

WEST BANCORPORATION INC
Form 10-K
March 07, 2012

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

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934
For the fiscal year ended December 31, 2011

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 or organization) (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 pursuant to Section 12(b) of the Act: NONE

Securities registered pursuant to Section 12(g) of the Act:
COMMON STOCK, NO PAR VALUE
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes No

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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 and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer	<input type="radio"/>	Accelerated filer	<input checked="" type="radio"/>
Non-accelerated filer	<input type="radio"/>	Smaller reporting company	<input type="radio"/>

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of the voting common stock held by non-affiliates of the registrant as of June 30, 2011, was approximately \$149,817,000.

Indicate the number of shares outstanding of each of the registrant's classes of common stock as of the most recent practicable date, March 6, 2012.

17,403,882 shares Common Stock, no par value

DOCUMENTS INCORPORATED BY REFERENCE

The definitive proxy statement of West Bancorporation, Inc., which was filed on March 7, 2012, is incorporated by reference into Part III hereof to the extent indicated in such Part.

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"SAFE HARBOR" CONCERNING FORWARD-LOOKING STATEMENTS

Certain statements in this report, other than purely historical information, including estimates, projections, statements relating to our 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, and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements may appear throughout this report. These forward-looking statements are generally identified by the words "believes," "expects," "intends," "should," "anticipates," "projects," "future," "may," "should," "will," "plan," "opportunity," "will be," "will likely result," "will continue," or similar references, or references to estimates, predictions, or future events. Such forward-looking statements are based upon certain underlying assumptions, risks, and uncertainties. Because of the possibility that the underlying assumptions are incorrect or do not materialize as expected in the future, actual results could differ materially from these forward-looking statements. Risks and uncertainties that may affect future results include: interest rate risk; competitive pressures; pricing pressures on loans and deposits; changes in credit and other risks posed by the Company's loan and investment portfolios, including declines in commercial or residential real estate values or changes in the allowance for loan losses dictated by new market conditions or regulatory requirements; actions of bank and non-bank competitors; changes in local and national economic conditions; changes in regulatory requirements, limitations, and costs; changes in customers' acceptance of the Company's products and services; and any other risks described in the "Risk Factors" sections of this and other reports made by the Company. 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.

PART I

ITEM 1. BUSINESS

(dollars in thousands, except per share amounts)

GENERAL DEVELOPMENT OF BUSINESS IN 2011

West Bancorporation, Inc. (the Company or West Bancorporation) is an Iowa corporation and a bank holding company registered under the Bank Holding Company Act of 1956, as amended (BHCA). The Company was formed in 1984 to own West Des Moines State Bank, an Iowa chartered bank headquartered in West Des Moines, Iowa. West Des Moines State Bank is now known as West Bank. West Bank is a business-focused community bank that was organized in 1893. The Company's primary activity during 2011 was the ownership of West Bank. The Company's and West Bank's only business is banking, and therefore, no segment information is presented.

During 2011 the business of West Bank and the Company changed in three material and positive ways. First, as of June 3, 2011, West Bank was relieved from the requirements of an April 2010 memorandum of understanding with the Iowa Division of Banking and the FDIC. In addition, all capital and dividend restrictions were released by the Federal Reserve Bank of Chicago shortly thereafter. West Bank and the Company are currently not subject to any extraordinary regulatory requirements. Second, on June 29, 2011, the Company repurchased all \$36,000 of the preferred stock and the warrant the Company sold to the U.S. Department of the Treasury through the Capital Purchase Program. These purchases were done without selling any equity or incurring any debt. The Company thereby eliminated the requirement to pay preferred stock dividends, which improves net income available to common shareholders. Finally, starting in May 2011, the Company resumed paying quarterly cash dividends to its shareholders. The Company paid cash dividends of 5 cents per common share in May and August and 7 cents per common share in November. An 8 cent per common share dividend was paid in February 2012. The Company expects to continue paying regular quarterly dividends in the future.

