Risk Factors Comparison 2024-02-22 to 2023-02-23 Form: 10-K

Legend: **New Text** ~~Removed Text~~ Unchanged Text Moved Text Section

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. In addition to the risks and uncertainties described below, other risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially and adversely affect our business, financial condition and results of operations. Risks Related to Credit Quality We must effectively manage the credit risks of our loan portfolio. The largest component of West Bank' s income is interest received on loans. Our business depends on the creditworthiness of our customers. There are risks inherent in making loans, including risks of nonpayment, risks resulting from uncertainties of the future value of collateral, and risks resulting from changes in economic and industry conditions. We attempt to reduce our credit risk through prudent loan application, underwriting and approval procedures, including internal loan reviews before and after proceeds have been disbursed, careful monitoring of the concentration of our loans within specific industries, and collateral and guarantee requirements. These procedures cannot, however, be expected to completely eliminate our credit risks, and we can make no guarantees concerning the strength of our loan portfolio. The information that we use in managing our credit risk may be inaccurate or incomplete, which may result in an increased risk of default and otherwise have an adverse effect on our business, results of operations and financial condition. In deciding whether to extend credit or enter into other transactions with clients and counterparties, we may rely on information furnished by or on behalf of clients and counterparties, including financial statements and other financial information. We also may rely on representations of clients and counterparties as to the accuracy and completeness of that information and, with respect to financial statements, on reports of independent auditors. Although we regularly review our credit exposure to specific clients and counterparties and to specific industries that we believe may present credit concerns, default risk may arise from events or circumstances that are difficult to detect, such as fraud **, or such as catastrophic events affecting certain industries** . Moreover, such circumstances, including fraud, may become more likely to occur or be detected in periods of general economic uncertainty. We may also fail to receive full information with respect to the risks of a counterparty. In addition, in cases where we have extended credit against collateral, we may find that we are under- secured, for example, as a result of sudden declines in market values that reduce the value of collateral or due to fraud with respect to such collateral. If such events or circumstances were to occur, it could result in potential loss of revenue and have an adverse effect on our business, results of operations and financial condition. Our loan portfolio includes commercial loans, which involve risks specific to commercial borrowers. West Bank' s loan portfolio includes a significant amount of commercial real estate loans, construction and land development loans, commercial lines of credit and commercial term loans. West Bank' s typical commercial borrower is a small- or medium- sized, privately owned Iowa or Minnesota business entity. Commercial loans often have large balances, and repayment usually depends on the borrowers' successful business operations. Commercial loans also are generally not fully repaid over the loan period and thus may require refinancing or a large payoff at maturity. If the general economy turns downward, commercial borrowers may not be able to repay their loans, and the value of their assets, which are usually pledged as collateral, may decrease rapidly and significantly. Also, when credit markets tighten due to adverse developments in specific markets or the general economy, opportunities for refinancing may become more expensive or unavailable, resulting in loan defaults. Our loan portfolio includes commercial real estate loans, which involve risks specific to real estate values. Commercial real estate loans were a significant portion of our total loan portfolio as of December 31, ~~2022~~ **2023** . The market value of real estate can fluctuate significantly in a short period of time as a result of market conditions in the geographic area in which the real estate is located. Adverse developments affecting real estate values in one or more of our markets could increase the credit risk associated with our loan portfolio. Additionally, commercial real estate lending typically involves higher loan principal amounts, and repayment of the loans is generally dependent, in large part, on sufficient income from the properties securing the loans to cover operating expenses and debt service. Economic events **, including decreases in office occupancy following the COVID- 19 pandemic,** or governmental regulations outside of the control of the borrower or lender could negatively impact the future cash flows and market values of the affected properties. West Bancorporation, Inc. and Subsidiary If the loans that are collateralized by real estate become troubled and the value of the real estate has been significantly impaired, then we may not be able to recover the full contractual amount of principal and interest that we anticipated at the time of originating the loans, which could cause us to charge off all or a portion of the loans. This could lead to an increased provision for ~~loan~~ **credit** losses and adversely affect our operating results and financial condition. The level of our commercial real estate loan portfolio may subject us to additional regulatory scrutiny. The federal banking regulators have promulgated joint guidance on sound risk management practices for financial institutions with concentrations in commercial real estate lending. Under the CRE Guidance, a financial institution that, like West Bank, is actively involved in commercial real estate lending should perform a risk assessment to identify concentrations. A financial institution may have a concentration in commercial real estate lending if, among other factors (i) total reported loans for construction, land development, and other land represent 100 percent or more of total **risk- based** capital, or (ii) total reported loans secured by multifamily and non- farm non- residential properties, loans for construction, land development and other land, and loans otherwise sensitive to the general commercial real estate market, including loans to commercial real estate related entities, represent 300 percent or more of total **risk- based** capital. Based on these criteria, West Bank had concentrations of ~~80~~ **90** percent and ~~398~~ **417** percent, respectively, as of December 31, ~~2022~~ **2023** . The purpose of the CRE Guidance is to assist banks in developing risk management practices and capital levels commensurate with the level and nature of commercial real estate concentrations. The CRE Guidance states that management should employ heightened risk management practices, including board and management oversight, strategic planning, development of underwriting standards, and risk assessment and monitoring through market analysis and stress testing. West Bank believes that its current risk management processes adequately address the regulatory guidance; however, there can be no guarantee of the effectiveness of the risk management processes on an ongoing basis. We are subject to environmental liability risk associated with real estate collateral securing our loans. A significant portion of our loan portfolio is secured by real property. Under certain circumstances, we may take title to the real property collateral through foreclosure or other means. As the titleholder of the property, we may be responsible for environmental risks, such as hazardous materials, which attach to the property. For these reasons, prior to extending credit, we have an environmental risk assessment program to identify any known environmental risks associated with the real property that will secure