WEST BANCORPORATION INC
Form 10-K
March 07, 2012

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

FORM 10-K

(Mark One)

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

or

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

Commission file number: 0-49677

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

DOCUMENTS INCORPORATED BY REFERENCE

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

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"SAFE HARBOR" CONCERNING FORWARD-LOOKING STATEMENTS

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

PART I

ITEM 1. BUSINESS
(dollars in thousands, except per share amounts)

GENERAL DEVELOPMENT OF BUSINESS IN 2011

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

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

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

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DESCRIPTION OF THE COMPANY'S BUSINESS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

ADDITIONAL INFORMATION

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

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ITEM 1A. RISK FACTORS
(dollars in thousands)

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

Risks Related to West Bancorporation's Business

Our loan portfolio.

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

We must effectively manage our credit risks.

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

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

At December 31, 2011, West Bank's nonperforming loans, which consist of nonaccrual loans, loans past due 90 days and still accruing, and troubled debt restructured loans, totaled $10,693, or 1.27 percent of our loan portfolio. While this total is less than the 2010 year end amount, it remains at a level exceeding our usual past experience. Nonperforming loans adversely affect our net income in various ways. We do not record interest income on nonaccrual loans, thereby negatively affecting our income and returns on assets and equity, and our administrative costs increase significantly. Nonperforming loans require significant time commitments from management and lending staff, which takes time away from other duties, including the generation of new business. There is no assurance that we will experience continued reductions in nonperforming loans in the future.

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

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

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

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

Other real estate owned.

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

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

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

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

We are subject to liquidity risks.

West Bank maintains liquidity primarily through customer deposits and other short-term funding sources. If economic influences change so that we do not have access to short-term credit, or our depositors withdraw a substantial amount of their funds for other uses, West Bank might experience liquidity issues. Our efforts to monitor and manage liquidity risk may not be successful or sufficient to deal with dramatic or unanticipated reductions in our liquidity. In such events, our cost of funds may increase, thereby reducing our net interest income, or we may need to sell a portion of our investment portfolio, which, depending upon market conditions, could result in West Bank realizing losses.

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

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

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

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

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

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

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

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

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

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

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

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

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

Disruption of infrastructure could adversely impact our operations.

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

Risks Related to West Bancorporation's Common Stock

Our stock is relatively thinly traded.

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

There can be no assurances concerning continuing dividend payments.

Our common stock shareholders are only entitled to receive the dividends declared by our Board of Directors. In 2011, our Board declared a cash dividend on our common stock in the second and third quarters of $0.05 per share and a dividend of $0.07 per share in the fourth quarter, and in January 2012 a dividend of $0.08 per common share was declared. Although we have historically paid quarterly dividends on our common stock, there can be no assurances that we will be able to continue to pay regular quarterly dividends at any particular future time or in any particular amount. The primary source of money to pay our dividends comes from dividends paid to West Bancorporation by West Bank. West Bank's ability to pay dividends to West Bancorporation is subject to, among other things, its earnings, financial condition, and applicable regulations, which in some instances limit the amount that may be paid as dividends.

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

The Company may issue additional common or preferred shares in order to raise capital at some date in the future to support continued growth, internally generated or through an acquisition. Additional shares may also be issued through the Company's 2012 Equity Incentive Plan, if approved by shareholders at the next Annual Meeting of Shareholders. If additional shares of common or preferred stock are issued, the ownership interests of our existing shareholders may be diluted. The market price of our common stock might decline or fail to advance in response to issuing additional common or preferred shares. Our ability to raise additional capital, if needed, will depend on conditions in the capital markets at that time, which are outside of our control. Accordingly, we cannot provide assurance of our ability to raise additional capital if needed at acceptable terms.

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

Increasing government regulation is a significant challenge.

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

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

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

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

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

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

Earnings in the banking industry, particularly the community bank segment, are substantially dependent on net interest income, which is the difference between interest earned on interest-earning assets (investments and loans) and interest paid on interest-bearing liabilities (deposits and borrowings). Interest rates are sensitive to many factors, including government monetary and fiscal policies and domestic and international economic and political conditions. During the last few years interest rates have been at historically low levels. When interest rates inevitably increase, banks will experience competitive pressures to increase rates paid on deposits. Depending on competitive pressures, such deposit rate increases may increase faster than rates received on loans, which may reduce net interest income during the transition periods. 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 large institution competitors have substantially greater resources than we do to invest in technological improvements. As a result, they may be able to offer, or more quickly offer, additional or superior products that put West Bank at some competitive disadvantage.

ITEM 1B. UNRESOLVED STAFF COMMENTS

There are no unresolved comments from the Commission staff.

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ITEM 2. PROPERTIES

The Company is located in the main office building of West Bank, at 1601 22nd Street in West Des Moines, Iowa. The headquarters location is leased. West Bank rents approximately 18,800 square feet in the building and pays annual rent of approximately $425,000 for a full-service bank location that includes drive-up facilities and one automated teller machine. West Bank also leases bank buildings and space for eight other locations and for operational departments. The offices are full-service locations, with drive-up facilities and automated teller machines, except an office in Coralville, which does not have a drive-up. Annual lease payments for these eight offices and space for operating departments total approximately $1,071,000. West Bank owns two full-service banking locations in Iowa City. We believe each of our facilities is adequate to meet our needs.

