

COMMUNITY WEST BANCSHARES /  
Form 10-Q  
November 12, 2010

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SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2010

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: 000-23575

COMMUNITY WEST BANCSHARES  
(Exact name of registrant as specified in its charter)

California  
(State or other jurisdiction of incorporation or organization)

77-0446957  
(I.R.S. Employer Identification No.)

445 Pine Avenue, Goleta, California  
(Address of principal executive offices)

93117  
(Zip Code)

(805) 692-5821  
(Registrant's telephone number, including area code)

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

Indicate by check mark 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 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. (Check one):

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Large accelerated filer   
Non-accelerated filer

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

Number of shares of common stock of the registrant outstanding as of November 12, 2010: 5,915,130 shares

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The financial statements included in this Form 10-Q should be read with reference to Community West Bancshares' Annual Report on Form 10-K for the fiscal year ended December 31, 2009.

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## PART I – FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

COMMUNITY WEST BANCSHARES  
CONSOLIDATED BALANCE SHEETS

|   | September<br>30, 2010<br>(unaudited) | December<br>31, 2009 |
|---|--------------------------------------|----------------------|
| (dollars in thousands)  |                                      |                      |
| <b>ASSETS</b>   |                                      |                      |
| Cash and due from banks   | \$12,306                             | \$4,906              |
| Federal funds sold  | 26                                   | 605                  |
| Cash and cash equivalents   | 12,332                               | 5,511                |
| Time deposits in other financial institutions   | 475                                  | 640                  |
| Investment securities available-for-sale, at fair value; amortized cost of \$22,332 at September 30, 2010 and \$17,367 at December 31, 2009 | 22,652                               | 17,670               |
| Investment securities held-to-maturity, at amortized cost; fair value of \$17,381 at September 30, 2010 and \$23,538 at December 31, 2009   | 16,534                               | 22,678               |
| Federal Home Loan Bank stock, at cost   | 5,240                                | 5,660                |
| Federal Reserve Bank stock, at cost   | 1,322                                | 1,322                |
| <b>Loans:</b>   |                                      |                      |
| Loans held for sale, at lower of cost or fair value   | 93,643                               | 102,574              |
| Loans held for investment, net of allowance for loan losses of \$13,395 at September 30, 2010 and \$13,733 at December 31, 2009             | 493,602                              | 500,866              |
| Total loans   | 587,245                              | 603,440              |
| Servicing rights  | 811                                  | 998                  |
| Foreclosed real estate and repossessed assets   | 5,466                                | 1,822                |
| Premises and equipment, net   | 2,999                                | 3,279                |
| Other assets  | 21,394                               | 21,196               |
| <b>TOTAL ASSETS</b>   | <b>\$676,470</b>                     | <b>\$684,216</b>     |
| <b>LIABILITIES</b>  |                                      |                      |
| <b>Deposits:</b>  |                                      |                      |
| Non-interest-bearing demand   | \$39,140                             | \$37,703             |
| Interest-bearing demand   | 246,576                              | 191,905              |
| Savings   | 18,848                               | 16,396               |
| Time certificates   | 231,109                              | 285,388              |
| Total deposits  | 535,673                              | 531,392              |
| Other borrowings  | 68,000                               | 89,000               |
| Convertible debentures  | 8,085                                | -                    |
| Other liabilities   | 3,930                                | 3,517                |
| Total liabilities   | 615,688                              | 623,909              |
| <b>STOCKHOLDERS' EQUITY</b>   |                                      |                      |
| Preferred stock, no par value; 10,000,000 shares authorized; 15,600 shares issued and outstanding   | 14,740                               | 14,540               |
| Common stock, no par value; 10,000,000 shares authorized; 5,915,130 shares issued and outstanding   | 33,126                               | 33,110               |
| Retained earnings   | 12,728                               | 12,479               |
| Accumulated other comprehensive income, net   | 188                                  | 178                  |
| Total stockholders' equity  | 60,782                               | 60,307               |

|  |           |           |
|--|-----------|-----------|
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$676,470 | \$684,216 |
|--|-----------|-----------|

See accompanying notes.

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COMMUNITY WEST BANCSHARES  
CONSOLIDATED INCOME STATEMENTS (UNAUDITED)

|   | Three Months Ended<br>September 30, |                 | Nine Months Ended<br>September 30, |                   |
|---|-------------------------------------|-----------------|------------------------------------|-------------------|
|   | 2010                                | 2009            | 2010                               | 2009              |
| (dollars in thousands, except per share amounts)                                |                                     |                 |                                    |                   |
| <b>INTEREST INCOME</b>  |                                     |                 |                                    |                   |
| Loans   | \$9,393                             | \$9,907         | \$28,250                           | \$29,405          |
| Investment securities   | 328                                 | 452             | 1,102                              | 1,338             |
| Other   | 6                                   | 19              | 20                                 | 52                |
| Total interest income   | 9,727                               | 10,378          | 29,372                             | 30,795            |
| <b>INTEREST EXPENSE</b>   |                                     |                 |                                    |                   |
| Deposits  | 1,812                               | 2,572           | 5,829                              | 8,870             |
| Other borrowings and convertible debentures                                     | 607                                 | 895             | 1,709                              | 3,017             |
| Total interest expense  | 2,419                               | 3,467           | 7,538                              | 11,887            |
| <b>NET INTEREST INCOME</b>  | <b>7,308</b>                        | <b>6,911</b>    | <b>21,834</b>                      | <b>18,908</b>     |
| Provision for loan losses   | 1,518                               | 2,592           | 7,464                              | 15,890            |
| <b>NET INTEREST INCOME AFTER PROVISION FOR<br/>LOAN LOSSES</b>                  | <b>5,790</b>                        | <b>4,319</b>    | <b>14,370</b>                      | <b>3,018</b>      |
| <b>NON-INTEREST INCOME</b>  |                                     |                 |                                    |                   |
| Other loan fees   | 521                                 | 385             | 1,367                              | 1,370             |
| Gains from loan sales, net  | 90                                  | 75              | 285                                | 251               |
| Document processing fees  | 149                                 | 175             | 399                                | 644               |
| Loan servicing, net   | 89                                  | 180             | 217                                | 692               |
| Service charges   | 128                                 | 116             | 390                                | 336               |
| Other   | 46                                  | 35              | 137                                | 96                |
| Total non-interest income   | 1,023                               | 966             | 2,795                              | 3,389             |
| <b>NON-INTEREST EXPENSES</b>  |                                     |                 |                                    |                   |
| Salaries and employee benefits  | 2,909                               | 2,756           | 8,775                              | 9,139             |
| Occupancy and equipment   | 499                                 | 524             | 1,508                              | 1,594             |
| FDIC assessment   | 260                                 | 393             | 908                                | 1,216             |
| Professional services   | 187                                 | 194             | 629                                | 706               |
| Advertising and marketing   | 47                                  | 69              | 217                                | 250               |
| Depreciation and amortization   | 102                                 | 122             | 323                                | 372               |
| Loss on sale and write-down of foreclosed real estate and<br>repossessed assets | 128                                 | 124             | 694                                | 288               |
| Data processing   | 150                                 | 145             | 410                                | 459               |
| Other operating expenses  | 753                                 | 838             | 1,939                              | 2,331             |
| Total non-interest expenses   | 5,035                               | 5,165           | 15,403                             | 16,355            |
| Income (loss) before provision for income taxes                                 | 1,778                               | 120             | 1,762                              | (9,948 )          |
| Provision (benefit) for income taxes  | 733                                 | 51              | 728                                | (4,088 )          |
| <b>NET INCOME (LOSS)</b>  | <b>\$1,045</b>                      | <b>\$69</b>     | <b>\$1,034</b>                     | <b>\$(5,860 )</b> |
| Preferred stock dividends   | 261                                 | 261             | 785                                | 784               |
| <b>NET INCOME (LOSS) APPLICABLE TO COMMON<br/>STOCKHOLDERS</b>                  | <b>\$784</b>                        | <b>\$(192 )</b> | <b>\$249</b>                       | <b>\$(6,644 )</b> |

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|  |        |           |        |            |
|--|--------|-----------|--------|------------|
| Earnings (loss) per common share:                            |        |           |        |            |
| Basic  | \$ .13 | \$( .03 ) | \$ .04 | \$( 1.12 ) |
| Diluted  | \$ .12 | \$( .03 ) | \$ .04 | \$( 1.12 ) |
| Basic weighted average number of common shares outstanding   | 5,915  | 5,915     | 5,915  | 5,915      |
| Diluted weighted average number of common shares outstanding | 7,246  | 5,915     | 5,915  | 5,915      |

See accompanying notes.

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COMMUNITY WEST BANCSHARES  
 CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
 (Unaudited)

|  | Preferred<br>Stock | Common Stock<br>Shares | Common Stock<br>Amount<br>(in thousands) | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income | Total<br>Stockholders'<br>Equity |
|--|--------------------|------------------------|--|----------------------|---|----------------------------------|
| BALANCES AT<br>JANUARY 1, 2010                                     | \$14,540           | 5,915                  | \$33,110                                 | \$12,479             | \$178   | \$60,307                         |
| Stock option expense,<br>recognized in earnings                    |                    |                        | 16                                       |                      |   | 16                               |
| Comprehensive income:  |                    |                        |  |                      |   |                                  |
| Net income   |                    |                        |  | 1,034                |   | 1,034                            |
| Change in unrealized gain on<br>securities available-for-sale, net |                    |                        |  |                      | 10  | 10                               |
| Comprehensive income   |                    |                        |  |                      |   | 1,044                            |
| Preferred stock dividends  | 200                |                        |  | (785 )               |   | (585 )                           |
| BALANCES AT<br>SEPTEMBER 30, 2010                                  | \$14,740           | 5,915                  | \$33,126                                 | \$12,728             | \$188   | \$60,782                         |

See accompanying notes.



