WEST BANCORPORATION INC
Form 10-K
March 06, 2013

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

FORM 10-K

(Mark One)

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT of 1934
For the fiscal year ended December 31, 2012

or

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

Commission file number: 0-49677

WEST BANCORPORATION, INC.
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| IOWA | 42-1230603 |
| (State of incorporation or organization) | (I.R.S. Employer Identification No.) |
| | |
| 1601 22nd STREET, WEST DES MOINES, IOWA | 50266 |
| (Address of principal executive offices) | (Zip code) |

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

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

Securities registered pursuant to Section 12(g) of the Act: NONE

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

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 o No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate 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 x No o

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. o

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

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

The aggregate market value of the voting common stock held by non-affiliates of the registrant as of June 30, 2012, was approximately $162,506,205.

Indicate the number of shares outstanding of each of the registrant's classes of common stock as of the most recent practicable date, March 5, 2013.

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 6, 2013, is incorporated by reference into Part III hereof to the extent indicated in such Part.

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"SAFE HARBOR" CONCERNING FORWARD-LOOKING STATEMENTS

Certain statements in this report, other than purely historical information, including estimates, projections, statements relating to our business plans, objectives, and expected operating results, and the assumptions upon which those statements are based, are “forward-looking statements” within the meanings of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements may appear throughout this report. These forward-looking statements are generally identified by the words “believes,” “expects,” “intends,” “should,” “anticipates,” “projects,” “future,” “may,” “should,” “will,” “plan,” “opportunity,” “will be,” “will likely result,” “will continue,” or similar references, or references to estimates, predictions, or future events. Such forward-looking statements are based upon certain underlying assumptions, risks, and uncertainties. Because of the possibility that the underlying assumptions are incorrect or do not materialize as expected in the future, actual results could differ materially from these forward-looking statements. Risks and uncertainties that may affect future results include: interest rate risk; competitive pressures; pricing pressures on loans and deposits; changes in credit and other risks posed by the Company's loan and investment portfolios, including declines in commercial or residential real estate values or changes in the allowance for loan losses dictated by new market conditions or regulatory requirements; actions of bank and non-bank competitors; changes in local and national economic conditions; changes in regulatory requirements, limitations, and costs; changes in customers' acceptance of the Company's products and services; and any other risks described in the “Risk Factors” sections of this and other reports made by the Company. The Company undertakes no obligation to revise or update such forward-looking statements to reflect current or future events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

PART I

ITEM 1. BUSINESS

General Development of Business

West Bancorporation, Inc. (the Company or West Bancorporation) is an Iowa corporation and a bank holding company registered under the Bank Holding Company Act of 1956, as amended (BHCA). The Company was formed in 1984 to own West Des Moines State Bank, an Iowa chartered bank headquartered in West Des Moines, Iowa. West Des Moines State Bank is now known as West Bank. West Bank is a business-focused community bank that was organized in 1893. The Company's primary activity during 2012 was the ownership of West Bank. The Company's and West Bank's only business is banking, and therefore, no segment information is presented.

The Company's vision is to achieve and sustain a position of industry envy and admiration. We are proud of our results for the fiscal year ended December 31, 2012. Our financial performance goal is to be in the top quartile of our benchmarking peer group, which consists of 16 of our peers. The four key metrics used to measure our performance and the 2012 ratios were as follows:

| | | | |
|---|---|---|---|
| l | Return on average assets: | 1.21 | % |
| l | Return on average equity: | 12.34 | % |
| l | Efficiency ratio: | 50.83 | % |
| l | Texas ratio: | 11.25 | % |

Based on peer group analysis using September 30, 2012 data, Company results through the third quarter were in the top quartile of our peer group. We currently believe our fiscal year 2012 results will remain in the top quartile once comparable peer results are available.

In the third quarter of 2012, our Company was named a "Small Cap All-Star" by the investment banking firm Sandler O'Neill + Partners, L.P. (Sandler O'Neill). This was a list of the 25 top performing publicly traded community banks and thrifts in the country according to the criteria set by Sandler O'Neill. It was an honor to receive that type of recognition by people who understand the banking industry.

The Company continued to grow in 2012 despite the ongoing uncertainty in the economy. Loans outstanding at the end of the year totaled $927 million compared to $839 million at the end of 2011. Total deposits grew by 19 percent over the course of 2012. The pipeline for new business is the strongest it has been over the past several years.

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Growth in our loans and deposits occurred in part because of efforts which began in 2011 when the sales and credit functions were, in large part, separated. This development allowed West Bank's sales force to be focused on generating revenue and building relationships. The credit function is focused on the underwriting and documentation of new business opportunities. In 2012, we extended this foundation and started expanding our sales force and continued to emphasize sales training. Commercial bankers were added in both the Des Moines and eastern Iowa markets. Additional mortgage bankers were added in the Des Moines market. The Company plans to continue to expand the sales force selectively as we move forward.

One of the keys to our operating success in 2012 was the continued improvement in credit quality. As of December 31, 2012, the percent of nonperforming assets to total assets was 1.17 percent compared to 1.80 percent as of December 31, 2011. Management continues to devote resources to improving asset quality and reducing nonperforming assets.

A challenge the Company faced in 2012, and will continue to face in 2013, is the pressure on our net interest margin in an environment of historically low interest rates. Our net interest margin declined by 16 basis points to 3.42 percent for the year ended December 31, 2012, as a result of yields on our loans and investment securities declining more than the rates paid on our deposits and borrowings.

The Company declared and paid common stock dividends totaling $0.36 per share in 2012 and declared a $0.10 dividend on January 23, 2013. The Company expects to continue paying regular quarterly dividends in the future. The capital position of the Company was strong at December 31, 2012. The Company's tangible common equity ratio at December 31, 2012, was 9.29 percent.

Description of the Company's Business

West Bank provides full-service community banking and trust services to customers located primarily in the Des Moines and Iowa City, Iowa metropolitan areas. West Bank has eight full-service offices in the Des Moines metropolitan area, two full-service offices in Iowa City, and one full-service office in Coralville. 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 insured by the Federal Deposit Insurance Corporation (FDIC) up to the maximum amount determined by law.

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

The market areas served by West Bank are highly competitive with respect to both loans and deposits. West Bank competes with other commercial banks, many of whom are subsidiaries of other bank holding companies, savings and loan associations, credit unions, mortgage companies, finance affiliates of auto companies, and other financial service providers. According to the FDIC's Summary of Deposits, as of June 30, 2012, there were 36 other banks and savings and loan associations operating within Polk County, Iowa, where seven of West Bank's offices are located. As of the same date, West Bank ranked fourth based on total deposits of all banking offices in Polk County. As of June 30, 2012, there were 18 other banks and savings and loan associations within Johnson County, Iowa, which includes Iowa City. Three West Bank offices are located in Johnson County. As of the same date, 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 tenth in terms of deposit size as of June 30, 2012.

Some of West Bank's competitors are locally controlled, while others are components of regional, national, or international companies. The larger national or regional banks have certain competitive advantages due to their ability to undertake 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 also have much higher legal lending limits than West Bank, and therefore, may be better able to service large, regional, national, and global commercial customers.

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

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

West Bank plans to open a loan production office in Rochester, Minnesota in the spring of 2013. West Bank believes it can capitalize on the business relationships developed by its Chief Executive Officer, David Nelson, during the 15 years he served that market prior to joining West Bank.

The Company and West Bank had approximately 180 full-time equivalent employees as of December 31, 2012.

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 deposit insurance fund rather than stockholders 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. A summary of the regulatory and supervisory environment in which the Company and West Bank operate are included below.

Supervision and Regulation

General

Financial institutions, their holding companies, and their affiliates are extensively regulated under federal and state law. As a result, our growth and earnings performance may be affected not only by management decisions and general economic conditions, but also by the requirements of federal and state statutes and by the regulations and policies of various bank regulatory authorities, including the Iowa Superintendent of Banking (the Iowa Superintendent), the Board of Governors of the Federal Reserve System (the Federal Reserve), the FDIC, and the newly-created Consumer Financial Protection Bureau (the CFPB). Furthermore, taxation laws administered by the Internal Revenue Service and state taxing authorities, accounting rules developed by the Financial Accounting Standards Board (the FASB), and securities laws administered by the Securities and Exchange Commission (the SEC) and state securities authorities have an impact on our business. The effect of these statutes, regulations, regulatory policies, and accounting rules are significant to our operations and results, and the nature and extent of future legislative, regulatory, or other changes affecting financial institutions are impossible to predict with any certainty.

Federal and state banking laws impose a comprehensive system of supervision, regulation, and enforcement on the operations of financial institutions, their holding companies, and affiliates that is intended primarily for the protection of the FDIC-insured deposits and depositors of banks, rather than stockholders. These federal and state laws, and the regulations of the bank regulatory authorities issued under them, affect, among other things, the scope of business, the kinds and amounts of investments banks may make, reserve requirements, capital levels relative to operations, the nature and amount of collateral for loans, the establishment of branches, the ability to merge, consolidate and acquire, dealings with insiders and affiliates, and the payment of dividends. In addition, turmoil in the credit markets in recent years prompted the enactment of unprecedented legislation that allowed the U.S. Department of the Treasury (Treasury) to make equity capital available to qualifying financial institutions to help restore confidence and stability in the U.S. financial markets, which imposes additional requirements on institutions in which the Treasury invests.

In addition, we are subject to regular examinations by regulatory authorities, which results in examination reports and ratings that are not publicly available and that can impact the conduct and growth of business. These examinations consider not only compliance with applicable laws and regulations, but also capital levels, asset quality and risk, management ability and performance, earnings, liquidity, and various other factors. The regulatory agencies generally have broad discretion to impose restrictions and limitations on the operations of a regulated entity where the agencies determine, among other things, that such operations are unsafe or unsound, fail to comply with applicable law, or are otherwise inconsistent with laws and regulations or with the supervisory policies of these agencies.

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The following is a summary of the material elements of the supervisory and regulatory framework applicable to the Company and our subsidiary. It does not describe all of the statutes, regulations, and regulatory policies that apply, nor does it restate all of the requirements of those that are described. The descriptions are qualified in their entirety by reference to the particular statutory or regulatory provision.

Financial Regulatory Reform

On July 21, 2010, President Obama signed the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) into law. The Dodd-Frank Act represents a sweeping reform of the supervisory and regulatory framework applicable to financial institutions and capital markets in the United States, certain aspects of which are described below in more detail. The Dodd-Frank Act creates new federal governmental entities responsible for overseeing different aspects of the U.S. financial services industry, including identifying emerging systemic risks. It also shifts certain authorities and responsibilities among federal financial institution regulators, including the supervision of holding company affiliates, and the regulation of consumer financial services and products. In particular, and among other things, the Dodd-Frank Act: creates the CFPB, which is authorized to regulate providers of consumer credit, savings, payment, and other consumer financial products and services; narrows the scope of federal preemption of state consumer laws enjoyed by national banks and federal savings associations and expands the authority of state attorneys general to bring actions to enforce federal consumer protection legislation; imposes more stringent capital requirements on bank holding companies and subjects certain activities, including interstate mergers and acquisitions, to heightened capital conditions; significantly expands underwriting requirements applicable to loans secured by 1-4 family residential real property; restricts the interchange fees payable on debit card transactions for issuers with $10 billion in assets or greater; requires the originator of a securitized loan, or the sponsor of a securitization, to retain at least 5 percent of the credit risk of securitized exposures unless the underlying exposures are qualified residential mortgages or meet certain underwriting standards to be determined by regulation; creates a Financial Stability Oversight Council as part of a regulatory structure for identifying emerging systemic risks and improving interagency cooperation; provides for enhanced regulation of advisers to private funds and of the derivatives markets; enhances oversight of credit rating agencies; and prohibits banking agency requirements tied to credit ratings.

Numerous provisions of the Dodd-Frank Act are required to be implemented through rulemaking by the appropriate federal regulatory agencies. Many of the required regulations have been issued and others have been released for public comment, but there remain a number that have yet to be released in any form. Furthermore, while the reforms primarily target systemically important financial service providers, their influence is expected to filter down in varying degrees to smaller institutions over time. Management of the Company and West Bank will continue to evaluate the effect of the changes; however, in many respects, the ultimate impact of the Dodd-Frank Act will not be fully known for years, and no current assurance may be given that the Dodd-Frank Act, or any other new legislative changes, will not have a negative impact on the results of operations and financial condition of the Company and West Bank.

The Increasing Regulatory Emphasis on Capital

The Company is subject to various regulatory capital requirements administered by the federal and state banking regulators noted above. Failure to meet regulatory capital requirements may result in certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have a direct material effect on our financial statements. Under capital adequacy guidelines and the regulatory framework for “prompt corrective action” (described below), the Company must meet specific capital guidelines that involve quantitative measures of our assets and certain off-balance sheet items as calculated under regulatory accounting policies. Our capital amounts and classifications are also subject to judgments by the regulators regarding qualitative components, risk weightings, and other factors.

While capital has historically been one of the key measures of the financial health of both bank holding companies and depository institutions, its role is becoming fundamentally more important in the wake of the financial crisis, as the regulators have recognized that the amount and quality of capital held by banking organizations was insufficient to absorb losses during periods of severe stress. Certain provisions of the Dodd-Frank Act and Basel III, discussed below, will ultimately establish strengthened capital standards for banks and bank holding companies, will require more capital to be held in the form of common stock, and will disallow certain funds from being included in capital determinations. Once fully implemented, these provisions will represent regulatory capital requirements that are meaningfully more stringent than those in place currently.

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Company and Bank Required Capital Levels. Bank holding companies have historically had to comply with less stringent capital standards than their bank subsidiaries and were able to raise capital with hybrid instruments such as trust preferred securities. The Dodd-Frank Act mandated the Federal Reserve to establish minimum capital levels for bank holding companies on a consolidated basis that are as stringent as those required for insured depository institutions. As a consequence, over a phase-in period of three years, the components of holding company permanent capital known as “Tier 1 capital” are being restricted to capital instruments that are considered to be Tier 1 capital for insured depository institutions. A result of this change is that the proceeds of trust preferred securities are being excluded from Tier 1 capital unless such securities were issued prior to May 19, 2010, by bank holding companies with less than $15 billion of assets. Because the Company has assets of less than $15 billion, the Company is able to maintain our trust preferred proceeds as Tier 1 capital but the Company will have to comply with new capital mandates in other respects, and will not be able to raise Tier 1 capital in the future through the issuance of trust preferred securities. In addition, the Basel III proposal, discussed below, includes a phase-out of trust preferred securities for all bank holding companies, including the Company.

