

WEST BANCORPORATION INC  
Form 10-K  
March 11, 2011

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, 2010

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 22<sup>nd</sup> 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

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

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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.

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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, 2010, was approximately \$115,960,000.

Indicate the number of shares outstanding of each of the registrant's classes of common stock as of the most recent practicable date, March 9, 2011.

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 11, 2011, is incorporated by reference into Part III hereof to the extent indicated in such Part.

## FORM 10-K

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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 the Treasury's Capital Purchase Program; 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

West Bancorporation, Inc. (the Company or West Bancorporation) is an Iowa corporation and bank holding company registered under the Bank Holding Company Act of 1956, as amended (BHCA). The Company owns West Bank, an Iowa chartered bank headquartered in West Des Moines, Iowa.

The Company reported net income available to common stockholders of \$11,099 for the year ended December 31, 2010.

Effective April 1, 2010, David D. Nelson commenced his duties as Chief Executive Officer and President of the Company and Chief Executive Officer and Chairman of West Bank. On that same date, David R. Milligan submitted his resignation as interim Chief Executive Officer of the Company and interim Chief Executive Officer and Chairman of West Bank. Mr. Milligan was appointed an Executive Vice President of West Bank to assist Mr. Nelson during a transition period which ended on April 30, 2010. Mr. Milligan continued as a member of the Board of Directors of both the Company and West Bank, and became Chairman of the Company on April 29, 2010.

On August 3, 2010, Harlee N. Olafson began his employment in the new position of Executive Vice President and Chief Risk Officer of the Company and West Bank. He reports to Mr. Nelson and performs duties assigned by Mr. Nelson and the Company's Board of Directors. Mr. Olafson is a named executive officer of the Company.

During 2010, management's primary focus was on improving credit quality of the loan portfolio and reducing nonperforming assets. Additional employees have improved the infrastructure of the organization. These investments in infrastructure have and will help us with continued improvements in credit quality and our credit process. The infrastructure investments are also designed to provide West Bank with the capacity for growth. The sales and credit evaluation functions have been separated, which provides more time for business development by the business development staff. The credit function will focus on underwriting of the new business opportunities. Additional resources have also been added in the compliance area to focus on the significant volume of financial institution regulations being enacted.

West Bank entered into a memorandum of understanding (MOU) with the Iowa Division of Banking (IDOB) and the Federal Deposit Insurance Corporation (FDIC) on April 28, 2010. The MOU was issued as a result of concerns related in significant part to the level of West Bank's classified assets as of December 31, 2009, and its 2009 loss. West Bank agreed with its regulators' general concerns and has been aggressively working to resolve the issues. The Company believes those efforts are producing positive results, as demonstrated by the level of earnings reported for 2010 and significant reductions in classified assets by the end of 2010.

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The Company believes West Bank has been performing under the agreement without any substantial impact on its operations or material impact on its financial results. For example, West Bank's capital levels have always exceeded the levels stated in the agreement. West Bank is well-capitalized under all regulatory measures, and no change in that condition is anticipated.

The agreement allows West Bank to pay dividends to the Company for preferred stock dividends, trust preferred payments, and normal and ordinary Company expenses. The agreement calls for prior regulatory approval of West Bank dividends intended to fund Company common stock dividends. The Company is not currently paying regular quarterly common stock dividends; however, it did receive approval for the declaration and payment of a \$0.05 special dividend in December 2010.

The agreement requires West Bank to maintain its allowance for loan losses at a level commensurate with the volume and degree of risk inherent in the loan portfolio. The Company believes West Bank is presently in compliance with this requirement.

The agreement requires a comprehensive written plan concerning future profitability. West Bank has met this requirement. The Company believes that West Bank is in compliance with the other requirements of the agreement.

On July 22, 2010, the Company received notice from the Federal Reserve Bank of Chicago that it must request prior approval for the declaration or payment of common stock dividends (which must be paid from current earnings), any increase in debt or issuance of trust preferred obligations, or the redemption of Company stock.

On July 30, 2010, West Bank completed the planned transfer of the SmartyPig<sup>®</sup> savings accounts from West Bank to another financial institution. The transfer reduced West Bank's total deposit liabilities by approximately \$176 million. The transaction was funded by liquidating short-term assets.

The Company and West Bank had approximately 170 employees as of December 31, 2010.

## SEGMENTS

An operating segment is generally defined as a component of a business for which discrete financial information is available and whose operating results are regularly reviewed by the chief operating decision-maker. The Company's and West Bank's only business is banking, therefore, no segment information is disclosed.

The audited financial statements appear on pages 47 through 89 under Item 8 of this document.

## WEST BANK

West Bank is a business-focused community bank that was organized in 1893. The Company was formed in 1984 to own West Bank.

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'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 profits of the community. West Bank emphasizes strong cost controls while striving to achieve return on equity and net income goals. 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 business owners and the financial expertise and entrepreneurial attitude to help businesses meet their financial services needs. West Bank also supports our customers by being a connected member of the business community.

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.

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The Company believes the loss of deposits of any one customer or of a few customers would not have adverse material effects on West Bank's operations or core deposit base. Furthermore, the Company believes the loss of any one or a few customers would not have a material effect on the Company.

The market areas served by West Bank are highly competitive with respect to both loans and deposits. West Bank competes with other commercial banks, savings and loan associations, credit unions, mortgage companies, finance affiliates of auto companies, and other financial service providers. Some of these competitors are local, while others are nationwide. The major local commercial bank competitors include Bankers Trust Company, NA, First American Bank, Hills Bank & Trust Company, and MidWestOne Bank. Bank of the West, a regional bank, and several nationwide banks, including Bank of America, Regions Bank, U.S. Bank, NA, and Wells Fargo Bank, NA are also competitors. The larger 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 area, West Bank uses the flexibility that is afforded by its local management. This includes an emphasis on 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 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.

According to the FDIC's Summary of Deposits, as of June 30, 2010, there were thirty-six other banks and savings and loan associations operating within Polk County, Iowa, where seven of West Bank's offices are located. West Bank ranked fifth based on total deposits of all banking offices in Polk County. As of June 30, 2010, there were seventeen 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 seventh in terms of deposit size.

## SUPERVISION AND REGULATION

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.

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.

The Company elected to become a financial holding company during 2007. Financial holding companies are permitted to engage in certain financial activities through affiliates that were previously prohibited activities for bank holding companies. Such financial activities include securities and insurance underwriting and merchant banking. The Company opted to revert back to a bank holding company after the July 30, 2010, transfer of the SmartyPig<sup>®</sup> savings program accounts. Management does not currently anticipate engaging in any activities which would require financial holding company status.

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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.

On December 31, 2008, the Company sold 36,000 shares of cumulative senior preferred stock and a warrant to purchase 474,100 shares of common stock for \$36 million to the United States Department of the Treasury under the Capital Purchase Program (CPP). CPP participants are subject to various executive compensation, dividend, and corporate governance regulations. For example, incentive compensation for covered senior executive officers is limited to one-third of total annual compensation and must be in the form of long-term restricted stock. Severance benefits for such officers are prohibited while the preferred stock is outstanding. The Company's Compensation Committee has additional duties and reporting requirements during that period. The Board of Directors is currently considering options for redeeming the preferred stock prior to the date of a scheduled increase in the preferred stock dividend rate which is on January 1, 2014.

West Bank is a state-chartered bank subject to primary federal regulation and supervision by the FDIC and the IDOB. 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, amended 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 and reserves. West Bank is in compliance with applicable requirements governing loans to one borrower.

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On July 21, 2010, legislation was signed into law which permanently increased the FDIC insurance coverage for customer deposit accounts up to a maximum amount of \$250,000. In addition, on November 9, 2010, the FDIC issued a final rule which provides for unlimited insurance coverage for noninterest-bearing transaction accounts. This unlimited coverage is in effect from December 31, 2010 through December 31, 2012, and is separate from, and in addition to, the insurance coverage provided to a depositor's other accounts. The FDIC has a risk-based insurance assessment system under which depository institutions contribute funds to the FDIC insurance fund based on their risk classification. The FDIC has redefined the assessment base used for calculating deposit insurance assessments. Going forward the assessment base will be based on an amount equal to average consolidated total assets less average tangible equity. This change is expected to reduce total fees paid by community banks.

The FDIC may terminate the deposit insurance of any insured depository institution if it determines after an administrative hearing that the institution has engaged or is engaging in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law.

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. West Bank is in compliance with applicable regulatory capital level requirements.

The current guidelines require all federally-regulated banks to maintain a minimum Total Risk-Based Capital ratio equal to eight percent, of which at least four percent must be Tier 1 Capital. Tier 1 Capital includes common shareholders' equity, qualifying perpetual preferred stock, and minority interests in equity accounts of consolidated subsidiaries, but excludes goodwill and most other intangibles and the allowance for loan and lease losses. Tier 2 Capital includes the excess of any preferred stock not included in Tier 1 Capital, mandatory convertible securities, hybrid capital instruments, subordinated debt and intermediate-term preferred stock, and general reserve for loan and lease losses up to 1.25 percent of risk-weighted assets.

The regulatory agencies must take certain "prompt corrective action" when a bank fails to meet capital requirements. The regulations establish and define five capital levels: (1) "well-capitalized," (2) "adequately capitalized," (3) "undercapitalized," (4) "significantly undercapitalized," and (5) "critically undercapitalized." Increasingly severe restrictions are imposed on the payment of dividends and management fees, asset growth, and other aspects of the operations of institutions that fall below the category of being "adequately capitalized." As of the date of this Annual Report on Form 10-K, West Bank was categorized as "well-capitalized" under regulatory prompt corrective action provisions.

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.

Due to the Company's participation in the CPP, any proposed dividend increase above the quarterly dividend amount paid in the quarter ended September 30, 2008, (i.e., \$0.16 per share) is subject to the approval of the Treasury until December 31, 2011, unless the senior preferred stock has been redeemed or the Treasury has transferred all of the senior preferred stock to third parties. Currently, per notice received from the Federal Reserve Bank of Chicago, the Company must request prior approval for the declaration or payment of common stock dividends (which must be paid from current earnings), any increase in debt, issuance of trust preferred obligations, or the redemption of Company stock.

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. West Bank must currently obtain prior regulatory approval for dividends intended to fund Company common stock dividends. Such approval for payment was sought and granted in December 2010.

The Emergency Economic Stabilization Act of 2008 (EESA) and the American Recovery and Reinvestment Act of 2009 (ARRA) became law in response to the financial market difficulties and recession. These statutes include a number of corporate governance and executive compensation provisions, which are applicable to the Company because of its participation in the CPP.

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The Dodd-Frank Wall Street Reform and Consumer Protection Act (the 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 unknown, 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. It is highly likely that banks and thrifts, as well as their holding companies, will be subject to significantly increased regulation and compliance obligations and costs.

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 currently unknown.

Finally, the Company is subject to regulation under the federal securities laws as administered by the Securities and Exchange Commission 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.

ADDITIONAL INFORMATION

The principal executive offices of the Company are located at 1601 22<sup>nd</sup> Street, West Des Moines, Iowa 50266. The Company's telephone number is (515) 222-2300, and the Internet address is [www.westbankiowa.com](http://www.westbankiowa.com). Copies of the Company's 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>.

ITEM 1A. RISK FACTORS

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 person or 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 limiting our ability to find credit-worthy new loan customers. Competition for quality loans in our market area continues to increase.

