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COMMUNITY WEST BANCSHARES /
Form 10-K/A
June 26, 2006

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

FORM 10-K/A
(AMENDMENT NO. 1)

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2005
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: NONE

SECURITIES REGISTERED UNDER SECTION 12(g) OF THE EXCHANGE ACT:
COMMON STOCK, NO PAR VALUE

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 Exchange Act 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 non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

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

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As of March 23, 2006, 5,780,153 shares of the registrant's common stock were outstanding. The aggregate market value of common stock, held by non-affiliates of the registrant as of June 30, 2005, was \$48,857,694 based on a closing price of \$12.20 for the common stock, as reported on the Nasdaq Stock 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.

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 2006 Annual Meeting 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, 2005.

EXPLANATORY NOTE

We are filing this amendment No. 1 on Form 10-K/A solely to correct a typographical error in the Report of Independent Registered Public Accounting Firm and in the Consent of Independent Registered Public Accounting Firm. The typographical error was the inadvertent omission of the signature of Ernst & Young LLP on the Report of Independent Registered Public Accounting Firm contained in Item 8. Financial Statements and Supplementary Data and the omission of the signature of Ernst & Young LLP on the Consent of Independent Registered Public Accounting Firm contained in Exhibit 23.1 of our original Annual Report on Form 10-K filed on March 29, 2006 (Original Report). There are no changes to the financial or supplemental information contained in Part II, Item 8 or any other Parts of the original report. This Amendment relates solely to the Report of Independent Registered Public Accounting Firm and Consent of Independent Registered Accounting Firm.

This Amendment No. 1 to our Annual Report on Form 10-K as originally filed on March 29, 2006 continues to speak as of the date of the Original Report, and we have not updated the disclosures contained in this Amendment No. 1 to reflect any events that occurred at a date subsequent to the filing of the Original Report.

COMMUNITY WEST BANCSHARES FORM 10-K

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PART I

ITEM 1. DESCRIPTION OF BUSINESS

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") (formerly known as Goleta National 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 "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.

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 options as well as deposit products. CWB also offers other financial services.

Relationship Banking - Relationship banking is conducted at the community level through four full-service branch offices on the Central Coast of California. In addition to the existing Goleta and Ventura branches, new full-service

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branches were opened in Santa Maria in May 2005 and in downtown Santa Barbara in October 2005. 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 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 internet banking, 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 an approved lender/servicer of loans guaranteed by the Small Business Administration ("SBA") since 1990. The Company originates SBA loans which are frequently 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. Periodically, the Company may sell some of the guaranteed and unguaranteed portion of select 7(a) program loans into the secondary market. 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 all 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.

CWB has been offering 504 loans since 1991, but was fairly inactive in this loan product through 2002. Beginning in 2003, upon acquisition of a group of experienced 504 lenders in the Sacramento area, CWB increased its 504 loan origination volume. 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

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lien covering up to 40% of the total cost, and a contribution of at least 10% equity from the borrower. As of December 8, 2004, debenture limits were raised to \$1.5 million for regular 504 loans and \$2 million for those 504 loans that meet a public policy goal.

In 2001, CWB began offering 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, Colorado, Florida, Georgia, North Carolina, Oregon, South Carolina, Tennessee and Washington. Beginning in 1995, the SBA designated CWB as a "Preferred Lender." As a Preferred Lender, CWB has been delegated the loan approval, closing and most servicing and liquidation authority responsibility from the SBA. CWB currently has SBA Preferred Lender status in the California districts of Los Angeles, Fresno, Sacramento, San Francisco, San Diego and Santa Ana, as well as the states of Alabama, Colorado, Florida, Georgia, North Carolina, South Carolina and Tennessee. CWB also has Preferred Lender status in the cities of Seattle and Spokane, Washington and Portland, Oregon. Due to CWB's Preferred Lender status in so many states and districts, CWB has achieved competitive advantage in this product and has been able to increase its loan volume in recent years.

Mortgage Lending - In 1995, CWB established 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, the real estate loans are sold into the secondary market.

Manufactured Housing - In 1998, CWB established 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. Initially, these loans were offered in CWB's primary lending areas of Santa Barbara, Ventura and San Luis Obispo counties. Over the last two years, the Company has expanded this program into Los Angeles, Orange, San Diego and Sacramento counties. The manufactured homes are located in approved mobile home parks primarily along the California coast in cities from San Diego to San Luis Obispo counties. 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. As of December 31, 2005, CWB held \$101.3 million of manufactured housing loans in its portfolio.

COMPANY HISTORY

From December 1998 until August 2001, the Company owned a 100% interest in Palomar Community Bank ("Palomar"). In August of 2001, the Company sold Palomar Community Bank. From October 1997 to October 2002, the Company owned an interest in ePacific.com (formerly known as Electronic Paycheck, LLC).

COMPETITION AND SERVICE AREA

The financial services industry is highly competitive with respect to both loans

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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 competitor's numerous branch offices and varied products. First, the Company through 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 compliment 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 four branches located in Goleta, Ventura, Santa Maria and Santa Barbara, California, a loan production office currently exists in Roseville, California. The Company also maintains SBA loan production offices in the California areas of Atascadero, Roseville, San Francisco bay area, and San Diego as well as the states of Colorado, Florida, Georgia, North Carolina, South Carolina, Oregon and Washington.

Competition may adversely affect the Company's performance. The financial service's 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 and specialty financial services

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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 our market share or cause the prices to fall for which the Company can charge for products and services.

GOVERNMENT POLICIES

The Company's operations are affected by various state and federal legislative changes and by policies of various regulatory authorities, including those of the states in which it operates and the U.S. government. These policies include, for example, statutory maximum legal lending rates, domestic monetary policies by the Board of Governors of the Federal Reserve System, U.S. fiscal policy, U.S. Patriot Act and capital adequacy and liquidity constraints imposed by bank regulatory agencies. Changes in these laws, regulations and policies 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 Conditions and Results of Operations - Supervision and Regulation."

EMPLOYEES

As of December 31, 2005, the Company had 137 full-time and 10 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.

ITEM 1A. RISK FACTORS

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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. These matters could cause the trading price of our common stock to decline in future periods. Such risks and uncertainties include:

- changes in the interest rate environment affecting interest rate margins and/or interest rate risk
- increased competitive pressure among financial services' companies
- the availability of sources of liquidity at a reasonable cost
- the regulation of the banking industry including legislative or regulatory changes adversely affecting the business in which the Company engages
- reduction in our earnings by losses on loans
- dependence on real estate
- operational risks
- deterioration in general economic conditions
- risks of natural disasters
- other risks and uncertainties that may be detailed herein

RISK DUE TO ECONOMIC CONDITIONS DUE TO CHANGES IN INTEREST RATES OR THE ECONOMY IN THE AREAS WE SERVE

The Federal Reserve Board ("FRB") has continued its efforts to prevent/slow inflation and to maintain a stable price environment as the economy enters the fifth year of economic expansion. In 2005, the FRB raised the discount rate eight times from 2.25% to 4.25%, an increase of 2.00%. Typically, these rate increases enhance net interest income for asset-sensitive financial institutions. At the same time, the flattening yield curve may compress net interest margins. As inflation has remained largely in check and the housing market has shown signs of slowing, most sectors of the economy have remained strong. This continued strength in the economy during 2005, which has been reflected in strong loan demand in the markets in which the Company operates, may not continue in 2006.

While there is uncertainty regarding FRB's interest rate policy under a new FRB chairman, the outlook for 2006 is generally optimistic. Supporting an overall optimistic outlook in the economy is continued strength in consumer confidence, provided by the rebuilding of the Gulf coast and a high level of liquidity in the economy. This optimistic outlook is tempered by concerns related to the real estate market and the federal budget deficit.

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 CWB originates SBA loans (California, Colorado, Oregon and Washington) and the SBA Southeast Region (Alabama, Florida, Georgia, North and South Carolina and Tennessee). A downturn in the National economy or in any of the markets in the Company services may have a negative impact on the Company's future earnings or stock price.

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CHANGES IN THE REGULATORY ENVIRONMENT

The financial services industry is heavily regulated. The Company is subject to federal and state regulation designed to protect the deposits of consumers, not to benefit shareholders. These regulations include the following:

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- the amount of capital the Company must maintain
- the types of activities in which it can engage
- the types and amounts of investments it can make
- the locations of its offices
- insurance of the Company's deposits and the premiums paid for this insurance
- how much cash the Company 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. Government policy and regulation, particularly as implemented through the Federal Reserve System, significantly affects credit conditions. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Supervision and Regulation."