Under current federal regulations, West Bank is subject to, and, after the phase-in period, the Company will be subject to, the following minimum capital standards:

- a leverage requirement, consisting of a minimum ratio of Tier 1 capital to total assets of 3 percent for the most highly-rated banks with a minimum requirement of at least 4 percent for all others, and
- a risk-based capital requirement, consisting of a minimum ratio of total capital to total risk-weighted assets of 8 percent and a minimum ratio of Tier 1 capital to total risk-weighted assets of 4 percent. For this purpose, “Tier 1 capital” consists primarily of common stock, noncumulative perpetual preferred stock and related surplus less intangible assets (other than certain loan servicing rights and purchased credit card relationships). Total capital consists primarily of Tier 1 capital plus “Tier 2 capital,” which includes other non-permanent capital items, such as certain other debt and equity instruments that do not qualify as Tier 1 capital, and a portion of West Bank's allowance for loan losses.

The capital standards described above are minimum requirements. Federal law and regulations provide various incentives for banking organizations to maintain regulatory capital at levels in excess of minimum regulatory requirements. For example, a banking organization that is “well-capitalized” may: (i) qualify for exemptions from prior notice or application requirements otherwise applicable to certain types of activities; (ii) qualify for expedited processing of other required notices or applications; and (iii) accept brokered deposits. Under the capital regulations of the Federal Reserve, in order to be “well-capitalized,” a banking organization must maintain a ratio of total capital to total risk-weighted assets of 10 percent or greater, a ratio of Tier 1 capital to total risk-weighted assets of 6 percent or greater and a ratio of Tier 1 capital to total assets of 5 percent or greater. The Federal Reserve's guidelines also provide that bank holding companies experiencing internal growth or making acquisitions will be expected to maintain strong capital positions substantially above the minimum supervisory levels without significant reliance on intangible assets. Furthermore, the guidelines indicate that the Federal Reserve will continue to consider a “tangible Tier 1 leverage ratio” (deducting all intangibles) in evaluating proposals for expansion or to engage in new activity.

Higher capital levels may also be required if warranted by the particular circumstances or risk profiles of individual banking organizations. For example, the Federal Reserve's capital guidelines contemplate that additional capital may be required to take adequate account of, among other things, interest rate risk, or the risks posed by concentrations of credit, nontraditional activities, or securities trading activities. Further, any banking organization experiencing or anticipating significant growth would be expected to maintain capital ratios, including tangible capital positions (i.e., Tier 1 capital less all intangible assets), well above the minimum levels.

Prompt Corrective Action. A banking organization's capital plays an important role in connection with regulatory enforcement as well. Federal law provides the federal banking regulators with broad power to take prompt corrective action to resolve the problems of undercapitalized institutions. The extent of the regulators' powers depends on whether the institution in question is “adequately capitalized,” “undercapitalized,” “significantly undercapitalized,” or “critically undercapitalized,” in each case as defined by regulation. Depending upon the capital category to which an institution is assigned, the regulators' corrective powers include: (i) requiring the institution to submit a capital restoration plan; (ii) limiting the institution's asset growth and restricting its activities; (iii) requiring the institution to issue additional capital stock (including additional voting stock) or to be acquired; (iv) restricting transactions between the institution and its affiliates; (v) restricting the interest rate the institution may pay on deposits; (vi) ordering a new election of directors of the institution; (vii) requiring that senior executive officers or directors be dismissed; (viii) prohibiting the institution from accepting deposits from correspondent banks; (ix) requiring the institution to divest certain subsidiaries; (x) prohibiting the payment of principal or interest on subordinated debt; and (xi) ultimately, appointing a receiver for the institution.

As of December 31, 2012: (i) West Bank was not subject to a directive from the FDIC to increase capital to an amount in excess of the minimum regulatory capital requirements; (ii) West Bank exceeded its minimum regulatory capital requirements under FDIC capital adequacy guidelines; and (iii) West Bank was “well-capitalized,” as defined by FDIC regulations. As of December 31, 2012, the Company had regulatory capital in excess of the Federal Reserve's requirements and met the Dodd-Frank Act capital requirements.

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Basel III. The current risk-based capital guidelines described above, which apply to West Bank and are being phased in for the Company, are based upon the 1988 capital accord known as “Basel I” adopted by the international Basel Committee on Banking Supervision, a committee of central banks and bank supervisors, as implemented by the U.S. federal banking regulators on an interagency basis. In 2008, the banking agencies collaboratively began to phase-in capital standards based on a second capital accord, referred to as “Basel II,” for large or “core” international banks (generally defined for U.S. purposes as having total assets of $250 billion or more, or consolidated foreign exposures of $10 billion or more). Basel II emphasized internal assessment of credit, market, and operational risk, as well as supervisory assessment and market discipline in determining minimum capital requirements.

On September 12, 2010, the Group of Governors and Heads of Supervision, the oversight body of the Basel Committee on Banking Supervision, announced agreement on a strengthened set of capital requirements for banking organizations around the world, known as Basel III, to address deficiencies recognized in connection with the global financial crisis. Basel III requires, among other things:

- a new required ratio of minimum common equity equal to 4.5 percent,
- an increase in the minimum required amount of Tier 1 capital from the current level of 4 percent of total assets to 6 percent of total assets, and
- a continuation of the current minimum required amount of total capital at 8 percent.

In addition, institutions that seek the freedom to make capital distributions (including for dividends and repurchases of stock) and pay discretionary bonuses to executive officers without restriction must also maintain 2.5 percent in common equity attributable to a capital conservation buffer to be phased in over three years. The purpose of the conservation buffer is to ensure that banks maintain a buffer of capital that can be used to absorb losses during periods of financial and economic stress. Factoring in the conservation buffer increases the ratios depicted above to 7 percent for common equity, 8.5 percent for Tier 1 capital and 10.5 percent for total capital.

On June 12, 2012, the federal banking regulators (the Office of the Comptroller of the Currency, the Federal Reserve, and the FDIC (the Agencies) formally proposed for comment, in three separate but related proposals, rules to implement Basel III in the United States. The proposals are: (i) the “Basel III Proposal,” which applies the Basel III capital framework to almost all U.S. banking organizations; (ii) the “Standardized Approach Proposal,” which applies certain elements of the Basel II standardized approach for credit risk weightings to almost all U.S. banking organizations; and (iii) the “Advanced Approaches Proposal,” which applies changes made to Basel II and Basel III in the past few years to large U.S. banking organizations subject to the advanced Basel II capital framework. The comment period for these notices of proposed rulemaking ended October 22, 2012.

The Basel III Proposal and the Standardized Approach Proposal are expected to have a direct impact on the Company and West Bank. The Basel III Proposal is applicable to all U.S. banks that are subject to minimum capital requirements, including federal and state banks, as well as to bank and savings and loan holding companies other than “small bank holding companies” (generally bank holding companies with consolidated assets of less than $500 million). There will be separate phase-in/phase-out periods for: (i) minimum capital ratios; (ii) regulatory capital adjustments and deductions; (iii) nonqualifying capital instruments; (iv) capital conservation and countercyclical capital buffers; (v) a supplemental leverage ratio for advanced approaches banks; and (vi) changes to the FDIC's prompt corrective action rules.

The criteria in the U.S. proposal for common equity and additional Tier 1 capital instruments, as well as Tier 2 capital instruments, are broadly consistent with the Basel III criteria. A number of instruments that now qualify as Tier 1 capital will not qualify, or their qualification will change, if the Basel III Proposal becomes final. For example, cumulative preferred stock and certain hybrid capital instruments, including trust preferred securities, which the Company may retain under the Dodd-Frank Act, will no longer qualify as Tier 1 capital of any kind. Noncumulative perpetual preferred stock, which now qualifies as simple Tier 1 capital, would not qualify as common equity Tier 1 capital, but would qualify as additional Tier 1 capital.

In addition to the changes in capital requirements included within the Basel III Proposal, the Standardized Approach Proposal revises a large number of the risk weightings (or their methodologies) for bank assets that are used to determine the capital ratios. For nearly every class of assets, the proposal requires a more complex, detailed and calibrated assessment of credit risk and calculation of risk weightings. For example, under the current risk-weighting rules, residential mortgages have a risk weighting of 50 percent. Under the proposed new rules, two categories of residential mortgage lending would be created: (i) traditional lending would be category 1, where the risk weights range from 35 to 100 percent; and (ii) nontraditional loans would fall within category 2, where the risk weightings would range from 50 to 150 percent. There is concern in the U.S. that the proposed methodology for risk weightings residential mortgage exposures and the higher risk weightings for certain types of mortgage products will increase costs to consumers and reduce their access to mortgage credit.

In addition, there is significant concern noted by the financial industry in connection with the Basel III rulemaking as to the proposed treatment of accumulated other comprehensive income (AOCI). The proposed treatment of AOCI would require unrealized gains and losses on available-for-sale securities to flow through to regulatory capital as opposed to the current treatment, which neutralizes such effects. There is concern that this treatment would introduce capital volatility, due not only to credit risk but also to interest rate risk, and affect the composition of firms' securities holdings.

While the Basel III accord called for national jurisdictions to implement the new requirements beginning January 1, 2013, in light of the volume of comments received by the Agencies and the concerns expressed above, the Agencies have indicated that the commencement date for the proposed Basel III rules has been indefinitely delayed and it is unclear when the Basel III capital framework, as it may be implemented by final rules, will become effective in the United States.

The Company

General. As the sole stockholder of West Bank, we are a bank holding company. As a bank holding company, we are registered with, and are subject to regulation by the Federal Reserve under the BHCA. In accordance with Federal Reserve policy, and as now codified by the Dodd-Frank Act, we are legally obligated to act as a source of financial strength to West Bank and to commit resources to support West Bank in circumstances where we might not otherwise do so. Under the BHCA, we are subject to periodic examination by the Federal Reserve. We are also required to file with the Federal Reserve periodic reports of our operations and such additional information regarding the Company and our subsidiaries as the Federal Reserve may require.

Acquisitions, Activities and Change in Control. The primary purpose of a bank holding company is to control and manage banks. The BHCA generally requires the prior approval of the Federal Reserve for any merger involving a bank holding company or any acquisition by a bank holding company of another bank or bank holding company. Subject to certain conditions (including deposit concentration limits established by the BHCA and the Dodd-Frank Act), the Federal Reserve may allow a bank holding company to acquire banks located in any state of the United States. In approving interstate acquisitions, the Federal Reserve is required to give effect to applicable state law limitations on the aggregate amount of deposits that may be held by the acquiring bank holding company and its insured depository institution affiliates in the state in which the target bank is located (provided that those limits do not discriminate against out-of-state depository institutions or their holding companies) and state laws that require that the target bank have been in existence for a minimum period of time (not to exceed five years) before being acquired by an out-of-state bank holding company. Furthermore, in accordance with the Dodd-Frank Act, bank holding companies must be well-capitalized and well-managed in order to effect interstate mergers or acquisitions. For a discussion of the capital requirements, see "—The Increasing Regulatory Emphasis on Capital" above.

The BHCA generally prohibits us from acquiring direct or indirect ownership or control of more than 5 percent of the voting shares of any company that is not a bank and from engaging in any business other than that of banking, managing and controlling banks, or furnishing services to banks and their subsidiaries. This general prohibition is subject to a number of exceptions. The principal exception allows bank holding companies to engage in, and to own shares of companies engaged in, certain businesses found by the Federal Reserve prior to November 11, 1999, to be "so closely related to banking . . . as to be a proper incident thereto." This authority would permit us to engage in a variety of banking-related businesses, including the ownership and operation of a thrift, or any entity engaged in consumer finance, equipment leasing, the operation of a computer service bureau (including software development), mortgage banking, and brokerage. The BHCA generally does not place territorial restrictions on the domestic activities of nonbank subsidiaries of bank holding companies.

Federal law also prohibits any person or company from acquiring "control" of an FDIC-insured depository institution or its holding company without prior notice to the appropriate federal bank regulator. "Control" is conclusively presumed to exist upon the acquisition of 25 percent or more of the outstanding voting securities of a bank or bank holding company, but may arise under certain circumstances between 10 percent and 24.99 percent ownership.

Financial Holding Company Regulation. Additionally, bank holding companies that meet certain eligibility requirements prescribed by the BHCA and elect to operate as financial holding companies may engage in, or own shares in companies engaged in, a wider range of nonbanking activities, including securities and insurance underwriting and sales, merchant banking, and any other activity that the Federal Reserve, in consultation with the Secretary of the Treasury, determines by regulation or order is financial in nature, incidental to any such financial activity or complementary to any such financial activity and does not pose a substantial risk to the safety or soundness of depository institutions or the financial system generally. As of the date of this filing, the Company has not elected to operate as a financial holding company.

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Capital Requirements. Bank holding companies are required to maintain minimum levels of capital in accordance with Federal Reserve capital adequacy guidelines, as affected by the Dodd-Frank Act and Basel III. For a discussion of capital requirements, see "—The Increasing Regulatory Emphasis on Capital" above. If capital levels fall below the minimum required levels, a bank holding company, among other things, may be denied approval to acquire or establish additional banks or nonbank businesses.

Dividend Payments. Our ability to pay dividends to our stockholders may be affected by both general corporate law considerations and policies of the Federal Reserve applicable to bank holding companies. As an Iowa corporation, we are subject to the limitations of Iowa law, which allows us to pay dividends unless, after such dividend, (i) we would not be able to pay our debts as they become due in the usual course of business or (ii) our total assets would be less than the sum of our total liabilities plus any amount that would be needed if we were to be dissolved at the time of the dividend payment, to satisfy the preferential rights upon dissolution of stockholders whose rights are superior to the rights of the stockholders receiving the distribution.

As a general matter, the Federal Reserve indicates that the board of directors of a bank holding company should eliminate, defer or significantly reduce the dividends if: (i) the company's net income available to stockholders for the past four quarters, net of dividends previously paid during that period, is not sufficient to fully fund the dividends; (ii) the prospective rate of earnings retention is inconsistent with the company's capital needs and overall current and prospective financial condition; or (iii) the company will not meet, or is in danger of not meeting, its minimum regulatory capital adequacy ratios. The Federal Reserve also possesses enforcement powers over bank holding companies and their nonbank subsidiaries to prevent or remedy actions that represent unsafe or unsound practices or violations of applicable statutes and regulations. Among these powers is the ability to proscribe the payment of dividends by banks and bank holding companies.

Federal Securities Regulation. Our common stock is registered with the SEC under the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended (the Exchange Act). Consequently, we are subject to the information, proxy solicitation, insider trading, and other restrictions and requirements of the SEC under the Exchange Act.

Corporate Governance. The Dodd-Frank Act addresses many investor protection, corporate governance, and executive compensation matters that will affect most U.S. publicly traded companies. The Dodd-Frank Act will increase stockholder influence over boards of directors by requiring companies to give stockholders a non-binding vote on executive compensation and so-called "golden parachute" payments, and authorizing the SEC to promulgate rules that would allow stockholders to nominate and solicit voters for their own candidates using a company's proxy materials. The legislation also directs the Federal Reserve to promulgate rules prohibiting excessive compensation paid to bank holding company executives, regardless of whether the company is publicly traded.

