

COMMUNITY WEST BANCSHARES /  
Form 10-K  
March 30, 2009

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

FORM 10-K

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2008  
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)

Securities registered under Section 12(b) of the Exchange Act:

Title of each class	Name of each exchange on which registered
Common Stock, No Par Value	Nasdaq Global Market

Securities registered under Section 12(g) of the Exchange Act: NONE

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

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if smaller reporting company)

Smaller reporting company

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

The aggregate market value of common stock, held by non-affiliates of the registrant as of June 30, 2008, was \$23,079,200 based on a closing price of \$6.51 for the common stock, as reported on the Nasdaq Global Market. For purposes of the foregoing computation, all executive officers, directors and 5 percent beneficial owners of the registrant are deemed to be affiliates. Such determination should not be deemed to be an admission that such executive officers, directors or 5 percent beneficial owners are, in fact, affiliates of the registrant.

As of March 24, 2009, 5,915,130 shares of the registrant’s common stock were outstanding.

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DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A in connection with the 2009 Annual Meeting of Shareholders to be held on or about May 28, 2009 are incorporated by reference into Part III of this Report. The proxy statement will be filed with the Securities and Exchange Commission not later than 120 days after the registrant's fiscal year ended December 31, 2008.

COMMUNITY WEST BANCSHARES  
FORM 10-K

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PART I

ITEM 1. BUSINESS

GENERAL

Community West Bancshares (“CWBC”) was incorporated in the State of California on November 26, 1996, for the purpose of forming a bank holding company. On December 31, 1997, CWBC acquired a 100% interest in Community West Bank, National Association (“CWB” or “Bank”). Effective that date, shareholders of CWB became shareholders of CWBC in a one-for-one exchange. The acquisition was accounted at historical cost in a manner similar to pooling-of-interests. CWBC and CWB are referred to herein as the “Company”.

Community West Bancshares is a bank holding company. During the fiscal year, CWB was the sole bank subsidiary of CWBC. CWBC provides management and shareholder services to CWB.

PRODUCTS AND SERVICES

CWB offers a range of commercial and retail financial services to professionals, small to mid-sized businesses and individual households. These services include various loan and deposit products. CWB also offers other financial services.

Relationship Banking – Relationship banking is conducted at the community level through five full-service branch offices on the Central Coast of California stretching from Santa Maria to Westlake Village. The primary customers are small to mid-sized businesses in these communities and their owners and managers. CWB’s goal is to provide the highest quality service and the most diverse products to meet the varying needs of this highly sought customer base.

CWB offers a range of commercial and retail financial services, including the acceptance of demand, savings and time deposits, and the origination of commercial, real estate, construction, home improvement, home equity lines of credit and other installment and term loans. Its customers are also provided with the choice of a range of cash management services, remittance banking, merchant credit card processing, courier service and online banking. In addition to the traditional financial services offered, CWB offers remote deposit capture, automated clearinghouse origination, electronic data interchange and check imaging. CWB continues to investigate products and services that it believes address the growing needs of its customers and to analyze new markets for potential expansion opportunities.

One of CWB’s key strengths and a fundamental difference that the Company believes enables it to stand apart from the competition is the depth of experience of personnel in commercial lending and business development. These individuals develop business, structure and underwrite the credit and manage the customer relationship. This provides a competitive advantage as CWB’s competitors for the most part, have a centralized lending function where developing business, underwriting credit and managing the relationship is split between multiple individuals.

Small Business Administration Lending - CWB has been a preferred lender/servicer of loans guaranteed by the Small Business Administration (“SBA”) since 1990. The Company originates SBA loans which are occasionally sold into the secondary market. The Company continues to service these loans after sale and is required under the SBA programs to retain specified amounts. The two primary SBA loan programs that CWB offers are the basic 7(a) Loan Guaranty and the Certified Development Company (“CDC”), a Section 504 (“504”) program.

The 7(a) serves as the SBA’s primary business loan program to help qualified small businesses obtain financing when they might not be eligible for business loans through normal lending channels. Loan proceeds under this program can be used for most business purposes including working capital, machinery and equipment, furniture and fixtures, land

and building (including purchase, renovation and new construction), leasehold improvements and debt refinancing. Loan maturity is generally up to 10 years for working capital and up to 25 years for fixed assets. The 7(a) loan is approved and funded by a qualified lender, guaranteed by the SBA and subject to applicable regulations. The SBA typically guarantees 75%, and up to 85%, of the loan amount, depending on the loan size. Although, in very recent developments, as described below, the guarantee has been temporarily increased. The Company is required by the SBA to retain a contractual minimum of 5% on all SBA 7(a) loans. The SBA 7(a) loans are always variable interest rate loans. The servicing spread is a minimum of 1% on the majority of loans. Income recognized by the Company on the sales of the guaranteed portion of these loans and the ongoing servicing income received have in the past been significant revenue sources for the Company.

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The 504 program is an economic development-financing program providing long-term, low downpayment loans to expanding businesses. Typically, a 504 project includes a loan secured from a private-sector lender with a senior lien, a loan secured from a CDC (funded by a 100% SBA-guaranteed debenture) with a junior lien covering up to 40% of the total cost, and a contribution of at least 10% equity from the borrower. Debenture limits are \$1.5 million for regular 504 loans, \$2 million for those 504 loans that meet a public policy goal and \$4 million for manufacturing entities.

CWB also offers Business & Industry ("B & I") loans. These loans are similar to the SBA product, except they are guaranteed by the U.S. Department of Agriculture. The guaranteed amount is generally 80%. B&I loans are made to businesses in designated rural areas and are generally larger loans to larger businesses than the 7(a) loans. Similar to the SBA 7(a) product, they can be sold into the secondary market.

CWB also originates conventional and investor loans which are funded by our secondary-market partners for which the Bank receives a premium.

CWB originates SBA loans in the states of California, Alabama, Arizona, Colorado, Florida, Georgia, Indiana, Kentucky, New Jersey, North Carolina, Ohio, Oregon, Pennsylvania, South Carolina, Tennessee, Utah, Virginia, Washington, Washington DC and metro New York City. The SBA has designated CWB as a "Preferred Lender", such status being awarded on a national basis. As a Preferred Lender, CWB has been delegated the loan approval, closing and most servicing and liquidation authority responsibility from the SBA.

CWB has made the decision based on an analysis of risk vs. reward and the desire to preserve capital to discontinue as of April 1, 2009 SBA lending east of the Rocky Mountains.

On March 16, 2009, the White House announced as part of the Financial Stability Plan and the Consumer and Business Lending Initiative, several provisions designed to provide liquidity in SBA markets and encourage SBA lending activities. These include:

- Temporarily increasing the percentage guaranteed to 90% up to a maximum guarantee amount of \$1.5 million
  - Direct purchase of securities backed by SBA 7(a) loans
  - Make direct purchases securities backed by SBA 504 loans
  - Temporarily eliminate borrower and lender fees for 504 loans
- Temporarily eliminate up-front SBA guaranty fees that are passed through to borrowers for 7(a) loans

**Mortgage Lending** - CWB has a Wholesale and Retail Mortgage Loan Center. The Mortgage Loan Division originates residential real estate loans primarily in the California counties of Santa Barbara, Ventura and San Luis Obispo. Some retail loans not fitting CWB's wholesale lending criteria are brokered to other lenders. After wholesale origination, most of the real estate loans are sold into the secondary market.

**Manufactured Housing** - CWB has a financing program for manufactured housing to provide affordable home ownership to low to moderate-income families that are purchasing or refinancing their manufactured house. These loans are offered in CWB's primary lending areas of Santa Barbara, Ventura and San Luis Obispo counties and the secondary areas of Los Angeles, Orange, San Diego, Sacramento and surrounding Northern California counties. The manufactured homes are located in approved mobile home parks. The parks must meet specific criteria and have amenities such as clubhouses, pools, common areas and be maintained in good to excellent condition. The

manufactured housing loans are retained in CWB's loan portfolio.

CWB's business is not seasonal in nature nor is CWB's business reliant on just a few major clients.

#### COMPETITION AND SERVICE AREA

The financial services industry is highly competitive with respect to both loans and deposits. Overall, the industry is dominated by a relatively small number of major banks with many offices operating over a wide geographic area. In the markets where the Company's banking branches are present, several de novo banks have increased competition. Some of the major commercial banks operating in the Company's service areas offer types of services that are not offered directly by the Company. Some of these services include leasing, trust and investment services and international banking. The Company has taken several approaches to minimize the impact of competitors' numerous branch offices and varied products. First, CWB provides courier services to business clients, thus discounting the need for multiple branches in one market. Second, through strategic alliances and correspondents, the Company provides a full complement of competitive services. Finally, one of CWB's strategic initiatives is to establish full-service branches or loan production offices in areas where there is a high demand for its lending products. In addition to loans and deposit services offered by CWB's five branches located in Goleta, Ventura, Santa Maria, Santa Barbara and Westlake Village, California, a loan production office currently exists in Roseville, California and a SBA loan production office in the San Francisco Bay area. The Company also maintains SBA loan production offices in the states of Arizona, Colorado, Florida, Georgia, New Jersey, North Carolina, Tennessee, Ohio, Oregon, Utah, Virginia and Washington. The remote deposit capture product was put in place to better compete for deposits in areas not serviced by a branch.



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Competition may adversely affect the Company's performance. The financial services business in the Company's markets is highly competitive and becoming increasingly more so due to changing regulations, technology and strategic consolidations amongst other financial service providers. Other banks, credit unions and specialty financial services companies may have more capital than the Company and can offer trust services, leasing and other financial products to the Company's customer base. When new competitors seek to enter one of the Company's markets, or when existing market participants seek to increase their market share, they sometimes undercut the pricing or credit terms prevalent in that market. Increasing levels of competition in the banking and financial services businesses may reduce the Company's market share or cause the prices to fall for which the Company can charge for products and services.

Competition may also be impacted by overall economic conditions which for 2008 are considered among the most difficult environments for financial institutions in decades. During 2008, market and economic conditions were severely impacted where credit conditions rapidly deteriorated and financial markets experienced widespread illiquidity and elevated levels of volatility. Concerns about future economic growth, unemployment, oil prices, lower consumer confidence, rapid contraction of credit availability and lower corporate earnings continue to challenge the economy. As a result of these economic conditions, federal government agencies, the Federal Reserve Board and the U.S. Department of the Treasury (the Treasury) initiated several actions which have changed the landscape of the financial services' industry.

## EMPLOYEES

As of December 31, 2008, the Company had 135 full-time and 13 part-time employees. The Company's employees are not represented by a union or covered by a collective bargaining agreement. Management of the Company believes that, in general, its employee relations are good.

## GOVERNMENT POLICIES

The Company's operations are affected by various state and federal legislative changes and by regulations and policies of various regulatory authorities, including those of the states in which it operates and the U.S. government. These laws, regulations and policies include, for example, statutory maximum legal lending rates, domestic monetary policies by the Board of Governors of the Federal Reserve System which impact interest rates (as evidenced by the dramatic downward interest rate pressure in 2008), U.S. fiscal policy, anti-terrorism and money laundering legislation and capital adequacy and liquidity constraints imposed by bank regulatory agencies. Changes in these laws, regulations and policies may greatly affect our operations. See "Item 1A Risk Factors – Curtailment of Government Guaranteed Loan Programs Could Affect a Segment of the Company's Business" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Supervision and Regulation."

## ITEM 1A.

## RISK FACTORS

Investing in our common stock involves various risks which are particular to our Company, our industry and our market area. Several risk factors regarding investing in our common stock are discussed below. This listing should not be considered as all-inclusive. If any of the following risks were to occur, we may not be able to conduct our business as currently planned and our financial condition or operating results could be negatively impacted.

Recession and changes in domestic and foreign financial markets may have a material negative impact on our results of operations and financial condition.

Economic indices have shown that since the fourth quarter of 2007, the United States economy has been in a recession. This has been reflected in significant business failures and job losses, which job losses were excess of 500,000 in each of November and December 2008. Job losses at this level are expected to continue during the first quarter of 2009.

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In addition, in the past year, the domestic and foreign financial markets, securities trading markets and economies generally have experienced significant turmoil including, without limitation, government takeovers of troubled institutions, government brokered mergers of such firms to avoid bankruptcy or failures, bankruptcies of securities trading firms and insurance companies, failures of financial institutions and securities brokerage firms, significant declines in real property values, and wide fluctuations in energy prices, all of which have contributed to reduced availability of credit for businesses and consumers, significant levels of foreclosures on residential and commercial properties, falling home prices, reduced liquidity and a lack of stability across the entire financial sector. These recent events and the corresponding uncertainty and decline in financial markets are likely to continue for the foreseeable future. The full extent of the repercussions to our nation's economy in general and our business in particular are not fully known at this time. Such events are likely to have a negative effect on (i) our ability to service our existing customers and attract new customers, (ii) the ability of our borrowers to operate their business as successfully as in the past, (iii) the financial security and net worth of our customers, and (iv) the ability of our customers to repay their loans with us in accordance with the terms thereof. Even though we have enhanced our total shareholders equity with the proceeds of the \$15.6 million we received in funds from the Treasury under its Troubled Asset Relief Program – Capital Purchase Program (“TARP-CPP”) (discussed below), such developments could have a material negative impact on our results of operations and financial condition.

Recent legislative and regulatory initiatives to address difficult market and economic conditions may not stabilize the U.S. banking system.

The recently enacted Emergency Economic Stabilization Act (“EESA”), the Financial Stability Plan (“FSP”), the American Recovery and Reinvestment Act (“ARRA”) and the Homeowner Affordability and Stabilization Plan (“HASP”), and the numerous actions by the Board of Governors of the Federal Reserve System, the Treasury, the Federal Deposit Insurance Corporation (“FDIC”), the Securities and Exchange Commission (“SEC”) and others are intended to address the liquidity and credit crisis, and to stabilize the U.S. banking, financial securities and housing markets. These measures include homeowner relief that encourage loan restructuring and modification; the establishment of significant liquidity and credit facilities for financial institutions and investment banks; the lowering of the federal funds rate; emergency action against short selling practices; a temporary guaranty program for money market funds; the establishment of a commercial paper funding facility to provide “back-stop” liquidity to commercial paper issuers; and coordinated international efforts to address illiquidity and other weaknesses in the banking sector. The EESA and the other regulatory initiatives described above may not have their desired effects. If the volatility in the markets continues and economic conditions fail to improve or worsen, our business, financial condition and results of operations could be materially and adversely affected.

Current levels of market volatility are unprecedented.

The capital and credit markets have been experiencing volatility and disruption for more than a year. In recent months, the volatility and disruption has reached unprecedented levels. The markets have produced downward pressure on stock prices and credit availability for certain issuers without regard to those issuers' underlying financial strength. If current levels of market disruption and volatility continue or worsen, there can be no assurance that we will not experience an adverse effect, which may be material, on our ability to access capital and on our business, financial condition and results of operations.

We are subject to certain executive compensation and corporate governance restrictions as a result of our participation in the TARP Program.

As a result of our participation in the TARP-CPP, we must adopt the Treasury's standards for executive compensation and corporate governance for the period during which the Treasury holds an equity position acquired under the TARP-CPP. These standards generally apply to our Chief Executive Officer, our Chief Financial Officer, our Chief

Credit Officer and up to the two next most highly compensated executive officers (collectively, the “senior executive officers”). The standards include: (i) ensuring that incentive compensation for senior executive officers does not encourage unnecessary and excessive risks that threaten the value of our Company, (ii) requiring clawback of any bonus or incentive compensation paid to a senior executive officer based on statements of earnings, gains or other criteria that are later proven to be materially inaccurate, (iii) prohibiting golden parachute payments to a senior executive officer, including severance payments for any reason and (iv) our agreement not to deduct for tax purposes compensation to a senior executive officer in excess of \$500,000. In particular, the change to the deductibility limit on executive compensation may increase the overall cost of our compensation programs in future periods or impact our ability to attract and retain quality executive personnel. We will be subject to the executive compensation and corporate governance restrictions for so long as the Treasury holds any equity securities issued as a result of our participation in TARP-CPP. This period could be more than ten years.

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Reserve for credit losses may not be adequate to cover actual loan losses.

The risk of nonpayment of loans is inherent in all lending activities, and nonpayment, if it occurs, may have an adverse effect on our financial condition and/or results of operation. We maintain a reserve for credit losses to absorb estimated probable credit losses inherent in the loan and commitment portfolios as of the balance sheet date. After a provision of \$5.3 million for the year, as of December 31, 2008, our allowance for loan losses was \$7.3 million or 1.61% of loans held for investment. In determining the level of the reserve for credit losses, our management makes various assumptions and judgments about the loan portfolio. We rely on an analysis of our loan portfolio based on historical loss experience, volume and types of loans, trends in classifications, volume and trends in delinquencies and non-accruals, national and local economic conditions and other pertinent information known at the time of the analysis. If management's assumptions are incorrect, the reserve for credit losses may not be sufficient to cover losses, which could have a material adverse effect on our financial condition and/or results of operations. While the allowance was determined to be adequate at December 31, 2008, based on the information available to us at the time, there can be no assurance that the allowance will be adequate in the future. During the first quarter of 2009, the Company has experienced some deterioration and certain downgrades to specific loans in its portfolio. As a result, and to enhance the overall general reserve, it is likely that the Company will make substantial provisions to the allowance for loan losses in the first quarter of 2009, and if further losses come to light, the Company will record such provisions in the period in which the losses are incurred.

