

WEST BANCORPORATION INC
Form 10-K
March 05, 2015

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

FORM 10-K

(Mark One)

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934
For the fiscal year ended December 31, 2014

or

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

Commission file number: 0-49677

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

IOWA	42-1230603
(State of incorporation or organization)	(I.R.S. Employer Identification No.)

1601 22 nd 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:

Title of Class	Name of Each Exchange on Which Registered
Common Stock, No Par Value	The Nasdaq Global Select Market

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 ☐ No ☒

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

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

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

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

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

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐	Smaller reporting company	☐

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

The aggregate market value of the voting common stock held by non-affiliates of the registrant as of June 30, 2014, was approximately \$238,003,048.

Indicate the number of shares outstanding of each of the registrant's classes of common stock as of the most recent practicable date, March 3, 2015.

16,018,734 shares Common Stock, no par value

DOCUMENTS INCORPORATED BY REFERENCE

The definitive proxy statement of West Bancorporation, Inc., which was filed on March 5, 2015, 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," "anticipates," "projects," "future," "may," "should," "will," "strategy," "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 nonbank 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 2014 was the ownership of West Bank. The Company's and West Bank's only business is banking, and therefore, no segment information is presented in this report.

The Company operates in three markets: central Iowa, which is generally the greater Des Moines metropolitan area; eastern Iowa, which is the area including and surrounding Iowa City, and Coralville, Iowa; and the Rochester, Minnesota, area.

The Company's vision is to achieve and sustain a position of industry envy and admiration. Our financial performance goal is to be in the top quartile of our benchmarking peer group, which in 2014 consisted of 16 publicly traded peer financial institutions. The fiscal year ended December 31, 2014 was a great year for the Company and West Bank as measured by the following four key metrics:

1	Return on average assets:	1.32	%
1	Return on average equity:	15.19	%
1	Efficiency ratio:	49.93	%

1	Texas ratio:	2.71	%
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Based on peer group analysis using September 30, 2014 data, Company results through the third quarter were in the top quartile of our peer group. We currently believe our fiscal year 2014 results will remain in the top quartile once comparable peer results are available.

For the third year in a row, our Company was named a "Sm-All Star" by the investment banking firm Sandler O'Neill + Partners. This list is composed of top-performing small-cap banks and thrifts in the United States. For purposes of this analysis, small-cap companies are those with a market value between \$25 million and \$2.5 billion. Out of 443 comparable banks across America, only 35 were named as 2014 Sm-All Stars. West Bancorporation was the sole Iowa or Minnesota bank holding company on the list and one of very few in the Midwest. Only one other bank holding company in the nation has received this honor three years running. The criteria used to determine the 2014 Sm-All Stars concentrated on growth, profitability, credit quality and capital strength.

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The Company continued to grow in 2014, as loans outstanding at the end of 2014 totaled \$1.18 billion compared to \$992 million at the end of 2013, an increase of 19.4 percent. Total deposits grew 9.2 percent during 2014 compared to balances as of December 31, 2013. We believe the pipeline for new business is strong as we continue to focus efforts on sales through strengthening existing relationships and developing new relationships.

The Company's Rochester, Minnesota, office, which opened in March 2013, experienced strong growth in 2014. After almost two years of operations, this location had approximately \$51 million of loans outstanding as of December 31, 2014. It is expected that this office will continue to have a strong growth rate in 2015. The staff was increased to four people with the addition in March 2015 of an experienced lender. In January 2014, the Company purchased land in Rochester, Minnesota. The Company plans to begin construction of a full-service facility on this land in 2015, with an expected opening date in the spring of 2016. The Company believes that southeastern Minnesota is a desirable market and an economic bedrock due to the strength and projected growth of the Mayo Clinic.

On October 30, 2014, the Company sold its former main office in eastern Iowa, located in downtown Iowa City, to a local developer. The terms of the agreement included our ability to retain occupancy until construction of our new eastern Iowa main office in Coralville, Iowa, was completed, which we opened for business on January 21, 2015. Our investment in this new facility signifies our belief in the strength of that market. As a result of the opening of our new office, we vacated our former office effective January 15, 2015.

One of the keys to our operating success in 2014 was an improvement in net interest income despite the pressure on our net interest margin due to the continuation of historically low interest rates. This is a challenge the Company will continue to face in 2015. Our net interest margin increased by 11 basis points to 3.59 percent for the year ended December 31, 2014, as a result of an increase in the average volume of interest-earning assets and reductions in interest rates on deposits.

In the fourth quarter of 2014, we changed the way we provide residential mortgage loan products to our customers. The Company now has retail staff in each of our banking locations who can offer residential mortgage loans. In the past, we had mortgage bankers in only select locations. The changes included the outsourcing of underwriting and processing functions, which will reduce our operating costs. West Bank will receive a fee for each loan originated.

Also contributing to our higher 2014 earnings was the continued improvement in credit quality. As of December 31, 2014, total nonperforming assets declined to \$4.2 million, or 0.26 percent of total assets, compared to \$10.6 million, or 0.73 percent of total assets, as of December 31, 2013. The Company believes that an appropriate level of resources is devoted to collection and disposal of these assets.

The Company declared and paid common stock dividends totaling \$0.49 per share in 2014 and declared a \$0.14 dividend on January 28, 2015 payable on February 25, 2015 to stockholders of record on February 11, 2015. The Company expects to continue paying regular quarterly dividends in the future. The capital position of the Company was strong at December 31, 2014. The Company's tangible common equity ratio at December 31, 2014 was 8.68 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, and the Rochester, Minnesota, metropolitan areas. West Bank has eight offices in the Des Moines area, one office in Iowa City, one office in Coralville and one office in Rochester, Minnesota. West Bank offers all basic types of credit to its customers, including commercial, real estate and consumer loans. West Bank

offers trust services, including the administration of estates, conservatorships, personal trusts and agency accounts.

West Bank offers a full range of deposit services, including checking, savings, money market accounts and time certificates of deposit. In addition, West Bank also offers internet, mobile banking and treasury management services, which help to meet the banking needs of its customers and communities. Treasury management services offered to business customers include cash management, client-generated automated clearing house transactions, remote deposit and fraud protection services. Also offered are merchant credit card processing and corporate credit cards.

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

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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 and other financial service providers. According to the FDIC's Summary of Deposits, as of June 30, 2014, there were 35 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, 2014, there were 19 banks and savings and loan associations within Johnson County, Iowa, which includes Iowa City and Coralville. Three West Bank offices were located in Johnson County as of June 30, 2014. 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, Iowa. For the entire state of Iowa, West Bank ranked eighth in terms of deposit size as of June 30, 2014. West Bank also has one office located in Rochester, Minnesota.

Some of West Bank's competitors are locally controlled, while others are 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.

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 of its local management, Board of Directors and community advisors. 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. The competition for these funds is based almost exclusively on yields to customers.

The Company and West Bank had approximately 178 full-time equivalent employees as of December 31, 2014.

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 agencies, including the Iowa Superintendent of Banking (the Iowa Superintendent), the Board of Governors of the Federal Reserve System (the Federal Reserve), the Federal Deposit Insurance Corporation (the FDIC) and the Bureau of Consumer Financial Protection (the CFPB). Furthermore, taxation laws administered by the

Internal Revenue Service and state taxing authorities, accounting rules developed by the Financial Accounting Standards Board, securities laws administered by the Securities and Exchange Commission (the SEC) and state securities authorities, and anti-money laundering laws enforced by the U.S. Department of the Treasury (the Treasury) 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 agencies 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.

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This supervisory and regulatory framework subjects banks and bank holding companies to regular examination by their respective regulatory agencies, which results in examination reports and ratings that are not publicly available and that can impact the conduct and growth of their 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.

The following is a summary of the material elements of the supervisory and regulatory framework applicable to the Company and West Bank. 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 and 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 represented a sweeping reform of the U.S. supervisory and regulatory framework applicable to financial institutions and capital markets in the wake of the global financial crisis, certain aspects of which are described below in more detail. In particular, and among other things, the Dodd-Frank Act: (i) created a Financial Stability Oversight Council as part of a regulatory structure for identifying emerging systemic risks and improving interagency cooperation; (ii) created the CFPB, which is authorized to regulate providers of consumer credit, savings, payment and other consumer financial products and services; (iii) narrowed the scope of federal preemption of state consumer laws enjoyed by national banks and federal savings associations and expanded the authority of state attorneys general to bring actions to enforce federal consumer protection legislation; (iv) imposed more stringent capital requirements on bank holding companies and subjected certain activities, including interstate mergers and acquisitions, to heightened capital conditions; (v) with respect to mortgage lending: (a) significantly expanded requirements applicable to loans secured by 1-4 family residential real property, (b) imposed strict rules on mortgage servicing, and (c) required 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; (vi) repealed the prohibition on the payment of interest on business checking accounts; (vii) restricted the interchange fees payable on debit card transactions for issuers with \$10 billion in assets or greater; (viii) in the so-called “Volcker Rule,” subject to numerous exceptions, prohibited depository institutions and affiliates from certain investments in, and sponsorship of, hedge funds and private equity funds and from engaging in proprietary trading; (ix) provided for enhanced regulation of advisers to private funds and of the derivatives markets; (x) enhanced oversight of credit rating agencies; and (xi) prohibited banking agency requirements tied to credit ratings. These statutory changes shifted the regulatory framework for financial institutions, impacted the way in which they do business and have the potential to constrain revenues.

Numerous provisions of the Dodd-Frank Act were 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 are not yet final. Although the reforms primarily targeted systemically important financial service providers, their influence is expected to filter down in varying degrees to smaller institutions over time. Our management will continue to evaluate the effect of the Dodd-Frank Act; 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

Regulatory capital represents the net assets of a financial institution available to absorb losses. Because of the risks attendant to their business, depository institutions are generally required to hold more capital than other businesses, which directly affects earnings capabilities. While capital has historically been one of the key measures of the financial health of both bank holding companies and banks, its role became fundamentally more important in the wake of the global financial crisis, as the banking regulators recognized that the amount and quality of capital held by banks prior to the crisis was insufficient to absorb losses during periods of severe stress. Certain provisions of the Dodd-Frank Act and Basel III, discussed below, establish strengthened capital standards for banks and bank holding companies, require more capital to be held in the form of common stock and disallow certain funds from being included in capital determinations. Once fully implemented, these standards will represent regulatory capital requirements that are meaningfully more stringent than those in place historically.

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The Company and Bank Required Capital Levels. Bank holding companies have had to comply with less stringent capital standards than their bank subsidiaries and have been 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 as stringent as those required for insured depository institutions. As a consequence, the components of holding company permanent capital known as “Tier 1 Capital” were restricted to those capital instruments that are considered to be Tier 1 Capital for insured depository institutions. A result of this change is that the proceeds of hybrid instruments, such as trust preferred securities, are being excluded from Tier 1 Capital over a phase-out period. However, if such securities were issued prior to May 19, 2010 by bank holding companies with less than \$15 billion of assets, they may be retained, subject to certain restrictions. Because the Company has assets of less than \$15 billion, it is able to maintain its trust preferred proceeds as Tier 1 Capital but 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.

The minimum capital standards effective as of December 31, 2014 were:

- A leverage requirement, consisting of a minimum ratio of Tier 1 Capital to total adjusted average quarterly 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 these purposes, “Tier 1 Capital” consisted 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 consisted primarily of Tier 1 Capital plus “Tier 2 Capital,” which included other non-permanent capital items, such as certain other debt and equity instruments that do not qualify as Tier 1 Capital, and West Bank’s allowance for loan losses, subject to a limitation of 1.25 percent of risk-weighted assets. Further, risk-weighted assets for the purpose of the risk-weighted ratio calculations were balance sheet assets and off-balance sheet exposures to which required risk weightings of 0 percent to 100 percent were applied.

The capital standards described above are minimum requirements and were increased beginning January 1, 2015 under Basel III, as discussed below. Bank regulatory agencies uniformly encourage banks and bank holding companies to be “well-capitalized” and, to that end, 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, rollover or renew brokered deposits. Under the capital regulations of the FDIC and Federal Reserve, in order to be “well capitalized,” a banking organization, for the year ending December 31, 2014, must have maintained:

- A leverage ratio of Tier 1 Capital to total assets of 5 percent or greater,

- A ratio of Tier 1 Capital to total risk-weighted assets of 6 percent or greater, and

- A ratio of Total Capital to total risk-weighted assets of 10 percent or greater.

The FDIC and Federal Reserve guidelines also provide that banks and bank holding companies experiencing internal growth or making acquisitions would be expected to maintain capital positions substantially above the minimum supervisory levels without significant reliance on intangible assets. Furthermore, the guidelines indicate that the agencies will continue to consider a “tangible Tier 1 leverage ratio” (deducting all intangibles) in evaluating proposals for expansion or to engage in new activities.

Higher capital levels could 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.

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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 sell itself; (iv) restricting transactions between the institution and its affiliates; (v) restricting the interest rate that 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, 2014: (i) West Bank was not subject to a directive from the FDIC to increase its capital, and (ii) West Bank was "well-capitalized," as defined by FDIC regulations. As of December 31, 2014, the Company had regulatory capital in excess of the Federal Reserve's requirements and met the Dodd-Frank Act requirements.

The Basel International Capital Accords. The risk-based capital guidelines described above 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 was intended to be effective globally on January 1, 2013, with phase-in of certain elements continuing until January 1, 2019, and it is currently effective in many countries.

U.S. Implementation of Basel III. In July of 2013, the U.S. federal banking agencies approved the implementation of the Basel III regulatory capital reforms in pertinent part, and, at the same time, promulgated rules effecting certain changes required by the Dodd-Frank Act (the Basel III Rule). In contrast to capital requirements historically, which were in the form of guidelines, Basel III was released in the form of regulations by each of the regulatory agencies. The Basel III Rule is applicable to all financial institutions that are subject to minimum capital requirements, including federal and state banks and savings and loan associations, 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 \$1 billion).

The Basel III Rule not only increased most of the required minimum capital ratios effective January 1, 2015, but it also introduced the concept of Common Equity Tier 1 Capital, which consists primarily of common stock, related surplus (net of Treasury stock), retained earnings, and Common Equity Tier 1 minority interests subject to certain regulatory adjustments. The Basel III Rule also expanded the definition of capital by establishing more stringent criteria that instruments must meet to be considered Additional Tier 1 Capital (Tier 1 Capital in addition to Common

Equity Tier 1 Capital) and Tier 2 Capital. A number of instruments that qualified as Tier 1 Capital will not qualify, or their qualifications will change. For example, cumulative preferred stock and certain hybrid capital instruments, including trust preferred securities, will no longer qualify as Tier 1 Capital of any kind, with the exception, subject to certain restrictions, of such instruments issued before May 19, 2010, by bank holding companies with total consolidated assets of less than \$15 billion as of December 31, 2009. For those institutions, trust preferred securities and other nonqualifying capital instruments currently included in consolidated Tier 1 Capital were permanently grandfathered under the Basel III Rule, subject to certain restrictions. Noncumulative perpetual preferred stock, which qualified as simple Tier 1 Capital, will not qualify as Common Equity Tier 1 Capital, but will qualify as Additional Tier 1 Capital. The Basel III Rule also constrains the inclusion of minority interests, mortgage-servicing assets, and deferred tax assets in capital and requires deductions from Common Equity Tier 1 Capital in the event that such assets exceed a certain percentage of a banking institution's Common Equity Tier 1 Capital.

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The Basel III Rule requires as of January 1, 2015:

• A new ratio of minimum Common Equity Tier 1 Capital equal to 4.5 percent of risk-weighted assets;

• An increase in the minimum required amount of Tier 1 Capital to 6 percent of risk-weighted assets;

• A continuation of the current minimum required amount of Total Capital (Tier 1 plus Tier 2) at 8 percent of risk-weighted assets; and

• A minimum leverage ratio of Tier 1 Capital to total quarterly average assets equal to 4 percent in all circumstances.