West Bank

General. West Bank is an Iowa-chartered bank, the deposit accounts of which are insured by the FDIC's Deposit Insurance Fund (the DIF) to the maximum extent provided under federal law and FDIC regulations. As an Iowa-chartered bank, West Bank is subject to the examination, supervision, reporting, and enforcement requirements of the Iowa Superintendent, the chartering authority for Iowa banks, and the FDIC, designated by federal law as the primary federal regulator of state-chartered, FDIC-insured banks that, like West Bank, are not members of the Federal Reserve System (non-member banks).

Deposit Insurance. As an FDIC-insured institution, the Bank is required to pay deposit insurance premium assessments to the FDIC. The FDIC has adopted a risk-based assessment system whereby FDIC-insured depository institutions pay insurance premiums at rates based on their risk classification. An institution's risk classification is assigned based on its capital levels and the level of supervisory concern the institution poses to the regulators.

On November 12, 2009, the FDIC adopted a final rule that required insured depository institutions to prepay on December 30, 2009, their estimated quarterly risk-based assessments for the fourth quarter of 2009 and for all of 2010, 2011, and 2012. As such, on December 31, 2009, the Bank prepaid the FDIC its assessments based on its: (i) actual September 30, 2009 assessment base, increased quarterly by a 5 percent annual growth rate through the fourth quarter of 2012; and (ii) total base assessment rate in effect on September 30, 2009, increased by an annualized three basis points beginning in 2011. The FDIC began to offset prepaid assessments on March 30, 2010, representing payment of the regular quarterly risk-based deposit insurance assessment for the fourth quarter of 2009. Any prepaid assessment not exhausted after collection of the amount due on June 30, 2013, will be returned to the institution.

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Amendments to the Federal Deposit Insurance Act also revise the assessment base against which an insured depository institution's deposit insurance premiums paid to the DIF will be calculated. Under the amendments, the assessment base is no longer the institution's deposit base, but rather its average consolidated total assets less its average tangible equity. This may shift the burden of deposit insurance premiums toward those large depository institutions that rely on funding sources other than U.S. deposits. Additionally, the Dodd-Frank Act makes changes to the minimum designated reserve ratio of the DIF, increasing the minimum from 1.15 percent to 1.35 percent of the estimated amount of total insured deposits, and eliminating the requirement that the FDIC pay dividends to depository institutions when the reserve ratio exceeds certain thresholds. The FDIC is given until September 3, 2020 to meet the 1.35 percent reserve ratio target. Several of these provisions could increase the Bank's FDIC deposit insurance premiums.

The Dodd-Frank Act permanently increased the maximum amount of deposit insurance for banks, savings institutions, and credit unions to $250,000 per insured depositor, retroactive to January 1, 2009. Although the legislation provided that noninterest-bearing transaction accounts had unlimited deposit insurance coverage through December 31, 2012.

FICO Assessments. The Financing Corporation (FICO) is a mixed-ownership governmental corporation chartered by the former Federal Home Loan Bank Board pursuant to the Competitive Equality Banking Act of 1987 to function as a financing vehicle for the recapitalization of the former Federal Savings and Loan Insurance Corporation. FICO issued 30-year non-callable bonds of approximately $8.1 billion that mature in 2017 through 2019. FICO's authority to issue bonds ended on December 12, 1991. Since 1996, federal legislation has required that all FDIC-insured depository institutions pay assessments to cover interest payments on FICO's outstanding obligations. These FICO assessments are in addition to amounts assessed by the FDIC for deposit insurance. During the year ended December 31, 2012, the FICO assessment rate was approximately 0.0066 percent, which reflects the change from an assessment base computed on deposits to an assessment base computed on assets as required by the Dodd-Frank Act.

Supervisory Assessments. All Iowa banks are required to pay supervisory assessments to the Iowa Superintendent to fund the operations of that agency. The amount of the assessment is calculated on the basis of the Bank's total assets. During the year ended December 31, 2012, the Bank paid supervisory assessments to the Iowa Superintendent totaling approximately $117,000.

Capital Requirements. Banks are generally required to maintain capital levels in excess of other businesses. For a discussion of capital requirements, see "—The Increasing Regulatory Emphasis on Capital" above.

Dividend Payments. The primary source of funds for the Company is dividends from the Bank. Under the Iowa Banking Act, Iowa-chartered banks generally may pay dividends only out of undivided profits. In addition, the Iowa Superintendent may restrict the declaration or payment of a dividend by an Iowa-chartered bank, such as West Bank.

The payment of dividends by any financial institution is affected by the requirement to maintain adequate capital pursuant to applicable capital adequacy guidelines and regulations, and a financial institution generally is prohibited from paying any dividends if, following payment thereof, the institution would be undercapitalized. As described above, West Bank exceeded its minimum capital requirements under applicable guidelines as of December 31, 2012. As of December 31, 2012, approximately $32.4 million was available to be paid as dividends by West Bank. Notwithstanding the availability of funds for dividends, however, the FDIC may prohibit the payment of any dividends by West Bank if the FDIC determines such payment would constitute an unsafe or unsound practice.

Insider Transactions. The Bank is subject to certain restrictions imposed by federal law on "covered transactions" between West Bank and its affiliates. The Company is an affiliate of West Bank for purposes of these restrictions, and covered transactions subject to the restrictions include extensions of credit to the Company, investments in our stock or other securities and the acceptance of our stock or other securities as collateral for loans made by West Bank. The Dodd-Frank Act enhances the requirements for certain transactions with affiliates as of July 21, 2011, including an expansion of the definition of “covered transactions” and an increase in the amount of time for which collateral requirements regarding covered transactions must be maintained.

Certain limitations and reporting requirements are also placed on extensions of credit by West Bank to its directors and officers, to directors and officers of the Company, to principal stockholders of the Company and to “related interests” of such directors, officers and principal stockholders. In addition, federal law and regulations may affect the terms upon which any person who is a director or officer of the Company or West Bank, or a principal stockholder of the Company, may obtain credit from banks with which the Bank maintains correspondent relationships.

Safety and Soundness Standards. The federal banking agencies have adopted guidelines that establish operational and managerial standards to promote the safety and soundness of federally insured depository institutions. The guidelines set forth standards for internal controls, information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, compensation, fees and benefits, asset quality, and earnings.

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In general, the safety and soundness guidelines prescribe the goals to be achieved in each area, and each institution is responsible for establishing its own procedures to achieve those goals. If an institution fails to comply with any of the standards set forth in the guidelines, the institution's primary federal regulator may require the institution to submit a plan for achieving and maintaining compliance. If an institution fails to submit an acceptable compliance plan, or fails in any material respect to implement a compliance plan that has been accepted by its primary federal regulator, the regulator is required to issue an order directing the institution to cure the deficiency. Until the deficiency cited in the regulator's order is cured, the regulator may restrict the institution's rate of growth, require the institution to increase its capital, restrict the rates the institution pays on deposits, or require the institution to take any action the regulator deems appropriate under the circumstances. Noncompliance with the standards established by the safety and soundness guidelines may also constitute grounds for other enforcement action by the federal banking regulators, including cease and desist orders and civil money penalty assessments.

Branching Authority. West Bank has the authority under Iowa law to establish branches anywhere in the State of Iowa, subject to receipt of all required regulatory approvals.

Federal law permits state and national banks to merge with banks in other states subject to: (i) regulatory approval; (ii) federal and state deposit concentration limits; and (iii) state law limitations requiring the merging bank to have been in existence for a minimum period of time (not to exceed five years) prior to the merger. The establishment of new interstate branches or the acquisition of individual branches of a bank in another state (rather than the acquisition of an out-of-state bank in its entirety) has historically been permitted only in those states the laws of which expressly authorize such expansion. However, the Dodd-Frank Act permits well-capitalized and well-managed banks to establish new branches across state lines without these impediments.

State Bank Investments and Activities. West Bank is permitted to make investments and engage in activities directly or through subsidiaries as authorized by Iowa law. However, under federal law and FDIC regulations, FDIC-insured state banks are prohibited, subject to certain exceptions, from making or retaining equity investments of a type, or in an amount, that are not permissible for a national bank. Federal law and FDIC regulations also prohibit FDIC-insured state banks and their subsidiaries, subject to certain exceptions, from engaging as principal in any activity that is not permitted for a national bank unless the bank meets, and continues to meet, its minimum regulatory capital requirements and the FDIC determines that the activity would not pose a significant risk to the DIF. These restrictions have not had, and are not currently expected to have, a material impact on the operations of West Bank.

Transaction Account Reserves. Federal Reserve regulations require depository institutions to maintain reserves against their transaction accounts (primarily NOW and regular checking accounts). For 2013: the first $12.4 million of otherwise reservable balances are exempt from the reserve requirements; for transaction accounts aggregating more than $12.4 million to $79.5 million, the reserve requirement is 3 percent of total transaction accounts; and for net transaction accounts in excess of $79.5 million, the reserve requirement is approximately $2.0 million plus 10 percent of the aggregate amount of total transaction accounts in excess of $79.5 million. These reserve requirements are subject to annual adjustment by the Federal Reserve. West Bank is in compliance with the foregoing requirements.

Consumer Financial Services

There are numerous developments in federal and state laws regarding consumer financial products and services that impact West Bank's business. Importantly, the current structure of federal consumer protection regulation applicable to all providers of consumer financial products and services changed significantly on July 21, 2011, when the CFPB commenced operations to supervise and enforce consumer protection laws. The CFPB has broad rulemaking authority for a wide range of consumer protection laws that apply to all providers of consumer products and services, including West Bank, as well as the authority to prohibit “unfair, deceptive, or abusive” acts and practices. The CFPB has examination and enforcement authority over providers with more than $10 billion in assets. Banks and savings institutions with $10 billion or less in assets, like West Bank, will continue to be examined by their applicable bank regulators.

Ability-to-Repay Requirement and Qualified Mortgage Rule. The Dodd-Frank Act contains additional provisions that affect consumer mortgage lending. First, it significantly expands underwriting requirements applicable to loans secured by 1-4 family residential real property and augments federal law combating predatory lending practices. In addition to numerous new disclosure requirements, the Dodd-Frank Act imposes new standards for mortgage loan originations on all lenders, including banks and savings associations, in an effort to strongly encourage lenders to verify a borrower's ability to repay, while also establishing a presumption of compliance for certain “qualified mortgages.” Most significantly, the new standards limit the total points and fees that West Bank and/or a broker may charge on conforming and jumbo loans to 3 percent of the total loan amount. In addition, the Dodd-Frank Act generally requires lenders or securitizers to retain an economic interest in the credit risk relating to loans that the lender sells and other asset-backed securities that the securitizer issues if the loans have not complied with the ability-to-repay standards. The risk retention requirement generally will be 5 percent, but could be increased or decreased by regulation.

On January 10, 2013, the CFPB issued a final rule, effective January 10, 2014, that implements the Dodd-Frank Act's ability-to-repay requirements, and clarifies the presumption of compliance for “qualified mortgages.” In assessing a borrower's ability to repay a mortgage-related obligation, lenders generally must consider eight underwriting factors: (i) current or reasonably expected income or assets; (ii) current employment status; (iii) monthly payment on the subject transaction; (iv) monthly payment on any simultaneous loan; (v) monthly payment for all mortgage-related obligations; (vi) current debt obligations, alimony, and child support; (vii) monthly debt-to-income ratio or residual income; and (viii) credit history. The final rule also includes guidance regarding the application of and methodology for evaluating these factors.

Further, the final rule also clarifies that qualified mortgages do not include “no-doc” loans and loans with negative amortization, interest-only payments, balloon payments, terms in excess of 30 years, or points and fees paid by the borrower that exceed 3 percent of the loan amount, subject to certain exceptions. In addition, for qualified mortgages, the monthly payment must be calculated on the highest payment that will occur in the first five years of the loan, and the borrower's total debt-to-income ratio generally may not be more than 43 percent. The final rule also provides that certain mortgages that satisfy the general product feature requirements for qualified mortgages and that also satisfy the underwriting requirements of Fannie Mae and Freddie Mac (while they operate under federal conservatorship or receivership) or the U.S. Department of Housing and Urban Development, Department of Veterans Affairs, or Department of Agriculture, or Rural Housing Service are also considered to be qualified mortgages. This second category of qualified mortgages will phase out as the aforementioned federal agencies issue their own rules regarding qualified mortgages, the conservatorship of Fannie Mae and Freddie Mac ends, and, in any event, after seven years.

As set forth in the Dodd-Frank Act, subprime (or higher-priced) mortgage loans are subject to the ability-to-repay requirement, and the final rule provides for a rebuttable presumption of lender compliance for those loans. The final rule also applies the ability-to-repay requirement to prime loans, while also providing a conclusive presumption of compliance (i.e., a safe harbor) for prime loans that are also qualified mortgages. Additionally, the final rule generally prohibits prepayment penalties (subject to certain exceptions) and sets forth a 3-year record retention period with respect to documenting and demonstrating the ability-to-repay requirement and other provisions.

Changes to Mortgage Loan Originator Compensation. Effective April 2, 2011, previously existing regulations concerning the compensation of mortgage loan originators were amended. As a result of these amendments, mortgage loan originators may not receive compensation based on a mortgage transaction's terms or conditions other than the amount of credit extended under the mortgage loan. Further, the new standards limit the total points and fees that a bank and/or a broker may charge on conforming and jumbo loans to 3.0 percent of the total loan amount. Mortgage loan originators may receive compensation from a consumer or from a lender, but not both. These rules contain requirements designed to prohibit mortgage loan originators from “steering” consumers to loans that provide mortgage loan originators with greater compensation. In addition, the rules contain other requirements concerning recordkeeping.

Foreclosure and Loan Modifications. Federal and state laws further impact foreclosures and loan modifications, with many of such laws having the effect of delaying or impeding the foreclosure process on real estate secured loans in default. Mortgages on commercial property can be modified, such as by reducing the principal amount of the loan or the interest rate, or by extending the term of the loan, through plans confirmed under Chapter 11 of the Bankruptcy Code. In recent years, legislation has been introduced in the U.S. Congress that would amend the Bankruptcy Code to permit the modification of mortgages secured by residences, although at this time the enactment of such legislation is not presently proposed. The scope, duration and terms of potential future legislation with similar effect continue to be discussed. The Company cannot predict whether any such legislation will be passed or the impact, if any, it would have on our business.

ADDITIONAL INFORMATION

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

## 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 primarily includes commercial loans, which involve risks specific to commercial borrowers.

The largest component of West Bank's income is interest received on loans. West Bank is in substantial part a business bank. Its loan portfolio includes a significant amount of commercial real estate loans, construction or land development loans, commercial lines of credit, and commercial term loans. West Bank's typical commercial borrower is a small or medium-sized privately-owned Iowa business entity. Our commercial loans typically have greater credit risks than standard residential mortgage or consumer loans because commercial loans often have larger balances and repayment usually depends on the borrowers' successful business operations. Commercial loans also involve some additional risk because they generally are not fully repaid over the loan period and thus usually require refinancing or a large payoff at maturity. If the general economy turns substantially downward, commercial borrowers may not be able to repay their loans and the value of their assets, which are usually pledged as collateral, may decrease rapidly and significantly. Also, when credit markets tighten due to adverse developments in specific markets or the general economy, opportunities for refinancing may become more expensive or unavailable, resulting in loan defaults. Our success is also dependent to a large extent upon the areas in which we operate. Competition for quality loans in our market area continues to be robust.