All of our lending involves underwriting risks.

As of December 31, 2008, commercial business loans represented 12.7% of our total loan portfolio; real estate loans represented 22.1% of our total loan portfolio; SBA loans represented 28.4% of our total loan portfolio and manufactured housing loans represented 32.4% of our total portfolio. All such lending, even when secured by the assets of a business, involves considerable risk of loss in the event of failure of the business. To reduce such risk, we typically take additional security interests in other collateral of the borrower, such as real property, certificates of deposit or life insurance, and/or obtain personal guarantees. In light of the economic downturn, our efforts to reduce risk of loss may not prove sufficient as the value of the additional collateral or personal guarantees may be significantly reduced. There can be no assurances that we have taken sufficient collateral or the values thereof will be sufficient to repay loans in accordance with their terms.

Our dependence on real estate concentrated in the State of California.

As of December 31, 2008, approximately \$195.8 million, or 33.3%, of our loan portfolio is secured by various forms of real estate, including residential and commercial real estate. A further decline in current economic conditions or rising interest rates could have an adverse effect on the demand for new loans, the ability of borrowers to repay outstanding loans and the value of real estate and other collateral securing loans. The real estate securing our loan portfolio is concentrated in California. The decline in real estate values could harm the financial condition of our borrowers and the collateral for our loans will provide less security and we would be more likely to suffer losses on defaulted loans.

Curtailment of government guaranteed loan programs could affect a segment of our business.

A major segment of our business consists of originating and periodically selling government guaranteed loans, in particular those guaranteed by the Small Business Administration. From time to time, the government agencies that guarantee these loans reach their internal limits and cease to guarantee loans. In addition, these agencies may change their rules for loans or Congress may adopt legislation that would have the effect of discontinuing or changing the loan programs. Non-governmental programs could replace government programs for some borrowers, but the terms might not be equally acceptable. Therefore, if these changes occur, the volume of loans to small business, industrial

and agricultural borrowers of the types that now qualify for government guaranteed loans could decline. Also, the profitability of these loans could decline. As the funding of the guaranteed portion of 7(a) loans is a major portion of our business, the long-term resolution to the funding for the 7(a) loan program may have an unfavorable impact on our future performance and results of operations.

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Our small business customers may lack the resources to weather a downturn in the economy.

One of the primary focal points of our business development and marketing strategy is serving the banking and financial services needs of small- and medium-sized businesses and professional organizations. Small businesses generally have fewer financial resources in terms of capital or borrowing capacity than do larger entities. If economic conditions are generally unfavorable in our service areas, the businesses of our lending clients and their ability to repay outstanding loans may be negatively affected. As a consequence, our results of operations and financial condition may be adversely affected.

Environmental laws could force the Company to pay for environmental problems.

When a borrower defaults on a loan secured by real property, we generally purchase the property in foreclosure or accept a deed to the property surrendered by the borrower. We may also take over the management of commercial properties when owners have defaulted on loans. While we have guidelines intended to exclude properties with an unreasonable risk of contamination, hazardous substances may exist on some of the properties that we own, manage or occupy and unknown hazardous risks could impact the value of real estate collateral. We face the risk that environmental laws could force us to clean up the properties at our expense. It may cost much more to clean a property than the property is worth. We could also be liable for pollution generated by a borrower's operations if we took a role in managing those operations after default. Resale of contaminated properties may also be difficult.

Fluctuations in interest rates may reduce profitability.

Changes in interest rates affect interest income, the primary component of our gross revenue, as well as interest expense. Our earnings depend largely on the relationship between the cost of funds, primarily deposits and borrowings, and the yield on earning assets, primarily loans and investment securities. This relationship, known as the interest rate spread, is subject to fluctuation and is affected by the monetary policies of the Federal Reserve Board, the shape of the yield curve, the international interest rate environment, as well as by economic, regulatory and competitive factors which influence interest rates, the volume and mix of interest-earning assets and interest-bearing liabilities, and the level of nonperforming assets. Many of these factors are beyond our control. Fluctuations in interest rates may affect the demand of customers for products and services. As interest rates change, we expect to periodically experience "gaps" in the interest rate sensitivities of its assets and liabilities. This means that either interest-bearing liabilities will be more sensitive to changes in market interest rates than interest-earning assets, or vice versa. In either event, changes in market interest rates may have a negative impact on our earnings.

Responding to economic sluggishness and recession concerns, the Federal Reserve Board, through its Federal Open Market Committee ("FOMC"), cut the target federal funds rate beginning in September 2007 to historically low levels. The actions of the Federal Reserve Board, while designed to help the economy overall, may negatively impact the Bank's earnings.

Changes in the level of interest rates also may negatively affect our ability to originate loans, the value of loans and the ability to realize gains from the sale of loans, all of which ultimately affect earnings. A decline in the market value of our assets may limit our ability to borrow additional funds. As a result, we could be required to sell some of our loans and investments under adverse market conditions, under terms that are not favorable, to maintain liquidity. If those sales are made at prices lower than the amortized costs of the investments, losses may be incurred.

Risks due to economic conditions and environmental disasters in the regions we serve may adversely affect our operations.

The Company serves three primary regions: the Tri-Counties region which consists of San Luis Obispo, Santa Barbara and Ventura counties in the state of California, the SBA Western Region where the Bank originates SBA loans (Arizona, California, Oregon, Colorado, Oregon, Utah and Washington) and the SBA Southeast Region (Alabama, Florida, Georgia, Indiana, Kentucky, Maryland, North and South Carolina, New Jersey, Ohio, Pennsylvania, Tennessee, Virginia, Washington DC and metro New York City). The current economic slowdown in those regions as well as natural disasters such as hurricanes, floods, fires and earthquakes could result in the following consequences, any of which could hurt our business:

- loan delinquencies may increase;
- problem assets and foreclosures may increase;



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- demand for our products and services may decline; and
- collateral for loans made by us, especially real estate, may decline in value, in turn reducing customers' borrowing power, and reducing the value of assets and collateral associated with our existing loans.

Competition with other banking institutions could adversely affect profitability.

The banking industry is highly competitive. We face increased competition not only from other financial institutions within the markets we serve, but deregulation has resulted in competition from companies not typically associated with financial services as well as companies accessed through the internet. As a community bank, the Bank attempts to combat this increased competition by developing and offering new products and increased quality of services. Ultimately, competition can drive down the Bank's interest margins and reduce profitability and make it more difficult to increase the size of the loan portfolio and deposit base.

Regulatory considerations may adversely affect our operations.

As a bank holding company under the Bank Holding Company Act, we are regulated, supervised and examined by the Board of Governors of the Federal Reserve System, or Federal Reserve Board. This regulatory framework is intended primarily for the protection of depositors and the federal deposit insurance funds and not for the protection of our shareholders. As a result of this regulatory framework, our earnings are affected by actions of the Federal Reserve Board, the Office of the Comptroller of the Currency (the "Comptroller"), which regulates the Bank, and the FDIC, which insures the deposits of the Bank within certain limits.

In addition, there are numerous governmental requirements and regulations that affect our business activities. A change in applicable statutes, regulations or regulatory policy may have a material effect on our business. Depository institutions, like the Bank, are also affected by various federal laws, including those relating to consumer protection and similar matters.

The holding company is a legal entity separate and distinct from the Bank. However, our principal source of cash revenues is the payment of dividends from the Bank. There are various legal and regulatory limitations on the extent to which the Bank can finance or otherwise supply funds to us and our other affiliates.

As a national bank, the prior approval of the Comptroller is required if the total of all dividends declared and paid to the Bank in any calendar year exceeds the Bank's net earnings for that year combined with their retained net earnings less dividends paid for the preceding two calendar years.

Government agencies regulations also dictate the following:

- the amount of capital we must maintain;
- the types of activities in which we can engage;
- the types and amounts of investments we can make;
- the locations of our offices;
- insurance of our deposits and the premiums paid for the insurance; and
- how much cash we must set aside as reserves for deposits.

The regulations impose limitations on operations and may be changed at any time, possibly causing future results to vary significantly from past results. Regulations can significantly increase the cost of doing business such as increased deposit insurance premiums imposed by the FDIC to be paid in 2009. Moreover, certain of these regulations contain significant punitive sanctions for violations, including monetary penalties and limitations on a bank's ability to implement components of its business plan. In addition, changes in regulatory requirements may act to add costs associated with compliance efforts. Furthermore, government policy and regulation, particularly as implemented through the Federal Reserve System, significantly affect credit conditions.

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Operational risks may result in losses.

Operational risk represents the risk of loss resulting from our operations, including but not limited to, the risk of fraud by employees or persons outside the Company, the execution of unauthorized transactions by employees, transaction processing errors and breaches of internal control system and compliance requirements. This risk of loss also includes the potential legal actions that could arise as a result of an operational deficiency or as a result of noncompliance with applicable regulatory standards, adverse business decisions or their implementation and customer attrition due to potential negative publicity.

Operational risks are inherent in all business activities and the management of these risks is important to the achievement of our objectives. In the event of a breakdown in the internal control system, improper operation of systems or improper employee actions, we could suffer financial loss, face regulatory action and suffer damage to our reputation. We manage operational risks through a risk management framework and our internal control processes. While we believe that we have designed effective methods to minimize operational risks, there is no absolute assurance that business disruption or operational losses would not occur in the event of disaster.

An information systems interruption or breach in security might result in loss of customers.

We rely heavily on communications and information systems to conduct business. In addition, we rely on third parties to provide key components of information system infrastructure, including loan, deposit and general ledger processing, internet connections, and network access. Any disruption in service of these key components could adversely affect our ability to deliver products and services to customers and otherwise to conduct operations. Furthermore, any security breach of information systems or data, whether managed by the Company or by third parties, could harm our reputation or cause a decrease in the number of our customers.

We may depend on technology and technological improvements.

The financial services industry is undergoing rapid technological changes with frequent introductions of new technology-driven products and services. In addition to providing better service to customers, the effective use of technology increases efficiency and enables financial institutions to reduce costs. Many of our competitors have substantially greater resources to invest in technological improvements. We face the risk of having to keep up with the rapid technological changes.

Loss of key management personnel may adversely affect our operations.

The Bank is operated by key management personnel in each department of the Bank, including executive, lending, finance, operations and retail banking. Many of these key staff members have been employed by the Bank for a number of years and, accordingly, have developed expertise and a loyal customer following. In the event that a key management member were to terminate employment with the Bank, the effect may be to impair the Bank's ability to operate as effectively as it does at the present time, or in the case of a former employee being hired by a competitor, may result in a loss of customers to a competitor. In addition, the loss of services of any of our executive officers, or their failure to adequately perform their management functions, would make it difficult for us to continue to grow our business, obtain and retain customers, and set up and maintain appropriate internal controls for our operations. If any member of our executive officers does not perform up to expectations, our results of operations could suffer and our current plans to expand and become more profitable may not succeed. Finally, if any of our executive officers decides to leave, it may be difficult to replace her or him and we would lose the benefit of the knowledge she or he gained during her or his tenure with us.

Changes in accounting policies may adversely affect the reported results of operations.

The financial statements prepared by the Company are subject to various guidelines and requirements promulgated by the Financial Accounting Standards Board, the Securities and Exchange Commission and bank regulatory agencies. The adoption of new or revised accounting standards may adversely affect the reported results of operation.

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Litigation risks may have a material impact on our assets or results of operations.

We are involved in various matters of litigation in the ordinary course of business which, historically, have not been material to our assets or results of operations. No assurances can be given that future litigation may not have a material impact on our assets or results of operations.

Geopolitical concerns and the heightened risk of terrorism have negatively affected the stock market and the global economy.

Stock prices domestically and around the world have been and continue to be adversely affected by geopolitical concerns and the heightened risk of terrorism. In addition to negatively affecting the stock markets, the geopolitical concerns and the heightened risk of terrorism have adversely affected, and may continue to adversely affect, the national and global economy because of the uncertainties that exist as to the instabilities in the Middle East and elsewhere, and as to how the U.S. and other countries will respond to terrorist threats or actions. All of these uncertainties may contribute to a global slowdown in economic activity. An overall weakened economy may have the effect of decreasing loan demand, increasing loan delinquencies and generally causing our results of operations and our financial condition to suffer.

Certain restrictions will affect our ability to declare or pay dividends and repurchase our shares as a result of our decision to participate in the TARP-CPP.

As a result of our participation in the TARP-CPP, our ability to declare or pay dividends on any of our common stock will be limited. Specifically, we will not be able to declare dividends payments on common, junior preferred or pari passu preferred shares if we are in arrears on the dividends on the shares of fixed rate cumulative perpetual preferred stock, Series A (the "Series A Preferred Stock"). Further, while we are permitted to pay stock dividends, effectuate stocks splits and reverse stock splits, we will not be permitted to declare or pay cash dividends on our common stock without the Treasury's approval until the third anniversary of the investment unless the Series A Preferred Stock has been redeemed or transferred. In addition, our ability to repurchase our shares will be restricted. Treasury consent generally will be required for us to make any stock repurchases until the third anniversary of the investment by the Treasury unless the Series A Preferred Stock has been redeemed or transferred. Further, common, junior preferred or pari passu preferred shares may not be repurchased if we are in arrears on the Series A Preferred stock dividends to the Treasury. For more information regarding our Series A Preferred Stock, including the rights, preferences, privileges and restrictions of the Series A Preferred Stock that may affect the holders of our common Stock, please refer to the Company's Current Reports on Form 8-K as filed with the SEC on December 18, 2008 and December 24, 2008, the Certificate of Determination of Fixed Rate Cumulative Perpetual Preferred Stock, Series A, filed as Exhibit 3.2 to the Company's Current Report on Form 8-K as filed with the SEC on December 18, 2008, and the Form of Certificate for the Fixed Rate Cumulative Perpetual Preferred Stock, Series A, filed as Exhibit 4.3 to the Company's Registration Statement on Form 3 .

The Series A Preferred Stock impacts net income available to our common shareholders and earnings per common share and the Warrant we issued to the Treasury may be dilutive to holders of our Common Stock.

The dividends on the Series A Preferred Stock will reduce the net income available to common shareholders and our earnings per common share. The Series A Preferred Stock will also receive preferential treatment in the event of liquidation, dissolution or winding up of the Company. Additionally, the ownership interest of the existing holders of our common stock will be diluted to the extent the warrant we issued to the Treasury (the "Warrant") in conjunction with the sale to the Treasury of the Series A Preferred Stock is exercised. The shares of common stock underlying the Warrant represent approximately 8.8% of the shares of our common stock outstanding as of December 31, 2008 (including the shares issuable upon exercise of the Warrant in total shares outstanding). Although the Treasury has

agreed not to vote any of the shares of common stock it receives upon exercise of the Warrant, a transferee of any portion of the Warrant or of any shares of common stock acquired upon exercise of the Warrant is not bound by this restriction.

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ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

The Company owns the property on which the CWB full-service branch office is located in Goleta, California. All other properties are leased by the Company, including the principal executive office in Goleta. This facility houses the Company's corporate offices, comprised of various departments, including executive management, electronic business services, finance, human resources, information technology, loan operations, marketing, the mortgage loan division, SBA administration, risk management and special assets.

The Company continually evaluates the suitability and adequacy of the Company's offices and has a program of relocating or remodeling them as necessary to maintain efficient and attractive facilities. Management believes that the Company has sufficient insurance to cover its interests in its properties, both owned and leased, and that its existing facilities are adequate for its present purposes. There are no material capital expenditures anticipated.

ITEM 3. LEGAL PROCEEDINGS

The Company is involved in various litigation matters of a routine nature that are 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 will not have a material impact on the Company's financial position or results of operations. There are no pending legal proceedings to which the Company or any of its directors, officers, employees or affiliates, or any principal security holder of the Company or any associate of any of the foregoing, is a party or has an interest adverse to the Company, or of which any of the Company's properties are subject.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

On November 10, 2008, the Company filed a Definitive Proxy Statement on Schedule 14A with the Securities and Exchange Commission to solicit the written consent of its shareholders of record on October 23, 2008 to obtain the necessary approval to amend the Company's Articles of Incorporation to authorize the issuance of up to 10,000,000 shares of common stock and 10,000,000 shares of preferred stock. To approve the amendment, the Company was required to obtain approval from shares representing a majority of the then-outstanding shares of common stock entitled to vote, or 5,915,130 shares. On December 11, 2008, the Company received written consents representing 4,163,664 shares, or 70.39%, of common stock entitled to vote approving the amendment, 245,673 shares of common stock voting against the amendment, and 55,351 shares of common stock representing abstentions. As a result, the amendment was approved by the Company's shareholders effective as of December 11, 2008.