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 Tier 1 attributable to a capital conservation buffer to be phased in over three years beginning in 2016. The purpose of the conservation buffer is to ensure that banking institutions maintain a buffer of capital that can be used to absorb losses during periods of financial and economic stress. Factoring in the fully phased-in conservation buffer increases the minimum ratios depicted above to 7 percent for Common Equity Tier 1, 8.5 percent for Tier 1 Capital and 10.5 percent for Total Capital.

The Basel III Rule maintained the general structure of the prompt corrective action framework, while incorporating the increased requirements and adding the Common Equity Tier 1 Capital ratio. In order to be “well-capitalized” under the new regime, a depository institution must maintain a Common Equity Tier 1 Capital ratio of 6.5 percent or more; a Tier 1 Capital ratio of 8 percent or more; a Total Capital ratio of 10 percent or more; and a leverage ratio of 5 percent or more. It is possible under the Basel III Rule to be well-capitalized while remaining out of full compliance with the capital conservation buffer discussed above.

Not only did the capital requirements change, but the risk weightings (or their methodologies) for bank assets that are used to determine the capital ratios changed as well. For nearly every class of assets, the Basel III Rule requires a more complex, detailed and calibrated assessment of credit risk and calculation of risk weightings. While Basel III would have changed the risk weighting for residential mortgage loans based on loan-to-value ratios and certain product and underwriting characteristics, there was concern in the United States that the proposed methodology for risk weighting residential mortgage exposures and the higher risk weightings for certain types of mortgage products would increase costs to consumers and reduce their access to mortgage credit. As a result, the Basel III Rule did not effect this change, and banks will continue to apply a risk weight of 50 percent or 100 percent to their exposure from residential mortgages.

Furthermore, there was 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). Basel III requires unrealized gains and losses on available-for-sale securities to flow through to regulatory capital as opposed to the previous treatment, which neutralized such effects. Recognizing the problem for community banks, the U.S. bank regulatory agencies adopted the Basel III Rule with a one-time election for smaller institutions like the Company and West Bank to opt out of including most elements of AOCI in regulatory capital. This opt-out, which must be made in the first quarter of 2015, would exclude from regulatory capital both unrealized gains and losses on available-for-sale debt securities and accumulated net gains and losses on cash-flow hedges. The Company and West Bank expect to make this election to avoid variations in the level of their capital depending on fluctuations in the fair value of their securities portfolio.

Financial institutions (except for large, internationally active financial institutions) became subject to the new rules on January 1, 2015, and both the Company and West Bank expect to be in compliance with the new required ratios. However, there are separate phase-in/phase-out periods for: (i) the capital conservation buffer; (ii) regulatory capital adjustments and deductions; (iii) nonqualifying capital instruments; and (iv) changes to the prompt corrective action rules. The phase-in periods commence on January 1, 2016 and extend until 2019.

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The Company

General. The Company, as the sole stockholder of West Bank, is a bank holding company. As a bank holding company, the Company is registered with, and is 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, the Company is legally obligated to act as a source of financial strength to West Bank and to commit resources to support West Bank in circumstances where the Company might not otherwise do so. Under the BHCA, the Company is subject to periodic examination by the Federal Reserve. The Company is required to file with the Federal Reserve periodic reports of the Company's operations and such additional information regarding the Company and its subsidiary 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 has 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 the Company 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 savings association, or any entity engaged in consumer finance, equipment leasing, the operation of a computer service bureau (including software development) and mortgage banking and brokerage. The BHCA generally does not place territorial restrictions on the domestic activities of nonbank subsidiaries of bank holding companies.

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 Treasury, determines by regulation or order is financial in nature or incidental to any such financial activity or that the Federal Reserve determines by order to be 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. We have not elected to operate as a financial holding company.

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.

Capital Requirements. Bank holding companies are required to maintain capital in accordance with Federal Reserve capital adequacy requirements, as affected by the Dodd-Frank Act and Basel III. For a discussion of capital requirements, see “—The Increasing Regulatory Emphasis on Capital” above.

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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 has indicated that the board of directors of a bank holding company should eliminate, defer or significantly reduce dividends to stockholders 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 non-bank 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. In addition, under the Basel III Rule, institutions that seek the freedom to pay dividends will have to maintain 2.5 percent in Common Equity Tier 1 attributable to the capital conservation buffer to be phased in over three years beginning in 2016. See "—The Increasing Regulatory Emphasis on Capital" above.

Federal Securities Regulation. Our common stock is registered with the SEC under the Securities Exchange Act of 1934, as amended (the Exchange Act). Consequently, the Company is 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 increased stockholder influence over boards of directors by requiring companies to give stockholders a nonbinding 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 directed the Federal Reserve to promulgate rules prohibiting excessive compensation paid to executives of bank holding companies, regardless of whether such companies are publicly traded.

West Bank

General. West Bank is an Iowa-chartered bank. The deposit accounts of West Bank are insured by the FDIC's Deposit Insurance Fund (DIF) to the maximum extent provided under federal law and FDIC regulations. As an Iowa-chartered FDIC-insured 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 insured state banks that, like West Bank, are not members of the Federal Reserve System (nonmember banks).

Deposit Insurance. As an FDIC-insured institution, West 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. For deposit insurance assessment purposes, an insured depository institution is placed in one of four risk categories each

quarter. An institution's assessment is determined by multiplying its assessment rate by its assessment base. The total base assessment rates range from 2.5 basis points to 45 basis points. The assessment base is calculated using average consolidated total assets minus average tangible equity. At least semi-annually, the FDIC will update its loss and income projections for the DIF and, if needed, will increase or decrease the assessment rates, following notice and comment on proposed rulemaking.

Amendments to the Federal Deposit Insurance Act revised the assessment base against which an insured depository institution's deposit insurance premiums paid to the DIF are calculated. The calculation is based on the institution's average consolidated total assets less its average tangible equity. This change shifted 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 altered 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 has until September 3, 2020 to meet the 1.35 percent reserve ratio target. Several of these provisions could increase West Bank's FDIC deposit insurance premiums.

The Dodd-Frank Act permanently established the maximum amount of deposit insurance for banks, savings institutions and credit unions to \$250,000 per insured depositor.

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FICO Assessments. In addition to paying basic deposit insurance assessments, insured depository institutions must pay Financing Corporation (FICO) assessments. 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 noncallable 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. The FICO assessment rate is adjusted quarterly and for the fourth quarter of 2014 was 0.62 basis points (62 cents per 100 dollars of assessable deposits).

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 West Bank's total assets. During the year ended December 31, 2014, West Bank paid supervisory assessments to the Iowa Superintendent totaling approximately \$114,000.

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.

Liquidity Requirements. Liquidity is a measure of the ability and ease with which bank assets may be converted to cash. Liquid assets are those that can be converted to cash quickly if needed to meet financial obligations. To remain viable, financial institutions must have enough liquid assets to meet their near-term obligations, such as withdrawals by depositors. Because the global financial crisis was in part a liquidity crisis, Basel III also includes a liquidity framework that requires financial institutions to measure their liquidity against specific liquidity tests. One test, referred to as the Liquidity Coverage Ratio (LCR), is designed to ensure that the banking entity has an adequate stock of unencumbered high-quality liquid assets that can be converted easily and immediately in private markets into cash to meet liquidity needs for a 30-calendar day liquidity stress scenario. The other test, known as the Net Stable Funding Ratio (NSFR), is designed to promote more medium- and long-term funding of the assets and activities of financial institutions over a one-year horizon. These tests provide an incentive for banks and holding companies to increase their holdings in Treasury securities and other sovereign debt as a component of assets, increase the use of long-term debt as a funding source, and rely on stable funding like core deposits (in lieu of brokered deposits).

In addition to liquidity guidelines already in place, the U.S. bank regulatory agencies implemented the Basel III Liquidity Coverage Ratio in September 2014, which requires large financial firms to hold levels of liquid assets sufficient to protect against constraints on their funding during times of financial turmoil. While the LCR only applies to the largest banking organizations in the country, certain elements are expected to filter down to all insured depository institutions. We are reviewing our liquidity risk management policies in light of the LCR and NSFR.

Dividend Payments. The primary source of funds for the Company is dividends from West Bank. Under the Iowa Banking Act, Iowa-chartered banks generally may pay dividends only out of undivided profits. 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, 2014. As of December 31, 2014, approximately \$15.8 million was available to be paid as dividends by West Bank. Notwithstanding the availability of funds for dividends, however, the FDIC and the Iowa Superintendent may prohibit

the payment of dividends by West Bank if either or both determine such payment would constitute an unsafe or unsound practice. In addition, under the Basel III Rule, institutions that seek the freedom to pay dividends will have to maintain 2.5 percent in Common Equity Tier 1 attributable to the capital conservation buffer to be phased in over three years beginning in 2016. See “—The Increasing Regulatory Emphasis on Capital” above.

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 West 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.

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Insider Transactions. West 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 the stock or other securities of the Company and the acceptance of the stock or other securities of the Company 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 and its subsidiaries, 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 West Bank maintains a correspondent relationship.

Safety and Soundness Standards/Risk Management. 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.

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 financial institution’s primary federal regulator may require the institution to submit a plan for achieving and maintaining compliance. If a financial 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 financial institution’s rate of growth, require the financial 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 bank regulatory agencies, including cease and desist orders and civil money penalty assessments.

During the past decade, the bank regulatory agencies have increasingly emphasized the importance of sound risk management processes and strong internal controls when evaluating the activities of the financial institutions they supervise. Properly managing risks has been identified as critical to the conduct of safe and sound banking activities and has become even more important as new technologies, product innovation, and the size and speed of financial transactions have changed the nature of banking markets. The agencies have identified a spectrum of risks facing a banking institution including, but not limited to, credit, market, liquidity, operational, legal and reputational risk. In particular, recent regulatory pronouncements have focused on operational risk, which arises from the potential that inadequate information systems, operational problems, breaches in internal controls, fraud, or unforeseen catastrophes will result in unexpected losses. New products and services, third-party risk management and cybersecurity are critical sources of operational risk that financial institutions are expected to address in the current environment. West Bank is expected to have active Board and senior management oversight; adequate policies, procedures and limits; adequate risk measurement, monitoring and management information systems; and comprehensive internal controls.

Branching Authority. Iowa banks, such as West Bank, have 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 has historically been permitted only in those states the laws of which expressly authorize such expansion. The Dodd-Frank Act permits well-capitalized and well-managed banks to establish 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) without impediments.

Transaction Account Reserves. Federal Reserve regulations require insured depository institutions to maintain reserves against their transaction accounts (primarily NOW and regular checking accounts). For 2015: the first \$14.5 million of otherwise reservable balances are exempt from the reserve requirements; for transaction accounts aggregating more than \$14.5 million to \$103.6 million, the reserve requirement is three percent of total transaction accounts above the \$14.5 million; and for net transaction accounts in excess of \$103.6 million, the reserve requirement is ten percent of the aggregate amount of total transaction accounts in excess of \$103.6 million. These reserve requirements are subject to annual adjustment by the Federal Reserve.

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Community Reinvestment Act Requirements. The Community Reinvestment Act requires West Bank to have a continuing and affirmative obligation in a safe and sound manner to help meet the credit needs of its entire community, including low- and moderate-income neighborhoods. Federal regulators regularly assess West Bank's record of meeting the credit needs of its communities. Applications for acquisitions would be affected by the evaluation of West Bank's effectiveness in meeting its Community Reinvestment Act requirements.

Anti-Money Laundering. The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the Patriot Act) is designed to deny terrorists and criminals the ability to obtain access to the U.S. financial system and has significant implications for depository institutions, brokers, dealers and other businesses involved in the transfer of money. The Patriot Act mandates financial services companies to have policies and procedures with respect to measures designed to address any or all of the following matters: (i) customer identification programs; (ii) money laundering; (iii) terrorist financing; (iv) identifying and reporting suspicious activities and currency transactions; (v) currency crimes; and (vi) cooperation between financial institutions and law enforcement authorities.

Concentrations in Commercial Real Estate. Concentration risk exists when financial institutions deploy too many assets to any one industry or segment. A concentration in commercial real estate is one example of regulatory concern. The interagency Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices guidance (CRE Guidance) provides supervisory criteria, including the following numerical indicators, to assist bank examiners in identifying banks with potentially significant commercial real estate loan concentrations that may warrant greater supervisory scrutiny: (i) commercial real estate loans exceeding 300 percent of capital and increasing 50 percent or more in the preceding three years, or (ii) construction and land development loans exceeding 100 percent of capital. The CRE Guidance does not limit banks' levels of commercial real estate lending activities, but rather guides institutions in developing risk management practices and levels of capital that are commensurate with the level and nature of their commercial real estate concentrations. Based on West Bank's loan portfolio as of December 31, 2014, it exceeded the 300 percent guideline for commercial real estate loans. Additional monitoring processes have been implemented to manage this increased risk.

Consumer Financial Services

The historical 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.

Because abuses in connection with residential mortgages were a significant factor contributing to the financial crisis, many new rules issued by the CFPB and required by the Dodd-Frank Act address mortgage and mortgage-related products, their underwriting, origination, servicing and sales. The Dodd-Frank Act significantly expanded underwriting requirements applicable to loans secured by 1-4 family residential real property and augmented federal law combating predatory lending practices. In addition to numerous disclosure requirements, the Dodd-Frank Act imposed 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." In addition, the Dodd-Frank Act generally required 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 five percent, but could be increased or decreased by regulation. We do not currently expect the CFPB's rules to have a significant impact on our operations, except for higher compliance costs.

Ability-to-Repay Requirement and Qualified Mortgage Rule. On January 10, 2013, the CFPB issued a final rule implementing the Dodd-Frank Act's ability-to-repay requirements. Under the final rule, lenders, in assessing a borrower's ability to repay a mortgage-related obligation, 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.

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Further, the final rule clarified 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 three percent of the loan amount, subject to certain exceptions. In addition, for qualified mortgages, the rule mandated that the monthly payment be calculated on the highest payment that will occur in the first five years of the loan, and required that the borrower’s total debt-to-income ratio generally may not be more than 43 percent. The final rule also provided 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 provided for a rebuttable presumption of lender compliance for those loans. The final rule also applied 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 three-year record retention period with respect to documenting and demonstrating the ability-to-repay requirement and other provisions.

Servicing. The CFPB was also required to implement certain provisions of the Dodd-Frank Act relating to mortgage servicing. The servicing rules require servicers to meet certain benchmarks for loan servicing and customer service in general. Servicers must provide periodic billing statements and certain required notices and acknowledgments, promptly credit borrowers’ accounts for payments received and promptly investigate complaints by borrowers, and are required to take additional steps before purchasing insurance to protect the lender’s interest in the property. The servicing rules also called for additional notice, review and timing requirements with respect to delinquent borrowers, including early intervention, ongoing access to servicer personnel and specific loss mitigation and foreclosure procedures. The rules provided for an exemption from most of these requirements for “small servicers.” A small servicer is defined as a loan servicer that services 5,000 or fewer mortgage loans and services only mortgage loans that they or an affiliate originated or own. West Bank is considered a small servicer.

Additional Constraints on the Company and West Bank

Monetary Policy. The monetary policy of the Federal Reserve has a significant effect on the operating results of financial or bank holding companies and their subsidiaries. Among the tools available to the Federal Reserve to affect the money supply are open market transactions in U.S. government securities, changes in the discount rate on member bank borrowings and changes in reserve requirements against member bank deposits. These means are used in varying combinations to influence overall growth and distribution of bank loans, investments and deposits, and their use may affect interest rates charged on loans or paid on deposits.