Our loan portfolio includes commercial real estate loans, which involve risks specific to real estate value.

Commercial real estate loans were a significant portion of our total loan portfolio as of December 31, 2012. The market value of real estate can fluctuate significantly in a short period of time as a result of market conditions in the geographic area in which the real estate is located. Adverse developments affecting real estate values in one or more of our markets could increase the credit risk associated with our loan portfolio. Additionally, real estate lending typically involves higher loan principal amounts and the repayment of the loans generally is dependent, in large part, on sufficient income from the properties securing the loans to cover operating expenses and debt service. Economic events or governmental regulations outside of the control of the borrower or lender could negatively impact the future cash flow and market values of the affected properties.

If the loans that are collateralized by real estate become troubled and the value of the real estate has been significantly impaired, then we may not be able to recover the full contractual amount of principal and interest that we anticipated at the time of originating the loan, which could cause us to increase our provision for loan losses and adversely affect our operating results and financial condition.

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, underwriting, 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, and we can make no guarantees concerning the strength of our loan portfolio.

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

At December 31, 2012, West Bank's nonperforming loans, which consist of nonaccrual loans, loans past due 90 days and still accruing, and troubled debt restructured (TDR) loans, totaled $7.3 million or 0.78 percent of our loan portfolio. While this total has declined over the past five years to be in line with our historical experience, nonperforming loans adversely affect our net income in various ways. We do not record interest income on nonaccrual loans, thereby negatively affecting our income and returns on assets and equity, and our administrative costs increase significantly. Nonperforming loans require significant time commitments from management and our lending staff, which takes time away from other duties, including the generation of new business. There is no assurance that we will experience continued reductions in nonperforming loans in the future.

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

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

We are subject to environmental liability risk associated with real estate collateral securing our loans.

A significant portion of our loan portfolio is secured by real property. Under certain circumstances, we may take title to the real property collateral through foreclosure or other means. As the titleholder of the property, we may be responsible for environmental risks, such as hazardous materials, which attach to the property. For these reasons, prior to extending credit, we have an environmental risk assessment program to identify any known environmental risks associated with the real property which will secure our loans. In addition, we routinely inspect properties following the taking of title. When environmental risks are found, environmental laws and regulations may prescribe our approach to remediation. As a result, we may incur substantial expense and bear potential liability for any damages caused. The environmental risks may also materially reduce the property's value or limit our ability to use or sell the property.

If we are unable to sell the other real estate owned for the estimated fair value on our balance sheets it could have a material adverse effect on our financial condition and results of operations.

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

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

As of December 31, 2012, the fair value of our securities portfolio was approximately $292.3 million. Factors beyond our control can significantly influence the fair value of securities in our portfolio and can cause potential adverse changes to the fair value of those securities. These factors include, but are not limited to, changes in interest rates, rating agency downgrades of the securities, defaults by the issuer or individual mortgagors with respect to the underlying securities, and instability in the credit markets. Any of the foregoing factors could cause an other than temporary impairment (OTTI) in future periods and result in realized losses.

We analyze our investment securities quarterly to determine whether, in the opinion of management, any of the securities have OTTI. To the extent that any portion of the unrealized losses in our portfolio of investment securities is determined to have OTTI and is 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 have OTTI 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 the Company has the intent to sell the security or if it is more likely than not that the Company will be required to sell the security before collection of the principal amount.

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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 (GAAP) 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; the application of that chosen accounting policy or method 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 OTTI of investment securities available for sale, (2) determining the valuation of other real estate owned, and (3) the allowance for loan losses. Because of the inherent uncertainty of these estimates, no assurance can be given that application of alternative policies or methods might not result in the reporting of different amounts of the fair value of securities available for sale, the fair value of other real estate owned, the allowance for loan losses, and net income.

We are subject to liquidity risks.

West Bank maintains liquidity primarily through customer deposits and other short-term funding sources, including advances from the Federal Home Loan Bank (FHLB) and purchased federal funds. 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 the Company or West Bank realizing losses.

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

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

We operate in highly competitive markets and face strong competition in originating loans, in seeking deposits, and in offering our other services. We compete in making loans, attracting deposits, and recruiting and retaining talented people. The Des Moines metropolitan market area, in particular, has attracted many new financial institutions within the last two decades. We also compete with nonbank financial service providers, many of which are not subject to the same regulatory restrictions that we are and may be able to compete more effectively as a result.

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. This competitive climate can make it more difficult to establish and maintain relationships with new and existing customers and can lower the rate that we are able to charge on loans, increase the rates we must offer on deposits, and affect our charges for other services. Those factors can, in turn, adversely affect our financial condition and results of operations. Our growth and profitability depend on our continued ability to compete effectively within our market and our inability to do so could have a material adverse effect on us.

Our inability to continue to accurately process large volumes of transactions could adversely impact our business and financial results.

We process large volumes of transactions on a daily basis in our branches and through our processor and are exposed to numerous types of operational risk. Operational risk resulting from inadequate or failed internal processes, people, and systems includes the risk of fraud by persons inside or outside West Bank, the execution of unauthorized transactions by employees, errors relating to transaction processing and systems, and breaches of the internal control system and compliance requirements. This risk of loss also includes the potential legal actions that could arise as a result of the operational deficiency or as a result of noncompliance with applicable regulatory standards.

We establish and maintain systems of internal operational controls that are designed to provide us with timely and accurate information about our level of operational risk. These systems have been designed to manage operational risk at appropriate, cost-effective levels. Procedures also exist that are designed to ensure that policies relating to conduct, ethics, and business practices are followed. From time to time, losses from operational risk may occur, including the consequences of operational errors.

While we continually monitor and improve the system of internal controls, data processing systems and corporate-wide processes and procedures, there can be no assurance that future losses will not occur.

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

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

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

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

West Bank depends on data processing, communication, and information exchange on a variety of platforms, networks, and over the internet. West Bank cannot be certain that all of its systems are entirely free from vulnerability to attack, despite safeguards that it has installed. West Bank does business with a number of third-party service providers and vendors with respect to West Bank's business, data, and communications needs. If information security is breached, or if one of West Bank's employees or vendors breaches compliance procedures, information could be lost or misappropriated in manners resulting in financial loss to West Bank, damages to others, or potential litigation. Cyber incidents such as computer break-ins, phishing, identity theft, and other disruptions could jeopardize the security of information stored in and transmitted through our computer systems and network infrastructure, which may result in significant liability to us in excess of any applicable 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.

Damage to our reputation could adversely affect our business.

Our business depends upon earning and maintaining the trust and confidence of our customers, investors, and employees. Damage to our reputation could cause significant harm to our business. Harm to our reputation can arise from numerous sources, including, among others, employee misconduct, compliance failures, litigation, or governmental investigations. In addition, a failure to deliver appropriate standards of service, or a failure or perceived failure to treat customers and clients fairly, can result in customer dissatisfaction, litigation, and heightened regulatory scrutiny, all of which can lead to lost revenue, higher operating costs, and harm to our reputation. Adverse publicity about West Bank, whether or not true, may result in harm to our business. Should any events or factors that can undermine our reputation occur, there is no assurance that the additional costs and expenses to address the issues giving rise to the reputational harm would not adversely affect our financial condition and results of operations.

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

West Bank's business involves financial assets. Financial assets are always potential targets for fraudulent activities. Employee, customer, or third-party fraud could subject us to operational losses, regulatory sanctions, and could seriously harm our reputation. Misconduct by our employees, customers, or third-parties could include unauthorized activities, improper or unauthorized activities on behalf of a customer, deceit, or misappropriation. We maintain a system of internal controls and insurance coverage to mitigate operational risks; however, it is not always possible to prevent such conduct. Should our internal controls fail to prevent or detect an occurrence, or if any resulting loss is not insured or exceeds our insurance limits, a fraud could have a material adverse affect on our business, results of operations, or financial conditions. Fraud does not even have to be aimed at West Bank to cause a loss. Losses are possible even where a customer is the victim of fraud or misappropriation of assets if bank collateral is involved.

We may experience difficulties in managing our growth.

As previously stated, we plan to open a loan production office in Rochester, Minnesota. In the future, we may decide to expand into additional communities or attempt to strengthen our position in our current markets through opportunistic acquisitions of all or part of other financial institutions or related businesses that we believe provide a strategic fit with our business, or by opening new branches or loan production offices. To the extent that we undertake acquisitions or new office openings, we are likely to experience the effects of higher operating expense relative to operating income from the new operations, which may have an adverse effect on our levels of reported net income, return on average equity, and return on average assets. Other effects of engaging in such growth strategies may include potential diversion of our management's time and attention and general disruption to our business.

To the extent that we grow through acquisitions or office openings, we cannot provide assurance that we will be able to adequately or profitably manage such growth. Acquiring other banks and businesses will involve risks similar to those commonly associated with new office openings but may also involve additional risks. These additional risks include potential exposure to unknown or contingent liabilities of banks and businesses we acquire, exposure to potential asset quality issues of the acquired bank or related business, difficulty and expense of integrating the operations and personnel of banks and businesses we acquire, and the possible loss of key employees and customers of the banks and businesses we acquire.

Maintaining or increasing our market share may depend on lowering prices and market acceptance of new products and services.

Our success depends, in part, on our ability to adapt our products and services to evolving industry standards. There is increased pressure to provide products and services at lower prices. Lower prices can reduce our net interest margin and revenues from our fee-based products and services. In addition, the widespread adoption of new technologies, could require us to make substantial expenditures to modify or adapt our existing products and services. Also, these and other capital investments in our business may not produce expected growth in earnings anticipated at the time of the expenditure. We may not be successful in introducing new products and services, achieving market acceptance of our products and services, or developing and maintaining loyal customers.

The recent repeal of federal prohibitions on payment of interest on business demand deposits could increase our interest expense and have a material adverse effect on us.
All federal prohibitions on the ability of financial institutions to pay interest on business demand deposit accounts were repealed as part of the Dodd-Frank Act. As a result, some financial institutions have commenced offering interest on these demand deposits to compete for customers. If competitive pressures require us to pay interest on these demand deposits to attract and retain business customers, our interest expense would increase and our net

interest margin would decrease. This could have a material adverse effect on us. Further, the effect of the repeal of the prohibition could be more significant in a higher interest rate environment as business customers would have a greater incentive to seek interest on demand deposits.

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

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

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Disruption of infrastructure could adversely impact our operations.

Our operations depend upon our technological and physical infrastructures, particularly those located at our home office. Extended disruption of our vital infrastructures due to fire, power loss, natural disaster, telecommunications failure, computer hacking and viruses, or other events could detrimentally affect our financial performance. We have developed disaster recovery plans to mitigate this risk.

Risks Related to West Bancorporation's Common Stock

Our stock is relatively thinly traded.

Although our common stock is traded on the Nasdaq Global Select Market, the average daily trading volume of our common stock is relatively small compared to many public companies. The desired market characteristics of depth, liquidity, and orderliness require the substantial presence of willing buyers and sellers in the marketplace at any given time. In our case, this presence depends on the individual decisions of a relatively small number of investors and general economic and market conditions over which we have no control. Due to the relatively small trading volume of our common stock, significant sales of our common stock, or the expectation of these sales, could cause the stock price to fall more than would be justified by the inherent worth of the Company. Conversely, attempts to purchase a significant amount of our stock could cause the market price to rise above the reasonable inherent worth of the Company.

There can be no assurances concerning continuing dividend payments.

Our common stockholders are only entitled to receive the dividends declared by our Board of Directors. In 2012, our Board declared a cash dividend on our common stock in the first and second quarters of $0.08 per share and a dividend of $0.10 per share in the third and fourth quarters, and in January 2013 a dividend of $0.10 per common share was declared. Although we have historically paid quarterly dividends on our common stock, there can be no assurances that we will be able to continue to pay regular quarterly dividends or in any particular amount. The primary source of money to pay our dividends comes from dividends paid to the Company by West Bank. West Bank's ability to pay dividends to West Bancorporation is subject to, among other things, its earnings, financial condition, and applicable regulations, which in some instances limit the amount that may be paid as dividends. In addition, the Company must pay any dividends due on its junior subordinated debentures before it can issue a dividend on its common stock.

Issuing additional common or preferred stock may adversely affect the market price of our common stock or capital may not be available when needed.

The Company may issue additional common or preferred shares in order to raise capital at some date in the future to support continued growth, internally generated or through an acquisition. Common shares will be issued through the Company's 2012 Equity Incentive Plan (the 2012 Plan) as grants of restricted stock units (RSUs) vest. As additional shares of common or preferred stock are issued, the ownership interests of our existing stockholders may be diluted. The market price of our common stock might decline or fail to advance in response to issuing additional common or preferred shares. Our ability to raise additional capital, if needed, will depend on conditions in the capital markets at that time, which are outside of our control. Accordingly, we cannot provide assurance of our ability to raise additional capital, if needed, at acceptable terms.

We are required to maintain capital to meet regulatory requirements, and if we fail to maintain sufficient capital, whether due to an inability to raise capital, operational losses, or otherwise, our financial condition, liquidity, and results of operations, as well as our ability to maintain regulatory compliance, would be adversely affected.

The Company and West Bank are required by federal and state regulatory authorities to maintain adequate levels of capital to support their operations, and we expect that the capital requirements imposed by the regulators will increase in the future. The ability to raise additional capital, when and if needed, will depend on conditions in the capital markets, economic conditions, and a number of other factors, including investor perceptions regarding the banking industry and market conditions, and governmental activities, many of which are outside our control, and on our financial condition and performance. Accordingly, we cannot provide assurance that we will be able to raise additional capital, if needed, or on terms acceptable to us. Failure to meet these capital and other regulatory requirements could affect customer confidence, our ability to grow, the costs of funds, FDIC insurance costs, the ability to pay dividends on common stock and to make distributions on the junior subordinated debentures, the ability to make acquisitions, results of operations, and financial condition.

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The holders of our junior subordinated debentures have rights that are senior to those of our stockholders.

As of December 31, 2012, the Company had $20.6 million in junior subordinated debentures outstanding which were issued to the Company's subsidiary trust, West Bancorporation Capital Trust I. The junior subordinated debentures are senior to the Company's shares of common stock. As a result, the Company must make payments on the junior subordinated debentures (and the related trust preferred securities (TPS)) before any dividends can be paid on its common stock and, in the event of the Company's bankruptcy, dissolution, or liquidation, the holders of the debentures must be satisfied before any distributions can be made to the holders of the common stock. The Company has the right to defer distributions on the junior subordinated debentures (and the related TPS) for up to five years, during which time no dividends may be paid to holders of the Company's common stock. The Company's ability to pay future distributions depends upon the earnings of West Bank and the dividends from West Bank to the Company, which may be inadequate to service the obligations. Interest payments on the junior subordinated debentures underlying the TPS are classified as a “dividend” by the Federal Reserve supervisory policies and therefore are subject to applicable restrictions and approvals imposed by the Federal Reserve Board on the Company.