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## PART II

ITEM MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED SHAREHOLDER MATTERS  
5. AND ISSUER PURCHASES OF EQUITY SECURITIES

## Market Information, Holders and Dividends

The Company's common stock is traded on the Nasdaq Global Market ("NASDAQ") under the symbol CWBC. The following table sets forth the high and low sales prices on a per share basis for the Company's common stock as reported by NASDAQ for the period indicated:

Stock Price Range:	2008 Quarters				2007 Quarters			
	Fourth	Third	Second	First	Fourth	Third	Second	First
High	\$ 5.50	\$ 7.65	\$ 9.52	\$ 10.25	\$ 12.24	\$ 13.75	\$ 15.85	\$ 16.00
Low	3.00	3.50	6.49	7.05	9.26	10.26	11.75	15.50
Common Dividends Declared	\$ 0.00	\$ 0.00	\$ .06	\$ .06	\$ .06	\$ .06	\$ .06	\$ .06

As of March 24, 2009 the year to date high and low stock sales prices were \$4.02 and \$1.59, respectively. As of March 24, 2009, the last reported sale price per share for the Company's common stock was \$2.125.

As of March 24, 2009, the Company had 331 stockholders of record of its common stock.

## Preferred Stock Dividends

On December 19, 2008, as part of TARP-CPP, in exchange for an aggregate purchase price of \$15,600,000, the Company issued 15,600 shares of Fixed Rate Cumulative Perpetual Preferred Stock, Series A, no par value, with a liquidation preference of \$1,000 per share which pays cumulative dividends at a rate of 5% per year for the first five years and 9% per year thereafter. 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. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Capital Resources."

## Common Stock Dividends

It is the Company's intention to review its dividend policy on a quarterly basis. The Company's last declared dividend was in April 2008. The sources of funds for dividends paid to shareholders are the Company's capital and dividends received from its subsidiary bank, CWB. CWB's ability to pay dividends to the Company is limited by California law and federal banking law. In addition, as a result of the Company's participation in TARP, the Company's ability to declare or pay dividends on its common stock will be limited. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - TARP" and see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Supervision and Regulation -CWBC - Limitations on Dividend Payments."



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## Securities Authorized for Issuance under Equity Compensation Plans

The following table summarizes the securities authorized for issuance as of December 31, 2008:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Plans approved by shareholders	459,863	\$ 8.14	335,600
Plans not approved by shareholders			
<b>Total</b>	<b>459,863</b>	<b>\$ 8.14</b>	<b>335,600</b>

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## ITEM 6.

## SELECTED FINANCIAL DATA

The following selected financial data have been derived from the Company's consolidated financial condition and results of operations, as of and for the years ended December 31, 2008, 2007, 2006, 2005 and 2004, and should be read in conjunction with the consolidated financial statements and the related notes included elsewhere in this report.

	Year Ended December 31,				
	2008	2007	2006	2005	2004
INCOME STATEMENT:					
	(in thousands, except per share data and ratios)				
Interest income	\$ 45,532	\$ 46,841	\$ 39,303	\$ 29,778	\$ 21,845
Interest expense	22,223	22,834	16,804	10,347	7,845
Net interest income	23,309	24,007	22,499	19,431	14,000
Provision for loan losses	5,264	1,297	489	566	418
Net interest income after provision for loan losses	18,045	22,710	22,010	18,865	13,582
Non-interest income	5,081	4,845	5,972	7,310	10,462
Non-interest expenses	20,516	21,000	18,832	18,160	17,521
Income before income taxes	2,610	6,555	9,150	8,015	6,523
Provision for income taxes	1,129	2,766	3,822	2,373	2,688
NET INCOME	\$ 1,481	\$ 3,789	\$ 5,328	\$ 5,642	\$ 3,835
Preferred stock dividends	35	-	-	-	-
NET INCOME AVAILABLE TO COMMON SHAREHOLDERS	\$ 1,446	\$ 3,789	\$ 5,328	\$ 5,642	\$ 3,835
PER COMMON SHARE DATA:					
Income per share – Basic	\$ 0.24	\$ 0.65	\$ 0.92	\$ 0.98	\$ 0.67
Weighted average shares used in income per share calculation – Basic	5,913	5,862	5,785	5,744	5,718
Income per share – Diluted	\$ 0.24	\$ 0.63	\$ .89	\$ 0.95	\$ 0.65
Weighted average shares used in income per share calculation – Diluted	5,941	6,022	6,001	5,931	5,867
Book value per share	\$ 8.84	\$ 8.51	\$ 8.05	\$ 7.34	\$ 6.56
BALANCE SHEET:					
Net loans	\$ 581,075	\$ 539,165	\$ 451,572	\$ 381,517	\$ 290,506
Total assets	656,981	609,850	516,615	444,354	365,203
Total deposits	475,439	433,739	368,747	334,238	284,568
Total liabilities	590,363	559,691	469,795	402,119	327,634
Total stockholders' equity	66,618	50,159	46,820	42,235	37,569
OPERATING AND CAPITAL RATIOS:					
Return on average equity	2.85%	7.72%	11.88%	14.16%	10.60%
Return on average assets	0.23	0.67	1.12	1.43	1.15
Dividend payout ratio	49.07	36.92	24.97	19.39	17.91
Equity to assets ratio	10.14	8.22	9.06	9.50	10.29
Tier 1 leverage ratio	10.28	8.39	9.21	9.80	10.41
Tier 1 risk-based capital ratio	12.45	9.87	10.57	11.21	12.51
Total risk-based capital ratio	13.70	10.74	11.45	12.26	13.76



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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion is designed to provide insight into management's assessment of significant trends related to the consolidated financial condition, results of operations, liquidity, capital resources and interest rate risk for Community West Bancshares ("CWBC") and its wholly-owned subsidiary, Community West Bank ("CWB" or "Bank"). Unless otherwise stated, "Company" refers to CWBC and CWB as a consolidated entity. The following discussion should be read in conjunction with the Company's Consolidated Financial Statements and Notes thereto and the other financial information appearing elsewhere in this 2008 Annual Report on Form 10-K.

Forward-Looking Statements

This 2008 Annual Report on Form 10-K 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.

Risk Factors

The Bank is subject to a number of risks that may adversely affect our financial condition or results of operation, many of which are outside of our direct control, though efforts are made to manage those risks while optimizing returns. Among the risks assumed are: (1) credit risk, which is the risk of loss due to loan and lease customers or other counterparties not being able to meet their financial obligations under agreed upon terms, (2) market risk, which is the risk of loss due to changes in the market value of assets and liabilities due to changes in the market interest rates, foreign exchange rates, equity prices, and credit spreads, (3) liquidity risk, which is the risk of loss due to the possibility that funds may not be available to satisfy current or future obligations based on external macro market issues, investor and customer perception of financial strength, and events unrelated to the Company such as war, terrorism, or financial institution market specific issues, and (4) operational risk, which is the risk of loss due to human error, inadequate or failed internal systems and controls, violation of, or noncompliance with, laws, rules, regulations, prescribed practices, or ethical standards, and external influences such as market conditions, fraudulent activities, disasters and security risks.

Throughout 2008, the Bank operated in what is now labeled by many industry observers as the most difficult environment for financial institutions in many decades. What began as a subprime lending crises in 2007, turned into a widespread housing, banking and capital market crisis in 2008. As a result, 2008 represented a year of tremendous capital markets turmoil as capital markets ceased to function and credit markets were largely closed to businesses and consumers. The unavailability of credit to many borrowers and lack of credit flow, even between banks, contributed to the weakening of the economy, especially in the second half of 2008, and the 2008 fourth quarter in particular.

Concurrent with and reflecting this environment, the weakness that had been centered primarily in the housing and capital markets segments, spilled over into other segments of the economy. The most visible sector negatively impacted was manufacturing, and most notably, the automobile sector.

The United States government took several actions in 2008 and into 2009, such as the largest stimulus plan in United States' history, and considering even further actions, no assurances can be given regarding their effectiveness in strengthening the capital markets and improving the economy. Therefore, for the foreseeable future, the Company may be operating in a heightened risk environment. Of the major risk factors, those most likely to affect financial

institutions are credit risk, market risk, and liquidity risk.

As related to credit risk, the Bank anticipates continued pressure on credit quality performance, including higher loan delinquencies, net charge-offs, and the level of nonaccrual loans. All loans portfolios are expected to be impacted. Until unemployment levels decline, and the economic outlook improves, we anticipate that we will continue to build our allowance for credit losses in both absolute and relative terms.

With regard to market risk, the continuation of the volatile capital markets is likely to be reflected in wide fluctuations in the value of certain assets, most notably mortgage asset-backed securities.

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The actions taken by regulatory agencies and government bodies in late 2008 have been effective in reducing systemic liquidity risk. Specific actions included the FDIC raising the deposit insurance limit to \$250,000 and providing full guarantees on noninterest bearing deposits at all FDIC-insured financial institutions. Among other actions, the most significant was the passage in October 2008 of the \$700 billion Emergency Economic Stabilization Act; the cornerstone of which was the Troubled Asset Relief Program (TARP). The TARP's voluntary Capital Purchase Plan (CPP) made available \$350 billion of funds to banks and other financial institutions. The Bank participated in TARP and received \$15.6 million in capital investment on December 19, 2008.

More information on risk is set forth under the heading "Risk Factors" included in Item 1A of our 2008 form 10-K for the year ended December 31, 2008.

## Overview of Earnings Performance

Net income available to common shareholders of the Company was \$1.4 million, or \$0.24 per basic and diluted common share, for 2008 compared to \$3.8 million, or \$0.65 per basic common share, and \$0.63 per diluted common share, for 2007. The Company's earnings performance was impacted in 2008 by:

§ a 400 to 425 basis point cut in the target federal funds rate from 4.25% at December 31, 2007 to a range of 0% to 0.25% as of December 31, 2008, impacting both yields on loans and rates paid on deposits and contributing to a 66 basis point decline in net interest margin from 4.38% to 3.72%

§ contributing to the decline in margin was a higher balance of non-accrual loans which reduced the net interest margin by 27 basis points in 2008 compared to 16 basis points for 2007

§ a decline in interest income from loans of \$1.1 million due to the decline in yields, which was partly offset by an increase to the average loan balance of \$75.0 million for 2008 compared to 2007

§ loan loss provision of \$5.3 million for 2008 reflecting management's assessment of heightened credit risk for the Company related to the current macroeconomic conditions impacting California and national business, real estate and consumer markets as well as increased allowance related to quarterly migration analysis

§ the results for the year benefited from a slight increase of 4.9% in non-interest income as well as a decline of 2.3% in non-interest expenses

The impact to the Company from these items, and others of both a positive and negative nature, will be discussed in more detail as they pertain to the Company's overall comparative performance for the year ended December 31, 2008 throughout the analysis sections of this Annual Report.

## 2008 Economic Environment

During 2008, market and economic conditions were severely impacted where credit conditions rapidly deteriorated and financial markets experienced widespread illiquidity and elevated levels of volatility. Concerns about future economic growth, unemployment, oil prices, lower consumer confidence, rapid contraction of credit availability and lower corporate earnings continue to challenge the economy. As a result of these economic conditions, federal government agencies, the Federal Reserve Board and the Treasury initiated several actions which have changed the landscape of the financial services' industry.

The deteriorating economy continues to negatively impact the credit quality of our loan portfolio. The stress businesses and consumers have experienced has resulted in higher level of bankruptcies, foreclosures and

delinquencies and losses in our portfolio. The Company has increased its allowance for loan losses – see “Provision for Loan Losses” below.

The Company did not have subprime lending exposure or exposure in its investment securities’ portfolio as all issues are guaranteed directly or indirectly by a government agency or government sponsored entity.

The economic conditions noted above are widely considered likely to continue throughout most or all of 2009.

#### Regulatory Initiatives

On October 3, 2008, the President signed EESA into law. Pursuant to EESA, the Treasury has authority to, among other things, invest in financial institutions and purchase mortgages, mortgage-backed securities and certain other financial instruments from financial institutions, in an aggregate of up to \$700 billion, for the purpose of stabilizing and providing liquidity to the U.S. financial markets.

On October 14, 2008, in connection with the TARP-CPP, established as part of EESA, the Treasury announced a plan to invest up to \$250 billion in certain eligible financial institutions in the form of non-voting, senior preferred stock initially paying quarterly dividends at a 5% annual rate. When the Treasury makes such preferred investments in any company, it will also receive 10-year warrants to acquire common shares. We were identified as such a company and received \$15.6 million in capital investment on December 19, 2008. See discussion under “– Capital Resources” below.

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As part of the initiatives, the FDIC implemented the Temporary Liquidity Guarantee Program (TLGP) to strengthen confidence and encourage liquidity in the banking system. The TLGP is comprised of the Debt Guarantee Program (DGP) and the Transaction Account Guarantee Program ("TAGP"). The DGP will guarantee all newly issued senior unsecured debt (e.g. promissory notes, unsubordinated unsecured notes and commercial paper - of which the Company currently has none) up to prescribed limits issued by participating entities beginning on October 14, 2008 and continuing through June 30, 2009. For eligible debt issued by that date, the FDIC will provide the guarantee coverage until the earlier of the maturity date of the debt or June 30, 2012. The TAGP will offer full guarantee for noninterest-bearing deposit accounts held at FDIC-insured depository institutions. The unlimited coverage is voluntary for eligible institutions and would be in addition to the \$250,000 FDIC deposit insurance per account that was included as part of EESA. The TAGP coverage became effective on October 14, 2008 and will continue for participating institutions until December 31, 2009.

Initially, these programs were provided at no cost until the opt-out extension period date of December 5, 2008. Participants in the DGP will be charged an annualized fee of 75 basis points. Any eligible entity that has chosen not to opt out of the TAGP will be quarterly assessed a 10 basis point fee on balances in noninterest-bearing transaction accounts that exceed the deposit insurance limit of \$250,000.

On February 10, 2009, the FSP was announced by the Treasury. The FSP is a comprehensive set of measures intended to shore up the financial system. The core elements of FSP include making bank capital injections, creating a public-private investment fund to buy troubled assets, establishing guidelines for loan modification programs and expanding the Federal Reserve lending program. The Treasury has indicated more details regarding the FSP are to be announced on a newly created government website, [www.FinancialStability.gov](http://www.FinancialStability.gov), in the next several weeks.

## Critical Accounting Policies

The Company's accounting policies are more fully described in Note 1 of the Consolidated Financial Statements. As disclosed in Note 1, the preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions about future events that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ significantly from those estimates. The Company believes that the following discussion addresses the Company's most critical accounting policies, which are those that are most important to the portrayal of the Company's financial condition and results of operations and require management's most difficult, subjective and complex judgments.

**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 calculate the required allowance for all non-impaired loans. In addition, the migration results are adjusted based upon qualitative factors. 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. 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.

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The Company calculates the required ALL on a monthly basis. Any difference between estimated and actual observed losses from the prior month is reflected in the current period required ALL calculation 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.

**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. 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 periodically evaluates servicing rights for impairment. Servicing rights are evaluated for impairment based upon the fair value of the rights as compared to amortized cost on a loan-by-loan basis. Fair value is determined using discounted future cash flows calculated on a loan-by-loan basis and aggregated to the total asset level. 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.

**Other Assets Acquired Through Foreclosure** – Other assets acquired through foreclosure includes real estate and other repossessed assets and the collateral property is recorded at the lesser of the appraised value at the time of foreclosure less estimated costs to sell or the loan balance. Any excess of loan balance over the net realizable value 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.

## Changes in Interest Income and Interest Expense

The Company primarily earns income from the management of its financial assets and liabilities and from charging fees for services it provides. The Company's income from managing assets consists of the difference between the interest income received from its loan portfolio and investments and the interest expense paid on its funding sources, primarily interest paid on deposits. This difference or spread is net interest income. The amount by which interest income will exceed interest expense depends on the volume or balance of interest-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 income, when expressed as a percentage of average total interest-earning assets, is referred to as net interest margin on interest-earning assets. The Company's net interest income is affected by the change in the level and the mix of interest-earning assets and interest-bearing liabilities, referred to as volume changes. The Company's net yield on interest-earning assets is also affected by changes in the yields earned on assets and rates paid on liabilities, referred to as rate changes. Interest rates charged on the Company's loans are affected principally by the demand for such loans, the supply of money available for lending purposes, competitive factors and general economic

conditions such as federal economic policies, legislative tax policies and governmental budgetary matters. To maintain its net interest margin, the Company must manage the relationship between interest earned and paid.