ITEM 3. LEGAL PROCEEDINGS

On September 29, 2010, West Bank was named a defendant in a purported class action lawsuit in which it is asserted that overdraft fees charged by West Bank on certain bank card transactions are in fact interest charges that violate Iowa usury laws and that West Bank violated common law and statutory standards of good faith due to the manner in which it processed debit card items in consumer deposit accounts. 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 many of the allegations made in the plaintiffs' petition are factually and legally inaccurate and that substantial defenses exist for all of the claims raised in the litigation. West Bank is vigorously defending this litigation. The litigation is still in a very preliminary stage.

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

ITEM 4. MINE SAFETY DISCLOSURES

This items is not applicable to the registrant.

PART II

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

West Bancorporation common stock is traded on the Nasdaq Global Select Market under the symbol “WTBA.” The table below shows the high and low sale prices and common stock dividends declared for each quarter in 2011 and 2010. The market quotations, reported by Nasdaq, do not include retail markup, markdown, or commissions.

Market and Dividend Information

	High	Low	Dividends
2011			
1st quarter	$8.00	$6.75	$—
2nd quarter	8.89	6.94	0.05
3rd quarter	10.00	7.31	0.05
4th quarter	10.39	7.92	0.07
2010			

1st quarter	$6.64	$4.80	$—
2nd quarter	9.04	6.32	—
3rd quarter	7.28	5.51	—
4th quarter	8.19	6.13	0.05

There were 221 holders of record of the Company's common stock as of February 23, 2012, and an estimated 1,500 additional beneficial holders whose stock was held in street name by brokerage houses. The closing price of the Company's common stock was $10.29 on February 23, 2012.

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Dividends to common shareholders in 2011 and 2010 were $0.17 and $0.05 per common share, respectively. Dividend declarations are evaluated and determined by the Board on a quarterly basis. The ability of the Company to pay dividends in the future will depend primarily upon the earnings of West Bank and its ability to pay dividends to the Company.

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

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The following performance graph provides information regarding cumulative, five-year return (loss) on an indexed basis of the common stock as compared with the Nasdaq - Total US Index and the SNL Midwest Bank Index prepared by SNL Financial L.C. of Charlottesville, Virginia. The latter index reflects the performance of bank holding companies operating principally in the Midwest as selected by SNL Financial. The indices assume the investment of $100 on December 31, 2006, in the common stock, the Nasdaq - Total US Index, and the SNL Midwest Bank Index, with all dividends reinvested. The Company's common stock price performance shown in the following graph is not indicative of future stock price performance.

	Period Ending					
Index	12/31/2006	12/31/2007	12/31/2008	12/31/2009	12/31/2010	12/31/2011
West Bancorporation, Inc.	100.00	76.49	75.77	30.80	49.00	61.44
NASDAQ Composite	100.00	110.66	66.42	96.54	114.06	113.16
SNL Midwest Bank	100.00	77.94	51.28	43.45	53.96	50.97

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

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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)	2011	2010	2009	2008	2007
Operating Results					
Interest income	$53,319	$61,143	$67,730	$72,532	$82,027
Interest expense	11,917	19,023	26,636	31,431	43,823
Net interest income	41,402	42,120	41,094	41,101	38,204
Provision for loan losses	550	6,050	24,500	16,600	2,350
Net interest income after provision for loan losses	40,852	36,070	16,594	24,501	35,854
Noninterest income, including securities gains (losses)	9,361	10,387	8,904	4,301	8,430
Noninterest expense	28,873	27,744	37,905	20,105	17,870
Income (loss) before income taxes	21,340	18,713	(12,407)	8,697	26,414
Income taxes (benefits)	6,072	5,330	(7,356)	1,386	8,062
Income (loss) from continuing operations	15,268	13,383	(5,051)	7,311	18,352
Income (loss) from discontinued operations before income taxes	—	—	(10,262)	563	982
Income taxes (benefits)	—	—	(696)	238	414
Income (loss) from discontinued operations	—	—	(9,566)	325	568
Net income (loss)	15,268	13,383	(14,617)	7,636	18,920
Preferred stock dividends and accretion of discount	(2,387)	(2,284)	(2,276)	—	—
Net income (loss) available to common stockholders	$12,881	$11,099	$(16,893)	$7,636	$18,920
Dividends and Per Share Data					
Cash dividends	$2,959	$870	$1,566	$11,138	$11,224
Cash dividends per common share	0.17	0.05	0.09	0.64	0.64
Basic and diluted earnings (loss) per common share from continuing operations	0.74	0.64	(0.42)	0.42	1.05
Basic and diluted earnings (loss) per common share from discontinued operations	—	—	(0.55)	0.02	0.03
Basic and diluted earnings (loss) per common share	0.74	0.64	(0.97)	0.44	1.08
Average common shares outstanding	17,404	17,404	17,404	17,405	17,536
Year End Balances					
Total assets	$1,269,524	$1,305,463	$1,575,054	$1,554,276	$1,341,289

