WEST BANCORPORATION INC
Form 10-Q
July 30, 2009

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 June 30, 2009

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ¨ No ¨

Indicate by check mark 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 July 29, 2009, there were 17,403,882 shares of common stock, no par value outstanding.

PART 1 – FINANCIAL INFORMATION

Item 1. Financial Statements

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

(in thousands, except per share data)	June 30, 2009	December 31, 2008
Assets		
Cash and due from banks	$ 23,985	$ 23,712
Federal funds sold and other short-term investments	64,254	173,257
Cash and cash equivalents	88,239	196,969
Securities available for sale	245,840	181,434
Federal Home Loan Bank stock, at cost	9,756	8,174
Loans held for sale	7,213	1,018
Loans	1,115,324	1,100,735
Allowance for loan losses	(23,662)	(15,441)
Loans, net	1,091,662	1,085,294
Premises and equipment, net	5,108	4,916
Accrued interest receivable	7,122	6,415
Goodwill	1,894	24,930
Other intangible assets	1,095	1,404
Bank-owned life insurance	24,986	25,277
Other real estate owned	6,137	4,352
Other assets	24,849	13,005
Total assets	$ 1,513,901	$ 1,553,188
Liabilities and Stockholders' Equity		
Liabilities		
Deposits:		
Noninterest-bearing demand	$ 209,893	$ 174,635
Interest-bearing demand	132,597	97,853
Savings	348,275	238,058
Time of $100,000 or more	250,202	274,825
Other time	235,927	369,416
Total deposits	1,176,894	1,154,787
Federal funds purchased and securities sold under agreements to repurchase	48,938	93,111
Other short-term borrowings	3,262	245
Accrued expenses and other liabilities	10,520	9,363
Subordinated notes	20,619	20,619
Long-term borrowings	125,000	125,000
Total liabilities	1,385,233	1,403,125
Stockholders' Equity		

Preferred stock, $0.01 par value, with a liquidation preference of $1,000 per share; authorized 50,000,000 shares; 36,000 shares issued and outstanding at June 30, 2009 and December 31, 2008, respectively	33,785	33,548
Common stock, no par value; authorized 50,000,000 shares; 17,403,882 shares issued and outstanding at June 30, 2009 and December 31, 2008, respectively	3,000	3,000
Additional paid-in capital	34,387	34,452
Retained earnings	62,377	82,793
Accumulated other comprehensive (loss)	(4,881)	(3,730)
Total stockholders' equity	128,668	150,063
Total liabilities and stockholders' equity	$ 1,513,901	$ 1,553,188

See accompanying Notes to Consolidated Financial Statements.

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

(in thousands, except per share data)	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Interest income:				
Loans, including fees	$ 15,102	$ 15,313	$ 30,124	$ 31,690
Securities:				
U.S Treasury, government agencies and corporations	607	536	1,219	1,521
States and political subdivisions	1,120	967	2,220	1,910
Corporate notes and other investments	234	439	359	837
Federal funds sold and other short-term investments	208	75	311	235
Total interest income	17,271	17,330	34,233	36,193
Interest expense:				
Demand deposits	671	233	1,148	523
Savings deposits	1,147	926	1,531	2,419
Time deposits	3,487	3,379	7,891	7,568
Federal funds purchased and securities sold under agreements to repurchase	84	714	175	1,978
Other short-term borrowings	-	5	-	34
Subordinated notes	367	367	730	734
Long-term borrowings	1,320	1,471	2,626	2,826
Total interest expense	7,076	7,095	14,101	16,082
Net interest income	10,195	10,235	20,132	20,111
Provision for loan losses	15,000	1,000	18,500	6,600
Net interest income after provision for loan losses	(4,805)	9,235	1,632	13,511
Noninterest income:				
Service charges on deposit accounts	1,073	1,250	2,042	2,296
Trust services	179	204	359	398
Gains and fees on sales of residential mortgages	237	135	535	220
Investment advisory fees	1,593	1,960	3,009	3,898
Increase in cash value of bank-owned life insurance	181	257	363	449
Proceeds from bank-owned life insurance	-	-	840	-
Other income	527	475	1,031	947
Total noninterest income	3,790	4,281	8,179	8,208
Investment securities gains (losses), net:				
Total other-than-temporary impairment losses	(1,013)	-	(2,428)	-
Portion of loss recognized in other comphehensive income (loss) before taxes	738	-	738	-
Net impairment losses recognized in earnings	(275)	-	(1,690)	-
Realized securities gains, net	-	-	1,453	5
Investment securities gains (losses), net	(275)	-	(237)	5
Noninterest expense:				
Salaries and employee benefits	3,308	3,634	6,972	7,365
Occupancy	1,163	899	2,103	1,799
Data processing	579	611	1,125	1,198
FDIC insurance expense	1,283	153	1,736	185

