December 31, 2021, the Company pledged $0 and $4,500, respectively, of collateral to the counterparties in the form of cash on deposit with third parties. As of March 31, 2022 and December 31, 2021, the Company's counterparties pledged $12,580 and $0, respectively, of collateral to the Company in the form of cash on deposit. The interest rate swap product with the borrower is cross-collateralized with the underlying loan and therefore there is no pledged cash collateral under swap contracts with customers.

6. Income Taxes

Net deferred tax assets consisted of the following as of March 31, 2022 and December 31, 2021.

	March 31, 2022	December 31, 2021
Deferred tax assets:		
Allowance for loan losses	**$ 6,988**	$ 7,176
Net unrealized losses on securities available for sale	**15,514**	1,701
Net unrealized losses on interest rate swaps	**—**	1,903
Lease liabilities	**1,423**	1,502
Accrued expenses	**235**	395
Restricted stock unit compensation	**465**	821
State net operating loss carryforward	**1,296**	1,276
Other	**151**	139
	26,072	14,913
Deferred tax liabilities:		
Right-of-use assets	**1,372**	1,450
Net deferred loan fees and costs	**250**	247
Net unrealized gains on interest rate swaps	**1,027**	—
Premises and equipment	**926**	809
Other	**324**	312
	3,899	2,818
Net deferred tax assets before valuation allowance	**22,173**	12,095
Valuation allowance	**(1,296)**	(1,276)
Net deferred tax assets	**$ 20,877**	$ 10,819

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The Company has recorded a valuation allowance against the tax effect of the state net operating loss carryforwards, as management believes it is more likely than not that these carryforwards will expire without being utilized. The state net operating loss carryforwards expire in 2022 and thereafter.

7. Accumulated Other Comprehensive Income (Loss)

The following table summarizes the changes in the balances of each component of accumulated other comprehensive income (loss), net of tax, for the three months ended March 31, 2022 and 2021.

	Unrealized Gains (Losses) on Securities	Unrealized Gains (Losses) on Derivatives	Accumulated Other Comprehensive Income (Loss)
Balance, December 31, 2021	**$ (5,021)**	**$ (5,616)**	**$ (10,637)**
Other comprehensive income (loss) before reclassifications	**(40,782)**	**7,870**	**(32,912)**
Amounts reclassified from accumulated other comprehensive income	**—**	**781**	**781**
Net current period other comprehensive income (loss)	**(40,782)**	**8,651**	**(32,131)**
Balance, March 31, 2022	**$ (45,803)**	**$ 3,035**	**$ (42,768)**
Balance, December 31, 2020	$ 5,994	$ (17,840)	$ (11,846)
Other comprehensive income (loss) before reclassifications	(6,237)	5,807	(430)
Amounts reclassified from accumulated other comprehensive income	(3)	3,718	3,715
Net current period other comprehensive income (loss)	(6,240)	9,525	3,285
Balance, March 31, 2021	$ (246)	$ (8,315)	$ (8,561)

8. Commitments and Contingencies

Financial instruments with off-balance-sheet risk: The Company is party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated balance sheets. The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations that it uses for on-balance-sheet instruments. The Company's commitments consisted of the following amounts as of March 31, 2022 and December 31, 2021.

	March 31, 2022	December 31, 2021
Commitments to fund real estate construction loans	**$ 290,261**	$ 294,580
Other commitments to extend credit	**735,200**	585,678
Standby letters of credit	**17,130**	17,391
	$ 1,042,591	$ 897,649

West Bank previously executed Mortgage Partnership Finance (MPF) Master Commitments (Commitments) with the FHLB of Des Moines to deliver residential mortgage loans and to guarantee the payment of any realized losses that exceed the FHLB's first loss account for mortgages delivered under the Commitments. West Bank receives credit enhancement fees from the FHLB for providing this guarantee and continuing to assist with managing the credit risk of the MPF Program residential mortgage loans. The outstanding balance of mortgage loans sold under the MPF Program was $26,676 and $31,552 at March 31, 2022 and December 31, 2021, respectively.

Contractual commitments: The Company had remaining commitments to invest in qualified affordable housing projects totaling $3,947 and $3,986 as of March 31, 2022 and December 31, 2021, respectively.

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

9. Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the reporting entity transacts business. The Company's balance sheet contains securities available for sale and derivative instruments that are recorded at fair value on a recurring basis. The three-level valuation hierarchy for disclosure of fair value is as follows:

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

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

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

The Company's policy is to recognize transfers between levels at the end of each reporting period, if applicable. There were no transfers between levels of the fair value hierarchy during the three months ended March 31, 2022.

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

Securities available for sale: When available, quoted market prices are used to determine the fair value of securities (Level 1). If quoted market prices are not available, the Company determines fair value based on various sources and may apply matrix pricing with observable prices for similar bonds where a price for the identical bond is not observable (Level 2). The fair values of these securities are determined by pricing models that consider observable market data such as interest rate volatilities, yield curves, credit spreads, prices from market makers and live trading systems.

Management obtains the fair value of securities at the end of each reporting period via a third-party pricing service. Management reviewed the valuation process used by the third party and believed the process was valid. On a quarterly basis, management corroborates the fair values of a randomly selected sample of securities by obtaining pricing from an independent financial market data vendor and comparing the two sets of fair values. Any significant variances are reviewed and investigated. For a sample of securities, prices are further validated by management by obtaining details of the inputs used by the pricing service. Those inputs were independently tested, and management concluded the fair values were consistent with GAAP requirements and the securities were properly classified in the fair value hierarchy.

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

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

The following tables present the balances of financial assets and liabilities measured at fair value on a recurring basis by level as of March 31, 2022 and December 31, 2021.

	March 31, 2022			
	Total	Level 1	Level 2	Level 3
Financial assets:				
Securities available for sale:				
State and political subdivisions	**$ 223,036**	**$ —**	**$ 223,036**	**$ —**
Collateralized mortgage obligations	**357,777**	**—**	**357,777**	**—**
Mortgage-backed securities	**166,111**	**—**	**166,111**	**—**
Collateralized loan obligations	**37,707**	**—**	**37,707**	**—**
Corporate notes	**13,281**	**—**	**13,281**	**—**
Derivative instruments, interest rate swaps	**12,461**	**—**	**12,461**	**—**
Financial liabilities:				
Derivative instruments, interest rate swaps	**$ 8,396**	**$ —**	**$ 8,396**	**$ —**

	December 31, 2021			
	Total	Level 1	Level 2	Level 3
Financial assets:				
Securities available for sale:				
State and political subdivisions	$ 232,447	$ —	$ 232,447	$ —
Collateralized mortgage obligations	320,773	—	320,773	—
Mortgage-backed securities	155,060	—	155,060	—
Collateralized loan obligations	37,782	—	37,782	—
Corporate notes	12,760	—	12,760	—
Derivative instruments, interest rate swaps	3,887	—	3,887	—
Financial liabilities:				
Derivative instruments, interest rate swaps	$ 11,404	$ —	$ 11,404	$ —

Certain assets are measured at fair value on a nonrecurring basis. That is, they are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). Impaired loans with a net book value of $5,958 and $6,099 for which a fair value adjustment was recorded were classified as Level 3 as of March 31, 2022 and December 31, 2021, respectively. As of March 31, 2022, impaired loans with a carrying value of $8,458 were reduced by a specific reserve of $2,500, resulting in a reported fair value of $5,958. As of December 31, 2021, impaired loans with a carrying value of $8,599 were reduced by a specific reserve of $2,500, resulting in a reported fair value of $6,099.

