

WEST BANCORPORATION INC
Form 10-K
March 06, 2009

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

FORM 10-K

(Mark One)

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 2008

or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____

Commission file number 0-49677

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

IOWA
(State of incorporation
or organization)

42 - 1230603
(I.R.S. Employer Identification No.)

1601 22nd STREET, WEST DES MOINES, IOWA
(Address of principal executive offices)

50266
(Zip Code)

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

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

Securities registered pursuant to Section 12(g) of the Act:

COMMON STOCK, NO PAR VALUE
(Title of Class)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes No

The aggregate market value of the voting common stock held by non-affiliates of the registrant as of June 30, 2008, was approximately \$148,223,000.

Indicate the number of shares outstanding of each of the registrant's classes of common stock as of the most recent practicable date, March 5, 2009.

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

DOCUMENTS INCORPORATED BY REFERENCE

The Appendix to the Proxy Statement, which was filed on March 6, 2009, is incorporated by reference into Part I, Part II, and Part IV hereof to the extent indicated in such Parts.

The definitive proxy statement of West Bancorporation, Inc., which was filed on March 6, 2009, is incorporated by reference into Part II and Part III hereof to the extent indicated in such Parts.

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PART I

ITEM 1. BUSINESS

GENERAL

West Bancorporation, Inc. (the “Company”) is an Iowa corporation and financial holding company registered under the Bank Holding Company Act of 1956, as amended by the Gramm-Leach-Bliley Act of 1999. The Company owns 100 percent of the stock of one state-chartered bank subsidiary, West Bank, and one registered investment advisory firm, WB Capital Management Inc. (“WB Capital”). All of West Bank’s operations are conducted primarily within the Des Moines and Iowa City, Iowa, metropolitan areas. For the year ended December 31, 2008, West Bank generated approximately 88 percent of the Company’s total revenue. WB Capital’s operations are also conducted primarily in the Des Moines and Coralville, Iowa, metropolitan areas, but the firm also has clients throughout the United States. The Company does not engage in any material business activities apart from ownership of its subsidiaries. The principal executive offices of the Company are located at 1601 22nd Street, West Des Moines, Iowa 50266, and its telephone number is (515) 222-2300. The Company’s Internet address is www.westbankiowa.com.

Financial information regarding the Company’s operating segments appearing on pages 60 and 61 of the Company’s Appendix to the Proxy Statement, which was filed on March 6, 2009, is incorporated herein by reference.

BANK SUBSIDIARY

West Bank, West Des Moines, Iowa. West Bank is a state-chartered commercial bank whose deposit accounts are insured by the Federal Deposit Insurance Corporation (“FDIC”). It was organized in 1893. West Bank became a wholly-owned subsidiary of the Company in 1984. West Bank provides full-service banking to businesses and residents primarily in the Des Moines and Iowa City metropolitan areas, as well as correspondent services to banking organizations primarily located in Iowa. It provides a variety of products and services designed to meet the needs of the markets it serves. It has an experienced staff of bank officers who have spent the majority of their banking careers with West Bank and local financial service organizations, and who emphasize long-term customer relationships. West Bank conducts business from eight full-service offices within the Des Moines metropolitan area and three full-service offices in the Iowa City metropolitan area. West Bank’s newest office was opened in Waukee, Iowa in February 2009.

As of December 31, 2008, West Bank had capital of \$143,914,000. West Bank had net income of \$9,084,000 in 2008, \$19,286,000 in 2007, and \$19,797,000 in 2006. West Bank’s total assets as of December 31, 2008, 2007, and 2006 were \$1,534,525,000, \$1,322,712,000, and \$1,250,740,000, respectively.

INVESTMENT ADVISORY SUBSIDIARY

WB Capital Management Inc., West Des Moines, Iowa. WB Capital is a registered investment advisor, regulated by the Securities and Exchange Commission, providing portfolio management services to individual investors, retirement plans, corporations, foundations, endowments, insurance companies, banks, political subdivisions, mutual funds, and other organizations. It specializes in domestic equity and fixed income strategies and also provides customized strategies to meet specific investment objectives of clients.