Goodwill impairment		23,036		-		23,036		-
Other expenses		1,781		1,764		3,681		3,279
Total noninterest expense		31,150		7,061		38,653		13,826
Income (loss) before income taxes		(32,440)		6,455		(29,079)		7,898
Income taxes (benefits)		(10,161)		1,941		(9,741)		2,010
Net income (loss)	$	(22,279)	$	4,514	$	(19,338)	$	5,888
Preferred stock dividends and accretion of discount		(570)		-		(1,137)		-
Net income (loss) available to common stockholders	$	(22,849)	$	4,514	$	(20,475)	$	5,888
Earnings (loss) per common share, basic	$	(1.32)	$	0.26	$	(1.18)	$	0.34
Earnings (loss) per common share, diluted	$	(1.32)	$	0.26	$	(1.18)	$	0.34
Cash dividends per common share	$	0.01	$	0.16	$	0.09	$	0.32

See accompanying Notes to Consolidated Financial Statements.

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

(in thousands, except per share data)	Comprehensive Income (Loss)	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, January 1, 2008		$ -	$ 3,000	$ 32,000	$ 87,084	$ (478)	$ 121,606
Comprehensive income:							
Net income	$ 5,888	-	-	-	5,888	-	5,888
Other comprehensive (loss), unrealized (losses) on securities, net of reclassification adjustment, net of tax	(3,303)	-	-	-	-	(3,303)	(3,303)
Total comprehensive income	$ 2,585						
Shares reaquired and retired under the common stock repurchase plan		-	-	-	(788)	-	(788)
Cash dividends declared, $0.32 per common share		-	-	-	(5,570)	-	(5,570)
Balance, June 30, 2008		$ -	$ 3,000	$ 32,000	$ 86,614	$ (3,781)	$ 117,833
Balance, January 1, 2009		$ 33,548	$ 3,000	$ 34,452	$ 82,793	$ (3,730)	$ 150,063
Cumulative effect accounting adjustment, net of tax (1)		-	-	-	1,625	(1,625)	-
Comprehensive (loss):							
Net (loss)	$ (19,338)	-	-	-	(19,338)	-	(19,338)
Other comprehensive income, unrealized gains on securities, net of reclassification adjustment, net of tax	474	-	-	-	-	474	474
Total comprehensive (loss)	$ (18,864)						
Preferred stock discount accretion		237	-	-	(237)	-	-
Preferred stock issuance costs		-	-	(65)	-	-	(65)
Cash dividends declared, $0.09 per common share		-	-	-	(1,566)	-	(1,566)
Preferred stock dividends		-	-	-	(900)	-	(900)
Balance, June 30, 2009		$ 33,785	$ 3,000	$ 34,387	$ 62,377	$ (4,881)	$ 128,668

(1) Represents reclassifications of noncredit-related components of previously recorded other-than-temporary losses pursuant to the adoption of FSP 115-2 and 124-2, Recognition and Presentation of Other-Than-Temporary Impairments.

See accompanying Notes to Consolidated Financial Statements.