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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, 2010, West Bank's nonperforming loans, which consist of nonaccrual loans, loans past due 90 days and still accruing, and troubled debt restructured loans, totaled \$12.9 million, or 1.46 percent of our loan portfolio. While this total is less than half of the 2009 year end amount, it remains at a level exceeding our usual past experiences. 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 generation of new business. There is no assurance that we will experience continued decreases 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 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 usually result in a decrease in net income and capital, and could have a material adverse effect on our financial condition and results of operations.

If all or 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 West Bank 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 West Bank has received in foreclosure or accepted in lieu of foreclosure of nonperforming loans. Management obtains independent appraisals to determine that these properties are carried at fair value less estimated costs to sell. The appraisals are updated at least annually, and any subsequent writedowns are recorded as charges to operations. Future economic conditions could result in reductions of our estimates of fair value for other real estate owned.

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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, or the allowance for loan losses, and net income.

West Bank and West Bancorporation are highly regulated entities and are currently operating under regulatory agreements that require consent for the payment of common stock dividends and impose capital requirements above ordinary "well-capitalized" standards.

Both West Bancorporation and West Bank are highly regulated companies. Financial institution regulation is designed primarily to protect consumers, depositors, and the banking system as a whole, not shareholders. We are subject to regular examinations by the Iowa Division of Banking (IDOB), the Federal Deposit Insurance Company (FDIC), and the Federal Reserve. Although our companies are considered well-capitalized under regulatory standards, we experienced significant loan losses during the last three years and the levels of our nonperforming assets have been above historic averages. On April 28, 2010, West Bank entered into a memorandum of understanding with the IDOB and the FDIC. West Bank agreed to obtain prior approval from the IDOB for payment of any dividend that would be used to fund West Bancorporation common stock dividends. West Bank also agreed to maintain a Tier 1 Capital ratio of at least 8.0 percent of Total Average Assets and a Total Risk-Based Capital ratio of at least 12.0 percent of Total Risk-Weighted assets. These capital ratios are higher than the ordinary regulatory standards for being considered "well-capitalized." West Bank's capital position exceeded the agreed upon levels as of April 28, 2010, and has continued to do so since. In July 2010, our Board passed a resolution stating it would request prior approval from the Federal Reserve Bank of Chicago for (1) the declaration or payment of common stock dividends (which must be paid from current earnings), (2) any increase in debt or issuance of trust preferred obligations, or (3) the redemption of Company stock. West Bancorporation and West Bank believe they have complied with the requirements of the agreement and resolution without any substantial impact on current or planned operations and will be able to continue complying without material impact on future financial results. Each of the regulators approved the payment of a West Bancorporation common stock dividend in December 2010.

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 was 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 market for banking and financial services in our market areas is highly competitive, which could adversely affect our financial condition and results of operations.

We operate in highly competitive markets. The West 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.

A breach of information security, compliance breach by one of our employees or vendors, or employee or customer fraud could negatively affect our reputation and business.

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 one of West Bank's employees or vendors breaches compliance procedures, information could be lost or misappropriated, resulting in financial loss or costs to West Bank or damages to others. Computer break-ins, phishing, 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 or customer fraud could subject us to operational losses or regulatory sanctions and seriously harm our reputation. Misconduct by our employees could include hiding unauthorized activities from us, improper or unauthorized activities on behalf of a customer, or improper use of confidential information. It is not always possible to prevent employee errors and misconduct, and the precautions we take to prevent and detect this activity may not be effective in all cases. We maintain a substantial system of internal controls and insurance coverage to mitigate against operational risks, including data processing failures and errors and customer or employee fraud. 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 function well 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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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 trading volume of our common stock is less than that of larger financial services companies. The desired market characteristics of depth, liquidity, and orderliness require the presence of willing buyers and sellers in the marketplace at any given time. 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 expectation of these sales, could cause the stock price to fall more than would otherwise be expected.

There can be no assurances concerning if or when we might pay dividends in the future.

Our common stock shareholders are only entitled to receive the dividends declared by our Board of Directors. The primary source of money to pay our dividends comes from dividends paid to West Bancorporation by West Bank. As discussed above, West Bank is required by a memorandum of understanding to obtain prior approval from the IDOB for any dividend which would be used to fund West Bancorporation common stock dividends. In December 2010, our Board, with required regulatory consent, declared a special dividend of \$0.05 per common share. Although we have historically paid quarterly dividends on our common stock and hope to resume payment of a quarterly dividend at some point in 2011, there can be no assurances that we will be able to reinstate regular quarterly dividends at any particular future time or in any particular amount.

Our participation in the Treasury's Capital Purchase Program (CPP) may limit the amount of money available to pay common stock dividends and impacts net income available to common stockholders and earnings per share.

On December 31, 2008, as part of the CPP, West Bancorporation raised \$36 million of capital by selling the U.S. Treasury 36,000 shares of preferred stock and a ten-year warrant to purchase 474,100 shares of our common stock for \$11.39 per share. The annual cash dividend on the preferred stock is \$1,800,000 through 2013 and \$3,240,000 thereafter. We anticipate redeeming the preferred stock before 2014. We also intend to pay the preferred stock dividends each quarter before considering allocating any funds for payment of common stock dividends. Therefore, our participation in the CPP will limit the amount of money available to pay common stock dividends so long as the preferred stock is outstanding.

The dividends declared on our preferred stock reduce the net income available to common shareholders and our earnings per common share. The preferred stock will also receive preferential treatment in the event of liquidation, dissolution, or winding up of our business.

Repurchase of the preferred stock sold to the Treasury could limit our ability to pay dividends in the future.

We anticipate redeeming the preferred stock sold to the U.S. Treasury prior to December 31, 2013. Funds for the redemption may come from a combination of retained earnings, the sale of new West Bancorporation stock, or participation in the Small Business Lending fund. Any of these actions could negatively impact the price of our common stock and our ability to pay common stock dividends.



Issuing additional common stock or the exercise of the Treasury's warrant may adversely affect the market price of our common stock.

In connection with the preferred stock sale, we sold a warrant to the U.S. Treasury representing the right to purchase 474,100 shares of our common stock at \$11.39. In addition, the Company may issue additional common shares in order to raise capital to redeem the preferred stock. If the warrant is exercised or additional shares of common stock are issued, the ownership interests of our existing shareholders will be diluted. The market price of our common stock might decline or fail to advance in response to either of these two potential events.

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Risks Related to the Banking Industry in General and Community Banking in Particular

Increasing government regulation is a significant challenge.

During the last three years the Dodd-Frank Act, the American Recovery and Reinvestment Act of 2009, and the Emergency Economic Stabilization Act of 2008 have been enacted. These laws and related regulations either have imposed or will impose a significant number of new business practice requirements and restrictions and additional compliance burdens on banks. The regulation of bank services and products in the overall financial services marketplace and the increasing burdens of regulatory compliance are significant challenges for banking profitability, especially for community banks such as West Bank.

The Bureau of Consumer Financial Protection (BCFP) will impact consumer financial regulation through federal rulemaking and enforcement of "unfair, deceptive, or abusive practices," which may directly impact the business operations of depository institutions offering consumer financial products or services, including West Bank.

The BCFP, which was created by the Dodd-Frank Act, has broad rulemaking authority to administer and carry out the purposes and objectives of the "Federal consumer financial laws, and to prevent evasions thereof," with respect to all financial institutions that offer financial products and services to consumers. The BCFP is also authorized to prescribe rules applicable to any covered person or service provider identifying and prohibiting acts or practices that are "unfair, deceptive, or abusive" in connection with any transaction with a consumer for a consumer financial product or service, or the offering of a consumer financial product or service. West Bancorporation and West Bank do not employ unfair, deceptive, or abusive practices. However, the potential reach and costs of the BCFP's broad new rulemaking powers on the operations of financial institutions offering consumer financial products or services, including West Bank, are currently unknown.

Community banking is adversely affected by conditions in national and international financial markets and economies over which West Bank has no meaningful influence or extraordinary ability to predict.

The financial crisis of the last several years demonstrates how negative national and international financial and economic developments disrupt the economic activities of local businesses and individuals, who are West Bank's primary customers. Adverse changes in those general conditions promote changes in interest rates, savings rates, demand for loans, loan defaults, and other factors that may substantially and negatively impact West Bank's traditional local commercial banking business model. West Bancorporation has no meaningful influence over national or international financial or economic conditions and may not be able to predict adverse changes in those conditions any better than the average business of its size. In addition, West Bank's business model does not include investment banking, brokerage, or trading activities that may remain profitable even in periods of economic contraction or become profitable in the early stages of a general economic upturn. West Bank, as a community bank, has more limited options than larger financial institutions to mitigate general risks of future economic downturns.

Changes in interest rates could negatively impact our financial condition and results of operations.

Earnings in the banking industry, particularly the community bank segment, are substantially dependent on net interest income, which is the difference between interest earned on interest-earning assets (investments and loans) and interest paid on interest-bearing liabilities (deposits and borrowings). Interest rates are sensitive to many factors, including government monetary and fiscal policies and domestic and international economic and political conditions. During the last few years interest rates have been at historically low levels. When the interest rates inevitably increase, banks will

experience competitive pressures to increase rates paid on deposits. Depending on competitive pressures, such deposit rate increases may increase faster than rates received on loans, which may reduce net interest margin during the transition periods. Community banks, such as West Bank, rely more heavily on net interest margin than do larger institutions that have additional non-lending sources of income.

Technological advances.

The banking industry is undergoing rapid technological changes with frequent introductions of new technology-driven products and services. Effective use of technology increases efficiency and enables banks to better serve customers. Our future success depends, in part, on our ability to effectively implement new technology. Many of our large institution competitors have substantially greater resources than we do to invest in technological improvements. As a result, they may be able to offer, or more quickly offer, additional or superior products that put West Bank at some competitive disadvantage.

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## ITEM 1B. UNRESOLVED STAFF COMMENTS

There are no unresolved comments from the Commission staff.

## ITEM 2. PROPERTIES

The Company is located in the main office building of West Bank, at 1601 22<sup>nd</sup> Street in West Des Moines, Iowa. The headquarters location is leased. West Bank rents approximately 18,800 square feet in the building and pays annual rent of approximately \$425,000 for a full-service bank location that includes drive-up facilities and one automated teller machine. West Bank also leases bank buildings and space for eight other locations. These offices are full-service locations, with drive-up facilities and automated teller machines, except an office in Coralville, which does not have a drive-up. Annual lease payments for these eight offices total approximately \$915,000. West Bank owns two full-service banking locations in Iowa City. We believe each of our facilities is adequate to meet our needs.

## ITEM 3. LEGAL PROCEEDINGS

On September 29, 2010, West Bank was named a defendant in a purported class action lawsuit that asserts overdraft fees charged by West Bank on bank card transactions are in fact interest charges that violate Iowa usury laws. West Bank believes the allegations of the lawsuit to be both factually and legally inaccurate. West Bank is vigorously defending this litigation.

Except as described above, neither the Company nor West Bank are parties to any material pending legal proceedings, other than ordinary litigation incidental to West Bank's business, and no property of these entities is the subject of any such proceeding. The Company does not know of any proceeding contemplated by a governmental authority against the Company or West Bank or any of the companies' property.