The Volcker Rule. In addition to other implications of the Dodd-Frank Act discussed above, the Act amended the BHCA to require the federal regulatory agencies to adopt rules that prohibit banking entities and their affiliates from engaging in proprietary trading and investing in and sponsoring certain unregistered investment companies (defined as hedge funds and private equity funds). This statutory provision is commonly called the “Volcker Rule.” On December 10, 2013, the federal regulatory agencies issued final rules to implement the prohibitions required by the Volcker Rule. Thereafter, in reaction to industry concern over the adverse impact to community banks of the treatment of certain collateralized debt instruments in the final rule, the federal regulatory agencies approved an interim final rule

to permit financial institutions to retain interests in collateralized debt obligations backed primarily by trust preferred securities (TruPS CDOs) from the investment prohibitions contained in the final rule. Under the interim final rule, the regulatory agencies permitted the retention of an interest in or sponsorship of covered funds by banking entities if the following qualifications were met: (i) the TruPS CDO was established, and the interest was issued, before May 19, 2010; (ii) the banking entity reasonably believes that the offering proceeds received by the TruPS CDO were invested primarily in qualifying TruPS collateral; and (iii) the banking entity's interest in the TruPS CDO was acquired on or before December 10, 2013. This amendment had minimal impact on the Company.

Although the Volcker Rule has significant implications for many large financial institutions, the Company does not currently anticipate that the Volcker Rule will have a material effect on the operations of the Company or West Bank. We may incur costs if we are required to adopt additional policies and systems to ensure compliance with certain provisions of the Volcker Rule, but any such costs are not expected to be material.

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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.westbankstrong.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 Company's 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 (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. 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 or Minnesota 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 may 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 geographical areas in which we operate. Competition for quality loans in our market areas 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, 2014. 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 repayment of the loans is generally 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.

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

At December 31, 2014, 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 \$1.9 million or 0.16 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 significantly increasing our administrative costs. 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.

Our allowance for loan losses may be insufficient to absorb potential losses in our loan portfolio.

We maintain an allowance for loan losses at a level we believe adequate to absorb probable losses inherent in our existing loan portfolio. The level of the allowance reflects management's continuing evaluation of industry concentrations; specific credit risks; credit loss experience; current loan portfolio quality; present economic, political and regulatory conditions; and unidentified losses inherent in the current loan portfolio.

Determination of the allowance is inherently subjective as it requires significant estimates and management's judgment of credit risks and future trends, all of which may undergo material changes. Deterioration in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside of our control, may require an increase in the allowance for loan losses. In addition, bank regulatory agencies periodically review our allowance and may require an increase in the provision for loan losses or the recognition of additional loan charge-offs, based on judgments different from those of management. Also, if charge-offs in future periods exceed the allowance for loan losses, we will need additional provisions to increase the allowance. Any increases in provisions will result in a decrease in net income and capital and may have a material adverse effect on our financial condition and results of operations.

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 that 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, while we have ownership of a property, 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. We also cannot guarantee that our environmental risk assessment will detect all environmental issues relating to a property, which could subject us to additional liability.

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, 2014, the fair value of our securities portfolio was approximately \$324.3 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 with 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. If management's estimates or assumptions are incorrect, the Company may experience material loss.

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, (2) the allowance for loan losses, and (3) determining the valuation of other real estate owned. 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 investment securities, the allowance for loan losses, or the fair value of other real estate owned and, accordingly, net income .

From time to time, the FASB and the SEC change the financial accounting and reporting standards or the interpretation of those standards that govern the preparation of our external financial statements. These changes are beyond our control, can be difficult to predict and could materially impact how we report our financial condition and results of operations.

Changes in these standards are continuously occurring, and given the current economic environment, more drastic changes may occur. The implementation of such changes could have a material adverse effect on our financial condition and results of operations.

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 we believe 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 again, 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, seeking deposits and 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.

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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, can lower the rate that we are able to charge on loans, and can affect our charges for other services. 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 our financial condition and results of operations.

Technology and other changes are allowing customers to complete financial transactions using nonbanks that historically have involved banks at one or both ends of the transaction. For example, customers can now pay bills and transfer funds directly without going through a bank. The process of eliminating banks as intermediaries, known as disintermediation, could result in the loss of fee income as well as the loss of customer deposits.

Loss of customer deposits due to increased competition could increase our funding costs.

We rely on bank deposits to be a low cost and stable source of funding. We compete with banks and other financial services companies for deposits. If our competitors raise the rates they pay on deposits, our funding costs may increase, either because we raise our rates to avoid losing deposits or because we lose deposits and must rely on more expensive sources of funding. Higher funding costs could reduce our net interest margin and net interest income and could have a material adverse effect on our financial condition and results of operations.

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 third-party 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 because 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 ongoing 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 an adverse impact on 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.

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West Bank depends on third-party data processing and the communication and exchange of information 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, will continue to implement security technology and establish operational procedures to prevent such losses, 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 employee misconduct, compliance failures, litigation or governmental investigations, among other things. 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 also result in harm to our business. Should any events or circumstances that could undermine our reputation occur, there can be no assurance that the additional costs and expenses that we may incur in addressing such issues would not adversely affect our financial condition and results of operations.

We are subject to various legal claims and litigation.

We are periodically involved in routine litigation incidental to our business, including the litigation disclosed in Item 3 of this Form 10-K. Regardless of whether these claims and legal actions are founded or unfounded, if such legal actions are not resolved in a manner favorable to us, they may result in significant financial liability and/or adversely affect the Company's reputation. In addition, litigation can be costly. Any financial liability, litigation costs or reputational damage caused by these legal claims could have a material adverse impact on our business, financial condition and results of operations.

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 misconduct. 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 effect 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 if bank collateral is involved.

The soundness of other financial institutions could adversely affect us.

Financial services institutions are interrelated as a result of trading, clearing, counterparty or other relationships. We have exposure to many different industries and counterparties, and we routinely execute transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks and other institutional clients. Many of these transactions expose us to credit risk in the event of default by our counterparty or client. In addition, our credit risk may be exacerbated when the collateral held by us cannot be realized or is liquidated at prices not sufficient to recover the full amount of the loan or derivative exposure due us. There is no assurance that any such losses would not materially and adversely affect our results of operations or earnings.

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We may experience difficulties in managing our growth.

In 2013, we opened an 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 overall 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 the adoption 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 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 who are very involved in our market area communities. Our continued success depends to a significant extent upon the continued services of 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.

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 but can make no assurances that these plans will be effective.

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.

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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 2014, our Board declared a cash dividend on our common stock in the first quarter of \$0.11 per share, dividends of \$0.12 per share in each of the second and third quarters, and a dividend of \$0.14 per share in the fourth quarter. A dividend of \$0.14 per common share was declared in the first quarter of 2015. 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 that any dividends we do declare will be 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 the Company 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.

As of December 31, 2014, the Company had \$20.6 million of junior subordinated debentures held by a statutory business trust that the Company controls. Interest payments on the debentures, which totaled approximately \$0.7 million for the year ended December 31, 2014, must be paid before the Company pays dividends on its capital stock, including its common stock. Although the Company has always made its interest payments on time, the Company has the right to defer interest payments on the debentures for up to 20 consecutive quarters. However, if the Company elects to defer interest payments, all deferred interest must be paid before the Company may pay dividends on its capital stock.

Issuing additional common or preferred stock may adversely affect the market price of our common stock, and 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, either internally generated or through an acquisition. Common shares have been and will be issued through the Company's 2012 Equity Incentive Plan as grants of restricted stock units 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 any assurance that we will be able 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, which increased on January 1, 2015, with the implementation of the Basel III Rule. 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 of our control, as well as 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, and the results of operations and financial condition.

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

As of December 31, 2014, the Company had \$20.6 million in junior subordinated debentures outstanding that 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 issuance of 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.

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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. A more detailed description of the primary federal and state banking laws and regulations that affect us is contained in Item 1 of this Form 10-K in the section captioned “Supervision and Regulation.” Banking regulations are primarily intended to protect depositors’ funds, FDIC funds, customers and the banking system as a whole, rather than our 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 and 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. 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.

The laws, regulations, rules, standards, policies and interpretations governing us 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 will be regulated. In addition, the Federal Reserve, in recent years, has adopted numerous new regulations addressing banks’ overdraft and mortgage lending practices. Further, the CFPB was 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 July 2013, the U.S. federal banking authorities approved the implementation of the Basel III Rules. The Basel III Rules are applicable to all U.S. banks that are subject to minimum capital requirements as well as to bank and saving and loan holding companies, other than “small bank holding companies” (generally bank holding companies with consolidated assets of less than \$1.0 billion). The Basel III Rules became effective on January 1, 2015, with a phase-in period through 2019 for many of the changes.

The Basel III Rules not only increase most of the required minimum regulatory capital ratios, but they also introduce a new Common Equity Tier 1 Capital ratio and the concept of a capital conservation buffer. The Basel III Rules also expand the current definition of capital by establishing additional criteria that capital instruments must meet to be considered Additional Tier 1 Capital (i.e., Tier 1 Capital in addition to Common Equity) and Tier 2 Capital. A number of instruments that now generally qualify as Tier 1 Capital will not qualify, or their qualifications will change when the Basel III Rules are fully implemented. However, the Basel III Rules permit banking organizations with less than \$15 billion in assets to retain, through a one-time election, the existing treatment for accumulated other comprehensive income, which currently does not affect regulatory capital. The Basel III Rules have maintained the general structure of the current prompt corrective action thresholds while incorporating the increased requirements, including the Common Equity Tier 1 Capital ratio. In order to be a “well-capitalized” depository institution under the new regime, an institution must maintain a Common Equity Tier 1 Capital ratio of 6.5 percent or more; a Tier 1 Capital ratio of 8.0 percent or more; a Total Capital ratio of 10.0 percent or more; and a leverage ratio of 5.0 percent or more. Institutions must also maintain a capital conservation buffer consisting of Common Equity Tier 1 Capital to avoid certain restrictions on dividends and compensation.

These provisions, as well as any other aspects of current or proposed regulatory or legislative changes to laws applicable to the financial industry, may impact the profitability of our business activities and may change certain of our business practices, including our ability to offer new products, obtain financing, attract deposits, make loans and achieve satisfactory interest spreads and could expose us to additional costs, including increased compliance costs. These changes also may require us to invest significant management attention and resources to make any necessary changes to operations in order to comply and could therefore also materially and adversely affect our business, financial condition and results of operations.

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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.

Our financial performance generally, and in particular the ability of customers to pay interest on and repay principal on 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 states of Iowa and Minnesota, generally, in the United States as a whole, and internationally. 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.

Overall, although improving, the business environment in recent years was unfavorable for many households and businesses in the United States. While economic conditions in our market, the states of Iowa and Minnesota 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. A return of recessionary conditions and/or continued negative developments in the domestic and international credit markets may significantly affect the markets in which we do business, the value of our loans and investments, and our ongoing operations, costs and profitability. Such conditions could materially and adversely affect us.

Monetary policies and regulations of the Federal Reserve could adversely affect our business, financial condition and results of operations.

In addition to being affected by general economic conditions, our earnings and growth are affected by the policies of the Federal Reserve. An important function of the Federal Reserve is to regulate the money supply and credit conditions. Among the instruments used by the Federal Reserve to implement these objectives are open market operations in U.S. government securities, adjustments of the discount rate, and changes in reserve requirements against bank deposits. These instruments are used in varying combinations to influence overall economic growth and the distribution of credit, bank loans, investments and deposits. Their use also affects interest rates charged on loans or paid on deposits.

The monetary policies and regulations of the Federal Reserve have had a significant effect on the operating results of commercial banks in the past and are expected to continue to do so in the future. The specific effects of such policies upon our business, financial condition and results of operations cannot be predicted.

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 somewhat of a competitive disadvantage.

ITEM 1B. UNRESOLVED STAFF COMMENTS

There are no unresolved comments from the SEC 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 20,200 square feet in the building and pays annual rent of approximately \$469,000 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 branch offices (seven in the Des Moines, Iowa, metro area and one in Rochester, Minnesota) and for operational departments. The offices are full-service locations, with drive-up facilities and an automated teller machine, except for the office in Rochester, Minnesota, which does not have an automated teller machine or drive-up facility. Annual lease payments for these eight offices and the space for operating departments total approximately \$1.3 million. The Company owns one full-service banking location in Iowa City, Iowa, and one full-service banking location in Coralville, Iowa, that opened on January 21, 2015. In January 2014, the Company purchased land in Rochester, Minnesota, with the intent to begin construction on a full-service facility in 2015, with an expected opening date of spring 2016. 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 class action lawsuit that, as amended, asserts that nonsufficient funds fees charged by West Bank to Iowa resident customers on debit card transactions are usurious under the Iowa Consumer Credit Code, rather than allowable fees, and that the sequence in which West Bank formerly posted debit card transactions for payment violated various alleged duties of good faith and ordinary care. Plaintiffs are seeking alternative remedies that include injunctive relief, damages (including treble damages), punitive damages, refund of fees and attorney fees. 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 it has substantial defenses and is vigorously defending the action. The trial court entered orders on preliminary motions on March 4, 2014. It dismissed one of the Plaintiffs' claims and found that factual disputes precluded summary judgment in West Bank's favor on the remaining claims. In addition, the court certified two classes for further proceedings. West Bank appealed the adverse rulings to the Iowa Supreme Court. The appeals should be decided sometime in 2015. The amount of potential loss, if any, cannot be reasonably estimated now because of the unresolved legal issues and because, among other things, the multiple alternative claims involve different time periods, burdens of proof, defenses and potential remedies.

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 cash dividends on common stock declared for each quarter in 2014 and 2013. The market quotations, reported by Nasdaq, do not include retail markup, markdown or commissions.

Market and Dividend Information

	High	Low	Close	Dividends
2014				
4th quarter	\$17.05	\$14.00	\$17.02	\$0.14
3rd quarter	15.68	14.01	14.13	0.12
2nd quarter	16.45	13.53	15.23	0.12
1st quarter	15.98	13.64	15.19	0.11
2013				
4th quarter	\$16.64	\$13.34	\$15.82	\$0.11
3rd quarter	14.50	11.74	13.80	0.11
2nd quarter	12.27	10.10	11.75	0.10
1st quarter	11.72	10.46	11.10	0.10

There were 211 holders of record of the Company's common stock as of February 19, 2015, and an estimated 2,200 additional beneficial holders whose stock was held in street name by brokerages or fiduciaries. The closing price of the Company's common stock was \$17.69 on February 19, 2015.

In the aggregate, cash dividends paid to common stockholders in 2014 and 2013 were \$0.49 and \$0.42 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.

On April 23, 2014, the Board of Directors extended a stock repurchase plan which authorized management to purchase up to \$2 million of the Company's common stock over a twelve month period. The authorization does not require such purchases and is subject to certain restrictions. Shares of Company common stock may be repurchased on the open market or in privately negotiated transactions. The extent to which the shares are repurchased and the timing of such repurchase will depend on market conditions and other corporate considerations. No shares have been repurchased under this authorization as of February 19, 2015.

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The following performance graph provides information regarding cumulative, five-year return on an indexed basis of the common stock of the Company as compared with the Nasdaq Composite Index and the SNL Midwest Bank Index prepared by SNL Financial LC 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, 2009, in the common stock of the Company, 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.