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

(in thousands)	Six Months Ended June 30, 2009	2008
Cash Flows from Operating Activities:		
Net income (loss)	$ (19,338)	$ 5,888
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Provision for loan losses	18,500	6,600
Goodwill impairment	23,036	-
Net amortization and accretion	478	468
Loss on disposition of premises and equipment	3	23
Securities gains, net	(1,453)	(5)
Investment securities impairment losses	1,690	-
Proceeds from sales of loans held for sale	39,043	16,714
Originations of loans held for sale	(45,238)	(17,086)
Proceeds from bank-owned life insurance	(840)	-
Increase in value of bank-owned life insurance	(363)	(449)
Depreciation	437	457
Deferred income taxes	(9,723)	(539)
Change in assets and liabilities:		
(Increase) decrease in accrued interest receivable	(707)	1,630
Increase in other assets	(2,417)	(1,289)
Increase in accrued expenses and other liabilities	933	895
Net cash provided by operating activities	4,041	13,307
Cash Flows from Investing Activities:		
Proceeds from sales, calls, and maturities of securities available for sale	74,486	104,176
Purchases of securities available for sale	(138,525)	(47,983)
Purchases of Federal Home Loan Bank stock	(1,582)	(4,929)
Proceeds from redemption of Federal Home Loan Bank stock	-	2,299
Net change in loans	(30,748)	(79,923)
Net proceeds from the sale of other real estate owned	4,092	144
Proceeds from sales of premises and equipment	2	10
Purchases of premises and equipment	(634)	(353)
Proceeds of principal and earnings from bank-owned life insurance	1,493	-
Net cash used in investing activities	(91,416)	(26,559)
Cash Flows from Financing Activities:		
Net change in deposits	22,107	27,546
Net change in federal funds purchased and securities sold under agreements to repurchase	(44,173)	(44,097)
Net change in other short-term borrowings	3,017	(1,172)
Proceeds from long-term borrowings	-	75,000
Principal payments on long-term borrowings	-	(25,500)
Payment for shares reacquired under common stock repurchase plan	-	(788)
Common stock cash dividends	(1,566)	(5,570)
Preferred stock dividends paid	(675)	-
Preferred stock issuance costs	(65)	-
Net cash provided by (used in) financing activities	(21,355)	25,419

Net (decrease) increase in cash and cash equivalents		(108,730)		12,167
Cash and Cash Equivalents:				
Beginning		196,969		49,943
End	$	88,239	$	62,110

Consolidated Statements of Cash Flows (continued)
(unaudited)

(in thousands)	Six Months Ended June 30, 2009	2008
Supplemental Disclosures of Cash Flow Information		
Cash payments for:		
Interest	$ 13,988	$ 16,044
Income taxes	2,276	3,751
Supplemental Disclosure of Noncash Investing and Financing Activities		
Transfer of loans to other real estate owned	$ 5,813	$ 680

See accompanying Notes to Consolidated Financial Statements.

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 (loss) for the three and six months ended June 30, 2009 and 2008, and the consolidated statements of stockholders' equity, comprehensive income (loss), and cash flows for the six months ended June 30, 2009 and 2008, and the consolidated balance sheets as of June 30, 2009 and December 31, 2008, include the accounts of West Bancorporation, Inc. (the Company), West Bank, West Bank's wholly-owned subsidiary, WB Funding Corporation (which owns an interest in a partnership), West Bank's 99.9 percent owned subsidiary, ICD IV, LLC (a community development partnership), and WB Capital Management Inc. (WB Capital). 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 understandable, 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 necessary to present fairly the financial position as of June 30, 2009, the results of operations for the three and six months ended June 30, 2009 and 2008, and cash flows for the six months ended June 30, 2009 and 2008. 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 June 30, 2008 were reclassified to be consistent with the classifications used in the June 30, 2009 financial statements. The reclassification has no effect on net income (loss) or stockholders' equity.

2. 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.

3. Current Accounting Developments

In April 2009, the Financial Accounting Standards Board (FASB) issued Financial Statement of Position FAS 115−2 and FAS 124−2, "Recognition and Presentation of Other−Than−Temporary Impairments" ("FSP FAS 115−2/124−2"). FSP FAS 115−2/124−2 requires entities to separate an other−than−temporary impairment (OTTI) of a debt security into two components when there are credit-related losses associated with the impaired debt security for which management asserts that it does not have the intent to sell the security, and it is more likely than not that it will not be required to sell the security before recovery of its cost basis. The amount of the OTTI related to a credit loss is recognized in earnings, and the amount of the OTTI related to other factors is recorded in other comprehensive income (loss). FSP FAS 115−2/124−2 is effective for periods ending after June 15, 2009. The Company adopted FSP FAS 115−2/124−2 effective for the quarter ending June 30, 2009. The Company recorded a cumulative effect accounting adjustment that increased retained earnings and decreased accumulated other comprehensive income (loss) by $2,622 pre-tax or $1,625 after tax, relating to the $4,739 of impairment losses recorded during 2008.