During 2011 the Company also focused on making improvements in its internal processes. The sales and credit functions were, in large part, separated. This development allows West Bank's highly trained sales force to be focused on generating revenue and relationship building. The credit function is more focused on the underwriting and documentation of new business opportunities. West Bank has added additional specialized expertise to perform these important functions at higher levels than in the past. The Company believes these investments helped speed up the improvements in the quality of West Bank's loan portfolio and should also help keep that quality high going forward. The Company views these infrastructure investments as a necessary part of West Bank's foundation for future growth.

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DESCRIPTION OF THE COMPANY'S BUSINESS

West Bank provides full-service community banking and trust services to customers located primarily in the Des Moines and Iowa City, Iowa metropolitan areas. West Bank has eleven full-service offices. West Bank offers all basic types of credit to its customers, including commercial, real estate, and consumer loans. West Bank offers trust services typically found in a commercial bank with trust powers, including the administration of estates, conservatorships, personal trusts, and agency accounts. West Bank also originates residential mortgages that are primarily sold in the secondary market. In addition, West Bank offers a full range of deposit services including checking, savings, money market accounts, and time certificates of deposit. All of West Bank's deposit accounts are FDIC insured up to the maximum amount determined by law.

West Bank's business strategy emphasizes strong business and personal relationships between the bank and its customers and the delivery of products and services that meet the individualized needs of those customers. West Bank's commitment extends to building strong communities. West Bank's buy-local commitment contributes to the incomes of its communities. West Bank also emphasizes strong cost controls while striving to achieve above average return on equity and assets. To accomplish these goals, West Bank focuses on local market small to medium-sized businesses that traditionally wish to develop an exclusive relationship with a single bank. West Bank has the size to give the personal attention required by local business owners and the financial expertise and entrepreneurial attitude to help businesses meet their financial service needs. West Bank also supports its customers by being a connected member of the business community.

The market areas served by West Bank are highly competitive with respect to both loans and deposits. West Bank competes with other commercial banks, many of whom are subsidiaries of other bank holding companies, savings and loan associations, credit unions, mortgage companies, finance affiliates of auto companies, and other financial service providers. According to the FDIC's Summary of Deposits, as of June 30, 2011, there were 36 other banks and savings and loan associations operating within Polk County, Iowa, where seven of West Bank's offices are located. West Bank ranked fourth based on total deposits of all banking offices in Polk County. As of June 30, 2011, there were 17 other banks and savings and loan associations within Johnson County, Iowa, which includes Iowa City. Three West Bank offices are located in Johnson County. West Bank ranked fourth based on total deposits of all banking offices in Johnson County. West Bank also has one office located in Dallas County. For the entire state, West Bank ranked eleventh in terms of deposit size.

Some of West Bank's competitors are locally controlled, while others are components of regional, national, or international companies. West Bank does not have one or a small number of competitors who are dominant in West Bank's markets. The larger nation-wide or regional banks have certain competitive advantages due to their abilities to pursue substantial advertising campaigns and allocate their investment assets to out-of-market geographic regions with potentially higher returns. Such banks also offer certain services, for example, international and conduit financing transactions, which are not offered directly by West Bank. These larger banking organizations have much higher legal lending limits than West Bank, and therefore, may be better able to service large regional, national, and global commercial customers.

In order to compete to the fullest extent possible with the other financial institutions in its primary trade areas, West Bank uses the flexibility and knowledge that is afforded by its local management and Board of Directors. West Bank seeks to capitalize on customers' desire to do business with a local institution. This includes emphasizing specialized services, local promotional activities, and personal contacts by West Bank's officers, directors, and employees. In particular, West Bank competes for deposits principally by offering depositors a variety of deposit programs, convenient office locations and hours, and other personalized services. West Bank competes for loans primarily by offering competitive interest rates, experienced lending personnel with local decision-making authority, flexible loan

arrangements, and quality products and services.

West Bank also competes with the general financial markets for funds. Yields on corporate and government debt securities and commercial paper affect West Bank's ability to attract and hold deposits. West Bank also competes for funds with money market accounts and similar investment vehicles offered by brokerage firms, mutual fund companies, internet banks, and others. These competitions are based almost exclusively on yields to customers.

