WEST BANCORPORATION INC
Form 10-Q
October 30, 2008

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

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 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	42-1230603
(State of Incorporation)	(I.R.S. Employer Identification No.)

1601 22nd Street, West Des Moines, Iowa 50266

Telephone Number (515) 222-2300

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

Yes x No ¨

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

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

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

As of October 29, 2008, there were 17,403,882 shares of common stock, no par value outstanding.

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

West Bancorporation, Inc. and Subsidiaries
Consolidated Balance Sheets
(unaudited)

(in thousands, except per share data)	September 30, 2008	December 31, 2007
Assets		
Cash and due from banks	$ 25,204	$ 49,529
Federal funds sold and other short-term investments	87,188	414
Cash and cash equivalents	112,392	49,943
Securities available for sale	183,936	231,427
Federal Home Loan Bank stock, at cost	7,810	5,951
Total securities	191,746	237,378
Loans held for sale	77	1,858
Loans	1,093,402	983,565
Allowance for loan losses	(16,484)	(8,935)
Loans, net	1,076,918	974,630
Premises and equipment, net	4,842	5,181
Accrued interest receivable	7,326	7,829
Goodwill	24,930	24,930
Other intangible assets	1,588	2,131
Bank-owned life insurance	25,037	24,341
Other assets	18,889	11,747
Total assets	$ 1,463,745	$ 1,339,968
Liabilities and Stockholders' Equity		
Liabilities		
Deposits:		
Non-interest bearing demand	$ 187,606	$ 196,698
Interest-bearing demand	120,642	85,027
Savings	222,488	243,405
Time of $100,000 or more	219,148	160,936
Other time	368,889	224,859
Total deposits	1,118,773	910,925
Federal funds purchased and securities sold under agreements to repurchase	69,444	166,930
Other short-term borrowings	1,427	2,672
Accrued expenses and other liabilities	11,371	14,216
Subordinated notes	20,619	20,619
Long-term borrowings	127,250	103,000
Total liabilities	1,348,884	1,218,362
Stockholders' Equity		
Common stock, no par value; authorized 50,000,000 shares;	3,000	3,000

17,403,882 and 17,462,182 shares issued and outstanding at September 30, 2008 and December 31, 2007, respectively				
Additional paid-in capital		32,000		32,000
Retained earnings		83,470		87,084
Accumulated other comprehensive loss		(3,609)		(478)
Total stockholders' equity		114,861		121,606
Total liabilities and stockholders' equity	$	1,463,745	$	1,339,968

See accompanying notes to consolidated financial statements.

West Bancorporation, Inc. and Subsidiaries
Consolidated Statements of Income
(unaudited)

(in thousands, except per share data)	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Interest income:				
Loans, including fees	$ 15,986	$ 17,730	$ 47,676	$ 52,766
Securities:				
Government agencies and corporations	667	1,468	2,188	4,455
States and political subdivisions	1,083	923	2,993	2,829
Other	413	393	1,250	1,170
Federal funds sold and other short-term investments	36	122	271	682
Total interest income	18,185	20,636	54,378	61,902
Interest expense:				
Demand deposits	334	584	857	1,361
Savings deposits	897	1,761	3,316	5,317
Time deposits	4,173	5,306	11,741	16,228
Federal funds purchased and securities sold under agreements to repurchase	587	1,597	2,565	5,052
Other short-term borrowings	4	144	38	215
Subordinated notes	371	371	1,105	1,101
Long-term borrowings	1,433	1,220	4,259	3,876
Total interest expense	7,799	10,983	23,881	33,150
Net interest income	10,386	9,653	30,497	28,752
Provision for loan losses	7,000	500	13,600	1,150
Net interest income after provision for loan losses	3,386	9,153	16,897	27,602
Noninterest income:				
Service charges on deposit accounts	1,287	1,244	3,583	3,583
Trust services	207	195	605	564
Investment advisory fees	1,883	1,968	5,781	5,970
Increase in cash value of bank-owned life insurance	248	226	697	661
Securities gains, net	66	11	71	2
Investment securities impairment loss	(1,725)	-	(1,725)	-
Other income	605	485	1,772	1,407
Total noninterest income	2,571	4,129	10,784	12,187
Noninterest expense:				
Salaries and employee benefits	3,623	3,354	10,988	10,325
Occupancy	901	879	2,700	2,710
Data processing	563	552	1,761	1,645
Other expenses	2,368	1,431	5,832	4,051
Total noninterest expense	7,455	6,216	21,281	18,731
Income (loss) before income taxes	(1,498)	7,066	6,400	21,058

Income taxes (benefits)		(1,138)		2,119		872		6,540
Net income (loss)	$	(360)	$	4,947	$	5,528	$	14,518
Earnings (loss) per share, basic	$	(0.02)	$	0.28	$	0.32	$	0.83
Cash dividends per share	$	0.16	$	0.16	$	0.48	$	0.48

See accompanying notes to consolidated financial statements.