As of December 31, 2008, WB Capital had approximately \$4.3 billion in assets under management. For the years ended December 31, 2008, 2007, and 2006 net income was \$325,000, \$568,000, and \$265,000, respectively.

BUSINESS STRATEGY AND OPERATIONS

The Company is a financial holding company serving primarily the Des Moines and Iowa City metropolitan areas. In 2004 through 2008, growth resulted from expanding existing relationships and acquiring new customer relationships. The Company's business strategy is to emphasize strong business and personal relationships, and to provide products and services that meet the needs of its customers. The Company emphasizes strong cost controls while striving to achieve return on equity and net income goals. To accomplish these goals, West Bank focuses on small- to medium-sized businesses that traditionally wish to develop an exclusive relationship with a single bank. West Bank has the size to give the personal attention required by business owners, in addition to the credit expertise to help businesses meet their goals.

West Bank is a community bank that focuses on providing services to small and medium-sized businesses and to individuals who live and/or work within its market areas. West Bank offers all basic types of credit to its customers, including commercial, real estate, and consumer loans. West Bank also originates residential mortgages that are primarily sold in the secondary real estate market. In addition, West Bank offers a full range of deposit services that are typically available in most financial institutions, including checking accounts, savings accounts, money market accounts, and time certificates of deposit. The Company does not believe that the loss of deposits of any one customer or of a few customers would have adverse material effects on West Bank's operations or core deposit base. West Bank offers trust services typically found in a commercial bank with trust powers, including the administration of estates, conservatorships, personal and corporate trusts, and agency accounts. West Bank also offers correspondent bank services to other community banks.

During 2008, the Company and its subsidiaries were unable to achieve their net income goals and were negatively impacted by the general downturn in the economy and the world-wide financial and credit market turmoil. The primary impacts of all of the turmoil was a significantly higher level of loan charge-offs and a higher volume of impaired loans. The Company also recognized impairment charges on three investment securities.

During 2007, West Bank began working with a local company named SmartyPig, LLC ("SmartyPig") to develop the banking platform for an innovative, internet-based savings and rewards program developed by SmartyPig. West Bank holds the deposit accounts for the SmartyPig program. In return for its development efforts, West Bank acquired an 18 percent ownership interest in SmartyPig. SmartyPig publicly launched its program in the first half of 2008 and had gathered \$8.5 million in deposits as of December 31, 2008.

In April 2008, West Bank began an extensive sales program for a deposit product called "Reward Me Checking." The product pays a certificate of deposit-like rate if the customer performs a certain number of electronic banking transactions and agrees to receive his or her monthly statements electronically. As of December 31, 2008, \$36.9 million had been deposited in this product.

On December 31, 2008, the Company sold 36,000 shares of cumulative senior preferred stock and a warrant to purchase 474,100 shares of common stock for \$36 million under the U.S. Department of the Treasury's Capital Purchase Program ("CPP"). The senior preferred shares qualify as Tier 1 capital for regulatory purposes and rank senior to common stock and bear a cumulative dividend rate of five percent per annum for the first five years they are outstanding and a rate of nine percent per annum thereafter. The senior preferred shares are non-voting, other than having voting rights on matters that could adversely affect the shares and having the right to elect directors under certain circumstances. The Company's Board of Directors and management believe it was prudent to participate in the CPP because (i) the cost of capital under this program may be significantly lower than the cost of capital otherwise available to the Company at the time, and (ii) despite being well-capitalized, additional capital under this program provides the Company and West Bank additional flexibility to meet future capital needs that may arise in the current uncertain economic environment. Of the total received, \$34 million was transferred into capital in West Bank, and \$2 million was used to pay off long-term debt at the Company.