our loans. In addition, we routinely inspect properties following the taking of title. When environmental risks are found, environmental laws and regulations may prescribe our approach to remediation. As a result, while we have ownership of a property, we may incur substantial expense and bear potential liability for any damages caused. The environmental risks may also materially reduce the property' s value or limit our ability to use or sell the property. We also cannot guarantee that our environmental risk assessment will detect all environmental issues relating to a property, which could subject us to additional liability. Risks Related to Accounting Policies and Estimates Our allowance for ~~loan~~ **credit** losses may be insufficient to absorb potential losses in our loan portfolio. We maintain an allowance for ~~loan~~ **credit** losses at a level we believe adequate to absorb ~~probable~~ **current expected credit** losses ~~inherent in our existing~~ **based on an analysis of the** loan portfolio. The level of the allowance reflects management' s **estimate** ~~continuing evaluation~~ of ~~industry concentrations; specific credit risks; credit loss experience;~~ current ~~loan~~ **expected losses in the** portfolio ~~quality; present economic, political~~ **as of the balance sheet date** and ~~regulatory~~ **is based on a cash flow- based model that considers available relevant information about the collectability of cash flows, including information about past events, current** conditions ~~;~~ **,** and **reasonable and supportable forecasts** ~~unidentified losses inherent in the current loan portfolio~~ . Determination of the allowance is inherently subjective as it requires significant estimates and management' s judgment of credit risks and future trends, all of which may undergo material changes. Deterioration in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside of our control, may require an increase in the allowance for ~~loan~~ **credit** losses. In addition, bank regulatory agencies periodically review our allowance and may require an increase in the provision for ~~loan~~ **credit** losses or the recognition of additional loan charge- offs, based on judgments different from those of management. Also, if charge- offs in future periods exceed the allowance for ~~loan~~ **credit** losses, we will need additional provisions to increase the allowance. Any increases in provisions will result in a decrease in net income and capital and may have a material adverse effect on our financial condition and results of operations ~~. The Current Expected Credit Loss accounting standard could require us to increase our allowance for loan losses and may have a material adverse effect on our financial condition and results of operations. The FASB issued a new accounting standard that became effective for the Company beginning on January 1, 2023. This standard, referred to as Current Expected Credit Loss (CECL), requires the Company to determine periodic estimates of lifetime expected credit losses on loans and recognize the expected credit losses as allowances for loan losses. This changed the Company' s previous methodology of providing for loan losses that are probable. Utilizing objective and subjective factors, the Company now maintains, as of January 1, 2023, an allowance for credit losses, established through a provision for credit losses charged to expense, to cover its estimate of the current expected credit losses in its loan and securities portfolios. In determining the size of this allowance, the Company utilizes estimates based on analyses of volume and types of loans, internal loan classifications, trends in classifications, volume and trends in delinquencies, nonaccruals and charge- offs, loss experience of various loan categories, national and local economic conditions, including unemployment statistics, industry and peer bank loan quality indications, and other pertinent factors and information. Expected losses are difficult to forecast, especially if those losses stem from factors beyond the Company' s historical experience or are otherwise inconsistent with its credit quality assessments. If the Company' s assumptions are inaccurate, its current allowance may not be sufficient to cover potential credit losses, and additional provisions may be necessary which would negatively impact its results of operations and financial condition. Any subsequent increase in our allowance for credit losses or expenses incurred to determine the appropriate level of the allowance for credit losses will result in a decrease in net income and capital and may have a material adverse impact on our financial condition and results of operations. Moreover, the CECL model may create more volatility in our level of allowance for credit losses and could result in the need for additional capital~~ . 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 U. S. generally accepted accounting principles (GAAP) and reflect management' s judgment as to the most appropriate manner in which to record and report our financial condition and results of operations. In some cases, management must select the accounting policy or method to apply from two or more alternatives, any of which might be reasonable under the circumstances. The application of that chosen accounting policy or method might result in us reporting different amounts than would have been reported under a different alternative. If management' s estimates or assumptions are incorrect, the Company may experience a material loss. From time to time, the FASB and the SEC change the financial accounting and reporting standards or the interpretation of those standards that govern the preparation of our financial statements. These changes are beyond our control, can be difficult to predict and could have a material adverse impact on our financial condition and results of operations. If a significant portion of any unrealized losses in our portfolio of investment securities were to incur credit losses, we would recognize a material charge to our earnings, and our capital ratios would be adversely impacted. Factors beyond our control can significantly influence the fair value of investment securities in our portfolio and can cause potential adverse changes to the fair value of those securities. These factors include, but are not limited to, changes in interest rates, rating agency downgrades of the securities, defaults by the issuer or individual mortgagors with respect to the underlying securities, and instability in the credit markets. Any of the foregoing factors could result in realized losses in future periods. We analyze our investment securities quarterly to determine whether, in the opinion of management, any of the securities have credit losses. To the extent that any portion of the unrealized losses in our portfolio of investment securities is determined to have credit losses, 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. **If** ~~Generally, a fixed income security is determined to have credit losses when it appears unlikely that we will receive all the principal and interest due in accordance with the original terms of the investment. In addition to credit losses, losses are recognized for a security with an unrealized loss if~~ the Company ~~has the intent~~ **intends** to sell **,** ~~the security~~ or ~~if~~ it is more likely than not that **it** ~~the Company~~ will be required to sell the security before ~~collection~~ **recovery** of **its amortized cost basis,** ~~the~~ **then** ~~principal amount~~ **the security is written down to fair value through income** . At December 31, ~~2022~~ **2023** , we had $ ~~138~~ **121** , ~~732~~ **787** of net unrealized losses in our securities portfolio. If we are forced to liquidate any of those investments prior to maturity, including because of a lack of liquidity, we would recognize as a charge to earnings the losses attributable to those securities. Our securities portfolio has an average duration of 6. ~~7~~ **2** years, so we expect an increase in unrealized losses ~~if~~ **in rising** interest ~~rates~~ - **rate environments** ~~continue to increase in 2023~~ . Failure to maintain