West Bancorporation, Inc. and Subsidiaries
Consolidated Statements of Stockholders' Equity
(unaudited)

(in thousands, except per share data)	Nine Months Ended September 30, 2008	2007
Common stock:		
Beginning of year balance	$ 3,000	$ 3,000
End of period balance	3,000	3,000
Additional paid-in capital:		
Beginning of year balance	32,000	32,000
End of period balance	32,000	32,000
Retained earnings:		
Beginning of year balance	87,084	80,397
Net income	5,528	14,518
Dividends on common stock; per share amounts 2008 and 2007 - $0.48	(8,354)	(8,417)
Shares reacquired under the common stock repurchase plan	(788)	-
End of period balance	83,470	86,498
Accumulated other comprehensive loss:		
Beginning of year balance	(478)	(1,585)
Unrealized gains (losses) on securities, net of tax	(3,131)	132
End of period balance	(3,609)	(1,453)
Total stockholders' equity	$ 114,861	$ 120,045

West Bancorporation, Inc. and Subsidiaries
Consolidated Statements of Comprehensive Income
(unaudited)

(in thousands)	Nine Months Ended September 30, 2008	2007
Net Income	$ 5,528	$ 14,518
Other comprehensive income (loss), unrealized gains (losses) on securities, net of reclassification adjustment, net of tax	(3,131)	132
Comprehensive income	$ 2,397	$ 14,650

See accompanying notes to consolidated financial statements.

West Bancorporation, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
(unaudited)

(in thousands)	Nine Months Ended September 30, 2008	2007
Cash Flows from Operating Activities:		
Net income	$ 5,528	$ 14,518
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	13,600	1,150
Net amortization and accretion	757	1,120
Loss on disposition of fixed assets	23	35
Net gains from sales of securities available for sale	(71)	(2)
Investment securities impairment loss	1,725	-
Net gains from sales of loans held for sale	(353)	(87)
Proceeds from sales of loans held for sale	25,235	8,944
Originations of loans held for sale	(23,101)	(9,862)
Increase in value of bank-owned life insurance	(697)	(661)
Depreciation	682	691
Deferred income taxes	(2,758)	64
Change in assets and liabilities:		
Decrease (increase) in accrued interest receivable	502	(791)
(Decrease) increase in accrued expenses and other liabilities	(2,846)	1,254
Net cash provided by operating activities	18,226	16,373
Cash Flows from Investing Activities:		
Proceeds from sales, calls, and maturities of securities available for sale	111,954	19,092
Purchases of securities available for sale	(71,376)	(4,873)
Acquisition of Federal Home Loan Bank stock	(5,264)	(5,430)
Proceeds from redemption of Federal Home Loan Bank stock	3,405	2,100
Net increase in loans	(119,930)	(39,019)
Proceeds from sales of premises and equipment	10	29
Purchases of premises and equipment	(375)	(689)
Change in other assets	1,574	(1,235)
Net cash used in investing activities	(80,002)	(30,025)
Cash Flows from Financing Activities:		
Net change in deposits	207,848	(67,116)
Net change in federal funds purchased and securities sold under agreements to repurchase	(97,486)	21,726
Net change in other short-term borrowings	(1,245)	48,745
Proceeds from long-term borrowings	75,000	30,000
Principal payments on long-term borrowings	(50,750)	(12,150)
Payment for shares reacquired under common stock repurchase plan	(788)	-
Cash dividends	(8,354)	(8,417)
Net cash provided by financing activities	124,225	12,788
Net increase (decrease) in cash and cash equivalents	62,449	(864)
Cash and Cash Equivalents:		
Beginning	49,943	35,678
End	$ 112,392	$ 34,814

Supplemental Disclosures of Cash Flow Information				
Cash payments for:				
Interest	$	24,351	$	32,877
Income taxes		3,751		6,336

See accompanying notes to consolidated financial statements.