CREDIT MANAGEMENT

West Bank strives to achieve sound credit risk management by establishing uniform credit policies and underwriting criteria for its loan portfolio. West Bank diversifies the types of loans offered and is subject to regular credit examinations by regulators, annual external loan audits, reviews by the loan review officer, and an annual committee review of large loans. West Bank attempts to identify potential problem loans early, charge off loans appropriately, and maintain an adequate allowance for loan losses. West Bank has established credit guidelines for the lending activities that include guidelines relating to the more commonly requested loan types, as follows:

Commercial Real Estate Loans – Commercial real estate loans are normally based on loan-to-appraised value ratios of not more than 80 percent and are secured by a first priority lien position. Loans are typically subject to interest rate adjustments no less frequently than seven years from origination, with a maximum amortization period of 30 years. Projections and cash flows that demonstrate ability to service debt within the amortization period are required. Property and casualty insurance is required to protect West Bank’s collateral interests. A major risk factor for West Bank’s commercial real estate loan portfolio, as well as the other loan types described below, is the geographic concentration in the Des Moines and Iowa City metropolitan areas. Loans are generally guaranteed by the principal(s) of the borrower.

Commercial Operating Lines – These loans are made to businesses with normal terms of up to twelve months. The credit needs are generally seasonal with the source of repayment coming from the entity’s normal business cycle. Cash flow reviews are completed to establish the ability to service the debt within the terms of the loan. A first priority lien on the general assets of the business normally secures these types of loans. Lines of credit are typically governed by a borrowing base, and loan-to-value limits vary and are dependent upon the nature and type of the underlying collateral and the financial strength of the borrower. Loans are generally guaranteed by the principal(s) of the borrower.

Commercial Term Loans – These loans are made to businesses to finance equipment and other capital expenditures. Terms are generally the lesser of seven years or the useful life of the asset. Term loans are normally secured by the asset being financed and are often additionally secured with the general assets of the business. Loan-to-value is generally a maximum of 80 percent of the cost or value of the assets. Loans are normally guaranteed by the principal(s) of the borrower.

Construction Loans – Construction loans on commercial real estate are normally based on a loan-to-appraised value ratio of not more than 80 percent and are secured by a first priority lien position. Loan payments typically consist of interest only for a term of less than two years. The interest rate is usually variable, based on the prime rate. Residential construction loans are generally for a term not to exceed one year based on a loan-to-appraised value ratio of not more than 80 percent, and are secured by a first priority lien position. Interest is normally paid monthly or quarterly based on a variable rate tied to prime.

Residential First Mortgage Loans – Proceeds of these loans are used to buy or refinance the purchase of residential real estate, with the loan secured by a first lien on the real estate. Most of the residential mortgage loans originated by West Bank during the past year (including servicing rights) have been sold in the secondary mortgage market due to the higher interest rate risk inherent in the 15- and 30-year fixed rate terms consumers prefer. Loans that are originated and not sold in the secondary market generally have higher interest rates and have rate adjustment periods normally no longer than seven years. The maximum amortization of first mortgage residential real estate loans is 30 years. The loan-to-value ratios normally do not exceed 80 percent. Property insurance is required on all loans to protect West Bank's collateral position.

Home Equity Term Loans – These loans are normally for home improvement or other consumer purposes and are secured by a junior mortgage on residential real estate. The loan-to-value ratios normally do not exceed 90 percent.

Home Equity Lines of Credit – West Bank offers a home equity line of credit with a maximum term of 120 months. These loans are secured by a junior mortgage on residential real estate and normally do not exceed a loan-to-value ratio of 90 percent, with the interest adjusted quarterly.

Consumer Loans – Consumer loans are normally made under the following guidelines: automobiles – loans on new and used automobiles generally will not exceed 80 and 75 percent of the value, respectively; recreational vehicles and boats – 75 percent of value; modular home loans have a maximum term of 180 months with the loan-to-value ratio generally not exceeding 80 percent. Each of these loans is secured by a first priority lien on the assets and requires insurance to protect West Bank's collateral position. The term for unsecured loans generally does not exceed 24 months.