Index	Period Ending					
	12/31/2009	12/31/2010	12/31/2011	12/31/2012	12/31/2013	12/31/2014
West Bancorporation, Inc.	100.00	159.08	199.46	232.58	353.22	392.78
Nasdaq Composite	100.00	118.15	117.22	138.02	193.47	222.16
SNL Midwest Bank	100.00	124.18	117.30	141.18	193.28	210.12

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

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ITEM 6. SELECTED FINANCIAL DATA

West Bancorporation, Inc. and Subsidiary

Selected Financial Data

	Years Ended December 31									
(in thousands, except per share amounts)	2014		2013		2012		2011		2010	
Operating Results										
Interest income	\$55,301		\$52,741		\$50,662		\$53,319		\$61,143	
Interest expense	6,156		7,058		9,464		11,917		19,023	
Net interest income	49,145		45,683		41,198		41,402		42,120	
Provision for loan losses	750		(850	)	625		550		6,050	
Net interest income after provision for loan losses	48,395		46,533		40,573		40,852		36,070	
Noninterest income	10,296		8,494		10,869		9,349		10,383	
Noninterest expense	32,002		30,816		28,667		28,861		27,740	
Income before income taxes	26,689		24,211		22,775		21,340		18,713	
Income taxes	6,649		7,320		6,764		6,072		5,330	
Net income	20,040		16,891		16,011		15,268		13,383	
Preferred stock dividends and accretion of discount	—		—		—		(2,387	)	(2,284	)
Net income available to common stockholders	\$20,040		\$16,891		\$16,011		\$12,881		\$11,099	
Dividends and Per Share Data										
Cash dividends	\$7,842		\$6,995		\$6,265		\$2,959		\$870	
Cash dividends per common share	0.49		0.42		0.36		0.17		0.05	
Basic earnings per common share	1.25		1.02		0.92		0.74		0.64	
Diluted earnings per common share	1.25		1.02		0.92		0.74		0.64	
Closing stock price	17.02		15.82		10.78		9.58		7.79	
Book value	8.75		7.74		7.73		7.09		6.37	
Average common shares outstanding	16,004		16,582		17,404		17,404		17,404	
Year End and Average Balances										
Total assets	\$1,615,833		\$1,442,404		\$1,448,175		\$1,269,524		\$1,305,463	
Average assets	1,512,506		1,445,773		1,326,408		1,295,313		1,558,461	
Investment securities	339,208		357,067		304,103		294,497		267,537	
Loans	1,184,045		991,720		927,401		838,959		888,649	
Allowance for loan losses	(13,607	)	(13,791	)	(15,529	)	(16,778	)	(19,087	)
Deposits	1,270,462		1,163,842		1,134,576		957,373		972,072	
Long-term borrowings	130,183		131,946		114,509		125,619		125,619	
Stockholders' equity	140,175		123,625		134,587		123,451		145,436	
Average stockholders' equity	131,924		127,789		129,795		135,520		141,079	
Performance Ratios										
Equity to assets ratio	8.72	%	8.84	%	9.79	%	10.46	%	9.05	%
Return on average assets	1.32	%	1.17	%	1.21	%	1.18	%	0.86	%
Return on average equity	15.19	%	13.22	%	12.34	%	11.27	%	9.49	%
Efficiency ratio	49.93	%	52.55	%	50.83	%	49.27	%	47.28	%

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Texas ratio	2.71	% 7.69	% 11.25	% 16.33	% 25.76	%
Net interest margin	3.59	% 3.48	% 3.42	% 3.58	% 3.04	%
Dividend payout ratio	39.13	% 41.41	% 39.13	% 22.97	% 7.84	%
Dividend yield	2.88	% 2.65	% 3.34	% 1.77	% 0.64	%

Definition of ratios:

Equity to assets ratio - average equity divided by average assets.

Return on average assets - net income divided by average assets.

Return on average equity - net income divided by average equity.

Efficiency ratio - noninterest expense (excluding other real estate owned expenses) divided by noninterest income (excluding net securities gains, net impairment losses and gains/losses on disposition of premises and equipment) plus tax-equivalent net interest income.

Texas ratio - total nonperforming assets divided by tangible common equity plus the allowance for loan losses.

Net interest margin - tax-equivalent net interest income divided by average interest-earning assets

Dividend payout ratio - dividends paid to common stockholders divided by net income available to common stockholders.

Dividend yield - dividends per share paid to common stockholders divided by closing year-end stock price.

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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

Key aspects of our 2014 operations include:

Return on average assets (ROA) increased to 1.32 percent compared to 1.17 percent in 2013.

Return on average equity (ROE) increased to 15.19 percent compared to 13.22 percent in 2013.

The loan portfolio grew 19.4 percent during 2014.

Deposits increased by 9.2 percent during 2014.

The Company's 2014 net income improved by 18.6 percent in comparison to 2013. The Company's 2014 net income was \$20,040 compared to \$16,891 in 2013. This was the second highest net income ever recorded by the Company for any fiscal year. On a diluted per common share basis, earnings improved to \$1.25 from \$1.02, or 22.5 percent. The rate of increase in earnings per common share exceeded that of net income due to the repurchase of 1,440,592 shares of common stock in June 2013. During 2014, we paid our common stockholders \$7,842 (\$0.49 per common share) in dividends compared to \$6,995 (\$0.42 per common share) in 2013, as the quarterly dividend was increased twice during 2014. The dividend declared in the first quarter of 2015 was \$0.14 per common share.

The Company has a quantitative peer analysis program in place for evaluating our results. The group of 16 publicly traded peer financial institutions against which we compared our performance each quarter consists of BankFinancial Corporation, Baylake Corp., Farmers Capital Bank Corporation, First Defiance Financial Corp., First Mid-Illinois Bancshares, Inc., Hills Bancorporation, Horizon Bancorp, Isabella Bank Corporation, Mercantile Bank Corporation, MidWestOne Financial Group, Inc., MutualFirst Financial, Inc., Peoples Bancorp, Pulaski Financial Corp., QCR Holdings, Inc., Southwest Bancorp and Waterstone Financial, Inc. The group is periodically reviewed, with changes made primarily to reflect merger and acquisition activity. 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, 2014, 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 2014.

During 2014, our Company was named a "Sm-All Star" for the third year in a row by the investment banking firm Sandler O'Neill + Partners. The list is composed of top-performing small-cap banks and thrifts in the United States. For purposes of this analysis, small cap companies were those with a market value between \$25 million and \$2.5 billion. Out of 443 comparable banks across America, only 35 were named as 2014 Sm-All Stars. West Bancorporation was the sole Iowa or Minnesota bank holding company on the list and one of very few in the Midwest. Only one other bank holding company in the nation has received this honor three years running. The criteria used to determine the 2014 Sm-All Stars concentrated on growth, profitability, credit quality and capital strength.

The Texas ratio, which is the ratio of nonperforming assets to tangible capital plus the allowance for loan losses, improved to 2.71 percent as of December 31, 2014, compared to 7.69 percent as of December 31, 2013. A lower Texas ratio indicates a stronger credit quality condition. The continued decline was the result of additional reductions in the level of nonperforming assets, as resources were devoted to collection and disposal of these assets. With a lower level of nonperforming assets, management has been able to concentrate on business development.

Net interest income increased to \$49,145 in 2014 compared to \$45,683 in 2013, primarily due to significant growth in the loan portfolio. The growth in the loan portfolio resulted in a provision for loan losses in 2014 of \$750 compared to a negative provision of \$850 in 2013. Noninterest income increased by \$1,802 in 2014 compared to 2013 primarily due to net gains on disposition of premises and equipment and a 33.1 percent increase in trust services. Growth in noninterest expense was held to \$1,186, or 3.8 percent, in 2014 compared to 2013. Also contributing to our increase in 2014 net income was a reduction in our effective income tax rate to 24.9 percent compared to 30.2 percent in 2013 due to utilization of capital loss carryforwards. Our efficiency ratio declined to 49.93 percent for 2014 from 52.55 percent in 2013. A lower efficiency ratio is more desirable.

Our loan portfolio grew to \$1,184,045 as of December 31, 2014 from \$991,720 at the end of 2013. Deposits increased to \$1,270,462 as of December 31, 2014 from \$1,163,842 as of December 31, 2013. This growth was the result of our bankers working with existing customers to provide them with the best financial solutions, as well as business development efforts targeted at new clients.

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(dollars in thousands, except per share amounts)

Based on Nasdaq market quotations, our stock price increased 7.6 percent from the end of 2013 to the end of 2014. Our earnings outlook is positive, and we have strong capital resources. We expect the unusually low interest rate environment to continue for at least the first six months of the current year, and we will continue to carefully review strategies aimed at maintaining or improving our net interest margin. We anticipate the Company will be profitable in 2015 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 continue to grow the loan portfolio.

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, 2014. ICD IV, LLC was liquidated during the third quarter of 2014 because the underlying loan matured.

CRITICAL ACCOUNTING POLICIES

This report is based on the Company's audited consolidated financial statements, which have been prepared in accordance with generally accepted accounting policies (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 other than temporary impairment (OTTI) of investment securities, the allowance for loan losses and the valuation of other real estate owned.

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. When determining whether an investment security is OTTI, management assesses 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: (a) it has the intent to sell the security, and (b) it is more likely than not that it will be required to sell the security prior to its anticipated recovery. In instances when a determination is made that an OTTI exists but management does not intend to sell the security and it is not more likely than not that it will be required to sell the security prior to its anticipated repayment or maturity, the OTTI is separated into: (a) the amount of the total OTTI related to a decrease in cash flows expected to be collected from the security (the credit loss); and (b) the amount of the total OTTI related to all other factors. The amount of the total OTTI related to the credit loss is recognized as a charge to earnings. The amount of the total OTTI related to all other factors is recognized in other comprehensive income. 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.

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.

Other real estate owned (OREO) 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 acquisition date 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.

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(dollars in thousands, except per share amounts)

RESULTS OF OPERATIONS - 2014 COMPARED TO 2013

OVERVIEW

Net income for the year ended December 31, 2014 was \$20,040, compared to \$16,891 for the year ended December 31, 2013. Basic and diluted earnings per common share were \$1.25 and \$1.02 for 2014 and 2013, respectively. The Company's ROA was 1.32 percent, compared to 1.17 percent for the year ended December 31, 2013. The Company's 2014 ROE was 15.19 percent, compared to 13.22 percent in 2013.

The improvement in net income in 2014 compared to 2013 was primarily because of an increase in interest income due to growth in average loan volume. Growth in loans outstanding required a provision for loan losses in 2014 of \$750 compared to a negative provision of \$850 for 2013. Noninterest income grew \$1,802 for 2014 primarily due to net gains on disposition of premises and equipment of \$1,069 and a \$330 increase in trust services. Noninterest expense increased \$1,186, with the majority of the increase due to an increase of \$445 in other real estate owned write-downs based on updated appraisals of several properties. Income taxes declined in 2014 primarily due to the utilization of capital loss carryforwards in connection with the sale of one branch office and one investment security.

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, 2014, the Company's efficiency ratio improved to 49.93 percent from the prior year's ratio of 52.55 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, net impairment losses and gains/losses on disposition of premises and equipment). The ratio for both years is significantly better than peer group averages, which were generally around 70 percent according to data in the September 2014 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 increased \$3,462 to \$49,145 for 2014 as the impact of loan growth, higher average yields on investment securities and lower deposit rates exceeded the 27 basis point decline in average yield on loans. The net interest margin increased to 3.59 percent from 3.48 percent in 2013. The average yield on earning assets increased by two basis points, while the rate on interest-bearing liabilities declined 12 basis points. As a result, the net interest spread, which is the difference between the yields earned on assets and the rates paid on liabilities, increased to 3.43 percent from 3.29 percent a year earlier.

Loan Volume/Loan Quality

Total loans increased \$192,325 to \$1,184,045 as of December 31, 2014, from \$991,720 a year earlier. Management believes the loan portfolio will continue to grow during 2015, but at a more modest rate as a number of loan payoffs are expected. The Company remains focused on the quality of new and expanded business relationships. The March 2013 addition of the Rochester, Minnesota, office had produced loan balances in excess of \$51 million as of December 31, 2014. Nonperforming loans at December 31, 2014, totaled \$1,937, or 0.16 percent of total loans, down from \$2,915, or 0.29 percent, at December 31, 2013. Nonperforming loans include loans on nonaccrual status, loans past due 90 days or more, and loans that have been considered to be troubled debt restructured (TDR) due to the borrowers experiencing financial difficulties. In addition, the Company held one other real estate property with a carrying value of \$2,235 as of December 31, 2014. This is the lowest level of other real estate owned since December

31, 2008. The Company's Texas ratio improved to 2.71 percent as of December 31, 2014, compared to 7.69 percent as of December 31, 2013. The ratio for both years is significantly better than peer group averages, which were approximately 14 percent and 20 percent, respectively, according to data in the September 2014 and 2013 Bank Holding Company Performance Reports. 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 \$13,607 as of December 31, 2014, represented 1.15 percent of total loans and 702.5 percent of nonperforming loans at year end, compared to 1.39 percent and 473.1 percent, respectively, as of December 31, 2013. The provision for loan losses was \$750 in 2014, compared to a negative provision of \$850 for 2013. The Company's net charge-offs as a percent of average loans was 0.09 percent for both 2014 and 2013.

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(dollars in thousands, except per share amounts)

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		Change	Change %	
	2014	2013			
Noninterest income:					
Service charges on deposit accounts	\$2,790	\$2,923	\$(133)	(4.55)	%
Debit card usage fees	1,764	1,787	(23)	(1.29)	%
Trust services	1,327	997	330	33.10	%
Gains and fees on sales of residential mortgages	1,394	1,275	119	9.33	%
Increase in cash value of bank-owned life insurance	731	646	85	13.16	%
Gain (loss) on disposition of premises and equipment	1,069	(9)	1,078	11,977.78	%
Realized investment securities gains, net	223	—	223	N/A	
Other income:					
Loan fees	98	76	22	28.95	%
Letter of credit fees	127	50	77	154.00	%
Wire transfer fees	141	126	15	11.90	%
ATM fees	56	42	14	33.33	%
All other	576	581	(5)	(0.86)	%
Total other income	998	875	123	14.06	%
Total noninterest income	\$10,296	\$8,494	\$1,802	21.21	%

The decline in service charges on deposit accounts was caused by lower nonsufficient funds fees partially offset by increased fees from commercial accounts.

Revenues from trust services experienced significant growth during 2014 as a result of new business along with higher asset values.

The volume of residential mortgage originations sold into the secondary market during 2014 declined to \$62,067 from \$93,593 in 2013, while revenue increased. Revenue for 2013 was negatively impacted by a sudden rise in interest rates that occurred in June 2013, which caused a significant decline in gains recognized per loan sold in the third quarter of 2013. In the fourth quarter of 2014, we changed the way we provide residential mortgage loan products to our customers. The Company now has retail staff in each of our banking locations who can offer residential mortgage loans. In the past, we had mortgage bankers in only select locations. The changes include the outsourcing of underwriting and processing functions, which will reduce our operating costs. West Bank receives a fee for each loan originated. The volume of originations for 2015 is expected to be lower than it was in 2014, which is expected to result in lower fee income.

The Company invested an additional \$5,000 in bank-owned life insurance in the second quarter of 2014, resulting in a higher level of increases in cash value of bank-owned life insurance.

The fourth quarter 2014 sale of the downtown Iowa City office and the disposition of other unused assets resulted in a net gain of \$1,069. In January 2015, West Bank opened a newly constructed eastern Iowa main office in Coralville.

The Company recognized net gains on sales of investment securities of \$716 in the first nine months of 2014. In the fourth quarter of 2014, the Company sold a pooled TPS that had previously been reported as a security available for

sale with OTTI at a loss of \$493. The fair value of this nonperforming asset had been slowly improving over the past two years. While recognizing a loss for book purposes, this security was eligible for capital gain treatment for tax purposes, which allowed utilization of capital loss carryforwards. This resulted in a tax benefit that was in excess of the book loss. There were no sales of investment securities during 2013.

The increase in loan fees was mainly due to amortization of commitment fees. Letter of credit fees increased due to a higher volume of standby letters of credit activity compared to the prior year.

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(dollars in thousands, except per share amounts)

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		Change	Change %	
	2014	2013			
Noninterest expense:					
Salaries and employee benefits	\$16,086	\$15,757	\$329	2.09	%
Occupancy	4,165	3,906	259	6.63	%
Data processing	2,241	2,030	211	10.39	%
FDIC insurance	757	733	24	3.27	%
Other real estate owned	1,865	1,359	506	37.23	%
Professional fees	944	1,200	(256)	(21.33)	)%
Director fees	714	584	130	22.26	%
Miscellaneous losses	329	736	(407)	(55.30)	)%
Other expenses:					
Marketing	220	359	(139)	(38.72)	)%
Business development	702	505	197	39.01	%
Insurance	384	370	14	3.78	%
Bank service charges and investment advisory fees	551	496	55	11.09	%
Trust	344	277	67	24.19	%
Consulting fees	337	276	61	22.10	%
Supplies	292	334	(42)	(12.57)	)%
Low income housing projects amortization	188	84	104	123.81	%
All other	1,883	1,810	73	4.03	%
Total other	4,901	4,511	390	8.65	%
Total noninterest expense	\$32,002	\$30,816	\$1,186	3.85	%

The increase in salaries and employee benefits was primarily due to recognition of a higher amount of stock-based compensation costs (\$145), higher bonus accruals (\$187) and higher benefit costs (\$102). These increases were partially offset by a decline in commission expense for mortgage loan originators (\$129).