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West Bancorporation, Inc.
Notes to Consolidated Financial Statements
(unaudited)
(in thousands, except per share information)

1. Basis of Presentation

The accompanying consolidated statements of income for the three and nine months ended September 30, 2008 and 2007, the consolidated statements of stockholders' equity, comprehensive income, and cash flows for the nine months ended September 30, 2008 and 2007, and the consolidated balance sheets as of September 30, 2008 and December 31, 2007, include the accounts of the Company, West Bank, West Bank's wholly-owned subsidiary, WB Funding Corporation (which owns an interest in a partnership), and WB Capital Management Inc. All significant intercompany transactions and balances have been eliminated in consolidation. In accordance with Financial Accounting Standards Board (FASB) Interpretation No. 46, *Consolidation of Variable Interest Entities*, a subsidiary, West Bancorporation Capital Trust I (the Trust) is not consolidated with the Company. The results of the Trust are recorded on the books of the Company using the equity method of accounting.

The accompanying consolidated financial statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. Although management believes that the disclosures are adequate to make the information presented not misleading, it is suggested that these interim consolidated financial statements be read in conjunction with the Company's most recent audited financial statements and notes thereto. In the opinion of management, the accompanying consolidated financial statements contain all adjustments (consisting of only normal recurring accruals) necessary to present fairly the financial position as of September 30, 2008, the results of operations for the three and nine months ended September 30, 2008 and 2007, and the results of cash flows for the nine months ended September 30, 2008 and 2007.

The results for these interim periods may not be indicative of results for the entire year or for any other period.

Certain items in the financial statements as of September 30, 2007 were reclassified to be consistent with the classifications used in the September 30, 2008 financial statements. The reclassification has no effect on net income or stockholders' equity.

2. Earnings per Common Share

Earnings per share represent income available to common shareholders divided by the weighted average number of shares outstanding during the period. The Company has no common equivalent shares that could cause dilution. The weighted average number of shares outstanding for the three and nine months ended September 30, 2008, was 17,403,882 and 17,405,603, respectively, and the weighted average number of shares outstanding for the three and nine months ended September 30, 2007 was 17,536,682.

3. Commitments

In the normal course of business, the Company enters into commitments to extend credit in the form of loan commitments and standby letters of credit to meet the financing needs of its customers. These commitments expose the Company to varying degrees of credit and market risk and are subject to the same credit policies as are loans recorded on the balance sheet. For additional information on credit extension commitments and the characteristics of these obligations, see Note 13 of the Company's 2007 consolidated financial statements (pages 53-55 of Appendix to Proxy Statement). The Company's commitments as of the dates shown are approximately as follows:

	September 30, 2008	December 31, 2007
Commitments to extend credit	$ 326,270	$ 330,769
Standby letters of credit	17,193	22,682
	$ 343,463	$ 353,451

4. Other than Temporary Impairment on Securities

In September 2008, the Company recognized a $1,725 write-down of an investment in a senior unsecured note issued by Lehman Brothers Holdings, Inc. resulting in an “other than temporary” impairment. The carrying value of the $2 million note was written down to $275.

5. Impaired Loans and Allowance for Loan Losses

A loan is impaired when it is probable West Bank will be unable to collect all contractual principal and interest payments due in accordance with the terms of the loan agreement. Impaired loans are measured based on the present value of expected future cash flows discounted at the loan’s effective interest rate or at the fair value of the collateral if the loan is collateral dependent. The amount of the impairment is included in the allowance for loan losses. The following is a recap of impaired loans at September 30, 2008 and December 31, 2007:

	September 30, 2008	December 31, 2007
Impaired loans without an allowance	$ 15,555	$ 5,469
Impaired loans with an allowance	11,883	-
Total impaired loans	$ 27,438	$ 5,469
Allowance for loan losses related to impaired loans	$ 4,490	$ -

The following table reconciles the balance of non-accrual loans with impaired loans carried at fair value as of September 30, 2008:

Non-accrual loans	$ 19,317
Other impaired loans still accruing interest	8,121
Total impaired loans	$ 27,438

Changes in the allowance for loan losses were as follows for the three and nine months ended September 30, 2008 and 2007:

	Three months ended September 30,			Nine months ended September 30,		
	2008	2007	Change	2008	2007	Change
Balance at beginning of period	$ 10,557	$ 8,779	$ 1,778	$ 8,935	$ 8,494	$ 441
Charge-offs	(1,118)	(390)	(728)	(6,239)	(876)	(5,363)
Recoveries	45	16	29	188	137	51
Net charge-offs	(1,073)	(374)	(699)	(6,051)	(739)	(5,312)
Provision charged to operations	7,000	500	6,500	13,600	1,150	12,450
Balance at end of period	$ 16,484	$ 8,905	$ 7,579	$ 16,484	$ 8,905	$ 7,579

6. Segment Information

An operating segment is generally defined as a component of a business for which discrete financial information is available and whose operating results are regularly reviewed by the chief operating decision-maker. The Company’s primary business segments are banking and investment advisory services. The banking segment generates revenue through interest and fees on loans, service charges on deposit accounts, interest on investment securities, and fees for trust services. The banking segment includes West Bank, the Company, and related elimination entries between the two, as the Company’s operation is similar to that of West Bank. The investment advisory segment generates revenue by providing investment portfolio management services to individuals, retirement plans, corporations, foundations, endowments, and public entities. The investment advisory segment consists of WB Capital Management Inc. The "Other" column represents the elimination of intercompany balances. Selected financial information on the Company's segments is presented below for the three and nine months ended September 30, 2008 and 2007.

	Three months ended September 30,							
	2008				2007			
	Segments				Segments			
	Banking	Investment Advisory	Other	Consolidated	Banking	Investment Advisory	Other	Consolidated
Interest income	$ 18,186	$ -	$ (1)	$ 18,185	$ 20,636	$ -	$ -	$ 20,636
Interest expense	7,799	1	(1)	7,799	10,983	-	-	10,983
Net interest income	10,387	(1)	-	10,386	9,653	-	-	9,653
Provision for loan losses	7,000	-	-	7,000	500	-	-	500
Net interest income after provision for loan losses	3,387	(1)	-	3,386	9,153	-	-	9,153
Noninterest income	687	1,933	(49)	2,571	2,160	2,015	(46)	4,129
Noninterest expense	5,271	2,233	(49)	7,455	4,567	1,695	(46)	6,216
Income (loss) before income taxes	(1,197)	(301)	-	(1,498)	6,746	320	-	7,066
Income taxes	(1,015)	(123)	-	(1,138)	1,985	134	-	2,119
Net income (loss)	$ (182)	$ (178)	$ -	$ (360)	$ 4,761	$ 186	$ -	$ 4,947
Depreciation and amortization	$ 231	$ 177	$ -	$ 408	$ 224	$ 223	$ -	$ 447

	Nine months ended September 30,							
	2008				2007			
	Segments				Segments			
	Banking	Investment Advisory	Other	Consolidated	Banking	Investment Advisory	Other	Consolidated
Interest income	$ 54,379	$ -	$ (1)	$ 54,378	$ 61,902	$ -	$ -	$ 61,902
Interest expense	23,881	1	(1)	23,881	33,150	-	-	33,150
Net interest income	30,498	(1)	-	30,497	28,752	-	-	28,752
Provision for loan losses	13,600	-	-	13,600	1,150	-	-	1,150
Net interest income after provision for loan losses	16,898	(1)	-	16,897	27,602	-	-	27,602
Noninterest income	4,999	5,929	(144)	10,784	6,201	6,140	(154)	12,187
Noninterest expense	15,669	5,756	(144)	21,281	13,396	5,489	(154)	18,731
Income before income taxes	6,228	172	-	6,400	20,407	651	-	21,058
Income taxes	796	76	-	872	6,270	270	-	6,540
Net income	$ 5,432	$ 96	$ -	$ 5,528	$ 14,137	$ 381	$ -	$ 14,518
Depreciation and amortization	$ 699	$ 526	$ -	$ 1,225	$ 645	$ 688	$ -	$ 1,333

Goodwill	$ 13,376	$ 11,554	$ -	$ 24,930	$ 13,376	$ 11,554	$ -	$ 24,930
Total assets	$ 1,450,242	$ 14,125	$ (622)	$ 1,463,745	$ 1,282,997	$ 14,338	$ (107)	$ 1,297,228

7. Fair Value Measurements

Effective January 1, 2008, the Company partially adopted Statement of Financial Accounting Standard (SFAS) No. 157, *Fair Value Measurements,* which requires disclosure for those assets and liabilities carried in the balance sheet on a fair value basis. The FASB has deferred the effective date of SFAS No. 157 until 2009 for nonfinancial assets and liabilities which are recognized at fair value on a nonrecurring basis. For the Company, this deferral applies to other real estate owned, goodwill, and intangible assets.