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COMMUNITY WEST BANCSHARES  
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

|   | Nine Months Ended<br>September 30, |                 |
|---|------------------------------------|-----------------|
|   | 2010                               | 2009            |
|   | (in thousands)                     |                 |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                    |                                    |                 |
| Net income (loss)   | \$1,034                            | \$(5,860 )      |
| Adjustments to reconcile net loss to net cash provided by operating activities: |                                    |                 |
| Provision for loan losses   | 7,464                              | 15,890          |
| Depreciation and amortization   | 323                                | 372             |
| Stock-based compensation  | 16                                 | 22              |
| Net amortization of discounts and premiums for investment securities            | (114 )                             | (29 )           |
| (Gain) loss on:   |                                    |                 |
| Sale and write-down of foreclosed real estate and repossessed assets            | 694                                | 288             |
| Sale of loans held for sale   | (285 )                             | (251 )          |
| Loan originated for sale and principal collections, net                         | (161 )                             | 3,081           |
| Changes in:   |                                    |                 |
| Servicing rights, net of amortization   | 187                                | 109             |
| Other assets  | (214 )                             | (4,739 )        |
| Other liabilities   | 423                                | (438 )          |
| Net cash provided by operating activities                                       | 9,367                              | 8,445           |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                    |                                    |                 |
| Purchase of held-to-maturity securities   | -                                  | (1,233 )        |
| Purchase of available-for-sale securities                                       | (14,120 )                          | (13,433 )       |
| Redemption (purchase) of Federal Home Loan Bank and Federal Reserve stock       | 420                                | (227 )          |
| Principal pay downs and maturities of available-for-sale securities             | 9,273                              | 2,008           |
| Principal pay downs and maturities of held-to-maturity securities               | 6,139                              | 10,515          |
| Loan originations and principal collections, net                                | 1,658                              | (35,523 )       |
| Proceeds from sale of other assets acquired through foreclosure                 | 3,181                              | 2,274           |
| Net decrease (increase) in time deposits in other financial institutions        | 165                                | (20 )           |
| Purchase of premises and equipment, net   | (43 )                              | (27 )           |
| Net cash provided by (used in) investing activities                             | 6,673                              | (35,666 )       |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                    |                                    |                 |
| Preferred stock dividends   | (785 )                             | (784 )          |
| Amortization of discount on preferred stock                                     | 200                                | 173             |
| Net increase in demand deposits and savings accounts                            | 58,560                             | 108,729         |
| Net decrease in time certificates of deposit                                    | (54,279 )                          | (54,471 )       |
| Proceeds from issuance of other borrowings                                      | 39,000                             | 88,000          |
| Repayment of other borrowings   | (60,000 )                          | (118,000 )      |
| Proceeds from issuance of convertible debentures                                | 8,085                              | -               |
| Net cash (used in) provided by financing activities                             | (9,219 )                           | 23,647          |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>                     | <b>6,821</b>                       | <b>(3,574 )</b> |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>                             | <b>5,511</b>                       | <b>12,253</b>   |
| <b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>                                 | <b>\$12,332</b>                    | <b>\$8,679</b>  |
| <b>Supplemental Disclosure of Cash Flow Information:</b>                        |                                    |                 |
| Cash paid for interest  | \$7,451                            | \$12,630        |
| Cash paid for income taxes  | 561                                | 86              |

Supplemental Disclosure of Noncash Investing Activity:

|  |         |         |
|--|---------|---------|
| Transfers to other assets acquired through foreclosure | \$7,519 | \$4,706 |
|--|---------|---------|

See accompanying notes.

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COMMUNITY WEST BANCSHARES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

The interim consolidated financial statements reflect all adjustments and reclassifications that, in the opinion of management, are necessary for the fair presentation of the results of operations and financial condition for the interim period. The unaudited consolidated financial statements include Community West Bancshares (“CWBC”) and its wholly-owned subsidiary, Community West Bank, N.A. (“CWB” or the “Bank”). CWBC and CWB are referred to herein as “the Company”. The accompanying unaudited condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) and with the instructions to Form 10-Q and Article 8-03 of Regulation S-X promulgated by the Securities and Exchange Commission (“SEC”). Accordingly, they do not include all of the information and footnotes required for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring accruals) considered necessary for a fair statement have been reflected in the financial statements. However, the results of operations for the nine-month period ended September 30, 2010 are not necessarily indicative of the results to be expected for the full year.

These unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto of Community West Bancshares included in the Company's Annual Report on Form 10-K for the year ended December 31, 2009.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Provision and Allowance for Loan Losses – The Company maintains a detailed, systematic analysis and procedural discipline to determine the amount of the allowance for loan losses (“ALL”). The ALL is based on estimates and is intended to be adequate to provide for probable losses inherent in the loan portfolio. This process involves deriving probable loss estimates that are based on individual loan loss estimation, migration analysis/historical loss rates and management’s judgment.

The Company employs several methodologies for estimating probable losses. Methodologies are determined based on a number of factors, including type of asset, risk rating, concentrations, collateral value and the input of the Special Assets group, functioning as a workout unit.

The ALL calculation for the different major loan types is as follows:

- SBA – A migration analysis and various portfolio specific factors are used to determine the required allowance for all non-impaired loans. In addition, the migration results are adjusted based upon qualitative factors. Qualitative factors include, but are not limited to, adjustments for existing economic conditions, past due trends and concentration exposure. Impaired loans are assigned a specific reserve based upon the individual characteristics of the loan.
- Relationship Banking – Primarily includes commercial, commercial real estate and construction loans. A migration analysis and various portfolio specific factors are used to calculate the required allowance for all non-impaired loans. In addition, the migration results are adjusted based upon qualitative factors. Qualitative factors include, but are not limited to, adjustments for existing economic conditions, past due trends and concentration exposure. Impaired loans are assigned a specific reserve based upon the individual characteristics of the loan.
- Manufactured Housing – The allowance is calculated on the basis of loss history and risk rating, which is primarily a function of delinquency. In addition, the loss history is adjusted based upon qualitative factors similar to those used

for SBA loans and relationship banking.

The Company determines the required ALL on a monthly basis. Any differences between estimated and actual observed losses from the prior month are reflected in the current period required ALL determination and adjusted as deemed necessary. The review of the adequacy of the allowance takes into consideration such factors as concentrations of credit, changes in the growth, size and composition of the loan portfolio, overall and individual portfolio quality, review of specific problem loans, collateral, guarantees and economic conditions that may affect the borrowers' ability to pay and/or the value of the underlying collateral. Additional factors considered include: geographic location of borrowers, changes in the Company's product-specific credit policy and lending staff experience. These estimates depend on the outcome of future events and, therefore, contain inherent uncertainties.

The Company's ALL is maintained at a level believed adequate by management to absorb known and inherent probable losses on existing loans. A provision for loan losses is charged to expense. The allowance is charged for losses when management believes that full recovery on the loan is unlikely. Generally, the Company charges off any loan classified as a "loss"; portions of loans which are deemed to be uncollectible; overdrafts which have been outstanding for more than 90 days; and, all other unsecured loans past due 120 or more days. Subsequent recoveries, if any, are credited to the ALL.

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The Bank has a centralized appraisal management process that tracks and monitors appraisals, appraisal reviews and other valuations. The centralization focus is to ensure the use of qualified and independent appraisers capable of providing reliable real estate values in the context of ever changing market conditions. The review process is monitored to ensure application of the appropriate appraisal methodology, agreement with the interpretation of market data and the resultant real estate value. The process also provides the means of tracking the performance quality of the appraisers on the Bank's approved appraiser list. Any loan evaluation that results in the Bank determining that elevated credit risk and/or default risk exists and also exhibits a lack of a timely valuation of the collateral or apparent collateral value deterioration is reappraised and reevaluated to determine the current extent of any change in collateral value and credit risk. A similar review process is conducted quarterly on all classified and criticized real estate credits to determine the timeliness and adequacy of the real estate collateral value. A detection of non-compliance is then addressed through a new appraisal or reappraisal and review.

Earnings Per Share – Basic earnings per common share is computed using the weighted average number of common shares outstanding for the period divided into the net income (loss) applicable to common shareholders. Diluted earnings per share include the effect of all dilutive potential common shares for the period. Potentially dilutive common shares include stock options, warrants and shares that could result from the conversion of debenture bonds.

Foreclosed Real Estate and Repossessed Assets – Foreclosed real estate and other repossessed assets are recorded at fair value at the time of foreclosure less estimated costs to sell. Any excess of loan balance over the fair value less costs to sell of the other assets is charged-off against the allowance for loan losses. Subsequent to the legal ownership date, management periodically performs a new valuation and the asset is carried at the lower of carrying amount or fair value. Operating expenses or income, and gains or losses on disposition of such properties, are recorded in current operations.

Servicing Rights – The guaranteed portion of certain SBA loans can be sold into the secondary market. Servicing rights are recognized as separate assets when loans are sold with servicing retained and when any premium refund obligations have lapsed. Servicing rights are amortized in proportion to, and over the period of, estimated future net servicing income. The Company uses industry prepayment statistics and its own prepayment experience in estimating the expected life of the loans. Management evaluates its servicing rights for impairment quarterly. Servicing rights are evaluated for impairment based upon the fair value of the rights as compared to amortized cost. Fair value is determined using discounted future cash flows calculated on a loan-by-loan basis and aggregated by predominate risk characteristics. The initial servicing rights and resulting gain on sale are calculated based on the difference between the best actual par and premium bids on an individual loan basis.

Income Taxes – The Company uses the asset and liability method, which recognizes a liability or asset representing the tax effects of future deductible or taxable amounts that have been recognized in the consolidated financial statements. Due to tax regulations, certain items of income and expense are recognized in different periods for tax return purposes than for financial statement reporting. These items represent “temporary differences.” Deferred income taxes are recognized for the tax effect of temporary differences between the tax basis of assets and liabilities and their financial reporting amounts at each period end based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. A valuation allowance is established for deferred tax assets if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax assets may not be realized.

The Company is subject to the provisions of ASC 740, “Income Taxes” (ASC 740). ASC 740 prescribes a more-likely-than-not threshold for the financial statement recognition of uncertain tax positions. ASC 740 clarifies the accounting for income taxes by prescribing a minimum recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. On a quarterly basis, the Company evaluates income tax accruals in accordance with ASC 740 guidance on uncertain tax

positions.

Recent Accounting Pronouncements – In June 2009, ASC 860 “Transfers and Servicing” was amended. ASC 860 eliminates the concept of a qualifying special purpose entity, creates more stringent conditions for reporting a transfer of a portion of a financial asset as a sale, clarifies other sale-accounting criteria, and changes the initial measurement of a transferor’s interest in transferred financial assets. ASC 860 applies to transfers of government-guaranteed portions of loans, such as those guaranteed by the Small Business Administration (“SBA”). In this regard, if the Bank transfers the guaranteed portion of an SBA loan at a premium, it is obligated by the SBA to refund the premium to the purchaser if the loan is repaid within ninety days of the transfer. Under ASC 860, this premium refund obligation is a form of recourse, which means that the transferred guarantee portion of the loan does not meet the definition of a participating interest for the ninety day period that the premium refund obligation exists. As a result, the transfer must be accounted for as a secured borrowing during this period. After the ninety day period, assuming the transferred guaranteed portion and the retained unguaranteed portion of the SBA loan now meet the definition of a participating interest, the transfer of the guaranteed portion can be accounted for as a sale if all of the conditions for sale accounting in ASC 860 are met. Essentially, ASC 860 delays recognition of the sale and the gain on the sale of an SBA loan at a premium for ninety days and precludes recognition of gain on loans sold at par. This amendment is effective for annual reporting periods beginning after November 15, 2009, and for interim periods therein. Adoption of ASC 860 did not have a material impact on the Company’s financial condition, results of operations or cash flows.

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In July 2010, FASB issued a final Accounting Standards Update, ASU 2010-20, that requires entities to provide extensive new disclosures in their financial statements about their financial receivables, including credit risk exposures and allowance for credit losses. The ASU requires new qualitative and quantitative disclosures on the allowance for credit losses, credit quality, impaired loans, modifications and nonaccrual and past due financing receivables. The update is effective for interim or annual reporting periods ending after December 15, 2010. Adoption of ASU 2010-20 is not expected to have a material impact on the Company's financial condition, results of operations or cash flows.