## ITEM 4. RESERVED

## PART II

## ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

West Bancorporation common stock is traded on the Nasdaq Global Select Market under the symbol "WTBA." The table below shows the high and low sale prices and common stock dividends declared for each quarter in 2010 and 2009. The market quotations, reported by Nasdaq, do not include retail markup, markdown, or commissions.

## Market and Dividend Information

	High	Low	Dividends
2010			
1st quarter	\$6.64	\$4.80	\$—
2nd quarter	9.04	6.32	—
3rd quarter	7.28	5.51	—
4th quarter	8.19	6.13	0.05
2009			
1st quarter	\$12.40	\$4.36	\$0.08
2nd quarter	9.50	5.00	0.01

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3rd quarter	6.38	4.61	—
4th quarter	5.50	4.28	—

There were 235 holders of record of the Company's common stock as of February 28, 2011, and an estimated 990 additional beneficial holders whose stock was held in street name by brokerage houses. The closing price of the Company's common stock was \$7.61 on February 28, 2011.

Dividends to common shareholders in 2010 and 2009 were \$0.05 and \$0.09 per common share, respectively. Dividend declarations are evaluated and determined by the Board on a quarterly basis. The ability of the Company to pay dividends in the future will depend primarily upon the earnings of West Bank and its ability to pay dividends to the Company.

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The ability of West Bank to pay dividends is governed by various statutes. These statutes provide that no bank shall declare or pay any dividends in an amount greater than its retained earnings, without approval from governing regulatory bodies. In addition, applicable bank regulatory authorities have the power to require any bank to suspend the payment of dividends until the bank complies with all requirements that may be imposed by such authorities.

The Company's preferred stock agreement with the Treasury limits dividends to \$0.16 or less per quarter. The Company and West Bank are also currently required to obtain regulatory approval before dividends can be paid on the Company's common stock. Approval was obtained for the Company's December 2010 \$0.05 common stock dividend.

The following performance graph provides information regarding cumulative, five-year return (loss) on an indexed basis of the common stock as compared with the Nasdaq - Total US Index and the SNL Midwest Bank Index prepared by SNL Financial L.C. of Charlottesville, Virginia. The latter index reflects the performance of bank holding companies operating principally in the Midwest as selected by SNL Financial. The indices assume the investment of \$100 on December 31, 2005, in the common stock, the Nasdaq - Total US Index, and the SNL Midwest Bank Index, with all dividends reinvested. The Company's common stock price performance shown in the following graph is not indicative of future stock price performance.

\*Source: SNL Financial LC, Charlottesville, VA. Used with permission. All rights reserved.

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## ITEM 6. SELECTED FINANCIAL DATA

West Bancorporation, Inc. and  
Subsidiary  
Selected Financial Data

(in thousands, except per share amounts)	Years Ended December 31				
	2010	2009	2008	2007	2006
<b>Operating Results</b>					
Interest income	\$61,143	\$67,730	\$72,532	\$82,027	\$79,738
Interest expense	19,023	26,636	31,431	43,823	40,639
Net interest income	42,120	41,094	41,101	38,204	39,099
Provision for loan losses	6,050	24,500	16,600	2,350	1,725
Net interest income after provision for loan losses	36,070	16,594	24,501	35,854	37,374
Noninterest income, including securities gains (losses)	10,387	8,904	4,301	8,430	8,128
Noninterest expense	27,744	37,905	20,105	17,870	17,425
Income (loss) before income taxes	18,713	(12,407 )	8,697	26,414	28,077
Income taxes (benefits)	5,330	(7,356 )	1,386	8,062	8,935
Income (loss) from continuing operations	13,383	(5,051 )	7,311	18,352	19,142
Income (loss) from discontinued operations					
before income taxes	—	(10,262 )	563	982	458
Income taxes (benefits)	—	(696 )	238	414	193
Income (loss) from discontinued operations	—	(9,566 )	325	568	265
Net income (loss)	13,383	(14,617 )	7,636	18,920	19,407
Preferred stock dividends and accretion of discount	(2,284 )	(2,276 )	—	—	—
Net income (loss) available to common stockholders	\$11,099	\$(16,893 )	\$7,636	\$18,920	\$19,407
<b>Dividends and Per Share Data</b>					
Cash dividends	\$870	\$1,566	\$11,138	\$11,224	\$10,956
Cash dividends per common share	0.050	0.090	0.640	0.640	0.625
Basic and diluted earnings (loss) per common share					
from continuing operations	0.64	(0.42 )	0.42	1.05	1.09
Basic and diluted earnings (loss) per common share					
from discontinued operations	—	(0.55 )	0.02	0.03	0.02
Basic and diluted earnings (loss) per common share	0.64	(0.97 )	0.44	1.08	1.11
Average common shares outstanding	17,404	17,404	17,405	17,536	17,537

## Year End Balances

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Total assets	\$1,305,463	\$1,575,054	\$1,554,276	\$1,341,289	\$1,270,013
Average assets	1,558,461	1,618,557	1,371,401	1,309,119	1,298,410
Investment securities	267,537	351,269	189,558	237,378	261,578
Loans, including held for sale	893,101	1,021,042	1,101,753	985,423	904,422
Allowance for loan losses	(19,087 )	(19,126 )	(15,441 )	(8,935 )	(8,494 )
Deposits	972,072	1,246,617	1,155,132	911,371	926,251
Long-term borrowings	125,619	145,619	145,619	123,619	105,519
Stockholders' equity	145,436	133,059	150,063	121,606	113,812
Average stockholders' equity	141,079	143,163	118,090	116,683	107,345

Performance Ratios

Equity to assets ratio (average equity divided by average assets)	9.05	% 8.85	% 8.61	% 8.91	% 8.27	%
Return on assets (net income (loss) divided by average assets)	0.86	% (0.90 )	% 0.56	% 1.45	% 1.49	%
Return on equity (net income (loss) divided by average equity)	9.49	% (10.21 )	% 6.47	% 16.21	% 18.08	%
Efficiency ratio (noninterest expense divided by noninterest income plus tax-equivalent net interest income)	50.40	% 45.99	% 38.56	% 37.08	% 35.47	%
Dividend payout ratio (common dividends paid divided by net income (loss) available to common stockholders)	7.84	% NM	145.86	% 59.32	% 56.45	%
NM - not meaningful						



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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(dollars in thousands, except per share amounts)

INTRODUCTION

The Company's 2010 financial results improved considerably compared to 2009. The Company's 2010 net income available to common shareholders was \$11,099. The most significant aspect of the improvement was a decline in the provision for loan losses.

The Company was able to generate net income of \$13,383 while nonperforming assets trended lower throughout the year. Continued improvement in both areas is expected in 2011. Management continues to focus on credit quality and reducing the level of nonperforming assets, but is also actively pursuing new lending opportunities.

Investments in the infrastructure of the Company have and will continue to improve our credit processes and are designed to provide the capacity for growth. As the economic recovery continues, we want to be well-positioned to take advantage of the business opportunities that will present themselves. The sales and credit evaluation functions have been separated and will allow our front-line bankers more time for business development. A clearly defined credit function will focus on the underwriting of the new business opportunities. Resources have also been added to the compliance area to properly handle the unprecedented volume of new regulations applicable to the Company's operations.

West Bank entered into a memorandum of understanding with the Iowa Department of Banking and the FDIC on April 28, 2010, due to examination results as of December 31, 2009. The details of the agreement are described in Item 1 of this filing. On July 22, 2010, the Company received notice from the Federal Reserve Bank of Chicago that it must request prior approval for the declaration or payment of common stock dividends (which must be paid from current earnings), any increase in debt or issuance of trust preferred obligations, or the redemption of Company stock. The Company believes it has and will continue to comply with the Federal Reserve requirements, and West Bank has and will be able to continue to comply with the agreement without any substantial impact on operations or material impact on financial results. The regulators approved a common stock dividend in December 2010.

We anticipate the Company will be profitable in 2011. The amount of the anticipated profit will depend, in large part, on the amount of loan losses we incur. We anticipate loan losses will decline again in 2011, but our loan portfolio still presents higher than normal risks. A significant portion of our portfolio is comprised of loans secured by commercial real estate. While we believe we have aggressively addressed declining real estate valuation issues when evaluating the adequacy of the allowance for loan losses, future changes in real estate valuations in 2011 and beyond remain uncertain.

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The following discussion describes the consolidated operations of the Company, including West Bank, West Bank's wholly-owned subsidiary WB Funding Corporation (which owns an interest in SmartyPig, LLC), and West Bank's 99.99 percent owned subsidiary ICD IV, LLC. The accounts of former subsidiary WB Capital Management Inc. (WB Capital) are included in the accompanying financial statements as discontinued operations for all periods through the sale date of December 31, 2009.

CRITICAL ACCOUNTING POLICIES

This report is based on the Company's audited consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The financial information contained in these statements is based on the financial effects of transactions and events that have already occurred. However, the preparation of these statements requires management to make certain estimates and judgments that affect the reported amounts of assets, liabilities, revenues, and expenses.

The Company's significant accounting policies are described in the Notes to Consolidated Financial Statements. Based on its consideration of accounting policies that involve the most complex and subjective estimates and judgments, management has identified its most critical accounting policies to be those related to asset impairment judgments, including fair value and other than temporary impairment (OTTI) of available for sale investment securities, the valuation of other real estate owned, and the allowance for loan losses.

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

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

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

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

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

The allowance for loan losses is established through a provision for loan losses charged to expense. Loans are charged against the allowance for loan losses when management believes that collectability of the principal is unlikely. The Company has policies and procedures for evaluating the overall credit quality of its loan portfolio, including timely identification of potential problem loans. On a quarterly basis, management reviews the appropriate level for the allowance for loan losses, incorporating a variety of risk considerations, both quantitative and qualitative. Quantitative factors include the Company's historical loss experience, delinquency and charge-off trends, collateral values, known information about individual loans, and other factors. Qualitative factors include the general

economic environment in the Company's market areas and the expected trend of those economic conditions. While management uses the best information available to make its evaluation, future adjustments to the allowance may be necessary if there are significant changes in economic conditions or the other factors relied upon. To the extent actual results differ from forecasts and management's judgment, the allowance for loan losses may be greater or less than future charge-offs.

## RESULTS OF OPERATIONS - 2010 COMPARED TO 2009

### OVERVIEW

Total net income available to common stockholders for the year ended December 31, 2010, was \$11,099 compared to a net loss of \$(16,893) for the year ended December 31, 2009. The Company's 2010 return on average equity (ROE) was 9.49 percent compared to (10.21) percent in 2009. The return on average assets (ROA) was 0.86 percent, compared to (0.90) percent for the prior year.

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Net income from continuing operations was \$13,383 for 2010 compared to a net loss of \$(5,051) for 2009. Basic and diluted earnings (loss) per common share from continuing operations were \$0.64 and \$(0.42) for the same periods, respectively. The improvement in net income from continuing operations in 2010 compared to 2009 was due in substantial part to the \$18,450 decline in the provision for loan losses during 2010. In addition, the 2009 loss included a one-time non-cash goodwill impairment at West Bank of \$13,376.

Noninterest income, exclusive of securities gains (losses), increased by \$1,020 compared to 2009. Noninterest income for 2010 included \$1,314 of service fees paid to West Bank by SmartyPig, LLC. This fee was discontinued after the SmartyPig® savings deposits were transferred to a larger financial institution. The discontinuance of this fee should not materially impact future net income, because it was designed to reimburse West Bank for the difference between the interest expense on the SmartyPig® savings accounts and the interest income earned by investing those funds on a short-term basis.