In October 2008 the FASB issued Staff Position (FSP) No. 157-3, *Determining the Fair Value of a Financial Asset in a Market that is not Active*, which amended SFAS No. 157. The FSP clarifies how the fair value of a financial instrument is determined when the market for that financial asset is inactive. FSP No. 157-3 was adopted effective as of September 30, 2008.

Three categories of the Company’s balance sheet contain assets and liabilities that are recorded at fair value on a recurring basis. Those categories are: 1) securities available for sale, 2) other assets and 3) other liabilities. Within other assets and other liabilities, equity indexed certificate of deposit derivatives are recorded at fair value.

SFAS No. 157 requires that assets and liabilities carried at fair value also be classified and disclosed according to the process for determining fair value. There are three levels of determining fair value.

Level 1 uses quoted market prices in active markets for identical assets or liabilities.

Level 2 uses observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3 uses unobservable inputs that are not corroborated by market data.

The following table presents the balances of assets and liabilities measured at fair value on a recurring basis by level as of September 30, 2008:

Description		Total		Quoted Prices in Active Markets for Identical Assets (Level 1)		Significant Other Observable Inputs (Level 2)		Significant Unobservable Inputs (Level 3)
Assets:								
Securities available for sale	$	183,936	$	-	$	181,314	$	2,622
Equity indexed CD options		3,495		-		-		3,495
Total	$	187,431	$	-	$	181,314	$	6,117
Liabilities:								
Equity indexed CD options	$	3,495	$	-	$	-	$	3,495
Total	$	3,495	$	-	$	-	$	3,495

The following table presents the changes in securities available for sale with significant unobservable inputs (Level 3) for the nine months ended September 30, 2008:

		Securities Available for Sale
Beginning balance	$	-
Transfers into level 3		4,100
Total gains or losses:		
Included in earnings		-
Included in other comprehensive income		(1,478)
Ending balance	$	2,622

The table above includes one pooled trust preferred security which was transferred to Level 3 during the three months ended September 30, 2008. Market pricing for this security varies widely from one pricing service to another based on a lack of trading so it was considered to no longer have readily observable market data. The fair value as of September 30, 2008, was determined by discounting the expected cash flows over the life of the security. The discount rate was determined by deriving a discount rate as of December 31, 2007, when the markets were considered more active for this type of security. To this estimated discount rate, additions were made for more illiquid markets and increased credit risk.

Certain assets are measured at fair value on a nonrecurring basis; that is, they are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). The following table presents the assets carried on the balance sheet by caption and by level with the SFAS No. 157 valuation hierarchy as of September 30, 2008:

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Description	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Loans	$ 22,948	$ -	$ -	$ 22,948
Total	$ 22,948	$ -	$ -	$ 22,948

Loans in the table above consist of impaired loans held for investment less the portion of the allowance for loan losses related to these loans. Impaired loans are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or at the fair value of the collateral if the loan is collateral dependent. Management uses original or updated appraised values and adjusts for trends observed in the market.

8. Current Accounting Developments

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities.* SFAS No. 161 requires enhanced disclosures about how and why an entity uses derivative instruments; how derivative instruments are accounted for under SFAS No. 133 and its related interpretations; and how derivative instruments and related hedged items affect an entity's financial position, results of operations, and cash flows. This Statement is effective for the Company beginning on January 1, 2009. Earlier application is permitted, but is not required. The Company does not expect the adoption of this Statement to have a material impact on its financial position or results of operations as the Company has limited derivative instrument activity.

In April 2008, the FASB issued FSP No. FAS 142-3, *Determination of the Useful Life of Intangible Assets*. This FSP is an amendment of SFAS No. 142, *Goodwill and Other Intangible Assets*. FSP No. FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset. The objective of the FSP is to improve the consistency between the useful life of a recognized intangible asset and the period of expected cash flows. This FSP is effective for the Company beginning January 1, 2009. The Company does not expect the adoption of this Statement will have a material impact on its financial position or results of operations.