BANK REGULATIONS COULD DISCOURAGE CHANGES IN THE COMPANY'S OWNERSHIP

Bank regulations could delay or discourage a potential acquirer who might have been willing to pay a premium price to acquire a large block of common stock. That possibility might decrease the value of the Company's common stock and the price that a stockholder will receive if shares are sold in the future. Before anyone can buy enough voting stock to exercise control over a bank holding company like CWBC, bank regulators must approve the acquisition. A stockholder must apply for regulatory approval to own 10 percent or more of the Company's common stock, unless the stockholder can show that they will not actually exert control over the Company. As a result, no single stockholder can own more than 25 percent of the Company's common stock without applying for regulatory approval.

THE PRICE OF THE COMPANY'S COMMON STOCK MAY CHANGE RAPIDLY AND SIGNIFICANTLY

The market price of the Company's common stock could change rapidly and significantly at any time. The market price of the Company's common stock has fluctuated in recent years. Between January 1, 2004 and December 31, 2005, the market price of its common stock ranged from a low of \$8.15 per share to a high of \$15.30 per share. Fluctuations may occur, among other reasons, in response to:

- short-term or long-term operating results
- perceived strength of the banking industry in general
- the Company's relatively low public float and thinly-traded stock
- perceived value of the Company's loan portfolio
- trends in the Company's nonperforming assets
- legislative/regulatory action or adverse publicity
- announcements by competitors
- economic changes and general market conditions

The trading price of the Company's common stock may continue to be subject to wide fluctuations in response to the factors set forth above and other factors, many of which are beyond the Company's control. The stock market can experience extreme price and trading volume fluctuations that often are unrelated or disproportionate to the operating performance of individual companies. The Company believes that investors should consider the likelihood of these market fluctuations before investing in the Company's common stock.

DEPENDENCE ON REAL ESTATE CONCENTRATED IN THE STATE OF CALIFORNIA

Approximately 42% of the loan portfolio of the Company is secured by various forms of real estate, including residential and commercial real estate. A 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

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outstanding loans and the value of real estate and other collateral securing loans. The real estate securing the Company's loan portfolio is concentrated in California. If real estate values decline significantly, especially in California, the change could harm the financial condition of the Company's borrowers, the collateral for its loans will provide less security and the Company would be more likely to suffer losses on defaulted loans.

CURTAILMENT OF GOVERNMENT GUARANTEED LOAN PROGRAMS COULD AFFECT A SEGMENT OF THE COMPANY'S BUSINESS

A major segment of the Company's business consists of originating and periodically selling government guaranteed loans, in particular those guaranteed by the SBA. 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 programs. Non-

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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. In late 2004, the SBA eliminated the piggy-back program, in which a conventional real estate loan is made and a SBA 7(a) guaranteed second trust deed is subordinate to the conventional first trust deed. As the funding of the guaranteed portion of 7(a) loans is a major portion of the Company's business, the long-term resolution to the funding for the 7(a) loan program may have an unfavorable impact on the Company's future performance and results of operations.

ENVIRONMENTAL LAWS COULD FORCE THE COMPANY TO PAY FOR ENVIRONMENTAL PROBLEMS

When a borrower defaults on a loan secured by real property, the Company generally purchases the property in foreclosure or accepts a deed to the property surrendered by the borrower. The Company may also take over the management of commercial properties when owners have defaulted on loans. While CWB has guidelines intended to exclude properties with an unreasonable risk of contamination, hazardous substances may exist on some of the properties that it owns, manages or occupies. The Company faces the risk that environmental laws could force it to clean up the properties at the Company's expense. It may cost much more to clean a property than the property is worth. The Company could also be liable for pollution generated by a borrower's operations if the Company took a role in managing those operations after default. Resale of contaminated properties may also be difficult.

COMPETITION WITH OTHER BANKING INSTITUTIONS COULD ADVERSELY AFFECT PROFITABILITY.

The banking industry is highly competitive. The Company faces competition not only from other financial institutions within the markets it serves, 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 Company attempts to combat this increased competition by developing and offering new products and increased quality of services.

FLUCTUATIONS IN INTEREST RATES MAY REDUCE PROFITABILITY.

Changes in interest rates may affect our level of interest income, the primary component of our gross revenue, as well as the level of our interest expense.

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Interest rate fluctuations are caused by many factors which, for the most part, are not under our direct control. For example, national monetary policy plays a significant role in the determination of interest rates. Additionally, competitor pricing and the resulting negotiations that occur with our customers also impact the rates we collect on loans and the rates we pay on deposits. As interest rates change, we expect that we will periodically experience "gaps" in the interest rate sensitivities of our assets and liabilities, meaning that either our interest-bearing liabilities will be more sensitive to changes in market interest rates than our interest-earning assets, or vice versa. In either event, if market interest rates should move contrary to our position, this "gap" may work against us, and our earnings may be negatively affected.

Changes in the level of interest rates also may negatively affect our ability to originate loans, the value of our assets and our ability to realize gains from the sale of our assets, all of which ultimately affect our 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, upon terms that are not favorable to us, in order to maintain our liquidity. If those sales are made at prices lower than the amortized costs of the investments, we will incur losses. See additional discussion on interest rate risk in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Interest Rate Risk."

OPERATIONAL RISK

Operational risk represents the risk of loss resulting from the Company's 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 risk is inherent in all business activities and the management of this risk is important to the achievement of the Company's objectives. In the event of a breakdown in the internal control system, improper operation of systems or improper employee actions, the Company could suffer financial loss, face regulatory action and suffer damage to its reputation. The Company manages operational risk through a risk management framework and its internal control processes. The framework involves business units, corporate risk management personnel and executive management. Under this framework, the business units have direct and primary responsibility and accountability for identifying, controlling and monitoring operational risk. Business unit managers maintain a system of controls with the objective of providing proper transaction authorization and execution, proper system

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operations, safeguarding of assets from misuse or theft and ensuring the reliability of financial and other data. Business unit managers ensure that the controls are appropriate and are implemented as designed. Business continuation and disaster recovery planning is also critical to effectively manage operational risks. The Company's internal audit function (currently outsourced to a third party) validates the system of internal controls through risk-based regular and ongoing audit procedures and reports on the effectiveness of internal controls to executive management and the Audit Committee of the Board.

While the Company believes that it has designed effective methods to minimize

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operational risks, there is no absolute assurance that business disruption or operational losses would not occur in the event of disaster.

DEPENDENCE 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 better serve 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. The Company faces the risk of having to keep up with the rapid changes.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. DESCRIPTION OF PROPERTY

The Company owns the property on which the CWB full-service branch office is located in Goleta, California.

All other property is leased by the Company, including the principal executive office in Goleta. This facility houses the Company's corporate offices, comprised of various departments, including 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 its existing facilities are adequate for its present purposes.

ITEM 3. LEGAL PROCEEDINGS

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

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

None.

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PART II

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

Market Information, Holders and Dividends

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The Company's common stock is traded on the Nasdaq Stock 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:

| | 2005 Quarters | | | | 2004 Quarters | | | |
|--------------------|---------------|---------|----------|---------|---------------|---------|---------|---------|
| | Fourth | Third | Second | First | Fourth | Third | Second | First |
| Stock Price Range: | | | | | | | | |
| High | \$ 14.40 | \$12.57 | \$ 13.50 | \$15.30 | \$ 13.47 | \$10.74 | \$ 9.75 | \$ 9.38 |
| Low | 12.25 | 12.20 | 12.00 | 11.00 | 10.55 | 8.15 | 8.23 | 8.19 |
| Cash Dividends | | | | | | | | |
| Declared | \$.05 | \$.05 | \$.05 | \$.04 | \$.04 | \$.04 | \$.04 | \$ - |

As of March 23, 2006, the year to date high and low stock sales prices were \$14.44 and \$13.85, respectively. As of March 23, 2006, the last reported sale price per share for the Company's common stock was \$14.25.

As of March 23, 2006, the Company had 382 stockholders of record of its common stock.