The Company and West Bank are subject to extensive federal and state regulation and supervision. Regulation and supervision of financial institutions is intended primarily to protect customers and the FDIC insurance fund rather than shareholders of the Company. The laws and regulations affecting banks and bank holding companies change regularly. Any future change in applicable laws, regulations, or regulatory policies may have material effects on the business, operations, and prospects of the Company, which cannot now be fully anticipated. Some, but not all, of the regulatory and supervisory environment in which the Company and West Bank exist are discussed below.

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The enforcement powers available to federal and state banking regulators are substantial and include, among other things, the ability to assess civil monetary penalties, to issue cease-and-desist or removal orders, and to initiate injunctive actions against banking organizations and institution-affiliated parties, as defined. In general, enforcement actions must be initiated for violations of laws and regulations and unsafe or unsound practices. Other actions, or inactions, may provide the basis for enforcement action, including misleading or untimely reports filed with regulatory authorities. Applicable law also requires public disclosure of final enforcement actions by the federal banking agencies.

As a bank holding company, West Bancorporation is subject to regulation under the BHCA, which subjects the Company and West Bank to supervision and examination by the Federal Reserve. The Company files quarterly and annual reports of its operations and such additional information as the Federal Reserve may require.

A bank holding company is required to serve as a source of financial strength to its subsidiary bank(s) and may not conduct its operations in an unsafe or unsound manner. In addition, it is the Federal Reserve's position that in serving as a source of strength to its subsidiary bank, a bank holding company should use available resources to provide adequate capital funds to its subsidiary bank during periods of financial stress or adversity. It should also maintain the financial flexibility and capacity to obtain additional resources for providing assistance to its subsidiary bank. The Federal Reserve generally considers a bank holding company's failure to be a source of strength for a subsidiary bank to be an unsafe and unsound banking practice, a violation of the Federal Reserve's regulations, or both.

Bank holding companies must obtain the approval of the Federal Reserve before they: (1) acquire direct or indirect ownership or control of any voting stock of any bank if, after such acquisition, they would own or control, directly or indirectly, more than five percent of the voting stock of such bank; (2) merge or consolidate with another financial or bank holding company; or (3) acquire substantially all of the assets of any additional banks.

With certain exceptions, the BHCA also prohibits bank holding companies from acquiring direct or indirect ownership or control of voting stock in any company other than a bank or bank holding company unless the Federal Reserve finds the company's business to be incidental to the business of banking.

The Company and West Bank are deemed affiliates within the meaning of the Federal Reserve Act, and transactions between affiliates are subject to certain restrictions. Generally, the Federal Reserve Act: (1) limits the extent to which the financial institution or its subsidiaries may engage in "covered transactions" with an affiliate; and (2) requires all transactions with an affiliate, whether or not "covered transactions," to be on terms substantially the same, or at least as favorable to the institution or subsidiary, as those provided to a non-affiliate. The term "covered transaction" includes the making of loans, purchase of assets, issuance of guarantees, and similar transactions.

West Bank is a state-chartered bank subject to primary federal regulation and supervision by the FDIC and the Iowa Division of Banking. The federal laws applicable to West Bank regulate, among other things, the scope of its business, its investments, its reserves against deposits, the timing of the availability of deposited funds, and the nature and amount of collateral for loans. West Bank files quarterly reports of its operations with the Federal Financial Institutions Examination Council (FFIEC). The FDIC has authority to prohibit banks under its supervision from engaging in what it considers to be unsafe and unsound business practices. The Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) required federal banking regulators to adopt regulations or guidelines in a number of areas to ensure bank safety and soundness, including internal controls, credit underwriting, asset growth, earnings, management compensation, and ratios of classified assets to capital. FDICIA also contains provisions regarding independent auditing requirements, restricts the activities of state-chartered insured banks, amends various consumer banking laws, limits the ability of "undercapitalized banks" to borrow from the Federal Reserve's discount window, requires regulators to perform periodic on-site bank examinations, and sets standards for

real estate lending.