Average assets	1,295,313	1,558,461	1,618,557	1,371,401	1,309,119
Investment securities	294,497	267,537	351,269	189,558	237,378
Loans, including held for sale	843,048	893,101	1,021,042	1,101,753	985,423
Allowance for loan losses	(16,778)	(19,087)	(19,126)	(15,441)	(8,935)
Deposits	957,373	972,072	1,246,617	1,155,132	911,371
Long-term borrowings	125,619	125,619	145,619	145,619	123,619
Stockholders' equity	123,451	145,436	133,059	150,063	121,606
Average stockholders' equity	135,520	141,079	143,163	118,090	116,683
Performance Ratios					
Equity to assets ratio (average equity divided by average assets)	10.46 %	9.05 %	8.85 %	8.61 %	8.91 %
Return on assets (net income (loss) divided by average assets)	1.18 %	0.86 %	(0.90)%	0.56 %	1.45 %
Return on equity (net income (loss) divided by average equity)	11.27 %	9.49 %	(10.21)%	6.47 %	16.21 %
Efficiency ratio (see page 20 for a definition)	49.27 %	47.28 %	45.30 %	38.24 %	37.62 %
Dividend payout ratio (common dividends paid divided by net income (loss) available to common stockholders)	22.97 %	7.84 %	NM	145.86 %	59.32 %

NM - not meaningful

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(dollars in thousands, except per share amounts)

INTRODUCTION

The Company's 2011 overall financial results continued to improve significantly in comparison to 2010 and 2009. The Company's 2011 net income available to common shareholders was $12,881 compared to $11,099 in 2010, or slightly more than a 16 percent increase. On a per common share basis, we improved to $0.74 from $0.64. These improvements were the results of a decline in the provision for loan losses due to the overall improved credit quality in our loan portfolio and the related lower level of nonperforming assets. The 2011 provision for loan losses was $550 compared to $6,050 in 2010. Net interest income in 2011 was $41,402 compared to $42,120 in 2010, or approximately a 1.7 percent decrease, while noninterest income including securities gains and losses declined to $9,361 from $10,387. Our loan portfolio declined to $838,959 from $888,649 at the end of 2010. Deposits were slightly lower at the end of 2011 compared to year end 2010, $957,373 from $972,072. We earned 1.18 percent on average assets in 2011 compared to 0.86 percent in 2010. The return on equity increased during 2011 to 11.27 percent from 9.49 percent in 2010. Our efficiency ratio increased to 49.27 percent from 47.28 percent in 2010, where the lower ratio is better. In 2011, we paid our common shareholders $2,959 (17 cents per common share) in dividends compared to $870 (5 cents per common share) in 2010.

We had three major goals for 2011 and accomplished them all. First, by substantially improving our credit quality, we were able, on June 3, 2011, to be relieved from the April 2010 memorandum of understanding with the Iowa Division of Banking and the FDIC. In addition, all capital and dividend restrictions were released by the Federal Reserve Bank of Chicago shortly thereafter. We are currently not subject to any extraordinary regulatory requirements.

We also achieved another of our major goals for 2011 when we repurchased all $36,000 of the preferred stock and the warrant the Company sold to the U.S. Department of the Treasury under the Capital Purchase Program. This was accomplished by using retained earnings and without selling any additional securities or borrowing any additional funds. We thereby eliminated the requirement to pay preferred stock dividends, which improves net income available to common shareholders.

Finally, we accomplished our third major 2011 goal when we reinstated and maintained regular quarterly cash dividends. After a special dividend of 5 cents per common share paid in December 2010, we paid quarterly dividends of 5 cents per common share in May and August and 7 cents per common share in November. We paid an 8 cent per common share dividend in February 2012.

In addition to accomplishing our major financial goals for 2011, we continued making substantial investments to improve our credit processes so that our credit quality remains high going forward. These infrastructure investments are also designed to strengthen our foundation for future growth.

We have created separation between our sales and credit functions. This allows our highly trained sales force to be focused on generating revenue and relationship building. Building relationships includes both expanding business with current customers and gaining new customers. As the economic recovery continues, we want to be well-positioned to take advantage of additional business opportunities.

The credit function is focused on the underwriting and documentation of the new business opportunities. We now have additional specialized expertise available to perform these important functions. The credit function in part also overlaps with our regulatory compliance requirements. Additional resources have also been added to the compliance area to properly handle the unprecedented volume of new regulations applicable to the operations of both the Company and West Bank.

While we had hoped that our loan portfolio would grow during 2011, we are not completely surprised or disappointed that it contracted somewhat. The loan portfolio has declined 17.8 percent since the end of 2009. This has occurred for two primary reasons. First, there were loans in the portfolio that simply could not survive the real estate market collapse and the substantial general downturn in the economy or were loans that we simply no longer wished to own. We believe the portfolio is largely rid of those loans. Second, a material number of our loan customers have been substantially deleveraging during the last three years. They have been paying off debt where they could while waiting for better or less risky opportunities for their businesses. We believe this phenomenon may be starting to change back to a more normal situation, but we cannot precisely predict when or by how much our loan portfolio will start to grow due to existing customer demand. Overall, we believe that our loan portfolio has contracted about as much as it will during this business downturn. We have had opportunities to transition loans from some of our competitors who have had to contract or otherwise have created uncertainty in the minds of their customers. We are pursuing more of those opportunities in 2012. We plan to grow our loan portfolio in 2012.