In April 2009, the FASB issued FSP FAS 157−4, “Determining Fair Value When Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions that are Not Orderly” (“FSP FAS 157−4”). Under FSP FAS 157−4, if an entity determines that there has been a significant decrease in the volume and level of activity for the asset or the liability in relation to the normal market activity for the asset or liability (or similar assets or liabilities), then transactions or quoted prices may not accurately reflect fair value. In addition, if there is evidence that the transaction for the asset or liability is not orderly; the entity shall place little, if any weight on that transaction price as an indicator of fair value. FSP FAS 157−4 is effective for periods ending after June 15, 2009. The Company adopted FSP FAS 157−4 effective for the quarter ending June 30, 2009. The adoption of this FSP did not have a material impact on the Company’s financial position or results of operations.

In April 2009, the FASB issued FSP FAS 107−1 and APB 28−1, "Interim Disclosures about Fair Value of Financial Instruments" ("FSP FAS 107−1 and APB 28−1"). FSP FAS 107−1 and APB 28−1 require disclosures about fair value of financial instruments in interim and annual financial statements. FSP FAS 107−1 and APB 28−1 is effective for periods ending after June 15, 2009. The Company adopted FSP FAS 107−1 and APB 28−1 effective for the quarter ending June 30, 2009. The adoption did not have an impact on the Company's financial position or results of operations.

In May 2009, the FASB issued FASB Statement No. 165, "Subsequent Events" ("SFAS No. 165"). SFAS No. 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued. The Company adopted this statement for the quarter ending June 30, 2009.

In June 2009, the FASB issued FASB Statement No. 166, "Accounting for Transfers of Financial Assets — an amendment of FASB Statement No. 140," to improve the reporting for the transfer of financial assets resulting from (1) practices that have developed since the issuance of FASB Statement No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," that are not consistent with the original intent and key requirements of that Statement and (2) concerns of financial statement users that many of the financial assets (and related obligations) that have been derecognized should continue to be reported in the financial statements of transferors. This Statement must be applied as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. Earlier application is prohibited. The Company will review the requirements of FASB No. 166 and comply with its requirements. The Company does not expect that the adoption of this Statement will have a material impact on the Company's consolidated financial statements.

In June 2009, the FASB issued Statement of Financial Accounting Standards No. 167, "Amendments to FASB Interpretation No. 46(R)" to amend certain requirements of FASB Interpretation No. 46 (revised December 2003), "Consolidation of Variable Interest Entities" to improve financial reporting by enterprises involved with variable interest entities and to provide more relevant and reliable information to users of financial statements. The Statement is effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. Earlier application is prohibited. The Company will review the requirements of FASB No. 167 and comply with its requirements. The Company does not expect that the adoption of this Statement will have a material impact on the Company's consolidated financial statements.

In June 2009, the FASB issued Statement No. 168, "The FASB Accounting Standards CodificationTM and the Hierarchy of Generally Accepted Accounting Principles—a replacement of FASB Statement No. 162." Under the Statement, The FASB Accounting Standards Codification (Codification) will become the source of authoritative U.S. generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. On the effective date of this Statement, the Codification will supersede all then-existing non-SEC accounting and reporting standards. All other non-grandfathered non-SEC accounting literature not included in the Codification will become non-authoritative. This Statement is effective for financial statements issued for interim and annual periods ending after September 15, 2009. In the FASB's view, the issuance of this Statement and the Codification will not change GAAP, except for those nonpublic nongovernmental entities that must now apply the American Institute of Certified Public Accountants Technical Inquiry Service Section 5100, "Revenue Recognition," paragraphs 38–76. The Company does not expect that the adoption of this Statement will have a material impact on the Company's consolidated financial statements.

4. Critical Accounting Policies

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

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

Goodwill is the excess of the cash paid over the net fair value of assets acquired and liabilities assumed in an acquisition, less the amount of identifiable intangible assets. Goodwill is deemed to have an indefinite life, is not subject to amortization, and is instead tested for impairment at least annually. Goodwill is also tested for impairment on an interim basis if events or circumstances indicate a possible inability to realize the carrying amount. Goodwill impairment was reviewed for the interim period because the Company's stock traded at a market price of less than its per share book value. Therefore, the Company hired a third party valuation firm to assist management in determining whether goodwill had been impaired. The Company's goodwill consisted of two pieces. Goodwill totaling $13,376 was associated with the acquisition of Hawkeye State Bank in 2003. Goodwill totaling $11,554 was associated with the acquisitions of VMF Capital in 2003 and Investors Management Group, Ltd. in 2005, which combined constitute WB Capital.