West Bank is subject to limitations on the aggregate amount of loans that it can make to any one borrower, including related entities. Subject to numerous exceptions based on the type of loans and collateral, applicable statutes and regulations generally limit loans to one borrower to fifteen percent of total equity plus the allowance for loan losses. West Bank is in compliance with applicable requirements governing loans to one borrower.

The Federal Reserve, the FDIC, and the Office of the Comptroller of the Currency have adopted risk-based capital guidelines for banks and bank holding companies that are designed to make regulatory capital requirements more sensitive to differences in risk profiles among banks and bank holding companies and to account for off-balance sheet items. Failure to achieve and maintain adequate capital levels may give rise to supervisory action through the issuance of a capital directive to ensure the maintenance of required capital levels. The Company and West Bank are in compliance with applicable regulatory capital level requirements.

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Dividends paid to the Company by West Bank are the major source of Company cash flow. Various federal and state statutory provisions limit the amount of dividends banking subsidiaries are permitted to pay to their holding companies without regulatory approval. Federal Reserve policy further limits the circumstances under which bank holding companies may declare dividends. For example, a bank holding company should not continue its existing rate of cash dividends on its common stock unless its net income is sufficient to fully fund each dividend, and its prospective rate of earnings retention appears consistent with its capital needs, asset quality, and overall financial condition. In addition, the Federal Reserve and the FDIC have issued policy statements providing that insured banks and bank holding companies should generally pay dividends only out of current operating earnings. Federal and state banking regulators may also restrict the payment of dividends by order.

West Bank, as a state-chartered bank, is restricted under Iowa law to paying dividends only out of its undivided profits. Additionally, the payment of dividends by West Bank is affected by the requirement to maintain adequate capital pursuant to applicable capital adequacy guidelines and regulations, and West Bank is generally prohibited from paying any dividends if, following payment thereof, West Bank would be undercapitalized.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) was signed into law on July 31, 2010. The Dodd-Frank Act constitutes a substantial change to financial and banking regulation. The two main announced goals of the legislation are to lower the systemic risks of the financial system and enhance consumer protections. The specific compliance burden and impact on the operations and profitability of the Company and West Bank with respect to the Dodd-Frank Act are currently not fully known, as the Dodd-Frank Act delegates to various federal agencies the task of implementing its many provisions through regulation. Hundreds of new federal regulations, studies and reports addressing all of the major areas of the new law, including the regulation of financial institutions and their holding companies, will be required, ensuring that federal rules and policies in this area will be expanding further for some time to come.

The Dodd-Frank Act also created the new Bureau of Consumer Financial Protection (BCFP), which consolidates most federal regulation of financial services offered to consumers. The BCFP is supposed to ensure that consumers receive clear and accurate information for evaluating mortgages, credit cards, and other financial products; to provide consumers with one dedicated advocate; and to protect them from hidden fees and deceptive practices. The BCFP will also oversee the enforcement of federal laws intended to ensure the fair, equitable, and nondiscriminatory access to consumer credit. The ultimate impact of the BCFP's broad new rulemaking powers on the operations of financial institutions offering consumer financial products or services, including West Bank, is not fully known.

Finally, the Company is subject to regulation under the federal securities laws as administered by the Securities and Exchange Commission (SEC) as well as the listing rules of the Nasdaq stock market. Both the SEC and Nasdaq establish requirements for financial reporting, corporate disclosures, and corporate governance.

The Company and West Bank had approximately 190 employees as of December 31, 2011.

ADDITIONAL INFORMATION

The principal executive offices of the Company are located at 1601 22nd Street, West Des Moines, Iowa 50266. The Company's telephone number is (515) 222-2300, and the Internet address is www.westbankiowa.com. Copies of the Company's annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments thereto are available for viewing or downloading free of charge from the Investor Relations section of the website as soon as reasonably practicable after the documents are filed or furnished to the SEC. The Company's quarterly and annual reports to the Federal Reserve are available at <http://www.ffiec.gov/nicpubweb/nicweb/SearchForm.aspx>. West Bank's quarterly reports of condition and income

are available online at <https://cdr.ffiec.gov/public/ManageFacsimiles.aspx>.