effective internal controls over financial reporting could impair our ability to accurately and timely report our financial results and could increase the risk of fraud. Effective internal controls over financial reporting are necessary to provide reliable financial reports and prevent fraud. Management believes that our internal controls over financial reporting are currently effective. While management will continue to assess our controls and procedures and take immediate action to remediate any future perceived issues, there can be no guarantee of the effectiveness of these controls and procedures on an ongoing basis. Any failure to maintain an effective internal control environment could impact our ability to report our financial results on an accurate and timely basis, which could result in regulatory actions, loss of investor confidence, and an adverse impact on our business operations and stock price. Risks Related to Information Security and Business Interruption The occurrence of fraudulent activity, breaches or failures of our information security controls or cybersecurity- related incidents could have a material adverse effect on our business, financial condition, results of operations and growth prospects. As a bank, we are susceptible to fraudulent activity, information security breaches and cybersecurity- related incidents that may be committed against us **, our third- party partners** or our clients, which may result in financial losses or increased costs to us or our customers, disclosure or misuse of our information or our client information, misappropriation of assets, privacy breaches against our customers, litigation or damage to our reputation. Such fraudulent activity may take many forms, including check fraud, electronic fraud, wire fraud, phishing, social engineering and other dishonest acts. Information security breaches and cybersecurity- related incidents may include fraudulent or unauthorized access to systems used by us, our customers or third- party vendors, denial or degradation of service attacks, and malware or other cyber attacks. There continues to be a rise in electronic fraudulent activity, security breaches and cyber attacks within the financial services industry, especially in the commercial banking sector due to cyber- criminals targeting commercial bank accounts **, and as a result of increasingly sophisticated methods of conducting cyber attacks, including those employing artificial intelligence** . Moreover, in recent periods, several large corporations, including financial institutions **, third party partners specializing in providing services to financial institutions,** and retail companies, have suffered major data breaches, in some cases exposing not only confidential and proprietary corporate information, but also sensitive financial and other personal information of their customers and employees and subjecting them to potential fraudulent activity. Some of our customers may have been affected by these breaches, which could increase their risks of identity theft and other fraudulent activity that could involve their accounts with us. Information pertaining to us and our customers is maintained, and transactions are executed, on networks and systems maintained by us and certain third- party partners, such as our online banking, mobile banking and core deposit and loan recordkeeping systems. The secure maintenance and transmission of confidential information, as well as execution of transactions over these systems, are essential to protect us and our customers against fraud and security breaches and to maintain the confidence of our customers. Breaches of information security also may occur through intentional or unintentional acts by those having access to our systems or the confidential information of our customers, including employees. In addition, increases in criminal activity levels and sophistication, advances in computer capabilities, new discoveries, vulnerabilities in third- party technologies (including browsers and operating systems), or other developments could result in a compromise or breach of the technology, processes and controls that we use to prevent fraudulent transactions and to protect data about us, our customers and underlying transactions, as well as the technology used by our customers to access our systems. Our third- party partners' inability to anticipate, or failure to adequately mitigate, breaches of security could result in a number of negative events, including losses to us or our customers, loss of business or customers, damage to our reputation, the incurrence of additional expenses, disruption to our business, additional regulatory scrutiny or penalties, or our exposure to civil litigation and possible financial liability, any of which could have a material adverse effect on our business, financial condition, results of operations and growth prospects. Furthermore, there has been heightened legislative and regulatory focus on privacy, data protection and information security. New or revised laws and regulations **, including with respect to the use of artificial intelligence by financial institutions and service providers,** may significantly impact our current and planned privacy, data protection and information security- related practices, the collection, use, retention and safeguarding of customer and employee information, and current or planned business activities. Compliance with current or future privacy, data protection and information security laws could result in higher compliance and technology costs and could restrict our ability to provide certain products and services, which could adversely affect our business, financial condition or results of operations **. Issues with the use of artificial intelligence in our marketplace may result in reputational harm or liability, or could otherwise adversely affect our business. Artificial intelligence, including generative artificial intelligence, is or may be enabled by or integrated into our**

products or those developed by our third- party partners. As with many developing technologies, artificial intelligence presents risks and challenges that could affect its further development, adoption, and use, and therefore our business. Artificial intelligence algorithms may be flawed, for example datasets may contain biased information or otherwise be insufficient; and inappropriate or controversial data practices could impair the acceptance of artificial intelligence solutions and result in burdensome new regulations. If the analyses that products incorporating artificial intelligence assist in producing for us or our third- party partners are deficient, biased or inaccurate, we could be subject to competitive harm, potential legal liability and brand or reputational harm. The use of artificial intelligence may also present ethical issues. If we or our third- party partners offer artificial intelligence enabled products that are controversial because of their purported or real impact on human rights, privacy, or other issues, we may experience competitive harm, potential legal liability and brand or reputational harm. In addition, we expect that governments will continue to assess and implement new laws and regulations concerning the use of artificial intelligence, which may affect or impair the usability or efficiency of our products and services and those developed by our third- party partners . We depend on information technology and telecommunications systems of third parties, and any systems failures, interruptions or data breaches involving these systems could adversely affect our operations and financial condition. Our business is highly dependent on the successful and uninterrupted functioning of our information technology and telecommunications systems, third- party servicers, accounting systems, mobile and online banking platforms and financial intermediaries. We outsource to third parties many of our major systems, such as data processing and mobile and online banking. The failure of these systems, or the termination of a third- party software license or service agreement on which any of these systems is based, could interrupt our operations. Because