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

We may be materially and adversely affected by the highly regulated environment in which we operate.

We are subject to extensive federal and state regulation, supervision and examination. Banking regulations are primarily intended to protect depositors' funds, FDIC funds, customers, and the banking system as a whole, rather than stockholders. These regulations affect our lending practices, capital structure, investment practices, dividend policy, and growth, among other things.

As a bank holding company, we are subject to extensive regulation and supervision. We undergo periodic examinations by our regulators, who have extensive discretion and authority to prevent or remedy unsafe or unsound practices or violations of law by banks and bank holding companies.

The primary federal and state banking laws and regulations that affect us are described in this report under the section captioned “Supervision and Regulation.” These laws, regulations, rules, standards, policies, and interpretations are constantly evolving and may change significantly over time. For example, on July 21, 2010, the Dodd-Frank Act was signed into law, which significantly changed the regulation of financial institutions and the financial services industry. The Dodd-Frank Act, together with the regulations to be developed thereunder, includes provisions affecting large and small financial institutions alike, including several provisions that affect how community banks, thrifts, and small bank and thrift holding companies are and will be regulated. In addition, the Federal Reserve has adopted numerous new regulations in recent years addressing banks' overdraft and mortgage lending practices. Further, the CFPB was recently established, with broad powers to supervise and enforce consumer protection laws, and additional consumer protection legislation and regulatory activity is anticipated in the near future.

In September 2010, the Group of Governors and Heads of Supervision, the oversight body of the Basel Committee on Banking Supervision, adopted Basel III, which constitutes a strengthened set of capital requirements for banking organizations in the United States and around the world. In the United States, Basel III is currently the subject of notices of proposed rulemakings released in June of 2012 by the respective federal bank regulatory agencies. The comment period for these notices of proposed rulemakings ended on October 22, 2012, but final regulations have not yet been released. Basel III was intended to be implemented beginning January 1, 2013 and to be fully-phased in on a global basis on January 1, 2019. However, on November 9, 2012, the federal bank regulatory agencies announced that the implementation of the proposed rules under Basel III was indefinitely delayed. If and when implemented, Basel III would require capital to be held in the form of tangible common equity, generally increase the required capital ratios, phase out certain kinds of intangibles treated as capital and certain types of instruments, like trust preferred securities, and change the risk weightings of assets used to determine required capital ratios. Such changes, including changes regarding interpretations and implementation, could affect us in substantial and unpredictable ways and could have a material adverse effect on us. Further, such changes could subject us to additional costs, limit the types of financial services and products we may offer, and/or increase the ability of non-banks to offer competing financial services and products, among other things.

U.S. financial institutions are also subject to numerous monitoring, recordkeeping, and reporting requirements designed to detect and prevent illegal activities such as money laundering and terrorist financing. These requirements are imposed primarily through the Bank Secrecy Act, which was most recently amended by the USA Patriot Act. We have instituted policies and procedures to protect us and our employees, to the extent reasonably possible, from being used to facilitate money laundering, terrorist financing, and other financial crimes. There can be no guarantee, however, that these policies and procedures will be effective.

Failure to comply with applicable laws, regulations, or policies could result in sanctions by regulatory agencies, civil monetary penalties, and/or damage to our reputation, which could have a material adverse effect on us. Although we have policies and procedures designed to mitigate the risk of any such violations, there can be no assurance that such violations will not occur.

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In addition to the foregoing, the policies of the Federal Reserve also have a significant impact on us. Among other things, the Federal Reserve's monetary policies directly and indirectly influence the rate of interest earned on loans and paid on borrowings and interest-bearing deposits, and can also affect the value of financial instruments we hold and the ability of borrowers to repay their loans, which could have a material adverse effect on us.

Our business is subject to domestic and, to a lesser extent, international economic conditions and other factors, many of which are beyond our control and could materially and adversely affect us.

From December 2007 through June 2009, the U.S. economy was in recession. Business activity across a wide range of industries and regions in the United States was greatly reduced. In addition, local governments and many businesses continue to experience difficulty due to lower consumer spending and decreased liquidity in the credit markets.

Market conditions also led to the failure or merger of several prominent financial institutions and numerous regional and community-based financial institutions. These failures, as well as projected future failures, have had a significant negative impact on the capitalization level of the DIF, which, in turn, has led to a significant increase in deposit insurance premiums paid by financial institutions compared to pre-recession levels.

Our financial performance generally, and in particular the ability of customers to pay interest on and repay principal of outstanding loans and the value of collateral securing those loans, as well as demand for loans and other products and services we offer, is highly dependent upon the business environment not only in the markets where we operate but also in the state of Iowa generally and in the United States as a whole. A favorable business environment is generally characterized by, among other factors: economic growth; efficient capital markets; low inflation; low unemployment; high business and investor confidence; and strong business earnings. Unfavorable or uncertain economic and market conditions can be caused by: declines in economic growth, business activity, or investor or business confidence; limitations on the availability or increases in the cost of credit and capital; increases in inflation or interest rates; high unemployment; natural disasters; or a combination of these or other factors.

Further, concerns about the European Union's sovereign debt crisis have also caused uncertainty for financial markets globally in recent years. Such risks could indirectly affect us by affecting our hedging or other counterparties, as well as our customers with European businesses or assets denominated in the euro or companies in our market with European businesses or affiliates.

Overall, although showing signs of improvement, the business environment in recent years was unfavorable for many households and businesses in the United States. While economic conditions in our market, the state of Iowa, and the United States have generally improved since the recession, there can be no assurance that this improvement will continue or occur at a meaningful rate. Such conditions could materially and adversely affect us.

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. If interest rates 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 income during the transition periods. Changes in interest rates could also influence our ability to originate loans and obtain deposits, the fair value of our financial assets and liabilities, and the average duration of our securities portfolio. Community banks, such as

West Bank, rely more heavily on net interest income 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 larger 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.

ITEM 1B. UNRESOLVED STAFF COMMENTS

There are no unresolved comments from the Commission staff.

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## ITEM 2. PROPERTIES

The Company is located in the main office building of West Bank, at 1601 22nd 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. In addition to its main office and headquarters, West Bank also leases bank buildings and space for eight other locations and for operational departments. The offices are full-service locations, with drive-up facilities and automated teller machines, except for the office in Coralville, which does not have a drive-up. Annual lease payments for these eight offices and the space for operating departments total approximately $1,200,000. The Company 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 sued in a purported class action lawsuit that, as amended, asserts nonsufficient funds fees charged by West Bank to Iowa resident noncommercial customers on bank card transactions, but not checks or Automated Clearing House items, are impermissible finance charges under the Iowa Consumer Credit Code, rather than allowable fees, and that the sequence in which West Bank formerly posted items for payment violated its duties of good faith under its customer account agreements, the Iowa Uniform Commercial Code, and the Iowa Consumer Credit Code. The case is currently being brought by Darla and Jason T. Legg, on behalf of themselves and all others similarly situated, in the Iowa District Court for Polk County, Iowa. West Bank believes the allegations in the lawsuit are factually and legally incorrect in material ways. West Bank is vigorously defending the action. The amount of potential loss, if any, cannot be reasonably estimated now because there are substantial and different defenses concerning the various claims of potential liability and class certification.

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.

## ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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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 2012 and 2011. The market quotations, reported by Nasdaq, do not include retail markup, markdown, or commissions.
Market and Dividend Information

| | High | Low | Dividends |
|---|---|---|---|
| 2012 | | | |
| 1st quarter | $10.46 | $8.71 | $0.08 |
| 2nd quarter | 10.22 | 9.02 | 0.08 |
| 3rd quarter | 12.35 | 9.38 | 0.10 |
| 4th quarter | 12.29 | 9.75 | 0.10 |
| | | | |
| 2011 | | | |
| 1st quarter | $8.00 | $6.75 | $— |
| 2nd quarter | 8.89 | 6.94 | 0.05 |
| 3rd quarter | 10.00 | 7.31 | 0.05 |
| 4th quarter | 10.39 | 7.92 | 0.07 |

There were 218 holders of record of the Company's common stock as of February 21, 2013, and an estimated 1,900 additional beneficial holders whose stock was held in street name by brokerage houses. The closing price of the Company's common stock was $11.09 on February 21, 2013.

In the aggregate, dividends to common stockholders in 2012 and 2011 were $0.36 and $0.17 per common share, respectively. Dividend declarations are evaluated and determined by the Board of Directors on a quarterly basis and the dividends are paid quarterly. 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.

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.

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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 - Composite 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, 2007, in the common stock, the Nasdaq - Composite 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.

WEST BANCORPORATION, INC.

| | Period Ending | | | | | |
|---|---|---|---|---|---|---|
| Index | 12/31/2007 | 12/31/2008 | 12/31/2009 | 12/31/2010 | 12/31/2011 | 12/31/2012 |
| West Bancorporation, Inc. | 100.00 | 99.06 | 40.27 | 64.07 | 80.32 | 93.66 |
| NASDAQ Composite | 100.00 | 60.02 | 87.24 | 103.08 | 102.26 | 120.42 |
| SNL Midwest Bank | 100.00 | 65.79 | 55.75 | 69.23 | 65.39 | 78.71 |

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ITEM 6. SELECTED FINANCIAL DATA
West Bancorporation, Inc. and Subsidiary
Selected Financial Data

| | Years Ended December 31 | | | | |
|---|---|---|---|---|---|
| (in thousands, except per share amounts) | 2012 | 2011 | 2010 | 2009 | 2008 |
| Operating Results | | | | | |
| Interest income | $50,662 | $53,319 | $61,143 | $67,730 | $72,532 |
| Interest expense | 9,464 | 11,917 | 19,023 | 26,636 | 31,431 |
| Net interest income | 41,198 | 41,402 | 42,120 | 41,094 | 41,101 |
| Provision for loan losses | 625 | 550 | 6,050 | 24,500 | 16,600 |
| Net interest income after provision for loan losses | 40,573 | 40,852 | 36,070 | 16,594 | 24,501 |
| Noninterest income | 10,994 | 9,361 | 10,387 | 8,904 | 4,301 |
| Noninterest expense | 28,792 | 28,873 | 27,744 | 37,905 | 20,105 |
| Income (loss) before income taxes | 22,775 | 21,340 | 18,713 | (12,407) | 8,697 |
| Income taxes (benefits) | 6,764 | 6,072 | 5,330 | (7,356) | 1,386 |
| Income (loss) from continuing operations | 16,011 | 15,268 | 13,383 | (5,051) | 7,311 |
| Income (loss) from discontinued operations before income taxes | — | — | — | (10,262) | 563 |
| Income taxes (benefits) | — | — | — | (696) | 238 |
| Income (loss) from discontinued operations | — | — | — | (9,566) | 325 |
| Net income (loss) | 16,011 | 15,268 | 13,383 | (14,617) | 7,636 |
| Preferred stock dividends and accretion of discount | — | (2,387) | (2,284) | (2,276) | — |
| Net income (loss) available to common stockholders | $16,011 | $12,881 | $11,099 | $(16,893) | $7,636 |
| | | | | | |
| Dividends and Per Share Data | | | | | |
| Cash dividends | $6,265 | $2,959 | $870 | $1,566 | $11,138 |
| Cash dividends per common share | 0.36 | 0.17 | 0.05 | 0.09 | 0.64 |
| Basic earnings (loss) per common share | 0.92 | 0.74 | 0.64 | (0.97) | 0.44 |
| Diluted earnings (loss) per common share | 0.92 | 0.74 | 0.64 | (0.97) | 0.44 |
| Average common shares outstanding | 17,404 | 17,404 | 17,404 | 17,404 | 17,405 |
| | | | | | |
| Year End and Average Balances | | | | | |
| Total assets | $1,448,175 | $1,269,524 | $1,305,463 | $1,575,054 | $1,554,276 |
| Average assets | 1,326,408 | 1,295,313 | 1,558,461 | 1,618,557 | 1,371,401 |
| Investment securities | 304,103 | 294,497 | 267,537 | 351,269 | 189,558 |
| Loans, including held for sale | 930,764 | 843,048 | 893,101 | 1,021,042 | 1,101,753 |
| Allowance for loan losses | (15,529) | (16,778) | (19,087) | (19,126) | (15,441) |
| Deposits | 1,134,576 | 957,373 | 972,072 | 1,246,617 | 1,155,132 |
| Long-term borrowings | 114,509 | 125,619 | 125,619 | 145,619 | 145,619 |
| Stockholders' equity | 134,587 | 123,451 | 145,436 | 133,059 | 150,063 |
| Average stockholders' equity | 129,795 | 135,520 | 141,079 | 143,163 | 118,090 |

Performance Ratios

| | | | | | |
|---|---|---|---|---|---|
| Equity to assets ratio (average equity divided by average assets) | 9.79 % | 10.46 % | 9.05 % | 8.85 % | 8.61 % |
| Return on assets (net income (loss) divided by average assets) | 1.21 % | 1.18 % | 0.86 % | (0.90 )% | 0.56 % |
| Return on equity (net income (loss) divided by average equity) | 12.34 % | 11.27 % | 9.49 % | (10.21 )% | 6.47 % |
| Texas ratio (total nonperforming assets divided by tangible common equity plus the allowance for loan losses) | 11.25 % | 16.33 % | 25.76 % | 44.91 % | 33.81 % |
| Efficiency ratio (noninterest expense (excluding other real estate owned expense, goodwill impairment, and discontinued operations) divided by noninterest income (excluding net securities gains and net impairment losses) plus tax-equivalent net interest income) | 50.83 % | 49.27 % | 47.28 % | 45.30 % | 38.24 % |
| Dividend payout ratio (common dividends paid divided by net income (loss) available to common stockholders) | 39.13 % | 22.97 % | 7.84 % | NM | 145.86 % |

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 2012 financial results continued to improve significantly in comparison to 2011 and 2010. The Company's 2012 net income available to common stockholders was $16,011 compared to $12,881 in 2011, an improvement of over 24 percent. On a diluted per common share basis, earnings improved to $0.92 from $0.74. The most significant difference from last year was the payment in 2011 of preferred stock dividends and accretion of discount totaling $2,387. The absence of preferred stock dividends and accretion is due to the redemption of the preferred stock on June 29, 2011. We earned 1.21 percent on average assets in 2012 compared to 1.18 percent in 2011. The return on average equity (ROE) increased during 2012 to 12.34 percent from 11.27 percent in 2011. During 2012, we paid our common stockholders $6,265 ($0.36 per common share) in dividends compared to $2,959 ($0.17 per common share) in 2011. The dividend declared in the first quarter of 2013 was $0.10 per common share.