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The total amount of our deposit balances has remained fairly similar during the last several years except for the planned transfer of approximately $176,000 of SmartyPig® savings account balances in July 2010. That transfer was requested by West Bank. The composition of the deposits has, however, changed in a way that may affect West Bank in the future. The amount of time certificates declined from $435,763 at the end of 2009 to $187,033 at the end of 2011. We believe that this decline is due in material part to depositors' unwillingness to commit to maturity products in this low rate environment. During the same time period total balances in non-maturity deposits increased, excluding SmartyPig® savings accounts. When competitive interests rates increase or alternative investments begin to be perceived as more favorable by our depositors, we may lose some of the non-maturity deposits due to their inherent mobility. Alternatively, if we choose to try to retain a substantial part of these deposits, we may have to raise deposit rates quickly.

We have strong capital resources. Our stock value has increased nicely during the last year, our existing capital is high, and our earnings are solid albeit muted by the economy. We are building infrastructure that can service additional opportunities. We have been presented with potential merger or acquisition opportunities during the last year. None yet have fit our objectives, however, as acquisitions are not a high priority. Nevertheless, we remain attentive to possible transactions.

We understand the things that are required to be a great community bank for our customers and shareholders. Our core corporate values and goals are defined by that understanding. We are rewriting position descriptions, performance appraisals, and incentive programs to align with what we believe are the reasons people should choose to do business with West Bank. Our team is focused on being a great community bank.

Looking forward, we have begun a program of quantitative peer analysis for evaluating Company results. We have identified a set of sixteen publicly traded peer financial institutions against which we will compare our future performances. 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 equity, return on assets, Texas ratio, and efficiency ratio. We believe these measures encompass the factors that define the performance of a community bank.

From the political, regulatory, and economic perspectives, we expect 2012 will be a year of continued uncertainty and somewhat muted opportunities. We expect the unusually low interest rate environment to continue. We anticipate the Company will be profitable in 2012 at a level that compares favorably with our peers, but which will probably not be totally in line with our high aspirations. The amount of our future profit will depend, in large part, on the amount of loan losses we incur and our ability to grow the loan portfolio. Our loan portfolio still presents somewhat higher than normal risks because it contains a significant amount of loans secured by commercial real estate. While we believe we have aggressively addressed declining real estate valuation issues when evaluating the adequacy of the allowance for loan losses, future changes in real estate valuations in 2012 and beyond remain uncertain.

The following discussion describes the consolidated operations of the Company, including West Bank, West Bank's wholly-owned subsidiary WB Funding Corporation (which owns an interest in SmartyPig, LLC), and West Bank's 99.99 percent owned subsidiary ICD IV, LLC (a community development entity) and the Company's financial condition as of December 31, 2011. The accounts of former subsidiary WB Capital Management Inc. (WB Capital) are included in the accompanying financial statements as discontinued operations for all periods through the sale date of December 31, 2009.

CRITICAL ACCOUNTING POLICIES

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

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

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

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

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

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

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

The allowance for loan losses is established through a provision for loan losses charged to expense. Loans are charged against the allowance for loan losses when management believes that collectability of the principal is unlikely. The Company has policies and procedures for evaluating the overall credit quality of its loan portfolio, including timely identification of potential problem loans. On a quarterly basis, management reviews the appropriate level for the allowance for loan losses, incorporating a variety of risk considerations, both quantitative and qualitative. Quantitative factors include the Company's historical loss experience, delinquency and charge-off trends, collateral values, known information about individual loans, and other factors. Qualitative factors include the general economic environment in the Company's market areas and the expected trend of those economic conditions. While management uses the best information available to make its evaluation, future adjustments to the allowance may be necessary if there are significant changes in economic conditions or the other factors relied upon. To the extent actual results differ from forecasts and management's judgment, the allowance for loan losses may be greater or less than future charge-offs.

RESULTS OF OPERATIONS - 2011 COMPARED TO 2010

OVERVIEW

Total net income available to common stockholders for the year ended December 31, 2011, was $12,881 compared to $11,099 for the year ended December 31, 2010. The Company's 2011 return on average equity (ROE) was 11.27 percent compared to 9.49 percent in 2010. The return on average assets (ROA) was 1.18 percent, compared to 0.86 percent for the prior year.

Net income from continuing operations was $15,268 for 2011 compared to $13,383 for 2010. Basic and diluted earnings per common share from continuing operations were $0.74 and $0.64 for the same periods, respectively. The improvement in net income from continuing operations in 2011 compared to 2010 was due to the $5,500 decline in the provision for loan losses. The provision declined due to the combination of lower outstanding loan balances, improving net charge-off experience, and improving credit quality.

Noninterest income, exclusive of securities gains (losses), declined by $1,192 compared to 2010. Noninterest income for 2010 included $1,314 of service fees paid to West Bank by SmartyPig, LLC. This fee was discontinued in the third quarter of 2010 after the SmartyPig® savings deposits were transferred to a larger financial institution, therefore no such fees were included in noninterest income for 2011.

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

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, 2011, the Company's efficiency ratio increased slightly to 49.27 percent from the prior year's ratio of 47.28 percent. This ratio is computed by dividing noninterest expense (excluding goodwill impairment, discontinued operations, and other real estate owned expense) by the sum of tax-equivalent net interest income plus noninterest income (excluding securities gains and net impairment losses and discontinued operations). The ratio for both years is significantly better than peer group averages, which are generally around 70 percent according to data in the September 2011 Bank Holding Company Performance Report, a report prepared by the Federal Reserve Board's Division of Banking Supervision and Regulation.