With the assistance of management, the third party valuation firm prepared an estimate of the fair value of a 100 percent controlling marketable interest in the outstanding stock of West Bank and of WB Capital as of June 30, 2009, in accordance with FASB No. 142, "Goodwill and Other Intangible Assets." FASB No. 142 requires the use of fair value measurements as defined in FASB No. 157. In determining the fair value of West Bank a combination of the income and market approaches were used. Under the income approach, the primary factor considered was the ability of West Bank to generate future cash flows. A discount rate was estimated by utilizing the build-up method which factors in the following components: a risk-free rate of return, an equity risk premium, an industry risk premium or discount, a size premium and risk associated specifically with West Bank. A discount rate of 12.04 percent was then applied to projected future cash flows of West Bank. Under the market approach, stock market data regularly published on publicly traded companies considered to be similar to West Bank were utilized in determining market value. The two indicated values were then weighted to represent the relative importance a market participant might reasonably be expected to place on the results of each method. For WB Capital, a discount rate of 16.66 percent, calculated under the same methodology as for West Bank, was applied to projected future cash flows to determine market value. No weighting was given to the market approach for WB Capital as identified comparable companies were significantly larger and more diversified than WB Capital and comparable merger and acquisition transactions did not sufficiently reflect market conditions as of June 30, 2009.

Based on the above analysis, an impairment of $23,036 was recorded in the quarter ending June 30, 2009. The impairment represented all of the goodwill of West Bank and $9,660 of WB Capital's goodwill. The impairment charge had no impact on the Company's liquidity, cash flows, or tangible capital ratios. In addition, goodwill is not included in the calculation of regulatory capital, so the impairment had a negligible impact on the Company's and West Bank's risk-based capital ratios. As of June 30, 2009, the Company and West Bank exceed the regulatory requirements for being well-capitalized.

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. The Company conducts quarterly reviews to identify and evaluate each investment that has an unrealized loss, in accordance with FSP FAS 115-1, "The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments." In June 2009, the Company adopted FSP FAS 115-2/124-2, "Recognition and Presentation of Other-Than-Temporary Impairments," which changed the accounting requirements for OTTI for debt securities, and in certain circumstances, separates the amount of total impairment into credit and noncredit-related amounts. The review takes into consideration current market conditions, issuer rating changes and trends, the credit worthiness of the obligator of the security, current analysts' evaluations, failure of the issuer to make scheduled interest or principal payments, the Company's intent to not sell the security or whether it is more-likely-than-not that the Company will be required to sell the debt security before its anticipated recovery, as well as other qualitative factors. The term OTTI is not intended to indicate that the decline is permanent, but indicates that the prospects for a near-term recovery of value is not necessarily favorable, or that there is a lack of evidence to support a realizable value equal to or greater than the carrying value of the investment. Declines in the fair value of securities below their amortized cost basis that are deemed to be OTTI are carried at fair value. Any portion of a decline in value associated with credit loss is recognized in income with the remaining noncredit-related component being recognized in other comprehensive income. A credit loss is determined by assessing whether the amortized cost basis of the security will be recovered, by comparing the present value of cash flows expected to be collected from the security, computed using original yield as the discount rate, to the amortized cost basis of the security. The shortfall of the present value of the cash flows expected to be collected in relation to the amortized cost basis is considered to be the "credit loss."

5. Securities Available for Sale

For securities available for sale, the following table shows the amortized cost, unrealized gains and losses (pre-tax) included in accumulated other comprehensive income (loss), and estimated fair value by security type as of June 30, 2009 and December 31, 2008. Included in gross unrealized losses as of June 30, 2009, is an OTTI loss of $3,360 relating to a pooled trust preferred security, which represents the noncredit-related portion of the overall impairment.