In determining the estimated net realizable value of the underlying collateral of impaired loans, the Company primarily uses third-party appraisals or broker opinions which may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available and include consideration of variations in location, size, and income production capacity of the property. Additionally, the appraisals are periodically further adjusted by the Company in consideration of charges that may be incurred in the event of foreclosure and are based on management's historical knowledge, changes in business factors and changes in market conditions. Because of the high degree of judgment required in estimating the fair value of collateral underlying impaired loans and because of the relationship between fair value and general economic conditions, the Company considers the fair value of impaired loans to be highly sensitive to changes in market conditions.

West Bancorporation, Inc. and Subsidiary
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The following table presents quantitative information about Level 3 fair value measurements for financial instruments measured at fair value on a nonrecurring basis.

	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
March 31, 2022			
Impaired loans	Appraisal of collateral	Appraisal adjustment	50%, including selling costs
December 31, 2021			
Impaired loans	Appraisal of collateral	Appraisal adjustment	50%, including selling costs

GAAP requires disclosure of the fair value of financial assets and financial liabilities, including those that are not measured and reported at fair value on a recurring or nonrecurring basis. The following table presents the carrying amounts and approximate fair values of financial assets and liabilities as of March 31, 2022 and December 31, 2021.

			March 31, 2022		
	Carrying Amount	Approximate Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Cash and due from banks	$ **21,896**	$ **21,896**	$ **21,896**	$ —	$ —
Federal funds sold	**122,359**	**122,359**	**122,359**	—	—
Securities available for sale	**797,912**	**797,912**	—	**797,912**	—
Federal Home Loan Bank stock	**10,269**	**10,269**	**10,269**	—	—
Loans, net	**2,457,743**	**2,399,078**	—	**2,393,120**	**5,958**
Accrued interest receivable	**10,083**	**10,083**	**10,083**	—	—
Interest rate swaps	**12,461**	**12,461**	—	**12,461**	—
Financial liabilities:					
Deposits	$ **3,091,252**	$ **3,091,479**	$ —	$ **3,091,479**	$ —
Federal funds purchased	—	—	—	—	—
Subordinated notes, net	**20,468**	**15,788**	—	**15,788**	—
Federal Home Loan Bank advances	**125,000**	**125,000**	—	**125,000**	—
Long-term debt	**51,486**	**51,486**	—	**51,486**	—
Accrued interest payable	**588**	**588**	**588**	—	—
Interest rate swaps	**8,396**	**8,396**	—	**8,396**	—
Off-balance sheet financial instruments:					
Commitments to extend credit	—	—	—	—	—
Standby letters of credit	—	—	—	—	—

West Bancorporation, Inc. and Subsidiary
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	December 31, 2021				
	Carrying Amount	Approximate Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Cash and due from banks	$ 17,555	$ 17,555	$ 17,555	$ —	$ —
Federal funds sold	175,270	175,270	175,270	—	—
Securities available for sale	758,822	758,822	—	758,822	—
Federal Home Loan Bank stock	9,965	9,965	9,965	—	—
Loans, net	2,427,832	2,453,081	—	2,446,982	6,099
Accrued interest receivable	8,890	8,890	8,890	—	—
Interest rate swaps	3,887	3,887	—	3,887	—
Financial liabilities:					
Deposits	$ 3,016,005	$ 3,016,305	$ —	$ 3,016,305	$ —
Federal funds purchased	2,880	2,880	2,880	—	—
Subordinated notes, net	20,465	17,122	—	17,122	—
Federal Home Loan Bank advances	125,000	125,000	—	125,000	—
Long-term debt	51,521	51,521	—	51,521	—
Accrued interest payable	519	519	519	—	—
Interest rate swaps	11,404	11,404	—	11,404	—
Off-balance sheet financial instruments:					
Commitments to extend credit	—	—	—	—	—
Standby letters of credit	—	—	—	—	—

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

"SAFE HARBOR" CONCERNING FORWARD-LOOKING STATEMENTS

Certain statements in this report, other than purely historical information, including estimates, projections, statements relating to the Company's business plans, objectives and expected operating results, and the assumptions upon which those statements are based, are "forward-looking statements" within the meanings of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). Forward-looking statements may appear throughout this report. These forward-looking statements are generally identified by the words "believes," "expects," "intends," "anticipates," "projects," "future," "may," "should," "will," "strategy," "plan," "opportunity," "will be," "will likely result," "will continue" or similar references, or references to estimates, predictions or future events. Such forward-looking statements are based upon certain underlying assumptions, risks and uncertainties. Because of the possibility that the underlying assumptions are incorrect or do not materialize as expected in the future, actual results could differ materially from these forward-looking statements. Risks and uncertainties that may affect future results include: the effects of the COVID-19 pandemic, including its potential effects on the economic environment, our customers and our operations, including due to supply chain disruptions, as well as any changes to federal, state or local government laws, regulations or orders in connection with the pandemic; interest rate risk; competitive pressures, including from non-bank competitors such as "fintech" companies; pricing pressures on loans and deposits; changes in credit and other risks posed by the Company's loan and investment portfolios, including declines in commercial or residential real estate values or changes in the allowance for loan losses dictated by new market conditions, accounting standards (including as a result of the future implementation of the current expected credit loss (CECL) accounting standard) or regulatory requirements; changes in local, national and international economic conditions, including rising rates of inflation; changes in legal and regulatory requirements, limitations and costs; changes in customers' acceptance of the Company's products and services; cyber-attacks; unexpected outcomes of existing or new litigation involving the Company; the monetary, trade and other regulatory policies of the U.S. government, including anticipated rate increases; acts of war or terrorism, including the Russian invasion of Ukraine, widespread disease or pandemics, such as the COVID-19 pandemic, or other adverse external events; developments and uncertainty related to the future use and availability of some reference rates, such as the London Interbank Offered Rate, as well as other alternative reference rates; changes to U.S. tax laws, regulations and guidance; liquidity risk due to excess liquidity at the Company's bank subsidiary; talent and labor shortages; and any other risks described in the "Risk Factors" sections of this and other reports filed by the Company with the SEC. The Company undertakes no obligation to revise or update such forward-looking statements to reflect current or future events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

CRITICAL ACCOUNTING POLICIES

The discussion and analysis of the Company's financial condition and results of operations are based upon the Company's consolidated financial statements that have been prepared in accordance with GAAP. The preparation of the Company's financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, income and expenses. These estimates are based upon historical experience and on various other assumptions that management believes are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. The estimates and judgments that management believes involve the most complex and subjective estimates and judgments and have the most effect on the Company's reported financial position and results of operations are described as critical accounting policies in the Company's Annual Report on Form 10-K for the year ended December 31, 2021, as filed with the SEC on February 24, 2022. There have been no significant changes in the critical accounting policies or the assumptions and judgments utilized in applying these policies since December 31, 2021.