Occupancy expense increased due to higher depreciation and equipment service contract expenses related to ongoing technology upgrades. Rent expense also increased compared to the prior year due to a full year of expense for the 2013 addition of the Rochester, Minnesota, office, an upgraded office in West Des Moines, Iowa, that was completed in March 2013, and the lease of additional space at the main bank location in February 2013. In addition, maintenance costs increased \$64 compared to 2013.

Data processing expense increased in 2014 primarily because of the increased volume of debit card transactions and additional information security measures put in place in the past year.

Other real estate owned expense for the years ended December 31, 2014 and 2013, included \$1,786 and \$1,341, respectively, of property valuation write-downs due to updated appraisals of several properties. As of December 31, 2014, the Company owned only one other real estate property.

Professional fees declined due to lower legal fees. Director fees increased as a result of higher stock-based compensation costs, as well as an increase in the number of directors effective as of the 2013 Annual Meeting.

Miscellaneous losses include uncollected overdrafts, debit card fraud, other losses due to operational errors and charges to establish loss reserves related to mortgage loans sold in the secondary market. Collectively, these activities generated lower losses in 2014 than 2013.

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Certain outsourced marketing activities were brought in-house in 2014, resulting in reduced costs. The increase in business development costs was the result of expanding sponsorships of local events in the communities the Company serves, as well as a continued focus on developing new relationships.

During 2014, West Bank entered into an agreement with an investment management firm to assist in the purchase of up to \$50 million of public company floating rate loans. As of December 31, 2014, approximately \$42 million of these loans were outstanding. The agreement includes an annual administration fee, which is the primary reason for the 2014 increase in bank service charges and investment advisory fees. Trust expense increased compared to the prior year consistent with increased revenue. Consulting fees increased due to fees paid for three, one-time projects.

The cost of supplies declined in 2014 as expense for 2013 included one-time costs to reissue debit cards related to changing processors.

The increase in the cost of low income housing project amortization was related to the Company investing in additional projects during 2014. Offsetting the amortization expense in 2014 was approximately \$160 of low income housing Federal tax credits compared to \$79 in 2013.

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, disallowed interest expense, state income taxes, changes in the valuation allowance and tax credits. The effective rate of income tax expense as a percent of income before income taxes was 24.9 percent and 30.2 percent, respectively, for 2014 and 2013.

Income tax expense for 2014 was lower than would be expected due to the utilization of approximately \$3,766 of capital loss carryforwards. The capital gains were generated from the sale of an office in Iowa City and the sale of a previously impaired investment security. In prior years, the Company recorded a valuation allowance for the capital loss carryforwards and investment security impairment, as management believed it was more likely than not that such carryforwards would expire without being utilized. The reduction in 2014 income tax expense related to the carryforwards was approximately \$1,495. The effective tax rate for both years was also impacted by federal low income housing tax credits as discussed in the previous section. The 2013 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 markets tax credit. The credit, which totaled \$2,730, was recognized over a seven-year period ending in 2013.

Federal income tax expense was approximately \$5,446 and \$6,141 for 2014 and 2013, respectively, while state income tax expense was approximately \$1,203 and \$1,179, respectively. The Company continues to maintain a valuation allowance against the tax effect of state net operating losses and federal and state capital loss carryforwards, as management believes it is likely that such carryforwards will expire without being utilized.

RESULTS OF OPERATIONS - 2013 COMPARED TO 2012

OVERVIEW

Net income for the year ended December 31, 2013 was \$16,891, compared to \$16,011 for the year ended December 31, 2012. Basic and diluted earnings per common share were \$1.02 and \$0.92 for 2013 and 2012, respectively. The Company's 2013 ROE was 13.22 percent, compared to 12.34 percent in 2012. The ROA was 1.17 percent, compared to 1.21 percent for the prior year.

The improvement in net income in 2013 compared to 2012 was primarily because of an increase in net interest income that resulted from a higher volume of earning assets. Improvement in credit quality of the loan portfolio resulted in a negative provision for loan losses in 2013 of \$850 compared to an expense of \$625 for 2012. Noninterest income declined \$2,375 for 2013 due to lower gains from the sale of home mortgages in the secondary market, and a gain from bank-owned life insurance in 2012 that was due to the death of a West Bank officer.

For the year ended December 31, 2013, the Company's efficiency ratio increased to 52.55 percent from the prior year's ratio of 50.83 percent.

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(dollars in thousands, except per share amounts)

Net Interest Income

Net interest income increased \$4,485 to \$45,683 for 2013 as the impact of a higher volume of loans and investment securities and lower rates paid on deposits and borrowings exceeded the 44 basis point decline in average yield on loans. The net interest margin increased to 3.48 percent from 3.42 percent in 2012. The average yield on earning assets declined 18 basis points, while the rate paid on interest-bearing liabilities declined 34 basis points. The net interest spread increased to 3.29 percent from 3.13 percent a year earlier.

Loan Volume/Loan Quality

Total loans increased \$64,319 to \$991,720 as of December 31, 2013, from \$927,401 a year earlier. The March 2013 addition of the Rochester, Minnesota, office produced loan balances of approximately \$11,600 as of December 31, 2013. Nonperforming loans at December 31, 2013 totaled \$2,915, or 0.29 percent of total loans, compared to \$7,256, or 0.78 percent of total loans, as of December 31, 2012. In addition, the Company held \$5,800 of other real estate owned at December 31, 2013. The Company's Texas ratio improved to 7.69 percent as of December 31, 2013, from 11.25 percent as of December 31, 2012.

The allowance for loan losses, which was \$13,791 as of December 31, 2013, represented 1.39 percent of total loans and 473.1 percent of nonperforming loans at year end, compared to 1.67 percent and 214.0 percent, respectively, as of December 31, 2012. The provision for loan losses was a negative \$850 for 2013 due to improvement in credit quality of the portfolio, compared to an expense of \$625 for 2012. The Company's net charge-offs as a percent of average loans were 0.09 percent for 2013, compared to 0.22 percent for 2012.

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				
	2013	2012	Change	Change %	
Noninterest income:					
Service charges on deposit accounts	\$2,923	\$3,009	\$(86)	(2.86)	)%
Debit card usage fees	1,787	1,586	201	12.67	%
Trust services	997	817	180	22.03	%
Gains and fees on sales of residential mortgages	1,275	3,104	(1,829)	(58.92)	)%
Increase in cash value of bank-owned life insurance	646	737	(91)	(12.35)	)%
Gain from bank-owned life insurance	—	841	(841)	(100.00)	)%
Gain (loss) on disposition of premises and equipment	(9)	(125)	) 116	92.80	%
Investment securities impairment loss	—	(203)	) 203	100.00	%
Realized investment securities gains, net	—	246	(246)	(100.00)	)%
Other income:					
Wire transfer fees	126	138	(12)	(8.70)	)%
Credit card fees	208	193	15	7.77	%
Loan fees	76	16	60	375.00	%
All other	465	510	(45)	(8.82)	)%
Total other income	875	857	18	2.10	%
Total noninterest income	\$8,494	\$10,869	\$(2,375)	(21.85)	)%

Debit card usage fees showed positive growth in 2013 as customers continued the trend of writing fewer checks and increasing the volume of electronic transactions. West Bank also changed debit card processors during 2013, which resulted in debit card fees being provided to West Bank sooner than the previous processor. Due to the switch in processors, there was approximately \$100 in debit card income that will not be recurring in future years because of the timing of receiving fees.

Revenue from trust services increased during 2013 as a result of a combination of new business and strong asset values resulting from favorable market conditions.

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The volume of residential mortgage originations sold into the secondary market during 2013 declined to \$93,593 from \$129,322 in 2012, resulting in a 59 percent reduction in revenue. The decline in volume was a result of a sudden rise in long-term interest rates at the end of June 2013, and the rates continued to edge up through the end of the year. Along with the rise in interest rates, total revenue from gains and fees on sales of residential mortgages declined due to a lower proportion of refinancings as compared to purchase transactions, which typically have lower margins. Approximately 55 percent of the originations during 2013 involved homeowners refinancing current mortgages as compared to approximately 65 percent during 2012.

The lower increase in cash value of bank-owned life insurance was due to lower crediting rates within the policies, which were attributable to the low interest rate environment. The gain from bank-owned life insurance in 2012 was due to the death of a bank officer.

The 2012 loss on disposal of premises and equipment included the write-off of design costs not used in the final plans related to the construction of the leased replacement office in West Des Moines.

As of December 31, 2013, the Company held one pooled TPS it considered to have OTTI. No impairment losses were recognized during the year ended December 31, 2013, while an impairment loss of \$203 was recognized during the year ended December 31, 2012. Quarterly evaluations showed the value of this security improved throughout 2013.

There were no sales of investment securities during 2013. During 2012, the Company took advantage of an opportunity to sell two collateralized mortgage obligations at a gain and was able to replace them with similar bonds with comparable yields, thus resulting in net gains of \$246 for 2012.

The increase in loan fees compared to 2012 was due to an increase in loan covenant waiver fees and amortization of commitment fees.

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				
	2013	2012	Change	Change %	
Noninterest expense:					
Salaries and employee benefits	\$15,757	\$14,532	\$1,225	8.43	%
Occupancy	3,906	3,519	387	11.00	%
Data processing	2,030	2,070	(40)	(1.93)	)%
FDIC insurance	733	672	61	9.08	%
Other real estate owned	1,359	1,491	(132)	(8.85)	)%
Professional fees	1,200	1,064	136	12.78	%
Director fees	584	448	136	30.36	%
Miscellaneous losses	736	195	541	277.44	%
Other expenses:					
Marketing	359	268	91	33.96	%
Business development	505	410	95	23.17	%
Insurance	370	341	29	8.50	%
Bank service charges and investment advisory fees	496	505	(9)	(1.78)	)%

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Consulting fees	276	582	(306	) (52.58	)%
Contributions	180	380	(200	) (52.63	)%
Supplies	334	302	32	10.60	%
All other	1,991	1,888	103	5.46	%
Total other	4,511	4,676	(165	) (3.53	)%
Total noninterest expense	\$30,816	\$28,667	\$2,149	7.50	%

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The increase in salaries and employee benefits in 2013 consisted of normal salary increases plus salaries for employees added during the year (\$970), recognition of a larger amount of stock-based compensation costs (\$166), higher bonus accruals (\$88) and higher benefit costs (\$303). The benefit cost increases were primarily for payroll taxes (\$68), health insurance (\$151) and 401(k) plan contributions (\$72).

Occupancy expense increased due to higher depreciation and equipment service contract expenses related to technology upgrades. Rent expense also increased due to the addition of the Rochester, Minnesota, office, a replacement office in West Des Moines, Iowa, and the lease of additional space at the main bank location.

Data processing expense was lower in 2013 as a result of renegotiating the contract with the Company's core processor. FDIC insurance expense increased because of the growth in total average assets. The assessment rate declined slightly compared to 2012.

Other real estate owned expense for the years ended December 31, 2013 and 2012, included \$1,341 and \$1,442, respectively, of property valuation write-downs due to updated appraisals and estimated disposal costs for several properties. The remaining reduction in other real estate owned expense was attributed to the Company having a smaller inventory of properties in other real estate owned during 2013 as compared to 2012.

Professional fees increased primarily due to higher legal fees incurred to defend the previously disclosed potential class-action lawsuit. Miscellaneous losses included uncollected overdrafts, debit card fraud, other losses due to operational errors and charges to establish loss reserves related to mortgage loans sold in the secondary market. Collectively, these activities generated higher losses in 2013 than 2012.

Marketing expense grew primarily as a result of costs related to opening a replacement office in West Des Moines, Iowa, and the opening of the previously mentioned office in Rochester, Minnesota. The increase in business development costs was the result of focusing on developing new relationships and expanding sponsorships of local events in the communities the Company serves. Director fees increased compared to 2012 primarily due to the \$94 increase in recognition of stock-based compensation expense related to the grant of restricted stock units to board members.

Consulting fees declined in 2013 as a number of projects were completed in 2012 and were not repeated in 2013. Charitable contributions declined for 2013 as compared to 2012 due to a larger donation to the West Bancorporation Foundation in the second quarter of 2012. The cost of supplies for 2013 included one-time costs to reissue debit cards related to changing processors.

Income Taxes

The effective rate of income tax expense as a percent of income before income taxes was 30.2 percent and 29.7 percent, respectively, for 2013 and 2012. The federal income tax expense was approximately \$6,141 and \$5,677 for 2013 and 2012, respectively, while state income tax expense was approximately \$1,179 and \$1,087, respectively. For both years, the effective tax rate was impacted by the previously mentioned 2007 investment in a qualified community development entity (ICD IV, LLC), which generated a federal new markets tax credit.

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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.

	2014			2013			2012		
	Average	Revenue/	Yield/	Average	Revenue/	Yield/	Average	Revenue/	Yield/
	Balance	Expense	Rate	Balance	Expense	Rate	Balance	Expense	Rate
Assets									
Interest-earning									
assets:									
Loans: ^{(1) (2)}									
Commercial	\$276,201	\$11,662	4.22 %	\$247,749	\$10,908	4.40 %	\$257,279	\$12,625	4.91 %
Real estate ⁽³⁾	779,223	36,121	4.64 %	696,763	34,386	4.94 %	594,329	31,945	5.37 %
Consumer and other	9,811	393	4.01 %	7,655	351	4.59 %	6,252	290	4.64 %
Total loans	1,065,235	48,176	4.52 %	952,167	45,645	4.79 %	857,860	44,860	5.23 %
Investment securities:									
Taxable	252,500	4,938	1.96 %	289,901	5,173	1.78 %	262,982	4,240	1.61 %
Tax-exempt ⁽³⁾	94,851	4,347	4.58 %	79,187	3,688	4.66 %	54,633	2,931	5.36 %
Total investment securities	347,351	9,285	2.67 %	369,088	8,861	2.40 %	317,615	7,171	2.26 %
Federal funds sold	17,007	45	0.26 %	45,846	119	0.26 %	74,458	191	0.26 %
Total interest-earning assets ⁽³⁾	1,429,593	57,506	4.02 %	1,367,101	54,625	4.00 %	1,249,933	52,222	4.18 %
Noninterest-earning assets:									
Cash and due from banks	34,152			33,693			33,336		
Premises and equipment, net	9,513			6,607			5,699		
Other, less allowance for loan losses	39,248			38,372			37,440		
Total noninterest-earning assets	82,913			78,672			76,475		
Total assets	\$1,512,506			\$1,445,773			\$1,326,408		
Liabilities and Stockholders' Equity									
Interest-bearing liabilities:									
Deposits:									

Savings, interest-bearing demand and money markets	\$ 736,002	1,222	0.17 %	\$ 650,566	1,611	0.25 %	\$ 544,410	1,991	0.37 %
Time	150,378	1,204	0.80 %	168,050	1,802	1.07 %	167,353	2,544	1.52 %
Total deposits	886,380	2,426	0.27 %	818,616	3,413	0.42 %	711,763	4,535	0.64 %
Other borrowed funds	150,654	3,730	2.48 %	178,119	3,645	2.05 %	193,288	4,929	2.55 %
Total interest-bearing liabilities	1,037,034	6,156	0.59 %	996,735	7,058	0.71 %	905,051	9,464	1.05 %
Noninterest-bearing liabilities:									
Demand deposits	336,456			312,648			283,931		
Other liabilities	7,092			8,601			7,631		
Stockholders' equity	131,924			127,789			129,795		
Total liabilities and stockholders' equity	\$ 1,512,506			\$ 1,445,773			\$ 1,326,408		
Net interest income/net interest spread ⁽³⁾	\$ 51,350	3.43 %		\$ 47,567	3.29 %		\$ 42,758	3.13 %	
Net interest margin ⁽³⁾		3.59 %			3.48 %			3.42 %	
(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 and prepayment penalties collected, which are not material.									
Tax-exempt income has been adjusted to a tax-equivalent basis using an incremental federal income tax rate of 35 percent and is adjusted to reflect the effect of the nondeductible interest expense associated with owning tax-exempt investment securities and loans.									