Net Interest Income

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

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

Loan Volume/Loan Quality

Total loans declined $49,690 to $838,959 as of December 31, 2011, from $888,649 a year earlier. Following growth during the second and third quarters, loans outstanding declined approximately $27,700 during fourth quarter 2011. This was attributable to the unexpected payoff of three large commercial loans. Management believes the loan portfolio will grow during 2012 as the pipeline for new loans is improving and the Company is focused on attracting new customers and expanding relationships with existing customers. Nonperforming loans at December 31, 2011, totaled $10,693 or 1.27 percent of total loans. At December 31, 2010, nonperforming loans totaled $12,930 or 1.46 percent of total loans. Nonperforming loans include loans on nonaccrual status, loans past due 90 days or more, and loans that have been restructured due to the borrowers experiencing financial difficulties. In addition, at December 31, 2011, the Company held $10,967 of other real estate owned. The Company's burden ratio was 16.33 percent as of December 31, 2011, compared to 25.76 percent as of December 31, 2010. The burden ratio is calculated by dividing total nonperforming assets by tangible capital plus the allowance for loan losses. The ratio for both years is significantly better than peer group averages, which were 32.80 percent according to data in the September 2011 Bank Holding Company Performance Report. For more discussion on loan quality, see the Loan Portfolio and Summary of the Allowance for Loan Losses sections of this report.

The allowance for loan losses, which totaled $16,778 as of December 31, 2011, represented 2.00 percent of total loans and 156.9 percent of nonperforming loans at year end, compared to 2.15 percent and 147.6 percent as of December 31,

2010. The provision for loan losses totaled $550 for 2011, down from $6,050 for 2010. The Company's net charge-offs as a percent of average loans were 0.34 percent for 2011, compared to 0.63 percent for 2010. The amount of loans charged off in 2011 totaled $4,764, compared to $6,918 in 2010. Recoveries in 2011 from loans previously charged off were $1,905, up from $829 in the prior year. The 2011 recoveries included one commercial recovery of $1,000 as the result of the sale of a loan which had been charged off in a prior year. Management believes the allowance for loan losses at December 31, 2011, is sufficient to absorb probable loan losses within the portfolio.

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Noninterest Income

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

	Years ended December 31			
Noninterest income:	2011	2010	Change	Change %
Service charges on deposit accounts	$3,244	$3,361	$(117)	(3.48)%
Debit card usage fees	1,453	1,329	124	9.33%
Service fee from SmartyPig, LLC	—	1,314	(1,314)	(100.00)%
Trust services	792	818	(26)	(3.18)%
Gains and fees on sales of residential mortgages	1,454	1,533	(79)	(5.15)%
Increase in cash value of bank-owned life insurance	884	869	15	1.73%
Gain from bank-owned life insurance	637	422	215	50.95%
Other income:				
Letter of credit fees	78	117	(39)	(33.33)%
Gain from sales of other assets	112	42	70	166.67%
All other income	806	847	(41)	(4.84)%
Total other income	996	1,006	(10)	(0.99)%
Total noninterest income	$9,460	$10,652	$(1,192)	(11.19)%

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

Debit card usage fees continued to show positive growth in 2011 as customers with Reward Me Checking and other checking products continued to expand the use of this convenient payment method. We expect these fees to decline in the future due to the Dodd-Frank Wall Street Reform and Consumer Protection Act and the Federal Reserve final rule which sets a cap on interchange fees at a rate below the market-driven levels. While financial institutions with less than ten billion dollars in assets are exempt from the cap, industry groups believe the price controls will have a negative impact on community banks over time.

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

The volume of originations of residential mortgages sold into the secondary market during 2011 declined approximately 8.6 percent compared to 2010, while revenue declined by only 5.2 percent. The volume of originations was strong in the third and fourth quarter as the volume of refinancing picked up as residential mortgage interest rates declined to historic low levels. Home sales in the Company's markets remains low, but have started to improve compared to the prior two years. The Company believes 2012 secondary market loan revenues will remain strong due to the current interest rate environment.

Gain from bank-owned life insurance occurred due to the deaths of a bank officer in 2011 and a retiree in 2010. Letter of credit fees have declined compared to the prior year due to a lower demand for this service. Gains from sales of other assets in 2011 included a gain on sale of a foreclosed asset in the first quarter and the sale of an interest in a partnership in the third quarter.

Investment Securities Gains (Losses)

During 2011, the Company recognized securities impairment losses totaling $99 through earnings as a result of the quarterly valuations performed on one pooled trust preferred security (TPS) held by the Company. There were no sales of investment securities during the year.