EMPLOYEES

At December 31, 2008, West Bank had a total of 161 full-time equivalent employees and WB Capital had 34 full-time equivalent employees. The Company had no employees. Employees are provided with a comprehensive program of benefits, including comprehensive medical and dental plans, long-term and short-term disability coverage, and a profit sharing plan with both 401(k) and employee stock ownership features. Management considers its relations with employees to be satisfactory. No employees are represented by unions.

MARKET AREA

West Bank has eight locations throughout the Des Moines, Iowa, metropolitan area and three locations in the Iowa City, Iowa, metropolitan area.

West Bank's main office is located in West Des Moines, Iowa, one of the fastest growing communities in Iowa. The population of the Des Moines metropolitan area is nearly 500,000. Des Moines is the capitol of Iowa. Major employers are the State of Iowa, Principal Financial Group, Pioneer Hi-Bred International, Inc., Wells Fargo, Central Iowa Hospital Corporation, Mercy Medical Center, Hy-Vee Food Stores, Inc., and the Des Moines Independent School District.

WB Capital has offices in West Des Moines and Coralville, Iowa, and customers throughout Iowa and the United States.

COMPETITION

The geographic market area served by West Bank is highly competitive with respect to both loans and deposits. West Bank competes principally with other commercial banks, savings and loan associations, credit unions, mortgage companies, finance divisions of auto companies, and other financial service providers. Some of these competitors are local, while others are statewide or nationwide. The major commercial bank competitors include Bankers Trust Company, NA and First American Bank, local banking organizations; Bank of the West, a regional bank; and several nationwide banks, including Bank of America, Regions Bank, U.S. Bank, NA, and Wells Fargo Bank. Among the advantages such larger banks offer are their ability to pursue extensive advertising campaigns and to allocate their investment assets to out-of-market geographic regions with potentially higher yields. Such banks offer certain services, for example, international and conduit financing transactions, that are not offered directly by West Bank, but that may be offered through correspondent banking institutions. These larger banking organizations have much higher legal lending limits than West Bank and therefore, are better able to finance large regional, national, and global commercial customers.

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

Pursuant to the FDIC's Summary of Deposits, as of June 30, 2008, there were 36 other banks and savings and loan associations within Polk County, Iowa, where seven of West Bank's offices are located. West Bank ranked fifth based on total deposits of all banking offices in Polk County. As of June 30, 2008, there were 16 other banks and savings and loan associations within Johnson County, Iowa, where three offices are located in the Iowa City area. West Bank ranked fourth based on total deposits of all banking offices in Johnson County. For the entire state, West Bank ranked ninth in terms of deposit size.

West Bank also competes for funds in the financial markets for non-bank financial products. Yields on corporate and government debt securities and commercial paper affect the ability of commercial banks to attract and hold deposits. Commercial banks also compete for funds with money market instruments and similar investment vehicles offered by competitors including brokerage firms, insurance companies, credit card issuers, and retailers such as Sears. Money market funds offered by these types of organizations have provided substantial competition for deposits. This trend will likely continue in the future.

The Company anticipates bank competition will continue to change significantly over the next several years as more banks, including the major regional and nationwide banks, continue to consolidate. Smaller community banks continue to move their charters to or open branches in larger metropolitan areas in an attempt to capture market share in a more diverse environment. Credit unions, because of their income tax advantage, will continue to show growth.

The current significant uncertainties in the economy may also impact competition in the markets we serve. The new administration in the U.S. Government is currently working to create economic recovery plans.

SUPERVISION AND REGULATION

The following discussion generally refers to certain statutes and regulations affecting the banking industry. These references provide brief summaries and, therefore, do not purport to be complete and are qualified in their entirety by reference to those statutes and regulations. In addition, due to the numerous statutes and regulations that apply to and

regulate the operation of the banking industry, many are not referenced below.

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 depositors and the FDIC rather than shareholders of the Company. The laws and regulations affecting banks and financial holding companies have changed significantly over recent years, particularly with the passage of the Emergency Economic Stabilization Act of 2008 and the American Recovery and Reinvestment Act of 2009. There are reasons to expect that similar changes will occur in the future. Any change in applicable laws, regulations, or regulatory policies may have a material effect on the business, operations, and prospects of the Company. The Company is unable to predict the nature or the extent of the effects on its business and earnings that any fiscal or monetary policies or new federal or state legislation may have in the future.