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(dollars in thousands, except per share amounts)

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 investment securities, and interest paid on interest-bearing liabilities, consisting of deposits and borrowings. Fluctuations in net interest income can result from the combination of changes in the 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 actions 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, 2014, 2013 and 2012, the Company's net interest margin on a tax-equivalent basis was 3.59, 3.48 and 3.42 percent, respectively. The 11 basis point increase in the 2014 net interest margin was primarily the result of growth in loans and a decline in the rates paid on interest-bearing deposits, partially offset by a decline in the yield on loans. The result was an increase of \$3,783 in tax-equivalent net interest income compared to 2013. Management believes the net interest margin will remain under pressure if the Federal Reserve maintains its current monetary policies. To prevent a potential negative impact to interest expense in the event of a future rise in market interest rates, the Company has forward-starting interest rate swaps in place. The interest rate swaps convert the payment streams for \$55,000 of variable rate long-term borrowings to fixed interest rates. One \$25,000 interest rate swap became effective in December 2014, and the other two have start dates in June and September 2015.

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.

	2014 Compared to 2013			2013 Compared to 2012		
	Volume	Rate	Total	Volume	Rate	Total
Interest Income						
Loans: ⁽¹⁾						
Commercial	\$1,215	\$(461)	) \$754	\$(455)	) \$(1,262)	) \$(1,717)
Real estate ⁽²⁾	3,906	(2,171)	) 1,735	5,200	(2,759)	) 2,441
Consumer and other	90	(48)	) 42	64	(3)	) 61
Total loans (including fees)	5,211	(2,680)	) 2,531	4,809	(4,024)	) 785
Investment securities:						
Taxable	(704)	) 469	(235)	) 457	476	933
Tax-exempt ⁽²⁾	719	(60)	) 659	1,183	(426)	) 757
Total investment securities	15	409	424	1,640	50	1,690
Federal funds sold and other short-term investments	(76)	) 2	(74)	) (74)	) 2	(72)
Total interest income ⁽²⁾	5,150	(2,269)	) 2,881	6,375	(3,972)	) 2,403
Interest Expense						
Deposits:						
Savings, interest-bearing demand and money markets	192	(581)	) (389)	) 341	(721)	) (380)

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Time	(175	)	(423	)	(598	)	11	(753	)	(742	)	
Total deposits	17		(1,004	)	(987	)	352	(1,474	)	(1,122	)	
Other borrowed funds	(612	)	697		85		(365	)	(919	)	(1,284	)
Total interest expense	(595	)	(307	)	(902	)	(13	)	(2,393	)	(2,406	)
Net interest income ⁽²⁾	\$5,745		\$(1,962	)	\$3,783		\$6,388		\$(1,579	)	\$4,809	

(1) Average balances of nonaccrual loans were included for computational purposes.

Tax-exempt income has been converted to a tax-equivalent basis using a federal income tax rate of 35 percent and (2) is adjusted for the effect of the nondeductible interest expense associated with owning tax-exempt investment securities and loans.

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Tax-equivalent interest income and fees on loans increased \$2,531 for the year ended December 31, 2014 compared to 2013. The average balance of loans increased \$113,068 in 2014 compared to 2013 as the Iowa economy saw some improvement and West Bank lenders focused on business development in all of their markets. The average yield on loans declined 27 basis points in 2014 compared to 2013. 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 2014 was \$21,737 lower than in 2013, while the yield increased 27 basis points. The decrease in volume was attributable to the combination of sales of investment securities and paydowns received on collateralized mortgage obligations and mortgage-backed securities exceeding investment securities purchases. The average balance of federal funds sold declined \$28,839 during 2014.

The average balance of deposits increased \$67,764 in 2014 compared to 2013. This increase is primarily due to higher customer demand for the Insured Cash Sweep products, which are reciprocal programs that provide FDIC insurance coverage for all participating deposits. The average balance of time deposits continues to decline as fewer customers consider time deposits a good option in the current low rate environment. The average rate paid on deposits in 2014 declined to 0.27 percent from 0.42 percent for 2013. The interest rates paid on a number of deposit products were reduced on December 30, 2013, and longer-term, higher-rate time deposits continue to mature and rollover into the current lower rates. The decline in deposit interest rates exceeded the cost attributed to higher interest-bearing deposit account balances, thus causing interest expense on deposits to decline by \$987.

The average rate paid on other borrowed funds increased 43 basis points in 2014 compared to 2013, while the average balance decreased \$27,465 for the same time period. In November 2013, the Company discontinued its securities sold under agreements to repurchase product, and these accounts were converted to deposit accounts with the introduction of the Insured Cash Sweep products. The average outstanding balance of securities sold under agreements to repurchase in 2013 was \$39,672, with an average rate paid of 15 basis points; there were none in 2014. This decline in average balance of borrowed funds was partially offset by two new long-term borrowing arrangements entered into in June 2013 and an increase in the average balance of short-term borrowings in 2014.

INVESTMENT SECURITIES PORTFOLIO

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

	As of December 31		
	2014	2013	2012
Securities available for sale, at fair value:			
U.S. government agencies and corporations	\$12,820	\$12,871	\$13,034
State and political subdivisions	52,359	87,788	56,761
Collateralized mortgage obligations	125,870	168,648	173,594
Mortgage-backed securities	66,153	58,156	38,424
Trust preferred securities	918	2,745	2,095
Corporate notes and other investments	14,670	15,008	8,406
Total securities available for sale, fair value and carrying value	\$272,790	\$345,216	\$292,314
Securities held to maturity, at amortized cost:			
State and political subdivisions	\$51,343	\$—	\$—

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The investment securities available for sale presented in the following table are reported at fair value and by contractual maturity as of December 31, 2014. 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 have monthly paydowns, which are not projected in the table.

Investments as of December 31, 2014	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	\$—	\$12,820	\$—	\$—	\$12,820
State and political subdivisions	25	6,704	18,850	26,780	52,359
Collateralized mortgage obligations	—	—	8,974	116,896	125,870
Mortgage-backed securities	—	—	8,594	57,559	66,153
Trust preferred securities	—	—	—	918	918
Corporate notes and other investments	—	12,974	300	1,396	14,670
Total	\$25	\$32,498	\$36,718	\$203,549	\$272,790

Weighted average yield:

U.S. government agencies and corporations	—	1.42	% —	—	
State and political subdivisions ⁽¹⁾	7.55	% 5.12	% 4.42	% 4.85	%
Collateralized mortgage obligations	—	—	2.77	% 2.26	%
Mortgage-backed securities	—	—	2.70	% 2.18	%
Trust preferred securities	—	—	—	2.53	%
Corporate notes and other investments	—	1.81	% 3.00	% 5.33	%
Total	7.55	% 2.33	% 3.60	% 2.59	%

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

The investment securities held to maturity presented in the following table are reported at amortized cost and by contractual maturity as of December 31, 2014. 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.

Investments as of December 31, 2014	Within one year	After one year but within five years	After five years but within ten years	After ten years	Total
State and political subdivisions	\$—	\$—	\$9,286	\$42,057	\$51,343

Weighted average yield:

State and political subdivisions ⁽¹⁾	—	% —	% 3.45	% 4.36	%
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Yields on tax-exempt obligations have been computed on a tax-equivalent basis using an incremental federal (1) income tax rate of 35 percent and are adjusted to reflect the effect of the nondeductible interest expense associated with owning tax-exempt investment securities.

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 comparing the two sets of fair values. Any significant variances are reviewed and investigated. In addition, the Company has a practice of further testing the fair values by selecting a sample of investment securities from each category of securities. For that sample, the prices were 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 investment securities were properly classified in the fair value hierarchy.

As of December 31, 2014, the existing gross unrealized losses of \$3,027 were 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.

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In September 2014, the Company reclassified 86 state and political subdivision securities with total amortized cost and fair value of \$50,882 and \$51,371, respectively, to the held to maturity classification. The Company decided it was prudent to reclassify approximately half of the state and political subdivision securities to the held to maturity designation as the Company has the ability and intent to hold these securities until their maturity dates, which range from 2020 to 2034. By establishing a "held to maturity" investment securities portfolio, any future decline in market value of the securities in this portfolio will not adversely impact stockholders' equity and book value per share.

Investment securities with book values totaling \$35,866 were sold in 2014 for net gains of \$716. The sales were primarily undertaken in order to capitalize on available net gains while being able to reinvest the proceeds primarily in agencies and mortgage-backed securities at similar yields and durations. In addition, the pooled TPS, ALESCO Preferred Funding X, Ltd, which had previously been reported as a security available for sale with OTTI, was sold in the fourth quarter of 2014. This security had a book value of \$4,086 and was sold for a loss of \$493.

As of December 31, 2014, approximately 70 percent of the available for sale investment securities portfolio consisted of government agency guaranteed collateralized mortgage obligations and mortgage-backed securities. In the current low interest rate environment, both provide relatively good yields, have little to no credit risk and provide fairly consistent cash flows. 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, 2014, 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.

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				
	2014	2013	2012	2011	2010
Commercial	\$316,908	\$258,010	\$282,124	\$255,702	\$310,376
Real estate:					
Construction, land and land development	154,490	117,394	121,911	101,607	116,601
1-4 family residential first mortgages	53,497	50,349	49,280	63,218	51,760
Home equity	24,500	25,205	25,536	26,423	26,111
Commercial	625,938	532,139	441,857	386,137	372,404
Consumer and other loans	9,318	9,236	7,099	6,155	11,514
Total loans	1,184,651	992,333	927,807	839,242	888,766
Deferred loan fees, net	(606)	(613)	(406)	(283)	(117)
Total loans, net of deferred fees	\$1,184,045	\$991,720	\$927,401	\$838,959	\$888,649

As of December 31, 2014, total loans were approximately 93 percent of total deposits and 73 percent of total assets. As of December 31, 2014, the majority of all loans were originated directly by West Bank to borrowers within West Bank's principal market areas. There were \$3,975 of participation loans outstanding to two non-U.S. public

companies who are listed on U.S. stock exchanges as of December 31, 2014.

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Loans outstanding increased approximately 19 percent compared to the end of 2013. The growth was primarily in the commercial, commercial real estate, and construction and land development segments. Management believes the growth was the result of some improvement in our local economies, continued growth in the Rochester, Minnesota, location and the Company's overall business development efforts. The opening of the Rochester location in March 2013 and the addition of its experienced lenders have produced loan balances in that market of \$51,340 as of December 31, 2014. The purchase of approximately \$41,625 of public company floating rate loans, in \$2,000 increments, also contributed to loan growth. Management believes the business development efforts are strong in all three of our markets, and additional growth is expected in 2015, although at a slower pace than in 2014.

For a description of the loan segments, see Note 4 to the consolidated financial statements included in Item 8 of this Form 10-K. The interest rates charged on loans vary with the degree of risk, the amount of the loan and the term of the loan. Competitive pressures, the creditworthiness of the borrower, market interest rates, the availability of funds, and government regulation further influence the rate charged on a loan.

The Company follows a loan policy 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 for loan administration and the allowance for loan losses, among others. 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.

Within the commercial real estate category, concentrations in excess of ten percent of totals loans outstanding at December 31, 2014 include approximately \$184,000 of loans for medical related facilities and approximately \$126,000 of loans secured by multifamily residential properties.

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, 2014	Within one year	After one but within five years	After five years	Total
Commercial	\$ 131,301	\$ 136,003	\$ 49,604	\$ 316,908
Real estate:				
Construction, land and land development	88,915	52,890	12,685	154,490
1-4 family residential first mortgages	9,110	38,838	5,549	53,497
Home equity	6,008	17,458	1,034	24,500
Commercial	19,668	417,416	188,854	625,938
Consumer and other loans	4,394	4,688	236	9,318
Total loans	\$ 259,396	\$ 667,293	\$ 257,962	\$ 1,184,651
		After one but within five	After five years	

	years	
Loan maturities after one year with:		
Fixed rates	\$545,932	\$176,981
Variable rates	121,361	80,981
	\$667,293	\$257,962

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Risk Elements

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

	Years Ended December 31									
	2014		2013		2012		2011		2010	
Nonaccrual loans	\$1,561		\$2,398		\$6,400		\$8,572		\$7,945	
Loans past due 90 days and still accruing interest	—		—		—		—		198	
Troubled debt restructured loans ⁽¹⁾	376		517		856		2,121		4,787	
Total nonperforming loans	1,937		2,915		7,256		10,693		12,930	
Other real estate owned	2,235		5,800		8,304		10,967		19,193	
Nonaccrual investment securities	—		1,850		1,334		1,245		1,339	
Total nonperforming assets	\$4,172		\$10,565		\$16,894		\$22,905		\$33,462	
Nonperforming loans to total loans	0.16	%	0.29	%	0.78	%	1.27	%	1.46	%
Nonperforming assets to total assets	0.26	%	0.73	%	1.17	%	1.80	%	2.56	%

While TDR loans are commonly reported by the industry as nonperforming, those not classified in the nonaccrual (1) category are accruing interest due to payment performance. TDR loans on nonaccrual status, if any, are included in the nonaccrual category.

Credit quality of the Company's assets remains strong as nonperforming assets continued to decline during 2014. The Company's Texas ratio, which is computed by dividing nonperforming assets by tangible equity plus the allowance for loan losses, was 2.71 percent as of December 31, 2014, an improvement from 7.69 percent as of December 31, 2013. These ratios were significantly better than peer group averages, which were approximately 13.86 percent as of September 30, 2014, according to the data in the September 2014 Bank Holding Company Performance Report for the peer group of bank holding companies with assets between \$1 billion and \$3 billion.

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The following tables set forth the annual activity within each category of nonperforming assets for the years ended December 31, 2014 and 2013.

Year ended December 31, 2014

	Nonaccrual	Loans Past Due 90 Days and Still Accruing Interest	Troubled Debt Restructured	Total Nonperforming Loans	Other Real Estate Owned	Nonaccrual Investment Securities	Total Nonperforming Assets
Balance at beginning of period	\$2,398	\$—	\$517	\$ 2,915	\$5,800	\$1,850	\$ 10,565
Increase in fair market value	—	—	—	—	—	1,828	1,828
Additions	860	326	—	1,186	1	—	1,187
Transfers:							
Past due to nonaccrual	91	(91)	—	—	—	—	—
Troubled debt to past due	—	91	(91)	—	—	—	—
Nonaccrual to OREO	(393)	—	—	(393)	393	—	—
Upgrade in classification	—	(326)	—	(326)	—	—	(326)
Sales	—	—	—	—	(2,105)	(3,593)	(5,698)
Subsequent write-downs/ impairments	(892)	—	—	(892)	(1,854)	—	(2,746)
Payments	(503)	—	(50)	(553)	—	(85)	(638)
Balance at end of period	\$1,561	\$—	\$376	\$ 1,937	\$2,235	\$—	\$4,172

Year ended December 31, 2013

	Nonaccrual	Loans Past Due 90 Days and Still Accruing Interest	Troubled Debt Restructured	Total Nonperforming Loans	Other Real Estate Owned	Nonaccrual Investment Securities	Total Nonperforming Assets
Balance at beginning of period	\$6,400	\$—	\$856	\$ 7,256	\$8,304	\$1,334	\$ 16,894
Increase in fair market value	—	—	—	—	—	516	516
Additions	6,159	1,156	31	7,346	272	—	7,618
Transfers:							
Troubled debt to nonaccrual	104	—	(104)	—	—	—	—
Troubled debt to past due	—	—	—	—	—	—	—
Nonaccrual to OREO	(197)	—	—	(197)	197	—	—

Upgrade in classification	—	(1,150	) (186	) (1,336	) —	—	(1,336	)
Sales	—	—	—	—	(1,632	) —	(1,632	)
Subsequent write-downs/ impairments	(1,490	) (5	) (31	) (1,526	) (1,341	) —	(2,867	)
Payments	(8,578	) (1	) (49	) (8,628	) —	—	(8,628	)
Balance at end of period	\$2,398	\$—	\$517	\$ 2,915	\$5,800	\$1,850	\$ 10,565	

The 60.5 percent decline in nonperforming assets since the end of 2013 is the result of continued devotion of resources to collection and disposal of these assets. At December 31, 2014, only one property remained in other real estate owned. Valuations of other real estate owned are updated by management at least annually and sometimes more frequently, so that the properties are carried at current market value less estimated disposal costs. Market values are determined by obtaining updated appraisals or other market information. During 2014, the nonaccrual investment security's improvement in fair value led to management's decision to sell the security.