Noninterest expense, exclusive of goodwill impairment, increased \$3,215 over 2009. The increase included higher salary and benefit costs due in significant part to bonus accruals and profit sharing expense, increased other real estate owned expense due to writedowns of property values, and higher miscellaneous losses.

For the year ended December 31, 2010, the Company's efficiency ratio was 50.40 percent, up from the prior year's ratio of 45.99 percent. This ratio is computed by dividing noninterest expense (excluding goodwill impairment and discontinued operations) by the sum of tax-equivalent net interest income plus noninterest income (excluding securities gains and net impairment losses and discontinued operations). The ratio for both years is significantly better than peer group averages, which are generally around 69 percent according to data in the September 2010 Bank Holding Company Performance Report, a report prepared by the Federal Reserve Board's Division of Banking Supervision and Regulation.

### Net Interest Income

Net interest income increased \$1,026 to \$42,120 for 2010 as the net interest margin improved to 3.04 percent from 2.86 percent in 2009. The rates paid on deposits and borrowings declined more than the yields on earning assets. The average yield on earning assets declined 26 basis points, while the average rate on interest-bearing liabilities declined 50 basis points. The net interest spread, which is the difference between the yields earned on assets and the rates paid on liabilities, improved to 2.73 percent from 2.49 percent a year earlier.

For additional details on changes in interest rates and yields and volume variances, see the section of this report entitled, Distribution of Assets, Liabilities and Stockholders' Equity; Interest Rates; and Interest Differential.

### Loan Volume/Loan Quality

Total loans declined \$132,061 to \$888,649 as of December 31, 2010, from \$1,020,710 a year earlier. Loan payoffs exceeded the demand for new loans during 2010 due to the continuing weak economy. Management believes that trend will continue for the first quarter of 2011, but believes total loans by the end of 2011 will be higher than the end of 2010. West Bank is actively seeking new business, from both existing and new customers. Nonperforming loans at December 31, 2010, totaled \$12,930 or 1.46 percent of total loans. At December 31, 2009, nonperforming loans totaled \$26,317 or 2.58 percent of total loans. Nonperforming loans include loans on nonaccrual status, loans past due 90 days or more, and loans that have been renegotiated to below market interest rates or terms. In addition, at December 31, 2010, the Company held \$19,193 of other real estate owned. For more discussion on loan quality, see

the Loan Portfolio and Summary of the Allowance for Loan Losses sections of this report.

The allowance for loan losses, which totaled \$19,087 as of December 31, 2010, represented 2.15 percent of total loans and 147.6 percent of nonperforming loans at year end, compared to 1.87 percent and 72.7 percent as of December 31, 2009. The provision for loan losses totaled \$6,050 for 2010, down from \$24,500 for 2009. The Company's net charge-offs as a percent of average loans were 0.63 percent for 2010, compared to 1.89 percent for 2009. The amount of loans charged off in 2010 totaled \$6,918, compared to \$21,380 in 2009. Recoveries in 2010 from loans previously charged off were \$829, up from \$565 in the prior year. Management believes the allowance for loan losses at December 31, 2010, is sufficient to absorb probable loan losses within the portfolio.

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## Noninterest Income

The following table shows the variance from the prior year in the noninterest income categories shown in the Consolidated Statements of Operations. In addition, accounts within the “Other income” category that represent significant variances are shown.

	Years ended December 31			
	2010	2009	Change	Change %
Noninterest income:				
Service charges on deposit accounts	\$3,361	\$4,021	\$(660)	(16.41)%
Debit card usage fees	1,329	1,123	206	18.34%
Service fee from SmartyPig, LLC	1,314	—	1,314	N/A
Trust services	818	786	32	4.07%
Gains and fees on sales of residential mortgages	1,533	1,114	419	37.61%
Increase in cash value of bank-owned life insurance	869	776	93	11.98%
Gain from bank-owned life insurance	422	840	(418)	(49.76)%
Other income:				
Visa/Mastercard income	201	177	24	13.56%
Wire transfer fees	165	147	18	12.24%
All other income	640	648	(8)	(1.23)%
Total other income	1,006	972	34	3.50%
Total noninterest income	\$10,652	\$9,632	\$1,020	10.59%

Service charges on deposit accounts declined primarily due to a \$501 reduction in overdraft and return check charges and a \$127 decline in commercial account fees. In the last few years, customers have become more conscientious about monitoring their checking account balances to avoid overdraft and return check charges. Service charges on commercial accounts declined due to revised fee schedules as a result of consolidating and simplifying the product offerings.

Debit card usage fees continued to increase in 2010 as the Reward Me Checking and other checking product customers expanded the use of this convenient payment method. We expect these fees to decline in the future due to implementation of provisions of the Dodd-Frank Act. The service fee from SmartyPig, LLC was established to compensate West Bank for maintaining the rate paid on the SmartyPig<sup>®</sup> savings deposits higher than that of other internet-based savings accounts. This fee was discontinued in the third quarter when these deposits were transferred to a larger institution on July 30, 2010.

Trust fees increased in 2010 due to new business and higher asset values due to gains in the stock market.

Revenue from the sales of residential mortgages sold into the secondary market improved in 2010 due to higher average gains per loan. The volume of loans sold into the secondary market during 2010 was stable compared to 2009. The volume of home sales in our markets remains low, but many consumers took advantage of the historically low rates to refinance existing mortgage loans. This source of revenue is expected to remain strong in 2011.

The increase in cash value of bank-owned life insurance was due to slightly higher yields. West Bank received tax-exempt income from a gain on life insurance proceeds as the result of the death of one of its retired officers in the third quarter of 2010 and one of its officers in the first quarter of 2009.

Investment Securities Gains (Losses)

During 2010, West Bank securities impairment losses totaling \$305 were recognized through earnings. Those losses consisted of a \$188 OTTI on one single-issuer trust preferred security (TPS) issued by Old Second Bancorp, Inc. (Old Second) in the second quarter and a \$117 credit loss on a pooled TPS during the third quarter. Upon the withdrawal of an exchange offer for Old Second, management decided to eliminate the potential for a total loss on this security and sold it for a loss of \$304 during the third quarter. Offsetting this realized loss were gains on sales of municipal and other securities with total net gains of \$40 recognized for the year.

During 2009, West Bank investment securities impairment losses totaling \$2,612 were recognized through earnings. Those losses consisted of \$2,267 on five single-issuer TPSs, a \$310 OTTI credit loss on a pooled TPS, and a \$35 loss on a unit trust comprised of the common stock of several community banks and bank holding companies. Management liquidated certain bonds during the second half of 2009 in order to reduce the credit risk in the West Bank investment portfolio. Trust preferred, corporate, and selected agency and municipal bonds were sold resulting in net gains totaling \$1,884 for the year ended December 31, 2009.



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## Noninterest Expense

The following table shows the variance from the prior year in the noninterest expense categories shown in the Consolidated Statements of Operations. In addition, accounts within the “Other expenses” category that represent significant variances are shown.

	Years ended December 31				
	2010	2009	Change	Change %	
Noninterest expense:					
Salaries and employee benefits	\$10,996	\$9,938	\$1,058	10.65	%
Occupancy	3,207	3,451	(244)	(7.07)	)%
Data processing	1,815	1,761	54	3.07	%
FDIC insurance expense	3,082	2,736	346	12.65	%
Other real estate owned expense	1,716	368	1,348	366.30	%
Professional fees	959	964	(5)	(0.52)	)%
Miscellaneous losses	1,330	70	1,260	1,800.00	%
Goodwill impairment	—	13,376	(13,376)	(100.00)	)%
Other expenses:					
Insurance expense	382	285	97	34.04	%
Marketing	424	504	(80)	(15.87)	)%
Consulting fees	235	413	(178)	(43.10)	)%
Director fees	355	274	81	29.56	%
Deposit operations expense	336	821	(485)	(59.07)	)%
Bank service charges and fees	551	411	140	34.06	%
Postage, courier, and freight	311	339	(28)	(8.26)	)%
All other	2,045	2,194	(149)	(6.79)	)%
Total other	4,639	5,241	(602)	(11.49)	)%
Total noninterest expense	\$27,744	\$37,905	\$(10,161)	(26.81)	)%

The increase in salaries and employee benefits consisted primarily of bonus accruals and profit sharing expense. Accruals for both of these were reinstated as a result of improved operating results compared to 2009. These accruals were calculated at approximately 50 percent of the potential maximum payout. The 2010 bonus accrual included \$155 of hiring incentives paid to two new members of senior management as consideration for joining the Company. Most salaries were frozen at 2009 levels during the first half of 2010. The Board ended the salary freeze for the second half of 2010 and an average salary increase of 1.5 percent was awarded during the third quarter. Additional employees were hired to enable customer contact personnel to spend more time on business development while others focus on credit underwriting and compliance.

The majority of the decline in occupancy expense was due to a 2009 second quarter \$190 one-time buyout for unused space leased by the Company. Depreciation expense on furniture and equipment has also declined from the prior year as older assets have become fully depreciated.

FDIC insurance expense was higher in 2010 due to a rate increase, higher average deposit balances during the first seven months of the year, and an increase in the cost of the FDIC's Temporary Liquidity Guarantee Program (TLGP). FDIC expense for 2009 included a second quarter emergency special assessment which was imposed on all insured institutions. FDIC insurance expense for 2011 is expected to decline due to a reduction in announced rates and a change in the assessment base from total average deposits to total average assets less tangible capital.

Other real estate owned expense increased primarily as a result of property writedowns totaling \$1,621 in 2010 and \$133 in 2009.

Miscellaneous losses included \$900 of total impairment of the Company's investment in a renewable energy closed-end fund. The investment consisted of startup expenses for a publicly traded closed-end fund formed to invest in companies involved in the renewable energy sector. The investment was originally made in support of the Company's former subsidiary WB Capital Management Inc., which was to be the fund's investment manager. Miscellaneous losses also included an estimated liability of \$195 established for secondary market loans sold through the Federal Home Loan Bank's (FHLB) Mortgage Partnership Finance Program (MPF). West Bank has agreed to guarantee the payment of any realized losses that exceed the FHLB's first loss account for mortgages delivered through the program.

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The 2009 goodwill impairment consisted of writing off all goodwill at West Bank, which totaled \$13,376. The impairment analysis was completed at an interim period in 2009 due to the Company's common stock price falling to levels below book value.

Insurance expense increased compared to the prior year due to increases in premiums. Marketing expense declined due to cost containment efforts compared to 2009. Consulting fees declined as fees paid in conjunction with the Company's search for a new chief executive officer in 2010 were less than the 2009 costs for hiring consulting firms to assist in evaluating goodwill for impairment and to assist with investment securities valuations. Director fees have increased due to additional meetings in conjunction with hiring the new chief executive officer and an agreement to pay the new chairman a monthly fee for his ongoing operational guidance.

Deposit operations expense declined significantly as costs associated with opening accounts for the SmartyPig<sup>®</sup> savings program were transferred to another provider in the third quarter of 2009. This portion of this expense category was eliminated once West Bank's involvement with the program ended. West Bank's service charges and fees paid grew in 2010 as a result of retaining an outside party to assist in managing West Bank's investment portfolio. Other expense declined due to cost containment efforts throughout 2010.