The Company resumed declaring dividends to its shareholders in the second quarter 2004. It is the Company's intention to declare and pay dividends quarterly. The primary source of funds for dividends paid to shareholders is dividends received from the subsidiary bank, CWB. CWB's ability to pay dividends to the Company is limited by California law and federal banking law. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Supervision and Regulation of the Company - Limitations on Dividend Payments." As of December 31, 2005, CWB had \$10.0 million available for dividends.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table summarizes the securities authorized for issuance as of December 31, 2005:

| Plan Category | Number of securities to be issued upon exercise of outstanding options, warrants and rights | Weighted-average exercise price of outstanding options, warrants and rights | Number remaining available for issuance (excluding reflected) |
|------------------------------------|---|---|---|
| | (a) | (b) | |
| Plans approved by shareholders | 539,162 | \$ 7.29 | |
| Plans not approved by shareholders | - | | N/A |
| Total | 539,162 | | |

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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, 2005, 2004, 2003, 2002 and 2001, and should be read in conjunction with the consolidated financial statements and the related notes included elsewhere in this report.

| | YEAR ENDED DECEMBER 31, | | | | |
|---|-------------------------|-----------|-----------|------------|------------|
| | 2005 | 2004 | 2003 | 2002 | 2001 |
| (IN THOUSANDS, EXCEPT PER SHARE DATA) | | | | | |
| INCOME STATEMENT: | | | | | |
| Interest income | \$ 29,778 | \$ 21,845 | \$ 20,383 | \$ 29,976 | \$ 40,778 |
| Interest expense | 10,347 | 7,845 | 9,342 | 13,466 | 20,347 |
| Net interest income | 19,431 | 14,000 | 11,041 | 16,510 | 20,431 |
| Provision for loan losses | 566 | 418 | 1,669 | 4,899 | 11,847 |
| Net interest income after provision for loan losses | 18,865 | 13,582 | 9,372 | 11,611 | 8,584 |
| Non-interest income | 7,310 | 10,462 | 10,675 | 11,398 | 22,141 |
| Non-interest expenses | 18,160 | 17,521 | 16,736 | 24,931 | 32,041 |
| Income (loss) before income taxes | 8,015 | 6,523 | 3,311 | (1,922) | (1,222) |
| Provision (benefit) for income taxes | 2,373 | 2,688 | 1,128 | (652) | (1,222) |
| NET INCOME (LOSS) | \$ 5,642 | \$ 3,835 | \$ 2,183 | \$ (1,270) | \$ (1,222) |
| PER SHARE DATA: | | | | | |
| Income (loss) per common share - Basic | \$ 0.98 | \$ 0.67 | \$ 0.38 | \$ (0.22) | \$ 0.98 |
| Weighted average shares used in income (loss) per share calculation - Basic | 5,744 | 5,718 | 5,694 | 5,690 | 5,991 |
| Income (loss) per common share - Diluted | \$ 0.95 | \$ 0.65 | \$ 0.38 | \$ (0.22) | \$ 0.98 |
| Weighted average shares used in income (loss) per share calculation - Diluted | 5,931 | 5,867 | 5,758 | 5,690 | 5,991 |
| Book value per share | \$ 7.34 | \$ 6.56 | \$ 6.02 | \$ 5.64 | \$ 5.64 |
| BALANCE SHEET: | | | | | |
| Net loans | \$381,517 | \$290,506 | \$244,274 | \$245,856 | \$260,906 |
| Total assets | 444,354 | 365,203 | 304,250 | 307,210 | 323,854 |
| Total deposits | 334,238 | 284,568 | 224,855 | 219,083 | 196,141 |
| Total liabilities | 402,119 | 327,634 | 269,919 | 275,123 | 290,506 |
| Total stockholders' equity | 42,235 | 37,569 | 34,331 | 32,087 | 33,348 |
| OPERATING AND CAPITAL RATIOS: | | | | | |
| Return on average equity | 14.16% | 10.60% | 6.65% | (3.99)% | 0.00% |
| Return on average assets | 1.43 | 1.15 | 0.73 | (0.42) | 0.00 |
| Dividend payout ratio | 19.39 | 17.91 | - | - | - |
| Equity to assets ratio | 9.50 | 10.29 | 11.28 | 10.48 | 10.00 |
| Tier 1 leverage ratio | 9.80 | 10.41 | 11.15 | 10.48 | 9.00 |
| Tier 1 risk-based capital ratio | 11.21 | 12.51 | 14.05 | 12.66 | 11.00 |
| Total risk-based capital ratio | 12.26 | 13.76 | 15.31 | 13.92 | 13.00 |

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The income statement for 2001 includes 8.5 months of Palomar operating results.

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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 Community West Bancshares ("CWBC" or "Company") and its wholly-owned subsidiary Community West Bank's (formerly known as Goleta National Bank) ("CWB" or "Bank") consolidated financial condition, results of operations, liquidity, capital resources and interest rate risk. Unless otherwise stated, "Company" refers to CWBC and CWB as a consolidated entity. It should be read in conjunction with the consolidated financial statements and notes thereto and the other financial information appearing elsewhere in this report.

FORWARD-LOOKING STATEMENTS

This 2005 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.

OVERVIEW OF EARNINGS PERFORMANCE

In 2005, the net income of the Company was \$5.6 million, or \$0.98, per basic share and \$0.95 per diluted share compared to \$3.8 million, or \$0.67, per basic share and \$0.65 per diluted share for 2004. This represents a \$1.8 million increase in net income over 2004. The primary reason for the increase is the \$5.4 million net interest margin improvement, as the Company increased its volume of earning assets while also experiencing widening margins. This was accomplished despite a challenging economic and interest rate environment in the banking industry. The Company had a decrease in non-interest income, primarily due to its discretionary decision to sell fewer SBA 7(a) loans. The other predominant factor contributing to positive earnings is the control of non-interest expenses, despite the 2005 asset growth. The Company's earnings performance was also impacted in 2005 by:

- net loan portfolio growth of \$91.0 million, or 31.3%, primarily in commercial, commercial real estate, manufactured housing and SBA loans;
- resolution of a potential tax issue which resulted in a reversal of a reserve and positively impacted net income;
- continued prepayments of the securitized loans and the payoff of the securitized bonds, impacting interest income, interest expense, provision for loan losses and other non-interest expenses;
- 200 basis point increase in the Federal Reserve Board's target overnight interest rate from 2.25% to 4.25%, positively impacting net interest income, although, the yield curve flattening served to compress margins;
- strategic decision to reduce SBA loan sales which negatively impacted

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the related gains on loan sales, but will help grow the balance sheet and enhance future interest income;

- fewer mortgage loan originations, which negatively impacted loan fees and gain on loan sales.

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 2005 throughout the analysis sections of this report.

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.

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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 - All loans are reviewed and classified loans are assigned a specific allowance. Those not classified are assigned a pass rating. A migration analysis and various portfolio specific factors are used to calculate the required allowance on those pass loans.
- Relationship Banking - Includes commercial, commercial real estate and consumer loans. Classified loans are assigned a specific allowance. A migration analysis and various portfolio specific factors are used to calculate the required allowance on the remaining pass loans.
- Manufactured Housing - An allowance is calculated on the basis of risk rating, which is a combination of delinquency, value of collateral on classified loans and perceived risk in the product line.
- Securitized Loans - The Company considers this a homogeneous portfolio and calculates the allowance based on statistical information provided by the servicer. Charge-off history is calculated based on three methodologies; a 3-month and a 12-month historical trend and by delinquency information. The highest allowance requirement of the

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three methods is used.

The Company calculates the required ALL on a monthly basis. Any difference between estimated and actual observed losses from the prior month are 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 30 days; and, all other unsecured loans past due 120 or more days. Subsequent recoveries, if any, are credited to the ALL.

INTEREST ONLY STRIPS AND SERVICING RIGHTS - The guaranteed portion of certain SBA loans can be sold into the secondary market. Servicing rights are recognized at fair market value 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. Also, at the time of the loan sale, it is the Company's policy to recognize the related gain on the loan sale in accordance with generally accepted accounting principles ("GAAP"). 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. Additionally, on certain SBA loan sales that occurred prior to 2003, the Company retained interest only strips ("I/O Strips"), which represent the present value of excess net cash flows generated by the difference between (a) interest at the stated rate paid by borrowers and (b) the sum of (i) pass-through interest paid to third-party investors and (ii) contractual servicing fees.

The I/O strips are classified as trading securities. Accordingly, the Company records the I/O strips at fair value with the resulting increase or decrease in fair value being recorded through operations in the current period. Quarterly, the Company verifies the reasonableness of its valuation estimates by comparison to the results of an independent third party valuation analysis.

OTHER REAL ESTATE OWNED - Other real estate owned ("OREO") is real estate acquired through foreclosure on the collateral property and is recorded at fair value at the time of foreclosure less estimated costs to sell. Any excess of loan balance over the fair value of the OREO is charged-off against the ALL. Subsequent to foreclosure, 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 charged or credited to current operations.

STOCK-BASED COMPENSATION - Until the effective date of SFAS 123, January 1, 2006, GAAP permitted the Company to use either of two methodologies to account for compensation cost in connection with employee stock options. The first method required issuers to record compensation expense over the period the options were expected to be outstanding prior to exercise, expiration or cancellation. The amount of compensation expense to be recognized over this term is the "fair value" of the options at the time of the grant as determined by the Black-Scholes valuation model. Black-Scholes computed fair value of the options based on the length of their term, the volatility of the stock price in past periods and other factors. Under this method, the issuer recognized compensation expense regardless of whether or not the employee eventually exercised the options.

Under the second methodology, if options are granted at an exercise price equal to the market value of the stock at the time of the grant, no compensation expense was recognized. GAAP required that issuers electing the second method present pro forma disclosure of net income (loss) and earnings per share as if the first method had been elected. Under the terms of the Company's stock option plan, full-time salaried employees may be granted qualified stock options or incentive stock options and directors may be granted nonqualified stock options. Options may be granted at a price not less than 100% of the market value of the stock on the date of grant. Qualified options are generally exercisable in cumulative 20% installments. All options expire no later than ten years from the date of grant.