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The accrual of interest on past due and other impaired loans is generally discontinued when loan payments are past due 90 days or when, in the opinion of management, the borrower may be unable to make payments as they become due. Interest income is subsequently recognized only to the extent cash payments are received. Generally, all payments received while a loan is on nonaccrual status are applied to the principal balance of the loan. For the years ended December 31, 2014, 2013 and 2012, interest income that would have been recorded during the nonaccrual period under the original terms of such loans was approximately \$136, \$333 and \$513, respectively. A loan may be returned to accrual status when all principal and interest amounts contractually due are brought current and it is reasonable to expect continued payment performance. In certain cases, interest may continue to accrue on loans past due more than 90 days when the value of the collateral is sufficient to cover both the principal amount of the loan and accrued interest and the loan is in the process of collection.

A loan may be considered a TDR loan when the interest rate is reduced below that of a new loan with comparable risk or the term is extended beyond the original maturity date and the borrower is considered to be experiencing financial difficulties. The payment history of the borrower, along with a current analysis of its cash flows, is used to determine the restructured terms. Underwriting procedures are similar to those of new loan originations and renewals of performing loans in that current financial information is obtained and analyzed. A current assessment of collateral is performed. The approval process for TDR loans is the same as that for new loans. The TDR loans with extended terms are accounted for as impaired until ongoing performance is established. Any TDR loan with an interest rate concession remains in TDR status until paid off. Interest income on TDR loans is recognized pursuant to the revised terms of the loan agreement. A TDR loan may be reported in the nonaccrual category if it is not performing in accordance with its revised terms.

Interest income on other impaired loans is based upon the terms of the underlying loan agreement. However, the recorded net investment in impaired loans, including accrued interest, is limited to the present value of the expected cash flows of the impaired loan or the observable fair market value of the loan's collateral. The average balance of all impaired loans during 2014 was approximately \$3,994. Interest income recognized on impaired loans in 2014, 2013 and 2012 was approximately \$105, \$347 and \$889, respectively.

As of December 31, 2014, West Bank had identified approximately \$2,768 in loans to three commercial real estate customers as potential problem loans. None of these loans were in default at the end of the year. It is not now possible to predict the degree of problems these loans may develop. However, West Bank is closely monitoring each loan.

SUMMARY OF THE ALLOWANCE FOR LOAN LOSSES

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

The adequacy of the allowance for loan losses is evaluated quarterly by management and reviewed by the Board of Directors. This evaluation focuses on factors such as specific loan reviews, changes in the components of the loan portfolio given the current and forecasted economic conditions, and historical loss experience. Any one of the following conditions may result in the review of a specific loan: concern about whether the customer's cash flow or net worth is sufficient to repay the loan; delinquency status; criticism of the loan in a regulatory examination; the

suspension of interest accrual; or other factors, including whether the loan has other special or unusual characteristics that suggest special monitoring is warranted. The Company's concentration risks include geographic concentration in central and eastern Iowa and southeastern Minnesota. The local economies are composed primarily of service industries and state and county governments.

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

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Change in the Allowance for Loan Losses

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

	Analysis of the Allowance for Loan Losses for the Years Ended December 31					
	2014	2013	2012	2011	2010	
Balance at beginning of period	\$13,791	\$15,529	\$16,778	\$19,087	\$19,126	
Charge-offs:						
Commercial	836	742	402	2,976	5,785	
Real estate:						
Construction, land and land development	—	—	1,508	2	209	
1-4 family residential first mortgages	131	116	301	946	371	
Home equity	138	119	343	97	266	
Commercial	112	624	5	722	53	
Consumer and other loans	—	33	25	21	234	
	1,217	1,634	2,584	4,764	6,918	
Recoveries:						
Commercial	116	292	354	1,809	716	
Real estate:						
Construction, land and land development	8	42	—	2	10	
1-4 family residential first mortgages	45	150	98	42	33	
Home equity	99	236	22	29	16	
Commercial	11	2	206	1	10	
Consumer and other loans	4	24	30	22	44	
	283	746	710	1,905	829	
Net charge-offs	934	888	1,874	2,859	6,089	
Provision for loan losses charged to operations	750	(850)	) 625	550	6,050	
Balance at end of period	\$13,607	\$13,791	\$15,529	\$16,778	\$19,087	
Average loans outstanding	\$1,063,528	\$949,775	\$854,860	\$849,115	\$960,227	
Ratio of net charge-offs during the period to average loans outstanding	0.09	% 0.09	% 0.22	% 0.34	% 0.63	%
Ratio of allowance for loan losses to average loans outstanding	1.28	% 1.45	% 1.82	% 1.98	% 1.99	%
Ratio of allowance for loan losses to total loans at the end of period	1.15	% 1.39	% 1.67	% 2.00	% 2.15	%

According to the September 2014 Bank Holding Company Performance Report prepared by the Federal Reserve Board's Division of Banking Supervision and Regulation, the percentage of net charge-offs to average loans for all banks with total assets between \$1 billion and \$3 billion was 0.15 percent for the first nine months of 2014. The Company's net charge-off ratio for 2014, as shown above, was below its peer group average for the first nine months of 2014. Approximately \$801 of the 2014 commercial charge-offs related to three customers.

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West Bank has a significant portion of its loan portfolio in commercial real estate loans, commercial lines of credit, commercial term loans, and construction or land development loans. West Bank's typical commercial borrower is a small or medium-sized, privately owned business entity. West Bank's commercial loans typically have greater credit risks than residential mortgage or consumer loans because they often have larger balances and repayment usually depends on the borrowers' successful business operations. Commercial loans also involve additional risks because they generally are not fully repaid over the loan period and, thus, may require refinancing or a large payoff at maturity. When the economy turns downward, as occurred in 2008 and 2009, 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.

Breakdown of Allowance for Loan Losses by Category

The following table sets forth information concerning the Company's allocation of the allowance for loan losses by segment as of the dates indicated.

	2014			2013			2012			2011			2010		
	Amount	%*		Amount	%*		Amount	%*		Amount	%*		Amount	%*	
Balance at end of period applicable to:															
Commercial	\$4,415	26.75	%	\$4,199	26.00	%	\$4,116	30.41	%	\$4,409	30.47	%	\$7,940	34.92	%
Real estate:															
Construction,															
land															
and land development	2,151	13.04	%	3,032	11.83	%	4,616	13.14	%	3,572	12.11	%	3,787	13.12	%
1-4 family residential															
first mortgages	466	4.51	%	613	5.07	%	637	5.31	%	1,215	7.53	%	647	5.82	%
Home equity	534	2.07	%	403	2.54	%	568	2.75	%	832	3.15	%	658	2.94	%
Commercial	6,013	52.84	%	5,485	53.63	%	5,564	47.62	%	6,667	46.01	%	5,823	41.90	%
Consumer and other loans	28	0.79	%	59	0.93	%	28	0.77	%	83	0.73	%	232	1.30	%
	\$13,607	100.00	%	\$13,791	100.00	%	\$15,529	100.00	%	\$16,778	100.00	%	\$19,087	100.00	%

* Percent of loans in each category to total loans.

The allocation of the allowance for loan losses is dependent upon the change in balances outstanding in the various categories, the historical net loss experience by category, which can vary over time, specific reserves for loans considered impaired, and management's assessment of economic factors that may influence potential losses in the loan portfolio. Prior to 2013, the historical experience factor was calculated using a rolling 12-quarter average. In the fourth quarter of 2013, the calculation was modified to use an experience factor based on the highest losses calculated over a rolling 12, 16 or 20 quarter period. Management believes that using the highest of these time periods will self-select the factor that best represents where we are in the economic cycle. For instance, if the economy worsens, the more recent activity should be more representative of the current environment. As the economy improves, the averages over a longer period of time should be more representative.

Using the methodology discussed above, management determined a provision for loan losses of \$750 was required for the year ended December 31, 2014, primarily due to the growth of the portfolio. The portion of the allowance for loan losses related to loans individually evaluated for impairment declined from December 31, 2013 to December 31, 2014, primarily as a result of the improvement and paydowns on a construction development loan relationship. The general component of the allowance for loan losses as a percent of loans collectively evaluated for impairment declined to 1.09 percent as of December 31, 2014, compared to 1.21 percent as of December 31, 2013. The reduction was due to the continued improvement of the quality of the loan portfolio and reductions in the historical loss experience factors.

Additional details on the allowance for loan losses is included in Note 4 to the consolidated financial statements included in Item 8 of this Form 10-K.

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DEPOSITS

Deposits totaled \$1,270,462 as of December 31, 2014, which was 9.2 percent higher than the total as of December 31, 2013. The volume of time deposits continued to drift lower during 2014 as interest rates remained at historic low levels and fewer customers were willing to lock in low rates for extended time periods. The decline in time deposits was partially offset by an increase in Certificate of Deposit Account Registry Service (CDARS) deposits. CDARS is a program that coordinates, on a reciprocal basis, a network of banks to spread deposits exceeding the FDIC insurance coverage limits out to numerous institutions in order to provide insurance coverage for all participating deposits. The CDARS deposit balances were \$52,114 and \$37,669 as of December 31, 2014 and 2013, respectively. Interest-bearing demand and savings balances increased primarily due to the elimination of the securities sold under agreements to repurchase program in 2013. That program was replaced with the Insured Cash Sweep (ICS) interest-bearing checking and money market products, which are also reciprocal programs providing FDIC insurance coverage for all participating deposits. The increase in noninterest-bearing demand account balances was considered a normal fluctuation as corporate customers' liquidity needs vary at any given time.

Approximately 64 percent of the total certificates of deposit issued by West Bank mature in the next year. It is anticipated that a significant portion of these certificates will be renewed, even though certificates of deposit are not considered an attractive investment option for some segments of our customer base in the current low interest rate environment. In the event a substantial volume of certificates are not renewed, management believes the Company has sufficient liquid assets and borrowing lines to fund the potential runoff. However, a sustained reduction in overall deposit volume would have a significant negative impact on the Company's operations and liquidity.

The following table shows the amounts and remaining maturities of time certificates of deposit with balances of \$100 or more as of December 31, 2014.

3 months or less	\$31,087
Over 3 through 6 months	8,727
Over 6 through 12 months	17,941
Over 12 months	26,173
	\$83,928

The following table sets forth the average balances for each major category of deposits and the weighted average interest rate paid for those deposits during the years indicated.

	Years ended December 31						
	2014		2013		2012		
	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate	
Noninterest-bearing demand	\$336,456	—	\$312,648	—	\$283,931	—	
Interest-bearing demand:							
Reward Me checking	77,178	0.35	% 80,667	0.68	% 86,549	1.00	%
Insured cash sweep	75,720	0.23	% 14,395	0.27	% 23	0.46	%
Other interest-bearing demand	77,452	0.05	% 73,742	0.08	% 68,955	0.12	%
Money market:							
Insured cash sweep	141,912	0.24	% 122,031	0.26	% 63,849	0.27	%
Other money market	290,212	0.13	% 297,530	0.20	% 271,695	0.30	%
Savings	73,528	0.05	% 62,201	0.09	% 53,339	0.12	%
Time certificates	150,378	0.80	% 168,050	1.07	% 167,353	1.52	%
	\$1,222,836		\$1,131,264		\$995,694		

Management does not expect interest rates on interest-bearing deposits in 2015 to be significantly different from the average rates paid in 2014, unless the Federal Reserve significantly increases market interest rates.

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BORROWED FUNDS

The following table summarizes the outstanding principal balances, net of any discount, and the weighted average rate for each category of borrowed funds as of the dates indicated.

	As of December 31							
	2014		2013		2012			
	Balance	Rate	Balance	Rate	Balance	Rate		
Subordinated notes	\$20,619	3.39	% \$20,619	3.41	% \$20,619	3.53	%	
FHLB advances, net of discount	96,888	2.90	% 95,392	2.52	% 93,890	2.58	%	
Long-term debt	12,676	2.08	% 15,935	2.11	% —	—		
Short-term borrowings	66,000	0.28	% —	—	% —	—		
Federal funds purchased and securities sold under agreements to repurchase	2,975	0.12	% 16,622	0.26	% 55,596	0.15	%	
	\$199,158	1.99	% \$148,568	2.35	% \$170,105	1.90	%	

The following tables set forth the average principal balance, net of any discount, the average rate paid, and the maximum outstanding balance for each category of borrowed funds for the years indicated.

	Years Ended December 31							
	2014		2013		2012			
	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate		
Subordinated notes	\$20,619	3.65	% \$20,619	3.45	% \$20,619	3.64	%	
FHLB advances, net of discount	96,113	2.73	% 94,601	2.81	% 104,665	3.88	%	
Long-term debt	14,196	2.09	% 8,522	2.21	% —	—		
Federal funds purchased and securities sold under agreements to repurchase	6,013	0.18	% 53,137	0.16	% 68,004	0.17	%	
Short-term borrowings	13,713	0.29	% 1,240	0.29	% —	—		
	\$150,654	2.48	% \$178,119	2.05	% \$193,288	2.55	%	

Maximum amount outstanding during the year:

	2014	2013	2012
Subordinated notes	\$20,619	\$20,619	\$20,619
FHLB advances, net of discount	96,888	95,392	105,000
Long-term debt	15,935	16,765	—
Federal funds purchased and securities sold under agreements to repurchase	26,240	75,762	102,057
Short-term borrowings	66,000	38,000	—

During December 2012, \$80,000 of the FHLB advances were modified and converted to variable rate advances tied to the three- month LIBOR. At the same time, forward-starting interest rate swaps were put in place to limit the Company's exposure to market interest rate increases. One of the interest rate swaps became effective in December

2014. The other two interest rate swaps become effective in June 2015 and December 2015. The remaining \$25,000 FHLB advance is callable on a quarterly basis. The FHLB advances have maturity dates of 2018 through 2020.

On June 27, 2013, the Company borrowed \$16,000 in the form of a five-year amortizing secured term loan with a variable rate of 1.95 percent plus 30-day LIBOR. The proceeds were used to finance the 2013 repurchase and cancellation of 1,440,592 shares of common stock. Also occurring during June 2013 was the purchase of commercial lots in Coralville for a new eastern Iowa main office. A portion of the the land purchase was financed with a \$765 eight-and-one-half-year variable payment contract with a fixed interest rate of 1.25 percent. The decline in long-term debt is in accordance with the repayment terms of the agreements.

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The fluctuation in the balances of federal funds purchased and other short-term borrowings are dependent upon two factors. The first is the loan demand and investment strategy of downstream correspondent banks for federal funds purchased. The second is the fluctuation in the Company's liquidity needs, which from time to time may require the Company to draw on the federal funds purchased lines with our upstream correspondent banks or on overnight FHLB advances. Depending on which has the lower interest rate, the Company may utilize either source of funding. The Company had no securities sold under agreements to repurchase as of December 31, 2014 or 2013, as all customer repurchase agreements were migrated to the ICS interest-bearing demand deposit product prior to the end of 2013. The ICS product provides customers with FDIC insurance coverage by reciprocating deposit balances through a network of participating banks and eliminates the investment security pledging requirements of repurchase agreements and administration of the product.