	June 30, 2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
U.S. Treasury and government agencies and corporations	$ 100,123	$ 154	$ (723)	$ 99,554
State and political subdivisions	104,177	1,776	(2,348)	103,605
Mortgage-backed securities	11,184	40	-	11,224
Trust preferred securities (1)	8,952	-	(5,606)	3,346
Corporate notes and other investments	29,277	22	(1,188)	28,111
	$ 253,713	$ 1,992	$ (9,865)	$ 245,840

	December 31, 2008			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
U.S. Treasury and government agencies and corporations	$ 58,895	$ 2,155	$ -	$ 61,050
State and political subdivisions	109,682	1,271	(3,778)	107,175
Mortgage-backed securities	1,234	-	-	1,234
Trust preferred securities (2)	8,025	-	(2,756)	5,269
Corporate notes and other investments	9,614	3	(2,911)	6,706
	$ 187,450	$ 3,429	$ (9,445)	$ 181,434

(1) During the quarter ended June 30, 2009, pursuant to FSP FAS 115-2, which states that previously recorded impairment charges which did not relate to credit losses should be reclassified from retained earnings to accumulated other comprehensive income (loss), the Company recorded a cumulative effect adjustment that increased retained earnings and decreased other comprehensive income (loss) by $2,622, or $1,625 net of tax, respectively.

(2) The Company recorded OTTI charges in this category of $2,622 for the year ending December 31, 2008 related to one pooled trust preferred security. For the security deemed impaired, the amortized cost was written down to the fair value of the security.

Securities with an amortized cost of approximately $160,931 and $161,765 as of June 30, 2009 and December 31, 2008, respectively, were pledged as collateral on the Treasury, Tax, and Loan option notes, securities sold under agreements to repurchase, and for other purposes as required or permitted by law or regulation. Securities sold under agreements to repurchase are held in safekeeping on behalf of the Company.

The amortized cost and fair value of securities available for sale as of June 30, 2009, by contractual maturity are shown below. Expected maturities will differ from contractual maturities, because issuers may have the right to call or prepay obligations with or without prepayment penalties.

	June 30, 2009	
	Amortized Cost	Fair Value
Due in one year or less	$ 12,529	$ 12,424
Due after one year through five years	122,862	121,895
Due after five years through ten years	59,094	59,069
Due after ten years	59,228	52,452
	$ 253,713	$ 245,840

For the three and six months ended June 30, 2009, proceeds from the sales of securities available for sale were $0 and $10,502, respectively. Gross security gains of $0 and $1,453 were realized for the three and six months ended June 30, 2009, respectively, and no losses were recognized during these time periods. For the three and six months ended June 30, 2008, proceeds from the sales of securities available for sale were $0 and $3,604, respectively. Gross security gains of $0 and $5 were realized for the three and six months ended June 30, 2008, respectively, and no losses were recognized during these time periods. Realized gains and losses on sales are computed on a specific identification basis based on amortized cost.

See Note 4 for a discussion of financial reporting for securities with unrealized losses.

The following tables show the fair value and gross unrealized losses, aggregated by investment category and length of time that individual securities have been in a continuous loss position, as of June 30, 2009 and December 31, 2008. The table includes one security for which a portion of an OTTI has been recognized in other comprehensive income (loss).

	June 30, 2009					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized (Losses)	Fair Value	Unrealized (Losses)	Fair Value	Unrealized (Losses)
U.S. Treasury and government agencies and corporations	$ 71,394	$ (723)	$ -	$ -	$ 71,394	$ (723)
State and political subdivisions	29,418	(1,372)	12,683	(976)	42,101	(2,348)
Mortgage-backed securities	-	-	-	-	-	-
Trust preferred securities	235	(515)	2,990	(5,091)	3,225	(5,606)
Corporate notes and other investments	13,837	(56)	4,853	(1,132)	18,690	(1,188)
	$ 114,884	$ (2,666)	$ 20,526	$ (7,199)	$ 135,410	$ (9,865)

	December 31, 2008					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized (Losses)	Fair Value	Unrealized (Losses)	Fair Value	Unrealized (Losses)
U.S. Treasury and government agencies and corporations	$ -	$ -	$ -	$ -	$ -	$ -
State and political subdivisions	41,901	(3,109)	5,937	(669)	47,838	(3,778)
Mortgage-backed securities	-	-	-	-	-	-
Trust preferred securities	2,401	(1,799)	292	(957)	2,693	(2,756)
Corporate notes and other investments	1,512	(488)	1,560	(2,423)	3,072	(2,911)

	$	45,814	$	(5,396)	$	7,789	$	(4,049)	$	53,603	$	(9,445)

As of June 30, 2009, the available for sale investment portfolio included 36 municipal securities, 5 trust preferred securities, and 2 corporate notes with current unrealized losses that have existed for longer than one year.