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The following table sets forth, for the period indicated, the increase or decrease in dollars and percentages of certain items in the consolidated income statements as compared to the prior periods:

	Year Ended December 31,			
	2008 vs. 2007		2007 vs. 2006	
	Amount of	Percent of	Amount of	Percent of
	Increase	Increase	Increase	Increase
	(decrease)	(decrease)	(decrease)	(decrease)
	(dollars in thousands)			
<b>INTEREST INCOME</b>				
Loans	\$ (1,099)	(2.5)%	\$ 6,994	18.8%
Investment securities	227	11.6%	376	23.9%
Other	(437)	(61.6)%	168	31.1%
Total interest income	(1,309)	(2.8)%	7,538	19.2%
<b>INTEREST EXPENSE</b>				
Deposits	(583)	(3.3)%	4,583	34.7%
Bonds payable and other borrowings	(28)	(0.6)%	1,447	40.4%
Total interest expense	(611)	(2.7)%	6,030	35.9%
NET INTEREST INCOME	(698)	(2.9)%	1,508	6.7%
Provision for loan losses	3,967	305.9%	808	165.2%
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	(4,665)	(20.5)%	700	3.2%
<b>NON-INTEREST INCOME</b>				
Other loan fees	(634)	(23.2)%	(92)	(3.3)%
Gains from loan sales, net	216	26.9%	(697)	(46.5)%
Document processing fees, net	(32)	(4.3)%	(66)	(8.1)%
Loan servicing fees, net	484	-	(255)	(98.5)%
Service charges	(8)	(1.8)%	78	21.4%
Other	210	192.7%	(95)	(46.6)%
Total non-interest income	236	4.9%	(1,127)	(18.9)%
<b>NON-INTEREST EXPENSES</b>				
Salaries and employee benefits	(622)	(4.4)%	1,001	7.7%
Occupancy and equipment expenses	252	12.1%	234	12.6%
Professional services	(108)	(12.1)%	(57)	(6.0)%
Advertising and marketing	(330)	(43.9)%	149	24.8%
Depreciation	2	0.4%	17	3.4%
Other	322	11.8%	824	43.1%
Total non-interest expenses	(484)	(2.3)%	2,168	11.5%
Income before provision for income taxes	(3,945)		(2,595)	
Provision for income taxes	(1,637)		(1,056)	
NET INCOME	\$ (2,308)		\$ (1,539)	
Preferred stock dividends	35		-	
NET INCOME AVAILABLE TO COMMON SHAREHOLDERS	\$ (2,343)		\$ (1,539)	

## Comparison of 2008 to 2007

Net interest income declined by \$698,000, or 2.9%, for 2008 compared to 2007.

Total interest income declined by \$1.3 million, or 2.8%, from \$46.8 million in 2007 to \$45.5 million in 2008. Of this decline, \$7.1 million was due to changes in rates and is reflective of the 400 to 425 basis point reduction in the targeted Fed funds rate between December 2007 and December 2008. Also contributing to the decline in yield on interest earning assets was the increase in non-accrual loans which reduced yields by 27 basis points in 2008 compared to 16 basis points in 2007. The \$7.1 million decline was offset by \$5.8 million increase in interest income due to the growth of interest earning assets. Average loan balances increased by \$75.0 million for 2008 compared to 2007.

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Total interest expense decreased by \$611,000, or 2.7%, in 2008 compared to 2007. Interest expense on deposits declined \$583,000 while the interest expense on other borrowings declined \$28,000. Of these declines, \$3.9 million was due to lower rates paid on deposits and borrowings. These rate declines were partially offset by \$3.3 million increase in interest expense due to growth in interest bearing liabilities.

Declines in interest income for the commercial, real estate commercial and construction and SBA portfolios of \$1.2 million, \$1.0 million and \$559,000, respectively, were partially offset by an increase of \$1.8 million for the manufactured housing portfolio.

While the decline in interest income was partly offset by the decline in interest expense, margins continued to suffer compression. Yields on interest earning assets declined from 8.55% for 2007 to 7.27% for 2008. This decline was partly offset by a reduction in the rates paid on interest bearing liabilities from 4.81% for 2007 to 4.05% for 2008. The rapid decline in interest rates due to the actions of the Federal Reserve impacted rates on interest earning assets more quickly than the rates paid on interest bearing liabilities. Generally, rates paid on deposits and borrowings have declined, but at a slower pace than the rates earned on loans. The net effect was a 66 basis point decline in the margin from 4.38% to 3.72%. As deposit and borrowing rates continue to decline, this margin compression may ease in coming periods.

## Comparison of 2007 to 2006

Net interest income increased by \$1.5 million, or 6.7%, for 2007 compared to 2006. Total interest income increased by \$7.5 million, or 19.2%, from \$39.3 million in 2006 to \$46.8 million in 2007. Of this increase, \$7.4 million was due to interest-earning asset growth, primarily loans, and \$134,000 resulted from rate increases. Total interest expense increased by \$6.0 million, or 35.9%, in 2007 compared to 2006. Interest expense on deposits increased \$4.6 million while the interest expense on other borrowings increased \$1.4 million. Of the increase in interest expense on deposits, \$2.8 million was due to deposit growth, including broker deposits, and \$1.8 million resulted from higher rates. The increase in interest expense is primarily due to increased competition for core deposits which resulted in higher deposit rates and increased use of wholesale funding sources to fund loan growth.

The increase in interest income resulted almost entirely from growth in interest earning assets, primarily loans, with yields remaining flat at 8.55% from 2006 to 2007. Average gross loans grew \$81.0 million from \$413.0 million for 2006 to \$494 million for 2007. Margins continued to be compressed as deposit and borrowing rates increased from 4.31% to 4.81%. The upward pressure on interest rates paid on deposits began to ease as the FOMC reduced the target level for the federal funds rate in September 2007. Responding to concerns about a weakening economic outlook, the rate was reduced from 5.25% to 4.25% by December 31, 2007.

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

	Year Ended December 31,					
	2008 versus 2007			2007 versus 2006		
	Total change	Change due to Rate	Change due to Volum	Total change	Change due to Rate	Change due to Volume
	(in thousands)					
Interest earning deposits in other financial institutions (including time deposits)	\$ (7)	\$ (9)	\$ 2	\$ 18	\$ 1	\$ 17
Federal funds sold	(430)	(400)	(30)	150	33	117
Investment securities	227	8	219	376	155	221
Loans, net	(1,099)	(6,722)	5,623	6,994	(55)	7,049

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Total interest-earning assets	(1,309)	(7,123)	5,814	7,538	134	7,404
Interest-bearing demand	(1,224)	(1,091)	(133)	582	324	258
Savings	(53)	(31)	(22)	105	89	16
Time certificates of deposit	694	(2,526)	3,220	3,896	1,367	2,529
Other borrowings	(28)	(304)	276	1,447	91	1,356
Total interest-bearing liabilities	(611)	(3,952)	3,341	6,030	1,871	4,159
Net interest income	\$ (698)	\$ (3,171)	\$ 2,473	\$ 1,508	\$ (1,737)	\$ 3,245

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The following table presents the net interest income and net interest margin for the three years indicated:

	Year Ended December 31,		
	2008	2007	2006
	(dollars in thousands)		
Interest income	\$ 45,532	\$ 46,841	\$ 39,303
Interest expense	22,223	22,834	16,804
Net interest income	\$ 23,309	\$ 24,007	\$ 22,499
Net interest margin	3.72%	4.38%	4.89%

## Provision for Loan Losses

The provision for loan losses increased \$4.0 million to \$5.3 million for 2008 compared to \$1.3 million in 2007. This increase reflected management's assessment of increased credit risk for the Company related to weaknesses in our portfolio identified by management as well as the current California and national business, real estate and consumer economic slowdown. The provision is impacted by both quantitative factors resulting from actual loss experience and qualitative factors which take into consideration management's judgment regarding several internal and external factors including concentration of credit risk and overall macroeconomic conditions. The higher provision is primarily a result of increased qualitative factors which reflect the aforementioned economic circumstances and outlook. The Bank continues to diligently monitor the portfolio implementing policies and procedures developed to assist in identifying weaknesses in its loan portfolio. The Bank also has enhanced underwriting standards as necessary to prudently reflect the dynamics of the current economic outlook.

## Non-Interest Income

The following table summarizes the Company's non-interest income for the three years indicated:

Non-interest income	Year Ended December 31,		
	2008	2007	2006
	(in thousands)		
Other loan fees	\$ 2,104	\$ 2,738	\$ 2,830
Gains from loan sales, net	1,018	802	1,499
Document processing fees, net	718	750	816
Loan servicing fees, net	488	4	259
Service charges	434	442	364
Other	319	109	204
Total non-interest income	\$ 5,081	\$ 4,845	\$ 5,972

## Comparison of 2008 to 2007

Non-interest income increased by \$236,000 for 2008 over 2007, primarily due to an increase of \$484,000 in loan servicing, \$216,000 in gains on loans sales and the net gain on the sale of other foreclosed assets of \$205,000 included in other income. The Company sold \$19.7 million in guaranteed SBA loans and \$1.7 million in unguaranteed SBA loans during 2008 compared to \$5.3 million in guaranteed and \$3.5 million in unguaranteed for 2007. The gain due to the increased volume of loans sold was negatively impacted by a decline in the premiums received on the sale of the guaranteed portion of SBA loans. The increase in loan servicing income benefited from lower amortization of the servicing asset and I/O strip as prepayment speeds on SBA loans have slowed. These increases were partly offset by the decline in other loan fees of \$634,000 resulting from a decline in both loan origination fees and referral fees on 504 SBA loans.





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## Comparison of 2007 to 2006

Total non-interest income for the Company declined by \$1.1 million, or 18.9%, in 2007 compared to 2006. The decline is primarily due to the sale of fewer SBA loans which impacted gains from loan sales and loan servicing fees. The decrease in net gains from SBA loans sales was \$648,000, or 47.6%, for 2007 compared to 2006. The Company sold \$8.8 million in SBA 7(a) loans in 2007 compared to \$15.8 million in 2006. The reduction in loan sales, along with higher prepayments, also impacted net loan servicing fees which decreased by \$255,000 in 2007 compared to 2006. Net gains from mortgage loan sales decreased by \$49,000, or 35.3% in 2007 compared to 2006, primarily related to a decline in mortgage loan originations from \$43.4 million in 2006 to \$39.6 million in 2007.

## Non-Interest Expenses

The following table summarizes the Company's non-interest expenses for the three years indicated:

Non-interest expenses	Year Ended December 31,		
	2008	2007	2006
	(in thousands)		
Salaries and employee benefits	\$ 13,390	\$ 14,012	\$ 13,011
Occupancy and equipment expenses	2,341	2,089	1,855
Professional services	788	896	953
Advertising and marketing	421	751	602
Depreciation	518	516	499
Other	3,058	2,736	1,912
Total non-interest expenses	\$ 20,516	\$ 21,000	\$ 18,832

## Comparison of 2008 to 2007

Total non-interest expenses experienced a modest decline of 2.3% for 2008 compared to 2007. This decline was focused principally in the areas of salaries and benefits, which was reduced by \$622,000 or 4.4% and advertising and marketing, which declined by \$330,000 or 43.9%. The savings in the area of salary and benefits was achieved through a reduction in staffing levels beginning in the first quarter of 2008. Increases in occupancy related expense and other expenses partly offset these declines.

## Comparison of 2007 to 2006

Total non-interest expenses increased \$2.2 million, or 11.5%, in 2007 compared to 2006. This increase was primarily due to an increase in salaries and employee benefits of \$1.0 million, or 7.7%, in 2007 compared to 2006. Contributing to the increase in salaries and employee benefits was the full year of operation of the new Westlake Village Branch which opened in 2006, higher costs for health insurance and increased stock option expense. The Company also incurred increased occupancy costs of \$234,000 and advertising and marketing of \$149,000. Other non-interest expenses were impacted by sublease costs of \$220,000 related to a former loan, and increases in the FDIC assessment, loan servicing and data processing of \$188,000, \$128,000 and \$119,000, respectively.

The following table compares the various elements of non-interest expenses as a percentage of average assets:

Year Ended December 31,	Average Assets	Total Non-Interest Expenses	Salaries and Employee	Occupancy and Depreciation
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			Benefits	Expenses
(dollars in thousands)				
2008	\$ 640,993	3.20%	2.09%	0.45%
2007	\$ 563,493	3.73%	2.49%	0.46%
2006	\$ 474,465	3.97%	2.74%	0.50%

#### Income Taxes

Income tax expense was \$1.1 million in 2008, \$2.8 million in 2007 and \$3.8 million in 2006. The effective income tax rate was 43.3%, 42.2% and 41.8% for 2008, 2007 and 2006, respectively. See Note 10, "Income Taxes", in the notes to the Consolidated Financial Statements.

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## Schedule of Average Assets, Liabilities and Stockholders' Equity

As of the dates indicated below, the following schedule shows the average balances of the Company's assets, liabilities and stockholders' equity accounts and, for each balance, the percentage of average total assets:

	2008		December 31, 2007		2006	
	Amount	%	Amount	%	Amount	%
(dollars in thousands)						
<b>ASSETS</b>						
Cash and due from banks	\$ 4,419	0.7%	\$ 4,374	0.8%	\$ 5,264	1.1%
Time and interest-earning deposits in other financial institutions	997	0.2%	935	0.2%	567	0.1%
Federal funds sold	11,488	1.8%	12,938	2.3%	10,661	2.3%
Investment securities available-for-sale	6,889	1.1%	19,929	3.5%	22,655	4.8%
Investment securities held-to-maturity	31,319	4.9%	14,741	2.6%	8,759	1.9%
Federal Reserve Bank & Federal Home Loan Bank stock	6,634	1.0%	5,657	1.0%	4,342	0.9%
Loans held for sale, net	120,339	18.7%	92,867	16.5%	64,785	13.6%
Loans held for investment, net	436,525	68.1%	388,419	68.9%	332,315	70.0%
Securitized loans, net	6,383	1.0%	8,444	1.5%	11,913	2.5%
Servicing rights	1,161	0.2%	1,580	0.3%	2,410	0.5%
Other assets acquired through foreclosure, net	540	0.1%	499	0.1%	52	-
Premises and equipment, net	3,814	0.6%	3,007	0.5%	2,287	0.5%
Other assets	10,485	1.6%	10,103	1.8%	8,455	1.8%
<b>TOTAL ASSETS</b>	<b>\$ 640,993</b>	<b>100.0%</b>	<b>\$ 563,493</b>	<b>100.0%</b>	<b>\$ 474,465</b>	<b>100.0%</b>
<b>LIABILITIES</b>						
<b>Deposits:</b>						
Non-interest-bearing demand	\$ 35,618	5.5%	\$ 34,172	6.0%	\$ 34,555	7.3%
Interest-bearing demand	58,893	9.2%	65,687	11.7%	58,569	12.3%
Savings	14,989	2.3%	15,642	2.8%	15,184	3.2%
Time certificates of \$100,000 or more	88,385	13.8%	155,156	27.5%	138,897	29.2%
Other time certificates	278,510	43.5%	135,831	24.1%	102,604	21.7%
<b>Total deposits</b>	<b>476,395</b>	<b>74.3%</b>	<b>406,488</b>	<b>72.1%</b>	<b>349,809</b>	<b>73.7%</b>
Other borrowings	108,141	16.9%	102,167	18.2%	74,597	15.8%
Other liabilities	4,562	0.7%	5,785	1.0%	5,210	1.1%
<b>Total liabilities</b>	<b>589,098</b>	<b>91.9%</b>	<b>514,440</b>	<b>91.3%</b>	<b>429,616</b>	<b>90.6%</b>
<b>STOCKHOLDERS' EQUITY</b>						
Preferred stock	464	0.1%	-	-	-	-
Common stock	31,808	4.9%	31,210	5.5%	30,517	6.4%
Retained earnings	19,630	3.1%	17,953	3.2%	14,523	3.0%
Accumulated other comprehensive loss	(7)	-	(110)	-	(191)	-
<b>Total stockholders' equity</b>	<b>51,895</b>	<b>8.1%</b>	<b>49,053</b>	<b>8.7%</b>	<b>44,849</b>	<b>9.4%</b>

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 640,993	100.0%	\$ 563,493	100.0%	\$ 474,465	100.0%
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## Interest Rates and Differentials

The following table illustrates average yields on interest-earning assets and average rates paid on interest-bearing liabilities for the years indicated. These 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 years indicated. Amounts outstanding are averages of daily balances during the period.

Interest-earning assets:	Year Ended December 31,		
	2008	2007	2006
	(dollars in thousands)		
Time and interest earning deposits in other financial institutions:			
Average outstanding	\$ 997	\$ 935	\$ 567
Interest income	36	43	25
Average yield	3.66%	4.57%	4.31%
Federal funds sold:			
Average outstanding	\$ 11,488	\$ 12,938	\$ 10,661
Interest income	236	666	516
Average yield	2.05%	5.15%	4.84%
Investment securities:			
Average outstanding	\$ 44,841	\$ 40,326	\$ 35,756
Interest income	2,179	1,952	1,576
Average yield	4.86%	4.84%	4.41%
Gross loans:			
Average outstanding	\$ 568,861	\$ 493,903	\$ 412,947
Interest income	43,081	44,180	37,186
Average yield	7.57%	8.95%	9.01%
Total interest-earning assets:			
Average outstanding	\$ 626,187	\$ 548,102	\$ 459,931
Interest income	45,532	46,841	39,303
Average yield	7.27%	8.55%	8.55%

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Interest-bearing liabilities:	Year Ended December 31,		
	2008	2007	2006
	(dollars in thousands)		
Interest-bearing demand deposits:			
Average outstanding	\$ 58,893	\$ 65,687	\$ 58,569
Interest expense	1,153	2,378	1,796
Average effective rate	1.96%	3.62%	3.07%
Savings deposits:			
Average outstanding	\$ 14,989	\$ 15,642	\$ 15,184
Interest expense	507	560	455
Average effective rate	3.39%	3.58%	2.99%
Time certificates of deposit:			
Average outstanding	\$ 366,895	\$ 290,987	\$ 241,502
Interest expense	15,565	14,870	10,974
Average effective rate	4.24%	5.11%	4.54%
Other borrowings:			
Average outstanding	\$ 108,141	\$ 102,167	\$ 74,602
Interest expense	4,998	5,026	3,579
Average effective rate	4.62%	4.92%	4.80%
Total interest-bearing liabilities:			
Average outstanding	\$ 548,918	\$ 474,483	\$ 389,857
Interest expense	22,223	22,834	16,804
Average effective rate	4.05%	4.81%	4.31%
Net interest income	\$ 23,309	\$ 24,007	\$ 22,499
Net interest spread	3.22%	3.74%	4.24%
Average net margin	3.72%	4.38%	4.89%

Nonaccrual loans are included in the average balance of loans outstanding.