The Company

The Company is a financial holding company and is registered as such with the Board of Governors of the Federal Reserve System (the “Federal Reserve”). The Company is subject to regulation under the Bank Holding Company Act of 1956, as amended (the “BHCA”), which subjects the Company and West Bank to supervision and examination by the Federal Reserve. Under the BHCA, the Company files with the Federal Reserve quarterly and annual reports of its operations and such additional information as the Federal Reserve may require. The Company’s Federal Reserve reports are available online at www.ffiec.gov/nicpubweb/nicweb/InstituionProfile.aspxparID_Rssd=1210066&parDT_END=99991231.

Financial holding companies are permitted to engage in certain financial activities through affiliates that had previously been prohibited activities for bank holding companies. Such financial activities include securities and insurance underwriting and merchant banking. The Company elected to become a financial holding company during 2007. The Company’s status as a financial holding company gives it additional flexibility to engage in a broader range of financial and other activities than is permissible for non-financial bank holding companies.

Source of Strength to West Bank. The Federal Reserve takes the position that a financial holding company is required to serve as a source of financial strength to its subsidiary bank 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 financial 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. A financial holding company’s failure to meet its obligations to serve as a source of strength to its subsidiary bank will generally be considered by the Federal Reserve to be an unsafe and unsound banking practice, a violation of the Federal Reserve’s regulations, or both.

Federal Reserve Approval. Financial 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.

Non-Banking Activities. With certain exceptions, the BHCA also prohibits financial 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. When making this determination, the Federal Reserve in part considers whether allowing a financial holding company to engage in those activities would offer advantages to the public that would outweigh possible adverse effects. The Company obtained approval of the Federal Reserve to form WB Capital in 2003 and to acquire Investors Management Group in 2005. A financial holding company may engage in permissible non-banking activities on a de novo basis, if the holding company meets certain criteria and notifies the Federal Reserve within ten business days after the activity has commenced.

Control Transactions. The Change in Bank Control Act of 1978, as amended, requires a person or group of persons acquiring “control” of a bank holding company to provide the Federal Reserve with at least 60 days prior written notice of the proposed acquisition. Following receipt of this notice, the Federal Reserve has 60 days to issue a notice disapproving the proposed acquisition, but the Federal Reserve may extend this time period for up to another 30 days. An acquisition may be completed before the disapproval period expires if the Federal Reserve issues written notice of its intent not to disapprove the action. Under a rebuttable presumption established by the Federal Reserve, the acquisition of ten percent or more of a class of voting stock of a bank holding company with a class of securities registered under Section 12 of the Securities Exchange Act of 1934, as amended, would constitute the acquisition of

control. In addition, any “company” would be required to obtain the approval of the Federal Reserve under the BHCA before acquiring 25 percent (or five percent if the “company” is a bank holding company) or more of the outstanding shares of the Company, or otherwise obtain control of the Company.

Affiliate Transactions. The Company, West Bank, and WB Capital 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.

State Law on Acquisitions. Iowa law permits bank holding companies to make acquisitions throughout the state, subject to a deposit concentration limit of 15 percent of the total bank deposits in the state.

Bank Subsidiaries

Applicable federal and state statutes and regulations governing a bank's operations relate, among other matters, to capital adequacy requirements, required reserves against deposits, investments, loans, legal lending limits, certain interest rates payable, mergers and consolidations, borrowings, issuance of securities, payment of dividends, establishment of branches, and dealings with affiliated persons.

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. The laws and regulations governing West Bank generally have been promulgated to protect depositors and the deposit insurance fund of the FDIC, and not to protect stockholders of such institutions or their holding companies. West Bank files with the Federal Financial Institutions Examination Council ("FFIEC") quarterly reports of its operations and such additional information as the FFIEC may require. West Bank's reports are available online at <https://cdr.ffiec.gov/public/searchfacsimiles.aspx>.