### Income Taxes (Benefits)

The Company records a provision for income tax expense (benefits) currently payable, along with a provision for those taxes payable or refundable in the future. Such deferred taxes arise from differences in the timing of certain items for financial statement reporting compared to income tax reporting. The effective income tax rate differs from the federal statutory income tax rate primarily due to tax-exempt interest income, the tax-exempt increase in cash value of bank-owned life insurance, gain from bank-owned life insurance, disallowed interest expense, and state income taxes. For both years, the effective tax rate was also impacted by West Bank's 2007 investment in a qualified community development entity, which generated a federal new market tax credit. The credit, which totals \$2,730, is being recognized over a seven-year period. The effective rate of income tax expense (benefit) as a percent of income (loss) before income taxes from continuing operations was an expense of 28.5 percent for 2010, compared to a benefit of (59.3) percent for 2009. The federal income tax expense (benefit) was approximately \$4,599 and (\$7,067) for 2010 and 2009, respectively, while state income tax expense (benefit) was approximately \$731 and (\$289), respectively. The Company has recorded a valuation allowance against the tax effect of the state net operating loss, federal and state capital loss carryforwards, and investment security impairment as management believes it is more likely than not that such carryforwards will expire without being utilized.

## RESULTS OF OPERATIONS - 2009 COMPARED TO 2008

### OVERVIEW

Total net loss available to common stockholders for the year ended December 31, 2009, was \$(16,893) compared to net income of \$7,636 for the year ended December 31, 2008. The Company's ROE was (10.21) percent in 2009, compared to 6.47 percent in 2008. The ROA was (0.90) percent, compared to 0.56 percent for the prior year.

Net loss from continuing operations was \$(5,051) for 2009 compared to net income of \$7,311 for 2008. Basic and diluted earnings (loss) per common share from continuing operations were \$(0.42) and \$0.42 for the same periods, respectively. The unfavorable change between the net loss from continuing operations in 2009 compared to 2008 net income from continuing operations was due in substantial part to goodwill impairment at West Bank of \$13,376, the

\$7,900 increase in provision for loan losses, and the \$2,130 increase in FDIC insurance expense.

The 2009 provision for loan losses, which was \$24,500, was a historic high due to significant charge-offs in 2009. Charge-offs of commercial, real estate construction, commercial real estate, and other loans totaled \$21,380. For much of 2009 the economy was in a recession and significant difficulty was experienced in the construction and real estate development, commercial real estate, and commercial business sectors.

Noninterest income, exclusive of securities gains (losses), increased by \$665 compared to 2008. The increase was due to \$840 of gain received in the first quarter of 2009 from a bank-owned life insurance policy as the result of the death of a West Bank officer and an increase of \$570 in gains and fees on the sales of residential mortgages sold into the secondary market. Offsetting this growth was an \$811 decline in service charges on deposit accounts primarily due to lower returned check charges.

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Goodwill impairment was reviewed as of June 30, 2009, because the Company's common stock traded at a market price of less than its per share book value. With the assistance of a third party valuation firm, management prepared an estimate of the fair value of a 100 percent controlling marketable interest in the outstanding stock of West Bank. A combination of the income and market approaches was used in determining the fair value. Under the income approach, the primary factor considered was the ability of West Bank to generate future cash flows. A discount rate was estimated by utilizing the build-up method which factors in the following components: a risk-free rate of return, an equity risk premium, an industry risk premium or discount, a size premium, and risk associated specifically with West Bank. A discount rate of 12.04 percent was then applied to projected future cash flows. Under the market approach, stock market data regularly published on publicly traded companies considered to be similar to West Bank were utilized in determining market value. The two indicated values were then weighted to represent the relative importance a market participant might reasonably be expected to place on the results of each method. Based on that analysis, an impairment of \$13,376, or all of the goodwill recorded on West Bank's balance sheet, was taken in the second quarter of 2009.

Noninterest expense, exclusive of goodwill impairment, increased \$4,424 over 2008. The increase included the previously mentioned increase in FDIC insurance expense, including a one-time special assessment, a \$681 increase in salaries and employee benefits, a \$459 increase in occupancy costs, a \$650 increase in deposit operations expense, and a \$345 increase in costs associated with nonperforming assets.

For the year ended December 31, 2009, the Company's efficiency ratio was 45.99 percent, up from the prior year's ratio of 38.56 percent.

After receiving indications of interest from third parties to purchase WB Capital, the Company's Board of Directors decided to exit this business line and focus on community banking. The Company entered into a definitive agreement to sell all of its stock in WB Capital in October 2009, and the sale closed on December 31, 2009. The net loss from discontinued operations of WB Capital was \$(9,566) compared to net income of \$325 for the year ended December 31, 2008. The loss was the result of \$11,160 of goodwill impairment recorded at WB Capital during the second and third quarters of 2009. Revenues were lower than the prior year because of the decline in stock values and lower levels of assets under management. Operating expenses at WB Capital, exclusive of goodwill impairment, were \$1,746 lower in 2009 than in 2008 primarily due to lower staffing levels and a concerted effort to reduce operating costs.

### Net Interest Income

Net interest income declined only \$7 to \$41,094 for 2009 despite the 52 basis point decline in net interest margin to 2.86 percent from 3.38 percent in 2008 and the high volume of nonperforming assets. Yields on earning assets declined at a faster pace than the rates paid on deposits and borrowings. The average yield on earning assets declined 124 basis points, while the average rate on interest-bearing liabilities declined 86 basis points. The net interest spread declined to 2.49 percent from 2.87 percent a year earlier. The higher level of interest earning assets offset the previously mentioned negative trends.

### Loan Volume/Loan Quality

At December 31, 2009, total loans declined \$80,025, to \$1,020,710 from \$1,100,735 a year earlier. Demand for new loans by businesses in the Company's markets was soft. Requests for commercial real estate, new construction and land development loans had fallen off substantially, and customers were paying down debt if they were

able. Nonperforming loans at December 31, 2009, totaled \$26,317 or 2.58 percent of total loans. At December 31, 2008, nonperforming loans totaled \$28,835 or 2.62 percent of total loans. In addition, at December 31, 2009, West Bank held \$25,350 of other real estate owned.

The allowance for loan losses, which totaled \$19,126, represented 1.87 percent of total loans and 72.7 percent of nonperforming loans at the end of 2009, compared to 1.40 percent and 53.55 percent for 2008, respectively. The provision for loan losses totaled \$24,500 for 2009, up from \$16,600 for 2008. The Company's net charge-offs as a percent of average loans were 1.89 percent for 2009, compared to 0.96 percent for 2008. The amount of loans charged off in 2009 totaled \$21,380, compared to \$10,370 in 2008. Recoveries in 2009 from loans previously charged off were \$565, up from \$276 in the prior year.

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## Noninterest Income

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

	Years ended December 31				Change %
	2009	2008	Change	Change %	
Noninterest income:					
Service charges on deposit accounts	\$4,021	\$4,832	\$(811)	(16.78)	%
Debit card usage fees	1,123	880	243	27.61	%
Trust services	786	789	(3)	(0.38)	%
Gains and fees on sales of residential mortgages	1,114	544	570	104.78	%
Increase in cash value of bank-owned life insurance	776	936	(160)	(17.09)	%
Gain from bank-owned life insurance	840	—	840	N/A	
All other income	972	986	(14)	(1.42)	%
Total noninterest income	\$9,632	\$8,967	\$665	7.42	%

Service charges on deposit accounts declined due to a \$722 reduction in return check charges. In the uncertain economy of 2009, customers appeared to be more conscientious about monitoring their checking account balances. Service charges on commercial accounts declined 5.1 percent or \$44 due to revised fee schedules implemented in September 2009.

Debit card usage fees continued to increase in 2009 as the Reward Me Checking product grew by over 1,900 accounts and approximately \$45,000 in balances compared to December 31, 2008. This product was introduced in April 2008 and encourages the use of electronic payments.

The volume of originations of residential mortgages sold into the secondary market more than doubled compared to the prior year. Despite the low level of home sales, consumers were selectively purchasing real estate while locking in relatively low long-term rates.

The 2009 decline in the increase in cash value of bank-owned life insurance was due to lower market interest rates. As previously discussed, West Bank received tax-exempt income from a gain on life insurance proceeds as the result of the death of one of its officers in the first quarter of 2009.

## Investment Securities Gains (Losses)

During 2009, West Bank investment securities impairment losses totaling \$2,612 were recognized through earnings. Those losses consisted of \$2,267 on five single-issuer TPSs, a \$310 OTTI credit loss on a pooled TPS, and a \$35 loss on a unit trust comprised of the common stock of several community banks and bank holding companies. TPSs, corporate, and selected agency and municipal bonds were sold resulting in net gains totaling \$1,884 compared to gains of \$73 in 2008. By the end of 2009, the TPSs in the West Bank portfolio were reduced to two single-issuer bonds, which were considered to have low risk, and one pooled TPS.

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## Noninterest Expense

The following table shows the variance from the prior year in the noninterest expense categories shown in the Consolidated Statements of Operations. In addition, accounts within the “Other expenses” category that represent significant variances are shown.

	Years ended December 31				
	2009	2008	Change	Change %	
Noninterest expense:					
Salaries and employee benefits	\$9,938	\$9,257	\$681	7.36	%
Occupancy	3,451	2,992	459	15.34	%
Data processing	1,761	1,748	13	0.74	%
FDIC insurance expense	2,736	606	2,130	351.49	%
Other real estate owned expense	368	166	202	121.69	%
Professional fees	964	941	23	2.44	%
Goodwill impairment	13,376	—	13,376	N/A	
Miscellaneous losses	70	22	48	218.18	%
Other expenses:					
Insurance	285	224	61	27.23	%
Marketing	504	719	(215)	(29.90)	%
Consulting fees	413	210	203	96.67	%
Director fees	274	278	(4)	(1.44)	%
Deposit operations expense	821	171	650	380.12	%
Bank service charges and fees	411	221	190	85.97	%
Nonreimbursed loan expenses	191	48	143	297.92	%
Training	91	179	(88)	(49.16)	%
Charitable contributions	200	113	87	76.99	%
Intangible amortization	205	238	(33)	(13.87)	%
All other	1,846	1,972	(126)	(6.39)	%
Total other	5,241	4,373	868	19.85	%
Total noninterest expense	\$37,905	\$20,105	\$17,800	88.54	%

Salaries and employee benefits expense increased due to annual salary increases, a change in the paid time off policy, an increase in commission expense related to the higher volume of mortgage loans sold into the secondary market, a ten percent increase in medical insurance costs, and a decline in salary cost deferred for new loan originations due to a lower volume of new loans. Partially offsetting these increases was the elimination of annual bonuses for most officers and the decision to make no 2009 profit sharing contribution.

Occupancy expenses increased in 2009 because of the February 2009 opening of a new branch in Waukee and a \$190 one-time lease buyout for unused space leased by the Company.

FDIC insurance expense increased as a result of rate increases, an emergency special assessment in the second quarter of 2009 as part of the FDIC's restoration plan for the Deposit Insurance Fund, significantly higher average deposits, and participation in the FDIC's TLGP. On December 30, 2009, all insured institutions were required to prepay FDIC assessments for three and one-quarter years. The prepayment was based on average third quarter deposits and assumptions about future deposit growth. West Bank's \$7,200 payment is being amortized over the prepayment period.