## 2. INVESTMENT SECURITIES

The amortized cost and estimated fair value of investment securities is as follows:

September 30, 2010

|                               |                   | (in thousands)               |                               |               |
|-------------------------------|-------------------|------------------------------|-------------------------------|---------------|
|                               | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value |
| Available-for-sale securities |                   |                              |                               |               |
| U.S. Government agency: MBS   | \$5,816           | \$209                        | \$-                           | \$6,025       |
| U.S. Government agency: CMO   | 16,516            | 114                          | (3 )                          | 16,627        |
| Total                         | \$22,332          | \$323                        | \$(3 )                        | \$22,652      |

Held-to-maturity securities

|                             |          |       |     |          |
|-----------------------------|----------|-------|-----|----------|
| U.S. Government agency: MBS | \$16,534 | \$847 | \$- | \$17,381 |
| U.S. Government agency: CMO | -        | -     | -   | -        |
| Total                       | \$16,534 | \$847 | \$- | \$17,381 |

December 31, 2009

|                               | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value |
|-------------------------------|-------------------|------------------------------|-------------------------------|---------------|
| Available-for-sale securities |                   |                              |                               |               |
| U.S. Government agency: MBS   | \$10,175          | \$286                        | \$-                           | \$10,461      |
| U.S. Government agency: CMO   | 7,192             | 37                           | (20 )                         | 7,209         |
| Total                         | \$17,367          | \$323                        | \$(20 )                       | \$17,670      |

Held-to-maturity securities

|                             |          |       |         |          |
|-----------------------------|----------|-------|---------|----------|
| U.S. Government agency: MBS | \$22,678 | \$891 | \$(31 ) | \$23,538 |
| U.S. Government agency: CMO | -        | -     | -       | -        |
| Total                       | \$22,678 | \$891 | \$(31 ) | \$23,538 |

At September 30, 2010, \$39.2 million of securities, at carrying value, was pledged to the Federal Home Loan Bank, San Francisco, as collateral for current and future advances.

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The maturity periods and weighted average yields of investment securities at September 30, 2010 are as follows:

|                               | Total Amount |       | Less than One Year |       | One to Five Years |       | Five to Ten Years |       |
|-------------------------------|--------------|-------|--------------------|-------|-------------------|-------|-------------------|-------|
|                               | Amount       | Yield | Amount             | Yield | Amount            | Yield | Amount            | Yield |
| (dollars in thousands)        |              |       |                    |       |                   |       |                   |       |
| Available-for-sale securities |              |       |                    |       |                   |       |                   |       |
| U. S. Government:             |              |       |                    |       |                   |       |                   |       |
| Agency: MBS                   | \$6,025      | 2.5 % | \$-                | -     | \$5,952           | 2.5 % | \$73              | 2.7 % |
| Agency: CMO                   | 16,627       | 1.4 % | 8,124              | 1.4 % | 8,503             | 1.4 % | -                 | -     |
| Total                         | \$22,652     | 1.7 % | \$8,124            | 1.4 % | \$14,455          | 1.8 % | \$73              | 2.7 % |
| Held-to-maturity securities   |              |       |                    |       |                   |       |                   |       |
| U.S. Government:              |              |       |                    |       |                   |       |                   |       |
| Agency: MBS                   | \$16,534     | 4.6 % | \$77               | 5.0 % | \$14,281          | 4.7 % | \$2,176           | 3.8 % |
| Agency: CMO                   | -            | -     | -                  | -     | -                 | -     | -                 | -     |
| Total                         | \$16,534     | 4.6 % | \$77               | 5.0 % | \$14,281          | 4.7 % | \$2,176           | 3.8 % |

The following tables show all securities that are in an unrealized loss position and temporarily impaired as of:

| September 30, 2010            | Less than 12 months |                   | More than 12 months |                   | Total      |                   |
|-------------------------------|---------------------|-------------------|---------------------|-------------------|------------|-------------------|
|                               | Fair Value          | Unrealized Losses | Fair Value          | Unrealized Losses | Fair Value | Unrealized Losses |
| (in thousands)                |                     |                   |                     |                   |            |                   |
| Available-for-sale securities |                     |                   |                     |                   |            |                   |
| U.S. Government agency: MBS   | \$-                 | \$-               | \$-                 | \$-               | \$-        | \$-               |
| U.S. Government agency: CMO   | 1,896               | 3                 | -                   | -                 | 1,896      | 3                 |
| Total                         | \$1,896             | \$3               | \$-                 | \$-               | \$1,896    | \$3               |

| December 31, 2009             | Less than 12 months |                   | More than 12 months |                   | Total      |                   |
|-------------------------------|---------------------|-------------------|---------------------|-------------------|------------|-------------------|
|                               | Fair Value          | Unrealized Losses | Fair Value          | Unrealized Losses | Fair Value | Unrealized Losses |
| (in thousands)                |                     |                   |                     |                   |            |                   |
| Available-for-sale securities |                     |                   |                     |                   |            |                   |
| U.S. Government agency: MBS   | \$-                 | \$-               | \$-                 | \$-               | \$-        | \$-               |
| U.S. Government agency: CMO   | 1,816               | 20                | -                   | -                 | 1,816      | 20                |
| Total                         | \$1,816             | \$20              | \$-                 | \$-               | \$1,816    | \$20              |
| Held-to-maturity securities   |                     |                   |                     |                   |            |                   |
| U.S. Government agency: MBS   | \$2,854             | \$31              | \$-                 | \$-               | \$2,854    | \$31              |
| U.S. Government agency: CMO   | -                   | -                 | -                   | -                 | -          | -                 |
| Total                         | \$2,854             | \$31              | \$-                 | \$-               | \$2,854    | \$31              |

As of September 30, 2010 and December 31, 2009, one and three securities, respectively, were in an unrealized loss position.

Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment



losses, management considers, among other things (i) the length of time and the extent to which the fair value has been less than cost (ii) the financial condition and near-term prospects of the issuer and (iii) the Company's intent to sell an impaired security and if it is not more likely than not it will be required to sell the security before the recovery of its amortized basis.

The unrealized losses are primarily due to increases in market interest rates over the yields available at the time the underlying securities were purchased. The fair value is expected to recover as the bonds approach their maturity date or repricing date or if market yields for such investments decline. Management does not believe any of the securities are impaired due to reasons of credit quality, as all are direct or indirect agencies of the U. S. Government. Accordingly, as of September 30, 2010 and December 31, 2009, management believes the impairments detailed in the table above are temporary and no other-than-temporary impairment loss has been realized in the Company's consolidated income statements.

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## 3. LOAN SALES AND SERVICING

SBA Loan Sales - The Company periodically sells the guaranteed portion of selected SBA loans into the secondary market, on a servicing-retained basis. The Company retains the unguaranteed portion of these loans and services the loans as required under the SBA programs to retain specified yield amounts. The SBA program stipulates that the Company retains a minimum of 5% of the loan balance, which is unguaranteed. The percentage of each unguaranteed loan in excess of 5% may be periodically sold to a third party, typically for a cash premium. The Company records servicing liabilities for the unguaranteed loans sold calculated based on the present value of the estimated future servicing costs associated with each loan. The balance of all servicing rights and obligations is subsequently amortized over the estimated life of the loans using an estimated prepayment rate of 5%-25%. Quarterly, the servicing asset is analyzed for impairment.

The Company also periodically sells certain SBA loans into the secondary market, on a servicing-released basis, typically for a cash premium.

As of September 30, 2010 and December 31, 2009, the Company had approximately \$86.4 million and \$95.7 million, respectively, in SBA loans included in loans held for sale.

Mortgage Loan Sales – The Company enters into mortgage loan rate lock commitments (normally for 30 days) with potential borrowers. In conjunction therewith, the Company enters into a forward sale commitment to sell the locked loan to a third party investor. This forward sale agreement requires delivery of the loan on a “best efforts” basis but does not obligate the Company to deliver if the mortgage loan does not fund.

The mortgage rate lock agreement and the forward sale agreement qualify as derivatives. At inception, the value of these derivatives is generally equal to the fee charged to the borrower, but, may fluctuate in the event of changes in interest rates. These derivative financial instruments are recorded at fair value if material. Although the Company does not attempt to qualify these transactions for the special hedge accounting, management believes that changes in the fair value of the two commitments generally offset and create an economic hedge. At September 30, 2010 and December 31, 2009, the Company had \$26.1 million and \$13.6 million, respectively, in outstanding mortgage loan interest rate lock and forward sale commitments. The value of related derivative instruments were not material to the Company’s financial position or results of operations.

## 4. LOANS HELD FOR INVESTMENT

The composition of the Company’s loans held for investment loan portfolio follows:

|                           | September<br>30,<br>2010 | December<br>31,<br>2009 |
|---------------------------|--------------------------|-------------------------|
|                           | (in thousands)           |                         |
| Commercial                | \$55,120                 | \$61,810                |
| Real estate               | 189,554                  | 195,480                 |
| SBA                       | 45,263                   | 43,863                  |
| Manufactured housing      | 196,451                  | 195,656                 |
| Other installment         | 20,907                   | 18,189                  |
|                           | 507,295                  | 514,998                 |
| Less:                     |                          |                         |
| Allowance for loan losses | 13,395                   | 13,733                  |
| Deferred costs            | (194 )                   | (204 )                  |

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|                                |           |   |           |   |
|--------------------------------|-----------|---|-----------|---|
| Purchased premiums             | (16       | ) | (24       | ) |
| Discount on SBA loans          | 508       |   | 627       |   |
| Loans held for investment, net | \$493,602 |   | \$500,866 |   |

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An analysis of the allowance for credit losses for loans held for investment follows for the three and nine months ended:

|  | Three Months Ended<br>September 30,<br>2010 |           | Nine Months Ended<br>September 30,<br>2009 |           |
|--|---|-----------|--|-----------|
|  | (in thousands)                              |           |  |           |
| Balance, beginning of period               | \$ 13,837                                   | \$ 13,419 | \$ 13,733                                  | \$ 7,341  |
| Loans charged off                          | (2,166 )                                    | (2,742 )  | (8,250 )                                   | (10,041 ) |
| Recoveries on loans previously charged off | 206   | 5         | 448  | 84        |
| Net charge-offs                            | (1,960 )                                    | (2,737 )  | (7,802 )                                   | (9,957 )  |
| Provision for loan losses                  | 1,518                                       | 2,592     | 7,464                                      | 15,890    |
| Balance, end of period                     | \$ 13,395                                   | \$ 13,274 | \$ 13,395                                  | \$ 13,274 |

As of September 30, 2010 and December 31, 2009, the Company also had reserves for credit losses on undisbursed loans of \$208,000 and \$501,000 respectively.