OFF-BALANCE SHEET ARRANGEMENTS

In the normal course of business, West Bank commits to extend credit in the form of loan commitments and standby letters of credit in order to meet the financing needs of its customers. These commitments expose West Bank to varying degrees of credit and market risks in excess of the amounts recognized in the consolidated balance sheets and are subject to the same credit policies as are loans recorded on the balance sheets.

West Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. West Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. Management of the Company does not expect any significant losses as a result of these commitments. Off-balance sheet commitments are more fully discussed in Note 17 to the consolidated financial statements included in Item 8 of this Form 10-K.

CONTRACTUAL OBLIGATIONS

The following table sets forth the balance of contractual obligations of the Company by maturity period as of December 31, 2014.

		Payments due by period			
	Total	Less than one year	One to three years	Three to five years	More than five years
Time deposits	\$138,636	\$88,983	\$39,894	\$9,759	\$—
Federal funds purchased	2,975	2,975	—	—	—
Short-term borrowings	66,000	66,000	—	—	—
Subordinated notes	20,619	—	—	—	20,619
FHLB advances	105,000	—	—	50,000	55,000
Long-term debt	12,676	3,261	6,598	2,628	189
Noncancelable operating lease commitments	20,991	1,733	3,429	3,466	12,363
Purchase commitments	417	417	—	—	—
Total	\$367,314	\$163,369	\$49,921	\$65,853	\$88,171

LIQUIDITY AND CAPITAL RESOURCES

The objective of liquidity management is to ensure the availability of sufficient cash flows to meet all financial commitments and to capitalize on opportunities for profitable business expansion. The Company's principal source of

funds is deposits. Other sources include loan principal repayments, proceeds from the maturity and sale of investment securities, principal payments on collateralized mortgage obligations and mortgage-backed securities, federal funds purchased, advances from the FHLB, and funds provided by operations. Liquidity management is conducted on both a daily and a long-term basis. Investments in liquid assets are adjusted based on expected loan demand, projected loan and investment securities maturities and payments, expected deposit flows and the objectives set by West Bank's asset-liability management policy. The Company had liquid assets (cash and cash equivalents) of \$39,781 at December 31, 2014, compared to \$42,425 as of December 31, 2013. The decline was primarily caused by loan growth throughout the year.

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(dollars in thousands, except per share amounts)

As of December 31, 2014, West Bank had additional borrowing capacity available from the FHLB of approximately \$125,518. In addition, West Bank had \$67,000 in borrowing capacity available through unsecured federal funds lines of credit with correspondent banks. West Bank had no amounts outstanding under those federal funds lines as of December 31, 2014. The Company also had a \$5,000 secured line of credit with a commercial bank that expires on August 5, 2015. Net cash from continuing operating activities contributed \$26,287, \$23,391 and \$24,289 to liquidity for the years ended December 31, 2014, 2013 and 2012, respectively. The combination of high levels of potentially liquid assets, cash flows from operations and additional borrowing capacity provided the Company with strong liquidity as of December 31, 2014.

The Company's total stockholders' equity increased to \$140,175 as of December 31, 2014, from \$123,625 as of December 31, 2013. The increase is primarily the result of net income and an increase in accumulated other comprehensive income less dividends paid. At December 31, 2014, tangible common equity as a percent of tangible assets was 8.68 percent compared to 8.57 percent as of December 31, 2013.

On April 23, 2014, the Board of Directors extended a stock repurchase plan which authorized management to purchase up to \$2 million of the Company's common stock within a twelve-month period ending April 24, 2015. The authorization does not require such purchases and is subject to certain restrictions. Shares of Company common stock may be repurchased on the open market or in privately negotiated transactions. The extent to which the shares are repurchased and the timing of such repurchase will depend on market conditions and other corporate considerations. As of December 31, 2014, no shares had been repurchased under the authorization.

The Company and West Bank are subject to various regulatory capital requirements administered by federal and state banking agencies. As of December 31, 2014, they included maintaining total capital to risk-weighted assets of at least 8.00 percent, of which at least half must be Tier 1 capital, and a Tier 1 leverage ratio of at least 4.00 percent. These capital requirements were increased on January 1, 2015, pursuant to Basel III, as discussed below. Failure to meet minimum capital requirements can result in certain mandatory and possibly additional discretionary actions by regulators, which if undertaken, could have a direct material effect on the Company's consolidated financial statements. As of December 31, 2014, the Company had a total risk-based capital ratio of 12.81 percent, a Tier 1 capital ratio of 11.81 percent, and a Tier 1 leverage ratio of 10.17 percent. As of December 31, 2014, West Bank had ratios of 12.19 percent, 11.18 percent and 9.62 percent, respectively. As these ratios indicate, the Company and West Bank met all capital adequacy requirements to which they were subject as of December 31, 2014.

In July 2013, the Federal Reserve Board and the FDIC issued final rules implementing the Basel III regulatory capital framework and related Dodd-Frank Wall Street Reform and Consumer Protection Act changes. The rules revise minimum capital requirements and adjust prompt corrective action thresholds. The final rules revise the regulatory capital elements, add a new common equity Tier 1 capital ratio, and increase the minimum Tier 1 capital ratio requirement. The rules also permit certain banking organizations to retain, through a one-time election, the existing treatment for accumulated other comprehensive income and implement a new capital conservation buffer. The final rules were effective for community banks on January 1, 2015, subject to a transition period for certain parts of the rules. Under these new rules, management believes the Company and West Bank will remain well-capitalized.

INTEREST RATE RISK

Interest rate risk refers to the exposure to earnings and capital arising from changes in interest rates. Management's objectives are to manage interest rate risk to foster consistent growth of earnings and capital. Interest rate risk

management focuses on fluctuations in net interest income identified through computer simulations used to evaluate volatility, interest rate, interest rate spread and volume assumptions. This risk is quantified and compared against tolerance levels.

The Company utilizes an outside vendor to run computer software simulations to measure its exposure to potential interest rate changes. For various assumed hypothetical changes in market interest rates, this analysis measures the estimated change in net interest income. The simulations allow for ongoing assessment of interest rate sensitivity and can include the impact of potential new business strategies.

Another measure of interest rate sensitivity is the gap ratio. This ratio indicates the amount of interest-earning assets repricing within a given period in comparison to the amount of interest-bearing liabilities repricing within the same period of time. A gap ratio of 1.0 indicates a matched position, in which case the effect on net interest income due to interest rate movements will be minimal. A gap ratio of less than 1.0 indicates that more liabilities than assets reprice within the time period, and a ratio greater than 1.0 indicates that more assets reprice than liabilities. The Company's gap ratio is shown in Item 7A of this Form 10-K.

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INFLATION

The primary impact of inflation on the Company's operations is increased asset yields, deposit costs and operating overhead. Unlike most industries, virtually all the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates generally have a more significant impact on a financial institution's performance than they would have on nonfinancial companies. Although interest rates do not necessarily move in the same direction or to the same extent as the prices of goods and services, increases in inflation generally have resulted in increased interest rates. The effects of inflation can magnify the growth of assets and, if significant, require that equity capital increase at a faster rate than otherwise would be necessary.

EFFECTS OF NEW STATEMENTS OF FINANCIAL ACCOUNTING STANDARDS

A discussion of the effects of new financial accounting standards and developments as they relate to the Company is located in Note 1 to the consolidated financial statements included in Item 8 of this Form 10-K.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's market risk is composed primarily of interest rate risk arising from its core banking activities of lending and deposit taking. Interest rate risk is the risk that changes in market interest rates may adversely affect the Company's net interest income. Management continually develops and applies strategies to mitigate this risk. Management does not believe that the Company's primary market risk exposure and management of that exposure in 2014 materially changed compared to 2013.

The following table presents the estimated change in net interest income for 2015 under several scenarios of assumed interest rate changes for the rate shock levels shown:

Scenario	% Change	
300 basis points rising	3.35	%
200 basis points rising	1.90	%
100 basis points rising	0.41	%
Base	—	

As of December 31, 2014, the estimated effect of an immediate 300 basis point increase in interest rates could cause the Company's net interest income to increase by approximately 3.35 percent, or \$1,860 in 2015. The estimated effect of an immediate decrease in rates is not reasonably calculable due to the current historically low interest rate environment. Because the majority of liabilities subject to interest rate movements in the short term are of the type that generally lag interest rate movements in the market, they do not change by the same magnitude in the short term as the change in market rates.

Computations of the prospective effects of hypothetical interest rate changes are based on numerous assumptions. Actual values may differ from those projections set forth above. Further, the computations do not contemplate any actions the Company may undertake in response to changes in interest rates.

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(dollars in thousands, except per share amounts)

The following table sets forth the estimated maturities, expected cash flows or repricing opportunities, and the resulting interest sensitivity gap of the Company's interest-earning assets and interest-bearing liabilities and the cumulative interest sensitivity gap at December 31, 2014. The expected maturities are presented on a contractual basis or, if more relevant, are based on projected call dates. Actual maturities may differ from contractual maturities because of prepayment assumptions and early withdrawal of deposits.

	3 months or less	Over 3 through 12 months	Over 1 through 5 years	Over 5 years	Total
Interest-earning assets:					
Federal funds sold	\$11,845	\$—	\$—	\$—	\$11,845
Investment securities:					
Securities available for sale	15,792	32,561	128,195	96,242	272,790
Securities held to maturity	—	—	—	51,343	51,343
Federal Home Loan Bank stock	15,075	—	—	—	15,075
Loans held for sale	826	—	—	—	826
Loans	366,097	107,165	617,595	93,188	1,184,045
Total interest-earning assets	409,635	139,726	745,790	240,773	1,535,924
Interest-bearing liabilities:					
Interest-bearing deposits:					
Savings, interest-bearing demand and money markets	768,999	—	—	—	768,999
Time	41,633	47,236	49,767	—	138,636
Federal funds purchased	2,975	—	—	—	2,975
Other short-term borrowings	66,000	—	—	—	66,000
Long-term borrowings	81,812	45	48,137	189	130,183
Total interest-bearing liabilities	961,419	47,281	97,904	189	1,106,793
Interest sensitivity gap per period	\$(551,784)	\$92,445	\$647,886	\$240,584	\$429,131
Cumulative interest sensitivity gap	\$(551,784)	\$(459,339)	\$188,547	\$429,131	\$429,131
Interest sensitivity gap ratio	0.43	2.96	7.62	1,273.93	1.39
Cumulative interest sensitivity gap ratio	0.43	0.54	1.17	1.39	1.39

As of December 31, 2014, the Company's cumulative gap ratio for assets and liabilities repricing within one year was 0.54, meaning that the Company is liability sensitive over the cumulative 12-month period. In other words, more interest-bearing liabilities will be subject to repricing within that time frame than interest-earning assets. However, the majority of the interest-bearing liabilities subject to repricing within this time frame are savings, money market and interest-bearing demand deposits. These types of deposits generally do not reprice as quickly or by the same magnitude as changes in other short-term interest rates.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders
West Bancorporation, Inc.

We have audited the accompanying consolidated balance sheets of West Bancorporation, Inc. and subsidiary as of December 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2014. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of West Bancorporation, Inc. and subsidiary as of December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), West Bancorporation, Inc. and subsidiary's internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control - Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013, and our report dated March 5, 2015, expressed an unqualified opinion on the effectiveness of West Bancorporation, Inc. and subsidiary's internal control over financial reporting.

/s/ McGladrey LLP
Des Moines, Iowa
March 5, 2015

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders
West Bancorporation, Inc.

We have audited West Bancorporation, Inc. and subsidiary's internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control - Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. West Bancorporation, Inc. and subsidiary's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (a) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (b) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (c) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, West Bancorporation, Inc. and subsidiary maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control - Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the balance sheets, statements of income, comprehensive income, stockholders' equity and cash flows of West Bancorporation, Inc. and subsidiary, and our report dated March 5, 2015, expressed an unqualified opinion.

/s/ McGladrey LLP
Des Moines, Iowa
March 5, 2015

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West Bancorporation, Inc. and Subsidiary

Consolidated Balance Sheets

December 31, 2014 and 2013

(dollars in thousands)

	2014	2013
ASSETS		
Cash and due from banks	\$27,936	\$41,126
Federal funds sold	11,845	1,299
Cash and cash equivalents	39,781	42,425
Investment securities available for sale, at fair value	272,790	345,216
Investment securities held to maturity, at amortized cost (fair value of \$51,501 at December 31, 2014, and \$0 at December 31, 2013)	51,343	—
Federal Home Loan Bank stock, at cost	15,075	11,851
Loans held for sale	826	2,230
Loans	1,184,045	991,720
Allowance for loan losses	(13,607)	(13,791)
Loans, net	1,170,438	977,929
Premises and equipment, net	9,988	7,487
Accrued interest receivable	4,425	4,007
Bank-owned life insurance	32,107	26,376
Other real estate owned	2,235	5,800
Deferred tax assets, net	6,333	9,193
Other assets	10,492	9,890
Total assets	\$1,615,833	\$1,442,404

LIABILITIES AND STOCKHOLDERS' EQUITY**LIABILITIES**

Deposits:

Noninterest-bearing demand	\$362,827	\$332,230
Interest-bearing demand	241,722	233,613
Savings	527,277	451,855
Time of \$250,000 or more	18,985	30,457
Other time	119,651	115,687
Total deposits	1,270,462	1,163,842
Federal funds purchased	2,975	16,622
Short-term borrowings	66,000	—
Subordinated notes	20,619	20,619
Federal Home Loan Bank advances, net of discount	96,888	95,392
Long-term debt	12,676	15,935
Accrued expenses and other liabilities	6,038	6,369
Total liabilities	1,475,658	1,318,779

COMMITMENTS AND CONTINGENCIES (Note 17)**STOCKHOLDERS' EQUITY**

Preferred stock, \$0.01 par value, authorized 50,000,000 shares; no shares issued and

outstanding at December 31, 2014 and 2013

Common stock, no par value; authorized 50,000,000 shares; 16,018,734 and

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15,976,204 shares issued and outstanding at December 31, 2014 and 2013, respectively	3,000	3,000
Additional paid-in capital	18,971	18,411
Retained earnings	117,950	105,752
Accumulated other comprehensive income (loss)	254	(3,538)
Total stockholders' equity	140,175	123,625
Total liabilities and stockholders' equity	\$1,615,833	\$1,442,404

See Notes to Consolidated Financial Statements.

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West Bancorporation, Inc. and Subsidiary

Consolidated Statements of Income

Years Ended December 31, 2014, 2013 and 2012

(dollars in thousands, except per share data)

	2014	2013	2012
Interest income:			
Loans, including fees	\$47,440	\$44,992	\$44,277
Investment securities:			
Taxable	4,938	5,173	4,240
Tax-exempt	2,878	2,457	1,954
Federal funds sold	45	119	191
Total interest income	55,301	52,741	50,662
Interest expense:			
Deposits	2,426	3,413	4,535
Federal funds purchased and securities sold under agreements to repurchase	11	85	114
Short-term borrowings	40	4	—
Subordinated notes	754	711	751
Federal Home Loan Bank advances	2,628	2,657	4,064
Long-term debt	297	188	—
Total interest expense	6,156	7,058	9,464
Net interest income	49,145	45,683	41,198
Provision for loan losses	750	(850)	) 625
Net interest income after provision for loan losses	48,395	46,533	40,573
Noninterest income:			
Service charges on deposit accounts	2,790	2,923	3,009
Debit card usage fees	1,764	1,787	1,586
Trust services	1,327	997	817
Gains and fees on sales of residential mortgages	1,394	1,275	3,104
Increase in cash value of bank-owned life insurance	731	646	737
Gain from bank-owned life insurance	—	—	841
Gain (loss) on disposition of premises and equipment	1,069	(9)	) (125)
Investment securities impairment loss	—	—	(203)
Realized investment securities gains, net	223	—	246
Other income	998	875	857
Total noninterest income	10,296	8,494	10,869
Noninterest expense:			
Salaries and employee benefits	16,086	15,757	14,532
Occupancy	4,165	3,906	3,519
Data processing	2,241	2,030	2,070
FDIC insurance	757	733	672
Other real estate owned	1,865	1,359	