(in thousands, except share and per share data)

NON-GAAP FINANCIAL MEASURES

This report contains references to financial measures that are not defined in GAAP. Such non-GAAP financial measures include the Company's presentation of net interest income and net interest margin on a fully taxable equivalent (FTE) basis, the presentation of the efficiency ratio on an adjusted and FTE basis, excluding certain income and expenses, loans, net of PPP loans, and the presentation of the allowance for loan losses ratio, excluding PPP loans. Management believes these non-GAAP financial measures provide useful information to both management and investors to analyze and evaluate the Company's financial performance. These measures are considered standard measures of comparison within the banking industry. Additionally, management believes providing measures on a FTE basis enhances the comparability of income arising from taxable and nontaxable sources. Limitations associated with non-GAAP financial measures include the risks that persons might disagree as to the appropriateness of items included in these measures and that different companies might calculate these measures differently. These non-GAAP disclosures should not be considered an alternative to the Company's GAAP results. The following table reconciles the non-GAAP financial measures of net interest income and net interest margin on a fully taxable equivalent basis, efficiency ratio on an adjusted and FTE basis, loans, net of PPP loans and allowance for loan losses ratio, excluding PPP loans to their most directly comparable measures under GAAP.

	Three Months Ended March 31,	
	2022	2021
Reconciliation of net interest income and net interest margin on a FTE basis to GAAP:		
Net interest income (GAAP)	**$ 23,828**	$ 23,121
Tax-equivalent adjustment (1)	**329**	229
Net interest income on a FTE basis (non-GAAP)	**24,157**	23,350
Average interest-earning assets	**3,432,114**	2,979,710
Net interest margin on a FTE basis (non-GAAP)	**2.85 %**	3.17 %
Reconciliation of efficiency ratio on an adjusted and FTE basis to GAAP:		
Net interest income on a FTE basis (non-GAAP)	**$ 24,157**	$ 23,350
Noninterest income	**2,389**	2,465
Adjustment for realized securities gains, net	**—**	(4)
Adjustment for losses on disposal of premises and equipment, net	**18**	24
Adjusted income	**26,564**	25,835
Noninterest expense	**10,662**	10,271
Efficiency ratio on an adjusted and FTE basis (non-GAAP) (2)	**40.14 %**	39.75 %

	March 31, 2022	December 31, 2021	March 31, 2021
Reconciliation of allowance for loan losses ratio, excluding PPP loans:			
Loans outstanding (GAAP)	**$ 2,485,366**	$ 2,456,196	$ 2,303,999
Less: PPP loans	**(9,398)**	(22,206)	(151,122)
Loans, net of PPP loans (non-GAAP)	**2,475,968**	2,433,990	2,152,877
Allowance for loan losses	**27,623**	28,364	30,008
Allowance for loan losses ratio, excluding PPP loans (non-GAAP) (3)	**1.12 %**	1.17 %	1.39 %

(1) Computed on a tax-equivalent basis using a federal income tax rate of 21 percent, adjusted to reflect the effect of the nondeductible interest expense associated with owning tax-exempt securities and loans. Management believes the presentation of this non-GAAP measure provides supplemental useful information for proper understanding of the financial results, as it enhances the comparability of income arising from taxable and nontaxable sources.

(2) The efficiency ratio expresses noninterest expense as a percent of fully taxable equivalent net interest income and noninterest income, excluding specific noninterest income and expenses. Management believes the presentation of this non-GAAP measure provides supplemental useful information for proper understanding of the Company's financial performance. It is a standard measure of comparison within the banking industry. A lower ratio is more desirable.

(3) Management believes that presenting the allowance for loan losses as a percentage of total loans excluding PPP loans is useful in assessing the credit quality of the Company's core portfolio.

OVERVIEW

The following discussion describes the consolidated operations and financial condition of the Company, West Bank and West Bank's special purpose subsidiaries (which are invested in new markets tax credit activities). Results of operations for the three months ended March 31, 2022 are compared to the results for the same period in 2021, and the consolidated financial condition of the Company as of March 31, 2022 is compared to that as of December 31, 2021. This discussion and analysis should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations included in the Company's Annual Report on Form 10-K for the year ended December 31, 2021, filed with the SEC on February 24, 2022.

The Company conducts business from its main office in West Des Moines, Iowa and through its branch offices in central Iowa, which is generally the greater Des Moines metropolitan area; eastern Iowa, which is the area including and surrounding Iowa City and Coralville; and southern Minnesota, which includes the cities of Rochester, Owatonna, Mankato and St. Cloud.

Net income for the three months ended March 31, 2022 was $13,184, or $0.78 per diluted common share, compared to $11,752, or $0.70 per diluted common share, for the three months ended March 31, 2021. The Company's annualized return on average assets and return on average equity for the three months ended March 31, 2022 were 1.51 percent and 20.96 percent, respectively, compared to 1.53 percent and 20.77 percent, respectively, for the three months ended March 31, 2021.

The increase in net income for the three months ended March 31, 2022 compared to the same period in 2021 was primarily due to a decrease in the provision for loan losses and an increase in net interest income, partially offset by an increase in noninterest expense.

Net interest income for the three months ended March 31, 2022 grew $707, or 3.1 percent, compared to the three months ended March 31, 2021. The increase in net interest income was primarily due to the increase in interest income on securities and the decrease in interest expense on FHLB advances, partially offset by a decrease in interest income on loans and increase in interest expense on deposits and long-term debt. The Company recorded a negative provision for loan losses of $750 during the three months ended March 31, 2022, compared to a provision of $500 for the three months ended March 31, 2021. The provision in 2021 was due to uncertainty surrounding economic conditions as a result of the COVID-19 pandemic and an increase in loan balances. The negative provision in 2022 was due to the sustained performance of loans after the expiration of COVID modifications and sustained improvement in classified loans.

Noninterest expense increased $391 during the three months ended March 31, 2022 compared to the three months ended March 31, 2021, primarily due to an increase in salaries and employee benefits expense.

Total loans outstanding increased $29,170, or 1.2 percent, during the first three months of 2022. Excluding the impact of PPP loan activity, total loans outstanding increased $41,978, or 1.7 percent, during the first three months of 2022. As of March 31, 2022, the allowance for loan losses was 1.11 percent of outstanding loans, compared to 1.15 percent as of December 31, 2021. At March 31, 2022, the allowance for loan losses was 1.12 percent of outstanding loans, excluding $9,398 of PPP loans (a non-GAAP financial measure), which are 100 percent guaranteed by the SBA, compared to 1.17 percent of outstanding loans, excluding $22,206 of PPP loans, as of December 31, 2021. Management believed the allowance for loan losses at March 31, 2022 was adequate to absorb any losses inherent in the loan portfolio as of that date.