The recorded investment in loans that is considered to be impaired:

|   | September 30,<br>2010 | December 31,<br>2009 |
|---|-----------------------|----------------------|
|   | (in thousands)        |                      |
| Impaired loans without specific valuation allowances      | \$ 12,498             | \$ 13,699            |
| Impaired loans with specific valuation allowances         | 3,538                 | 716                  |
| Specific valuation allowances allocated to impaired loans | (386 )                | (622 )               |
| Impaired loans, net                                       | \$ 15,650             | \$ 13,793            |

| The following schedule reflects the average investment in impaired loans: | Three Months Ended<br>September 30,<br>2010 |          | Nine Months Ended<br>September 30,<br>2009 |          |
|---|---|----------|--|----------|
|   | (in thousands)                              |          |  |          |
| Average investment in impaired loans                                      | \$ 15,421                                   | \$ 9,518 | \$ 15,860                                  | \$ 8,107 |
| Interest income recognized on impaired loans                              | \$ 61                                       | \$ 5     | \$ 276                                     | \$ 173   |

## 5. FAIR VALUE MEASUREMENT

Fair value is the exchange price that would be received for an asset or the price that would be paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. U. S. GAAP establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Three levels of inputs may be used to measure fair value:

Level 1 – Quoted prices in active markets for identical assets and liabilities

Level 2 – Observable inputs other than quoted market prices in active markets for identical assets and liabilities

Level 3 – Unobservable inputs





| Description    | Total     | Quoted prices in active markets for identical assets (Level 1)<br>(in thousands) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
|----------------|-----------|--|---|---|
| Impaired loans | \$ 15,650 | \$-  | \$ 14,217                                     | \$ 1,433                                  |

Fair value measurements at December 31, 2009 using

| Description    | Total     | Quoted prices in active markets for identical assets (Level 1)<br>(in thousands) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
|----------------|-----------|--|---|---|
| Impaired loans | \$ 13,793 | \$-  | \$ 13,562                                     | \$ 231                                    |

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6. **BORROWINGS**

Federal Home Loan Bank Advances – The Company has a blanket lien credit line with the Federal Home Loan Bank (“FHLB”). Advances are collateralized in the aggregate by CWB’s eligible loans and securities. Total FHLB advances were \$68 million at September 30, 2010 and December 31, 2009, borrowed at fixed rates. At September 30, 2010, CWB had securities and loans pledged to FHLB with carrying value of \$39.2 million and \$85.1 million, respectively. At December 31, 2009, CWB had securities and loans pledged with carrying value of \$40.3 million and \$92.3 million, respectively. Total FHLB interest expense for the nine months ended September 30, 2010 and 2009 was \$1.6 million and \$2.9 million, respectively. At September 30, 2010, CWB had \$48.2 million available for additional borrowing.

Federal Reserve Bank – CWB has established a credit line with the Federal Reserve Bank. Advances are collateralized in the aggregate by eligible loans for up to 28 days. The discount rate was raised to 0.75% from 0.50% in February 2010. There were no outstanding FRB advances as of September 30, 2010 and \$21.0 million outstanding as of December 31, 2009. Interest expense on these advances for the nine months ended September 30, 2010 was \$17,000.

Convertible Debentures – On August 9, 2010, the Company announced the completion of its previously announced offering of \$8,085,000 convertible subordinated debentures. The debentures pay interest at 9% until conversion, redemption or maturity and will mature on August 9, 2020. The debentures may be redeemed by the Company after January 1, 2014. Prior to maturity or redemption, the debentures can be converted into common stock at the election of the holder at \$3.50 per share if converted on or prior to July 1, 2013, \$4.50 per share between July 2, 2013 and July 1, 2016 and \$6.00 per share from July 2, 2016 until maturity or redemption.

7. **STOCKHOLDERS’ EQUITY**

Preferred Stock

On December 19, 2008, as part of the United States Department of the Treasury’s (Treasury) Troubled Asset Relief Program - Capital Purchase Program (TARP CPP), the Company entered into a Letter Agreement with the Treasury, pursuant to which the Company issued to the Treasury, in exchange for an aggregate purchase price of \$15.6 million in cash: (i) 15,600 shares of the Company's Fixed Rate Cumulative Perpetual Preferred Stock, Series A, no par value, having a liquidation preference of \$1,000 per share (Series A Preferred Stock), and (ii) a warrant (Warrant) to purchase up to 521,158 shares of the Company's common stock, no par value, at an exercise price of \$4.49 per share.

Series A Preferred Stock pays cumulative dividends at a rate of 5% per year for the first five years and at a rate of 9% per year thereafter, but will be paid only if, as and when declared by the Company's Board of Directors. The Series A Preferred Stock has no maturity date and ranks senior to the common stock with respect to the payment of dividends and distributions and amounts payable upon liquidation, dissolution and winding up of the Company. The Series A Preferred Stock is generally non-voting, other than class voting on certain matters that could adversely affect the Series A Preferred Stock. In the event that dividends payable on the Series A Preferred Stock have not been paid for the equivalent of six or more quarters, whether or not consecutive, the Company's authorized number of Directors will be automatically increased by two and the holders of the Series A Preferred Stock, voting together with holders of any then outstanding voting parity stock, will have the right to elect those Directors at the Company's next annual meeting of shareholders or at a special meeting of shareholders called for that purpose. These Directors will be elected annually and will serve until all accrued and unpaid dividends on the Series A Preferred Stock have been paid.

The Company may redeem the Series A Preferred Stock after February 15, 2012 for \$1,000 per share plus accrued and unpaid dividends. Prior to this date, the Company may redeem the Series A Preferred Stock for \$1,000 per share plus accrued and unpaid dividends if: (i) the Company has raised aggregate gross proceeds in one or more "qualified equity



offerings" (as defined in the Securities Purchase Agreement entered into between the Company and the Treasury) in excess of \$15.6 million, and (ii) the aggregate redemption price does not exceed the aggregate net cash proceeds from such qualified equity offerings. Any redemption is subject to the prior approval of the Company's primary banking regulator.

#### Common Stock Warrants

The Warrant issued as part of the TARP CPP provides for the purchase of up to 521,158 shares of the common stock, at an exercise price of \$4.49 per share (Warrant Shares). The Warrant is immediately exercisable and has a 10-year term. The exercise price and the ultimate number of shares of common stock that may be issued under the Warrant are subject to certain anti-dilution adjustments, such as upon stock splits or distributions of securities or other assets to holders of the common stock, and upon certain issuances of the common stock at or below a specified price relative to the then current market price of the common stock. Pursuant to the Securities Purchase Agreement, the Treasury has agreed not to exercise voting power with respect to any Warrant Shares.

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## 8. EARNINGS PER SHARE

The following table presents a reconciliation of basic earnings per share and diluted earnings per share:

|  | Three Months Ended                       |         | Nine Months Ended     |           |
|--|--|---------|-----------------------|-----------|
|  | September 30,<br>2010                    | 2009    | September 30,<br>2010 | 2009      |
|  | (in thousands, except per share amounts) |         |                       |           |
| Net income (loss)  | \$1,045                                  | \$69    | \$1,034               | \$(5,860) |
| Less: Preferred stock dividends  | 261                                      | 261     | 785                   | 784       |
| Net income (loss) applicable to common shareholders                    | \$784                                    | \$(192) | \$249                 | \$(6,644) |
| Add: Debenture interest expense and costs, net of income taxes         | \$65                                     | \$-     | \$-                   | \$-       |
| Net income for diluted calculation of earnings (loss) per common share | \$849                                    | \$(192) | \$249                 | \$(6,644) |
| Basic weighted average number of common shares outstanding             | 5,915                                    | 5,915   | 5,915                 | 5,915     |
| Add: Dilutive effect of convertible debentures                         | 1,331                                    | -       | -                     | -         |
| Dilutive weighted average number of common shares outstanding          | 7,246                                    | 5,915   | 5,915                 | 5,915     |
| Earnings (loss) per common share:                                      |  |         |                       |           |
| Basic  | \$.13                                    | \$(.03) | \$.04                 | \$(1.12)  |
| Diluted  | \$.12                                    | \$(.03) | \$.04                 | \$(1.12)  |

## 9. FAIR VALUES OF FINANCIAL INSTRUMENTS

The estimated fair values of financial instruments have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is required to interpret market data to develop estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

The following table represents the estimated fair values:

|  | September 30, 2010 |                      | December 31, 2009 |                      |
|--|--------------------|----------------------|-------------------|----------------------|
|  | Carrying Amount    | Estimated Fair Value | Carrying Amount   | Estimated Fair Value |
|  | (in thousands)     |                      |                   |                      |
| Assets:  |                    |                      |                   |                      |
| Cash and cash equivalents                        | \$12,322           | \$12,322             | \$5,511           | \$5,511              |
| Time deposits in other financial institutions    | 475                | 475                  | 640               | 640                  |
| Federal Reserve and Federal Home Loan Bank stock | 6,562              | 6,562                | 6,982             | 6,982                |
| Investment securities                            | 39,186             | 40,033               | 40,348            | 41,208               |
| Loans  | 587,245            | 569,345              | 603,440           | 576,125              |
| Liabilities:                                     |                    |                      |                   |                      |
| Deposits (other than time deposits)              | 304,564            | 304,564              | 246,004           | 246,004              |
| Time deposits                                    | 231,109            | 234,999              | 285,388           | 287,806              |
| Other borrowings and convertible debentures      | 76,085             | 80,550               | 89,000            | 89,751               |

The methods and assumptions used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value are explained below:

Cash and cash equivalents - The carrying amounts approximate fair value because of the short-term nature of these instruments.

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Time deposits in other financial institutions - The carrying amounts approximate fair value because of the relative short-term nature of these instruments.

Federal Reserve Stock - The carrying value approximates the fair value because the stock can be sold back to the Federal Reserve at any time.

Federal Home Loan Bank Stock - The carrying value approximates the fair value. The FHLB is rated AAA by Moody's and S&P as of September 30, 2010 and no impairment was recognized as of September 30, 2010.

Investment securities – Market valuations of our investment securities are provided by an independent third party. The fair values are determined by using several sources for valuing fixed income securities. Their techniques include pricing models that vary based on the type of asset being valued and incorporate available trade, bid and other market information. In accordance with the fair value hierarchy, the market valuation sources include observable market inputs and are therefore considered Level 2 inputs for purposes of determining the fair values.

Loans – For most loan categories, the fair value is estimated using discounted cash flows utilizing an appropriate discount rate and historical prepayment speeds. Certain adjustable loans that reprice on a frequent basis are valued at book value.

Deposits – The amount payable at demand at report date is used to estimate the fair value of demand and savings deposits. The estimated fair values of fixed-rate time deposits are determined by discounting the cash flows of segments of deposits that have similar maturities and rates, utilizing a discount rate that approximates the prevailing rates offered to depositors as of the measurement date.

Other borrowings and convertible debentures – The fair value of FHLB, FRB advances and convertible debentures are estimated using discounted cash flow analysis based on rates for similar types of borrowing arrangements.

Commitments to Extend Credit, Commercial and Standby Letters of Credit – Due to the proximity of the pricing of these commitments to the period end, the fair values of commitments are immaterial to the financial statements.

The fair value estimates presented herein are based on pertinent information available to management as of September 30, 2010 and December 31, 2009. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since those dates and, therefore, current estimates of fair value may differ significantly from the amounts presented herein.

10. SUBSEQUENT EVENTS

Subsequent events have been evaluated through the date the financial statements were issued.