Other real estate owned expense increased during 2009 due to increased operating costs for a higher number of properties held. Costs also included writedowns subsequent to transfers to this classification totaling \$133 in 2009 and \$70 in 2008. Professional fees grew as legal fees increased due to the higher volume of impaired loans.

As previously mentioned, the second quarter 2009 goodwill impairment consisted of writing off all goodwill at West Bank, or \$13,376.

Insurance expense increased as the result of a rate increase for directors and officers coverage. Marketing expense declined due to cost containment efforts compared to 2008, which had included costs for launching a new product. Consulting fees increased due to the implementation of a customer relationship management system beginning in the second half of 2008, investment securities valuations completed by a consulting firm, hiring a third party firm to assist in evaluating goodwill for impairment, and fees paid in conjunction with the Company's search for a new chief executive officer.

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Deposit operations expense increased in 2009 due to costs associated with SmartyPig<sup>®</sup> savings and Reward Me Checking interest-bearing products, which both grew substantially compared to the prior year. Expenses related to SmartyPig<sup>®</sup> were significantly lower in the fourth quarter of 2009 as the processing of ACH transactions was transferred to another vendor. West Bank's service charges paid increased for 2009 as a result of technological improvements in cash letter processing that allows better availability of funds from incoming deposits. The improved availability resulted in a loss of earnings credit used to offset the charges assessed by the processor. Service charges also increased due to retaining WB Capital to manage West Bank's investment portfolio effective in September 2009.

Nonreimbursed loan expenses increased due to the higher volume of impaired loans and the related costs to protect collateral values and the writedown of \$50 on one foreclosed asset. Training expense and other expense declined due to cost containment efforts throughout 2009. Charitable contributions increased in 2009 because \$200 of the previously mentioned bank-owned life insurance proceeds was contributed to the West Bancorporation Foundation in the first quarter.

Income Taxes

For 2009 and 2008, the effective tax rate was impacted by a federal new market tax credit. The effective rate of income tax expense (benefit) as a percent of income (loss) before income taxes from continuing operations was a (59.3) percent benefit for 2009, compared to expense of 15.9 percent for 2008. The federal income tax expense (benefit) was approximately \$(7,067) and \$652 for 2009 and 2008, respectively, while state income tax expense (benefit) was approximately \$(289) and \$734, respectively. State income tax expense was higher than federal tax expense in 2008 due to establishing a deferred tax valuation allowance against a state net operating loss of the Company.

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## DISTRIBUTION OF ASSETS, LIABILITIES AND STOCKHOLDERS' EQUITY; INTEREST RATES; AND INTEREST DIFFERENTIAL

## Average Balances and an Analysis of Average Rates Earned and Paid

The following table shows average balances and interest income or interest expense, with the resulting average yield or rate by category of average earning assets or interest-bearing liabilities for the years indicated. Interest income and the resulting net interest income are shown on a fully taxable basis.

	2010			2009			2008		
	Average Balance	Revenue/ Expense	Yield/ Rate	Average Balance	Revenue/ Expense	Yield/ Rate	Average Balance	Revenue/ Expense	Yield/ Rate
Assets									
Interest-earning assets:									
Loans: (2) (3)									
Commercial	\$336,979	\$16,758	4.97 %	\$399,696	\$19,436	4.86 %	\$387,426	\$22,175	5.72 %
Real estate (1)	614,585	36,733	5.98 %	690,159	40,001	5.80 %	653,381	40,944	6.27 %
Consumer and other loans	10,413	521	5.00 %	10,190	643	6.31 %	13,751	867	6.30 %
Total loans	961,977	54,012	5.61 %	1,100,045	60,080	5.46 %	1,054,558	63,986	6.07 %
Investment securities:									
Taxable	228,666	4,330	1.89 %	135,962	3,937	2.90 %	96,560	4,763	4.93 %
Tax-exempt (1)	72,458	4,534	6.26 %	94,859	5,797	6.11 %	92,646	5,393	5.82 %
Total investment securities	301,124	8,864	2.94 %	230,821	9,734	4.22 %	189,206	10,156	5.37 %
Federal funds sold and other short-term investments	196,609	541	0.28 %	198,043	521	0.26 %	33,113	467	1.41 %
Total interest-earning assets (1)	1,459,710	63,417	4.34 %	1,528,909	70,335	4.60 %	1,276,877	74,609	5.84 %
Noninterest-earning assets:									
Cash and due from banks	34,518			31,918			29,343		
Premises and equipment, net	5,257			5,201			4,976		
Other, less allowance for loan losses	58,976			52,529			60,205		
Total noninterest-earning assets	98,751			89,648			94,524		
Total assets	\$1,558,461			\$1,618,557			\$1,371,401		

## Liabilities and Stockholders'

## Equity

## Interest-bearing

## liabilities:

## Deposits:

## Savings,

## interest-bearing

## demand, and money

## markets

## Time deposits

## Total deposits

## Other borrowed

## funds

## Total interest-bearing

## liabilities

## Noninterest-bearing

## liabilities:

## Demand deposits

## Other liabilities

## Stockholders' equity

## Total liabilities and

## stockholders' equity

\$568,043	6,168	1.09 %	\$503,279	6,638	1.32 %	\$325,850	5,035	1.55 %
421,015	7,049	1.67 %	527,075	12,910	2.45 %	447,959	16,486	3.68 %
989,058	13,217	1.34 %	1,030,354	19,548	1.90 %	773,809	21,521	2.78 %
191,098	5,806	3.04 %	232,894	7,088	3.04 %	285,249	9,910	3.47 %
1,180,156	19,023	1.61 %	1,263,248	26,636	2.11 %	1,059,058	31,431	2.97 %
229,939			201,243			180,614		
7,287			10,903			13,639		
141,079			143,163			118,090		
\$1,558,461			\$1,618,557			\$1,371,401		

## Net interest income/net interest spread (1)

\$44,394 2.73 %

\$43,699 2.49 %

\$43,178 2.87 %

## Net interest margin

3.04 %

2.86 %

3.38 %

(1)

(1) Tax-exempt income has been adjusted to a tax-equivalent basis using an incremental rate of 35% and is adjusted to reflect the effect of the nondeductible interest expense associated with owning tax-exempt investments and loans.

(2) Average loan balances include nonaccrual loans. Interest income recognized on nonaccrual loans has been included.

(3) Interest income on loans includes amortization of loan fees and costs, which are not material.

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## Net Interest Income

The Company's largest component of net income is net interest income, which is the difference between interest earned on earning assets, consisting primarily of loans and investments, 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 balances of asset and liability categories and changes in interest rates. Interest rates earned and paid are also affected by general economic conditions, particularly changes in market interest rates, and by competitive factors, government policies, and the action of regulatory authorities. Net interest margin for the year is a measure of the net return on interest-earning assets and is computed by dividing tax-equivalent net interest income by the average of total interest-earning assets for the year.

For the years ended December 31, 2010, 2009, and 2008, the Company's net interest margin was 3.04, 2.86, and 3.38 percent, respectively. The increase in the net interest margin in 2010 was the result of rates paid on deposits and borrowings declining more than the yields on earning assets. This was partially the result of transferring the SmartyPig® savings deposits to another financial institution and a continued reduction in deposit rates throughout 2010.

## Rate and Volume Analysis

The rate and volume analysis shown below, on a tax-equivalent basis, is used to determine how much of the change in interest income or expense is the result of a change in volume or a change in interest yield or rate. The change in interest that is due to both volume and rate has been allocated to the change due to volume and the change due to rate in proportion to the absolute value of the change in each.

	2010 Compared to 2009			2009 Compared to 2008		
	Volume	Rate	Total	Volume	Rate	Total
Interest Income						
Loans: (1)						
Commercial	\$(3,110	) \$432	\$(2,678	) \$684	\$(3,423	) \$(2,739
Real estate (2)	(4,487	) 1,219	(3,268	) 2,231	(3,174	) (943
Consumer and other loans	14	(136	) (122	) (225	) 1	(224
Total loans (including fees)	(7,583	) 1,515	(6,068	) 2,690	(6,596	) (3,906
Investment securities:						
Taxable	2,068	(1,675	) 393	1,545	(2,371	) (826
Tax-exempt (2)	(1,399	) 136	(1,263	) 131	273	404
Total investment securities	669	(1,539	) (870	) 1,676	(2,098	) (422
Federal funds sold and other short-term investments	(4	) 24	20	700	(646	) 54
Total interest income (2)	(6,918	) —	(6,918	) 5,066	(9,340	) (4,274
Interest Expense						
Deposits:						
Savings, interest-bearing demand, and money markets	791	(1,261	) (470	) 2,425	(822	) 1,603
Time deposits	(2,278	) (3,583	) (5,861	) 2,575	(6,151	) (3,576
Total deposits	(1,487	) (4,844	) (6,331	) 5,000	(6,973	) (1,973
Other borrowed funds	(1,270	) (12	) (1,282	) (1,684	) (1,138	) (2,822

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Total interest expense	(2,757	) (4,856	) (7,613	) 3,316	(8,111	) (4,795	)
Net interest income (2)	\$(4,161	) \$4,856	\$695	\$1,750	\$(1,229	) \$521	

- (1) Balances of nonaccrual loans have been included for computational purposes.  
 Tax-exempt income has been converted to a tax-equivalent basis using a federal income tax rate of 35% and is
- (2) adjusted for the effect of the nondeductible interest expense associated with owning tax-exempt investments and loans.

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Tax-equivalent interest income and fees on loans declined \$6,068 for the year ended December 31, 2010, compared to 2009, primarily due to a decline of \$138,068 in the average volume of loans outstanding. The average yield on loans increased slightly to 5.61 percent for 2010, compared to 5.46 percent for 2009. The yield on the Company's loan portfolio is affected by the mix of the portfolio, the effects of competition, the interest rate environment, the amount of nonperforming loans, and reversals of previously accrued interest on charged-off loans. The interest rate levels influence the volume of new loan originations and the mix of variable rate versus fixed rate loans. Loan pricing in the Company's market areas remains competitive, while the demand for new loans has been stagnant.

The average balance of investment securities in 2010 grew \$70,303 compared to 2009, while the yield fell 128 basis points. The decline in yield was caused by significant additions in a low interest rate environment and higher yielding securities being called throughout the year. During 2010, investment securities totaling \$299,728 were sold, called, or matured, and \$214,710 were purchased.

The average balance of federal funds sold and other short-term investments declined \$1,434 during 2010. Net interest income on these assets remained about the same for the two years. West Bank's goal for 2011 is to reduce the level of federal funds sold by allowing higher rate certificates of deposit to mature without renewing.

The 2010 average rate paid on deposits declined to 1.34 percent from 1.90 percent for 2009. The continuing reduction in market rates paid, transfer of the SmartyPig® deposits, and the lower level of average certificates of deposit outstanding during 2010 caused interest expense to decline by \$6,331.

The average rate paid on other borrowings remained steady at 3.04 percent. The average balance of other borrowings for 2010 was \$41,796 lower than in 2009. Overnight borrowings in the form of federal funds purchased from correspondent banks and securities sold under agreements to repurchase averaged \$26,290 less than in 2009, and the average balance of FHLB advances was \$16,274 lower. The effective rate on the outstanding subordinated notes declined 93 basis points as those notes became variable at the beginning of the fourth quarter. The rate as of December 31, 2010, was 3.45 percent which was approximately half of the former fixed rate. The rate paid on this debt in 2011 is expected to remain at or near the year-end rate.