RECENT ACCOUNTING PRONOUNCEMENTS PENDING ADOPTION

Statement of Financial Accounting Standards No. 123R - SFAS No. 123 (Revised 2004) ("SFAS No. 123R"), Share-Based Payment, is a revision of SFAS No. 123 and supersedes APB Opinion No. 25 and its related implementation guidance. The Statement focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. SFAS No. 123R requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award (with limited exceptions). That cost will be recognized over the period during which an employee is required to provide service in exchange for the award. On March 29, 2005, the SEC issued Staff Accounting Bulletin No. 107 ("SAB No. 107"), which provides the Staff's views regarding interactions between SFAS No. 123R and certain SEC rules and regulations and provides interpretations of the valuation of share-based payments for public companies.

SFAS No. 123R permits public companies to adopt its requirements using one of two methods: (1) A "modified prospective" method in which compensation cost is recognized beginning with the effective date (a) based on the requirements of SFAS No. 123R for all share-based payments granted after the effective date and (b) based on the requirements of SFAS No. 123 for all awards granted to employees prior to the effective date of SFAS No. 123R that remain unvested on the effective date. (2) A "modified retrospective" method which includes the requirements of the modified prospective method described above, but also permits entities to restate based on the amounts previously recognized under SFAS No. 123 for purposes of pro forma disclosures either (a) all prior periods presented or (b) prior interim periods of the year of adoption.

This statement is effective for the beginning of the first annual reporting period that begins after June 15, 2005 therefore, we will adopt the standard in the first quarter of 2006 using the modified prospective method. As permitted by SFAS No. 123, we currently account for share-based payments to employees using the intrinsic value method prescribed in APB No. 25 and, as such, generally recognize no compensation cost for employee stock options. The effect

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on our results of operations of expensing stock options using the Black-Scholes method is presented in the disclosure of pro forma net income and earnings per share in the note, entitled "Stockholder's Equity". SFAS No. 123R also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as required under current literature. This requirement will reduce net operating cash flows and increase net financing cash flows in periods after adoption

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 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

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

| | YEAR ENDED DECEMBER 31, | | | |
|-------------------------|-------------------------------------|--------------------------------------|-------------------------------------|--------------------------------------|
| | 2005 VS. 2004 | | 2004 VS. 2003 | |
| | AMOUNT OF INCREASE (DECREASE) | PERCENT OF INCREASE (DECREASE) | AMOUNT OF INCREASE (DECREASE) | PERCENT OF INCREASE (DECREASE) |
| | (DOLLARS IN THOUSANDS) | | | |
| INTEREST INCOME | | | | |
| Loans | \$ 7,711 | 37.5% | \$ 907 | 4.6% |
| Investment securities | 295 | 30.1% | 490 | 100.2% |
| Other | (73) | (24.3)% | 65 | 27.5% |
| Total interest income | 7,933 | 36.3% | 1,462 | 7.2% |
| INTEREST EXPENSE | | | | |
| Deposits | 2,685 | 53.5% | 395 | 8.5% |

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| | | | | |
|--|----------|---------|----------|---------|
| Bonds payable and other borrowings | (183) | (6.5)% | (1,892) | (40.1)% |
| | ----- | ----- | ----- | ----- |
| Total interest expense | 2,502 | 31.9% | (1,497) | (16.0)% |
| | ----- | ----- | ----- | ----- |
| NET INTEREST INCOME | 5,431 | 38.8% | 2,959 | 26.8% |
| Provision for loan losses | 148 | 35.4% | (1,251) | (75.0)% |
| | ----- | ----- | ----- | ----- |
| NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES | 5,283 | 38.9% | 4,210 | 44.9% |
| NON-INTEREST INCOME | | | | |
| Other loan fees | (870) | (23.0)% | 853 | 29.2% |
| Gains from loan sales, net | (1,482) | (37.2)% | (879) | (18.1)% |
| Document processing fees, net | 6 | 0.7% | (120) | (12.8)% |
| Loan servicing fees, net | (841) | (59.4)% | 152 | 12.0% |
| Service charges | (63) | (16.5)% | 5 | 1.3% |
| Other | 98 | 107.7% | (224) | (71.1)% |
| | ----- | ----- | ----- | ----- |
| Total non-interest income | (3,152) | (30.1)% | (213) | (2.0)% |
| | ----- | ----- | ----- | ----- |
| NON-INTEREST EXPENSES | | | | |
| Salaries and employee benefits | 142 | 1.2% | 435 | 3.8% |
| Occupancy and equipment expenses | 244 | 15.3% | (95) | (5.6)% |
| Professional services | 82 | 8.7% | 304 | 47.8% |
| Depreciation | 11 | 2.1% | (49) | (8.4)% |
| Loan servicing and collection | 30 | 13.3% | (213) | (48.6)% |
| Other | 130 | 5.5% | 403 | 20.4% |
| | ----- | ----- | ----- | ----- |
| Total non-interest expenses | 639 | 3.6% | 785 | 4.7% |
| | ----- | ----- | ----- | ----- |
| Income before provision for income taxes | 1,492 | | 3,212 | |
| Provision for income taxes | (315) | | 1,560 | |
| | ----- | | ----- | |
| NET INCOME | \$ 1,807 | | \$ 1,652 | |
| | ===== | | ===== | |

Total interest income increased by \$7.9 million, or 36.3%, from \$21.8 million in 2004 to \$29.7 million in 2005. Of this increase, \$4.6 million was due to interest-earning asset growth, primarily loans, and \$3.3 million resulted from rate increases. Total interest expense increased by \$2.5 million, or 31.9%, from \$7.8 million in 2004 to \$10.3 million in 2005. Interest expense on deposits increased \$2.7 million while the interest expense on bonds and other borrowings declined \$183,000. Of the increase in interest expense on deposits, \$1.3 million was due to deposit growth and \$1.4 million resulted from higher rates.

The increase in interest income from loans was due to growth in the manufactured housing, commercial real estate, commercial and SBA loan portfolios of \$34.9 million, \$31.6 million, \$14.1 million and \$14.8 million, respectively. This loan portfolio growth contributed to increases in interest income on loans from manufactured housing of \$2.5 million, or 50.9%, commercial real estate of \$2.4 million, or 49.3%, commercial of \$1.3 million, or 68.5% and SBA of \$2.0 million, or 49.5%. A decline in the balance of the securitized loan portfolio of \$8.6 million, or 36.7%,

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partially offset these increases with a related decrease in interest income of \$1.1 million, or 31.0%, in 2005 compared to 2004. The decrease in the securitized loan portfolio also indirectly accounted for a \$1.4 million decline in interest expense as the related bonds were paid down and, eventually, the remainder was called. This decrease in interest expense was offset by increases

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in interest paid on advances from FHLB of \$1.4 million and an increase on deposit related interest on \$2.7 million. Interest income on investments and federal funds sold increased \$295,000 and \$78,000, respectively, while there was a decline on interest income on interest earning deposits and time certificates of deposit of \$151,000. The Company has relied on various wholesale funding sources to fund loan growth and will likely continue to do so.

Total interest income increased \$1.4 million, or 7.2%, from \$20.4 million in 2003 to \$21.8 million in 2004. Total interest expense decreased 16.0% from \$9.3 million in 2003 to \$7.8 million in 2004. The Company experienced a \$907,000, or 4.6%, increase in interest income from loans in 2004 over 2003. The increase resulted from the growth in loans primarily related to manufactured housing, commercial real estate, commercial and SBA of \$27.4 million, \$14.3 million, \$6.3 million and \$4.6 million, respectively. This loan portfolio growth contributed to increases in interest income on loans from manufactured housing of \$1.7 million, or 51.6%, commercial real estate of \$1.5 million, or 48.2%, commercial of \$600,000, or 43.7%, and SBA of \$331,000, or 9.1%. A reduction in the securitized loan portfolio balance of \$13.9 million, or 37.2%, primarily due to payments of loan balances, partially offset this increase in interest income with a decrease in interest income of \$2.5 million, or 41.3%, from 2003 compared to 2004. Mortgage loan interest income also declined by \$535,000, or 77%. The decrease in the size of the securitized loan portfolio also indirectly accounted for a \$2.2 million decline in interest expense as the related bonds paid down by \$12.2 million. This decrease in interest expense from the bond pay down was partially offset by increases in interest paid on deposits and other borrowings of \$395,000 and \$304,000, respectively. Interest income on investments also increased in 2004 over 2003 by \$555,000, or 76.6%, due to increased activity in investment securities.

