

COMMUNITY WEST BANCSHARES /
Form 10-Q
May 15, 2009

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2009

or

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

For the transition period from _____ to _____

Commission File Number: 000-23575

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

California
(State or other jurisdiction of incorporation or organization)

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

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

93117
(Zip Code)

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

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

YES NO

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

YES NO

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

Number of shares of common stock of the registrant outstanding as of May 14, 2009: 5,915,130 shares

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PART I – FINANCIAL INFORMATION

ITEM 1.

FINANCIAL STATEMENTS

COMMUNITY WEST BANCSHARES
CONSOLIDATED BALANCE SHEETS

| | March 31, 2009 (unaudited) | December 31, 2008 |
|--|----------------------------------|-------------------------|
| | (dollars in thousands) | |
| ASSETS | | |
| Cash and due from banks | \$3,910 | \$4,151 |
| Federal funds sold | 8,910 | 8,102 |
| Cash and cash equivalents | 12,820 | 12,253 |
| Time deposits in other financial institutions | 591 | 812 |
| Investment securities available-for-sale, at fair value; amortized cost of \$12,759 at March 31, 2009 and \$6,871 at December 31, 2008 | 12,847 | 6,783 |
| Investment securities held-to-maturity, at amortized cost; fair value of \$27,034 at March 31, 2009 and \$31,574 at December 31, 2008 | 26,394 | 31,192 |
| Federal Home Loan Bank stock, at cost | 5,660 | 5,660 |
| Federal Reserve Bank stock, at cost | 902 | 902 |
| Loans: | | |
| Loans held for sale, at lower of cost or fair value | 99,581 | 131,786 |
| Loans held for investment, net of allowance for loan losses of \$13,414 at March 31, 2009 and \$7,341 at December 31, 2008 | 486,168 | 449,289 |
| Total loans | 585,749 | 581,075 |
| Servicing rights | 1,161 | 1,161 |
| Other assets acquired through foreclosure, net | 3,042 | 1,146 |
| Premises and equipment, net | 3,610 | 3,718 |
| Other assets | 17,032 | 12,279 |
| TOTAL ASSETS | \$669,808 | \$656,981 |
| LIABILITIES | | |
| Deposits: | | |
| Non-interest-bearing demand | \$34,354 | \$35,080 |
| Interest-bearing demand | 78,596 | 57,474 |
| Savings | 17,142 | 14,718 |
| Time certificates | 354,923 | 368,167 |
| Total deposits | 485,015 | 475,439 |
| Other borrowings | 120,000 | 110,000 |
| Other liabilities | 5,015 | 4,924 |
| Total liabilities | 610,030 | 590,363 |
| STOCKHOLDERS' EQUITY | | |
| Preferred stock, no par value; 10,000,000 shares authorized; 15,600 shares issued and outstanding of Fixed Rate Cumulative Perpetual Preferred Stock, Series A with a liquidation preference of \$1,000 per share, net of discount | 14,340 | 14,300 |
| Common stock, no par value; 10,000,000 shares authorized; 5,915,130 shares issued and outstanding | 33,088 | 33,081 |
| Retained earnings | 12,298 | 19,288 |
| Accumulated other comprehensive income (loss), net | 52 | (51) |

| | | |
|--|-----------|-----------|
| Total stockholders' equity | 59,778 | 66,618 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$669,808 | \$656,981 |
| See accompanying notes. | | |

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COMMUNITY WEST BANCSHARES
CONSOLIDATED INCOME STATEMENTS (UNAUDITED)