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### ITEM MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF 2. OPERATIONS

This discussion is designed to provide insight into management's assessment of significant trends related to the Company's consolidated financial condition, results of operations, liquidity, capital resources and interest rate sensitivity. It should be read in conjunction with the unaudited interim consolidated financial statements and notes thereto and the other financial information appearing elsewhere in this report.

#### Forward Looking Statements

This Report on Form 10-Q contains statements that constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Those forward-looking statements include statements regarding the intent, belief or current expectations of the Company and its management. Any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and actual results may differ materially from those projected in the forward-looking statements. The Company does not undertake any obligation to revise or update publicly any forward-looking statements for any reason.

The following discussion should be read in conjunction with the Company's financial statements and the related notes provided under "Item 1—Financial Statements" above.

#### Overview of Earnings Performance

For 3Q10, net income was \$1.0 million compared to net income of \$69,000 for 3Q09.

The significant factors impacting net income for 3Q10 were:

- A decline in the provision for loan losses to \$1.5 million for 3Q10 compared to \$2.6 million for 3Q09, as net charge-offs declined to \$2.0 million for 3Q10 compared to \$2.7 million for 3Q09.
- The decline in rates paid on funding sources contributed to a continued improvement in the margin which increased to 4.49% for 3Q10 compared to 4.12% for 3Q09.
- Resulting from the improvement in margin, net interest income increased by \$397,000 to \$7.3 million for 3Q10 from \$6.9 million for 3Q09.
  - Non-interest expenses experienced a modest decline for 3Q10 compared to 3Q09.

#### Convertible Debentures

On August 9, 2010, the Company announced the completion of its previously announced offering of \$8,085,000 convertible subordinated debentures. The debentures pay interest at 9% until conversion, redemption or maturity and will mature on August 9, 2020. The debentures may be redeemed by the Company after January 1, 2014. Prior to maturity or redemption, the debentures can be converted into common stock at the election of the holder at \$3.50 per share if converted on or prior to July 1, 2013, \$4.50 per share between July 2, 2013 and July 1, 2016 and \$6.00 per share from July 2, 2016 until maturity or redemption.

#### Critical Accounting Policies

A number of critical accounting policies are used in the preparation of the Company's consolidated financial statements. These policies relate to areas of the financial statements that involve estimates and judgments made by management. These include: the provision and allowance for loan losses and servicing rights. These critical accounting policies are discussed in the Company's 2009 Form 10-K with a description of how the estimates are determined and an indication of the consequences of an over or under estimate.

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## Results of Operations – Third Quarter Comparison

The following table sets forth for the periods indicated, certain items in the consolidated statements of income of the Company and the related changes between those periods:

|   | Three Months Ended                               |          | Increase<br>(Decrease) |
|---|--|----------|------------------------|
|   | September 30,<br>2010                            | 2009     |                        |
|   | (dollars in thousands, except per share amounts) |          |                        |
| Interest income                                     | \$9,727  | \$10,378 | \$(651 )               |
| Interest expense                                    | 2,419  | 3,467    | (1,048 )               |
| Net interest income                                 | 7,308  | 6,911    | 397                    |
| Provision for loan losses                           | 1,518  | 2,592    | (1,074 )               |
| Net interest income after provision for loan losses | 5,790  | 4,319    | 1,471                  |
| Non-interest income                                 | 1,023  | 966      | 57                     |
| Non-interest expenses                               | 5,035  | 5,165    | (130 )                 |
| Income before provision for income taxes            | 1,778  | 120      | 1,658                  |
| Provision for income taxes                          | 733  | 51       | 682                    |
| Net income  | \$1,045  | \$69     | \$976                  |
| Preferred stock dividends                           | 261  | 261      | -                      |
| Net income (loss) applicable to common shareholders | \$784  | \$(192 ) | \$976                  |
| Earnings (loss) per common share:                   |  |          |                        |
| Basic   | \$.13  | \$(.03 ) | \$.16                  |
| Diluted   | \$.12  | \$(.03 ) | \$.15                  |
| Dividends per common share                          | \$-  | \$-      | \$-                    |
| Comprehensive income                                | \$1,079  | \$63     | \$1,016                |

The following table sets forth the changes in interest income and expense attributable to changes in rate and volume:

|                                    | Three Months Ended                |                       |          |
|------------------------------------|-----------------------------------|-----------------------|----------|
|                                    | September 30,<br>2010 versus 2009 |                       |          |
|                                    | Total<br>change<br>(in thousands) | Change due to<br>Rate | Volume   |
| Loans, net                         | \$(514 )                          | \$(410 )              | \$(104 ) |
| Investment securities              | (124 )                            | (103 )                | (21 )    |
| Other                              | (13 )                             | (1 )                  | (12 )    |
| Total interest-earning assets      | (651 )                            | (514 )                | (137 )   |
| Deposits                           | (760 )                            | (777 )                | 17       |
| Other borrowings                   | (288 )                            | 6                     | (294 )   |
| Total interest-bearing liabilities | (1,048 )                          | (771 )                | (277 )   |
| Net interest income                | \$397                             | \$257                 | \$140    |

## Net Interest Income

Net interest income increased by \$397,000 for 3Q10 compared to 3Q09. Total interest income declined by \$651,000. Average interest-earning assets experienced a decline of \$19.2 million for 3Q10 compared to 3Q09 along with a lower yield of 5.98% compared to 6.19% for 3Q09. The decline in interest income was offset by a reduction in interest expense of \$1.0 million from \$3.5 million for 3Q09 to \$2.4 million for 3Q10. Rates paid on interest-bearing liabilities dropped from 2.38% for 3Q09 to 1.67% for 3Q10, a reduction of 0.71%.

The impact of the decline in yields on interest earning-assets and the decline in rates on interest-bearing liabilities was an increase in the margin from 4.12% for 3Q09 to 4.49% for 3Q10.



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## Provision for Loan Losses

The provision for loan losses declined to \$1.5 million for 3Q10 compared to \$2.6 million for 3Q09. A decline of \$777,000 in net charge-offs for 3Q10 compared to 3Q09 contributed to the lower provision.

The following schedule summarizes the provision, charge-offs and recoveries for the third quarter of 2010 by loan category:

## Three Months Ended September 30, 2010

(in thousands)

|                      | Allowance<br>6/30/10 | Provision | Charge-offs | Recoveries | Net<br>Charge-offs | Allowance<br>9/30/10 |
|----------------------|----------------------|-----------|-------------|------------|--------------------|----------------------|
| Real estate          | \$2,540              | \$458     | \$(445 )    | \$8        | \$(437 )           | \$2,561              |
| Manufactured housing | 2,894                | 1,738     | (861 )      | 38         | (823 )             | 3,809                |
| Commercial           | 2,532                | (219 )    | (100 )      | 14         | (86 )              | 2,227                |
| SBA                  | 5,303                | (413 )    | (760 )      | 143        | (617 )             | 4,273                |
| Other installment    | 568                  | (46 )     | -           | 3          | 3                  | 525                  |
| Total                | \$13,837             | \$1,518   | \$(2,166 )  | \$206      | \$(1,960 )         | \$13,395             |

The level of loans 30 to 89 days past due has remained stable for the quarter, but, has declined from \$17.7 million at December 31, 2009 to \$4.9 million at September 30, 2010.

Included in the Company's held-for-investment portfolio is the category "Other installment" which consists primarily of home equity lines of credit (HELOC) loans. Guidance issued by the SEC characterized these types of loans as higher-risk. The HELOC portfolio of \$20.5 million consists of credits secured by residential real estate in Santa Barbara and Ventura counties. In 3Q10, there were no charge-offs in this portfolio. As of September 30, 2010, none of the portfolio is past due and 0.6% was on non-accrual status. The allowance for loan losses for this portfolio is \$467,000, or 2.3%. The Company believes that, overall, this portfolio is adequately supported by real estate collateral.

## Non-Interest Income

Non-interest income includes gains from sale of loans, loan document fees, service charges on deposit accounts, loan servicing fees and other revenues not derived from interest on earning assets. Total non-interest income experienced a modest increase of \$57,000 for 3Q10 compared to 3Q09, primarily from higher SBA loan fees.

## Non-Interest Expenses

Non-interest expenses remained relatively flat at \$5.0 million for 3Q10 compared to \$5.2 million for 3Q09, a decline of 2.5%, as efforts to control these costs remain a priority for the Company.

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## Results of Operations – Nine-Month Comparison

The following table sets forth for the periods indicated, certain items in the consolidated statements of income of the Company and the related changes between those periods:

|   | Nine Months Ended                                |            | Increase<br>(Decrease) |
|---|--|------------|------------------------|
|   | September 30,<br>2010                            | 2009       |                        |
|   | (dollars in thousands, except per share amounts) |            |                        |
| Interest income                                     | \$29,372   | \$30,795   | \$(1,423 )             |
| Interest expense                                    | 7,538  | 11,887     | (4,349 )               |
| Net interest income                                 | 21,834   | 18,908     | 2,926                  |
| Provision for loan losses                           | 7,464  | 15,890     | (8,426 )               |
| Net interest income after provision for loan losses | 14,370   | 3,018      | 11,352                 |
| Non-interest income                                 | 2,795  | 3,389      | (594 )                 |
| Non-interest expenses                               | 15,403   | 16,355     | (952 )                 |
| Income (loss) before provision for income taxes     | 1,762  | (9,948 )   | 11,710                 |
| Provision (benefit) for income taxes                | 728  | (4,088 )   | 4,816                  |
| Net income (loss)                                   | \$1,034  | \$(5,860 ) | \$6,894                |
| Preferred stock dividends                           | 785  | 784        | 1                      |
| Net income (loss) applicable to common shareholders | \$249  | \$(6,644 ) | \$6,893                |
| Earnings (loss) per common share:                   |  |            |                        |
| Basic   | \$.04  | \$(1.12 )  | \$1.16                 |
| Diluted   | \$.04  | \$(1.12 )  | \$1.16                 |
| Dividends per common share                          | \$-  | \$-        | \$-                    |
| Comprehensive income (loss)                         | \$1,044  | \$(5,705 ) | \$6,749                |

The following table sets forth the changes in interest income and expense attributable to changes in rate and volume:

|                                    | Total<br>change<br>(in thousands) | Nine Months Ended<br>September 30,<br>2010 versus 2009 |          |
|------------------------------------|-----------------------------------|--|----------|
|                                    |                                   | Change due to<br>Rate                                  | Volume   |
| Loans, net                         | \$(1,155 )                        | \$ (1,082 )  | \$ (73 ) |
| Investment securities              | (236 )                            | (227 )   | (9 )     |
| Other                              | (32 )                             | (1 )   | (31 )    |
| Total interest-earning assets      | (1,423 )                          | (1,310 )   | (113 )   |
| Deposits                           | (3,041 )                          | (3,364 )   | 323      |
| Other borrowings                   | (1,308 )                          | (396 )   | (912 )   |
| Total interest-bearing liabilities | (4,349 )                          | (3,760 )   | (589 )   |
| Net interest income                | \$2,926                           | \$ 2,450   | \$ 476   |

## Net Interest Income

Net interest income increased by \$2.9 million, or 15.5%, for the first nine months of 2010 compared to the same period in 2009. Total interest income declined by \$1.4 million. Average interest earning-assets experienced a decline of \$9.2 million for the nine months ended September 30, 2010 compared to 2009 and a lower yield of 6.02% compared to 6.23%. The decline in interest income was offset by a reduction in interest expense of \$4.3 million from \$11.9 million for the first nine months of 2009 to \$7.5 million the same period in 2010. Rates paid on interest bearing liabilities dropped from 2.77% for the first nine months of 2009 to 1.75% through September 30, 2010, a reduction of 1.02%.