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

| | YEAR ENDED DECEMBER 31, | | | | |
|---|-------------------------|---------------|--------------|------------------|---------------|
| | 2005 VERSUS 2004 | | | 2004 VERSUS 2003 | |
| | TOTAL CHANGE | CHANGE DUE TO | | TOTAL CHANGE | CHANGE DUE TO |
| | | RATE | VOLUME | | |
| | (IN THOUSANDS) | | | | |
| Interest earning deposits in other financial institutions (including time deposits) | \$ (151) | \$ 25 | \$ (176) | \$ 116 | \$ 3 |
| Federal funds sold | 78 | 169 | (91) | (51) | 35 |
| Investment securities | 295 | 46 | 249 | 490 | 58 |
| Loans, net | 8,823 | 2,758 | 6,065 | 3,428 | (6) |
| Securitized loans | (1,112) | 300 | (1,412) | (2,521) | 164 |
| Total interest-earning assets | 7,933 | 3,298 | 4,635 | 1,462 | 254 |
| Interest-bearing demand | 1,422 | 480 | 942 | 450 | 256 |
| Savings | 104 | 132 | (28) | 25 | (6) |
| Time certificates of deposit | 1,159 | 804 | 355 | (80) | (355) |
| Bonds payable | (1,351) | (392) | (959) | (2,196) | 193 |
| Other borrowings | 1,168 | 375 | 793 | 304 | 35 |
| Total interest-bearing liabilities | 2,502 | 1,399 | 1,103 | (1,497) | 123 |

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| | | | | | |
|---------------------|----------|----------|----------|----------|--------|
| Net interest income | \$ 5,431 | \$ 1,899 | \$ 3,532 | \$ 2,959 | \$ 131 |
| | ===== | ===== | ===== | ===== | ===== |

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

| | YEAR ENDED DECEMBER 31, | | |
|---------------------|-------------------------|-----------|-----------|
| | 2005 | 2004 | 2003 |
| | (DOLLARS IN THOUSANDS) | | |
| Interest income | \$ 29,778 | \$ 21,845 | \$ 20,383 |
| Interest expense | 10,347 | 7,845 | 9,342 |
| Net interest income | \$ 19,431 | \$ 14,000 | \$ 11,041 |
| Net interest margin | 5.14% | 4.41% | 3.93% |

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NON-INTEREST INCOME

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

| | YEAR ENDED DECEMBER 31, | | |
|--------------------------------|-------------------------|----------|----------|
| | 2005 | 2004 | 2003 |
| | (IN THOUSANDS) | | |
| Other loan fees | \$ 2,906 | \$ 3,776 | \$ 2,923 |
| Gains from loan sales, net: | 2,499 | 3,981 | 4,860 |
| Document processing fees, net: | 823 | 817 | 937 |
| Loan servicing fees, net | 575 | 1,416 | 1,264 |
| Service charges | 318 | 381 | 376 |
| Other | 189 | 91 | 315 |
| Total non-interest income | \$ 7,310 | \$10,462 | \$10,675 |

Total non-interest income for the Company declined by \$3.2 million, or 30.1%, from 2004 to 2005. The majority of this decline is the result of the Company's decision to retain more of the SBA loans it originates rather than sell them as in previous periods.

The following table summarizes these changes:

| | YEAR ENDED DECEMBER 31, | | |
|--|-------------------------|------|--------|
| | 2005 | 2004 | CHANGE |

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| | (IN THOUSANDS) | | |
|-------------------------------|----------------|----------|------------|
| Gain from loan sales | | | |
| SBA | \$ 2,190 | \$ 3,481 | \$ (1,291) |
| Mortgage | 309 | 500 | (191) |
| Total | \$ 2,499 | \$ 3,981 | \$ (1,482) |
| | ===== | ===== | ===== |
| Other loan fees | | | |
| SBA | \$ 1,463 | \$ 1,526 | \$ (63) |
| Mortgage | 1,443 | 2,250 | (807) |
| Total | \$ 2,906 | \$ 3,776 | \$ (870) |
| | ===== | ===== | ===== |
| Document processing fees, net | | | |
| SBA | \$ 194 | \$ 182 | \$ 12 |
| Mortgage | 563 | 563 | - |
| Other | 66 | 72 | (6) |
| Total | \$ 823 | \$ 817 | \$ 6 |
| | ===== | ===== | ===== |

The Company sold \$22.2 million of SBA loans in 2005 compared to \$34.1 million in 2004, which contributed to a decline in gains from SBA loans sales of \$1.3 million, or 37.1%, for 2005 compared to 2004. As the Company started by discretion to reduce the volume of SBA loans sold in 2004, the decrease in SBA loan sales in both years contributed to the \$841,000, or 59.4%, decline in loan servicing fees from 2004 to 2005. In addition, gains from mortgage loan sales also experienced a decline in 2005 compared to 2004, primarily related to the continued slowing in mortgage loan refinancing activity. The slower mortgage activity also resulted in an \$807,000 or 35.7%, decline in other mortgage loan fees for 2005 compared to 2004.

Total non-interest income for the Company declined by 2.0%, from 2003 to 2004. This decline was primarily due to the drop in total mortgage loan originations of \$114.9 million, or 35.5%, from \$323.7 million in 2003 to \$208.8 million in 2004 which resulted in declines of \$662,000 in gains on loan sales, \$680,000 in other loan fees and \$374,000 in document processing fees. Net gains on loan sales for the SBA division also declined slightly due to management's decision to sell less 7(a) guaranteed loans in 2004 than 2003. During 2004, the Company increased activity in SBA 504 loan originations and referrals which resulted in increases in other SBA loan fees and document processing fees.

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NON-INTEREST EXPENSES

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

| | YEAR ENDED DECEMBER 31, | | |
|-----------------------|-------------------------|-------|-------|
| | 2005 | 2004 | 2003 |
| NON-INTEREST EXPENSES | ----- | ----- | ----- |

(IN THOUSANDS)

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| | | | |
|----------------------------------|----------|----------|----------|
| Salaries and employee benefits | \$11,993 | \$11,851 | \$11,416 |
| Occupancy and equipment expenses | 1,840 | 1,596 | 1,691 |
| Professional services | 1,022 | 940 | 636 |
| Depreciation | 543 | 532 | 581 |
| Loan servicing and collection | 255 | 225 | 438 |
| Other | 2,507 | 2,377 | 1,974 |
| | ----- | ----- | ----- |
| Total non-interest expenses | \$18,160 | \$17,521 | \$16,736 |
| | ===== | ===== | ===== |

Non-interest expenses increased \$639,000, or 3.6%, in 2005 compared to 2004. The Company opened two new full-service branches in 2005 which were primarily responsible for the \$244,000, or 15.3%, increase in occupancy expenses and the \$142,000, or 1.2%, increase in salaries and employee benefits in 2005 compared to 2004. The slight increase in other non-interest expenses included \$399,000 in bond related costs as the result of the securitized bond call and payoff.

Non-interest expenses increased \$785,000 in 2004 compared to 2003. Increases in salaries and employee benefits, professional services and other expenses of \$435,000, \$304,000 and \$403,000, respectively, were partly offset by declines in occupancy, depreciation and loan servicing and collection of \$95,000, \$49,000 and \$213,000. The increase in "Other" included a \$402,000 charge related to sub-lease costs incurred in connection with a former lending relationship.

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

| YEAR ENDED DECEMBER 31, | AVERAGE | TOTAL | SALARIES AND | OCCUPANCY AND |
|-------------------------|---------|--------------|--------------|---------------|
| ----- | ASSETS | NON-INTEREST | EMPLOYEE | DEPRECIATION |
| ----- | ----- | EXPENSES | BENEFITS | EXPENSES |
| ----- | ----- | ----- | ----- | ----- |
| DOLLARS IN THOUSANDS) | | | | |
| 2005 | 393,210 | 4.62% | 3.05% | 0.61% |
| 2004 | 333,230 | 5.26% | 3.56% | 0.64% |
| 2003 | 299,661 | 5.58% | 3.81% | 0.76% |

INCOME TAXES

Income tax provision was \$2.4 million in 2005, \$2.7 million in 2004 and \$1.1million in 2003. The effective income tax rate was 29.6%, 41.2% and 34.1% for 2005, 2004 and 2003, respectively. The effective income tax rate for 2005 is less than the effective income tax rate in other periods presented as a tax reserve of \$914,000, or \$.16 per share (basic), related to the resolution of potential tax issues as been reversed due to the resolution of the uncertainty. See footnote 10, "Income Taxes", in the notes to the Consolidated Financial Statements.

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

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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.