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ITEM 1A. RISK FACTORS

(dollars in thousands)

West Bancorporation's business is conducted almost exclusively through West Bank. West Bancorporation and West Bank are subject to many of the common risks that challenge publicly traded, regulated financial institutions. An investment in West Bancorporation's common stock is also subject to the following specific risks.

Risks Related to West Bancorporation's Business

Our loan portfolio.

The largest component of West Bank's income is interest received on loans. West Bank is in substantial part a business bank. Its loan portfolio includes a significant amount of commercial real estate loans, construction or land development loans, commercial lines of credit, and commercial term loans. West Bank's typical commercial borrower is a small or medium-sized privately-owned Iowa business entity. Our commercial loans typically have greater credit risks than standard residential mortgage or consumer loans because commercial loans often have larger balances and repayment usually depends on the borrowers' successful business operations. Commercial loans also involve some additional risk because they generally are not fully repaid over the loan period and thus usually require refinancing or a large payoff at maturity. If the general economy turns substantially 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. Also, when credit markets tighten due to adverse developments in specific markets or the general economy, opportunities for refinancing may become more expensive or unavailable, resulting in loan defaults. The general economic conditions in West Bank's market areas are still challenging for many of our existing loan customers and are somewhat limiting our ability to find credit-worthy new loan customers. Competition for quality loans in our market area continues to be robust.

We must effectively manage our credit risks.

Our business depends on the creditworthiness of our customers. There are obvious risks inherent in making loans. We attempt to reduce our credit risk through prudent loan application and approval procedures, including internal loan reviews before and after proceeds have been disbursed, careful monitoring of the concentration of our loans within specific industries, and collateral and guarantee requirements. These procedures cannot, however, be expected to completely eliminate our credit risks.

Nonperforming loans take significant time to resolve and adversely affect our results of operations and financial condition.

At December 31, 2011, West Bank's nonperforming loans, which consist of nonaccrual loans, loans past due 90 days and still accruing, and troubled debt restructured loans, totaled \$10,693, or 1.27 percent of our loan portfolio. While this total is less than the 2010 year end amount, it remains at a level exceeding our usual past experience.

Nonperforming loans adversely affect our net income in various ways. We do not record interest income on nonaccrual loans, thereby negatively affecting our income and returns on assets and equity, and our administrative costs increase significantly. Nonperforming loans require significant time commitments from management and lending staff, which takes time away from other duties, including the generation of new business. There is no assurance that we will experience continued reductions in nonperforming loans in the future.

Various factors may cause our allowance for loan losses to increase.

Our allowance for loan losses represents management's estimate of probable losses inherent in our loan portfolio. Management evaluates the allowance each quarter to determine that it is adequate to absorb these inherent losses. This evaluation is supported by a methodology that identifies estimated losses based on assessments of individual problem loans and historical loss patterns. In addition, general factors unique to each measurement date are considered, including economic conditions in certain geographic or industry segments of the loan portfolio, economic trends, risk profile, and portfolio composition. The determination of the appropriate level of the allowance for loan losses is highly subjective and requires management to make significant estimates of current credit risks and future trends, all of which may undergo material changes in a short period of time. Changes in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans, and other factors, many of which are not within our control, may require an increase in the allowance for loan losses. West Bank may need to significantly increase the provision for loan losses if one or more of our larger loans or credit relationships unexpectedly becomes delinquent or experiences significant financial difficulties. In addition, federal and state regulators periodically review West Bank's allowance for loan losses and may require West Bank to increase the provision for loan losses or recognize loan charge-offs. Determining the appropriate loan loss allowance is more difficult during periods of significant economic downturn. A significant increase in the allowance for loan losses will result in a decrease in net income and capital and could have a material adverse effect on our financial condition and results of operations.

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If a significant portion of the unrealized losses in our portfolio of investment securities were determined to be other than temporarily impaired with credit losses, we would recognize a material charge to our earnings, and our capital ratios would be adversely impacted.