## INVESTMENT PORTFOLIO

The following table sets forth the composition of the Company's securities available for sale as of the dates indicated.

	As of December 31		
	2010	2009	2008
U.S. Treasury and government agencies and corporations	\$47,798	\$177,890	\$61,050
State and political subdivisions	59,137	87,935	107,175
Mortgage-backed securities	141,220	64,578	1,234
Trust preferred securities	1,976	2,067	5,269
Corporate notes and other investments	6,195	8,008	6,656
Total	\$256,326	\$340,478	\$181,384

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The investments presented in the following table are at carrying value and reported by contractual maturity as of December 31, 2010. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without prepayment penalties. The mortgage-backed securities within the portfolio have monthly pay-downs.

December 31, 2010

	Within one year	After one year but within five years	After five years but within ten years	After ten years	Total
U.S. government agencies and corporations	\$—	\$44,967	\$2,831	\$—	\$47,798
State and political subdivisions	1,887	9,777	16,832	30,641	59,137
Mortgage-backed securities	450	2,020	17,703	121,047	141,220
Trust preferred securities	—	—	—	1,976	1,976
Corporate notes and other investments	1,619	4,276	—	300	6,195
Total	\$3,956	\$61,040	\$37,366	\$153,964	\$256,326

Weighted average yield:

U.S. government agencies and corporations	—	1.69	% 3.90	% —	
State and political subdivisions (1)	5.87	% 5.72	% 5.72	% 6.64	%
Mortgage-backed securities	4.32	% 3.25	% 2.99	% 2.52	%
Trust preferred securities	—	—	—	2.22	%
Corporate notes and other investments	1.45	% 4.13	% —	—	
Total	3.89	% 2.56	% 4.29	% 3.32	%

Yields on tax-exempt obligations have been computed on a tax-equivalent basis using an incremental tax rate of (1) 35% and are adjusted to reflect the effect of the nondeductible interest expense associated with owning tax-exempt investments.

As of December 31, 2010, existing unrealized losses of \$2,796 are considered to be temporary in nature due to market interest rate fluctuations and illiquid markets, not estimated cash flows, and the Company has the ability and the intent to hold the related securities with unrealized losses for a period of time sufficient to allow for a recovery, which may be at maturity.

All except one of the state and political subdivisions investments are with Iowa communities and all are considered to have acceptable credit risks. Mortgage-backed securities consist of residential mortgage pass-through securities guaranteed by GNMA or issued by FNMA and real estate mortgage investment conduits guaranteed by FHLMC or GNMA. The debt obligations were all within the credit ratings acceptable under West Bank's investment policy.

As of December 31, 2010, the tables above include a pooled TPS, ALESCO Preferred Funding X, Ltd., that is OTTI and which has been placed on nonaccrual status. The accrual of interest on an investment security is discontinued when a security is deemed OTTI. The Company engaged an independent consulting firm to assist in the valuation of this security. Based on that valuation, management determined the security had an estimated fair value of \$1,339 at December 31, 2010. The methodology for determining the appropriate discount rate for a TPS for purposes of determining fair value combines an evaluation of current market yields for comparable corporate and structured credit products with an evaluation of the risks associated with the TPS cash flows in question. More specifically, the



market-based yield indicators are used as a baseline for determining appropriate discount rates, and the resulting discount rates are adjusted on the basis of credit and structural analysis of specific TPS instruments. The primary focus is on the returns a fixed income investor would require in order to allocate capital on a risk-adjusted basis. However, due to the fact that there is currently no active market for this pooled TPS, the focus is on market yields for stand-alone TPSs issued by banks, thrifts, and insurance companies, and for which there are active and liquid markets. A series of adjustments are made to reflect the differences that nevertheless exist between these products (both credit and structural) and, most importantly, to reflect idiosyncratic credit performance differences (both actual and projected) between these products and the underlying collateral in the specific TPSs being valued. Importantly, as part of the analysis described above, consideration is given to the fact that structured instruments frequently exhibit leverage not present in stand-alone instruments, and adjustments are made as necessary to reflect this additional risk. As a result of this analysis and due to the fixed-rate nature of the instrument's contractual interest cash flows, a discount rate of LIBOR + 13% (a lifetime average all-in discount rate of approximately 17%) was used for determination of fair value. For purposes of determining any credit loss, projected cash flows were discounted at the original purchased yield of 6.33% through March 2011 and then LIBOR plus 1.25% thereafter.

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The consulting firm first evaluates the credit quality of each underlying issuer within the TPS by reviewing a comprehensive database of financial information and/or publicly-filed financial statements. On the basis of this information and a review of historical industry default data and current and near-term operating conditions, default and recovery probabilities for each underlying issuer within the asset were estimated. For issuers who had already defaulted, no recovery was assumed. For deferring issuers, an assumption was made that the majority of deferring issuers will continue to defer and will eventually default. Each deferring issuer is reviewed on a case-by-case basis and, in some instances, a probability is assigned that the deferral will ultimately be cured. The issuer-specific assumptions are then aggregated into cumulative weighted-average default, recovery, and prepayment probabilities. The collateral prepayment assumptions were affected by the view that the terms and pricing of TPSs and subordinated debt issued by banks and insurance companies were so aggressive that it is unlikely that such financing will become available in the foreseeable future. Therefore, the assumption was made that no collateral will prepay over the life of the TPS. In light of generally weak collateral credit performance and a challenging U.S. credit and real estate environment, the assumptions generally imply a larger amount of issuer defaults during the next three years than that which had been experienced historically, and a gradual leveling off of defaults thereafter.

Based on the valuation work performed, credit losses of \$117 and \$310 were recognized for the years ended December 31, 2010 and 2009, respectively. As of December 31, 2010, the unrealized loss of \$3,134 is reflected in accumulated other comprehensive (loss), net of taxes of \$1,191. The Company will continue to periodically estimate the present value of cash flows expected to be collected over the life of the security.

At December 31, 2010, the most significant risk of a future impairment charge relates to West Bank's investment in TPSs of other banks. As of year-end, two TPSs with a cost basis of \$6,194 were valued at \$1,976. As previously mentioned, management has concluded that only the pooled TPS is OTTI. Any potential future loss that would be considered a credit loss or an increase in the amount of the unrealized loss attributed to credit, would negatively impact net income and regulatory capital; however, as previously noted, the fair market value adjustment at December 31, 2010, has already been recorded against equity.

As of December 31, 2010, the Company did not have securities from a single issuer, except for the United States government or its agencies, which exceeded 10 percent of consolidated stockholders' equity.

## LOAN PORTFOLIO

## Types of Loans

The following table sets forth the composition of the Company's loan portfolio by segment as of the dates indicated.

	As of December 31				
	2010	2009	2008	2007	2006
Commercial	\$310,376	\$356,885	\$391,926	\$364,994	\$327,985
Real estate:					
Construction, land, and land development	116,601	148,505	152,704	153,184	143,928
1-4 family residential first mortgages	51,760	64,288	67,630	58,833	57,919
Home equity	26,111	30,110	35,504	32,881	31,059
Commercial	372,404	413,063	441,444	360,255	328,514
Consumer and other loans	11,514	8,163	11,884	13,790	15,752
Total loans	888,766	1,021,014	1,101,092	983,937	905,157
Deferred loan fees, net	117	304	357	372	871

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Total loans, net of deferred fees	\$ 888,649	\$ 1,020,710	\$ 1,100,735	\$ 983,565	\$ 904,286
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As of December 31, 2010, the total amount of loans was approximately 91 percent of total deposits and 68 percent of total assets. As of December 31, 2010, the majority of all loans were originated directly by West Bank to borrowers within West Bank's principal market areas. There were no non-U.S. loans outstanding during the years presented.

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 rates, and are either unsecured or secured by inventory, accounts receivable, and/or fixed assets.

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Real estate loans include various types of loans for which West Bank 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 every 5 years with payments based on up to 30-year amortization periods. 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. West Bank originates residential real estate loans for its portfolio and for sale in the secondary market for a fee.

Consumer loans include loans extended to individuals for household, family, and other personal expenditures not secured by real estate. The majority of West Bank's consumer lending is for vehicles, consolidation of personal debts, and household improvements.

The interest rates charged on loans vary with the degree of risk, the amount of the loan, and the maturity of the loan. Competitive pressures, market interest rates, the availability of funds, and government regulation further influence the rate charged on a loan.

West Bank follows a loan policy that has been approved by West Bank's Board of Directors. The loan policy is reviewed at least annually and is updated as considered necessary. The policy establishes lending limits, review criteria, and other guidelines, such as for loan administration and the allowance for loan losses. Loans are approved by West Bank's Board of Directors and/or designated officers in accordance with the applicable guidelines and underwriting policies. Loans to any one borrower are limited by state banking laws. Loan officer lending authorities vary according to the individual loan officer's experience and expertise.

The following tables show a breakdown of the three major segments of West Bank's loan portfolio (commercial, construction, and commercial real estate) as of December 31, 2010 and 2009.

Commercial loans:

	December 31			2009		
	2010					
	\$	%	\$	%		%
Finance and insurance	\$82,473	27	% \$88,960	25		%
Real estate and rental/leasing	36,071	12	% 42,747	12		%
Manufacturing	34,550	11	% 41,112	12		%
Publishing, broadcasting, and information services	28,192	9	% 28,987	8		%
Construction	5,115	2	% 5,019	1		%
Wholesale trade	16,094	5	% 10,946	3		%
Building trades	14,107	4	% 20,121	6		%
Transportation and warehousing	12,742	4	% 12,367	3		%
Retail	9,297	3	% 10,125	3		%
Arts, entertainment, and recreation	12,517	4	% 11,091	3		%
Other	59,218	19	% 85,410	24		%
	\$310,376	100	% \$356,885	100		%

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## Construction loans:

	December 31		2009		
	2010	%	\$	%	
	\$	%	\$	%	
Land development:					
1-4 family	\$19,941	17	% \$19,092	13	%
Other construction and development	31,611	27	% 38,863	26	%
Land:					
Agricultural	18,177	16	% 12,798	8	%
Construction:					
1-4 family:					
Owner occupied	5,398	5	% 4,325	3	%
Nonowner occupied	8,662	7	% 20,466	14	%
Multifamily	1,050	1	% 8,899	6	%
Industrial, commercial, and other	31,762	27	% 44,062	30	%
	\$116,601	100	% \$148,505	100	%

## Commercial real estate loans:

	December 31		2009		
	2010	%	\$	%	
	\$	%	\$	%	
Owner occupied	\$199,993	54	% \$203,432	49	%
Nonowner occupied:					
Medical/retirement	51,078	14	% 51,731	13	%
Retail	45,828	12	% 47,225	12	%
Multifamily	26,767	7	% 34,321	8	%
Office	16,611	4	% 38,424	9	%
Warehouse	3,165	1	% 15,123	4	%
Hotel	10,185	3	% 8,440	2	%
Other	18,777	5	% 14,367	3	%
Total nonowner occupied	172,411	46	% 209,631	51	%
	\$372,404	100	% \$413,063	100	%

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## Maturities of Loans

The contractual maturities of the Company's loan portfolio are as shown in the following tables. Actual maturities may differ from contractual maturities because individual borrowers may have the right to prepay loans with or without prepayment penalties.