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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 CAPITAL RATIO | TIER 1 CAPITAL RATIO | TIER 1 LEVERAGE RATIO |
|-------------------------|------------------|-------------------|-----------------------------|-------------------------------|---------------------------|----------------------------|-----------------------------|
| DECEMBER 31, 2005 | | | | | | | |
| CWBC (Consolidated) | \$ 46,031 | \$ 42,077 | \$ 375,487 | \$ 429,378 | 12.26% | 11.21% | 9.80% |
| CWB | 42,501 | 38,577 | 375,474 | 425,768 | 11.32 | 10.27 | 9.06 |
| DECEMBER 31, 2004 | | | | | | | |
| CWBC (Consolidated) | \$ 41,047 | \$ 37,315 | \$ 298,359 | \$ 358,623 | 13.76% | 12.51% | 10.41% |
| CWB | 38,550 | 34,819 | 298,309 | 354,889 | 12.92 | 11.67 | 9.81 |
| Well capitalized ratios | | | | | 10.00 | 6.00 | 5.00 |
| Minimum capital ratios | | | | | 8.00 | 4.00 | 4.00 |

The Company does not anticipate any material changes in its capital resources. CWBC has common equity only and does not have any off-balance sheet financing arrangements. The Company has not repurchased any stock nor does it have any immediate plans or programs to do so.

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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 as a percentage of average total assets:

| | DECEMBER 31 | | | |
|-------------------------|-------------|------|----------|------|
| | 2005 | | 2004 | |
| | AMOUNT | % | AMOUNT | % |
| (DOLLARS IN THOUSANDS) | | | | |
| ASSETS | | | | |
| Cash and due from banks | \$ 5,428 | 1.4% | \$ 5,364 | 1.6% |

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| | | | | |
|---|-----------|--------|-----------|-------|
| Interest-earning deposits in other financial institutions | 414 | 0.1% | 6,919 | 2.1 |
| Federal funds sold | 5,923 | 1.5% | 8,684 | 2.6 |
| Time deposits in other financial institutions | 643 | 0.2% | 577 | 0.2 |
| Investment securities available-for-sale | 22,474 | 5.7% | 21,220 | 6.4 |
| Investment securities held-to-maturity | 7,703 | 2.0% | 3,493 | 1.0 |
| Federal Reserve Bank & Federal Home Loan Bank stock | 2,882 | 0.7% | 1,902 | 0.6 |
| Interest only strips, at fair value | 2,261 | 0.6% | 3,214 | 1.0 |
| Loans held for sale, net | 50,106 | 12.7% | 44,037 | 13.2 |
| Loans held for investment, net | 265,799 | 67.6% | 197,622 | 59.3 |
| Securitized loans, net | 18,241 | 4.6% | 28,661 | 8.6 |
| Servicing rights | 3,118 | 0.8% | 3,002 | 0.9 |
| Other real estate owned, net | 43 | - | 88 | - |
| Premises and equipment, net | 2,011 | 0.5% | 1,655 | 0.5 |
| Other assets | 6,164 | 1.6% | 6,792 | 2.0 |
| | ----- | ----- | ----- | ----- |
| TOTAL ASSETS | \$393,210 | 100.0% | \$333,230 | 100.0 |
| | ===== | ===== | ===== | ===== |
| LIABILITIES | | | | |
| Deposits: | | | | |
| Non-interest-bearing demand | \$ 34,758 | 8.8% | \$ 38,761 | 11.6 |
| Interest-bearing demand | 87,587 | 22.3% | 50,785 | 15.2 |
| Savings | 16,479 | 4.2% | 17,810 | 5.3 |
| Time certificates of \$100,000 or more | 62,545 | 15.9% | 31,851 | 9.6 |
| Other time certificates | 89,304 | 22.7% | 109,456 | 32.9 |
| | ----- | ----- | ----- | ----- |
| Total deposits | 290,673 | 73.9% | 248,663 | 74.6 |
| Other borrowings | 46,285 | 11.8% | 22,699 | 6.8 |
| Bonds payable in connection with securitized loans | 10,469 | 2.7% | 19,676 | 5.9 |
| Other liabilities | 5,948 | 1.5% | 5,992 | 1.8 |
| | ----- | ----- | ----- | ----- |
| Total liabilities | 353,375 | 89.9% | 297,030 | 89.1 |
| STOCKHOLDERS' EQUITY | | | | |
| Common stock | 30,127 | 7.6% | 29,940 | 9.0 |
| Retained earnings | 9,783 | 2.5% | 6,275 | 1.9 |
| Accumulated other comprehensive (loss) | (75) | - | (15) | - |
| | ----- | ----- | ----- | ----- |
| Total stockholders' equity | 39,835 | 10.1% | 36,200 | 10.9 |
| | ----- | ----- | ----- | ----- |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$393,210 | 100.0% | \$333,230 | 100.0 |
| | ===== | ===== | ===== | ===== |

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INTEREST RATES AND DIFFERENTIALS

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

YEAR ENDED DECEMBER 31,

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| INTEREST-EARNING ASSETS: | 2005 | 2004 | 2003 |
|--|------------------------|----------|----------|
| | ----- | ----- | ----- |
| | (DOLLARS IN THOUSANDS) | | |
| Interest earning deposits in other financial institutions: | | | |
| Average outstanding | \$ 414 | \$ 6,919 | \$ 1,359 |
| Interest income | 11 | 170 | 31 |
| Average yield | 2.75% | 2.46% | 2.28% |
| Time deposits in other financial institutions: | | | |
| Average outstanding | 643 | 577 | 1,542 |
| Interest income | 21 | 13 | 36 |
| Average yield | 3.26% | 2.25% | 2.33% |
| Federal funds sold: | | | |
| Average outstanding | 5,923 | 8,684 | 15,462 |
| Interest income | 196 | 118 | 169 |
| Average yield | 3.31% | 1.36% | 1.09% |
| Investment securities: | | | |
| Average outstanding | 33,059 | 26,615 | 14,758 |
| Interest income | 1,274 | 979 | 489 |
| Average yield | 3.85% | 3.68% | 3.31% |
| Gross loans, excluding securitized: | | | |
| Average outstanding | 319,008 | 244,492 | 195,648 |
| Interest income | 25,804 | 16,982 | 13,554 |
| Average yield | 8.09% | 6.95% | 6.93% |
| Securitized loans: | | | |
| Average outstanding | 19,147 | 30,098 | 52,359 |
| Interest income | 2,472 | 3,583 | 6,104 |
| Average yield | 12.91% | 11.91% | 11.66% |
| Total interest-earning assets: | | | |
| Average outstanding | 378,194 | 317,385 | 281,128 |
| Interest income | 29,778 | 21,845 | 20,383 |
| Average yield | 7.87% | 6.88% | 7.25% |

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| | YEAR ENDED DECEMBER 31, | | |
|-----------------------------------|-------------------------|-----------|-----------|
| INTEREST-BEARING LIABILITIES: | 2005 | 2004 | 2003 |
| | ----- | ----- | ----- |
| | (DOLLARS IN THOUSANDS) | | |
| Interest-bearing demand deposits: | | | |
| Average outstanding | \$ 87,587 | \$ 50,785 | \$ 35,768 |
| Interest expense | 2,242 | 820 | 371 |
| Average effective rate | 2.56% | 1.61% | 1.04% |
| Savings deposits: | | | |
| Average outstanding | 16,479 | 17,810 | 15,480 |
| Interest expense | 344 | 241 | 215 |
| Average effective rate | 2.09% | 1.35% | 1.39% |
| Time certificates of deposit: | | | |
| Average outstanding | 151,849 | 141,308 | 130,904 |
| Interest expense | 5,115 | 3,955 | 4,035 |
| Average effective rate | 3.37% | 2.80% | 3.08% |
| Bonds payable: | | | |
| Average outstanding | 10,469 | 19,676 | 39,000 |
| Interest expense | 1,090 | 2,441 | 4,637 |
| Average effective rate | 10.42% | 12.41% | 11.89% |
| Other borrowings: | | | |

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| | | | |
|-------------------------------------|---------|---------|---------|
| Average outstanding | 46,285 | 22,699 | 6,518 |
| Interest expense | 1,556 | 388 | 84 |
| Average effective rate | 3.36% | 1.71% | 1.29% |
| Total interest-bearing liabilities: | | | |
| Average outstanding | 312,669 | 252,278 | 227,670 |
| Interest expense | 10,347 | 7,845 | 9,342 |
| Average effective rate | 3.31% | 3.11% | 4.10% |
| NET INTEREST INCOME | 19,431 | 14,000 | 11,041 |
| NET INTEREST SPREAD | 4.56% | 3.77% | 3.15% |
| AVERAGE NET MARGIN | 5.14% | 4.41% | 3.93% |

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 loans, real estate loans, SBA loans, manufactured housing loans and second mortgage loans. Loans are carried at face amount, net of payments collected, the allowance for loan losses, deferred loan fees/costs and discounts on loans purchased. 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, 2005 and 2004, approximately 62% 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.