The impact of the decline in yields on interest earning assets and the decline in rates on interest-bearing liabilities was an increase in the margin from 3.82% for the first nine months of 2009 to 4.48% for the same period in 2010.

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## Provision for Loan Losses

The provision for loan losses declined to \$7.5 million for the first nine months of 2010 compared to \$15.9 million for the same period in 2009. Charge-offs have declined from \$10.0 million for the first nine months of 2009 to \$7.8 million for the same period in 2010.

The following schedule summarizes the provision, charge-offs and recoveries for the nine months ended September 30, 2010 by loan category:

## Nine Months Ended September 30, 2010

|                      | (in thousands)        |           |             |            |                    |                      |
|----------------------|-----------------------|-----------|-------------|------------|--------------------|----------------------|
|                      | Allowance<br>12/31/09 | Provision | Charge-offs | Recoveries | Net<br>Charge-offs | Allowance<br>9/30/10 |
| Real estate          | \$3,012               | \$716     | \$(1,178 )  | \$11       | \$(1,167 )         | \$2,561              |
| Manufactured housing | 2,255                 | 3,247     | (1,734 )    | 41         | (1,693 )           | 3,809                |
| Commercial           | 3,448                 | (481 )    | (828 )      | 88         | (740 )             | 2,227                |
| SBA                  | 4,801                 | 3,345     | (4,151 )    | 278        | (3,873 )           | 4,273                |
| Other installment    | 217                   | 637       | (359 )      | 30         | (329 )             | 525                  |
| Total                | \$13,733              | \$7,464   | \$(8,250 )  | \$448      | \$(7,802 )         | \$13,395             |

## Non-Interest Income

Total non-interest income declined by \$594,000, or 17.5%, for the first nine months of 2010 compared to the same period in 2009, resulting primarily from lower servicing income due to the declining balance of sold SBA loans and increased amortization of the IO strip and servicing asset.

## Non-Interest Expenses

Non-interest expenses declined \$952,000, or 5.8%, to \$15.4 million for the first nine months of 2010 compared to \$16.4 million for the same period in 2009. Non-interest expenses declined in almost all areas, most significantly in salaries and employee benefits and the FDIC assessment. Discontinuation of SBA lending east of the Rocky Mountains contributed to savings of \$364,000 in salaries and employee benefits for the first nine months of 2010 compared to 2009. The FDIC assessment declined for the first nine months of 2010 in comparison to the same period in 2009, primarily due the special assessment by the FDIC of \$306,000 in the second quarter of 2009. Partly offsetting these savings was an increase of \$406,000 in the loss on sale and write-down of foreclosed real estate and repossessed assets.

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## Interest Rates and Differentials

The following table illustrates average yields on interest-earning assets and average rates on interest-bearing liabilities for the periods indicated:

|  | Three Months        |           | Nine Months         |           |
|--|---------------------|-----------|---------------------|-----------|
|  | Ended September 30, |           | Ended September 30, |           |
|  | 2010                | 2009      | 2010                | 2009      |
| (dollars in thousands)                                     |                     |           |                     |           |
| Interest-earning assets:                                   |                     |           |                     |           |
| Interest-earning deposits in other financial institutions: |                     |           |                     |           |
| Average balance  | \$578               | \$1,078   | \$678               | \$1,095   |
| Interest income  | 5                   | 9         | 15                  | 24        |
| Average yield  | 3.32                | % 3.42    | % 3.06              | % 2.88    |
| Federal funds sold:  |                     |           |                     |           |
| Average balance  | \$941               | \$11,410  | \$2,021             | \$11,183  |
| Interest income  | 1                   | 10        | 5                   | 28        |
| Average yield  | 0.30                | % 0.33    | % 0.31              | % 0.34    |
| Investment securities:                                     |                     |           |                     |           |
| Average balance  | \$44,013            | \$46,380  | \$44,674            | \$45,027  |
| Interest income  | 328                 | 452       | 1,102               | 1,338     |
| Average yield  | 2.96                | % 3.86    | % 3.30              | % 3.97    |
| Gross loans:   |                     |           |                     |           |
| Average balance  | \$600,233           | \$606,066 | \$604,514           | \$603,802 |
| Interest income  | 9,393               | 9,907     | 28,250              | 29,405    |
| Average yield  | 6.21                | % 6.49    | % 6.25              | % 6.51    |
| Total interest-earning assets:                             |                     |           |                     |           |
| Average balance  | \$645,765           | \$664,934 | \$651,887           | \$661,107 |
| Interest income  | 9,727               | 10,378    | 29,372              | 30,795    |
| Average yield  | 5.98                | % 6.19    | % 6.02              | % 6.23    |
| Interest-bearing liabilities:                              |                     |           |                     |           |
| Interest-bearing demand deposits:                          |                     |           |                     |           |
| Average balance  | \$236,786           | \$135,254 | \$224,989           | \$99,876  |
| Interest expense   | 722                 | 638       | 2,357               | 1,361     |
| Average cost of funds                                      | 1.21                | % 1.87    | % 1.40              | % 1.82    |
| Savings deposits:  |                     |           |                     |           |
| Average balance  | \$18,963            | \$16,557  | \$19,316            | \$17,108  |
| Interest expense   | 112                 | 110       | 335                 | 344       |
| Average cost of funds                                      | 2.35                | % 2.64    | % 2.32              | % 2.69    |
| Time certificates of deposit:                              |                     |           |                     |           |
| Average balance  | \$243,461           | \$314,663 | \$255,555           | \$339,125 |
| Interest expense   | 978                 | 1,824     | 3,137               | 7,165     |
| Average cost of funds                                      | 1.59                | % 2.30    | % 1.64              | % 2.82    |
| Other borrowings:  |                     |           |                     |           |
| Average balance  | \$70,355            | \$112,005 | \$74,762            | \$117,077 |
| Interest expense   | 501                 | 895       | 1,603               | 3,017     |
| Average cost of funds                                      | 2.83                | % 3.17    | % 2.87              | % 3.45    |
| Convertible debentures:                                    |                     |           |                     |           |
| Average balance  | \$4,694             | -         | \$1,570             | -         |

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|                                     |           |   |           |           |      |           |        |
|-------------------------------------|-----------|---|-----------|-----------|------|-----------|--------|
| Interest expense                    | 106       |   |           | 106       |      |           |        |
| Average cost of funds               | 9.0       | % | -         | 9.0       | %    | -         |        |
| Total interest-bearing liabilities: |           |   |           |           |      |           |        |
| Average balance                     | \$574,259 |   | \$578,479 | \$576,192 |      | \$573,186 |        |
| Interest expense                    | 2,419     |   | 3,467     | 7,538     |      | 11,887    |        |
| Average cost of funds               | 1.67      | % | 2.38      | %         | 1.75 | %         | 2.77 % |
| Net interest income                 | \$7,308   |   | \$6,911   | \$21,834  |      | \$18,908  |        |
| Net interest spread                 | 4.30      | % | 3.81      | %         | 4.27 | %         | 3.46 % |
| Net interest margin                 | 4.49      | % | 4.12      | %         | 4.48 | %         | 3.82 % |

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In calculating interest rates and differentials:

- Average yields and rates are derived by dividing interest income by the average balances of interest-earning assets and by dividing interest expense by the average balances of interest-bearing liabilities for the periods indicated. Amounts outstanding are averages of daily balances during the applicable periods.
  - Nonaccrual loans are included in the average balance of loans outstanding.
- Net interest income is the difference between the interest and fees earned on loans and investments and the interest expense paid on deposits and other liabilities. The amount by which interest income will exceed interest expense depends on the volume or balance of earning assets compared to the volume or balance of interest-bearing deposits and liabilities and the interest rate earned on those interest-earning assets compared to the interest rate paid on those interest-bearing liabilities.
- Net interest margin is net interest income expressed as a percentage of average earning assets. It is used to measure the difference between the average rate of interest earned on assets and the average rate of interest that must be paid on liabilities used to fund those assets. To maintain its net interest margin, the Company must manage the relationship between interest earned and paid.

## Financial Condition

Average total assets increased by \$3.1 million, or 0.5%, to \$676.9 million at September 30, 2010 compared to \$673.8 million at September 30, 2009. Average total equity declined by 3.0% to \$60.9 million at September 30, 2010 from \$62.7 million at September 30, 2009. Average total gross loans at September 30, 2010 increased by \$712,000, or 0.1%, to \$604.5 million from \$603.8 million at September 30, 2009. Average deposits also increased from \$492.3 million at September 30, 2009 to \$538.2 million as of September 30, 2010.

The book value per common share increased to \$7.78 at September 30, 2010 from \$7.74 at December 31, 2009.

| Selected balance sheet accounts (dollars in thousands) | September<br>30,<br>2010 | December<br>31, 2009 | Increase<br>(Decrease) | Percent of<br>Increase<br>(Decrease) |    |
|--|--------------------------|----------------------|------------------------|--------------------------------------|----|
|  |                          |                      |                        | (dollars in thousands)               |    |
| Cash and cash equivalents                              | \$12,332                 | \$5,511              | \$6,821                | 123.8                                | %  |
| Investment securities available-for-sale               | 22,652                   | 17,670               | 4,982                  | 28.2                                 | %  |
| Investment securities held-to-maturity                 | 16,534                   | 22,678               | (6,144 )               | (27.1                                | )% |
| Loans-held for sale                                    | 93,643                   | 102,574              | (8,931 )               | (8.7                                 | )% |
| Loans-held for investment, net                         | 493,602                  | 500,866              | (7,264 )               | (1.5                                 | )% |
| Total assets   | 676,470                  | 684,216              | (7,746 )               | (1.1                                 | )% |
| Total deposits   | 535,673                  | 531,392              | 4,281                  | 0.8                                  | %  |
| Other borrowings                                       | 68,000                   | 89,000               | (21,000 )              | (23.6                                | )% |
| Convertible debentures                                 | 8,085                    | -                    | 8,085                  | -                                    |    |
| Total stockholders' equity                             | 60,782                   | 60,307               | 475                    | 0.8                                  | %  |

The following schedule shows the balance and percentage change in the various deposits:

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|  | September<br>30,<br>2010 | December<br>31,<br>2009 | Increase<br>(Decrease) | Percent of<br>Increase<br>(Decrease) |   |
|--|--------------------------|-------------------------|------------------------|--------------------------------------|---|
|  | (dollars in thousands)   |                         |                        |                                      |   |
| Non-interest-bearing deposits          | \$39,140                 | \$37,703                | \$1,437                | 3.8                                  | % |
| Interest-bearing deposits              | 246,576                  | 191,905                 | 54,671                 | 28.5                                 | % |
| Savings                                | 18,848                   | 16,396                  | 2,452                  | 15.0                                 | % |
| Time certificates of \$100,000 or more | 170,130                  | 173,594                 | (3,464 )               | (2.0 )                               | % |
| Other time certificates                | 60,979                   | 111,794                 | (50,815 )              | (45.5 )                              | % |
| Total deposits                         | \$535,673                | \$531,392               | \$4,281                | 0.8                                  | % |



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## Nonaccrual, Past Due and Restructured Loans

A loan is considered impaired when, based on current information, it is probable that the Company will be unable to collect the scheduled payments of principal or interest under the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments. Loans that experience insignificant payment delays or payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays or payment shortfalls on a case-by-case basis. When determining the possibility of impairment, management considers the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. For collateral-dependent loans, the Company uses the fair value of collateral method to measure impairment. All other loans, except for securitized loans, are measured for impairment based on the present value of future cash flows. Impairment is measured on a loan-by-loan basis for all loans in the portfolio except for the securitized loans, which are evaluated for impairment on a collective basis.