In September 2008, the FASB issued FSP No. FAS 133-1 and Financial Interpretation (FIN) No. 45-4, *Disclosures about Credit Derivatives and Certain Guarantees*, an amendment of SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, and FIN No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*. The amendment of SFAS No. 133 will require disclosure of information about credit derivatives to enable users of financial statements to assess their potential effect on a Company's financial position, financial performance, and cash flows. The amendment of FIN No. 45 will require disclosure of the current status of the payment/performance risk of a guarantee. This FSP is effective for the Company beginning January 1, 2009. The Company does not expect the adoption of this Statement will have a material impact on its financial position or results of operations due to its minimal use of derivative instruments and having no guarantees of the indebtedness of other entities.

9. Use of Estimates in the Preparation of Financial Statements

The consolidated financial statements have been prepared in conformity with generally accepted accounting principles. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses for the reported period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term are the allowance for loan losses (including the determination of the value of impaired loans), fair value of financial instruments, and the goodwill impairment assessment.

10. Critical Accounting Policies

Management has identified its most critical accounting policies to be those related to fair value of available for sale investment securities and the allowance for loan losses.

Securities available for sale are reported at fair value, with unrealized gains and losses reported as a separate component of accumulated other comprehensive income, net of deferred income taxes. Declines in fair value of individual securities, below their amortized cost, are evaluated by management to determine whether the decline is temporary or “other than temporary.” Declines in fair value of available for sale securities below their cost that are deemed “other than temporary” are reflected in earnings as impairment losses. In estimating “other than temporary” impairment losses, management considers a number of factors including (1) the length of time and extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

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

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

"SAFE HARBOR" STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT

The information contained in this report may contain forward-looking statements about the Company’s growth and acquisition strategies, new products and services, and future financial performance, including earnings and dividends per share, return on average assets, return on average equity, efficiency ratio and capital ratios. Certain statements in this report constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, including statements preceded by, followed by or that include the words “believes,” “expects,” “should,” or “anticipates,” or references to estimates or similar expressions. Such forward-looking statements are based upon certain underlying assumptions, risks and uncertainties. Because of the possibility of change in the underlying assumptions, actual results could differ materially from these forward-looking statements. Risks and uncertainties that may affect future results include: interest rate risk; competitive pressures; pricing pressures on loans and deposits; changes in credit and other risks posed by the Company’s loan and investment portfolios, including declines in commercial or residential real estate values or changes in the allowance for loan losses dictated by new market conditions or regulatory requirements; actions of bank and non-bank competitors; changes in local and national economic conditions; changes in regulatory requirements, including actions of the Securities and Exchange Commission and/or the Federal Reserve Board; and customers’ acceptance of the Company’s products and services. The Company undertakes no obligation to revise or update such forward-looking statements to reflect current events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2008
(dollars in thousands, except per share amounts)

OVERVIEW

The following discussion describes the consolidated operations of the Company, including its wholly-owned subsidiaries West Bank and WB Capital Management Inc. ("WB Capital") and West Bank's wholly-owned subsidiary, WB Funding Corporation. Consolidated results of operations for the three and nine months ended September 30, 2008, are compared to the results for the same periods in 2007, and the consolidated financial condition of the Company at September 30, 2008, is compared to the December 31, 2007, position.

The Company reported a net loss of $360 for the three months ended September 30, 2008, compared to net income of $4,947 for the same period in 2007. Earnings per share were -$0.02 and $0.28, respectively, for the same periods. The Company's annualized return on average equity and return on average assets for the three months ended September 30, 2008 were -1.22 percent and -0.10 percent, respectively, compared to 16.76 percent and 1.51 percent, respectively, for the three months ended September 30, 2007.

The net loss for the three months ended September 30, 2008, was caused in substantial part by a $7,000 provision for loan losses, recognition of a $1,725 investment security impairment loss on a Lehman Brothers Holdings, Inc. unsecured note, and the decision at WB Capital to purchase a defaulted Lehman Brothers Holdings, Inc. bond from the WB Capital Liquid Assets Fund, a money market mutual fund, to prevent the fund from "breaking the buck," which resulted in recognizing a loss of $443 related to this item. The provision for loan losses was $6,500 higher than in the three months ended September 30, 2007, and included a provision of $4,000 against two loans to a customer that had been the victim of a substantial fraud and conversion of all of its assets. That remains the best estimate of West Bank's loss at this time, but the final loss may be different depending on the ultimate proceeds from liquidation of assets turned over by the borrower and guarantor. Offsetting these negative items were a $733 increase in net interest income and a $167 increase in noninterest income, exclusive of the impairment loss, compared to the three months ended September 30, 2007. Without the three unusual items noted above, net income for the quarter would have been approximately $3,440.