## Loan Portfolio

The Company's largest categories of loans held in the portfolio are commercial, commercial real estate and construction, SBA and manufactured housing loans. Loans are carried at face amount, net of payments collected, the allowance for loan loss and deferred loan fees/costs. Interest on all loans is accrued daily, primarily on a simple interest basis. It is the Company's policy to place a loan on nonaccrual status when the loan is 90 days past due. Thereafter, previously recorded interest is reversed and interest income is typically recognized on a cash basis.

The rates charged on variable rate loans are set at specific increments. These increments vary in relation to the Company's published prime lending rate or other appropriate indices. At December 31, 2008 and 2007, approximately 59% of the Company's loan portfolio was comprised of variable interest rate loans. Management monitors the maturity of loans and the sensitivity of loans to changes in interest rates.

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The following table sets forth, as of the dates indicated, the amount of gross loans outstanding based on the remaining scheduled repayments of principal, which could either be repriced or remain fixed until maturity, classified by scheduled principal payments:

	2008		2007		December 31, 2006		2005		2004	
	Fixed	Variable	Fixed	Variable	Fixed	Variable	Fixed	Variable	Fixed	Variable
(in thousands)										
Less than One Year	\$ 16,405	\$ 78,005	\$ 16,445	\$ 83,356	\$ 16,442	\$ 76,509	\$ 19,797	\$ 49,796	\$ 3,877	\$ 44,896
One to Five Years	87,034	82,298	79,549	67,549	65,083	50,931	39,081	50,708	12,922	29,567
Over Five Years	137,632	187,525	129,335	167,878	103,242	144,136	88,086	139,570	94,568	110,215
Total	\$ 241,071	\$ 347,828	\$ 225,329	\$ 318,783	\$ 184,767	\$ 271,576	\$ 146,964	\$ 240,074	\$ 111,367	\$ 184,678
	40.9%	59.1%	41.4%	58.6%	40.5%	59.5%	38.0%	62.0%	37.6%	62.4%

As of December 31, 2008, approximately \$97.7 million of the variable rate loans were subject to rate floors.

## Distribution of Loans

The distribution of total loans by type of loan, as of the dates indicated, is shown in the following table:

	2008		December 31, 2007		2006		2005		2004	
	Loan Balance	Loan Balance	Loan Balance	Loan Balance	Loan Balance	Loan Balance	Loan Balance	Loan Balance	Loan Balance	Loan Balance
Commercial	\$ 74,895	\$ 72,470	\$ 53,725	\$ 44,957	\$ 30,893					
Real estate	129,876	136,734	135,902	116,938	85,357					
SBA	167,491	142,874	103,361	95,217	78,878					
Manufactured housing	190,838	172,938	142,804	101,336	66,423					
Other installment	15,793	10,027	8,301	11,355	8,645					
Securitized	5,645	7,507	10,104	14,858	23,474					
Mortgage loans held for sale	4,361	1,562	2,146	2,377	2,375					
Gross Loans	588,899	544,112	456,343	387,038	296,045					
Less:										
Allowance for loan losses	7,341	4,412	3,926	3,954	3,894					
Deferred fees/costs	(326)	(48)	43	181	(103)					
Discount on SBA loans	809	583	802	1,386	1,748					
Net Loans	\$ 581,075	\$ 539,165	\$ 451,572	\$ 381,517	\$ 290,506					
Percentage to Gross Loans:										
Commercial	12.7%	13.3%	11.8%	11.6%	10.5%					
Real estate	22.1	25.1	29.8	30.2	28.8					
SBA	28.4	26.3	22.7	24.6	26.6					
Manufactured housing	32.4	31.8	31.3	26.2	22.5					



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Other installment	2.7	1.8	1.8	2.9	2.9
Securitized	1.0	1.4	2.2	3.9	7.9
Mortgage loans held for sale	.7	.3	.4	.6	.8
	100.0%	100.0%	100.0%	100.0%	100.0%

Commercial Loans

In addition to traditional term commercial loans made to business customers, CWB grants revolving business lines of credit. Under the terms of the revolving lines of credit, CWB grants a maximum loan amount, which remains available to the business during the loan term. Generally, as part of the loan requirements, the business agrees to maintain its primary banking relationship with CWB. CWB does not extend material loans of this type in excess of two years.

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### Commercial Real Estate and Construction Loans

Commercial real estate and construction loans are primarily made for the purpose of purchasing, improving or constructing single-family residences, commercial or industrial properties.

A substantial portion of CWB's real estate construction loans are first and second trust deeds on the construction of owner-occupied single family dwellings. CWB also makes real estate construction loans on commercial properties. These consist of first and second trust deeds collateralized by the related real property. Construction loans are generally written with terms of six to eighteen months and usually do not exceed a loan to appraised value of 80%.

Commercial and industrial real estate loans are secured by nonresidential property. Office buildings or other commercial property primarily secure these loans. Loan to appraised value ratios on nonresidential real estate loans are generally restricted to 80% of appraised value of the underlying real property if occupied by the owner or owner's business; otherwise, these loans are generally restricted to 75% of appraised value of the underlying real property.

### SBA Loans

The SBA loans consist of 7(a), 504, conventional, investor and Business and Industry loans ("B&I"). The 7(a) loan proceeds are used for working capital, machinery and equipment purchases, land and building purposes, leasehold improvements and debt refinancing. The SBA guarantees up to 85% of the loan amount depending on loan size. Although, in very recent developments, as described below, the guarantee has been temporarily increased. Under the SBA 7(a) loan program, the Company is required to retain a minimum of 5% of the principal balance of each loan it sells into the secondary market.

The 504 loans are made in conjunction with Certified Development Companies. These loans are granted to purchase or construct real estate or acquire machinery and equipment. The loan is structured with a conventional first trust deed provided by a private lender and a second trust deed which is funded through the sale of debentures. The predominant structure is terms of 10% down payment, 50% conventional first loan and 40% debenture. Conventional and investor loans are funded by our secondary-market partners and CWB receives a premium for these transactions.

B&I loans are guaranteed by the U.S. Department of Agriculture. The guaranteed amount is generally 80%. B&I loans are similar to the 7(a) loans but are made to businesses in designated rural areas. These loans can also be sold into the secondary market.

CWB has made the decision based on an analysis of risk vs. reward and the desire to preserve capital to discontinue as of April 1, 2009 SBA lending east of the Rocky Mountains.

On March 16, 2009, the White House announced as part of the Financial Stability Plan and the Consumer and Business Lending Initiative, several provisions designed to provide liquidity in SBA markets and encourage SBA lending activities. These include:

- Temporarily increasing the percentage guaranteed to 90% up to a maximum guarantee amount of \$1.5 million
  - Direct purchase of securities backed by SBA 7(a) loans
  - Make direct purchases securities backed by SBA 504 loans
  - Temporarily eliminate borrower and lender fees for 504 loans

- Temporarily eliminate up-front SBA guaranty fees that are passed through to borrowers for 7(a) loans

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Real Estate Loans

The mortgage loans consist of first and second mortgage loans secured by trust deeds on one to four family homes. These loans are made to borrowers for purposes such as purchasing a home, refinancing an existing home, interest rate reduction, home improvement, or debt consolidation. These loans are underwritten to specific investor guidelines and are committed for sale to that investor. A majority of these loans are sold servicing released into the secondary market.

Manufactured Housing Loans

The mortgage loan division originates loans secured by manufactured homes located in mobile home parks along the California coast and in the Sacramento area. The loans are serviced internally and are generally fixed rate written for terms of 5 to 30 years with balloon payments ranging from 5 to 15 years.

Other Installment Loans

Installment loans consist of automobile, small home equity lines of credit and general-purpose loans made to individuals. These loans are primarily fixed rate.

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## Off-Balance Sheet Arrangements

The Bank has various “off-balance sheet” arrangements that might have an impact on its financial condition, liquidity or result of operations. The Bank’s primary source of funds for its lending is its deposits. If necessary to meet the demand of deposit withdrawals or loan fundings, the Bank could obtain funding through federal funds lines of credit, advances from the Federal Home Loan Bank (“FHLB”), Fed discount window borrowing or issuance of deposits through brokers. The Bank has continuous lines of credit with correspondent banks providing for federal funds lines of credit up to a maximum of \$23.5 million and availability under agreements with the FHLB for additional borrowing capacity of \$16.9 million at December 31, 2008. There were no borrowings outstanding on the federal funds facilities or the Fed discount window at December 31, 2008, and advances from the FHLB in the amount of \$110 million. Available borrowing capacity from the Fed discount window was \$150 million at December 31, 2008.

At December 31, 2008, the Bank had outstanding commitments to fund existing loans of approximately \$37.7 million pursuant to credit availability terms in the loan agreements, including standby letters of credit of \$552,000. Because these commitments generally have fixed expiration dates and many will expire without being drawn upon, the total commitment level does not necessarily represent future cash requirements. If needed to fund these outstanding commitments, the Bank has the ability to liquidate federal funds sold or securities available-for-sale or, on a short-term basis, to borrow and purchase federal funds from other financial institutions, to obtain advances from the FHLB or the Fed discount window and to issue new certificates of deposit through the money desk or brokers.

Total loan commitments outstanding at the dates indicated are summarized below:

	2008	2007	December 31, 2006 (in thousands)	2005	2004
Commercial	\$ 17,940	\$ 21,612	\$ 24,431	\$ 22,327	\$ 19,010
Real estate	4,376	8,649	18,839	19,323	7,618
SBA	6,526	9,453	5,508	3,408	6,107
Installment loans	8,333	10,503	9,662	9,330	8,966
Standby letters of credit	552	518	847	1,499	403
Total commitments	\$ 37,727	\$ 50,735	\$ 59,287	\$ 55,887	\$ 42,104

## Loan Concentrations

The Company makes loans to borrowers in a number of different industries. Other than manufactured housing, no single concentration comprises 10% or more of the Company’s loan portfolio. Commercial, commercial real estate, construction and SBA loans each comprised over 10% of the Company’s loan portfolio as of December 31, 2008 and 2007, but consisted of diverse borrowers.

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## Allowance for Loan Losses

The following table summarizes the activity in the allowance for loan losses for the periods indicated:

	Year Ended December 31,				
	2008	2007	2006	2005	2004
	(in thousands)				
Average gross loans, held for investment,	\$ 448,522	\$ 401,036	\$ 348,161	\$ 288,049	\$ 230,533
Gross loans at end of year, held for investment	456,630	433,162	379,703	324,965	248,412
Allowance for loan losses, beginning of year	\$ 4,412	\$ 3,926	\$ 3,954	\$ 3,894	\$ 4,676
Loans charged off:					
Commercial (including SBA)	1,499	775	459	228	185
Real estate	263	-	-	8	274
Installment	325	-	-	-	-
Securitized	372	142	341	831	1,356
Total	2,459	917	800	1,067	1,815
Recoveries of loans previously charged off					
Commercial (including SBA)	106	45	93	20	31
Real estate	-	-	-	89	44
Installment	2	-	-	-	-
Securitized	16	61	190	452	540
Total	124	106	283	561	615
Net loans charged off	2,335	811	517	506	1,200
Provision for loan losses	5,264	1,297	489	566	418
Allowance for loan losses, end of year	\$ 7,341	\$ 4,412	\$ 3,926	\$ 3,954	\$ 3,894
Ratios:					
Net loan charge-offs to average loans	0.52%	0.20%	0.15%	0.18%	0.52%
Net loan charge-offs to loans at end of period	0.51%	0.19%	0.14%	0.16%	0.48%
Allowance for loan losses to loans held for investment at end of period	1.61%	1.02%	1.03%	1.22%	1.57%
Net loan charge-offs to allowance for loan losses at beginning of period	52.92%	20.66%	13.08%	12.99%	25.66%
Net loan charge-offs to provision for loan losses	44.46%	62.53%	105.73%	89.40%	287.08%

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The following table summarizes the allowance for loan losses:

	2008		2007		December 31, 2006		2005		2004	
	Amount	Percent of loans in each category to total	Amount	Percent of loans in each category to total	Amount	Percent of loans in each category to total	Amount	Percent of loans in each category to total	Amount	Percent of loans in each category to total
Balance at end of period applicable to:										
SBA	\$ 2,850	28.4%	\$ 1,810	26.3%	\$ 1,365	22.6%	\$ 1,409	24.6%	\$ 1,388	24.6%
Manufactured housing	1,659	32.4%	610	31.8%	786	31.3%	563	26.2%	465	22.5%
Securitized	107	1.0%	322	1.4%	351	2.2%	628	3.9%	1,109	7.9%
All other loans	2,725	38.2%	1,670	40.5%	1,424	43.9%	1,354	45.3%	932	45.0%
Total	\$ 7,341	100.0%	\$ 4,412	100.0%	\$ 3,926	100.0%	\$ 3,954	100.0%	\$ 3,894	100.0%

Total allowance for loan losses (“ALL”) increased by \$2.9 million from December 31, 2007 to December 31, 2008.

In management’s opinion, the balance of the allowance for loan losses was sufficient to absorb known and inherent probable losses in the portfolio as of December 31, 2008. During the first quarter of 2009, the Company has experienced some deterioration and certain downgrades to specific loans in its portfolio. As a result, and to enhance the overall general reserve, it is likely that the Company will make substantial provisions to the allowance for loan losses in the first quarter of 2009, and if further losses come to light, the Company will record such provisions in the period in which the losses are incurred.

#### Nonaccrual, Past Due and Restructured Loans

A loan is considered impaired when, based on current information and events, it is determined 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 and 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, are measured for impairment based on the present value of future cash flows.

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

	Year Ended December 31,				
	2008	2007	2006	2005	2004
Impaired loans without specific valuation allowances	\$ -	\$ 33	\$ 63	\$ 77	\$ 49

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Impaired loans with specific valuation allowances		8,566		16,468		5,145		3,406		3,926
Specific valuation allowance related to impaired loans		(151)		(966)		(641)		(473)		(425)
Impaired loans, net	\$	8,415	\$	15,535	\$	4,567	\$	3,010	\$	3,550
Average investment in impaired loans	\$	9,612	\$	9,386	\$	4,074	\$	3,716	\$	5,137

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

	Year Ended December 31,				
	2008	2007	2006	2005	2004
	(in thousands)				
Nonaccrual loans	\$ 28,821	\$ 15,341	\$ 7,417	\$ 6,797	\$ 8,350
SBA guaranteed portion of loans included above	(11,918)	(5,695)	(4,256)	(4,332)	(5,287)
Nonaccrual loans, net	\$ 16,903	\$ 9,646	\$ 3,161	\$ 2,465	\$ 3,063
Troubled debt restructured loans	\$ 5,408	\$ 7,255	\$ 68	\$ 75	\$ 124
Loans 30 through 90 days past due with interest accruing	\$ 11,974	\$ 18,898	\$ 2,463	\$ 1,792	\$ 1,804
Interest income recognized on impaired loans	\$ 12	\$ 691	\$ 242	\$ 141	\$ 103
Interest foregone on nonaccrual loans and troubled debt restructured loans outstanding	1,707	904	488	253	208
Gross interest income on impaired and nonaccrual loans	\$ 1,719	\$ 1,595	\$ 730	\$ 394	\$ 311

The accrual of interest is discontinued when substantial doubt exists as to collectability of the loan; generally at the time the loan is 90 days delinquent. Any unpaid but accrued interest is reversed at that time. Thereafter, interest income is no longer recognized on the loan. Interest income may be recognized on impaired loans to the extent they are not past due by 90 days. Interest on nonaccrual loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all of the principal and interest amounts contractually due are brought current and future payments are reasonably assured. Total net nonaccrual loans increased by \$7.3 million from 2007 to 2008.

Total net impaired loans declined by \$7.1 million as of December 31, 2008 compared to December 31, 2007. The decline in impaired loans from December 31, 2007 to December 31, 2008 was primarily related to two loans, one on a condominium project and one on raw land. The loans were retired with two new loans made by the Bank to the junior lien holder on the properties after the junior lien holder had foreclosed. The Company believes that the new borrower and guarantors evidence satisfactory capacity to meet the terms of the new obligation and have been performing as agreed.