our information technology and telecommunications systems interface with and depend on third- party systems, we could experience service denials if demand for such services exceeds capacity or such third- party systems fail or experience interruptions. A system failure or service denial could result in a deterioration of our ability to process loans or gather deposits and provide customer service, compromise our ability to operate effectively, result in potential noncompliance with applicable laws or regulations, damage our reputation, result in a loss of customer business or subject us to additional regulatory scrutiny and possible financial liability, any of which could have a material adverse effect on business, financial condition, results of operations and growth prospects. In addition, failures of third parties to comply with applicable laws and regulations, or fraud or misconduct on the part of employees of any of these third parties, could disrupt our operations or adversely affect our reputation. It may be difficult for us to replace some of our third- party vendors, particularly vendors providing our core banking and information services, in a timely manner if they are unwilling or unable to provide us with these services in the future for any reason, and even if we are able to replace them, it might be at higher cost or result in the loss of customers. Any such events could have a material adverse effect on our business, financial condition, results of operations and growth prospects. Our operations rely heavily on the secure processing, storage and transmission of information and the monitoring of a large number of transactions on a minute- by- minute basis, and even a short interruption in service could have significant consequences. We also interact with and rely on retailers, for whom we process transactions, as well as financial counterparties and regulators. Each of these third parties may be targets of the same types of fraudulent activity, computer break- ins and other cybersecurity breaches described above, and the cybersecurity measures that they maintain to mitigate the risk of such activity may be different than our own and may be inadequate. As a result of financial entities and technology systems becoming more interdependent and complex, a cyber incident, information breach or loss, or technology failure that compromises the systems or data of one or more financial entities could have a material impact on counterparties or other market participants, including ourselves. As a result of the foregoing, our ability to conduct business may be adversely affected by any significant disruptions to us or to third parties with whom we interact. Other Risks Related to West Bank' s Operations We are subject to liquidity risks. West Bank maintains liquidity primarily through customer deposits and other short- term funding sources, including advances from the Federal Home Loan Bank (FHLB) **and the Federal Reserve discount window** , brokered ~~CDs~~ **deposits** and purchased federal funds **. Additionally, the Federal Reserve established the Bank Term Funding Program, or BTFP, on March 12, 2023, offering qualifying banks loans of up to one year in length collateralized by qualifying assets, including U. S. securities valued at par, to serve as a source of additional liquidity against high- quality securities and reducing an institution' s need to quickly sell high- quality securities to meet liquidity needs. The Federal Reserve has announced that it is ending the BTFP and will cease making new loans under this program on March 11, 2024** . 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. If this were to occur and additional short- term borrowings or debt is needed for liquidity purposes in the future, there can be no assurance that such borrowings or debt would be available or, if available, would be on favorable terms. If we increase our short- term borrowings or debt, our cost of funds will increase, thereby reducing our net interest income, or we may need to sell a portion of our investment portfolio, which, depending upon market conditions, could result in the Company or West Bank realizing losses. At December 31, ~~2022~~ **2023** , our borrowed funds increased to $ **592. 6 million, compared to $** 485 ~~. 9 million, compared to $ 199~~ . 9 million at December 31, ~~2021~~ **2022** . The increase included $ **140** ~~58. 9 million in subordinated notes that were issued in June 2022, $ 30~~ . 0 million in FHLB advances associated with ~~a~~ long- term interest rate ~~swap~~ **swaps** and $ ~~197~~ **20** . ~~1~~ **0 million in FHLB advances with a fixed interest rate, partially offset by a decrease of $ 49. 7** million in federal funds purchased and other short- term borrowings. As a result, our cost of funds has increased and caused a decline in our net interest income and net interest margin in ~~2022~~ **2023** , as compared to ~~2021~~ **2022** . Although we believe West Bank' s current sources of funds are adequate for its liquidity needs, there can be no assurance in this regard for the future. The competition for banking and financial services in our market areas is high, which could adversely affect our financial condition and results of operations. We operate in highly competitive markets and face strong competition in originating loans, seeking deposits and offering our other services. We compete in making loans, attracting deposits, and recruiting and retaining talented employees. The Des Moines metropolitan market area, in particular, has attracted many new financial institutions within the last two decades. We also compete with nonbank financial service providers, such as FinTech companies, many of which are not subject to the same regulatory restrictions that we are and may be able to compete more effectively as a result. Customer loyalty can be influenced by a competitor' s new products, especially if those offerings are priced lower than our products. Some of our competitors may also be better able to attract customers because they provide products and services over a larger geographic area than we serve. This competitive climate can make it more difficult to establish and maintain relationships with new and existing customers, can lower the rate that we are able to charge on loans, and can affect our charges for other services. Our growth and profitability depend on our continued ability to compete effectively within our markets, and our inability to do so could have a material adverse effect on our financial condition and results of operations. Loss of customer deposits due to increased competition could increase our funding costs. We rely on customer deposits to be a low cost and stable source of funding. We compete with banks and other financial services companies, including digital asset service providers, for deposits. If our competitors raise the rates they pay on deposits, our funding costs may increase, either because we raise our rates to avoid losing deposits or because we lose deposits and must rely on more expensive sources of funding. Higher funding costs could reduce our net interest margin and net interest income and could have a material adverse effect on our financial condition and results of operations. Damage to our reputation could adversely affect our business. Our business depends upon earning and maintaining the trust and confidence of our customers, stockholders and employees. Damage to our reputation could cause significant harm to our business. Harm to our reputation can arise from numerous sources, including employee misconduct, vendor nonperformance, cybersecurity breaches, compliance failures, litigation or governmental investigations, among other things. In addition, a failure to deliver appropriate standards of service, or a failure or perceived failure to treat customers and clients fairly, can result in customer dissatisfaction, litigation, and heightened regulatory scrutiny, all of which can lead to lost revenue, higher operating costs and harm to our reputation. Adverse publicity about West Bank, whether or not true, may also result in harm to our business. Should any events or circumstances that could undermine our