Beginning in 2012, we began a program of quantitative peer analysis for evaluating Company results. We have identified a set of 16 publicly traded peer financial institutions against which we compare our performance each quarter. Our peer group consists of BankFinancial Corporation, Baylake Corp., CFS Bancorp, Inc., Firstbank Corporation, First Mid-Illinois Bancshares, Inc., Hills Bancorporation, Horizon Bancorp, Isabella Bank Corporation, Macatawa Bank Corporation, Mercantile Bank Corporation, MetroCorp Bancshares, Inc., MidWestOne Financial Group, Inc., MutualFirst Financial, Inc., NASB Financial, Inc., Pulaski Financial Corp., and QCR Holdings, Inc. Our goal is to perform at or near the top of those peers relative to what we consider to be four key metrics: return on average equity, return on average assets, efficiency ratio, and Texas ratio. We believe these measures encompass the factors that define the performance of a community bank. Through September 30, 2012, we ranked in the top 25 percent of our defined peer group for each of these measures. We expect that trend to have continued through the end of 2012. Our Company was named a "Small Cap All-Star" by the investment banking firm Sandler O'Neill during the third quarter of 2012. This was a list of the 25 top performing publicly traded community banks and thrifts in the country according to the criteria set by Sandler O'Neill. It was an honor to receive that type of recognition by people who understand the banking industry.

The Texas ratio, which is the ratio of nonperforming assets to tangible capital plus the allowance for loan losses, improved to 11.25 percent as of December 31, 2012, compared to 16.33 percent as of December 31, 2011. These are both significant improvements from the 44.91 percent reported as of the end of 2009. This decline was the result of continued improvement in the level of nonperforming assets. Management continues to devote the appropriate resources to monitoring and reducing nonperforming assets.

Net interest income declined to $41,198 in 2012 compared to $41,402 in 2011, primarily due to continued downward pressure on interest rates. Noninterest income improved by 17.4 percent, primarily due to an increase in gains and fees on sales of residential mortgages. The low interest rate environment continues to result in higher volumes of mortgage activity. We have also added mortgage loan originators to capitalize on this source of revenue. Noninterest expense held steady compared to the prior year as both FDIC insurance expense and costs related to other real estate owned declined and were offset by higher salary and benefit costs. Our efficiency ratio increased slightly to 50.83 percent for 2012 from 49.27 percent in 2011.

Our loan portfolio grew 10.5 percent to $927,401 at December 31, 2012, from $838,959 at the end of 2011, with a significant portion of that growth coming in the fourth quarter. Despite the continuing uncertainty in the economy, our loan customers are beginning to move ahead with plans to grow their businesses. While we have experienced positive growth in 2012, we cannot predict when or by how much our loan portfolio will continue to grow. Deposits increased 18.5 percent by the end of 2012 compared to the end of 2011. Both of these happened as a result of our vision of achieving and sustaining a position of industry envy and admiration. One of the building blocks of achieving our vision is through customer loyalty and retention. We continue to build relationships by expanding business with current customers and striving to gain new customers.

We have strong capital resources. Our stock price increased approximately 12.5 percent from the end of 2011 to the end of 2012, our existing capital ratios are strong, and our earnings are solid. We understand the things that are required to be a great community bank for our customers and stockholders. Our core corporate values and goals are defined by that understanding. Our team is focused on being, and remaining, a great community bank.

(dollars in thousands, except per share amounts)

From the political, regulatory, and economic perspectives, we expect 2013 will be a year of continued uncertainty as our political leaders continue to struggle to accomplish significant legislative actions. We expect the unusually low interest rate environment to continue in the current year, so we are implementing strategies to maintain our net interest margin. We anticipate the Company will be profitable in 2013 at a level that compares favorably with our peers. The amount of our future profit will depend, in large part, on the amount of loan losses we incur and our ability to grow the loan portfolio. Our loan portfolio still presents somewhat higher than normal risks because it contains a significant amount 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 2013 and beyond remain uncertain.

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 (a community development entity), and the Company's financial condition as of December 31, 2012.

CRITICAL ACCOUNTING POLICIES

This report is based on the Company's audited consolidated financial statements, which have been prepared in accordance with GAAP. 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 OTTI of available for sale investment securities, the valuation of other real estate owned, and the allowance for loan losses.

Securities available for sale are reported at fair value, with unrealized gains and losses reported as a separate component of accumulated other comprehensive income, net of deferred income taxes. The Company evaluates each of its investment securities whose value has declined below amortized cost to determine whether the decline in fair value is OTTI. The investment portfolio is evaluated for OTTI by segregating the portfolio into two segments and applying the appropriate OTTI model. Investment securities classified as available for sale are generally evaluated for OTTI under FASB ASC 320, Investments - Debt and Equity Securities. However, certain purchased beneficial interests in securitized financial assets, including asset-backed securities and collateralized debt obligations, that had credit ratings 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 whether the Company intends to sell the security or whether it is more likely than not the Company will be required to sell the debt security before its anticipated recovery.

Under the FASB ASC 325 model for the second segment of the portfolio, the Company compares the present value of the remaining cash flows as estimated at the preceding evaluation date to the current expected remaining cash flows.

An OTTI is deemed to have occurred if there has been an adverse change in the remaining expected future cash flows.

When OTTI occurs under either model, the amount of the OTTI recognized in earnings depends on whether the Company intends to sell the security or whether it is more likely than not that it will be required to sell the security before recovery of its amortized cost basis. If the Company intends to sell, or it is more likely than not that it will be required to sell the security before recovery of its amortized cost basis, the OTTI is recognized in earnings equal to the entire difference between the investment's amortized cost basis and its fair value at the balance sheet date. If the Company does not intend to sell the security and it is not more likely than not that 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, 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.

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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 at the date of foreclosure thus establishing a new cost basis. Fair value is determined by management by obtaining appraisals or other market value information at least annually. Any write-downs in value at the date of acquisition are charged to the allowance for loan losses. After foreclosure, valuations are periodically performed by management by obtaining updated appraisals or other market information. Any subsequent write-downs are recorded as a charge to operations, if necessary, to reduce the carrying value of a property to the updated fair value less estimated selling cost. Net costs related to the holding of properties are included in noninterest expense.

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 that 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 - 2012 COMPARED TO 2011

### OVERVIEW

Total net income available to common stockholders for the year ended December 31, 2012, was $16,011 compared to $12,881 for the year ended December 31, 2011. The most significant difference from the prior year was the payment of preferred stock dividends
and accretion of discount totaling $2,387 in 2011. The Company's outstanding preferred stock was redeemed on June 29, 2011, so there were no such dividends and accretion of discount in 2012. Basic and diluted earnings per common share were $0.92 and $0.74 for 2012 and 2011, respectively. The Company's 2012 ROE was 12.34 percent compared to 11.27 percent in 2011. The return on average assets (ROA) was 1.21 percent, compared to 1.18 percent for the prior year.

Net income was $16,011 for 2012 compared to $15,268 for 2011. The improvement in net income in 2012 compared to 2011 was primarily because of higher gains and fees on sales of residential mortgages and lower write-downs on other real estate owned.

The Company has consistently used the efficiency ratio as one of its key financial metrics to measure expense control. For the year ended December 31, 2012, the Company's efficiency ratio increased slightly to 50.83 percent from the prior year's ratio of 49.27 percent. This ratio is computed by dividing noninterest expense (excluding other real estate owned expense) by the sum of tax-equivalent net interest income plus noninterest income (excluding securities gains and net impairment losses). The ratio for both years is significantly better than peer group averages, which were generally around 70 percent according to data in the September 2012 Bank Holding Company Performance Report, which is prepared by the Federal Reserve Board's Division of Banking Supervision and Regulation.

Net Interest Income

Net interest income declined $204 to $41,198 for 2012 as the impact of lower yields on loans and investment securities exceeded the savings from lower rates paid on deposits and borrowings and a higher level of interest-earning assets. The net interest margin declined to 3.42 percent from 3.58 percent in 2011. The average yield on earning assets declined 39 basis points, while the rate on interest-bearing liabilities declined 27 basis points. The net interest spread, which is the difference between the yields earned on assets and the rates paid on liabilities, declined to 3.13 percent from 3.25 percent a year earlier.

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Loan Volume/Loan Quality

Total loans increased $88,442 to $927,401 as of December 31, 2012, from $838,959 a year earlier. Management believes the loan portfolio will continue to grow during 2013 as the pipeline for new loans remains strong and the Company is focused on attracting new customers and expanding relationships with existing customers. Nonperforming loans at December 31, 2012, totaled $7,256 or 0.78 percent of total loans. At December 31, 2011, nonperforming loans totaled $10,693 or 1.27 percent of total loans. Nonperforming loans include loans on nonaccrual status, loans past due 90 days or more, and loans that have been considered TDR due to the borrowers experiencing financial difficulties. In addition, at December 31, 2012, the Company held $8,304 of other real estate owned. The Company's Texas ratio was 11.25 percent as of December 31, 2012, compared to 16.33 percent as of December 31, 2011. The ratio for both years is significantly better than peer group averages, which were approximately 25 percent according to data in the September 2012 Bank Holding Company Performance Report. 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 $15,529 as of December 31, 2012, represented 1.67 percent of total loans and 214.0 percent of nonperforming loans at year end, compared to 2.00 percent and 156.9 percent, respectively, as of December 31, 2011. The provision for loan losses totaled $625 for 2012, up slightly from $550 for 2011. The Company's net charge-offs as a percent of average loans were 0.22 percent for 2012 compared to 0.34 percent for 2011. The amount of loans charged off in 2012 totaled $2,584 compared to $4,764 in 2011. Recoveries in 2012 from loans previously charged off were $710, down from $1,905 in the prior year. The 2011 recoveries included one commercial recovery of $1,000 as the result of the sale of a loan which had been charged off in a prior year.

Noninterest Income

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

| | Years ended December 31 | | | |
|---|---|---|---|---|
| Noninterest income: | 2012 | 2011 | Change | Change % |
| Service charges on deposit accounts | $3,009 | $3,244 | $(235) | (7.24)% |
| Debit card usage fees | 1,586 | 1,453 | 133 | 9.15% |
| Trust services | 817 | 792 | 25 | 3.16% |
| Gains and fees on sales of residential mortgages | 3,104 | 1,454 | 1,650 | 113.48% |
| Increase in cash value of bank-owned life insurance | 737 | 884 | (147) | (16.63)% |
| Gain from bank-owned life insurance | 841 | 637 | 204 | 32.03% |
| Investment securities impairment losses | (203) | (99) | (104) | (105.05)% |
| Realized investment securities gains, net | 246 | — | 246 | N/A |
| Other income: | | | | |
| Wire transfer fees | 138 | 160 | (22) | (13.75)% |
| Gain from sales of other assets | — | 112 | (112) | (100.00)% |
| All other income | 719 | 724 | (5) | (0.69)% |
| Total other income | 857 | 996 | (139) | (13.96)% |
| Total noninterest income | $10,994 | $9,361 | $1,633 | 17.44% |

The decline in service charges on deposit accounts was primarily caused by lower overdraft and return item charges.

Debit card usage fees continued to show positive growth in 2012 as customers continued to move away from traditional check writing. We believe these fees may decline in the future due to the Dodd-Frank Act and the Federal Reserve final rule which sets a cap on interchange fees at a rate below the market-driven levels. While financial institutions such as West Bank, with less than ten billion dollars in assets, are exempt from the cap, industry groups believe the price controls will have a negative impact on community banks over time.

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The volume of originations of residential mortgages sold into the secondary market during 2012 increased to $129,322 from $69,952 in 2011, resulting in a 113 percent growth in revenue. The low interest rate environment continues to fuel the growth along with an improved level of home sales in the Company's market areas. Also contributing to the growth in volume was the addition of origination staff in the Des Moines market in each of the last three quarters of 2012. The Company plans to continue to expand its mortgage origination staff to capitalize on the opportunities in its local markets. Approximately 65 percent of originations during 2012 involved homeowners refinancing current mortgages in an effort to lock in low interest rates. The Company believes 2013 secondary market loan revenues will remain strong due to the historically low interest rates, although the level of refinancings may be lower as the number of homeowners still seeking a lower rate may decline significantly.

The lower increase in cash value of bank-owned life insurance is due to lower crediting rates within the policies due to the low interest rate environment. Gain from bank-owned life insurance occurred due to the deaths of a bank officer in each of 2012 and 2011.

As of December 31, 2012, the Company held one pooled TPS it considered to have OTTI. As a result of quarterly evaluations of this security, impairment losses of $203 and $99 were recognized during the years ended December 31, 2012 and 2011, respectively. The Company took advantage of an opportunity to sell two collateralized mortgage obligations in the second quarter of 2012 at a gain and was able to replace them with similar bonds with comparable yields, thus resulting in net gains of $246 for 2012. There were no sales of investment securities during 2011.

Gains from sales of other assets in 2011 included a gain on sale of a foreclosed asset in the first quarter and the sale of an interest in a partnership in the third quarter.

Noninterest Expense

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

| | Years ended December 31 | | | | | |
|---|---|---|---|---|---|---|
| Noninterest expense: | 2012 | 2011 | Change | | Change % | |
| Salaries and employee benefits | $14,532 | $13,194 | $1,338 | | 10.14 | % |
| Occupancy | 3,519 | 3,342 | 177 | | 5.30 | % |
| Data processing | 2,070 | 1,921 | 149 | | 7.76 | % |
| FDIC insurance expense | 672 | 1,298 | (626 | ) | (48.23 | )% |
| Other real estate owned expense | 1,491 | 2,883 | (1,392 | ) | (48.28 | )% |
| Professional fees | 1,064 | 878 | 186 | | 21.18 | % |
| Consulting fees | 582 | 282 | 300 | | 106.38 | % |
| Miscellaneous losses | 195 | 455 | (260 | ) | (57.14 | )% |
| Other expenses: | | | | | | |
| Marketing | 268 | 311 | (43 | ) | (13.83 | )% |
| Business development | 410 | 331 | 79 | | 23.87 | % |
| Director fees | 448 | 390 | 58 | | 14.87 | % |
| Insurance expense | 341 | 351 | (10 | ) | (2.85 | )% |
| Bank service charges and fees | 505 | 488 | 17 | | 3.48 | % |
| Deposit operations expense | 81 | 214 | (133 | ) | (62.15 | )% |
| Contributions | 380 | 300 | 80 | | 26.67 | % |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Loss on disposal of fixed assets | 125 | 12 | 113 | | 941.67 | % |
| All other | 2,109 | 2,223 | (114 | ) | (5.13 | )% |
| Total other | 4,667 | 4,620 | 47 | | 1.02 | % |
| Total noninterest expense | $28,792 | $28,873 | $(81 | ) | (0.28 | )% |

The increase in salaries and employee benefits consisted of normal salary increases plus salaries for employees added in the past year ($734), higher bonus accruals ($160), higher secondary market real estate origination commissions ($308), and higher benefit costs ($247). The benefit cost increases were primarily for payroll taxes ($60), health insurance ($91), and 401(k) plan contributions ($89). The 401(k) increase was primarily due to an increase in the Company matching contribution which became effective January 1, 2012.