Financial difficulties encountered by certain borrowers may cause the Company to restructure the terms of their loan to facilitate loan repayment. A troubled debt restructured loan ("TDR") would generally be considered impaired.

## Investment Portfolio

The following table summarizes the carrying values of the Company's investment securities for the years indicated:

	December 31,		
	2008	2007	2006
	(in thousands)		
Available-for-sale securities			
U.S. Government agency notes	\$ -	\$ 5,993	\$ 13,184
U.S. Government agency: MBS	5,284	5,004	7,005
U.S. Government agency: CMO	1,499	1,667	1,908
Total	\$ 6,783	\$ 12,664	\$ 22,097

	2008	December 31, 2007	2006
Held-to-maturity securities		(in thousands)	
U.S. Government agency notes	\$ -	\$ 200	\$ 200
U.S. Government agency: MBS	25,750	25,417	10,335
U.S. Government agency: CMO	5,442	-	-
Total	\$ 31,192	\$ 25,617	\$ 10,535

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At December 31, 2008, \$38.0 million at carrying value was pledged to the Federal Home Loan Bank, San Francisco, as collateral for current and future advances.

The maturity periods and weighted average yields of investment securities at December 31, 2008 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	\$ 5,284	4.5%	\$ -	-	\$ 5,284	4.5%	\$ -	-
Agency: CMO	1,499	4.6%	1,499	4.6%	-	-	-	-
Total	\$ 6,783	4.5%	\$ 1,499	4.6%	\$ 5,284	4.5%	\$ -	-
Held-to-maturity securities								
U.S. Government:								
Agency: MBS	\$ 25,750	5.3%	\$ 3,390	6.7%	\$ 22,360	5.0%	\$ -	-
Agency: CMO	5,442	4.9%	5,442	4.9%	-	-	-	-
Total	\$ 31,192	5.2%	\$ 8,832	5.6%	\$ 22,360	5.0%	\$ -	-

## Capital Resources

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 imposed in 1994 a new 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.

To be categorized as "adequately capitalized" or "well capitalized", CWB must maintain minimum total risk-based, Tier I risk-based and Tier I leverage ratios and values as set forth in the tables below:

(dollars in thousands)	Total Capital	Tier 1 Capital	Risk-Weighted Assets	Adjusted Average Assets	Total Risk-Based Capital Ratio	Tier 1 Risk-Based Capital Ratio	Tier 1 Leverage Ratio
December 31, 2008							
CWBC							
(Consolidated)	\$ 73,245	\$ 66,553	\$ 534,628	\$ 647,413	13.70%	12.45%	10.28%
CWB	60,597	53,904	534,655	647,432	11.33	10.08	8.33
December 31, 2007							
	\$ 54,479	\$ 50,067	\$ 507,228	\$ 596,631	10.74%	9.87%	8.39%

CWBC (Consolidated)	51,520	47,108	507,017	591,755	10.16	9.29	7.96
CWB							
Well capitalized ratios					10.00%	6.00%	5.00%
Minimum capital ratios					8.00%	4.00%	4.00%

#### TARP

On December 19, 2008, as part of the Treasury's TARP-CPP, the Company entered into a Letter Agreement which incorporates the terms of a Securities Purchase Agreement – Standard Terms 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 Series A Preferred Stock, and (ii) a 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.

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The rights, preferences and privileges of the Series A Preferred Stock are set forth in the Certificate of Determination of Fixed Rate Cumulative Perpetual Preferred Stock, Series A (“Certificate of Determination”), which the Company filed with the Secretary of State of the State of California on December 16, 2008. The Certificate of Determination was filed as Exhibit 3.2 to the Company’s Current Report on Form 8-K filed with the Securities and Exchange Commission on December 18, 2008.

The 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.

To preserve the voting rights of holders of Series A Preferred Stock to elect two Directors to the Company’s Board of Directors in the event dividends on the Series A Preferred Stock due thereunder are not paid for six or more quarters, the Company has agreed with the Treasury that at all times during which any shares of Series A Preferred Stock are outstanding, it will not fill more than nine Director positions. In the event the Company desires to increase the number of Directors beyond nine, then the Company is required to amend its bylaws to increase the maximum Directors to always allow for at least two open Director seats for the holders of the Series A Preferred Stock to elect.

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 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.

Prior to December 19, 2011, unless the Company has redeemed the Series A Preferred Stock or the Treasury has transferred the Series A Preferred Stock to a third party, the consent of the Treasury will be required for the Company to: (i) declare or pay any dividend or make any distribution on the common stock (other than regularly quarterly cash dividends of not more than the amount of the last quarterly cash dividend per share, or if lower, publicly announced an intention to declare, on the common stock prior to October 14, 2008, as may be adjusted prior to any stock splits, stock dividends, or similar transactions) or (ii) redeem, purchase or acquire any shares of common stock or other equity or capital securities, other than in connection with benefit plans consistent with past practice and certain other circumstances specified in the Purchase Agreement. In addition, under the Certificate of Determination, the Company's ability to declare or pay dividends or repurchase common stock or other equity or capital securities will be subject to restrictions in the event that the Company fails to declare or pay (or set aside for payment) full dividends on the Series A Preferred Stock.

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 (the “Warrant Shares”) 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. If, on or prior to December 31, 2009, the Company receives aggregate gross cash proceeds of not less than \$15.6 million from "qualified equity offerings", the number of shares of common stock issuable pursuant to the Treasury's exercise of the Warrant will be reduced by one-half of the original number of Warrant Shares, taking into account all adjustments, underlying the Warrant. 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.

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The Series A Preferred Stock and the Warrant were issued in a private placement exempt from registration pursuant to Section 4(2) of the Securities Act of 1933. Upon the request of the Treasury at any time, the Company has agreed to promptly enter into a deposit arrangement pursuant to which the Series A Preferred Stock may be deposited and depositary shares may be issued. The Company has filed a shelf registration statement to register for resale the Warrant and the Warrant Shares. Neither the Series A Preferred Stock nor the Warrant will be subject to any contractual restrictions on transfer, except that the Treasury may only transfer or exercise an aggregate of one-half of the Warrant Shares prior to the earlier of the redemption of 100% of the shares of Series A Preferred Stock and December 31, 2009.

Pursuant to the terms of the Purchase Agreement, the Company has agreed that, until such time as the Treasury ceases to own any securities acquired pursuant thereto, it will take all necessary action to ensure that its benefit plans with respect to its Senior Executive Officers (as defined hereafter) comply with Section 111(b) of EESA. That section requires that the Company take such actions and effect such changes to its compensation, bonus, incentive and other benefit plans, arrangements and agreements (including golden parachute, severance and employment agreements) (collectively, "Benefit Plans") with respect to its Senior Executive Officers to: (i) place limits on compensation that exclude incentives for the Senior Executive Officers to take unnecessary and excessive risks that threaten the value of the Company at all times while the Treasury holds any securities acquired pursuant to the Purchase Agreement; (ii) require the recovery by the Company of any bonus or incentive compensation paid to a Senior Executive Officer based on statements of earnings, gains, or other criteria that are later proven to be materially inaccurate; and (iii) prohibit the making of any golden parachute payment to the Company's Senior Executive Officers at all times while the Treasury holds any securities acquired pursuant to the Purchase Agreement. To comply with Section 111(b) of EESA and the Company's obligation under the Purchase Agreement, the Company has entered into an agreement with Lynda J. Nahra, the Company's President and Chief Executive Officer, Charles G. Baltuskonis, the Company's Executive Vice President and Chief Financial Officer, and Richard M. Favor, the Company's Executive Vice President and Chief Credit Officer (each, a "Senior Executive Officer") pursuant to which the Company and each Senior Executive Officer has agreed to effect such changes to all Benefits Plans applicable to them in order for the Company to comply with Section 111(b) of EESA and its obligations under the Purchase Agreement. In addition to executing an agreement with the Company to limit their respective Benefits Plans, each Senior Executive Officer has delivered a Waiver to the Company and the Treasury pursuant to which they have voluntarily waived any claim against the Treasury or the Company for any changes, amendments or modifications to any applicable Benefit Plan that are or will be required to comply with EESA and the regulations issued thereunder by the Treasury.

## Liquidity Management

The Company has established policies as well as analytical tools to manage liquidity. Recent disruptions in the credit and capital markets have exposed weaknesses in many banks' liquidity risk measurement and management systems. 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 contingency funding plan outlines practical and realistic funding alternatives that can be readily implemented as access to regular funding is reduced. Such plan incorporates events that could rapidly affect the bank's liquidity, including a tightening of collateral requirements or

other restrictive terms associated with secured borrowings or the loss of certain deposit or funding relationship. Periodically, the Company has used short-term time certificates from other financial institutions to meet projected liquidity needs.

CWB has a credit line with the FHLB. Advances are collateralized in the aggregate by CWB's eligible mortgage loans, securities of the U.S Government and its agencies and certain other loans. The outstanding advances at December 31, 2008 include \$4.0 million borrowed at variable rates which adjust to the current LIBOR rate either monthly or quarterly and \$106.0 million borrowed at fixed rates. At December 31, 2008, CWB had pledged to FHLB, securities of \$38.0 million at carrying value and loans of \$149.9 million, and had \$16.9 million available for additional borrowing. At December 31, 2007, CWB had \$150.0 million of loans and \$38.1 million of securities pledged as collateral and outstanding advances of \$121 million.



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CWB also has established credit line with the Federal Reserve Bank (“FRB”). Advances are collateralized in the aggregate by eligible loans, and the unused borrowing capacity was \$149.7 million as of December 31, 2008. CWB has begun using the line in 2009.

CWB also maintains four federal funds purchased lines for a total borrowing capacity of \$23.5 million.

The Company has not experienced disintermediation and does not believe this is a likely occurrence, although the competition for core deposits has heightened. The liquidity ratio of the Company was 23% at December 31, 2008 compared to 22% at December 31, 2007. 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.

CWBC’s routine funding requirements primarily consist of certain operating expenses and TARP preferred dividends. 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. CWB anticipates that for the foreseeable future, it will fund its expenses and TARP preferred dividends from its own funds 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. However, the margin relationship is somewhat dependent on the shape of the yield curve.
- **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.

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## Deposits

The following table shows the Company's average deposits for each of the periods indicated below:

	2008		Year Ended December 31, 2007		2006	
	Average Balance	Percent of Total	Average Balance	Percent of Total	Average Balance	Percent of Total
	(dollars in thousands)					
Noninterest-bearing demand	\$ 35,618	7.5%	\$ 34,172	8.4%	\$ 34,555	9.9%
Interest-bearing demand	58,893	12.4%	65,687	16.1%	58,569	16.7%
Savings	14,989	3.1%	15,642	3.9%	15,184	4.3%
TCD's of \$100,000 or more	88,385	18.5%	155,156	38.2%	138,897	39.7%
Other TCD's	278,510	58.5%	135,831	33.4%	102,604	29.4%
Total Deposits	\$ 476,395	100.0%	\$ 406,488	100.0%	\$ 349,809	100.0%

The maturities of time certificates of deposit ("TCD's") were as follows:

	2008		December 31, 2007	
	TCD's over \$100,000	Other TCD's	TCD's over \$100,000	Other TCD's
	(in thousands)			
Less than three months	\$ 44,376	\$ 85,921	\$ 28,045	\$ 48,014
Over three months through six months	31,633	61,331	12,273	36,642
Over six months through twelve months	33,985	46,584	11,500	101,522
Over twelve months through five years	28,336	36,001	8,964	63,618
Total	\$ 138,330	\$ 229,837	\$ 60,782	\$ 249,796

The deposits of the Company may fluctuate up and down with local and national economic conditions. However, management does not believe that deposit levels are significantly influenced by seasonal factors.

The Company manages its money desk and obtains brokered deposits in accordance with its liquidity and strategic planning. The Company can use the money desk or obtain broker deposits when necessary in a short time frame; however, these funds are more expensive as there is substantial competition for these deposits.

## Contractual Obligations

The Company has contractual obligations that include long-term debt, deposits, operating leases and purchase obligations for service providers. The following table is a summary of those obligations at December 31, 2008:

	Total	< 1 Year	1-3 Years	3-5 Years	Over 5 Years
	(in thousands)				
FHLB Borrowing	\$ 110,000	\$ 70,000	\$ 32,000	\$ 8,000	\$ -
Time certificates of deposits	368,167	303,831	53,019	11,317	-
Operating lease obligations	3,951	1,203	1,782	437	529
Purchase obligations for service providers	809	561	209	39	-
Total	\$ 482,927	\$ 375,595	\$ 87,010	\$ 19,793	\$ 529



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SUPERVISION AND REGULATION

Introduction

Banking is a complex, highly regulated industry. The primary goals of the regulatory scheme are to maintain a safe and sound banking system, protect depositors and the Federal Deposit Insurance Corporation's insurance fund, and 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 financial services industry. Consequently, the growth and earnings performance of CWBC and CWB can be affected not only by management decisions and general economic conditions, but also by the requirements of applicable state and federal statutes, regulations and the policies of various governmental regulatory authorities, including the Board of Governors of the Federal Reserve System (FRB), the Office of the Comptroller of the Currency (OCC), and Federal Deposit Insurance Corporation (FDIC).

The system of supervision and regulation applicable to financial services businesses governs most aspects of the business of CWBC and CWB, including: (i) the scope of permissible business; (ii) investments; (iii) reserves that must be maintained against deposits; (iv) capital levels that must be maintained; (v) the nature and amount of collateral that may be taken to secure loans; (vi) the establishment of new branches; (vii) mergers and consolidations with other financial institutions; and (viii) the payment of dividends.

From time to time laws or regulations are enacted which have the effect of increasing the cost of doing business, limiting or expanding the scope of permissible activities, or changing the competitive balance between banks and other financial and non-financial institutions. Proposals to change the laws and regulations governing the operations of banks and bank holding companies are frequently made in Congress and by various bank and other regulatory agencies. Future changes in the laws, regulations or policies that impact CWBC and CWB cannot necessarily be predicted, but they may have a material effect on the business and earnings of CWBC and CWB.

CWBC

General. As a bank holding company, CWBC is registered under the Bank Holding Company Act of 1956, as amended ("BHCA"), and is subject to regulation by the FRB. According to FRB Policy, CWBC is expected to act as a source of financial strength for CWB, to commit resources to support it in circumstances where CWBC might not otherwise do so. Under the BHCA, CWBC is subject to periodic examination by the FRB. CWBC is also required to file periodic reports of its operations and any additional information regarding its activities and those of its subsidiaries as may be required by the FRB.

CWBC is also a bank holding company within the meaning of Section 3700 of the California Financial Code. Consequently, CWBC and CWB are subject to examination by, and may be required to file reports with, the Commissioner of the California Department of Financial Institutions ("DFI"). Regulations have not yet been proposed or adopted or steps otherwise taken to implement the DFI's powers under this statute.

CWBC has a class of securities registered with the Securities Exchange Commission ("SEC") under Section 12 of the Securities Exchange Act of 1934, as amended ("1934 Act") and has its common stock listed on the Nasdaq Global Market. Consequently, CWBC is subject to supervision and regulation by the SEC and compliance with NASDAQ listing requirements.

Bank Holding Company Liquidity. CWBC is a legal entity, separate and distinct from CWB. CWBC has the ability to raise capital on its own behalf or borrow from external sources, CWBC may also obtain additional funds from dividends paid by, and fees charged for services provided to, CWB. However, regulatory constraints on CWB may restrict or totally preclude the payment of dividends by CWB to CWBC.

Transactions with Affiliate. CWBC and any subsidiaries it may purchase or organize are deemed to be affiliates of CWB within the meaning of Sections 23A and 23B of the Federal Reserve Act, and the FRB's Regulation W. Under Sections 23A and 23B and Regulation W, loans by CWB to affiliates, investments by them in affiliates' stock, and taking affiliates' stock as collateral for loans to any borrower is limited to 10% of CWB's capital, in the case of any one affiliate, and is limited to 20% of CWB's capital, in the case of all affiliates. In addition, transactions between CWB and other affiliates must be on terms and conditions that are consistent with safe and sound banking practices, in particular, a bank and its subsidiaries generally may not purchase from an affiliate a low-quality asset, as defined in the Federal Reserve Act. These restrictions also prevent a bank holding CWBC and its other affiliates from borrowing from a banking subsidiary of the bank holding CWBC unless the loans are secured by marketable collateral of designated amounts. CWBC and CWB are also subject to certain restrictions with respect to engaging in the underwriting, public sale and distribution of securities.

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Limitations on Business and Investment Activities. Under the BHCA, a bank holding company must obtain the FRB's approval before: (i) directly or indirectly acquiring more than 5% ownership or control of any voting shares of another bank or bank holding company; (ii) acquiring all or substantially all of the assets of another bank; (iii) or merging or consolidating with another bank holding company.

The FRB may allow a bank holding company to acquire banks located in any state of the United States without regard to whether the acquisition is prohibited by the law of the state in which the target bank is located. In approving interstate acquisitions, however, the FRB must give effect to applicable state laws limiting the aggregate amount of deposits that may be held by the acquiring bank holding company and its insured depository institutions in the state in which the target bank is located, provided that those limits do not discriminate against out-of-state depository institutions or their holding companies, and state laws which require that the target bank have been in existence for a minimum period of time, not to exceed five years, before being acquired by an out-of-state bank holding company.