The unrealized losses on the Company's investments in state and political subdivisions are due to market conditions, not in estimated cash flows. The Company does not have the intent to sell these securities and does not anticipate that these securities will be required to be sold before anticipated recovery, and expects full principal and interest to be collected. Therefore, the Company does not consider these investments to be OTTI at June 30, 2009.

The unrealized losses in four single-issuer trust preferred securities are due to reduced demand for these securities, and interest rate fluctuations and illiquid markets, not estimated cash flows. The Company does not have the intent to sell these securities and does not anticipate that these securities will be required to be sold before anticipated recovery, and expects full principal and interest will be collected. Therefore, the Company does not consider these investments to be OTTI at June 30, 2009.

For the year ended December 31, 2008, the Company recorded OTTI on a pooled trust preferred security, which resulted in a reduction of non-interest income of $2,622. Pursuant to FSP FAS 115-2/124-2, which states that previously recorded impairment charges which did not relate to a credit loss should be reclassified from retained earnings to other comprehensive income, the Company recorded a cumulative effect adjustment that increased retained earnings and decreased other comprehensive income (loss) by $2,622, or $1,625, net of tax. None of the previously recorded impairment loss was considered a credit loss as of April 1, 2009, the date of adoption of this accounting pronouncement.

The Company engaged an independent consulting firm to assist in the valuation of this security as of June 30, 2009. Based on the consulting firm's findings, management determined the security had an estimated market value of $1,266 which resulted in $3,635 of total impairment, or an additional impairment of $1,013 in the second quarter of 2009. To determine the credit loss on this security, the investment consulting firm projected cash flows for the security and discounted the cash flows at the original purchased yield. The consulting firm analyzed each underlying bank or insurance company and assigned a probability of default. Those default assumptions were then used to determine the projected cash flows of the security. In addition, the consulting firm assumed no prepayments of the underlying debt. If the net present value of the cash flows was less than the cost basis of the security, the difference was considered credit-related and recorded through earnings. Based on this calculation, $275 of the total impairment was considered to be a credit loss which was recognized in the 2009 second quarter income statement and the remaining amortized cost of the security was reduced to create a new cost basis. The remaining change in fair market value of $3,360 is reflected in other comprehensive income (loss), net of taxes of $1,277. The Company will continue to estimate the present value of cash flows expected to be collected over the life of the security.

For the first quarter of 2009, the Company recognized an OTTI of $1,380 on two trust preferred securities. The carrying values of these securities were written down to $120 as of March 31, 2009, and were considered credit losses. There were no changes to the credit-related component during the second quarter of 2009.

The Company's unrealized loss on investments in corporate bonds is due to market conditions, not in estimated cash flows. The Company does not have the intent to sell these securities and does not anticipate that these securities will be required to be sold before anticipated recovery, and expects full principal and interest to be collected. Therefore, the Company does not consider these investments to be OTTI at June 30, 2009.

The following table provides a roll forward of the amount of credit-related losses recognized in earnings for which a portion of OTTI has been recognized in other comprehensive income (loss) through June 30, 2009:

Beginning balance as of December 31, 2008	$	-
Current period credit loss recognized in earnings		275
Reductions for securities sold during the period		-
Reductions for securities where there is an intent to sell or requirement to sell		-
Reductions for increases in cash flows expected to be collected		-
Balance as of June 30, 2009	$	275

6. Impaired Loans and Allowance for Loan Losses

A loan is impaired when it is probable that 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 the dates shown:

	June 30, 2009	December 31, 2008
Impaired loans without an allowance	$ 14,136	$ 18,067
Impaired loans with an allowance	51,671	23,044
Total impaired loans	$ 65,807	$ 41,111
Allowance for loan losses related to impaired loans	$ 9,761	$ 3,590

The following table reconciles the balance of non-accrual loans with impaired loans carried at fair value as of the dates shown below.

	June 30, 2009	December 31, 2008
Non-accrual loans	$ 29,591	$ 21,367
Restructured loans	12,855	7,376
Other impaired loans still accruing interest	23,361	12,368
Total impaired loans	$ 65,807	$ 41,111

Changes in the allowance for loan losses were as follows for the periods shown below:

	Three Months Ended June 30,	Six Months Ended June 30,