(dollars in thousands, except per share amounts)

Occupancy expense increased due to higher depreciation expense on purchases of equipment and rental expense as additional space was leased. Data processing expense increased in 2012 due to fees related to a new commercial loan management software program and enhancements to deposit systems. Management expects data processing expense to be lower in 2013, based on comparable transaction volumes, as a result of renegotiating the contract with the Company's core processor.

There were two reasons for the decline in FDIC insurance expense compared to 2011. The first was the April 1, 2011, change in the assessment base from total average deposits to total average assets less tangible capital. The second was an upgrade in West Bank's regulatory risk classification on June 3, 2011. The level of expense in 2013 is expected to hold steady when compared to 2012, unless total assets increase significantly.

Other real estate owned expense for the years ended December 31, 2012 and 2011, included $1,442 and $3,109, respectively, of property valuation write-downs due to updated appraisals and estimated disposal costs for several properties. The Company's practice is to obtain updated appraisals on other real estate owned at least annually.

Professional fees increased primarily due to higher legal fees related to corporate governance matters and implementation of the stockholder-approved equity incentive plan. Consulting fees increased year-over-year because the Company hired a compensation consultant to assist the Board of Directors, outsourced the loan review function, hired a consultant to implement and test a new commercial loan management software program, hired a human resources consultant to improve the salary administration process, and hired a consultant to review and assist with the negotiation of the previously mentioned renewal of the Company's primary data processing contract with our core systems processor. Consulting fees are expected to be somewhat lower in 2013 as the human resources and data processing contract renewal projects have been completed.

Miscellaneous losses declined year-over-year as estimated potential losses for the Mortgage Partnership Finance program through the FHLB declined $228. Business development costs increased as a result of efforts to acquire new customers. The increase in director fees in 2012 was due in part to recognition of stock-based compensation costs for RSUs granted to directors. Deposit operations expense declined as a result of changes made to demand deposit account products. Contribution expense increased as higher amounts were donated to the West Bancorporation Foundation.

Loss on disposal of fixed assets included the second quarter 2012 write-off of design costs not used in the final plans related to the construction of a new leased replacement office.

Income Taxes

The Company records a provision for income tax expense 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 (ICD IV, LLC), 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 as a percent of income before income taxes from continuing operations was an expense of 29.7 percent and 28.5 percent, respectively, for 2012 and 2011. The federal income tax expense was approximately $5,677 and $5,071 for 2012 and 2011, respectively, while state income tax expense was approximately $1,087 and $1,001, respectively. The Company has recorded a valuation allowance against the tax effect of state net operating losses, federal and state capital loss carryforwards, and investment security impairments as management believes it is more likely than not that such carryforwards will expire without being utilized.

RESULTS OF OPERATIONS - 2011 COMPARED TO 2010

OVERVIEW

Total net income available to common stockholders for the year ended December 31, 2011, was $12,881 compared to $11,099 for the year ended December 31, 2010. Basic and diluted earnings per common share were $0.74 and $0.64 for the same periods, respectively. The Company's 2011 ROE was 11.27 percent compared to 9.49 percent in 2010. The ROA was 1.18 percent compared to 0.86 percent for the prior year.

Net income was $15,268 for 2011 compared to $13,383 for 2010. The improvement in net income in 2011 compared to 2010 was due to a $5,500 decline in the provision for loan losses. The provision declined due to the combination of lower outstanding loan balances, improving net charge-off experience, and improved credit quality.

Noninterest income declined by $1,026 compared to 2010. Noninterest income for 2010 included $1,314 of service fees paid to West Bank by SmartyPig, LLC. This fee was discontinued in the third quarter of 2010 after the SmartyPig® savings deposits were transferred to a larger financial institution, therefore no such fees were included in noninterest income for 2011.

Noninterest expense increased by $1,129 over 2010 primarily due to higher salaries and benefit costs and other real estate owned expenses. These increases were partially offset by a substantial reduction in FDIC insurance expense.

For the year ended December 31, 2011, the Company's efficiency ratio increased slightly to 49.27 percent from the prior year's ratio of 47.28 percent.

Net Interest Income

Net interest income declined $718 to $41,402 for 2011 as the impact of a 17.2 percent decline in average earning assets exceeded the savings from lower rates paid on deposits and borrowings. The net interest margin improved to 3.58 percent from 3.04 percent in 2010. The average yield on earning assets increased 23 basis points primarily due to the $104,975 reduction in average federal funds sold and other short-term investments, while the average rate paid on interest-bearing liabilities declined 29 basis points. The net interest spread improved to 3.25 percent from 2.73 percent a year earlier.

Loan Volume/Loan Quality

Total loans declined $49,690 to $838,959 as of December 31, 2011, from $888,649 a year earlier. Following growth during the second and third quarters of 2011, loans outstanding declined approximately $27,700 during the fourth quarter. This was attributable to the unexpected payoff of three large commercial loans. Nonperforming loans at December 31, 2011, totaled $10,693 or 1.27 percent of total loans compare to $12,930 or 1.46 percent of total loans at December 31, 2010. In addition, at December 31, 2011, the Company held $10,967 of other real estate owned. The Company's Texas ratio was 16.33 percent as of December 31, 2011, compared to 25.76 percent as of December 31, 2010.

The allowance for loan losses, which totaled $16,778 as of December 31, 2011, represented 2.00 percent of total loans and 156.9 percent of nonperforming loans at year end, compared to 2.15 percent and 147.6 percent as of December 31, 2010. The provision for loan losses totaled $550 for 2011, down from $6,050 for 2010. The Company's net charge-offs as a percent of average loans were 0.34 percent for 2011 compared to 0.63 percent for 2010. The amount of loans charged off in 2011 totaled $4,764 compared to $6,918 in 2010. Recoveries in 2011 from loans previously charged off were $1,905, up from $829 in the prior year. The 2011 recoveries included one previously mentioned commercial recovery of $1,000 as the result of the sale of a loan which had been charged off in a 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 Income.  In addition, accounts within the “Other income” category that represent a significant portion of the total or a significant variance are shown.

| | Years ended December 31 | | | |
|---|---|---|---|---|
| Noninterest income: | 2011 | 2010 | Change | Change % |
| Service charges on deposit accounts | $3,244 | $3,361 | $(117) | (3.48)% |
| Debit card usage fees | 1,453 | 1,329 | 124 | 9.33% |
| Service fee from SmartyPig, LLC | — | 1,314 | (1,314) | (100.00)% |
| Trust services | 792 | 818 | (26) | (3.18)% |
| Gains and fees on sales of residential mortgages | 1,454 | 1,533 | (79) | (5.15)% |
| Increase in cash value of bank-owned life insurance | 884 | 869 | 15 | 1.73% |
| Gain from bank-owned life insurance | 637 | 422 | 215 | 50.95% |
| Investment securities impairment losses | (99) | (305) | 206 | 67.54% |
| Realized investment securities gains, net | — | 40 | (40) | (100.00)% |
| Other income: | | | | |
| Letter of credit fees | 78 | 117 | (39) | (33.33)% |
| Gain from sales of other assets | 112 | 42 | 70 | 166.67% |
| All other income | 806 | 847 | (41) | (4.84)% |
| Total other income | 996 | 1,006 | (10) | (0.99)% |
| Total noninterest income | $9,361 | $10,387 | $(1,026) | (9.88)% |

Service charges on deposit accounts declined due to a reduction in overdraft and return check charges.

Debit card usage fees continued to show positive growth in 2011 as customers with Reward Me Checking and other checking products continued to expand the use of this convenient payment method.

The service fee from SmartyPig, LLC was established to compensate West Bank for maintaining the rate paid on the SmartyPig® savings deposits higher than that of other internet-based savings accounts. This fee was discontinued in the third quarter of 2010 when these deposits were transferred to another bank.

The volume of originations of residential mortgages sold into the secondary market during 2011 declined approximately 8.6 percent compared to 2010, while revenue declined by only 5.2 percent. The volume of originations was strong in the third and fourth quarter as the volume of refinancing picked up due to residential mortgage interest rates declining to then historic low levels.

Gain from bank-owned life insurance occurred due to the deaths of a bank officer in 2011 and a retiree in 2010.

During 2011 and 2010, the Company recognized securities impairment losses totaling $99 and $117, respectively, through earnings as a result of the quarterly valuations performed on one pooled TPS held by the Company. During 2010, West Bank securities impairment losses also included a $188 OTTI on one single-issuer TPS issued by Old Second Bancorp, Inc. (Old Second) in the second 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 of 2010. Offsetting this realized loss were gains on sales of municipal and other securities with total net gains of $40 recognized for the year. There were no sales of investment securities during 2011.

Letter of credit fees declined compared to the prior year due to a lower demand for this service. Gains from sales of other assets in 2011 included a gain on sale of a foreclosed asset in the first quarter and the sale of an interest in a partnership in the third quarter.

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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 Income. In addition, accounts within the “Other expenses” category that represent a significant portion of the total or a significant variance are shown.

| | Years ended December 31 | | | |
|---|---|---|---|---|
| Noninterest expense: | 2011 | 2010 | Change | Change % |
| Salaries and employee benefits | $13,194 | $10,996 | $2,198 | 19.99 % |
| Occupancy | 3,342 | 3,207 | 135 | 4.21 % |
| Data processing | 1,921 | 1,815 | 106 | 5.84 % |
| FDIC insurance expense | 1,298 | 3,082 | (1,784) | (57.88)% |
| Other real estate owned expense | 2,883 | 1,716 | 1,167 | 68.01 % |
| Professional fees | 878 | 959 | (81) | (8.45)% |
| Consulting fees | 282 | 235 | 47 | 20.00 % |
| Miscellaneous losses | 455 | 1,330 | (875) | (65.79)% |
| Other expenses: | | | | |
| Marketing | 311 | 424 | (113) | (26.65)% |
| Business development | 331 | 253 | 78 | 30.83 % |
| Director fees | 390 | 355 | 35 | 9.86 % |
| Insurance expense | 351 | 382 | (31) | (8.12)% |
| Bank service charges and investment advisory fees | 488 | 551 | (63) | (11.43)% |
| Deposit operations expense | 214 | 336 | (122) | (36.31)% |
| Supplies | 304 | 250 | 54 | 21.60 % |
| Loan related expense | 203 | 153 | 50 | 32.68 % |
| Contributions | 300 | 150 | 150 | 100.00 % |
| All other | 1,728 | 1,550 | 178 | 11.48 % |
| Total other | 4,620 | 4,404 | 216 | 4.90 % |
| Total noninterest expense | $28,873 | $27,744 | $1,129 | 4.07 % |

The increase in salaries and employee benefits consisted of salary and payroll taxes for new staff members (approximately 20 additional positions), normal annual salary adjustments, higher bonus accruals ($573), and higher benefit costs ($480). The benefit cost increases were primarily for health insurance and 401(k) plan contributions. A salary freeze was in effect in the first half of 2010 and an average salary increase of 1.5 percent was awarded during the 2010 third quarter.

FDIC insurance expense for 2011 declined compared to 2010 for three reasons. Those reasons were the April 1, 2011, change in the assessment base, the upgrade in West Bank's regulatory risk classification, and the elimination of separate fees for the FDIC's Transaction Account Guarantee Program.

Other real estate owned expense increased primarily as a result of property write-downs totaling $3,109 in 2011 compared to $1,621 in 2010. Included in the 2011 amount was one write-down of $1,360 on one particular holding. The write-down represented a 30 percent reduction in carrying value compared to the previous appraisal.

Consulting fees increased because the company hired a financial advisor to assist with strategic planning, a compensation consultant to assist the Board of Directors' Compensation Committee, and a human resources consultant to assist with improving the Company's salary administration process. Miscellaneous losses declined year-over-year as

2010 expense included the total impairment of the Company's investment in a renewable energy closed-end fund.

Marketing expense for 2011 compared to 2010 declined due to reduced advertising. Business development costs increased as a result of additional efforts to retain existing customers and acquire new ones. Deposit operations expense declined significantly as costs associated with the SmartyPig® savings program were eliminated. Contributions expense increased as a portion of the bank-owned life insurance proceeds were donated to the West Bancorporation Foundation.

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Income Taxes

For 2011 and 2010, the effective tax rate was impacted by the previously mentioned federal new market tax credit. The effective rate of income tax expense as a percent of income before income taxes was an expense of 28.5 percent for both 2011 and 2010. The federal income tax expense was approximately $5,071 and $4,599 for 2011 and 2010, respectively, while state income tax expense was approximately $1,001 and $731, respectively.