In addition to owning or managing banks, bank holding companies may own subsidiaries engaged in certain businesses that the FRB has determined to be "so closely related to banking as to be a proper incident thereto." CWBC, therefore, is permitted to engage in a variety of banking-related businesses. Some of the activities that the FRB has determined, pursuant to its Regulation Y, to be related to banking are:

- § making or acquiring loans or other extensions of credit for its own account or for the account of others
- § servicing loans and other extensions of credit;
- § performing functions or activities that may be performed by a trust company in the manner authorized by federal or state law under certain circumstances;
- § leasing personal and real property or acting as agent, broker, or adviser in leasing such property in accordance with various restrictions imposed by FRB regulations;
- § acting as investment or financial advisor;
- § providing management consulting advise under certain circumstances;
- § providing support services, including courier services and printing and selling MICR-encoded items;
- § acting as a principal, agent or broker for insurance under certain circumstances;
- § making equity and debt investments in corporations or projects designed primarily to promote community welfare or jobs for residents;
- § providing financial, banking or economic data processing and data transmission services;
- § owning, controlling or operating a savings association under certain circumstances;
- § selling money orders, travelers' checks and U.S. Savings Bonds;
- § providing securities brokerage services, related securities credit activities pursuant to Regulation T and other incidental activities;
- § underwriting and dealing in obligations of the U.S., general obligations of states and their political subdivisions and other obligations authorized for state member banks under federal law

Additionally, qualifying bank holding companies making an appropriate election to the FRB may engage in a full range of financial activities, including insurance, securities and merchant banking. CWBC has not elected to qualify for these financial services.

Federal law prohibits a bank holding company and any subsidiary banks from engaging in certain tie-in arrangements in connection with the extension of credit. Thus, for example, CWB may not extend credit, lease or sell property, or furnish any services, or fix or vary the consideration for any of the foregoing on the condition that:

- the customer must obtain or provide some additional credit, property or services from or to CWB other than a loan, discount, deposit or trust services;
-

the customer must obtain or provide some additional credit, property or service from or to CWBC or any subsidiaries; or

- the customer must not obtain some other credit, property or services from competitors, except reasonable requirements to assure soundness of credit extended

Capital Adequacy. Bank holding companies must maintain minimum levels of capital under the FRB's risk-based capital adequacy guidelines. If capital falls below minimum guideline levels, a bank holding company, among other things, may be denied approval to acquire or establish additional banks or non-bank businesses.



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The FRB's risk-based capital adequacy guidelines, discussed in more detail below in the section entitled "Supervision and Regulation – CWB – Regulatory Capital Guidelines," assign various risk percentages to different categories of assets and capital is measured as a percentage of risk assets. Under the terms of the guidelines, bank holding companies are expected to meet capital adequacy guidelines based both on total risk assets and on total assets, without regard to risk weights.

The risk-based guidelines are minimum requirements. Higher capital levels will be required if warranted by the particular circumstances or risk profiles of individual organizations. For example, the FRB's capital guidelines contemplate that additional capital may be required to take adequate account of, among other things, interest rate risk, or the risks posed by concentrations of credit, nontraditional activities or securities trading activities. Moreover, any banking organization experiencing or anticipating significant growth or expansion into new activities, particularly under the expanded powers under the Gramm-Leach-Bliley Act, would be expected to maintain capital ratios, including tangible capital positions, well above the minimum levels.

**Limitations on Dividend Payments.** California Corporations Code Section 500 allows CWBC to pay a dividend to its shareholders only to the extent that CWBC has retained earnings and, after the dividend, CWBC's:

§ assets (exclusive of goodwill and other intangible assets) would be 1.25 times its liabilities (exclusive of deferred taxes, deferred income and other deferred credits); and  
§ current assets would be at least equal to current liabilities.

Additionally, the FRB's policy regarding dividends provides that a bank holding CWBC should not pay cash dividends exceeding its net income or which can only be funded in ways that weaken the bank holding company's financial health, such as by borrowing. The FRB also possesses enforcement powers over bank holding companies and their non-bank subsidiaries to prevent or remedy actions that represent unsafe or unsound practices or violations of applicable statutes and regulations.

**The Sarbanes-Oxley Act of 2002.** The Sarbanes-Oxley Act of 2002, or the SOX, became effective on July 30, 2002, and represents the most far reaching corporate and accounting reform legislation since the enactment of the Securities Act of 1933 and the Exchange Act of 1934. The SOX is intended to provide a permanent framework that improves the quality of independent audits and accounting services, improves the quality of financial reporting, strengthens the independence of accounting firms and increases the responsibility of management for corporate disclosures and financial statements. It is intended that by addressing these weaknesses, public companies will be able to avoid the problems encountered by several companies in 2001-2002.

Sox's provisions are significant to all companies that have a class of securities registered under Section 12 of the Exchange Act, or are otherwise reporting to the SEC (or the appropriate federal banking agency) pursuant to Section 15(d) of the Exchange Act, including CWBC (collectively, "public companies"). In addition to SEC rulemaking to implement the SOX, The Nasdaq Global Market has adopted corporate governance rules intended to allow shareholders to more easily and effectively monitor the performance of companies and directors. The principal provisions of the SOX, many of which have been interpreted through regulations released in 2003, provide for and include, among other things:

- the creation of an independent accounting oversight board;
- auditor independence provisions that restrict non-audit services that accountants may provide to their audit clients;
- additional corporate governance and responsibility measures, including the requirement that the chief executive officer and chief financial officer of a public company certify financial statements;
- the forfeiture of bonuses or other incentive-based compensation and profits from the sale of an issuer's securities by directors and senior officers in the twelve month period following initial publication of any financial statements that

later require restatement;

- an increase in the oversight of, and enhancement of certain requirements relating to, audit committees of public companies and how they interact with CWBC's independent auditors;
- requirements that audit committee members must be independent and are barred from accepting consulting, advisory or other compensatory fees from the issuer;
- requirements that companies disclose whether at least one member of the audit committee is a "financial expert" (as such term is defined by the SEC) and if not discussed, why the audit committee does not have a financial expert;

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- expanded disclosure requirements for corporate insiders, including accelerated reporting of stock transactions by insiders and a prohibition on insider trading during pension blackout periods;
- a prohibition on personal loans to directors and officers, except certain loans made by insured financial institutions on non-preferential terms and in compliance with other bank regulatory requirements;
  - disclosure of a code of ethics and filing a Form 8-K for a change or waiver of such code;
  - a range of enhanced penalties for fraud and other violations; and
- expanded disclosure and certification relating to an issuer's disclosure controls and procedures and internal controls over financial reporting.

As a result of the SOX, and its implementing regulations, CWBC has incurred substantial cost to interpret and ensure compliance with the law and its regulations including, without limitation, increased expenditures by CWBC in auditors' fees, attorneys' fees, outside advisors fees, and increased errors and omissions insurance premium costs. The requirement for management to assess the effectiveness of internal controls over financial reporting has been extended by the SEC for non-accelerated filers, such as CWBC, and became effective for fiscal years ending after December 15, 2007, and, therefore, that requirement was applicable to the most recently completed fiscal year for CWBC. Currently, the auditor's attestation report on internal control over financial reporting is due for fiscal years ending on or after December 15, 2009; however, the SEC has published a proposal to delay, once again, the requirement for the auditor's attestation report. CWBC cannot be certain of the effect, if any, of the foregoing legislation on the business of CWBC although increased costs of compliance are likely. Future changes in the laws, regulation, or policies that impact CWBC cannot necessarily be predicted and may have a material effect on the business and earnings of CWBC.

## CWB

General. CWB, as a national banking association which is a member of the Federal Reserve System, is subject to regulation, supervision and regular examination by the OCC, FDIC and the FRB. CWB's deposits are insured by the FDIC up to the maximum extent provided by law. The regulations of these agencies govern most aspects of CWB's business and establish a comprehensive framework governing its operations.

Regulatory Capital Guidelines. The federal banking agencies have established minimum capital standards known as risk-based capital guidelines. These guidelines are intended to provide a measure of capital that reflects the degree of risk associated with a bank's operations. The risk-based capital guidelines include both a definition of capital and a framework for calculating the amount of capital that must be maintained against a bank's assets and off-balance sheet items. The amount of capital required to be maintained is based upon the credit risks associated with the various types of a bank's assets and off-balance sheet items. A bank's assets and off-balance sheet items are classified under several risk categories, with each category assigned a particular risk weighting from 0% to 100%.

	Adequately Capitalized (greater than or equal to)	Well Capitalized	CWB	CWBC (consolidated)
Total risk-based capital	8.00%	10.00%	11.33%	13.70%
Tier 1 risk-based capital ratio	4.00%	6.00%	10.08%	12.45%
Tier 1 leverage capital ratio	4.00%	5.00%	8.33%	10.28%

As of December 31, 2008, management believes that CWBC's capital levels met all minimum regulatory requirements and that CWB was considered "well capitalized" under the regulatory framework for prompt corrective action.

Prompt Corrective Action. The federal banking agencies possess broad powers to take prompt corrective action to resolve the problems of insured banks. Each federal banking agency has issued regulations defining five capital

categories: “well capitalized,” “adequately capitalized,” “undercapitalized,” “significantly undercapitalized,” and “critical undercapitalized.” Under the regulations, a bank shall be deemed to be:

§ “well capitalized” if it has a total risk-based capital ratio of 10% or more, has a Tier 1 risk-based capital ratio of 6% or more, has a leverage capital ratio of 5% or more and is not subject to specified requirements to meet and maintain a specific capital level for any capital measure;

§ “adequately capitalized” if it has a total risk-based capital ratio of 8% or more, a Tier 1 risk-based capital ratio of 4% or more and a leverage capital ratio of 4% or more (3% under certain circumstances) and does not meet the definition of “well capitalized”;

§ “undercapitalized” if it has a total risk-based capital ratio that is less than 8%, a Tier 1 risk-based capital ratio that is less than 4%, or a leverage capital ratio that is less than 4% (3% under certain circumstances)

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§ “significantly undercapitalized” if it has a total risk-based capital ratio that is less than 6%, a Tier 1 risk-based capital ratio that is less than 3% or a leverage capital ratio that is less than 3%; and

§ “critically undercapitalized” if it has a ratio of tangible equity to total assets that is equal to or less than 2%

While these benchmarks have not changed, due to market turbulence, the regulators have strongly encouraged banks and bank holding companies to achieve and maintain higher ratios.

Banks are prohibited from paying dividends or management fees to controlling persons or entities if, after making the payment, the bank would be “undercapitalized,” that is, the bank fails to meet the required minimum level for any relevant capital measure. Asset growth and branching restrictions apply to “undercapitalized” banks. Banks classified as “undercapitalized” are required to submit acceptable capital plans guaranteed by its holding company, if any. Broad regulatory authority was granted with respect to “significantly undercapitalized” banks, including forced mergers, growth restrictions, ordering new elections for directors, forcing divestiture by its holding company, if any, requiring management changes and prohibiting the payment of bonuses to senior management. Even more severe restrictions are applicable to “critically undercapitalized” banks, those with capital at or less than 2%. Restrictions for these banks include the appointment of a receiver or conservator. All of the federal banking agencies have promulgated substantially similar regulations to implement this system of prompt corrective action

A bank, based upon its capital levels, that is classified as “well capitalized,” “adequately capitalized” or “undercapitalized” may be treated as though it were in the next lower capital category if the appropriate federal banking agency, after notice and opportunity for a hearing, determines that an unsafe or unsound condition, or an unsafe or unsound practice, warrants such treatment. At each successive lower capital category, an insured bank is subject to more restrictions. The federal banking agencies, however, may not treat an institution as “critically undercapitalized” unless its capital ratios actually warrant such treatment.

In addition to measures taken under the prompt corrective action provisions, insured banks may be subject to potential enforcement actions by the federal banking agencies for unsafe or unsound practices in conducting their businesses or for violations of any law, rule, regulation or any condition imposed in writing by the agency or any written agreement with the agency. Enforcement actions may include the imposition of a conservator or receiver, the issuance of a cease-and-desist order that can be judicially enforced, the termination of insurance of deposits (in the case of a depository institution), the imposition of civil money penalties, the issuance of directives to increase capital, the issuance of formal and informal agreements, the issuance of removal and prohibition orders against institution-affiliated parties. The enforcement of such actions through injunctions or restraining orders may be based upon a judicial determination that the agency would be harmed if such equitable relief was not granted.

The OCC, as the primary regulator for national banks, also has a broad range of enforcement measures, from cease and desist powers and the imposition of monetary penalties to the ability to take possession of a bank, including causing its liquidation.

### FDIC Insurance and Insurance Assessments.

Banks and thrifts have historically paid varying amounts of premiums on deposits for federal deposit insurance depending upon a risk-based system which evaluated the institution’s regulatory and capital adequacy ratings. The FDIC operated two separate insurance funds, the Bank Insurance Fund (“BIF”) and the Savings Association Insurance Fund (“SAIF”).

As a result of the Federal Deposit Insurance Reform Act of 2006 (the “FDI Reform Act”) and regulations adopted by the FDIC effective as of November 2, 2007: (i) the BIF and the SAIF have been merged into the Deposit Insurance Fund (the “DIF”); (ii) the \$100,000 insurance level has been indexed to reflect inflation (the first adjustment for inflation will

be effective January 1, 2011 and thereafter adjustments will occur every 5 years); (iii) deposit insurance coverage for retirement accounts has been increased to \$250,000, and will also be subject to adjustment every five years; (iv) banks that historically have capitalized the BIF are entitled to a one-time credit which can be used to off-set premiums otherwise due (this addresses the fact that institutions that have grown rapidly have not had to pay deposit premiums); (v) a cap on the level of the DIF has been imposed and dividends will be paid when the DIF grows beyond a specified threshold; and (vi) the previous risk-based system for assessing premiums has been revised.

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Effective January 1, 2007, the FDIC utilizes a risk-based assessment system to set semi-annual insurance premium assessments which categorizes banks into four risk categories based on capital levels and supervisory “CAMELS” ratings and names them Risk Categories I, II, III and IV. The “CAMELS” rating system is based upon an evaluation of the five critical elements of an institution’s operations: Capital adequacy, Asset quality, Management, Earnings, Liquidity, and Sensitivity to risk. This rating system is designed to take into account and reflect all significant financial and operational factors financial institution examiners assess in their evaluation of an institution’s performance. The following table sets forth these four Risk Categories:

Capital Group	Supervisory Subgroup		
	A	B	C
1. Well Capitalized	I		III
2. Adequately Capitalized		II	
3. Undercapitalized		III	IV

Within Risk Category I, the assessment system combines supervisory ratings with other risk measures to differentiate risk. For most institutions, the assessment system combines CAMELS component ratings with financial ratios to determine an institution’s assessment rate. For large institutions that have long-term debt issuer ratings, the new assessment system differentiates risk by combining CAMELS component ratings with those ratings. For large institutions within Risk Category I, initial assessment rate determinations may be modified within limits upon review of additional relevant information. The new assessment system assess those within Risk Category I that pose the least risk a minimum assessment rate and those that pose the greatest risk a maximum assessment rate that is two basis points higher. An institution that poses an intermediate risk within Risk Category I will be charged a rate between the minimum and maximum that will vary incrementally by institution.

On February 27, 2009, the FDIC adopted final rules modifying the risk-based assessment system and setting initial base assessment rates beginning April 1, 2009. Under these new rules, risk assessments for small Risk Category I institutions and large Risk Category I institutions with no long-term debt rating will include a consideration of such institution’s adjusted brokered deposit ratio. The adjusted brokered deposit ratio affects institutions whose brokered deposits are more than 10 percent of domestic deposits and whose total assets are more than 40 percent greater than they were four years previously. The adjusted brokered deposit ratio excludes certain reciprocal deposits for institutions in Risk Category I. Brokered deposits that consist of balances swept into an insured institution are included in the adjusted brokered deposit ratio for all institutions.

Further, the new rules revised the method for calculating the assessment rate for a large Risk Category I institution with a long-term debt issuer rating so that it equally weights the institution's weighted average CAMELS component ratings, its long-term debt issuer ratings and the financial ratios method assessment rate. The final rule updates the uniform amount and the pricing multipliers for the weighted average CAMELS component ratings and financial ratios method. It also increases the maximum possible large bank adjustment from 0.5 basis point to 1.0 basis point.

These new rules set forth three possible adjustments to an institution's initial base assessment rate: (i) a decrease of up to five basis points for long-term unsecured debt, including senior unsecured debt (other than debt guaranteed under the Temporary Liquidity Guarantee Program) and subordinated debt and, for small institutions, a portion of Tier 1 capital; (ii) an increase not to exceed 50 percent of an institution's assessment rate before the increase for secured liabilities in excess of 25 percent of domestic deposits; and (ii) for non-Risk Category I institutions, an increase not to exceed 10 basis points for brokered deposits in excess of 10 percent of domestic deposits.