(in thousands, except share and per share data)

On a quarterly basis, the Company compares three key performance metrics to those of our identified peer group. The peer group for 2022 consists of 20 Midwestern, publicly traded financial institutions including Bank First Corporation, Civista Bancshares, Inc., CrossFirst Bankshares, Inc., Equity Bancshares, Inc., Farmers National Banc Corp., Farmers & Merchants Bancorp., First Business Financial Services, Inc., First Financial Corp., First Mid Bancshares, Inc., German American Bancorp, Inc., Hills Bancorporation, Isabella Bank Corporation, LCNB Corp., Level One Bancorp, Inc., Macatawa Bank Corporation, Mercantile Bank Corporation, MidWestOne Financial Group, Inc., Nicolet Bankshares, Inc., Peoples Bancorp, Inc., and Southern Missouri Bancorp, Inc. The Company is in the middle of the group in terms of asset size. The Company's goal is to perform at or near the top of this peer group relative to what we consider to be three key metrics: return on average equity, efficiency ratio and nonperforming assets to total assets. We believe these measures encompass the factors that define the performance of a community bank. Company and peer results for the key financial performance measures are summarized below.

	West Bancorporation, Inc.		Peer Group Range[2]
	As of and for the three months ended March 31, 2022	As of and for the year ended December 31, 2021	As of and for the year ended December 31, 2021
Return on average equity	**20.96%**	20.33%	7.24% - 17.69%
Efficiency ratio[1]	**40.14%**	40.91%	43.01% - 64.81%
Nonperforming assets to total assets	**0.25%**	0.26%	0.17% - 1.32%

(1) The efficiency ratio is a non-GAAP financial measure. For further information, refer to the Non-GAAP Financial Measures section of this report.
(2) Latest data available.

At its meeting on April 27, 2022, the Company's Board of Directors declared a quarterly cash dividend of $0.25 per common share. The dividend is payable on May 25, 2022, to stockholders of record on May 11, 2022.

(in thousands, except share and per share data)

RESULTS OF OPERATIONS

The following table shows selected financial results and measures for the three months ended March 31, 2022 compared with the same period in 2021.

	Three Months Ended March 31,			
	2022	2021	Change	Change %
Net income	**$ 13,184**	$ 11,752	$ 1,432	12.19 %
Average assets	**3,544,564**	3,109,852	434,712	13.98 %
Average stockholders' equity	**255,130**	229,473	25,657	11.18 %
Return on average assets	**1.51 %**	1.53 %	(0.02)%	
Return on average equity	**20.96 %**	20.77 %	0.19 %	
Net interest margin (1)	**2.85 %**	3.17 %	(0.32)%	
Efficiency ratio (1) (2)	**40.14 %**	39.75 %	0.39 %	
Dividend payout ratio	**31.39 %**	30.83 %	0.56 %	
Average equity to average assets ratio	**7.20 %**	7.38 %	(0.18)%	

	As of March 31,		
	2022	2021	Change
Nonperforming assets to total assets (2)	**0.25 %**	0.78 %	(0.53)%
Equity to assets ratio	**6.67 %**	7.39 %	(0.72)%
Tangible common equity ratio	**6.67 %**	7.39 %	(0.72)%

(1) Amounts are presented on a FTE basis. These are non-GAAP financial measures. For further information, refer to the Non-GAAP Financial Measures section of this report.
(2) A lower ratio is more desirable.

Definitions of ratios:

- Return on average assets - annualized net income divided by average assets.
- Return on average equity - annualized net income divided by average stockholders' equity.
- Net interest margin - annualized tax-equivalent net interest income divided by average interest-earning assets.
- Efficiency ratio - noninterest expense (excluding other real estate owned expense and write-down of premises) divided by noninterest income (excluding net securities gains/losses and gains/losses on disposition of premises and equipment) plus tax-equivalent net interest income.
- Dividend payout ratio - dividends paid to common stockholders divided by net income.
- Average equity to average assets ratio - average equity divided by average assets.
- Nonperforming assets to total assets - total nonperforming assets divided by total assets.
- Equity to assets ratio - equity divided by assets.
- Tangible common equity ratio - common equity less intangible assets (none held) divided by tangible assets.

West Bancorporation, Inc.
Management's Discussion and Analysis
(in thousands, except share and per share data)

Net Interest Income

The following table presents average balances and related interest income or interest expense, with the resulting annualized average yield or rate by category of interest-earning assets or interest-bearing liabilities. Interest income and the resulting net interest income are shown on a FTE basis.

Three Months Ended June 30

Three Months Ended March 31,

	Average Balance				Interest Income/Expense				Yield/Rate		
	2022	2021	Change	Change-%	**2022**	2021	Change	Change-%	**2022**	2021	Change
Interest-earning assets:											
Loans: [1] [2]											
Commercial	**$ 470,105**	$ 566,621	$ (96,516)	(17.03)%	**$ 4,658**	$ 6,810	$ (2,152)	(31.60)%	**4.02 %**	4.87 %	(0.85)%
Real estate [3]	**1,975,858**	1,703,943	271,915	15.96 %	**18,725**	17,273	1,452	8.41 %	**3.84 %**	4.11 %	(0.27)%
Consumer and other	**3,558**	5,383	(1,825)	(33.90)%	**34**	54	(20)	(37.04)%	**3.90 %**	4.09 %	(0.19)%
Total loans	**2,449,521**	2,275,947	173,574	7.63 %	**23,417**	24,137	(720)	(2.98)%	**3.88 %**	4.30 %	(0.42)%
Securities:											
Taxable	**633,654**	326,731	306,923	93.94 %	**2,889**	1,645	1,244	75.62 %	**1.82 %**	2.01 %	(0.19)%
Tax-exempt [3]	**170,898**	100,994	69,904	69.22 %	**1,056**	688	368	53.49 %	**2.47 %**	2.73 %	(0.26)%
Total securities	**804,552**	427,725	376,827	88.10 %	**3,945**	2,333	1,612	69.10 %	**1.96 %**	2.18 %	(0.22)%
Federal funds sold	**178,041**	276,038	(97,997)	(35.50)%	**82**	69	13	18.84 %	**0.19 %**	0.10 %	0.09 %
Total interest-earning assets [3]	**$ 3,432,114**	$ 2,979,710	$ 452,404	15.18 %	**27,444**	26,539	905	3.41 %	**3.24 %**	3.61 %	(0.37)%
Interest-bearing liabilities:											
Deposits:											
Interest-bearing demand	**$ 546,237**	$ 452,426	$ 93,811	20.74 %	**250**	169	81	47.93 %	**0.19 %**	0.15 %	0.04 %
Savings and money market	**1,610,639**	1,306,886	303,753	23.24 %	**1,620**	1,315	305	23.19 %	**0.41 %**	0.41 %	— %
Time deposits	**195,638**	187,192	8,446	4.51 %	**281**	393	(112)	(28.50)%	**0.58 %**	0.85 %	(0.27)%
Total deposits	**2,352,514**	1,946,504	406,010	20.86 %	**2,151**	1,877	274	14.60 %	**0.37 %**	0.39 %	(0.02)%
Borrowed funds:											
Federal funds purchased	**1,506**	5,387	(3,881)	(72.04)%	**—**	1	(1)	(100.00)%	**0.05 %**	0.10 %	(0.05)%
Subordinated notes, net	**20,467**	20,453	14	0.07 %	**248**	249	(1)	(0.40)%	**4.91 %**	4.93 %	(0.02)%
Federal Home Loan Bank advances	**125,000**	175,000	(50,000)	(28.57)%	**630**	983	(353)	(35.91)%	**2.04 %**	2.28 %	(0.24)%
Long-term debt	**51,497**	21,164	30,333	143.32 %	**258**	79	179	226.58 %	**2.03 %**	1.51 %	0.52 %
Total borrowed funds	**198,470**	222,004	(23,534)	(10.60)%	**1,136**	1,312	(176)	(13.41)%	**2.32 %**	2.40 %	(0.08)%
Total interest-bearing liabilities	**$ 2,550,984**	$ 2,168,508	$ 382,476	17.64 %	**3,287**	3,189	98	3.07 %	**0.52 %**	0.60 %	(0.08)%
Net interest income (FTE) [4]					**$ 24,157**	$ 23,350	$ 807	3.46 %			
Net interest spread (FTE)									**2.72 %**	3.01 %	(0.29)%
Net interest margin (FTE) [4]									**2.85 %**	3.17 %	(0.32)%