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

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Noninterest Expense

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

	Years ended December 31			
Noninterest expense:	2011	2010	Change	Change %
Salaries and employee benefits	$13,194	$10,996	$2,198	19.99 %
Occupancy	3,342	3,207	135	4.21 %
Data processing	1,921	1,815	106	5.84 %
FDIC insurance expense	1,298	3,082	(1,784)	(57.88)%
Other real estate owned expense	2,883	1,716	1,167	68.01 %
Professional fees	878	959	(81)	(8.45)%
Miscellaneous losses	455	1,330	(875)	(65.79)%
Other expenses:				
Marketing	311	424	(113)	(26.65)%
Business development	331	253	78	30.83 %
Consulting fees	282	235	47	20.00 %
Director fees	390	355	35	9.86 %
Insurance expense	351	382	(31)	(8.12)%
Bank service charges and fees	488	551	(63)	(11.43)%
Deposit operations expense	214	336	(122)	(36.31)%
Loan related expense	203	153	50	32.68 %
Supplies and printing expense	304	250	54	21.60 %
Contributions	300	150	150	100.00 %
All other	1,728	1,550	178	11.48 %
Total other	4,902	4,639	263	5.67 %
Total noninterest expense	$28,873	$27,744	$1,129	4.07 %

The increase in salaries and employee benefits consisted of salary and payroll taxes for new staff members (approximately 20 additional positions), normal annual salary adjustments, higher bonus accruals ($573), and higher benefit costs ($480). The benefit cost increases were primarily for health insurance and 401(k) plan contributions.

FDIC insurance expense for 2011 declined compared to 2010 for three reasons. The first was the April 1, 2011, change in the assessment base from total average deposits to total average assets less tangible capital. The second was an upgrade in West Bank's regulatory risk classification on June 3, 2011, and the third was the elimination of separate fees for the FDIC's Transaction Account Guarantee Program. FDIC insurance expense for 2012 is projected to hold steady at the 2011 fourth quarter level ($187) except for increases related to any growth in the balance sheet.

Other real estate owned expense increased primarily as a result of property write-downs totaling $3,109 in 2011 compared to $1,621 in 2010. Included in the 2011 amount was one write-down of $1,360 on one particular holding. The write-down represented a 30 percent reduction in carrying value since the previous appraisal. The Company's practice is to obtain updated appraisals at least annually. In the current economic environment, values of foreclosed properties tend to decline as the holding period continues. The Company is actively involved in marketing its other real estate owned properties.

Miscellaneous losses declined year-over-year as 2010 expense included the total impairment of the Company's investment in a renewable energy closed-end fund.

Marketing expense for 2011 compared to 2010 declined due to reduced advertising. Business development costs increased as a result of additional efforts to retain existing customers and acquire new ones. Consulting fees increased because the company hired a financial advisor to assist with strategic planning, a compensation consultant to assist the Board of Directors' Compensation Committee, and a human resources consultant to assist with improving the Company's salary administration process.

Deposit operations expense has declined significantly as costs associated with the SmartyPig® savings program have been eliminated. Management expects these costs will decline further as changes are made to demand deposit account products.

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Contributions expense increased as a portion of the bank-owned life insurance proceeds were donated to the West Bancorporation Foundation.

Income Taxes

The Company records a provision for income tax expense currently payable, along with a provision for those taxes payable or refundable in the future. Such deferred taxes arise from differences in the timing of certain items for financial statement reporting compared to income tax reporting. The effective income tax rate differs from the federal statutory income tax rate primarily due to tax-exempt interest income, the tax-exempt increase in cash value of bank-owned life insurance, gain from bank-owned life insurance, disallowed interest expense, and state income taxes. For both years, the effective tax rate was also impacted by West Bank's 2007 investment in a qualified community development entity, which generated a federal new market tax credit. The credit, which totals $2,730, is being recognized over a seven-year period. The effective rate of income tax expense as a percent of income before income taxes from continuing operations was an expense of 28.5 percent for both 2011 and 2010. The federal income tax expense was approximately $5,071 and $4,599 for 2011 and 2010, respectively, while state income tax expense was approximately $1,001 and $731, respectively. The Company has recorded a valuation allowance against the tax effect of state net operating losses, federal and state capital loss carryforwards, and investment security impairments as management believes it is more likely than not that such carryforwards will expire without being utilized.

RESULTS OF OPERATIONS - 2010 COMPARED TO 2009

OVERVIEW

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

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

Noninterest income, exclusive of securities gains (losses), increased by $1,020 compared to 2009. Noninterest income for 2010 included $1,314 of service fees paid to West Bank by SmartyPig, LLC. As previously mentioned, this fee was discontinued after the SmartyPig® savings deposits were transferred to a larger financial institution.

Noninterest expense, exclusive of goodwill impairment, increased $3,215 over 2009. The increase included higher salary and benefit costs due in significant part to bonus accruals and discretionary 401(k) plan contributions, increased other real estate owned expense due to write-downs of property values, and higher miscellaneous losses.

For the year ended December 31, 2010, the Company's efficiency ratio was 47.28 percent, up from the prior year's ratio of 45.30 percent.

Net Interest Income

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

Loan Volume/Loan Quality

Total loans declined $132,061 to $888,649 as of December 31, 2010, from $1,020,710 a year earlier. Loan payoffs exceeded the demand for new loans during 2010 due to the weak economy. Nonperforming loans at December 31, 2010, totaled $12,930 or 1.46 percent of total loans. At December 31, 2009, nonperforming loans totaled $26,317 or 2.58 percent of total loans. In addition, at December 31, 2010, the Company held $19,193 of other real estate owned.

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The allowance for loan losses, which totaled $19,087 as of December 31, 2010, represented 2.15 percent of total loans and 147.62 percent of nonperforming loans at year end, compared to 1.87 percent and 72.68 percent as of December 31, 2009. The provision for loans losses totaled $6,050 for 2010, down from $24,500 for 2009. The Company's net charge-offs as a percent of average loans were 0.63 percent for 2010, compared to 1.89 percent for 2009. The amount of loans charged off in 2010 totaled $6,918, compared to $21,380 in 2009. Recoveries in 2010 from loans previously charged off were $829, up from $565 in the prior year.