| | Three Months Ended March 31, | |
|---|---|--------------|
| | 2009 | 2008 |
| | (in thousands, except per share amounts) | |
| INTEREST INCOME | | |
| Loans | \$9,752 | \$11,360 |
| Investment securities | 449 | 565 |
| Other | 16 | 86 |
| Total interest income | 10,217 | 12,011 |
| INTEREST EXPENSE | | |
| Deposits | 3,358 | 4,495 |
| Other borrowings | 1,096 | 1,355 |
| Total interest expense | 4,454 | 5,850 |
| NET INTEREST INCOME | 5,763 | 6,161 |
| Provision for loan losses | 12,555 | 673 |
| NET INTEREST INCOME (LOSS) AFTER PROVISION FOR LOAN LOSSES | (6,792) | 5,488 |
| NON-INTEREST INCOME | | |
| Other loan fees | 291 | 570 |
| Gains from loan sales, net | 118 | 282 |
| Document processing fees | 234 | 188 |
| Loan servicing, net | 395 | 239 |
| Service charges | 103 | 109 |
| Other | 27 | 26 |
| Total non-interest income | 1,168 | 1,414 |
| NON-INTEREST EXPENSES | | |
| Salaries and employee benefits | 3,452 | 3,641 |
| Occupancy and equipment expenses | 547 | 582 |
| Professional services | 248 | 227 |
| Advertising and marketing | 101 | 107 |
| Depreciation and amortization | 125 | 133 |
| Other operating expenses | 1,334 | 490 |
| Total non-interest expenses | 5,807 | 5,180 |
| Income (loss) before provision for income taxes | (11,431) | 1,722 |
| Provision (benefit) for income taxes | (4,702) | 725 |
| NET INCOME (LOSS) | \$(6,729) | \$997 |
| Preferred stock dividends | | |
| | 261 | - |
| NET INCOME (LOSS) AVAILABLE TO COMMON SHAREHOLDERS | \$(6,990) | \$997 |
| Earnings (loss) per common share: | | |
| Basic | \$(1.18) | \$0.17 |
| Diluted | \$(1.18) | \$0.17 |
| Basic weighted average number of common shares outstanding | 5,915 | 5,909 |
| Diluted weighted average number of common shares outstanding | 5,915 | 5,975 |

See accompanying notes.

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

| | Preferred Stock | Common Stock Shares (in thousands) | Common Stock Amount | Retained Earnings | Accumulated Other omprehensive Income (Loss) | Total Stockholders' Equity |
|--|--------------------|--|------------------------|----------------------|--|----------------------------------|
| BALANCES AT | | | | | | |
| JANUARY 1, 2009 | \$ 14,300 | 5,915 | \$ 33,081 | \$ 19,288 | \$ (51) | \$ 66,618 |
| Preferred stock related costs | (26) | | | | | (26) |
| Stock option expense | | | 7 | | | 7 |
| Comprehensive income: | | | | | | |
| Net loss | | | | (6,729) | | (6,729) |
| Change in unrealized gain (loss) on securities available-for-sale, net | | | | | 103 | 103 |
| Comprehensive loss | | | | | | (6,626) |
| Dividends: | | | | | | |
| Preferred | 66 | | | (261) | | (195) |
| BALANCES AT MARCH 31, 2009 | \$ 14,340 | 5,915 | \$ 33,088 | \$ 12,298 | \$ 52 | \$ 59,778 |

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COMMUNITY WEST BANCSHARES
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