(1) Average loan balances include nonaccrual loans. Interest income recognized on nonaccrual loans has been included.
(2) Interest income on loans includes amortization of loan fees and costs and prepayment penalties collected, which are not material.
(3) Tax-exempt income has been adjusted to a tax-equivalent basis using a federal income tax rate of 21 percent and is adjusted to reflect the effect of the nondeductible interest expense associated with owning tax-exempt securities and loans.
(4) Net interest income (FTE) and net interest margin (FTE) are non-GAAP financial measures. For further information, refer to the Non-GAAP Financial Measures section of this report.

The Company's largest component of net income is net interest income, which is the difference between interest earned on interest-earning assets, consisting primarily of loans and securities, and interest paid on interest-bearing liabilities, consisting of deposits and borrowings. Fluctuations in net interest income can result from the combination of changes in the average balances of asset and liability categories and changes in interest rates. Interest rates earned and paid are affected by general economic conditions, particularly changes in market interest rates, and by competitive factors, government policies and actions of regulatory authorities.

Net interest margin on a FTE basis, a non-GAAP financial measure, is a measure of the net return on interest-earning assets and is computed by dividing annualized tax-equivalent net interest income by total average interest-earning assets for the period. The net interest margin for the three months ended March 31, 2022 decreased by 32 basis points compared to the three months ended March 31, 2021. The primary driver of the decrease in the net interest margin was a decrease in yield on loans and securities, partially offset by a decrease in the interest rates paid on deposits and borrowed funds. The higher average balances of securities also contributed to a lower net interest margin. Tax-equivalent net interest income for the three months ended March 31, 2022 increased $807 compared to the same time period in 2021.

Tax-equivalent interest income on loans decreased $720 for the three months ended March 31, 2022 compared to the three months ended March 31, 2021. Included in commercial loans were PPP loans with interest income of $439 and $2,842 and yields of 12.60 percent and 7.41 percent for the three months ended March 31, 2022 and March 31, 2021, respectively. This decrease in interest income from PPP loans was the largest driver of the overall decrease of interest income from loans. The PPP loan interest income in 2022 and 2021 included accelerated origination fees recognized at the time of loan forgiveness. Exclusive of the PPP loans, the yield on loans was 3.83 percent and 4.07 percent for the three months ended March 31, 2022 and March 31, 2021, respectively. The decrease in loan yield was due to lower rates on new and renewed loans resulting from low market rates and competitive pressures on loan pricing.

The Company continues to focus on expanding existing and entering into new customer relationships while maintaining strong credit quality. The yield on the Company's loan portfolio is affected by the portfolio's loan mix, the interest rate environment, the effects of competition, the level of nonaccrual loans and reversals of previously accrued interest on charged-off loans. The political and economic environments can also influence the volume of new loan originations and the mix of variable-rate versus fixed-rate loans.

The average balance of securities available for sale was $376,827 higher for the three months ended March 31, 2022 compared to the three months ended March 31, 2021. This was the result of securities purchased during 2021 and 2022 to improve the yield on excess liquidity. Due to the interest rate environment during 2021 and the first three months of 2022, securities added to the portfolio have been at significantly lower yields than the existing portfolio holdings, resulting in an overall decline in the securities portfolio yield.

The average balance of deposits increased $406,010 for the three months ended March 31, 2022, compared to the three months ended March 31, 2021. The increase was primarily due to an increase in the average balance of money market accounts. The growth in these deposit balances was primarily due to customers' desire to retain liquidity, as well as a result of additional funds provided to individuals and businesses by government relief programs in 2021.

The average balance of borrowed funds decreased $23,534 for the three months ended March 31, 2022 compared to the three months ended March 31, 2021. The rate paid on borrowed funds declined to 2.32 percent for the three months ended March 31, 2022 from 2.40 percent for the three months ended March 31, 2021. These declines were primarily due to the repayment of $50,000 of FHLB advances in the second quarter of 2021, partially offset by the $34,500 increase in variable-rate long-term debt in December 2021.

In March 2022, the Federal Reserve increased the target federal funds rate by 25 basis points, and is expected to make additional rate increases throughout 2022. These rate increases could improve reinvestment rates on loans and securities, but could also increase the Company's cost of deposits and borrowed funds and increase the unrealized losses in the Company's securities portfolio.

Provision for Loan Losses and the Related Allowance for Loan Losses

The provision for loan losses represents a charge made to earnings to maintain an adequate allowance for loan losses. The adequacy of the allowance for loan losses is evaluated quarterly by management and reviewed by the Board of Directors. The allowance for loan losses is management's best estimate of probable losses inherent in the loan portfolio as of the balance sheet date. The provision for loan losses was negative $750 for the three months ended March 31, 2022, compared to a provision of $500 for the three months ended March 31, 2021. The provision in 2021 was due primarily to uncertainty surrounding economic conditions as a result of the COVID-19 pandemic and an increase in loan balances, while the negative provision recorded in 2022 was due to the sustained performance of loans after the expiration of COVID modifications and sustained improvement in classified loans.