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

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| IN YEARS | DECEMBER 31, | | | | | | | |
|---------------|--------------|------------|-----------|------------|-----------|------------|-----------|-----------|
| | 2005 | | 2004 | | 2003 | | 2002 | |
| | FIXED | VARIABLE | FIXED | VARIABLE | FIXED | VARIABLE | FIXED | VARIABLE |
| Less than One | \$ 19,797 | \$ 49,796 | \$ 3,877 | \$ 44,896 | \$ 2,382 | \$ 34,108 | \$ 2,604 | \$ 8,18 |
| One to Five | 39,081 | 50,708 | 12,922 | 29,567 | 4,128 | 13,645 | 3,615 | 16,22 |
| Over Five | 88,086 | 139,570 | 94,568 | 110,215 | 85,390 | 110,914 | 105,491 | 116,32 |
| Total | \$146,964 | \$ 240,074 | \$111,367 | \$ 184,678 | \$ 91,900 | \$ 158,667 | \$111,710 | \$ 140,73 |

Distribution of Loans

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

| | DECEMBER 31, | | | | |
|----------------------------|------------------------|--------------|--------------|--------------|--------------|
| | 2005 | 2004 | 2003 | 2002 | 2001 |
| | (DOLLARS IN THOUSANDS) | | | | |
| LOAN BALANCE | LOAN BALANCE | LOAN BALANCE | LOAN BALANCE | LOAN BALANCE | LOAN BALANCE |
| Commercial | \$ 44,957 | \$ 30,893 | \$ 24,592 | \$ 19,302 | \$ 26,411 |
| Real estate | 116,938 | 85,357 | 71,010 | 47,456 | 44,602 |
| SBA | 37,088 | 35,265 | 30,698 | 40,961 | 31,889 |
| Manufactured housing | 101,336 | 66,423 | 39,073 | 28,199 | 24,135 |
| Other installment | 11,355 | 8,645 | 5,770 | 7,047 | 4,088 |
| Securitized | 14,858 | 23,474 | 37,386 | 66,195 | 108,584 |
| Held for sale | 60,506 | 45,988 | 42,038 | 43,284 | 30,848 |
| Gross Loans | 387,038 | 296,045 | 250,567 | 252,444 | 270,557 |
| Less: | | | | | |
| Allowance for loan losses | 3,954 | 3,894 | 4,675 | 5,950 | 8,275 |
| Deferred fees/costs | 181 | (103) | 69 | (318) | 222 |
| Discount on SBA loans | 1,386 | 1,748 | 1,549 | 956 | 1,105 |
| Net Loans | \$381,517 | \$290,506 | \$244,274 | \$245,856 | \$260,955 |
| Percentage to Gross Loans: | | | | | |
| Commercial | 11.6% | 10.5% | 9.8% | 7.6% | 9.8% |
| Real estate | 30.2 | 28.8 | 28.3 | 18.8 | 16.5 |
| SBA | 9.6 | 11.9 | 12.3 | 16.3 | 11.8 |
| Manufactured housing | 26.2 | 22.5 | 15.6 | 11.2 | 8.9 |
| Other installment | 2.9 | 2.9 | 2.3 | 2.8 | 1.5 |
| Securitized | 3.9 | 7.9 | 14.9 | 26.2 | 40.1 |
| Held for sale | 15.6 | 15.5 | 16.8 | 17.1 | 11.4 |
| | 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.

Commercial Real Estate and Construction Loans

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

A substantial portion of the Company's real estate construction loans are first and second trust deeds on the construction of owner-occupied single family dwellings. The Company also makes real estate construction loans on

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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. 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. Under the SBA 7(a) loan program, the Company is required to retain a minimum of 5% of the gross originated principal amount of each loan it originates and 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 the Bank 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.

Real Estate Loans

The mortgage loan division originates first and second mortgage loans secured by trust deeds on one to four family homes. The loans are made to borrowers for the purpose of purchasing a home or refinancing an existing home for purposes such as interest rate reduction, home improvement, and 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 primarily located in mobile home parks along the Central Coast of California. At December 31, 2005, the Bank had \$101.3 million in its portfolio. 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

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general-purpose loans made to individuals. These loans are primarily fixed rate.

Second Mortgage Loans

Prior to 2000, the Company originated and purchased second mortgage loans that allowed borrowers to borrow up to 125% of their home's appraised value, when combined with the balance of the first mortgage loan, up to a maximum loan of \$100,000. In 1998 and 1999, the Company transferred \$81 million and \$122 million, respectively, of these loans to two special purpose trusts. These loans were both originated and purchased by the Company. The trusts then sold bonds to third party investors that were secured by the transferred loans. In November 2005, the Company exercised its right to call the bonds and paid off the remaining balance of \$9.8 million. The special purpose trusts were dissolved while the Company continues to have the loans serviced by a third party ("Servicer"), who receives a stated servicing fee. The securitized loans are classified as held for investment.

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Loan Commitments Outstanding

The Company's loan commitments outstanding at the dates indicated are summarized below:

| | DECEMBER 31, | | | | |
|---------------------------|----------------|----------|----------|----------|----------|
| | 2005 | 2004 | 2003 | 2002 | 2001 |
| | ----- | ----- | ----- | ----- | ----- |
| | (IN THOUSANDS) | | | | |
| Commercial | \$22,327 | \$19,010 | \$13,867 | \$11,370 | \$ 7,450 |
| Real estate | 19,323 | 7,618 | 11,676 | 7,664 | 6,370 |
| SBA | 3,408 | 6,107 | 9,531 | 8,675 | 4,712 |
| Installment loans | 9,330 | 8,966 | 5,112 | 2,402 | 13,339 |
| Standby letters of credit | 1,499 | 403 | 522 | 380 | 438 |
| | ----- | ----- | ----- | ----- | ----- |
| Total commitments | \$55,887 | \$42,104 | \$40,708 | \$30,491 | \$32,309 |
| | ===== | ===== | ===== | ===== | ===== |

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 loans and SBA loans comprised over 10% of the Company's loan portfolio as of December 31, 2005, but consisted of diverse borrowers.

Allowance for Loan Losses

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

| | YEAR ENDED DECEMBER 31, | | | | |
|--|-------------------------|-------|-------|-------|-------|
| | 2005 | 2004 | 2003 | 2002 | 2001 |
| | ----- | ----- | ----- | ----- | ----- |

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(IN THOUSANDS)

| | | | | | |
|--|-----------|-----------|-----------|-----------|-----------|
| Average gross loans, held for investment, including Securitized loans | \$288,049 | \$230,533 | \$202,563 | \$218,317 | \$267,000 |
| Gross loans at end of year, held for investment, including Securitized loans | 324,965 | 248,412 | 206,912 | 208,522 | 237,000 |
| Allowance for loan losses, beginning of year | \$ 3,894 | \$ 4,676 | \$ 5,950 | \$ 8,275 | \$ 6,000 |
| Loans charged off: | | | | | |
| Commercial | 228 | 185 | 445 | 1 | 3 |
| Real estate | 8 | 274 | 471 | 2,474 | 3 |
| Installment | - | - | 3 | - | 2 |
| Short-term consumer | - | - | 902 | 3,162 | 4 |
| Securitized | 831 | 1,356 | 2,512 | 4,012 | 4 |
| Total | 1,067 | 1,815 | 4,333 | 9,649 | 10 |
| Recoveries of loans previously charged off | | | | | |
| Commercial | 20 | 31 | 88 | 71 | |
| Real estate | 89 | 44 | 42 | 396 | |
| Short-term consumer | - | - | 672 | 1,392 | |
| Securitized | 452 | 540 | 588 | 566 | |
| Total | 561 | 615 | 1,390 | 2,425 | |
| Net loans charged off | 506 | 1,200 | 2,943 | 7,224 | 9 |
| Provision for loan losses | 566 | 418 | 1,669 | 4,899 | 11 |
| Adjustments due to Palomar sale | - | - | - | - | |
| Allowance for loan losses, end of year | \$ 3,954 | \$ 3,894 | \$ 4,676 | \$ 5,950 | \$ 8,000 |
| Ratios: | | | | | |
| Net loan charge-offs to average loans | 0.2% | 0.5% | 1.5% | 3.3% | |
| Net loan charge-offs to loans at end of period | 0.2% | 0.5% | 1.4% | 3.5% | |
| Allowance for loan losses to loans held for investment at end of period | 1.4% | 1.6% | 2.3% | 2.9% | |
| Net loan charge-offs to allowance for loan losses at beginning of period | 13.0% | 25.7% | 49.5% | 87.3% | 1 |
| Net loan charge-offs to provision for loan losses | 89.4% | 287.1% | 176.3% | 147.5% | |

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The following table summarizes the allowance for loan losses:

| | | DECEMBER 31, | | | | | | | |
|---|--------|--|--------|--|--------|--|--------|--|--|
| | | 2005 | | 2004 | | 2003 | | 2002 | |
| | | (DOLLARS IN THOUSANDS) | | | | | | | |
| | | PERCENT OF LOANS IN EACH CATEGORY TO TOTAL | | PERCENT OF LOANS IN EACH CATEGORY TO TOTAL | | PERCENT OF LOANS IN EACH CATEGORY TO TOTAL | | PERCENT OF LOANS IN EACH CATEGORY TO TOTAL | |
| BALANCE AT END OF PERIOD APPLICABLE TO: | AMOUNT | LOANS | AMOUNT | LOANS | AMOUNT | LOANS | AMOUNT | LOANS | |
| | | | | | | | | | |