Noninterest Income

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

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

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

Debit card usage fees grew in 2010 as the Reward Me Checking and other checking product customers expanded the use of this convenient payment method. The service fee from SmartyPig, LLC was established to compensate West Bank for maintaining the rate paid on the SmartyPig® savings deposits higher than that of other internet-based savings accounts.

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

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

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

Investment Securities Gains (Losses)

Details of 2010 securities impairment losses and realized securities gains are included in the results of operations section, which compares 2011 to 2010.

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

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Noninterest Expense

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

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

The increase in salaries and employee benefits consisted primarily of bonus accruals and discretionary 401(k) plan contributions. Accruals for both were reinstated as a result of improved operating results compared to 2009. The accruals were calculated at approximately 50 percent of the potential maximum payout. The 2010 bonus accrual included $155 of hiring incentives paid to two new members of senior management as consideration for joining the Company. Most salaries were frozen at 2009 levels during the first half of 2010. The Board ended the salary freeze for the second half of 2010 and an average salary increase of 1.5 percent was awarded during the third quarter. Additional employees were hired to enable customer contact personnel to spend more time on business development while others focus on credit underwriting and compliance.

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

FDIC insurance expense was higher in 2010 due to a rate increase, higher average deposit balances during the first seven months of the year, and an increase in the cost of the FDIC's Temporary Liquidity Guarantee Program (TLGP). FDIC expense for 2009 included a second quarter emergency special assessment which was imposed on all insured institutions.

Other real estate owned expense increased primarily as a result of property write-downs totaling $1,621 in 2010 compared to $133 in 2009.

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

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

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

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

Income Taxes (Benefits)

For 2010 and 2009, the effective tax rate was impacted by a federal new market tax credit. The effective rate of income tax expense (benefit) as a percent of income (loss) before income taxes from continuing operations was an expense of 28.5 percent for 2010, compared to a benefit of (59.3) percent for 2009. The federal income tax expense (benefit) was approximately $4,599 and $(7,067) for 2010 and 2009, respectively, while state income tax expense (benefit) was approximately $731 and $(289), respectively.

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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.

	2011				2010				2009			
	Average Balance	Revenue/ Expense	Yield/ Rate		Average Balance	Revenue/ Expense	Yield/ Rate		Average Balance	Revenue/ Expense	Yield/ Rate	
Assets												
Interest-earning assets:												
Loans: [2] [3]												
Commercial	$266,539	$13,360	5.01	%	$336,979	$16,758	4.97	%	$399,696	$19,436	4.86	%
Real estate [1]	576,974	33,666	5.83	%	614,585	36,733	5.98	%	690,159	40,001	5.80	%
Consumer and other loans	7,320	379	5.18	%	10,413	521	5.00	%	10,190	643	6.31	%
Total loans	850,833	47,405	5.57	%	961,977	54,012	5.61	%	1,100,045	60,080	5.46	%
Investment securities:												
Taxable	211,687	4,193	1.98	%	228,666	4,330	1.89	%	135,962	3,937	2.90	%
Tax-exempt [1]	54,344	3,372	6.20	%	72,458	4,534	6.26	%	94,859	5,797	6.11	%
Total investment securities	266,031	7,565	2.84	%	301,124	8,864	2.94	%	230,821	9,734	4.22	%
Federal funds sold and other short-term investments	91,634	234	0.26	%	196,609	541	0.28	%	198,043	521	0.26	%
Total interest-earning assets [1]	1,208,498	55,204	4.57	%	1,459,710	63,417	4.34	%	1,528,909	70,335	4.60	%
Noninterest-earning assets:												
Cash and due from banks	37,037				34,518				31,918			
Premises and equipment, net	5,118				5,257				5,201			
Other, less allowance for loan losses	44,660				58,976				52,529			
Total noninterest-earning assets	86,815				98,751				89,648			
Total assets	$1,295,313				$1,558,461				$1,618,557			

Liabilities and Stockholders' Equity												
Interest-bearing liabilities:												
Deposits:												
Savings, interest-bearing demand, and money markets	$469,557	2,857	0.61	%	$568,043	6,168	1.09	%	$503,279	6,638	1.32	%
Time deposits	239,624	4,084	1.70	%	421,015	7,049	1.67	%	527,075	12,910	2.45	%
Total deposits	709,181	6,941	0.98	%	989,058	13,217	1.34	%	1,030,354	19,548	1.90	%
Other borrowed funds	191,019	4,976	2.60	%	191,098	5,806	3.04	%	232,894	7,088	3.04	%
Total interest-bearing liabilities	900,200	11,917	1.32	%	1,180,156	19,023	1.61	%	1,263,248	26,636	2.11	%
Noninterest-bearing liabilities:												
Demand deposits	252,307				229,939				201,243			
Other liabilities	7,286				7,287				10,903			
Stockholders' equity	135,520				141,079				143,163			
Total liabilities and stockholders' equity	$1,295,313				$1,558,461				$1,618,557			
Net interest income/net interest spread (1)		$43,287	3.25	%		$44,394	2.73	%		$43,699	2.49	%
Net interest margin (1)			3.58	%			3.04	%			2.86	%

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

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

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

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Net Interest Income

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

For the years ended December 31, 2011, 2010, and 2009, the Company's net interest margin on a tax-equivalent basis was 3.58, 3.04, and 2.86 percent, respectively. The increase in the net interest margin in 2011 was the result of rates paid on deposits and borrowings declining more than the yields on loans and investment securities. This was partially the result of transferring the SmartyPig® savings deposits to another financial institution in 2010 and a continued reduction in market interest rates for deposits throughout 2011.