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

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

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

(in thousands, except share and per share data)

West Bank's policy is to charge off loans when, in management's opinion, a loan or a portion of a loan is deemed uncollectible. Commercially reasonable efforts are made to maximize subsequent recoveries. The following table summarizes the activity in the Company's allowance for loan losses for the three months ended March 31, 2022 and 2021 and related ratios.

	Three Months Ended March 31,		
	2022	2021	Change
Balance at beginning of period	**$ 28,364**	$ 29,436	$ (1,072)
Charge-offs	**—**	—	—
Recoveries	**9**	72	(63)
Net recoveries	**9**	72	(63)
Provision for loan losses charged to operations	**(750)**	500	(1,250)
Balance at end of period	**$ 27,623**	$ 30,008	$ (2,385)
Average loans outstanding	**$ 2,449,521**	$ 2,275,947	
Ratio of annualized net (charge-offs) recoveries during the period to average loans outstanding	**— %**	0.01 %	
Ratio of allowance for loan losses to average loans outstanding	**1.13 %**	1.32 %	
Ratio of allowance for loan losses to total loans at end of period	**1.11 %**	1.30 %	
Ratio of allowance for loan losses to total loans at end of period, excluding PPP loans(1)	**1.12 %**	1.39 %	

(1) A non-GAAP financial measure. For further information, refer to the Non-GAAP Financial Measures section of this report.

The U.S. economy continues to be affected by the Federal Reserve's accommodative monetary policies initiated during the COVID-19 pandemic. Current economic concerns include inflationary trends, continuing supply chain issues and labor shortages, and anticipated increases in the Federal Reserve targeted federal funds rate. Monthly job growth for the first three months of 2022 averaged approximately 562,000 based on preliminary estimates and the national unemployment rate decreased to 3.6 percent, which is only 0.1 percent higher than the rate in February 2020, prior to the COVID-19 pandemic. Gross domestic product increased at an annual rate of 6.9 percent in the fourth quarter of 2021. In response to increasing inflation rates, the Federal Reserve increased the targeted federal funds rate by 25 basis points in March 2022. It is expected that additional rate increases will occur throughout 2022. The Company decreased certain qualitative factors used in the allowance for loan losses evaluation in the first quarter of 2022 based upon the sustained performance of loans after the expiration of COVID modifications and sustained improvement in classified loans, resulting in a negative provision for the quarter. Management believes the resulting allowance for loan losses as of March 31, 2022 was adequate to absorb any losses inherent in the loan portfolio at the end of the quarter.

(in thousands, except share and per share data)

Noninterest Income

The following table shows the variance from the prior year in the noninterest income categories shown in the Consolidated Statements of Income.

	Three Months Ended March 31,			
Noninterest income:	**2022**	2021	Change	Change %
Service charges on deposit accounts	**$ 580**	$ 582	$ (2)	(0.34)%
Debit card usage fees	**472**	442	30	6.79 %
Trust services	**629**	652	(23)	(3.53)%
Increase in cash value of bank-owned life insurance	**227**	220	7	3.18 %
Realized securities gains, net	**—**	4	(4)	(100.00)%
Other income:				
All other income	**481**	565	(84)	(14.87)%
Total other income	**481**	565	(84)	(14.87)%
Total noninterest income	**$ 2,389**	$ 2,465	$ (76)	(3.08)%

The decrease in other income for the three months ended March 31, 2022 compared to the three months ended March 31, 2021 was primarily due to the recognition of net swap termination gains totaling $181 in March 2021. Interest rate swaps with a total notional amount of $150,000 were terminated and the pre-tax gains and losses were recorded in other noninterest income. Refer to Note 5 to the financial statements for additional information. In the first quarter of 2022, the Company also recognized other income of $97 related to the purchase of discounted transferable state income tax credits.

(in thousands, except share and per share data)

Noninterest Expense

The following table shows the variance from the prior year in the noninterest expense categories shown in the Consolidated Statements of Income. In addition, accounts within the “other expenses” category that represent a significant portion of the total or a significant variance are shown below.

	Three Months Ended March 31,			
Noninterest expense:	**2022**	2021	Change	Change %
Salaries and employee benefits	**$ 6,298**	$ 5,608	$ 690	12.30 %
Occupancy	**1,086**	1,228	(142)	(11.56)%
Data processing	**624**	602	22	3.65 %
FDIC insurance	**337**	404	(67)	(16.58)%
Professional fees	**217**	283	(66)	(23.32)%
Director fees	**168**	191	(23)	(12.04)%
Other expenses:				
Subscriptions and service contracts	**476**	378	98	25.93 %
Business development	**236**	186	50	26.88 %
Insurance expense	**151**	121	30	24.79 %
Trust	**137**	141	(4)	(2.84)%
Marketing	**54**	45	9	20.00 %
Consulting fees	**50**	75	(25)	(33.33)%
Charitable contributions	**—**	60	(60)	(100.00)%
Low income housing projects amortization	**142**	134	8	5.97 %
New markets tax credit project amortization and management fees	**230**	230	—	— %
All other	**456**	585	(129)	(22.05)%
Total other expenses	**1,932**	1,955	(23)	(1.18)%
Total noninterest expense	**$ 10,662**	$ 10,271	$ 391	3.81 %

Salaries and employee benefits increased for the three months ended March 31, 2022 when compared to the three months ended March 31, 2021, primarily due to an increase in expense related to restricted stock units, the addition of four commercial bankers in the third quarter of 2021 and first quarter of 2022, and normal operating increases. FDIC insurance expense decreased during the three months ended March 31, 2022 when compared to the same time period in 2021 primarily due to reductions in the assessment rate. Occupancy expense decreased primarily due to the closure of leased branches.

Subscriptions and service contracts increased primarily due to increases in information technology and information security solutions. All other expenses were lower for the three months ended March 31, 2022 when compared to the three months ended March 31, 2021, due primarily to the settlement of a loss on a check fraud scheme in 2021.

Income Tax Expense

The Company recorded income tax expense of $3,121 (19.1 percent of pre-tax income) for the three months ended March 31, 2022, compared with $3,063 (20.7 percent of pre-tax income) for the three months ended March 31, 2021. The Company's consolidated income tax rate differs from the federal statutory income tax rate in each period, primarily due to tax-exempt interest income, the tax-exempt increase in cash value of bank-owned life insurance, disallowed interest expense, and state income taxes. In addition, for the three months ended March 31, 2022 and 2021, a tax benefit of $377 and $199, respectively, was recorded as a result of the increase in fair value of restricted stock over the vesting period. The tax rates for the first three months of 2022 and 2021 were also impacted by year-to-date federal low income housing tax credits and a new markets tax credit of approximately $367 and $310, respectively.

(in thousands, except share and per share data)

FINANCIAL CONDITION

The Company had total assets of $3,547,069 as of March 31, 2022, compared to total assets of $3,500,201 as of December 31, 2021. Fluctuations in the balance sheet included increases in securities, loans, deposits, deferred tax assets, and other assets and decreases in federal funds sold.