| | Three Months Ended March 31, | |
|---|---------------------------------|----------------|
| | 2009 | 2008 |
| | (in thousands) | |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income (loss) | \$(6,729) | \$997 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for loan losses | 12,555 | 673 |
| Depreciation and amortization | 125 | 133 |
| Stock-based compensation | 7 | 40 |
| Net amortization of discounts and premiums for investment securities | (10) | (17) |
| (Gain) loss on: | | |
| Sale of other assets acquired through foreclosure | 66 | - |
| Sale of loans held for sale | (118) | (282) |
| Loan originated for sale and principal collections, net | (257) | (2,143) |
| Changes in: | | |
| Servicing rights, net of amortization | - | (32) |
| Other assets | (4,929) | 83 |
| Other liabilities | 194 | 2,487 |
| Net cash provided by operating activities | 904 | 1,939 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchase of held-to-maturity securities | - | (8,996) |
| Purchase of available-for-sale securities | (6,230) | - |
| Federal Home Loan Bank stock dividend | - | (73) |
| Principal pay downs and maturities of available-for-sale securities | 341 | 6,453 |
| Principal pay downs and maturities of held-to-maturity securities | 4,809 | 1,998 |
| Loan originations and principal collections, net | (19,097) | (15,693) |
| Proceeds from sale of other assets acquired through foreclosure | 281 | - |
| Net decrease in time deposits in other financial institutions | 221 | 101 |
| Purchase of premises and equipment, net | (17) | (668) |
| Net cash used in investing activities | (19,692) | (16,878) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Preferred stock dividends | (261) | - |
| Amortization of discount on preferred stock, net of additional costs | 40 | - |
| Exercise of stock options | - | 75 |
| Cash dividends paid on common stock | - | (355) |
| Net increase (decrease) in demand deposits and savings accounts | 22,820 | (10,253) |
| Net increase (decrease) in time certificates of deposit | (13,244) | 35,967 |
| Proceeds from Federal Home Loan Bank and FRB advances | 26,000 | 5,000 |
| Repayment of Federal Home Loan Bank and FRB advances | (16,000) | (15,000) |
| Net cash provided by financing activities | 19,355 | 15,434 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 567 | 495 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | 12,253 | 9,289 |
| CASH AND CASH EQUIVALENTS, END OF YEAR | \$12,820 | \$9,784 |
| Supplemental Disclosure of Cash Flow Information: | | |
| Cash paid for interest | \$4,677 | \$3,764 |

| | | |
|---|---------|-------|
| Cash paid for income taxes | 16 | - |
| Supplemental Disclosure of Noncash Investing Activity: | | |
| Transfers to other assets acquired through foreclosure | \$2,243 | \$284 |
| See accompanying notes. | | |

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COMMUNITY WEST BANCSHARES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

The interim consolidated financial statements reflect all adjustments and reclassifications that, in the opinion of management, are necessary for the fair presentation of the results of operations and financial condition for the interim period. The unaudited consolidated financial statements include Community West Bancshares (“CWBC”) and its wholly-owned subsidiary, Community West Bank N.A. (“CWB” or the “Bank”). CWBC and CWB are referred to herein as “the Company”. The accompanying unaudited condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and with the instructions to Form 10-Q and Article 8-03 of Regulation S-X promulgated by the Securities and Exchange Commission (“SEC”). Accordingly, they do not include all of the information and footnotes required for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring accruals) considered necessary for a fair statement have been reflected in the financial statements. However, the results of operations for the three-month period ended March 31, 2009 are not necessarily indicative of the results to be expected for the full year.

These unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto of Community West Bancshares included in the Company's Annual Report on Form 10-K for the year ended December 31, 2008.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

- SBA – A migration analysis and various portfolio specific factors are used to calculate the required allowance for all non-impaired loans. In addition, the migration results are adjusted based upon qualitative factors. Impaired loans are assigned a specific reserve based upon the individual characteristics of the loan.
- Relationship Banking – Primarily includes commercial, commercial real estate and construction loans. A migration analysis and various portfolio specific factors are used to calculate the required allowance for all non-impaired loans. In addition, the migration results are adjusted based upon qualitative factors. Impaired loans are assigned a specific reserve based upon the individual characteristics of the loan.
- Manufactured Housing – The allowance is calculated on the basis of loss history and risk rating, which is primarily a function of delinquency. In addition, the loss history is adjusted based upon qualitative factors.

The Company calculates the required ALL on a monthly basis. Any differences between estimated and actual observed losses from the prior month are reflected in the current period required ALL calculation and adjusted as deemed necessary. The review of the adequacy of the allowance takes into consideration such factors as

concentrations of credit, changes in the growth, size and composition of the loan portfolio, overall and individual portfolio quality, review of specific problem loans, collateral, guarantees and economic conditions that may affect the borrowers' ability to pay and/or the value of the underlying collateral. Additional factors considered include: geographic location of borrowers, changes in the Company's product-specific credit policy and lending staff experience. These estimates depend on the outcome of future events and, therefore, contain inherent uncertainties.