reputation occur, there can be no assurance that any lost revenue from customers opting to move their business to another institution and the additional costs and expenses that we may incur in addressing such issues would not adversely affect our financial condition and results of operations. We are subject to various legal claims and litigation. We are periodically involved in routine litigation incidental to our business. Regardless of whether these claims and legal actions are founded or unfounded, if such legal actions are not resolved in a manner favorable to us, they may result in significant financial liability and / or adversely affect the Company' s reputation. In addition, litigation can be costly. Any financial liability, litigation costs or reputational damage caused by these legal claims could have a material adverse impact on our business, financial condition and results of operations. The soundness of other financial institutions could adversely affect us. Financial services institutions are interrelated as a result of trading, clearing, counterparty or other relationships. We have exposure to many different industries and counterparties, and we routinely execute transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks and other institutional clients. Many of these transactions expose us to credit risk in the event of default by our counterparty or client. In addition, our credit risk may be exacerbated when the collateral held by us cannot be realized or is liquidated at prices not sufficient to recover the full amount of the loan or derivative exposure due us. There is no assurance that any such losses would not materially and adversely affect our results of operations or earnings. **Additionally, we may be negatively affected by brand or reputational harm to other community banks or to the community banking industry.** We may experience difficulties in managing our growth. In the future, we may decide to expand into additional communities or attempt to strengthen our position in our current markets through opportunistic acquisitions of all or part of other financial institutions or related businesses or through the hiring of teams of bankers from other financial institutions that we believe provide a strategic fit with our business, or by opening new locations. To the extent that we undertake acquisitions or new office openings, we are likely to experience the effects of higher operating expense relative to operating income from the new operations, which may have an adverse effect on our overall levels of reported net income, return on average equity and return on average assets. To the extent we hire teams of bankers from other financial institutions, our salaries and employee benefits expense will likely increase, which may have an adverse effect on our net income, without any guarantee that the new banking team will be successful in generating new business. Other effects of engaging in such growth strategies may include potential diversion of our management' s time and attention and general disruption to our business. To the extent that we grow through acquisitions or office openings, we cannot provide assurance that we will be able to adequately or profitably manage such growth. Acquiring other banks and businesses will involve risks similar to those commonly associated with new office openings, but may also involve additional risks. These additional risks include potential exposure to unknown or contingent liabilities of banks and businesses we acquire, exposure to potential asset quality issues of the acquired bank or related business, difficulty and expense of integrating the operations and personnel of banks and businesses we acquire, and the possible loss of key employees and customers of the banks and businesses we acquire. Maintaining or increasing our market share may depend on lowering prices and the adoption of new products and services. Our success depends, in part, on our ability to adapt our products and services to evolving industry standards and customer needs. There may be increased pressure to provide products and services at lower prices. Lower prices can reduce our net interest margin and revenues from our fee- based products and services. In addition, the widespread adoption of new technologies could require us to make substantial expenditures to modify or adapt our existing products and services. Also, these and other capital investments in our business may not produce expected growth in earnings anticipated at the time of the expenditure. We may not be successful in introducing new products and services, achieving market acceptance of our products and services, or developing and maintaining loyal customers. The loss of the services of any of our senior executive officers or key personnel could cause our business to suffer. Much of our success is due to our ability to attract and retain senior management and key personnel experienced in banking and financial services who are very involved in the communities we currently serve. Our continued success depends to a significant extent upon the continued services of relatively few individuals. In addition, our success depends in significant part upon our senior management' s ability to develop and implement our business strategies. 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. Labor shortages and a failure to attract and retain qualified employees could negatively impact our business, results of operations and financial condition. A number of factors may adversely affect the labor force available to us or increase labor costs, including high employment levels and decreased labor force size and participation rates. Although we have not experienced any material labor shortage to date, we have recently observed an overall tightening and increasingly competitive local labor market. A sustained labor shortage or increased turnover rates within our employee base could lead to increased costs, such as increased compensation expense to attract and retain employees. In addition, if we are unable to hire and retain employees capable of performing at a high- level, or if mitigation measures we take to respond to a decrease in labor availability have unintended negative effects, our business could be adversely affected. An overall labor shortage, lack of skilled labor, increased turnover or labor inflation, caused by general macroeconomic factors, could have a material adverse impact on our business, results of operations and financial condition. 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 (securities 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, domestic and international economic and political conditions and competition. If interest rates continue to increase, ~~which is expected in 2023,~~ banks will experience competitive pressures to further increase rates paid on deposits. **If** ~~It is currently expected that during 2023, and perhaps beyond,~~ the **Federal Reserve** Federal Open ~~Market~~ **Markets** Committee **(** ~~of the Federal Reserve, or~~ FOMC **)** ~~, will continue to increase interest rates to reduce the rate of inflation. In 2022, the FOMC increased, at various dates throughout the year, the target range for the federal funds rate from 0. 00 percent to 0. 25 percent to a range of 4. 25 percent to 4. 