We analyze our investment securities quarterly to determine whether, in the opinion of management, the value of any of the securities is other than temporarily impaired. To the extent that any portion of the unrealized losses in our portfolio of investment securities is determined to be other than temporarily impaired and credit loss related, we will recognize a charge to our earnings in the quarter during which such determination is made, and our capital ratios will be adversely impacted. Generally, a fixed income security is determined to be other than temporarily impaired when it appears unlikely that we will receive all of the principal and interest due in accordance with the original terms of the investment. In addition to credit losses, losses are recognized for a security having an unrealized loss if West Bank has the intent to sell the security or if it is more likely than not the Company will be required to sell the security before collection of the principal amount.

Other real estate owned.

Other real estate owned consists of real estate collateral that the Company has received in foreclosure or accepted in lieu of foreclosure of nonperforming loans. Management obtains independent appraisals to determine that these properties are initially carried at fair value less estimated costs to sell at the date of foreclosure. The appraisals are updated at least annually, and any subsequent write-downs are recorded as charges to operations. Future economic conditions could result in reductions of our estimates of fair value for other real estate owned and could have a material adverse effect on our financial condition and results of operations.

Our accounting policies and methods are the basis for how we report our financial condition and results of operations, and they may require management to make estimates about matters that are inherently uncertain.

Our accounting policies and methods are fundamental to how we record and report our financial condition and results of operations. Our management must exercise judgment in selecting and applying many of these accounting policies and methods in order to ensure they comply with generally accepted accounting principles and reflect management's judgment as to the most appropriate manner in which to record and report our financial condition and results of operations. In some cases, management must select the accounting policy or method to apply from two or more alternatives, any of which might be reasonable under the circumstances, yet might result in us reporting different amounts than would have been reported under a different alternative.

We have identified three accounting policies as being "critical" to the presentation of our financial condition and results of operations because they require management to make particularly subjective and complex judgments about matters that are inherently uncertain and because of the likelihood that materially different amounts would be reported under different conditions or using different assumptions. These critical accounting policies relate to: (1) determining the fair value and possible other than temporary impairment of investment securities available for sale, (2) determining the valuation of other real estate owned properties, and (3) the allowance for loan losses. Because of the inherent uncertainty of these estimates, no assurance can be given that application of alternative policies or methods might not result in the reporting of different amounts of the fair value of securities available for sale, the fair value of other real estate owned, the allowance for loan losses, and net income.

We are subject to liquidity risks.

West Bank maintains liquidity primarily through customer deposits and other short-term funding sources. If economic influences change so that we do not have access to short-term credit, or our depositors withdraw a substantial amount

of their funds for other uses, West Bank might experience liquidity issues. Our efforts to monitor and manage liquidity risk may not be successful or sufficient to deal with dramatic or unanticipated reductions in our liquidity. In such events, our cost of funds may increase, thereby reducing our net interest income, or we may need to sell a portion of our investment portfolio, which, depending upon market conditions, could result in West Bank realizing losses.

Although West Bank's current sources of funds are adequate for its liquidity needs, there can be no assurance in this regard for the future. Liquidity issues during the financial crisis were severe for regional and community banks, as some of the larger financial institutions significantly curtailed their lending to regional and community banks. In addition, many of the larger correspondent lenders reduced or even eliminated federal funds lines for their correspondent customers. If this were to occur to us, and additional debt is needed in the future, there can be no assurance that such debt would be available or, if available, would be on favorable terms.

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The competition for banking and financial services in our market areas is high, which could adversely affect our financial condition and results of operations.

We operate in highly competitive markets. The Des Moines metropolitan market area, in particular, has attracted many new financial institutions within the last two decades. Customer loyalty can be influenced by a competitor's new products, especially if those offerings are priced lower than our products. Some of our competitors may also be better able to attract customers because they provide products and services over a larger geographic area than we serve.

Failure to maintain effective internal controls over financial reporting could impair our ability to accurately and timely report our financial results and could increase the risk of fraud.