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

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

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

Recent Accounting Pronouncements – In February 2008, FASB issued FASB Staff Position FAS 140-3, “Accounting for Transfers of Financial Assets and Repurchase Financing Transactions” (“FSP FAS 140-3”). FSP FAS 140-3 provides guidance on accounting for a transfer of a financial asset and a repurchase financing. The FSP presumes that an initial transfer of a financial asset and a repurchase agreement are considered part of the same arrangement under SFAS 140 unless certain criteria are met. The FSP is effective for financial statement issued for fiscal years beginning after November 15, 2008. The Company adopted FSP FAS 140-3 on January 1, 2009. The adoption did not have a material impact on the Company’s financial condition, results of operation or cash flows.

In April 2009, FASB issued FASB Staff Positions FAS 1 and APB-1, “Interim Disclosures about Fair Value of Financial Instruments” (“FSP FAS 107-1 and APB 28-1”). FSP FAS 107-1 and APB 28-1 requires disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in the annual financial statements. The FSP is effective for interim reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. An entity may elect early adoption of this FSP if it also elects to adopt FSP FAS 157-4, “Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly” and FSP FAS 115-2 and FAS 124-2, “Recognition and Presentation of Other-Than-Temporary Impairments”, both of which were also issued in April 2009. The Company will adopt this FSP for interim periods ending after June 15, 2009.

FSP FAS 157-4, “Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly” provides guidance for estimating fair value in accordance with FASB Statement No. 157, “Fair Value Measurements” when the volume and level of activity for an asset or liability have decreased. This FSP also includes guidance on identifying circumstances that indicate a transaction is not orderly. The FSP is effective for interim reporting periods ending after June 15, 2009, but allow early adoption in conjunction with the adoption of FSP FAS 107-1 and APB 28-1 and FSP FAS 115-2 and FAS 124-2. The Company will adopt this FSP for interim periods ending after June 15, 2009.

FSP FAS 115-2 and FAS 124-2, “Recognition and Presentation of Other-Than-Temporary Impairments” amends the other-than-temporary impairment guidance for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. The FSP is effective for interim reporting periods ending after June 15, 2009, but allows for early adoption in conjunction with the adoption of FSP FAS 107-1 and APB 28-1. The Company will adopt this FSP for interim periods ending after June 15, 2009.

2. LOAN SALES AND SERVICING

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

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

As of March 31, 2009 and December 31, 2008, the Company had approximately \$94.9 million and \$127.4 million, respectively, in SBA loans included in loans held for sale. In the first quarter 2009, \$36.8 million in SBA 504 loans which were previously classified as available-for-sale were transferred to held-to-maturity at book value.

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

The mortgage rate lock agreement and the forward sale agreement qualify as derivatives under SFAS No. 133, as amended. The value of these derivatives is generally equal to the fee, if any, charged to the borrower at inception but may fluctuate in the event of changes in interest rates. These derivative financial instruments are recorded at fair value if material. Although the Company does not attempt to qualify these transactions for the special hedge accounting afforded by SFAS No. 133, management believes that changes in the fair value of the two commitments generally offset and create an economic hedge. At March 31, 2009 and December 31, 2008, the Company had \$21.8 million and \$7.3 million, respectively, in outstanding mortgage loan rate lock and forward sale commitments, the impact of which was not material to the Company’s financial position or results of operations.

3. LOANS HELD FOR INVESTMENT

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

| | March 31, 2009 | December 31, 2008 |
|--------------------------------|-------------------|-------------------------|
| | (in thousands) | |
| Commercial | \$72,739 | \$74,895 |
| Real Estate | 169,372 | 129,876 |
| SBA | 44,099 | 40,066 |
| Manufactured housing | 190,860 | 190,838 |
| Securitized | 5,283 | 5,645 |
| Other installment | 17,619 | 15,793 |
| | 499,972 | 457,113 |
| Less: | | |
| Allowance for loan losses | 13,414 | 7,341 |
| Deferred fees (costs) | (302) | (284) |
| Purchased premiums | (37) | (42) |
| Discount on SBA loans | 729 | 809 |
| Loans held for investment, net | \$486,168 | \$449,289 |