50 percent. All of these increases were expressly made in response to inflationary pressures, which are currently expected to continue in 2023. If the FOMC~~ further increases the targeted federal funds rates, overall interest rates likely will rise, which may negatively impact the entire national economy. In addition, our net interest income could be adversely affected if the rates we pay on deposits and borrowings increase more rapidly than the rates we earn on loans and other assets. Rising interest rates also may reduce the demand for loans and the value of fixed- rate securities. These effects from interest rate changes or from other sustained economic stress or a recession, among other matters, could have a material adverse effect on our business, financial condition, liquidity, and results of operations. A large percentage of our securities have fixed interest rates and are classified as available for sale. As is the case with many financial institutions, our emphasis on increasing the development of core deposits, those with no stated maturity date, has resulted in our interest- bearing liabilities having a shorter duration than our interest- earning assets. This imbalance can create significant earnings volatility because interest rates change over time. As interest rates have increased, our cost of funds has increased more rapidly than the yields on a substantial portion of our interest- earning assets. In addition, the market value of our securities portfolio has declined in recent periods. At December 31, ~~2022~~ **2023** , we had $ ~~138~~ **121** , ~~732~~ **787** of net unrealized losses in the securities portfolio. In line with the foregoing, we have experienced and may continue to experience an increase in the cost of interest- bearing liabilities, primarily due to raising the rates we pay on some of our deposit products to stay competitive within our market, and an increase in borrowing costs from increases in the federal funds rate. Community banks, such as West Bank, rely more heavily than larger institutions on net interest income as a revenue source. Larger institutions generally have more diversified sources of noninterest income. Our business is subject to domestic and, to a lesser extent, international economic conditions and other factors, many of which are beyond our control and could materially and adversely affect us. Our financial performance generally, and in particular the ability of customers to pay interest on and repay principal on outstanding loans and the value of collateral securing those loans, as well as demand for loans and other products and services we offer, is highly dependent upon the business environment, not only in the markets where we operate, but also in the states of Iowa and Minnesota, generally, in the United States as a whole, and internationally. A favorable business environment is generally characterized by, among other factors, economic growth, efficient capital markets, low inflation, low unemployment, high business and investor confidence, and strong business earnings. Unfavorable or uncertain economic and market conditions can be caused by declines in economic growth, business activity, or investor or business confidence; limitations on the availability or increases in the cost of credit and capital; increases in inflation or interest rates; high unemployment; uncertainty in U. S. trade policies, legislation, treaties and tariffs; natural disasters; acts of war or terrorism; widespread disease or pandemics; or a combination of these or other factors. Such unfavorable conditions could materially and adversely affect us. The financial markets and the global economy may also be adversely affected by the current or anticipated impact of military conflict, including the current ~~conflict~~ **conflicts** between Russia and Ukraine **and between Israel and Palestine** , which ~~is~~ **are** increasing volatility in commodity and energy prices, creating supply chain issues and causing instability in financial markets **and political systems** . Sanctions imposed by the United States and other countries in response to such ~~conflict~~ **conflicts** could further adversely impact the financial markets and the global economy, and any economic countermeasures by the affected countries or others could exacerbate market and economic instability. The specific consequences of the ~~conflict~~ **conflicts** ~~in Ukraine~~ on our business ~~is~~ **are** difficult to predict at this time, but in addition to inflationary pressures affecting our operations and those of our customers and borrowers, we may also experience an increase in cyberattacks against us, our customers and borrowers, service providers and other third parties. Continued elevated levels of inflation could adversely impact our business, results of operations and financial condition. The United States has recently experienced elevated levels of inflation, with the consumer price index climbing **significantly** ~~approximately 7. 1 percent~~ in 2022. Inflationary pressures **reduced in 2023 but remained elevated. Future inflation metrics** are **uncertain for** ~~currently~~

~~expected to continue into 2023~~ **2024 and onward** . Continued levels of inflation could have complex effects on our business, results of operations and financial condition, some of which could be materially adverse. For example, while we generally expect any inflation- related increases in our interest expense to be offset by increases in our interest revenue, inflation- driven increases in our levels of noninterest expense could negatively impact our results of operations. Continued elevated levels of inflation could also cause increased volatility and uncertainty in the business environment, which could adversely affect loan demand and our clients' ability to repay indebtedness. It is also possible that governmental responses to the current inflation environment could adversely affect our business, such as changes to monetary and fiscal policy that are too strict, or the imposition or threatened imposition of price controls. The duration and severity of the current inflationary period cannot be estimated with precision. We are required to maintain capital to meet regulatory requirements, and if we fail to maintain sufficient capital, whether due to an inability to raise capital, operational losses, or otherwise, our financial condition, liquidity and results of operations, as well as our ability to maintain regulatory compliance, could be adversely affected. The Company and West Bank are required by federal and state regulatory authorities to maintain adequate levels of capital to support their operations. The ability to raise additional capital, when and if needed, will depend on conditions in the capital markets, economic conditions, and a number of other factors, including investor perceptions regarding the banking industry and market conditions, and governmental activities, many of which are outside of our control, as well as on our financial condition and performance. Accordingly, we cannot provide assurance that we will be able to raise additional capital, if needed, or on terms acceptable to us. Failure to meet these capital and other regulatory requirements could affect customer confidence, our ability to grow, the costs of funds, FDIC insurance costs, the ability to pay dividends on common stock and to make distributions on the junior subordinated debentures, the ability to make acquisitions, the ability to make certain discretionary bonus payments to executive officers, and the results of operations and financial condition. Risks Related to the Supervision and Regulation of the Banking Industry and Government Policies We may be materially and adversely affected by the highly regulated environment in which we operate. We are subject to extensive federal and state regulation, supervision and examination. A more detailed description of the primary federal and state banking laws and regulations that affect us is contained in Item 1 of this Form 10- K in the section captioned " Supervision and Regulation. " Banking regulations are primarily intended to protect depositors' funds, FDIC funds, customers and the banking system as a whole, rather than our stockholders. These regulations affect our lending practices, capital structure, investment practices, dividend policy and growth, among other things. As a financial holding company, we are subject to extensive regulation and supervision and undergo periodic examinations by our regulators, who have extensive discretion and authority to prevent or remedy unsafe or unsound practices or violations of law by banks and financial holding companies. Failure to comply with applicable laws, regulations or policies could result in sanctions by regulatory agencies, civil monetary penalties and / or damage to our reputation, which could have a material adverse effect on us. Although we have policies and procedures designed to mitigate the risk of any such violations, there can be no assurance that such violations will not occur. Current or