Effective internal controls over financial reporting are necessary to provide reliable financial reports and prevent fraud. Management believes that our internal controls over financial reporting are currently effective. While management will continue to assess our controls and procedures and take immediate action to remediate any future perceived issues, there can be no guarantee of the effectiveness of these controls and procedures on an on-going basis. Any failure to maintain an effective internal control environment could impact our ability to report our financial results on an accurate and timely basis, which could result in regulatory actions, loss of investor confidence, and adversely impact our business operations and stock price.

Cybersecurity events could negatively affect our reputation, subject us to financial loss, or result in litigation.

West Bank has access to large amounts of confidential financial information and it controls substantial financial assets belonging to its customers as well as the Company. West Bank offers its customers continuous remote access to their accounts in several different ways and otherwise regularly transfers substantial financial assets by electronic means. Accordingly, cybersecurity is a material risk for West Bank.

West Bank depends on data processing, communication, and information exchange on a variety of platforms and networks and over the internet. West Bank cannot be certain all of its systems are entirely free from vulnerability to attack, despite safeguards it has installed. West Bank does business with a number of third-party service providers and vendors with respect to West Bank's business, data, and communications needs. If information security is breached, or if one of West Bank's employees or vendors breaches compliance procedures, information could be lost or misappropriated in manners resulting in financial loss to West Bank, damages to others, or potential litigation. Cyber incidents such as computer break-ins, phishing, identity theft, and other disruptions could jeopardize the security of information stored in and transmitted through our computer systems and network infrastructure, which may result in significant liability to us in excess of insurance coverage, and may cause existing and potential customers to refrain from doing business with us. Although we, with the help of third-party service providers, intend to continue to implement security technology and establish operational procedures to prevent such damage, there can be no assurance that these security measures will be successful.

Employee, customer, or third-party fraud could cause substantial losses.

West Bank's business involves financial assets. Financial assets are always potential targets for fraudulent activities. Employee, customer, or third-party fraud could subject us to operational losses or regulatory sanctions and seriously harm our reputation. Misconduct by our employees, customers, or third-parties could include hiding unauthorized activities from us, improper or unauthorized activities on behalf of a customer, or any of the other potential forms of deceit and misappropriation. It is not always possible to prevent such conduct. It does not even have to be conduct aimed at West Bank. Losses are possible even where a customer is the victim of fraud or misappropriation of assets if bank collateral is involved.

We maintain a substantial system of internal controls and insurance coverage to mitigate against these types of risks. However, should our internal controls fail to prevent or detect an occurrence, or if any resulting loss is not insured or exceeds applicable insurance limits, it could have an adverse effect on our business, financial condition, or results of operations.

The loss of the services of any of our senior executive officers or key personnel could cause our business to suffer.

Much of our success is due to our ability to attract and retain senior management and key personnel experienced in bank and financial services and who are very involved in the communities in our market area. Our continued success depends to a significant extent upon the continued services of a relative few individuals. The loss of services of a few of our senior executive officers or key personnel, or the inability to recruit and retain qualified personnel in the future, could have an adverse effect on our business, financial condition, or results of operations, at least in the short term. In addition, our success depends in significant part upon our senior management's ability to develop and implement our business strategies.

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Disruption of infrastructure could adversely impact our operations.

Our operations depend upon our technological and physical infrastructures, particularly those located at our home office. Extended disruption of our vital infrastructures due to fire, power loss, natural disaster, telecommunications failure, computer hacking and viruses, or other events could detrimentally affect our financial performance. We have developed disaster recovery plans, but those plans have never been tested by an actual major disaster.

Risks Related to West Bancorporation's Common Stock

Our stock is relatively thinly traded.

Although our common stock is traded on the Nasdaq Global Select Market, the average daily trading volume of our common stock is relatively small compared to many public companies. The desired market characteristics of depth, liquidity, and orderliness require the substantial presence of willing buyers and sellers in the marketplace at any given time. In our case, this presence depends on the individual decisions of a relatively small number of investors and general economic and market conditions over which we have no control. Due to the relatively small trading volume of our common stock, significant sales of our common stock, or the expectati