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Under these new rules, the FDIC adopted new initial base assessment rates as of April 1, 2009, as follows, expressed in terms of cents per \$100 in insured deposits:

Annual Rates (in basis points)	Initial Base Assessment Rates				
	Risk Category				
	I *		II	III	IV
	Minimum	Maximum			
	12	16	22	32	45

\*Initial base rates that were not the minimum or maximum rate will vary between these rates.



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After applying all possible adjustments, minimum and maximum total base assessment rates for each Risk Category are as follows:

	Total Base Assessment Rates			
	Risk Category I	Risk Category II	Risk Category III	Risk Category IV
Initial base assessment rate	12 – 16	22	32	45
Unsecured debt adjustment	-5 – 0	-5 – 0	-5 – 0	-5 – 0
Secured liability adjustment	0 – 8	0 – 11	0 – 16	0 – 22.5
Brokered deposit adjustment		0 – 10	0 – 10	0 – 10
Total base assessment rate	7 – 24	17 – 43	27 – 58	40 – 77.5

\* All amounts for all risk categories are in basis points annually. Total base rates that are not the minimum or maximum rate will vary between these rates.

In addition, on February 27, 2009, the FDIC adopted an interim rule that imposes a 20 basis point emergency special assessment on all insured depository institutions on June 30, 2009. The special assessment will be collected September 30, 2009, at the same time that the risk-based assessments for the second quarter of 2009 are collected. The interim rule also permits the FDIC to impose an emergency special assessment of up to 10 basis points on all insured depository institutions whenever, after June 30, 2009, the FDIC estimates that the DIF reserve ratio will fall to a level that the FDIC believes would adversely affect public confidence or to a level close to zero or negative at the end of a calendar quarter.

The FDIC may terminate its insurance of deposits if it finds that the Bank has engaged in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC.

Effective November 21, 2008 and until December 31, 2009, the FDIC expanded deposit insurance limits for certain accounts under the FDIC's Temporary Liquidity Guarantee Program. Provided an institution has not opted out of the Temporary Liquidity Guarantee Program, the FDIC may (i) guarantee, through the earlier of maturity or June 30, 2012, certain newly issued senior unsecured debt issued by participating institutions on or after October 14, 2008 and before June 30, 2009 and (ii) provide full FDIC deposit insurance coverage for noninterest bearing transaction deposit accounts, Negotiable Order of Withdrawal ("NOW") accounts paying less than 0.5% interest per annum and Interest on Lawyers Trust Accounts (IOLTAs) held at participating FDIC-insured institutions through December 31, 2009. Coverage under the TLGP was available for the first 30 days without charge. The fee assessment for coverage of senior unsecured debt ranges from 50 basis points to 100 basis points per annum, depending on the initial maturity of the debt. The fee assessment for deposit insurance coverage is 10 basis points per quarter on amounts in covered accounts exceeding \$250,000. On February 10, 2009, the Treasury extended the Temporary Liquidity Guarantee Program to October 31, 2009 pursuant to the Financial Stability Plan - Capital Assistance Program. CWB has not opted out of the Temporary Liquidity Guarantee Program.

Community Reinvestment Act. The CRA is intended to encourage insured depository institutions, while operating safely and soundly, to help meet the credit needs of their communities. The CRA specifically directs the federal bank regulatory agencies, in examining insured depository institutions, to assess their record of helping to meet the credit needs of their entire community, including low- and moderate-income neighborhoods, consistent with safe and sound banking practices. The CRA further requires the agencies to take a financial institution's record of meeting its

community credit needs into account when evaluating applications for, among other things, domestic branches, consummating mergers or acquisitions or holding company formations.

The federal banking agencies have adopted regulations which measure a bank's compliance with its CRA obligations on a performance-based evaluation system. This system bases CRA ratings on an institution's actual lending service and investment performance rather than the extent to which the institution conducts needs assessments, documents community outreach or complies with other procedural requirements. The ratings range from "outstanding" to a low of "substantial noncompliance."

CWB had a CRA rating of "Satisfactory" as of its most recent regulatory examination.

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**Environmental Regulation.** Federal, state and local laws and regulations regarding the discharge of harmful materials into the environment may have an impact on CWB. Since CWB is not involved in any business that manufactures, uses or transports chemicals, waste, pollutants or toxins that might have a material adverse effect on the environment, CWB's primary exposure to environmental laws is through its lending activities and through properties or businesses CWB may own, lease or acquire. Based on a general survey of CWB's loan portfolio, conversations with local appraisers and the type of lending currently and historically done by CWB, management is not aware of any potential liability for hazardous waste contamination that would be reasonably likely to have a material adverse effect on CWBC as of December 31, 2008.

**Safeguarding of Customer Information and Privacy.** The FRB and other bank regulatory agencies have adopted guidelines for safeguarding confidential, personal customer information. These guidelines require financial institutions to create, implement and maintain a comprehensive written information security program designed to ensure the security and confidentiality of customer information, protect against any anticipated threats or hazard to the security or integrity of such information and protect against unauthorized access to or use of such information that could result in substantial harm or inconvenience to any customer. CWB has adopted a customer information security program to comply with such requirements.

Financial institutions are also required to implement policies and procedures regarding the disclosure of nonpublic personal information about consumers to non-affiliated third parties. In general, financial institutions must provide explanations to consumers on policies and procedures regarding the disclosure of such nonpublic personal information, and, except as otherwise required by law, prohibits disclosing such information except as provided in CWB's policies and procedures. CWB has implemented privacy policies addressing these restrictions which are distributed regularly to all existing and new customers of CWB.

**USA Patriot Act.** On October 26, 2001, the President signed into law comprehensive anti-terrorism legislation, the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, known as the Patriot Act. The USA Patriot Act ("Patriot Act") was designed to deny terrorists and others the ability to obtain access to the United States financial system, and has significant implications for financial institutions and other businesses involved in the transfer of money. The Patriot Act, as implemented by various federal regulatory agencies, requires financial institutions, including CWB, to implement new policies and procedures or amend existing policies and procedures with respect to, among other matters, anti-money laundering, compliance, suspicious activity and currency transaction reporting and due diligence on customers. The Patriot Act and its underlying regulations also permit information sharing for counter-terrorist purposes between federal law enforcement agencies and financial institutions, as well as among financial institutions, subject to certain conditions, and require the FRB, the OCC and other federal banking agencies to evaluate the effectiveness of an applicant in combating money laundering activities when considering applications filed under Section 3 of the BHCA or the Bank Merger Act. CWB has augmented its systems and procedures to accomplish this. CWB believes that the ongoing cost of compliance with the Patriot Act is not likely to be material to CWB.

**Other Aspects of Banking Law.** CWB is also subject to federal statutory and regulatory provisions covering, among other things, security procedures, insider and affiliated party transactions, management interlocks, electronic funds transfers, funds availability, and truth-in-savings. There are also a variety of federal statutes which regulate acquisitions of control and the formation of bank holding companies.

**Recent Regulatory Developments.** In light of current conditions in the global financial markets and the global economy, regulators have increased their focus on the regulation of the financial services industry. Proposals for legislation that could substantially intensify the regulation of the financial services industry are expected to be introduced in the U.S. Congress and in state legislatures. The agencies regulating the financial services industry also frequently adopt changes to their regulations. Substantial regulatory and legislative initiatives, including a

comprehensive overhaul of the regulatory system in the U.S., are possible in the months or years ahead. Any such action could have a materially adverse effect on our business, financial condition and results of operations.

Recent months have already seen an unprecedented number of government initiatives designed to respond to the stresses experienced in financial markets. In response to the financial crises affecting the banking system and financial markets and going concern threats to investment banks and other financial institutions, EESA) was signed into law on October 3, 2008. Pursuant to EESA, the Treasury was given the authority to, among other things, purchase up to \$700 billion of mortgages, mortgage-backed securities and certain other financial instruments from financial institutions for the purpose of stabilizing and providing liquidity to the U.S. financial markets. Pursuant to EESA, the Treasury established the Troubled Asset Relief Program (“TARP”) and has since injected capital into many financial institutions under the TARP-CPP. On December 19, 2008, CWBC entered into a Securities Purchase Agreement–Standard Terms with the Treasury pursuant to which, among other things, CWBC sold preferred stock and warrants to the Treasury for an aggregate purchase price of \$15.6 million. Under the terms of the TARP-CPP, CWBC is prohibited from increasing dividends on its common stock, and from making certain repurchases of equity securities, including its common stock, without the Treasury’s consent. Furthermore, as long as the preferred stock issued to the Treasury is outstanding, dividend payments and repurchases or redemptions relating to certain equity securities, including CWBC’s common stock, are prohibited until all accrued and unpaid dividends are paid on such preferred stock, subject to certain limited exceptions.

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On February 10, 2009, the Treasury announced the FSP, which, among other things, proposes to establish a new Capital Assistance Program (“CAP”) through which eligible banking institutions will have access to Treasury capital as a bridge to private capital until market conditions normalize, and extends the TLGP to October 31, 2009. As a complement to CAP, a new Public-Private Investment Fund on an initial scale of up to \$500 billion, with the potential to expand up to \$1 trillion, was announced to catalyze the removal of legacy assets from the balance sheets of financial institutions. This proposed fund will combine public and private capital with government financing to help free up capital to support new lending. In addition, the existing Term Asset-Backed Securities Lending Facility (“TALF”) would be expanded (up to \$1 trillion) in order to reduce credit spreads and restart the securitized credit markets that in recent years supported a substantial portion of lending to households, students, small businesses, and others. Furthermore, the FSP proposes a new framework of governance and oversight to help ensure that banks receiving funds are held responsible for appropriate use of those funds through stronger conditions on lending, dividends and executive compensation along with enhanced reporting to the public.

On February 17, 2009, ARRA was signed into law. ARRA is intended to provide tax breaks for individuals and businesses, direct aid to distressed states and individuals, and provide infrastructure spending. In addition, ARRA imposes new executive compensation and expenditure limits on all previous and future TARP-CPP recipients and expands the class of employees to whom the limits and restrictions apply. ARRA also provides the opportunity for additional repayment flexibility for existing TARP-CPP recipients. Among other things, ARRA prohibits the payment of bonuses, other incentive compensation and severance to certain highly paid employees (except in the form of restricted stock subject to specified limitations and conditions), and requires each TARP-CPP recipient to comply with certain other executive compensation related requirements. These provisions modify the executive compensation provisions that were included in EESA, and in most instances apply retroactively for so long as any obligation arising from financial assistance provided to the recipient under TARP remains outstanding. To the extent that the executive compensation provisions in ARRA are more restrictive than the restrictions described in the Treasury’s executive compensation guidelines already issued under EESA, the new ARRA guidelines appear to supersede those restrictions. However, both ARRA and the existing Treasury guidelines contemplate that the Secretary of the Treasury will adopt standards to provide additional guidance regarding how the executive compensation restrictions under ARRA and EESA will be applied.

In addition, ARRA directs the Secretary of the Treasury to review previously-paid bonuses, retention awards and other compensation paid to the senior executive officers and certain other highly-compensated employees of each TARP-CPP recipient to determine whether any such payments were excessive, inconsistent with the purposes of ARRA or the TARP, or otherwise contrary to the public interest. If the Secretary determines that any such payments have been made by a TARP-CPP recipient, the Secretary will seek to negotiate with the TARP-CPP recipient and the subject employee for appropriate reimbursements to the U.S. government (not the TARP-CPP recipient) with respect to any such compensation or bonuses. ARRA also permits the Secretary, subject to consultation with the appropriate federal banking agency, to allow a TARP-CPP recipient to repay any assistance previously provided to such TARP-CPP recipient under the TARP, without regard to whether the TARP-CPP recipient has replaced such funds from any source, and without regard to any waiting period. Any TARP-CPP recipient that repays its TARP assistance pursuant to this provision would no longer be subject to the executive compensation provisions under ARRA.

On February 18, 2009, the Treasury announced the HASP, which proposes to provide refinancing for certain homeowners, to support low mortgage rates by strengthening confidence in Fannie Mae and Freddie Mac, and to establish a Homeowner Stability Initiative to reach at-risk homeowners. Among other things, the Homeowner Stability Initiative would offer monetary incentive to mortgage servicers and mortgage holders for certain modifications of at-risk loans, and would establish an insurance fund designed to reduce foreclosures.



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It is not clear at this time what impact EESA, the CPP, the TLGP, the FSP, ARRA, HASP, or other liquidity and funding initiatives will have on the financial markets and the other difficulties described above, including the high levels of volatility and limited credit availability currently being experienced, or on the U.S. banking and financial industries and the broader U.S. and global economies. Failure of these programs to address the issues noted above could have an adverse effect on the CWBC and its business.

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## ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The Company's primary market risk is interest rate risk ("IRR"). To minimize the volatility of net interest income at risk ("NII") and the impact on economic value of equity ("EVE"), the Company manages its exposure to changes in interest rates through asset and liability management activities within guidelines established by the Board's Asset Liability Committee ("ALCO"). ALCO has the responsibility for approving and ensuring compliance with asset/liability management policies, including IRR exposure.

To mitigate the impact of changes in interest rates on the Company's interest-earning assets and interest-bearing liabilities, the Company actively manages the amounts and maturities. The Company sells substantially all of its mortgage products and a portion of its SBA loan originations. While the Company has some assets and liabilities 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.

The Company uses software, combined with download detailed information from various application programs, and assumptions regarding interest rates, lending and deposit trends and other key factors to forecast/simulate the effects of both higher and lower interest rates. The results detailed below indicate the impact, in dollars and percentages, on NII and EVE of an increase in interest rates of 200 basis points and a decline of 200 basis points compared to a flat interest rate scenario. The model assumes that the rate change shock occurs immediately.

Interest Rate Sensitivity	200 bp increase		200 bp decrease	
	2008	2007	2008	2007
(dollars in thousands)				
Anticipated impact over the next twelve months:				
Net interest income (NII)	\$ 684	\$ 1,872	\$ -	\$ (1,911 )
	2.8 %	7.6 %	-	(7.8 %)
Economic value of equity (EVE)	\$ (11,298 )	\$ (7,523 )	\$ -	\$ 5,981
	(16.5 %)	(14.0 %)	-	11.2 %

As of December 31, 2008, the Fed Funds target rate was between 0.0% and 0.25% and the prime rate was 3.25%. In the present rate environment, a 200 basis point decrease was not considered in the December 31, 2008 interest rate sensitivity analysis.

For further discussion of interest rate risk, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity Management - Interest Rate Risk."

## ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Company's Consolidated Financial Statements and the Notes thereto begin on page F-1.





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ITEM 8. FINANCIAL STATEMENT AND SUPPLEMENTARY DATA

Report of Independent Registered Public Accounting Firm

The Board of Directors and stockholders of Community West Bancshares

We have audited the accompanying consolidated balance sheets of Community West Bancshares and subsidiary (the Company) as of December 31, 2008 and 2007, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2008. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Community West Bancshares and subsidiary at December 31, 2008 and 2007, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2008, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

Los Angeles, California  
March 26, 2009

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CONSOLIDATED BALANCE SHEETS

	December 31,	
	2008	2007
	(dollars in thousands)	
<b>ASSETS</b>		
Cash and due from banks	\$ 4,151	\$ 6,855
Federal funds sold	8,102	2,434
Cash and cash equivalents	12,253	9,289
Time deposits in other financial institutions	812	778
Investment securities available-for-sale, at fair value; amortized cost of \$6,871 December 31, 2008 and \$12,711 December 31, 2007	6,783	12,664
Investment securities held-to-maturity, at amortized cost; fair value of \$31,574 at December 31, 2008 and \$25,733 at December 31, 2007	31,192	25,617
Federal Home Loan Bank stock, at cost	5,660	5,734
Federal Reserve Bank stock, at cost	902	812
Loans:		
Held for sale, at lower of cost or fair value	131,786	110,415
Held for investment, net of allowance for loan losses of \$7,341 at December 31, 2008 and \$4,412 at December 31, 2007	449,289	428,750
Total loans	581,075	539,165
Servicing rights	1,161	1,206
Other assets acquired through foreclosure, net	1,146	150
Premises and equipment, net	3,718	3,284
Other assets	12,279	11,151
<b>TOTAL ASSETS</b>	<b>\$ 656,981</b>	<b>\$ 609,850</b>
<b>LIABILITIES</b>		
Deposits:		
Non-interest-bearing demand	\$ 35,080	\$ 33,240
Interest-bearing demand	57,474	75,016
Savings	14,718	14,905
Time certificates	368,167	310,578
Total deposits	475,439	433,739
Federal Home Loan Bank advances	110,000	121,000
Other liabilities	4,924	4,952
Total liabilities	590,363	559,691
Commitments and contingencies-See Note 16		
<b>STOCKHOLDERS' EQUITY</b>		
Preferred stock, no par value; 10,000,000 shares authorized; 15,600 shares issued and outstanding, net of discount	14,300	-
Common stock, no par value; 10,000,000 shares authorized; 5,915,130 shares issued and outstanding at December 31, 2008 and 5,894,585 at December 31, 2007	33,081	31,636