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| | | | | | | | | |
|----------------------|----------|-------|----------|-------|----------|-------|----------|-------|
| SBA | \$ 1,409 | 35.7% | \$ 1,388 | 35.7% | \$ 1,550 | 27.0% | \$ 1,874 | 26.6% |
| Manufactured housing | 563 | 14.2% | 465 | 11.9% | 372 | 15.6% | 272 | 11.2% |
| Securitized | 628 | 15.9% | 1,109 | 28.5% | 2,024 | 14.9% | 2,571 | 26.2% |
| All other loans | 1,354 | 34.2% | 932 | 23.9% | 730 | 42.5% | 1,233 | 36.0% |
| TOTAL | \$ 3,954 | 100% | \$ 3,894 | 100% | \$ 4,676 | 100% | \$ 5,950 | 100% |

Total allowance for loan losses ("ALL") increased \$60,000, or 1.5%, from December 31, 2004 to December 31, 2005. The slight increase was primarily the result of growth within the commercial, commercial real estate, construction, and manufactured housing portfolios which was mostly offset by a decline in the ALL for the securitized loan portfolio as a result of the continued decrease in net charge-offs and outstanding loan balances.

Net loans charged-off were \$506,000 in 2005, \$1.2 million in 2004 and \$2.9 million in 2003. The primary reason for the decline in net loan charge-offs in 2005 was the paydown in the securitized loan portfolio of \$8.6 million, or 36.7%, from \$23.5 million at year end 2004 to \$14.9 million at year end 2005.

The Company recorded \$566,000 as a provision for loan losses in 2005, \$418,000 in 2004 and \$1.7 million in 2003. The moderate increase in 2005 over 2004 is due to loan growth in most categories offset by the continued paydown in the securitized loan portfolio.

In management's opinion, the balance of the allowance for loan losses was sufficient to absorb known and inherent probable losses in the loan portfolio as of December 31, 2005.

Nonaccrual, Past Due and Restructured Loans

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest under the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments. Loans that experience insignificant payment delays or payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays 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. Impairment is measured on a loan-by-loan basis for all loans in the portfolio except for the securitized loans, which are evaluated for impairment on a collective basis.

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

| YEAR ENDED DECEMBER 31, | | | |
|-------------------------|------|------|------|
| 2005 | 2004 | 2003 | 2002 |

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| | (IN THOUSANDS) | | | |
|--|----------------|----------|----------|----------|
| Impaired loans without specific valuation allowances | \$ 77 | \$ 49 | \$ 235 | \$ 422 |
| Impaired loans with specific valuation allowances | 3,406 | 3,926 | 6,843 | 7,971 |
| Specific valuation allowance related to impaired loans | (473) | (425) | (640) | (1,127) |
| | ----- | ----- | ----- | ----- |
| Impaired loans, net | \$ 3,010 | \$ 3,550 | \$ 6,438 | \$ 7,266 |
| | ===== | ===== | ===== | ===== |
| Average investment in impaired loans | \$ 3,716 | \$ 5,137 | \$ 6,584 | \$ 7,565 |
| | ===== | ===== | ===== | ===== |

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

| | YEAR ENDED DECEMBER 31, | | | |
|--|-------------------------|----------|----------|----------|
| | 2005 | 2004 | 2003 | 2002 |
| | ----- | ----- | ----- | ----- |
| | (IN THOUSANDS) | | | |
| Nonaccrual loans | \$ 6,797 | \$ 8,350 | \$ 7,174 | \$13,965 |
| SBA guaranteed portion of loans included above | (4,332) | (5,287) | (4,106) | (8,143) |
| | ----- | ----- | ----- | ----- |
| Nonaccrual loans, net | \$ 2,465 | \$ 3,063 | \$ 3,068 | \$ 5,822 |
| | ===== | ===== | ===== | ===== |
| Troubled debt restructured loans | \$ 75 | \$ 124 | \$ 193 | \$ 829 |
| Loans 30 through 90 days past due with interest accruing | 1,792 | 1,804 | 3,907 | 5,122 |
| Interest income recognized on impaired loans | \$ 141 | \$ 103 | \$ 277 | \$ 190 |
| Interest foregone on nonaccrual loans and troubled debt restructured loans outstanding | 253 | 208 | 216 | 1,263 |
| | ----- | ----- | ----- | ----- |
| Gross interest income on impaired loans | \$ 394 | \$ 311 | \$ 493 | \$ 1,453 |
| | ===== | ===== | ===== | ===== |

The accrual of interest is discontinued when substantial doubt exists as to collectibility 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. As such, 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. All of the nonaccrual loans are impaired. Net non accrual loans declined \$598,000 from 2004 to 2005. Principal balances of non-accrual loans, excluding \$4.0 million in SBA guaranteed loans repurchased from investors compared to \$5.2 million in 2004, declined by \$403,000 and the guarantee related to these loans increased \$195,000.

Total impaired loans decreased by \$492,000, or 12.4%, in 2005, while the specific valuation allowance for impaired loans increased \$48,000 for a net decrease of \$540,000. The decline in impaired loans resulted from payments against impaired loans of \$551,000 and pay-offs of impaired loans of \$258,000. Additionally, \$136,000 of impaired loans were charged off, \$11,000 in balances

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were upgraded and \$111,000 of impaired loans were converted to OREO. Offsetting these declines were the addition of newly impaired loans of \$547,000 and an increase in loans without a specific valuation allowance of \$28,000.

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. The balance of impaired loans disclosed above includes all TDRs that, as of December 31, 2005, 2004 and 2003, are considered impaired. Total TDRs decreased by 39.5%, or \$49,000, from \$124,000 to \$75,000 as of December 31, 2004 and 2005, respectively.

INVESTMENT PORTFOLIO

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

| | YEAR ENDED DECEMBER 31, | | |
|--------------------------------------|-------------------------|----------|----------|
| | 2005 | 2004 | 2003 |
| | (IN THOUSANDS) | | |
| <u>Available-for-sale securities</u> | | | |
| U.S. Government and agency | \$15,148 | \$15,221 | \$ 7,024 |
| Other (1) | 7,471 | 7,037 | 8,408 |
| Total available-for-sale securities | \$22,619 | \$22,258 | \$15,432 |
| | ===== | ===== | ===== |

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| | YEAR ENDED DECEMBER 31, | | |
|------------------------------------|-------------------------|----------|----------|
| | 2005 | 2004 | 2003 |
| | (IN THOUSANDS) | | |
| <u>Held-to-maturity securities</u> | | | |
| U.S. Government and agency | \$ 200 | \$ 200 | \$ 200 |
| Other (1) | 8,477 | 5,894 | 4,836 |
| Total held-to-maturity securities | \$ 8,677 | \$ 6,094 | \$ 5,036 |
| | ===== | ===== | ===== |

At December 31, 2005, \$200,000 at carrying value of held-to-maturity securities were pledged as collateral to the U.S. Treasury for CWB's treasury, tax and loan account and \$31.1 million at carrying value were pledged to the Federal Home Loan Bank, San Francisco, as collateral for current and future advances.

The following tables summarize the maturity periods and weighted average yields of the Company's investment securities at December 31, 2005.

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| | TOTAL AMOUNT | | LESS THAN ONE YEAR | | ONE TO FIVE YEARS | |
|-------------------------------|--------------|-------|--------------------|-------|-------------------|-------|
| | AMOUNT | YIELD | AMOUNT | YIELD | AMOUNT | YIELD |
| (DOLLARS IN THOUSANDS) | | | | | | |
| Available-for-sale securities | | | | | | |
| ----- | | | | | | |
| U. S. Government | | | | | | |
| and agency | \$ 15,148 | 3.5% | \$ - | - | \$ 15,148 | 3.5% |
| Other (1) | 7,471 | 4.0% | - | - | 7,471 | 4.0% |
| | ----- | | ----- | | ----- | |
| Total AFS | \$ 22,619 | 3.7% | \$ - | - | \$ 22,619 | 3.7% |
| | ===== | | ===== | | ===== | |
| Held-to-maturity securities | | | | | | |
| ----- | | | | | | |
| U.S. Government | | | | | | |
| and agency | \$ 200 | 3.6% | \$ 200 | 3.6% | \$ - | - |
| Other (1) | 8,477 | 4.7% | - | - | 5,453 | 4.3% |
| | ----- | | ----- | | ----- | |
| Total HTM | \$ 8,677 | 4.6% | \$ 200 | 3.6% | \$ 5,453 | 4.3% |
| | ===== | | ===== | | ===== | |