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.

	2011 Compared to 2010			2010 Compared to 2009		
	Volume	Rate	Total	Volume	Rate	Total
Interest Income						
Loans: (1)						
Commercial	$(3,530)	$132	$(3,398)	$(3,110)	$432	$(2,678)
Real estate (2)	(2,210)	(857)	(3,067)	(4,487)	1,219	(3,268)
Consumer and other loans	(160)	18	(142)	14	(136)	(122)
Total loans (including fees)	(5,900)	(707)	(6,607)	(7,583)	1,515	(6,068)
Investment securities:						
Taxable	(331)	194	(137)	2,068	(1,675)	393
Tax-exempt (2)	(1,124)	(38)	(1,162)	(1,399)	136	(1,263)
Total investment securities	(1,455)	156	(1,299)	669	(1,539)	(870)
Federal funds sold and other short-term investments	(271)	(36)	(307)	(4)	24	20
Total interest income (2)	(7,626)	(587)	(8,213)	(6,918)	—	(6,918)
Interest Expense						
Deposits:						
Savings, interest-bearing demand, and money markets	(936)	(2,375)	(3,311)	791	(1,261)	(470)
Time deposits	(3,089)	124	(2,965)	(2,278)	(3,583)	(5,861)
Total deposits	(4,025)	(2,251)	(6,276)	(1,487)	(4,844)	(6,331)
Other borrowed funds	(2)	(828)	(830)	(1,270)	(12)	(1,282)
Total interest expense	(4,027)	(3,079)	(7,106)	(2,757)	(4,856)	(7,613)
Net interest income (2)	$(3,599)	$2,492	$(1,107)	$(4,161)	$4,856	$695

(1) Balances of nonaccrual loans have been included for computational purposes.

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

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Tax-equivalent interest income and fees on loans declined $6,607 for the year ended December 31, 2011, compared to 2010, primarily due to a decline of $111,144 in the average volume of loans outstanding. The average yield on loans declined slightly to 5.57 percent for 2011, compared to 5.61 percent for 2010. The yield on the Company's loan portfolio is affected by the mix of the portfolio, the effects of competition, the interest rate environment, the amount of nonperforming loans, and reversals of previously accrued interest on charged-off loans. The interest rate levels influence the volume of new loan originations and the mix of variable rate versus fixed rate loans. Loan pricing in the Company's market areas remains competitive, while the demand for new loans began to grow in the second quarter of 2011.

The average balance of investment securities in 2011 fell $35,093 compared to 2010, while the yield declined 10 basis points. The volume declined due to maturities, paydowns on collateralized mortgage obligations and mortgage-backed securities, and calls related to refinancings in the low interest rate environment. During 2011, investment securities totaling $84,726 were called or matured, and $109,323 were purchased.

The average balance of federal funds sold and other short-term investments declined $104,975 during 2011, and is the primary reason the yield on total interest-earning assets increased 23 basis points compared to 2010. West Bank's goal for 2012 is to further manage the average balance of federal funds sold to lower levels while maintaining appropriate levels of liquidity.

The 2011 average rate paid on deposits declined to 0.98 percent from 1.34 percent for 2010. The continuing reduction in market rates paid, and the reduction in certificates of deposit by allowing wholesale deposits to mature without renewal during 2011 caused interest expense to decline by $6,276. Certificates of deposit also declined because some customers are unwilling to lock in low interest rates for an extended period of time.

The average rate paid on other borrowings declined 44 basis points to 2.60 percent. The effective rate on the outstanding subordinated notes declined 274 basis points as those notes became variable on October 1, 2010. The rate as of December 31, 2011, was 3.53 percent, which was approximately half of the former fixed rate. The rate paid on this debt adjusts quarterly at 305 basis points over the three-month LIBOR and is expected to remain at or near the current rate in 2012.

INVESTMENT PORTFOLIO

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

	As of December 31		
	2011	2010	2009
U.S. government agencies and corporations	$13,003	$47,798	$177,890
State and political subdivisions	52,517	59,137	87,935
Collateralized mortgage obligations	175,498	122,617	54,375
Mortgage-backed securities	35,636	18,603	10,203
Trust preferred securities	2,011	1,976	2,067
Corporate notes and other investments	4,480	6,195	8,008
Total	$283,145	$256,326	$340,478

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The investments presented in the following table are at carrying value and reported by contractual maturity as of December 31, 2011. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without prepayment penalties. The collateralized mortgage obligations and mortgage-backed securities within the portfolio have monthly paydowns.

December 31, 2011

	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	$—	$9,993	$3,010	$—	$13,003
State and political subdivisions	1,154	7,626	20,111	23,626	52,517
Collateralized mortgage obligations	—	—	7,287	168,211	175,498
Mortgage-backed securities	—				