The recorded investment in loans that is considered to be impaired:

|   | September<br>30,<br>2010 | December<br>31,<br>2009 |
|---|--------------------------|-------------------------|
|   | (in thousands)           |                         |
| Impaired loans without specific valuation allowances      | \$12,498                 | \$13,699                |
| Impaired loans with specific valuation allowances         | 3,538                    | 716                     |
| Specific valuation allowances allocated to impaired loans | (386 )                   | (622 )                  |
| Impaired loans, net                                       | \$15,650                 | \$13,793                |

The following schedule reflects the average investment in impaired loans:

|  | Three Months Ended<br>September 30, |         | Nine Months Ended<br>September 30, |         |
|--|-------------------------------------|---------|------------------------------------|---------|
|  | 2010                                | 2009    | 2010                               | 2009    |
|  | (in thousands)                      |         |                                    |         |
| Average investment in impaired loans         | \$15,421                            | \$9,518 | \$15,860                           | \$8,107 |
| Interest income recognized on impaired loans | \$61                                | \$5     | \$276                              | \$173   |

The following schedule reflects recorded investment at the dates indicated in certain types of loans:

|   | September<br>30,<br>2010 | December<br>31,<br>2009 |      |   |
|---|--------------------------|-------------------------|------|---|
|   | (dollars in thousands)   |                         |      |   |
| Nonaccrual loans  | \$38,997                 | \$40,265                |      |   |
| SBA guaranteed portion of loans included above                          | (23,893 )                | (24,088 )               |      |   |
| Nonaccrual loans, net   | \$15,104                 | \$16,177                |      |   |
| Troubled debt restructured loans, gross                                 | \$5,803                  | \$7,013                 |      |   |
| Loans 30 through 89 days past due with interest accruing                | \$4,879                  | \$17,686                |      |   |
| Allowance for loan losses to gross loans (including loansheld for sale) | 2.23                     | %                       | 2.23 | % |

CWB generally repurchases the guaranteed portion of SBA loans from investors when those loans become past due 120 days. After the foreclosure and collection process is complete, the SBA reimburses CWB for this principal

balance. Therefore, although these balances do not earn interest during this period, they generally do not result in a loss of principal to CWB.

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The following table presents net non-accrual loans by type:

|                      | September 30, 2010 |         | December 31, 2009      |          |        |         |
|----------------------|--------------------|---------|------------------------|----------|--------|---------|
|                      | Amount             | Percent | (dollars in thousands) |          | Amount | Percent |
| Commercial           | \$915              | 6.1     | %                      | \$1,108  | 6.8    | %       |
| Real estate          | 7,220              | 47.8    | %                      | 6,443    | 39.8   | %       |
| SBA                  | 4,432              | 29.4    | %                      | 6,125    | 37.9   | %       |
| Manufactured housing | 2,406              | 15.9    | %                      | 2,105    | 13.0   | %       |
| Other                | 131                | .8      | %                      | 396      | 2.5    | %       |
|                      | \$15,104           | 100.0   | %                      | \$16,177 | 100.0  | %       |

### Liquidity and Capital Resources

#### Liquidity Management

The Company has established policies as well as analytical tools to manage liquidity. Proper liquidity management ensures that sufficient funds are available to meet normal operating demands in addition to unexpected customer demand for funds, such as high levels of deposit withdrawals or increased loan demand, in a timely and cost effective manner. The most important factor in the preservation of liquidity is maintaining public confidence that facilitates the retention and growth of core deposits. Ultimately, public confidence is gained through profitable operations, sound credit quality and a strong capital position. The Company's liquidity management is viewed from a long-term and short-term perspective, as well as from an asset and liability perspective. Management monitors liquidity through regular reviews of maturity profiles, funding sources and loan and deposit forecasts to minimize funding risk. The Company has asset/liability committees ("ALCO") at the Board and Bank management level to review asset/liability management and liquidity issues. The Company maintains strategic liquidity and contingency plans.

The Company has a blanket lien credit line with the Federal Home Loan Bank ("FHLB"). Advances are collateralized in the aggregate by CWB's eligible loans and securities. Total FHLB advances were \$68 million at September 30, 2010 and December 31, 2009, borrowed at fixed rates. At September 30, 2010, CWB had securities and loans pledged to FHLB with carrying value of \$39.2 million and \$85.1 million, respectively. At December 31, 2009, CWB had securities and loans pledged with carrying value of \$40.3 million and \$92.3 million, respectively. Total FHLB interest expense for the nine months ended September 30, 2010 and 2009 was \$1.6 million and \$2.9 million, respectively. At September 30, 2010, CWB had \$48.2 million available for additional borrowing.

CWB has established a credit line with the Federal Reserve Bank. Advances are collateralized in the aggregate by eligible loans for up to 28 days. The discount rate was raised to 0.75% from 0.50% in February 2010. As of September 30, 2010, there were no outstanding FRB advances and borrowing capacity of \$122 million. As of December 31, 2009 there was \$21.0 million outstanding. Interest expense on these advances for the nine months ended September 30, 2010 was \$17,000.

On August 9, 2010, the Company announced the completion of its previously announced offering of \$8,085,000 convertible subordinated debentures. The debentures pay interest at 9% until conversion, redemption or maturity and will mature on August 9, 2020. The debentures may be redeemed by the Company after January 1, 2014. Prior to maturity or redemption, the debentures can be converted into common stock at the election of the holder at \$3.50 per share if converted on or prior to July 1, 2013, \$4.50 per share between July 2, 2013 and July 1, 2016 and \$6.00 per share from July 2, 2016 until maturity or redemption.

CWB also maintains four federal funds purchased lines for a total borrowing capacity of \$23.5 million. Of the \$23.5 million in borrowing capacity, two of the lines for \$10.0 million require the Company to furnish acceptable collateral.

The Company has not experienced disintermediation and does not believe this is a potentially probable occurrence. The liquidity ratio of the Company was 19% at September 30, 2010 and 18% at December 31, 2009. The Company's liquidity ratio fluctuates in conjunction with loan funding demands. The liquidity ratio consists of cash and due from banks, deposits in other financial institutions, available-for-sale investments, federal funds sold and loans held for sale, divided by total assets.

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CWBC's routine funding requirements primarily consist of certain operating expenses, TARP preferred dividends and, beginning in the fourth quarter of 2010, interest payments on the debentures. Normally, CWBC obtains funding to meet its obligations from dividends collected from its subsidiary and has the capability to issue debt securities. Federal banking laws regulate the amount of dividends that may be paid by banking subsidiaries without prior approval. CWBC anticipates that for the foreseeable future, it will fund its expenses, TARP preferred dividends and interest payments on the debenture from proceeds of the offering and will not receive dividends from its bank subsidiary.

### Interest Rate Risk

The Company is exposed to different types of interest rate risks. These risks include: lag, repricing, basis and prepayment risk.

**Lag Risk** – lag risk results from the inherent timing difference between the repricing of the Company's adjustable rate assets and liabilities. For instance, certain loans tied to the prime rate index may only reprice on a quarterly basis. However, at a community bank such as CWB, when rates are rising, funding sources tend to reprice more slowly than the loans. Therefore, for CWB, the effect of this timing difference is generally favorable during a period of rising interest rates and unfavorable during a period of declining interest rates. This lag can produce some short-term volatility, particularly in times of numerous prime rate changes.

**Repricing Risk** – repricing risk is caused by the mismatch in the maturities / repricing periods between interest-earning assets and interest-bearing liabilities. If CWB was perfectly matched, the net interest margin would expand during rising rate periods and contract during falling rate periods. This is so since loans tend to reprice more quickly than do funding sources. Typically, since CWB is somewhat asset sensitive, this would also tend to expand the net interest margin during times of interest rate increases.

**Basis Risk** – item pricing tied to different indices may tend to react differently, however, all CWB's variable products are priced off the prime rate.

**Prepayment Risk** – prepayment risk results from borrowers paying down / off their loans prior to maturity. Prepayments on fixed-rate products increase in falling interest rate environments and decrease in rising interest rate environments. Since a majority of CWB's loan originations are adjustable rate and set based on prime, and there is little lag time on the reset, CWB does not experience significant prepayments. However, CWB does have more prepayment risk on its securitized and manufactured housing loans and its mortgage-backed investment securities.

### Management of Interest Rate Risk

To mitigate the impact of changes in market interest rates on the Company's interest-earning assets and interest-bearing liabilities, the amounts and maturities are actively managed. Short-term, adjustable-rate assets are generally retained as they have similar repricing characteristics as our funding sources. CWB sells mortgage products and a portion of its SBA loan originations. While the Company has some interest rate exposure in excess of five years, it has internal policy limits designed to minimize risk should interest rates rise. Currently, the Company does not use derivative instruments to help manage risk, but will consider such instruments in the future if the perceived need should arise.

**Loan sales** - The Company's ability to originate, purchase and sell loans is also significantly impacted by changes in interest rates. Increases in interest rates may also reduce the amount of loan and commitment fees received by CWB. A significant decline in interest rates could also decrease the size of CWB's servicing portfolio and the related

servicing income by increasing the level of prepayments.