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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.

| | 2012 | | | 2011 | | | 2010 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Average Balance | Revenue/ Expense | Yield/ Rate | Average Balance | Revenue/ Expense | Yield/ Rate | Average Balance | Revenue/ Expense | Yield/ Rate |
| Assets | | | | | | | | | |
| Interest-earning assets: | | | | | | | | | |
| Loans: [1] [2] | | | | | | | | | |
| Commercial | $257,279 | $12,625 | 4.91 % | $266,539 | $13,360 | 5.01 % | $336,979 | $16,758 | 4.97 % |
| Real estate [3] | 594,329 | 31,945 | 5.37 % | 576,974 | 33,666 | 5.83 % | 614,585 | 36,733 | 5.98 % |
| Consumer and other loans | 6,252 | 290 | 4.64 % | 7,320 | 379 | 5.18 % | 10,413 | 521 | 5.00 % |
| Total loans | 857,860 | 44,860 | 5.23 % | 850,833 | 47,405 | 5.57 % | 961,977 | 54,012 | 5.61 % |
| Investment securities: | | | | | | | | | |
| Taxable | 262,982 | 4,240 | 1.61 % | 211,687 | 4,193 | 1.98 % | 228,666 | 4,330 | 1.89 % |
| Tax-exempt [3] | 54,633 | 2,931 | 5.36 % | 54,344 | 3,372 | 6.20 % | 72,458 | 4,534 | 6.26 % |
| Total investment securities | 317,615 | 7,171 | 2.26 % | 266,031 | 7,565 | 2.84 % | 301,124 | 8,864 | 2.94 % |
| Federal funds sold and other short-term investments | 74,458 | 191 | 0.26 % | 91,634 | 234 | 0.26 % | 196,609 | 541 | 0.28 % |
| Total interest-earning assets [3] | 1,249,933 | 52,222 | 4.18 % | 1,208,498 | 55,204 | 4.57 % | 1,459,710 | 63,417 | 4.34 % |
| Noninterest-earning assets: | | | | | | | | | |
| Cash and due from banks | 33,336 | | | 37,037 | | | 34,518 | | |
| Premises and equipment, net | 5,699 | | | 5,118 | | | 5,257 | | |
| Other, less allowance for loan losses | 37,440 | | | 44,660 | | | 58,976 | | |
| Total noninterest-earning assets | 76,475 | | | 86,815 | | | 98,751 | | |
| Total assets | $1,326,408 | | | $1,295,313 | | | $1,558,461 | | |

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Liabilities and Stockholders' Equity | | | | | | | | | | | | |
| Interest-bearing liabilities: | | | | | | | | | | | | |
| Deposits: | | | | | | | | | | | | |
| Savings, interest-bearing demand, and money markets | $544,410 | 1,991 | 0.37 | % | $469,557 | 2,857 | 0.61 | % | $568,043 | 6,168 | 1.09 | % |
| Time deposits | 167,353 | 2,544 | 1.52 | % | 239,624 | 4,084 | 1.70 | % | 421,015 | 7,049 | 1.67 | % |
| Total deposits | 711,763 | 4,535 | 0.64 | % | 709,181 | 6,941 | 0.98 | % | 989,058 | 13,217 | 1.34 | % |
| Other borrowed funds | 193,288 | 4,929 | 2.55 | % | 191,019 | 4,976 | 2.60 | % | 191,098 | 5,806 | 3.04 | % |
| Total interest-bearing liabilities | 905,051 | 9,464 | 1.05 | % | 900,200 | 11,917 | 1.32 | % | 1,180,156 | 19,023 | 1.61 | % |
| Noninterest-bearing liabilities: | | | | | | | | | | | | |
| Demand deposits | 283,931 | | | | 252,307 | | | | 229,939 | | | |
| Other liabilities | 7,631 | | | | 7,286 | | | | 7,287 | | | |
| Stockholders' equity | 129,795 | | | | 135,520 | | | | 141,079 | | | |
| Total liabilities and stockholders' equity | $1,326,408 | | | | $1,295,313 | | | | $1,558,461 | | | |
| | | | | | | | | | | | | |
| Net interest income/net interest spread (3) | | $42,758 | 3.13 | % | | $43,287 | 3.25 | % | | $44,394 | 2.73 | % |
| Net interest margin (3) | | | 3.42 | % | | | 3.58 | % | | | 3.04 | % |

(1) Average loan balances include nonaccrual loans and loans held for sale. Interest income recognized on nonaccrual loans has been included.
(2) Interest income on loans includes amortization of loan fees and costs, which are not material.
(3) Tax-exempt income has been adjusted to a tax-equivalent basis using an incremental rate of 35 percent and is adjusted to reflect the effect of the nondeductible interest expense associated with owning tax-exempt investments and loans.

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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 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, 2012, 2011, and 2010, the Company's net interest margin on a tax-equivalent basis was 3.42, 3.58, and 3.04 percent, respectively. The reduction in the net interest margin in 2012 was primarily due to continued downward pressure on market rates. Tax-equivalent net interest income for 2012 declined $529 as interest income on interest-earning assets declined more than interest expense on interest-bearing liabilities, despite an increase in average earning assets. Management believes the net interest margin will remain under pressure if interest rates stay at these historically low levels as expected. Two management actions will assist in maintaining the net interest margin. The first was the modification of $80,000 of the Company's FHLB advances in December 2012. The FHLB advances were refinanced as variable rate borrowings tied to three-month LIBOR. The overall interest rate effective on December 31, 2012, on the FHLB advances was 2.58 percent including amortization of prepayment fees, compared to 3.89 percent as of December 31, 2011. To prevent a negative impact to interest expense in the long-term, the Company entered into forward-starting interest rate swaps that in effect convert the payment streams to fixed rate beginning in 2014 and 2015. The second strategy was the decision to invest approximately $100,000 of federal funds sold in investment securities in the first quarter of 2013. Approximately $42,000 of those funds had been invested by mid-February 2013.

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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.

| | 2012 Compared to 2011 | | | 2011 Compared to 2010 | | |
|---|---|---|---|---|---|---|
| | Volume | Rate | Total | Volume | Rate | Total |
| Interest Income | | | | | | |
| Loans: (1) | | | | | | |
| Commercial | $(458) | $(277) | $(735) | $(3,530) | $132 | $(3,398) |
| Real estate (2) | 991 | (2,712) | (1,721) | (2,210) | (857) | (3,067) |
| Consumer and other loans | (52) | (37) | (89) | (160) | 18 | (142) |
| Total loans (including fees) | 481 | (3,026) | (2,545) | (5,900) | (707) | (6,607) |
| Investment securities: | | | | | | |
| Taxable | 909 | (862) | 47 | (331) | 194 | (137) |
| Tax-exempt (2) | 18 | (459) | (441) | (1,124) | (38) | (1,162) |
| Total investment securities | 927 | (1,321) | (394) | (1,455) | 156 | (1,299) |
| Federal funds sold and other short-term investments | (44) | 1 | (43) | (271) | (36) | (307) |
| Total interest income (2) | 1,364 | (4,346) | (2,982) | (7,626) | (587) | (8,213) |
| Interest Expense | | | | | | |
| Deposits: | | | | | | |
| Savings, interest-bearing demand, and money markets | 404 | (1,270) | (866) | (936) | (2,375) | (3,311) |
| Time deposits | (1,134) | (406) | (1,540) | (3,089) | 124 | (2,965) |
| Total deposits | (730) | (1,676) | (2,406) | (4,025) | (2,251) | (6,276) |
| Other borrowed funds | 59 | (106) | (47) | (2) | (828) | (830) |
| Total interest expense | (671) | (1,782) | (2,453) | (4,027) | (3,079) | (7,106) |
| Net interest income (2) | $2,035 | $(2,564) | $(529) | $(3,599) | $2,492 | $(1,107) |

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

Tax-equivalent interest income and fees on loans declined $2,545 for the year ended December 31, 2012, compared to 2011, while the average volume increased slightly as West Bank lenders focused on expanding existing customer relationships and developing new relationships. The average yield on loans declined 34 basis points for 2012 compared to 2011. 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 political and interest rate environments can influence the volume of new loan originations and the mix of variable-rate versus fixed-rate loans.

The average balance of investment securities in 2012 was $51,584 higher than in 2011, while the yield declined 58 basis points. The decline was caused by lower available yields in the market for purchases and to a lesser extent the calls of higher yielding municipal securities as municipalities refinanced debt to lower their interest expense.

The average balance of federal funds sold and other short-term investments declined $17,176 during 2012. As mentioned earlier, in 2013 the Company intends to further decrease the average balance of federal funds sold to lower levels while maintaining appropriate levels of liquidity.

The 2012 average rate paid on deposits declined to 0.64 percent from 0.98 percent for 2011. The combination of lower market rates and a decline in average time deposit balances caused interest expense on deposits to decline by $2,406. The Company lowered interest rates on certain deposit products during the first and third quarters in response to the continued low interest rate environment. The average balance of time deposits declined $72,271 compared to 2011 as the Company allowed wholesale deposits to mature without renewal and fewer retail customers have been willing to lock in low interest rates for an extended period of time.

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The average rate paid on other borrowings declined 5 basis points to 2.55 percent, primarily due to a rate reduction on securities sold under agreements to repurchase. The rate on the Company's subordinated notes related to the trust preferred securities is variable with the rate tied to the three-month LIBOR. The average rate for 2012 for subordinated notes was 3.64 percent compared to 3.47 percent for 2011. The rate paid on this debt adjusts quarterly at 305 basis points over the three-month LIBOR and is expected to remain at or near the current rate in 2013. As mentioned above, $80,000 of FHLB advances were modified in December 2012 and the modification is expected to result in significantly lower interest expense in 2013, assuming the three-month LIBOR rate does not increase materially.

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 | | |
|---|---|---|---|
| | 2012 | 2011 | 2010 |
| U.S. government agencies and corporations | $13,034 | $13,003 | $47,798 |
| State and political subdivisions | 56,761 | 52,517 | 59,137 |
| Collateralized mortgage obligations | 173,594 | 175,498 | 122,617 |
| Mortgage-backed securities | 38,424 | 35,636 | 18,603 |
| Trust preferred securities | 2,095 | 2,011 | 1,976 |
| Corporate notes and other investments | 8,406 | 4,480 | 6,195 |
| Total | $292,314 | $283,145 | $256,326 |

The investments presented in the following table are at fair value and reported by contractual maturity as of December 31, 2012. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties. The collateralized mortgage obligations and mortgage-backed securities within the portfolio have monthly paydowns.

| Investments as of December 31, 2012 | 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 | $— | $13,034 | $— | $— | $13,034 |
| State and political subdivisions | 767 | 3,986 | 19,679 | 32,329 | 56,761 |
| Collateralized mortgage obligations | — | — | 5,260 | 168,334 | 173,594 |
| Mortgage-backed securities | — | 1,968 | 8,345 | 28,111 | 38,424 |
| Trust preferred securities [2] | — | — | — | 2,095 | 2,095 |
| Corporate notes and other investments | — | 6,116 | 802 | 1,488 | 8,406 |
| Total | $767 | $25,104 | $34,086 | $232,357 | $292,314 |
| | | | | | |
| Weighted average yield: | | | | | |
| U.S. government agencies and corporations | — | 1.71 % | — | — | |
| State and political subdivisions [1] | 5.51 % | 5.11 % | 4.64 % | 5.54 % | |
| Collateralized mortgage obligations | — | — | 2.72 % | 2.15 % | |
| Mortgage-backed securities | — | 3.96 % | 3.66 % | 2.21 % | |
| Trust preferred securities [2] | — | — | — | 0.78 % | |
| Corporate notes and other investments | — | 2.01 % | 2.39 % | 5.32 % | |

| | | | | |
|---|---|---|---|---|
| Total | 5.51 % | 2.49 % | 4.09 % | 2.59 % |

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

(2) One TPS, with a fair value of $1,334, has OTTI and is on nonaccrual status.

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Generally, management obtains the fair value of investment securities at the end of each reporting period via a third party pricing service. Management, with the assistance of an independent investment advisory firm, reviewed the valuation process used by the third party and believes that process is valid. On a quarterly basis management corroborates the fair values of investment securities by obtaining pricing from an independent investment advisory firm and compares the two sets of fair values. Any significant variances are reviewed and investigated. In addition, the Company has instituted a practice of further testing the fair values by selecting a sample of securities from each category of investment securities. For that sample, the prices are further validated by management, with assistance from an independent investment advisory firm, by obtaining details of the inputs used by the pricing service. Those inputs were independently tested, and we concluded the fair values were consistent with GAAP and securities were properly classified in the fair value hierarchy.

As of December 31, 2012, existing gross unrealized losses of $1,156 are considered to be temporary in nature due to market interest rate fluctuations and illiquid markets, not reduced 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. As discussed below, the remaining $2,837 of the total unrealized losses relate to one pooled TPS, which is considered to have OTTI.

As of December 31, 2012, all of the Company's state and political subdivisions investments were with Iowa communities, and all were considered to have acceptable credit risks. During the first quarter of 2013, the Company purchased securities originated by municipalities in states other than Iowa due to their somewhat higher yields compared to Iowa municipalities with similar credit risks. It is anticipated that more of the future investments in municipal securities will be from states other than Iowa. Collateralized mortgage obligations and mortgage-backed securities consist of residential mortgage pass-through securities guaranteed by the Government National Mortgage Association (GNMA) or issued by the Federal National Mortgage Association (FNMA) and real estate mortgage investment conduits guaranteed by the Federal Home Loan Mortgage Corporation (FHLMC) or GNMA. The debt obligations were all within the credit ratings acceptable under West Bank's investment policy.

As of December 31, 2012, the Company held a pooled TPS, ALESCO Preferred Funding X, Ltd., with an unrealized loss of $2,837, that has OTTI and has been placed on nonaccrual status. As of December 31, 2012, the unrealized loss of $2,837 was reflected in accumulated other comprehensive income, net of taxes of $1,078. The accrual of interest on an investment security is discontinued when a security is deemed to have OTTI. The Company engaged an independent consulting firm to assist management with the valuation of this security. Based on that valuation, management determined the security had an estimated fair value of $1,334 at December 31, 2012. 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. Details on the methodology for determining fair value for this security is more fully discussed in Note 2 to the consolidated financial statements included in Item 8 of this Form 10-K.

Based on the valuation work performed for this security, credit losses of $203, $99, and $117 were recognized for the years ended December 31, 2012, 2011, and 2010, respectively. 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, 2012, the most significant risk of a future impairment charge relates to the Company's investment in the TPS discussed above. As previously mentioned, management has concluded that only the pooled TPS has 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, 2012, has already been recorded against equity.

As of December 31, 2012, the Company did not have securities from a single issuer, except for the United States government or its agencies that exceeded 10 percent of consolidated stockholders' equity.

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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 | | | | |
|---|---|---|---|---|---|
| | 2012 | 2011 | 2010 | 2009 | 2008 |
| Commercial | $282,124 | $255,702 | $310,376 | $356,885 | $391,926 |
| Real estate: | | | | | |
| Construction, land, and land development | 121,911 | 101,607 | 116,601 | 148,505 | 152,704 |
| 1-4 family residential first mortgages | 49,280 | 63,218 | 51,760 | 64,288 | 67,630 |
| Home equity | 25,536 | 26,423 | 26,111 | 30,110 | 35,504 |
| Commercial | 441,857 | 386,137 | 372,404 | 413,063 | 441,444 |
| Consumer and other loans | 7,099 | 6,155 | 11,514 | 8,163 | 11,884 |
| Total loans | 927,807 | 839,242 | 888,766 | 1,021,014 | 1,101,092 |
| Deferred loan fees, net | 406 | 283 | 117 | 304 | 357 |
| Total loans, net of deferred fees | $927,401 | $838,959 | $888,649 | $1,020,710 | $1,100,735 |

As of December 31, 2012, total loans were approximately 82 percent of total deposits and 64 percent of total assets. As of December 31, 2012, 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.

Loans outstanding increased approximately 10.5 percent compared to the end of 2011. The majority of the growth was in the commercial and commercial real estate segments. The loan pipeline as of the first quarter of 2013 is strong, and management believes the Company is well-positioned to continue to grow its loan portfolio.

For a description of the loan segments, see Note 3 in Item 8 of this filing. 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.

The Company 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.

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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, 2012 | Within one year | After one but within five years | After five years | Total |
|---|---|---|---|---|
| Commercial | $128,106 | $142,474 | $11,544 | $282,124 |
| Real estate: | | | | |
| Construction, land, and land development | 60,344 | 36,281 | 25,286 | 121,911 |
| 1-4 family residential first mortgages | 15,169 | 32,800 | 1,311 | 49,280 |
| Home equity | 3,412 | 16,711 | 5,413 | 25,536 |
| Commercial | 41,747 | 268,372 | 131,738 | 441,857 |
| Consumer and other loans | 4,488 | 2,371 | 240 | 7,099 |
| Total loans | $253,266 | $499,009 | $175,532 | $927,807 |

| | After one but within five years | After five years |
|---|---|---|
| Loan maturities after one year with: | | |