Securities

Securities available for sale increased by $39,090 during the three months ended March 31, 2022. In the first three months of 2022, the Company continued to grow the securities portfolio, purchasing securities to improve the yield on excess liquidity while monitoring duration and interest rate risk. Additionally, in the first quarter of 2022, the fair value of the securities portfolio declined $54,594. The decline in fair value was the result of increases in market interest rates and is not an indication of declining credit quality. These are unrealized losses that are recorded in accumulated other comprehensive loss, net of tax. Future increases in market interest rates could result in an increase of the unrealized losses in the securities portfolio.

As of March 31, 2022, approximately 66 percent of the available for sale securities portfolio consisted of government agency guaranteed collateralized mortgage obligations and mortgage-backed securities. Management currently believes these securities provide acceptable yields, have little to no credit risk and provide fairly consistent cash flows.

Loans and Nonperforming Assets

Loans outstanding increased $29,170 from $2,456,196 as of December 31, 2021 to $2,485,366 as of March 31, 2022. Changes in the loan portfolio during the first three months of 2022 included increases of $24,783 in commercial real estate loans and $29,166 in construction, land and land development loans. Commercial loans declined $25,941, which included a $12,808 decline in PPP loans. As of March 31, 2022, PPP loans outstanding totaled $9,398. The Company continues to focus on business development efforts in all of its markets. Exclusive of PPP loans, loan growth in the first three months of 2022 was $41,978, or 1.7 percent.

In accordance with regulatory guidelines, the Company exercises heightened risk management practices when non-owner occupied commercial real estate lending exceeds 300 percent of total risk-based capital or construction, land development, and other land loans exceed 100 percent of total risk-based capital. Although the Company's loan portfolio is heavily concentrated in real estate and its real estate portfolio levels exceed these regulatory guidelines, it has established risk management policies and procedures to regularly monitor the commercial real estate portfolio. An analysis of the Company's non-owner occupied commercial real estate portfolio as of December 31, 2021 was presented in the Company's Form 10-K filed with the SEC on February 24, 2022, and the Company has not experienced any material changes to that portfolio since December 31, 2021.

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

	March 31, 2022	December 31, 2021	Change
Nonaccrual loans	**$ 8,800**	$ 8,948	$ (148)
Loans past due 90 days and still accruing interest	**—**	—	—
Troubled debt restructured loans (1)	**—**	—	—
Total nonperforming loans	**8,800**	8,948	(148)
Other real estate owned	**—**	—	—
Total nonperforming assets	**$ 8,800**	$ 8,948	$ (148)
Nonperforming loans to total loans	**0.35 %**	0.36 %	(0.01)%
Nonperforming assets to total assets	**0.25 %**	0.26 %	(0.01)%

(1) While TDR loans are commonly reported by the industry as nonperforming, those not classified in the nonaccrual category are accruing interest due to payment performance. TDR loans on nonaccrual status are categorized as nonaccrual. There were six TDR loans related to one borrower as of March 31, 2022 and December 31, 2021, categorized as nonaccrual.

West Bancorporation, Inc.
Management's Discussion and Analysis
(in thousands, except share and per share data)

Premises and Equipment

In 2020, the Company began construction of a new office for its St. Cloud, Minnesota branch. Construction was completed in the first quarter of 2022 and the new building opened in March. At that time, the previously leased location was vacated. Additionally, the Company purchased land in the first quarter of 2022 for its new corporate headquarters to be located in West Des Moines, Iowa and development planning is underway. Construction of a new office in Mankato, Minnesota began in the first quarter of 2022.

Deposits

Deposits increased $75,247 during the first three months of 2022. Savings accounts, which include money market accounts, increased by a total of $82,054 from December 31, 2021 to March 31, 2022. Interest-bearing demand accounts increased $5,993 from December 31, 2021 to March 31, 2022, while noninterest-bearing demand accounts decreased $9,439 during the same period. Balance fluctuations were primarily due to normal customer activity, as corporate customers' liquidity needs vary at any given time. We believe that deposit balances could decrease in 2022 as a result of the end of broad government stimulus programs related to the COVID-19 pandemic and increasing inflation.

Derivatives

At March 31, 2022 and December 31, 2021, the Company had interest rate swap contracts associated with loans, borrowed funds and deposits with a total notional amount of $425,992 and $427,008, respectively. The fair value of these derivative contracts are reported in other assets or other liabilities on the balance sheet. Changes in the fair values of the interest rate swap contracts resulted in a $8,574 increase in other assets and $3,008 decrease in other liabilities from December 31, 2021 to March 31, 2022 due to projected increases in long-term interest rates.

Liquidity and Capital Resources

The objectives of liquidity management are to ensure the availability of sufficient cash flows to meet all financial commitments and to capitalize on opportunities for profitable business expansion. The Company's principal source of funds is deposits. Other sources include loan principal repayments, proceeds from the maturity and sale of securities, principal payments on collateralized mortgage obligations and mortgage-backed securities, federal funds purchased, advances from the FHLB, and funds provided by operations. Liquidity management is conducted on both a daily and a long-term basis. Investments in liquid assets are adjusted based on expected loan demand, projected loan and securities maturities and payments, expected deposit flows and the objectives set by the Company's asset-liability management policy. The Company had liquid assets (cash and cash equivalents) of $144,255 as of March 31, 2022 compared with $192,825 as of December 31, 2021.

As of March 31, 2022, West Bank had additional borrowing capacity available from the FHLB of approximately $548,000, as well as approximately $15,000 through the Federal Reserve discount window and $67,000 through unsecured federal funds lines of credit with correspondent banks. Net cash from operating activities contributed $15,519 to liquidity for the three months ended March 31, 2022. Management believed that the combination of high levels of potentially liquid assets, cash flows from operations, and additional borrowing capacity provided the Company with strong liquidity as of March 31, 2022.

The Company's total stockholders' equity decreased to $236,480 at March 31, 2022 from $260,328 at December 31, 2021. The decrease was primarily the result of the increase in accumulated other comprehensive loss, partially offset by net income less dividends paid. At March 31, 2022, the Company's tangible common equity as a percent of tangible assets was 6.67 percent compared to 7.44 percent as of December 31, 2021. The increase in accumulated other comprehensive loss of $32,131, resulting primarily from the decline in fair value of securities during the first quarter of 2022, reduced tangible common equity, however it has no impact on regulatory capital.

The Company had remaining commitments to invest in qualified affordable housing projects totaling $3,947 and $3,986 as of March 31, 2022 and December 31, 2021, respectively.

The Company and West Bank are subject to various regulatory capital requirements administered by federal and state banking agencies. Failure to meet minimum capital requirements (as shown in the following table) can result in certain mandatory and possibly additional discretionary actions by regulators, which, if undertaken, could have a direct material effect on the Company's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and West Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The Company's and West Bank's capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Management believed the Company and West Bank met all capital adequacy requirements to which they were subject as of March 31, 2022.