For the first nine months of 2008, net income declined to $5,528 compared to $14,518 for the first nine months of 2007. Earnings per share were $0.32 and $0.83 per share, respectively. The annualized return on average assets was 0.55 percent for the first nine months of 2008 compared to 1.48 percent for the first nine months of 2007. The annualized return on average equity was 6.18 percent for the first nine months of 2008 compared to 16.81 percent for the first nine months of 2007.

The decline in year-to-date net income compared to prior year was primarily due to the $12,450 increase in provision for loan losses and the previously mentioned $1,725 investment security impairment. Partially offsetting these items was a $1,745 increase in net interest income as the net interest margin improved by 14 basis points to 3.44 percent.

Year-to-date noninterest income, excluding the impairment loss, was slightly higher than last year as increases in debit card usage fees and gain on sale of residential mortgages into the secondary market exceeded a decline in revenue from investment advisory fees. Realized gains on the sale of investment securities totaled $71 in the first nine months of 2008 compared to realized gains of $2 during the first nine months of 2007.

Year-to-date noninterest expense for the nine months ended September 30, 2008, was $2,550 higher than the prior year. The increase included higher salaries and benefits, the impact of writing down the value of a foreclosed real estate property compared to gains on the sale of foreclosed real estate in the prior year, increases in professional fees and marketing expenses, the re-establishment of the FDIC assessment, and the previously mentioned loss recognized at WB Capital.

WB Capital's year-to-date net income was $96 for the nine months ended September 30, 2008, compared to $381 for the same period in 2007. Revenues were lower than a year ago because of reduced asset under management levels. Operating expenses were $267 higher during the first nine months of 2008 compared to the same 2007 period due to the support provided to the Liquid Assets Fund described above.

The Company and its subsidiaries do not own any Federal Home Loan Mortgage Corporation or Federal National Mortgage Association preferred stock.

RESULTS OF OPERATIONS

The following table shows selected financial results and measures for the three and nine months ended September 30, 2008, compared with the same periods in 2007:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2008	2007	Change	Change-%	2008	2007	Change	Change-%
Net income (loss)	$ (360)	$ 4,947	$ (5,307)	-107.3%	$ 5,528	$ 14,518	$ (8,990)	-61.9%
Average assets	1,388,016	1,295,973	92,043	7.1%	1,337,978	1,308,022	29,956	2.3%
Average stockholders' equity	117,727	117,111	616	0.5%	119,532	115,451	4,081	3.5%
Return on assets	-0.10%	1.51%	-1.61%		0.55%	1.48%	-0.93%	
Return on equity	-1.22%	16.76%	-17.98%		6.18%	16.81%	-10.63%	
Efficiency ratio	49.18%	43.92%	5.26%		47.90%	44.48%	3.42%	
Dividend payout ratio	NM	57.07%	NM		148.82%	57.98%	90.84%	
Equity to assets ratio	8.48%	9.04%	-0.56%		8.93%	8.83%	0.10%	

NM - Not meaningful

Definitions of ratios:

Return on assets – annualized net income divided by average assets.
Return on equity – annualized net income divided by average stockholders' equity.
Efficiency ratio – noninterest expense divided by noninterest income (excluding securities gains) plus taxable equivalent net interest income.
Dividend payout ratio – dividends paid divided by net income.
Equity to assets ratio – average equity divided by average assets.

Net Interest Income

The following tables show average balances and related interest income or interest expense, with the resulting average yield or rate by category of interest-earning assets or interest-bearing liabilities. Interest income and the resulting net interest income are shown on a fully taxable basis.

Data for the three months ended September 30:

	Average Balance				Interest Income/Expense				Yield/Rate		
	2008	2007	Change	Change-%	2008	2007	Change	Change-%	2008	2007	Change
Interest-earning assets:											
Loans:											
Commercial	$ 416,689	$ 355,937	$ 60,752	17.07%	$ 5,841	$ 7,141	$ (1,300)	-18.20%	5.58%	7.96%	-2.38%
Real estate	663,213	570,807	92,406	16.19%	10,046	10,430	(384)	-3.68%	6.03%	7.25%	-1.22%
Consumer and other	14,391	13,864	527	3.80%	217	243	(26)	-10.70%	6.00%	6.95%	-0.95%
Total loans	1,094,293	940,608	153,685	16.34%	16,104	17,814	(1,710)	-9.60%	5.85%	7.51%	-1.66%
Investment securities:											