proposed regulatory or legislative changes to laws applicable to the financial industry may impact the profitability of our business activities and may change certain of our business practices, including our ability to offer new products, obtain financing, attract deposits, make loans and achieve satisfactory interest spreads, and could expose us to additional costs, including increased compliance costs. In addition, political developments, including possible changes in law introduced by the Biden administration or the appointment of new personnel in regulatory agencies, add uncertainty to the implementation, scope and timing of regulatory reforms. These changes **may** also ~~may~~ require us to invest significant management attention and resources to make any necessary changes to operations in order to comply and could therefore ~~also~~ materially and adversely affect our business, financial condition and results of operations. Monetary policies and regulations of the Federal Reserve could adversely affect our business, financial condition and results of operations. In addition to being affected by general economic conditions, our earnings and growth are affected by the policies of the Federal Reserve. An important function of the Federal Reserve is to regulate the money supply and credit conditions. Among the options available to the Federal Reserve to implement these objectives are open market operations in U. S. government securities, adjustments of the discount rate, and changes in reserve requirements against bank deposits. These monetary policy options are used in varying combinations to influence overall economic growth and the distribution of credit, bank loans, investments and deposits. Their use also affects interest rates charged on loans or paid on deposits. The monetary policies and regulations of the Federal Reserve have had a significant effect on the operating results of commercial banks in the past and are expected to continue to do so in the future. The specific effects of such policies upon our business, financial condition and results of operations cannot be predicted. Other Risks Related to the Banking Industry in General Technology is changing rapidly and may put us at a competitive disadvantage. 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 **and the ability of our third- party partners** to effectively implement new technology. The widespread adoption of new technologies, including mobile banking services **, artificial intelligence** , cryptocurrencies and payment systems, could require us in the future to make substantial expenditures to modify or adapt our existing products and services as we grow and develop new products to satisfy our customers' expectations and comply with regulatory guidance. Many of our larger competitors have substantially greater resources than we do to invest in technological improvements. As a result, they may be able to offer, or more quickly offer, additional or superior products that could put West Bank at a competitive disadvantage. Consumers may decide not to use banks to complete their financial transactions, which could adversely affect our business and results of operations. Technology and other changes are allowing parties to complete financial transactions that historically have involved banks through alternative methods. For example, consumers can maintain funds that would have historically been held as bank deposits in brokerage accounts or mutual funds. Consumers can also complete transactions such as paying bills and transferring funds directly without the assistance of banks. While we do not offer products relating to digital assets, including cryptocurrencies, stablecoins and other similar assets, there has been a significant increase in digital asset adoption globally over the past several years. Certain characteristics of digital asset transactions, such as the speed with which such transactions can be conducted, the ability to transact without the involvement of regulated intermediaries, the ability to engage in transactions across multiple jurisdictions, and the anonymous nature of the transactions, are appealing to certain consumers notwithstanding the various risks posed by such transactions. Accordingly, digital asset service providers which, at present are not subject to the same degree of scrutiny and oversight as banking organizations and other financial institutions, are becoming active competitors to more traditional financial institutions. The process of eliminating banks as intermediaries, known as " disintermediation ", could result in the loss of fee income, as well as the loss of customer deposits and the related income generated from deposits. The loss of these revenue streams and the lower cost deposits as a source of funds could have a material adverse effect on our business, financial condition and results of operations. Potential partnerships with digital asset companies, moreover, could also entail significant investment. ~~A transition away from LIBOR as a reference rate for financial contracts could negatively affect our income and expenses and the value of various financial contracts. LIBOR is used extensively in the United States and globally as a benchmark for various financial contracts, including adjustable- rate mortgages, corporate debt and interest rate swaps. LIBOR is set based on interest rate information reported by certain banks, which will stop reporting such information starting after December 31, 2021 through June 30, 2023. Other benchmarks may perform differently than LIBOR or alternative benchmarks have performed in the past or have other consequences that cannot currently be anticipated. It is also uncertain what will happen with instruments that rely on LIBOR for future interest rate adjustments and which remain outstanding if LIBOR ceases to exist. While there is no consensus on what rate or rates may become accepted alternatives to LIBOR, the Alternative Reference Rates Committee, a steering committee comprised of U. S. financial market participants, selected by the Federal Reserve Bank of New York, started in May 2018 to publish the Secured Overnight Financing Rate (SOFR) as an alternative to LIBOR. SOFR is a broad measure of the cost of overnight borrowings collateralized by Treasury securities that was selected by the Alternative Reference Rate Committee due to the depth and robustness of the Treasury repurchase market. At this time, it is impossible to predict whether SOFR will become an accepted alternative to LIBOR. We have investment securities available for sale, loans, derivative contracts and subordinated debentures with attributes that are either directly or indirectly dependent on LIBOR. The transition from LIBOR to alternative rates, such as SOFR, could create considerable costs and additional risk. Since proposed alternative rates are calculated differently, payments under contracts referencing new rates will differ from those referencing LIBOR. The transition will change our market risk profiles, requiring changes to risk and pricing models, valuation tools, product design and hedging strategies. Furthermore, failure to adequately manage this transition process with our customers could adversely impact our reputation. In addition, any such transition could: (i) adversely affect the interest rates paid or received on, the revenue and expenses associated with, and the value of our floating- rate obligations, loans, deposits, derivatives, and other financial instruments tied to LIBOR rates, or other securities or financial arrangements given LIBOR' s role in determining market interest rates globally; (ii) prompt inquiries or other actions from regulators in respect of our preparation and readiness for the replacement of LIBOR with an alternative reference rate; (iii) result in disputes, litigation or other actions with counterparties regarding the interpretation and enforceability of certain fallback language in LIBOR- based securities; and (iv) require the transition to or development of appropriate systems and analytics to effectively transition our risk management process from LIBOR- based products to those based on the applicable alternative pricing benchmark, such as SOFR. Although we are currently unable to assess what the ultimate impact of the transition from LIBOR will be, failure to adequately manage the transition could have a material adverse effect on our business, financial condition and results of operations.