(in thousands, except share and per share data)

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

	Actual		For Capital Adequacy Purposes		For Capital Adequacy Purposes With Capital Conservation Buffer		To Be Well-Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of March 31, 2022:								
Total Capital (to Risk-Weighted Assets)								
Consolidated	**$ 326,871**	**10.72 %**	**$ 244,000**	**8.00 %**	**$ 320,249**	**10.50 %**	**$ 304,999**	**10.00 %**
West Bank	**362,312**	**11.88 %**	**243,926**	**8.00 %**	**320,153**	**10.50 %**	**304,908**	**10.00 %**
Tier 1 Capital (to Risk-Weighted Assets)								
Consolidated	**299,248**	**9.81 %**	**183,000**	**6.00 %**	**259,249**	**8.50 %**	**244,000**	**8.00 %**
West Bank	**334,689**	**10.98 %**	**182,945**	**6.00 %**	**259,172**	**8.50 %**	**243,926**	**8.00 %**
Common Equity Tier 1 Capital (to Risk-Weighted Assets)								
Consolidated	**279,248**	**9.16 %**	**137,250**	**4.50 %**	**213,500**	**7.00 %**	**198,250**	**6.50 %**
West Bank	**334,689**	**10.98 %**	**137,209**	**4.50 %**	**213,435**	**7.00 %**	**198,190**	**6.50 %**
Tier 1 Capital (to Average Assets)								
Consolidated	**299,248**	**8.39 %**	**142,645**	**4.00 %**	**142,645**	**4.00 %**	**178,306**	**5.00 %**
West Bank	**334,689**	**9.39 %**	**142,604**	**4.00 %**	**142,604**	**4.00 %**	**178,255**	**5.00 %**
As of December 31, 2021:								
Total Capital (to Risk-Weighted Assets)								
Consolidated	$ 319,329	10.89 %	$ 234,670	8.00 %	$ 308,004	10.50 %	$ 293,337	10.00 %
West Bank	354,846	12.10 %	234,621	8.00 %	307,941	10.50 %	293,277	10.00 %
Tier 1 Capital (to Risk-Weighted Assets)								
Consolidated	290,965	9.92 %	176,002	6.00 %	249,337	8.50 %	234,670	8.00 %
West Bank	326,482	11.13 %	175,966	6.00 %	249,284	8.50 %	234,621	8.00 %
Common Equity Tier 1 Capital (to Risk-Weighted Assets)								
Consolidated	270,965	9.24 %	132,002	4.50 %	205,336	7.00 %	190,669	6.50 %
West Bank	326,482	11.13 %	131,975	4.50 %	205,294	7.00 %	190,630	6.50 %
Tier 1 Capital (to Average Assets)								
Consolidated	290,965	8.49 %	137,065	4.00 %	137,065	4.00 %	171,331	5.00 %
West Bank	326,482	9.53 %	137,011	4.00 %	137,011	4.00 %	171,264	5.00 %

The Company and West Bank are subject to the rules of the Basel III regulatory capital framework and related Dodd-Frank Wall Street Reform and Consumer Protection Act. The rules include the implementation of a 2.5 percent capital conservation buffer that is added to the minimum requirements for capital adequacy purposes. A banking organization with a capital conservation buffer of less than the required amount will be subject to limitations on capital distributions, including dividend payments, and certain discretionary bonus payments to executive officers. At March 31, 2022, the capital ratios for the Company and West Bank were sufficient to meet the conservation buffer.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market risk is the risk of earnings volatility that results from adverse changes in interest rates and market prices. The Company's market risk is primarily interest rate risk arising from its core banking activities of lending and deposit taking. Interest rate risk is the risk that the change in market interest rates may adversely affect the Company's net interest income. Management continually develops and implements strategies to mitigate this risk. The analysis of the Company's interest rate risk as of December 31, 2021 was presented in the Company's Form 10-K filed with the Securities and Exchange Commission on February 24, 2022. The Company has not experienced any material changes to its interest rate risk position since December 31, 2021. Management does not believe that the Company's primary market risk exposure and management of that exposure in the first three months of 2022 materially changed compared to those in the year ended December 31, 2021.

Item 4. Controls and Procedures

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

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

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

Management does not believe there have been any material changes in the risk factors that were disclosed in the Company's Form 10-K filed with the Securities and Exchange Commission on February 24, 2022.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

The following exhibits are filed as part of this report:

Exhibits	Description
3.1	Restatement of the Restated Articles of Incorporation of West Bancorporation, Inc. (incorporated herein by reference to Exhibit 3.1 filed with the Form 10-K on March 1, 2017)
3.2	Amended and Restated Bylaws of West Bancorporation, Inc. as of January 23, 2019 (incorporated herein by reference to Exhibit 3.1 filed with the Form 8-K on January 24, 2019)
31.1	Certification of Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as Inline XBRL and combined in Exhibit 101)

SIGNATURES

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

West Bancorporation, Inc.
(Registrant)

April 28, 2022	By: /s/ David D. Nelson
Date	David D. Nelson Chief Executive Officer and President (Principal Executive Officer)
April 28, 2022	By: /s/ Jane M. Funk
Date	Jane M. Funk Executive Vice President, Treasurer and Chief Financial Officer (Principal Financial and Accounting Officer)

EXHIBIT 31.1

Certification of Chief Executive Officer Pursuant to Exchange Act Rule 13a-14(a)/15d-14(a) as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, David D. Nelson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of West Bancorporation, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

April 28, 2022

/s/ David D. Nelson
David D. Nelson
Chief Executive Officer and President

EXHIBIT 31.2

Certification of Chief Financial Officer Pursuant to Exchange Act Rule 13a-14(a)/15d-14(a) as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Jane M. Funk, certify that:

1. I have reviewed this quarterly report on Form 10-Q of West Bancorporation, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

April 28, 2022

/s/ Jane M. Funk
Jane M. Funk
Executive Vice President, Treasurer and Chief Financial Officer

EXHIBIT 32.1

Certification of Chief Executive Officer
Pursuant to 18 U.S.C. Section 1350 as Adopted
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the quarterly report of West Bancorporation, Inc. on Form 10-Q for the quarter ended March 31, 2022 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, David D. Nelson, Chief Executive Officer and President of West Bancorporation, Inc., certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that, to my knowledge: (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of West Bancorporation, Inc.

April 28, 2022

/s/ David D. Nelson
David D. Nelson
Chief Executive Officer and President

EXHIBIT 32.2

Certification of Chief Financial Officer
Pursuant to 18 U.S.C. Section 1350 as Adopted
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the quarterly report of West Bancorporation, Inc. on Form 10-Q for the quarter ended March 31, 2022 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jane M. Funk, Executive Vice President, Treasurer and Chief Financial Officer of West Bancorporation, Inc., certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that, to my knowledge: (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of West Bancorporation, Inc.

April 28, 2022

/s/ Jane M. Funk
Jane M. Funk
Executive Vice President, Treasurer and Chief Financial Officer