An analysis of the allowance for credit losses for loans held for investment follows:

| Three Months Ended March 31, | |
|---------------------------------|------|
| 2009 | 2008 |

| | (in thousands) | |
|--|----------------|---------|
| Balance, beginning of period | \$7,341 | \$4,412 |
| Loans charged off | (6,496) | (400) |
| Recoveries on loans previously charged off | 14 | 19 |
| Net charge-offs | (6,482) | (381) |
| Provision for loan losses | 12,555 | 673 |
| Balance, end of period | \$13,414 | \$4,704 |

As of March 31, 2009 and December 31, 2008, the Company also had reserves for credit losses on undisbursed loans of \$401,000 and \$97,000 respectively which are included in other liabilities in the consolidated balance sheet.

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

| | March 31, 2009 | December 31, 2008 |
|---|-------------------|-------------------------|
| | (in thousands) | |
| Impaired loans | \$7,535 | \$8,566 |
| Specific valuation allowances allocated to impaired loans | (728) | (151) |
| Impaired loans, net | \$6,807 | \$8,415 |
| Average investment in impaired loans | \$5,788 | \$9,612 |

4. FAIR VALUE MEASUREMENT

SFAS 157 defines fair value as the exchange price that would be received for an asset or the price that would be paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. SFAS 157 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

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

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

Level 3 – Unobservable inputs

The following summarizes the fair value measurements of assets measured on a recurring basis as of March 31, 2009 and the relative levels of inputs from which such amounts were derived:

| Description | Total | Fair value measurements at reporting date using | | |
|---|----------|--|---|---|
| | | Quoted prices in active markets for identical assets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
| | | (in thousands) | | |
| Investment securities available-for-sale | \$12,847 | \$- | \$12,847 | \$ - |
| Interest only strips (included in other assets) | 727 | - | - | 727 |
| Total | \$13,574 | \$- | \$12,847 | \$ 727 |

On certain SBA loan sales that occurred prior to 2003, the Company retained interest only 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. Interest only strips are classified as level 3 in the fair value hierarchy. The fair value is determined on a quarterly basis through a discounted cash flow analysis prepared by an independent third party using industry prepayment speeds. The interest only strips were valued at \$558,000 as of December 31, 2008. Valuation adjustments relating to the interest only strips of \$169,000 were recorded in income for the three months ended March 31, 2009. No other changes in the balance have occurred related to the interest only strips and such valuation adjustments are included as an addition to loan servicing income.

The Company also has assets that under certain conditions are subject to measurement at fair value on a non-recurring basis. These assets are loans that are considered impaired per Financial Accounting Standard Board Statement No. 114 (“FAS 114”). A loan is considered impaired when, based on current information or events, it is probable that not all amounts due will be collected according to the contractual terms of the loan agreement. For loans secured by real estate or other assets which are dependent upon liquidation of collateral for repayment, impairment is measured based on the fair value of the underlying collateral and are classified as Level 2. The collateral value is determined based on appraisals and other market valuations for similar assets. For loans classified as Level 3, impairment is measured based on the net present value of future cash flows.

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The following summarizes the fair value measurements of assets measured on a non-recurring basis as of March 31, 2009 and the relative levels of inputs from which such amounts were derived:

| Description | Total | Fair value measurements at reporting date using | | |
|----------------|---------|--|---|---|
| | | Quoted prices in active markets for identical assets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
| Impaired loans | \$7,535 | \$- | \$7,221 | \$ 314 |

(in thousands)

5. BORROWINGS

Federal Home Loan Bank Advances – The Company has a blanket lien credit line with the Federal Home Loan Bank (“FHLB”). Advances are collateralized in the aggregate by CWB’s eligible loans and securities. Total FHLB advances were \$98.0 million and \$110.0 million at March 31, 2009 and December 31, 2008, respectively, and include \$4.0 million borrowed at variable rates which adjust to the current LIBOR rate either monthly or quarterly. At March 31, 2009 and December 31, 2008, CWB had securities pledged to FHLB of \$39.2 million at carrying value and loans of \$133.3 million, and \$38.0 million at carrying value and loans of \$149.0 million, respectively. Total FHLB interest expense for the three months ended March 31, 2009 and 2008 was \$1.1 million and \$1.4 million, respectively. At March 31, 2009, CWB had \$22.7 million available for additional borrowing.