#### Capital Resources

The Company (on a consolidated basis) and CWB are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory - and possibly additional discretionary - actions by regulators that, if undertaken, could have a direct material effect on the Company's and CWB's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and CWB must meet specific capital guidelines that involve quantitative measures of the Company's and CWB's assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Company's and CWB's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

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The Federal Deposit Insurance Corporation Improvement Act (“FDICIA”) contains rules as to the legal and regulatory environment for insured depository institutions, including reductions in insurance coverage for certain kinds of deposits, increased supervision by the federal regulatory agencies, increased reporting requirements for insured institutions and new regulations concerning internal controls, accounting and operations. The prompt corrective action regulations of FDICIA define specific capital categories based on the institutions’ capital ratios. The capital categories, in declining order, are “well capitalized”, “adequately capitalized”, “undercapitalized”, “significantly undercapitalized” and “critically undercapitalized”. To be considered “well capitalized”, an institution must have a core capital ratio of at least 5% and a total risk-based capital ratio of at least 10%. Additionally, FDICIA imposes Tier I risk-based capital ratio of at least 6% to be considered “well capitalized”. Tier I risk-based capital is, primarily, common stock and retained earnings, net of goodwill and other intangible assets.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the following table) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier 1 leverage capital (as defined) to adjusted average assets (as defined). The Company’s and CWB’s actual capital amounts and ratios as of September 30, 2010 and December 31, 2009 are also presented in the table below:

| (dollars in thousands)                | Total Capital | Tier 1 Capital | Risk-Weighted Assets<br>(dollars in thousands) | Adjusted Average Assets | Total Risk-Based Capital Ratio | Tier 1 Risk-Based Capital Ratio | Tier 1 Leverage Ratio |
|---------------------------------------|---------------|----------------|--|-------------------------|--------------------------------|---------------------------------|-----------------------|
| September 30, 2010                    |               |                |  |                         |                                |                                 |                       |
| CWBC<br>(Consolidated)                | \$75,404      | \$60,513       | \$ 537,675                                     | \$673,851               | 14.02 %                        | 11.25 %                         | 8.98 %                |
| Capital in excess of well capitalized |               |                |  |                         | \$21,637                       | \$28,253                        | \$26,820              |
| CWB                                   | 68,063        | 61,253         | 538,054  | 674,145                 | 12.65 %                        | 11.38 %                         | 9.09 %                |
| Capital in excess of well capitalized |               |                |  |                         | \$14,258                       | \$28,970                        | \$27,546              |
| December 31, 2009                     |               |                |  |                         |                                |                                 |                       |
| CWBC<br>(Consolidated)                | \$66,984      | \$60,029       | \$ 549,207                                     | \$681,101               | 12.20 %                        | 10.93 %                         | 8.81 %                |
| Capital in excess of well capitalized |               |                |  |                         | \$12,063                       | \$27,077                        | \$25,974              |
| CWB                                   | 66,175        | 59,219         | 549,240  | 681,129                 | 12.05 %                        | 10.78 %                         | 8.69 %                |
| Capital in excess of well capitalized |               |                |  |                         | \$11,251                       | \$26,265                        | \$25,163              |
| Well capitalized ratios               |               |                |  |                         | 10.00 %                        | 6.00 %                          | 5.00 %                |
|                                       |               |                |  |                         | 8.00 %                         | 4.00 %                          | 4.00 %                |

#### Minimum capital ratios

The Company and CWB each met the minimum ratios required to be classified as “well capitalized” under generally applicable regulatory guidelines.

#### Convertible Debentures

On August 9, 2010, the Company announced the completion of its previously announced offering of \$8,085,000 convertible subordinated debentures. The debentures qualify as Tier 2 capital and are included in Total Capital for calculation of the capital ratios. The debentures pay interest at 9% until conversion, redemption or maturity and will mature on August 9, 2020. The debentures may be redeemed by the Company after January 1, 2014. Prior to maturity or redemption, the debentures can be converted into common stock at the election of the holder at \$3.50 per share if converted on or prior to July 1, 2013, \$4.50 per share between July 2, 2013 and July 1, 2016 and \$6.00 per share from July 2, 2016 until maturity or redemption.

#### TARP CPP

On December 19, 2008, as part of the United States Department of the Treasury’s (“Treasury”) Troubled Asset Relief Program - Capital Purchase Program (“TARP CPP”), the Company entered into a Letter Agreement which incorporates the terms of a Securities Purchase Agreement - Standard Terms with the Treasury (“Purchase Agreement”), pursuant to which the Company issued to the Treasury, in exchange for an aggregate purchase price of \$15.6 million in cash: (i) 15,600 shares of the Company's Fixed Rate Cumulative Perpetual Preferred Stock, Series A, no par value, having a liquidation preference of \$1,000 per share (“Series A Preferred Stock”), and (ii) a warrant (“Warrant”) to purchase up to 521,158 shares of Common Stock, at an exercise price of \$4.49 per share (“Warrant Shares”). The Series A Preferred Stock pays cumulative dividends at a rate of 5% per year, or approximately \$780,000, for the first five years and at a rate of 9% per year thereafter, or approximately \$1,404,000, if, as and when declared by the Company's Board of Directors. The Series A Preferred Stock has no maturity date and ranks senior to the Common Stock with respect to the payment of dividends and distributions and amounts payable upon liquidation, dissolution and winding up of the Company. The Series A Preferred Stock is generally non-voting, other than class voting on certain matters that could adversely affect the Series A Preferred Stock.



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The Warrant is immediately exercisable and has a 10-year term. The exercise price and the ultimate number of shares of Common Stock that may be issued under the Warrant are subject to certain anti-dilution adjustments, such as upon stock splits or distributions of securities or other assets to holders of the Common Stock, and upon certain issuances of the Common Stock at or below a specified price relative to the then current market price of the Common Stock. Pursuant to the Purchase Agreement, the Treasury has agreed not to exercise voting power with respect to any Warrant Shares.

Both the Series A Preferred Stock and the Warrant will be accounted for as components to Tier 1 capital.

Supervision and  
Regulation

Banking is a complex, highly regulated industry. The banking regulatory scheme serves not to protect investors, but is designed to maintain a safe and sound banking system, to protect depositors and the FDIC insurance fund, and to facilitate the conduct of sound monetary policy. In furtherance of these goals, Congress and the states have created several largely autonomous regulatory agencies and enacted numerous laws that govern banks, bank holding companies and the banking industry. Consequently, the Company's growth and earnings performance, as well as that of CWB, may be affected not only by management decisions and general economic conditions, but also by the requirements of applicable state and federal statutes and regulations and the policies of various governmental regulatory authorities, including the Board of Governors of the Federal Reserve Bank ("FRB"), the FDIC, and the Office of the Comptroller of the Currency ("OCC"). For a detailed discussion of the regulatory scheme governing the Company and CWB, please see the discussion in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2009 under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operation – Supervision and Regulation."

On July 21, 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act, or the Dodd-Frank Act, a landmark financial reform bill that significantly changes the current bank regulatory structure and affects the lending, investment, trading and operating activities of financial institutions and their holding companies. Among other things, the Dodd-Frank Act dramatically impacts the rules governing the provision of consumer financial products and services, and implementation of the Dodd-Frank Act will require new mandatory and discretionary rulemakings by numerous federal regulatory agencies over the next several years. The new law includes, among other things, the following:

- The Dodd-Frank Act establishes a new Financial Stability Oversight Counsel to monitor systemic financial risks. The Board of Governors of the Federal Reserve is given extensive new authorities to impose strict controls on large bank holding companies with total consolidated assets equal to or in excess of \$50 billion and systemically significant non-bank financial companies to limit the risk they might pose for the economy and to other large interconnected companies. The Dodd-Frank Act also grants to the Treasury Department, FDIC and the FRB broad new powers to seize, close and wind-down "too big to fail" financial institutions (including non-bank institutions) in an orderly fashion.
- The Dodd-Frank Act also establishes a new independent federal regulatory body for consumer protection within the Federal Reserve System known as the Bureau of Consumer Financial Protection (the "Bureau"), which will assume responsibility for most consumer protection laws. It will also be in charge of setting appropriate consumer banking fees and caps. The Bureau has examination and enforcement authority over all banks and savings institutions with more than \$10 billion in assets. Banks and savings institutions with \$10 billion or less in assets will be examined by their applicable bank regulators.

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The Dodd-Frank Act restricts the amount of trust preferred securities that may be considered as Tier 1 capital. For depository institution holding companies below \$15 billion in total assets, trust preferred securities issued before May 19, 2010 will be grandfathered, so their status as Tier 1 capital does not change. However, going forward trust preferred securities will be disallowed as Tier 1 capital.

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- The Dodd-Frank Act effects changes in the FDIC assessment base with stricter oversight. A new council of regulators led by the U.S. Treasury will set higher requirements for the amount of cash banks must keep on hand. The minimum reserve ratio is to be increased from 1.15% to 1.35%; however, financial institutions with assets of less than \$10 billion, like Community West Bancshares are to be exempt from the cost of the increase. FDIC insurance coverage is made permanent at the \$250 thousand level retroactive to January 1, 2008 and unlimited FDIC insurance is provided for non-interest-bearing demand deposits, which coverage will continue until December 31, 2013.
- Under the Dodd-Frank Act, the Comptroller of the Currency's ability to preempt state consumer protection laws was made more difficult by raising the applicable preemption standards and state attorneys general are granted greater authority to enforce state consumer protection laws against national banks and their operating subsidiaries.
- The Dodd-Frank Act adopts the so-called "Volcker rule," which, subject to certain exceptions, prohibits any banking entity from engaging in proprietary trading, or sponsoring or investing in a hedge fund or private equity fund.

We are currently evaluating the potential impact of the Dodd-Frank Act on our business, financial condition, results of operations and prospects and expect that some provisions of the Dodd-Frank Act may have adverse effects on us, such as the cost of complying with the numerous new regulations and reporting requirements mandated by the Dodd-Frank Act.

ITEM 4.

CONTROLS AND PROCEDURES

The Company's management, with the participation of the Chief Executive Officer and Chief Financial Officer, carried out an evaluation of the effectiveness of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(b). Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures are reasonably effective in ensuring that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and is accumulated and communicated to management to allow timely decisions regarding disclosure.

Disclosure controls and procedures, no matter how well designed and implemented, can provide only reasonable assurance of achieving an entity's disclosure objectives. The likelihood of achieving such objectives is affected by limitations inherent in disclosure controls and procedures. These include the fact that human judgment in decision-making can be faulty and that breakdowns in internal control can occur because of human failures such as simple errors or mistakes or intentional circumvention of the established process.

There was no change in the Company's internal control over financial reporting, known to the Chief Executive Officer or the Chief Financial Officer, that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1.

LEGAL PROCEEDINGS

The Company is involved in various litigation of a routine nature that is being handled and defended in the ordinary course of the Company's business. In the opinion of management, based in part on consultation with legal counsel, the resolution of these litigation matters is not expected have a material impact on the Company's financial position or results of operations.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

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ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

Exhibits.

31.1 Certification of Chief Executive Officer of the Registrant pursuant to Rule 13a-14(a) or Rule 15d-14(a), promulgated under the Securities Exchange Act of 1934, as amended.

31.2 Certification of Chief Financial Officer of the Registrant pursuant to Rule 13a-14(a) or Rule 15d-14(a), promulgated under the Securities Exchange Act of 1934, as amended.

\*32.1 Certification of Chief Executive Officer and Chief Financial Officer of the Registrant pursuant to Rule 13a-14(b) or Rule 15d-14(b), promulgated under the Securities Exchange Act of 1934, as amended, and 18 U.S.C. 1350.

\*This certification is furnished to, but shall not be deemed filed with, the Commission. This certification shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent that the Company specifically incorporates it by reference.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

COMMUNITY WEST BANCSHARES  
(Registrant)

Date: November 12, 2010

/s/Charles G. Baltuskonis  
Charles G. Baltuskonis  
Executive Vice President and  
Chief Financial Officer

On Behalf of Registrant and as  
Principal Financial and Accounting Officer

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## EXHIBIT INDEX

| Exhibit Number | Description of Document  |
|----------------|--|
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