Loans as of December 31, 2010	Within one year	After one but within five years	After five years	Total
Commercial	\$227,729	\$72,653	\$9,994	\$310,376
Real estate:				
Construction, land, and land development	66,189	50,412	—	116,601
1-4 family residential first mortgages	17,752	31,682	2,326	51,760
Home equity	5,573	8,725	11,813	26,111
Commercial	29,572	271,860	70,972	372,404
Consumer and other loans	6,975	4,062	477	11,514
Total loans	\$353,790	\$439,394	\$95,582	\$888,766
		After one but within five years	After five years	
Loan maturities after one year with:				
Fixed rates		\$423,364	\$57,027	
Variable rates		16,030	38,555	
		\$439,394	\$95,582	

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## Risk Elements

The following table sets forth the amount of nonperforming loans by segment and other nonperforming assets held by the Company and common ratio measurements of those items.

	Years Ended December 31					
	2010	2009	2008	2007	2006	
Nonaccrual loans:						
Commercial	\$4,011	\$9,846	\$15,149	\$2,078	\$61	
Real estate:						
Construction, land, and land development	60	1,399	4,093	1,510	—	
1-4 family residential first mortgages	1,001	597	1,043	833	313	
Home equity	59	266	265	58	103	
Commercial	2,814	214	799	990	6	
Consumer and other loans	—	28	18	—	12	
Total nonaccrual loans	7,945	12,350	21,367	5,469	495	
Loans past due 90 days and still accruing interest:						
Commercial	—	—	—	215	—	
Real estate:						
Construction, land, and land development	—	—	—	—	—	
1-4 family residential first mortgages	198	—	92	178	—	
Home equity	—	—	—	15	17	
Commercial	—	—	—	—	131	
Consumer and other loans	—	1,150	—	—	7	
Total past due 90 days and still accruing interest	198	1,150	92	408	155	
Troubled debt restructured loans*:						
Commercial	—	6,168	596	—	—	
Real estate:						
Construction, land, and land development	1,195	84	—	—	—	
1-4 family residential first mortgages	—	523	—	—	—	
Home equity	—	—	6,780	—	—	
Commercial	3,578	6,024	—	—	—	
Consumer and other loans	14	18	—	—	—	
Total troubled debt restructured loans	4,787	12,817	7,376	—	—	
Total nonperforming loans	12,930	26,317	28,835	5,877	650	
Other real estate owned	19,193	25,350	4,352	155	2,002	
Nonaccrual investment securities	1,339	1,282	2,575	—	—	
Total nonperforming assets	\$33,462	\$52,949	\$35,762	\$6,032	\$2,652	
Nonperforming loans to total loans	1.46	% 2.58	% 2.62	% 0.60	% 0.07	%
Nonperforming assets to total assets	2.56	% 3.36	% 2.30	% 0.45	% 0.21	%

\* While restructured loans are commonly reported by the industry as nonperforming, those not classified in the nonaccrual category are accruing interest due to payment performance.





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The following table sets forth the activity within each category of nonperforming loans and assets for the year ended December 31, 2010.

	Nonaccrual	Loans Past Due 90 Days and Still Accruing Interest	Troubled Debt Restructured	Total Nonperforming Loans	Other Real Estate Owned	Nonaccrual Investment Securities	Total Nonperforming Assets
Balance at beginning of period	\$12,350	\$1,150	\$12,817	\$ 26,317	\$25,350	\$ 1,282	\$ 52,949
Increase in fair market value	—	—	—	—	—	321	321
Additions	5,694	7,853	5,111	18,658	5,528	625	24,811
Transfers:							
Past due to nonaccrual	1,738	(1,738 )	—	—	—	—	—
Troubled debt to nonaccrual	2,891	—	(2,891 )	—	—	—	—
Troubled debt to past due	—	16	(16 )	—	—	—	—
Nonaccrual to OREO	(1,660 )	—	—	(1,660 )	1,660	—	—
Upgrade in classification	(2,303 )	(6,734 )	(9,955 )	(18,992 )	—	—	(18,992 )
Sales	—	—	—	—	(11,666 )	(584 )	(12,250 )
Subsequent writedowns/ impairments	—	—	—	—	(1,621 )	(305 )	(1,926 )
Charge-offs	(6,115 )	(11 )	(24 )	(6,150 )	(58 )	—	(6,208 )
Payments	(4,650 )	(338 )	(255 )	(5,243 )	—	—	(5,243 )
Balance at end of period	\$7,945	\$198	\$4,787	\$ 12,930	\$19,193	\$ 1,339	\$ 33,462

Total nonperforming assets have declined 36.8 percent since the end of 2009. As indicated in the table above, the decline in nonperforming assets is spread across all nonperforming categories, except investment securities. Management is devoting a great deal of effort to monitoring these nonperforming assets, and West Bank loan officers are in frequent contact with loan customers to execute workout strategies on any potential loan problems.

The accrual of interest on past due and other impaired loans is generally discontinued when loan payments are past due 90 days or when, in the opinion of management, the borrower may be unable to make payments as they become due. Interest income is subsequently recognized only to the extent cash payments are received. Generally, all payments received while a loan is on nonaccrual status are applied to the principal balance of the loan. In certain cases, interest may continue to accrue on loans past due more than 90 days when the value of the collateral is sufficient to cover both the principal amount of the loan and accrued interest and the loan is in the process of collection. Interest income on troubled debt restructured loans (TDR) is recognized pursuant to the terms of the new loan agreement. A TDR may be reported in the nonaccrual category if it is not performing in accordance with its revised terms. Interest income on other impaired loans is monitored and based upon the terms of the underlying loan agreement. However, the recorded net investment in impaired loans, including accrued interest, is limited to the present value of the expected cash flows of the impaired loan or the observable fair market value of the loan's collateral.

Outstanding loans of \$10,323 were placed on nonaccrual status during 2010. Charge-offs of \$6,115 were recorded in 2010 related to nonaccrual loans and \$1,660 was transferred to other real estate owned. A loan may be removed from nonaccrual status when payments have resumed and it is reasonable to expect continued payment performance. For the years ended December 31, 2010, 2009, and 2008, interest income that would have been recorded during the nonaccrual period under the original terms of such loans was approximately \$664, \$1,411, and \$795, respectively.

A loan may be considered a TDR loan when the interest rate is reduced below that of a new loan with comparable risk or the term is extended beyond the original maturity date because of the inability of the borrower to service the loan at market terms. The payment history of the customer, along with a current analysis of its cash flows, is used to determine the restructured terms. Underwriting procedures are similar to those of new loan originations and renewals of performing loans in that current financial statements and tax returns are obtained and analyzed. A current assessment of collateral is performed. The approval process for TDRs is the same as that for new loans. The TDRs with extended terms are accounted for as impaired until ongoing performance is established. Any TDR with an interest rate concession remains in TDR status until paid off. As shown in the table above, TDRs totaling \$2,891 were transferred to nonaccrual during 2010. The average balance of all impaired loans during 2010 was approximately \$38,552. Interest income recognized on impaired loans in 2010 and 2009 was approximately \$1,467 and \$1,808, respectively, and was immaterial in 2008.

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The following table summarizes all loans designated as TDRs, which are performing as of December 31, 2010, along with the concession made.

	Number of Loans	Amount Outstanding
Concessions made:		
Lengthened amortization:		
Commercial	—	\$—
Real estate:		
Construction, land, and land development	1	80
1-4 family residential first mortgages	—	—
Home equity	—	—
Commercial	2	3,578
Consumer and other loans	1	14
	4	3,672
Reduced interest rate:		
Commercial	—	—
Real estate:		
Construction, land, and land development	1	1,115
1-4 family residential first mortgages	—	—
Home equity	—	—
Commercial	—	—
Consumer and other loans	—	—
	1	1,115
Total	5	\$4,787

As of December 31, 2010, West Bank had identified approximately \$6,601 of loans to two real estate developers, \$9,015 to three commercial real estate customers, \$1,169 to one commercial customer, and \$212 to an individual residential mortgage customer as potential problem loans. None of these loans were in default at the end of the year. It is not now possible to predict the degree of problems these loans may develop. However, West Bank is closely monitoring each of them.

The composition of other real estate owned as of December 31, 2010, is shown in the following table.

Construction, land development, and other land	\$12,953
1-4 family residential properties	1,038
Multifamily	1,374
Commercial properties	3,828
	\$19,193

The Company is actively marketing the assets included in the previous table. Unfortunately, demand for commercial real estate and development land remains weak. Valuations of other real estate owned are periodically performed by management so that the properties are carried at current market value less estimated disposal costs. Market values are determined by obtaining updated appraisals or other market information. The construction and land development category includes six properties in the Des Moines metropolitan area, one property in the Iowa City market, one property in Missouri, and one property in Arkansas. One of the Des Moines properties was sold in January 2011. The 1-4 family properties consist of seven homes. The multifamily category consists of a 22-unit townhome project in Arkansas, with 20 of the units currently rented. The commercial properties consist of five properties, all of which are

commercial facilities.

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SUMMARY OF THE ALLOWANCE FOR LOAN LOSSES

The provision for loan losses represents charges made to earnings to maintain an adequate allowance for loan losses. The allowance for loan losses is management's best estimate of probable losses inherent in the loan portfolio as of the balance sheet date. Factors considered in establishing an appropriate allowance include: an assessment of the financial condition of the borrower; a realistic determination of value and adequacy of underlying collateral; the condition of the local economy and the condition of the specific industry of the borrower; an analysis of the levels and trends of loan categories; and a review of delinquent and classified loans.

The adequacy of the allowance for loan losses is evaluated quarterly by management and reviewed by West Bank's Board of Directors. This evaluation 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.

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 or later acquired information. Furthermore, changes in future economic activity are always uncertain. 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 an integral part of their examination process, periodically review the estimated losses on loans. Such agencies may require West Bank to recognize additional losses based on their judgment about information available to them at the time of their examination.

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## Change in the Allowance for Loan Losses

West Bank's policy is to charge off loans when, in management's opinion, the loan is deemed uncollectible, although concerted efforts are made to maximize future recoveries. The following table summarizes activity in the Company's allowance for loan losses by loan segment for the years indicated, including amounts of loans charged off, amounts of recoveries, additions to the allowance charged to income, and related ratios.

	Analysis of the Allowance for Loan Losses for the Years				
	Ended December 31				
	2010	2009	2008	2007	2006
Balance at beginning of period	\$19,126	\$15,441	\$8,935	\$8,494	\$7,615
Charge-offs:					
Commercial	5,785	8,495	8,993	1,741	776
Real estate:					
Construction, land, and land development	209	2,859	952	—	295
1-4 family residential first mortgages	371	1,087	38	113	9
Home equity	266	598	92	243	—
Commercial	53	3,551	36	—	—
Consumer and other loans	234	4,790	259	45	60
	6,918	21,380	10,370	2,142	1,140
Recoveries:					
Commercial	716	493	236	191	270
Real estate:					
Construction, land, and land development	10	20	—	—	6
1-4 family residential first mortgages	33	8	22	20	1
Home equity	16	11	—	—	—
Commercial	10	—	—	—	—
Consumer and other loans	44	33	18	22	17