Federal Reserve Bank – CWB has established a credit line with the Federal Reserve Bank. Advances are collateralized in the aggregate by eligible loans for up to ninety days at the current rate of 0.5%. Total FRB advances were \$22.0 million as of March 31, 2009 with remaining borrowing capacity of \$99.1 million. No advances had been received as of December 31, 2008. Interest expense on these advances for the three months ended March 31, 2009 was \$19,000.

6. STOCKHOLDERS’ EQUITY

Preferred Stock

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

Series A Preferred Stock pays cumulative dividends at a rate of 5% per year for the first five years and at a rate of 9% per year thereafter, but will be paid only if, as and when declared by the Company’s Board of Directors. The Series A Preferred Stock has no maturity date and ranks senior to the Common Stock with respect to the payment of dividends and distributions and amounts payable upon liquidation, dissolution and winding up of the Company. The Series A Preferred Stock is generally non-voting, other than class voting on certain matters that could adversely affect the Series A Preferred Stock. In the event that dividends payable on the Series A Preferred Stock have not been paid for the equivalent of six or more quarters, whether or not consecutive, the Company’s authorized number of Directors will

be automatically increased by two and the holders of the Series A Preferred Stock, voting together with holders of any then outstanding voting parity stock, will have the right to elect those Directors at the Company's next annual meeting of shareholders or at a special meeting of shareholders called for that purpose. These Directors will be elected annually and will serve until all accrued and unpaid dividends on the Series A Preferred Stock have been paid.

The Company may redeem the Series A Preferred Stock after February 15, 2012 for \$1,000 per share plus accrued and unpaid dividends. Prior to this date, the Company may redeem the Series A Preferred Stock for \$1,000 per share plus accrued and unpaid dividends if: (i) the Company has raised aggregate gross proceeds in one or more "qualified equity offerings" (as defined in the Securities Purchase Agreement entered into between the Company and the Treasury) in excess of \$15.6 million, and (ii) the aggregate redemption price does not exceed the aggregate net cash proceeds from such qualified equity offerings. Any redemption is subject to the prior approval of the Company's primary banking regulator.

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A valuation was prepared which allocated the \$15.6 million received, less related costs, between the Series A Preferred Stock and the Warrant at \$14.3 million and \$1.2 million, respectively. The resulting discount to the Series A Preferred Stock and related costs are being amortized on a straight line basis over five years.

Common Stock Warrants

The Warrant issued as part of the TARP CPP provides for the purchase of up to 521,158 shares of Common Stock at an exercise price of \$4.49 per share (the "Warrant Shares"). The Warrant is immediately exercisable and has a 10-year term. The exercise price and the ultimate number of shares of Common Stock that may be issued under the Warrant are subject to certain anti-dilution adjustments, such as upon stock splits or distributions of securities or other assets to holders of the Common Stock, and upon certain issuances of the Common Stock at or below a specified price relative to the then current market price of the Common Stock. If, on or prior to December 31, 2009, the Company receives aggregate gross cash proceeds of not less than \$15.6 million from "qualified equity offerings", the number of shares of Common Stock issuable pursuant to the Treasury's exercise of the Warrant will be reduced by one-half of the original number of Warrant Shares, taking into account all adjustments, underlying the Warrant. Pursuant to the Purchase Agreement, the Treasury has agreed not to exercise voting power with respect to any Warrant Shares.

Earnings per Common Share-Calculation of Weighted Average Shares Outstanding

| | Three Months Ended | |
|--|--------------------|-------|
| | March 31, | |
| | 2009 | 2008 |
| | (in thousands) | |
| Basic weighted average common shares outstanding | 5,915 | 5,909 |
| Dilutive effect of options | - | 66 |
| Diluted weighted average common shares outstanding | 5,915 | 5,975 |

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

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

Forward Looking Statements

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

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

Overview of Earnings Performance

For the first quarter 2009, net loss was \$6,729,000 compared to net income of \$997,000 for the first quarter 2008.