~~ Climate change could adversely affect our business, affect client activity levels and damage our reputation. Concerns over the long- term impacts of climate change have led and will continue to lead to governmental efforts around the world to mitigate those impacts. Consumers and businesses also may change their behavior on their own as a result of these concerns. New governmental regulations or guidance relating to climate change, as well as changes in consumers' and businesses' behaviors and business preferences, may affect whether and on what terms and conditions we will engage in certain activities or offer certain products or services. The governmental and supervisory focus on climate change could also result in our becoming subject to new or heightened regulatory requirements, such as requirements relating to operational resiliency or stress testing for various climate stress scenarios. Any such new or heightened requirements could result in increased regulatory, compliance or other costs or higher capital requirements. In connection with the transition to a low carbon economy, legislative or public policy changes and changes in consumer sentiment could negatively impact the businesses and financial condition of our clients, which may decrease revenues from those clients and increase the credit risk associated with loans and other credit exposures to those clients. Our business, reputation and ability to attract and retain employees may also be harmed if our response to climate change is perceived to be ineffective or insufficient. Furthermore, the long- term impacts of climate change could have a negative impact on our customers and their businesses **, as well as the stability of our deposit base** . Physical risks include extreme storms that damage or destroy property and inventory securing loans we make, or may interrupt our customers' business operations, putting them in financial difficulty, and increasing the risk of default. Our customers are also facing changes in energy and commodity prices driven by climate change, as well as new regulatory requirements resulting in increased operational costs. 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. The stock market can be volatile, and fluctuations in our operating results and other factors could cause our stock price to decline. The stock market has experienced, and may continue to experience, fluctuations that significantly impact the market prices of securities issued by many companies. Market fluctuations could adversely affect our stock price. These fluctuations have often been unrelated or disproportionate to the operating performance of particular companies. These broad market fluctuations, as well as general economic, systemic, political and market conditions, such as recessions, loss of investor confidence, interest rate changes, government shutdowns, presidential elections, international trade wars or international currency fluctuations may negatively affect the market price of our common stock. Moreover, our operating results may fluctuate and vary from period to period due to the risk factors set forth herein. As a result, period- to- period comparisons should not be relied upon as an indication of future performance. Our stock price could fluctuate significantly in response to the impact of these risk factors. **There is uncertainty surrounding potential legal, regulatory and policy changes by new presidential administrations in the United States that may directly affect financial institutions and the global economy. 2024 is a presidential election year. Changes in federal policy and at regulatory agencies occur over time through policy and personnel changes following elections, which lead to changes involving the level of oversight and focus on the financial services industry. The nature, timing and economic and political effects of potential changes to the current legal and regulatory framework affecting financial institutions remain highly uncertain. Uncertainty surrounding future changes may adversely affect our operating environment and therefore our business, financial condition, results of operations and growth prospects.** Issuing additional common or preferred stock may adversely affect the market price of our common stock, and capital may not be available when needed. The Company may issue additional shares of common or preferred stock in order to raise capital at some date in the future to support continued growth, either internally generated or through acquisitions. Common shares have been and will be issued through the Company' s 2017 Equity Incentive Plan and the Company' s 2021 Equity Incentive Plan as grants of restricted stock units vest. As additional shares of common or preferred stock are issued, the ownership interests of our existing stockholders may be diluted. The market price of our common stock might decline or fail to increase in response to issuing additional common or preferred stock. Our ability to raise additional capital, if needed, will depend on conditions in the capital markets at that time, which are outside of our control. Accordingly, we cannot provide any assurance that we will be able to raise additional capital, if needed, on acceptable terms. If we cannot raise additional capital when needed, our ability to further expand our operations could be materially impaired and our financial condition and liquidity could be materially and adversely affected. The holders of our 5. 25 % Fixed- to- Floating Rate Subordinated Notes due in 2032 and the holders of our junior subordinated debentures have rights that are senior to those of our common stockholders. As of December 31, ~~2022~~ **2023** , the Company had $ 20. 6 million in junior subordinated debentures outstanding that were issued to the Company' s subsidiary trust, West Bancorporation Capital Trust I, and $ 60. 0 million aggregate principal amount outstanding of the Company' s 5. 25 % Fixed- to- Floating Rate Subordinated Notes due 2032 (the " Notes "). The junior subordinated debentures and the Notes are senior to the Company' s shares of common stock. As a result, the Company must make payments on the junior subordinated debentures (and the related trust preferred securities (TPS)) and the Notes before any dividends can be paid on its common stock, and in the event of the Company' s bankruptcy, dissolution or liquidation, the holders of the debentures and the Notes must be satisfied before any distributions can be made to the holders of the common stock. The Company has the right to defer distributions on the junior subordinated debentures (and the related TPS) for up to five years during which time no dividends may be paid to holders of the Company' s common stock. The Company' s ability to pay future distributions depends upon the earnings of West Bank and the issuance of dividends from West Bank to the Company, which may be inadequate to service the obligations. Interest payments on the junior subordinated debentures underlying the TPS are classified as a " dividend " by the Federal Reserve supervisory policies and therefore are subject to applicable restrictions and approvals imposed by the Federal Reserve Board. There can be no assurances concerning continuing dividend payments. Our common stockholders are only entitled to receive the dividends declared by our Board of Directors **(the Board)** . Although we have historically paid quarterly dividends on our common stock, there can be no assurances that we will be able to continue to pay regular quarterly dividends or that any dividends we do declare will be in any particular amount. The primary source of money to pay our dividends comes from dividends paid to the Company by West Bank. West Bank' s ability to pay dividends to the Company is subject to, among other things, its earnings, financial condition and applicable regulations, which in some instances limit the amount that may be paid as dividends.