The significant factors impacting net income for the first quarter 2009 were:

- During the first quarter 2009, the Company experienced significant deterioration and downgrades to specific loans in its portfolio, including net charge-offs of \$6.5 million, resulting in a substantially higher comparable loan loss provision, which reflected the effect of increases in experienced loss frequency and severity on the provision calculation and resulted in an increase from \$673,000 for the first quarter 2008 to \$12.6 million for the first quarter 2009. The allowance for loan losses increased \$6.1 million from \$7.3 million at December 31, 2008 to \$13.4 million at March 31, 2009.
- The margin continued to be compressed as the rapid reduction in interest rates due to the actions of the Federal Reserve impacted interest earning assets more quickly than rates paid on interest bearing liabilities as the target fed funds rate was reduced from 4.25% at December 31, 2007 to a range of 0% to .25% at December 31, 2008.
- Rates paid on interest bearing liabilities, while responding more slowly to the rate cuts, have begun to decline and were 3.18% for the first quarter 2009 compared to 4.41% for the same period in 2008. If rates remain at current levels, it is possible that the Company will continue to experience sequential margin improvement throughout much of 2009.
- Strategic decision to discontinue SBA lending east of the Rocky Mountains, increasing non-interest expenses by \$160,000, including both severance and lease-related costs.

Critical Accounting Policies

A number of critical accounting policies are used in the preparation of the Company's consolidated financial statements. These policies relate to areas of the financial statements that involve estimates and judgments made by management. These include: provision and allowance for loan losses and servicing rights. These critical accounting policies are discussed in the Company's 2008 Form 10-K with a description of how the estimates are determined and an indication of the consequences of an over or under estimate.

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Results of Operations-First Quarter Comparison

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

| | Three Months Ended | | Increase (Decrease) |
|--|--|-------------------|------------------------|
| | March 31, 2009 | March 31, 2008 | |
| | (dollars in thousands, except per share amounts) | | |
| Interest income | \$ 10,217 | \$ 12,011 | \$(1,794) |
| Interest expense | 4,454 | 5,850 | (1,396) |
| Net interest income | 5,763 | 6,161 | (398) |
| Provision for loan losses | 12,555 | 673 | 11,882 |
| Net interest income (loss) after provision for loan losses | (6,792) | 5,488 | (12,280) |
| Non-interest income | 1,168 | 1,414 | (246) |
| Non-interest expenses | 5,807 | 5,180 | 627 |
| Income (loss) before provision for income taxes | (11,431) | 1,722 | (13,153) |
| Provision (benefit) for income taxes | (4,702) | 725 | (5,427) |
| Net income (loss) | \$(6,729) | \$997 | \$(7,726) |
| Preferred stock dividends | 261 | - | 261 |
| Net income (loss) available to common shareholders | \$(6,990) | \$997 | \$(7,987) |
| Earnings (loss) per common share: | | | |
| Basic | \$(1.18) | \$.17 | \$(1.35) |
| Diluted | \$(1.18) | \$.17 | \$(1.35) |
| Dividends per common share | \$- | \$0.06 | \$(0.06) |
| Comprehensive income (loss) | \$(6,626) | \$ 1,030 | \$(7,656) |

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

| | Three Months Ended | | |
|------------------------------------|--------------------------------------|-----------------------|-------------------------|
| | March 31, 2009 versus 2008 | | |
| | Total change (in thousands) | Change due to Rate | Change due to Volume |
| Loans, net | \$(1,608) | \$(2,327) | \$ 719 |
| Investment securities | (116) | (113) | (3) |
| Other | (70) | (73) | 3 |
| Total interest-earning assets | (1,794) | (2,513) | 719 |
| Deposits | (1,137) | (1,412) | 275 |
| Other borrowings | (259) | (269) | 10 |
| Total interest-bearing liabilities | (1,396) | (1,681) | 285 |
| Net interest income | \$(398) | \$(832) | \$ 434 |

Net Interest Income

The margin continued to be compressed as the rapid reduction in interest rates due to the actions of the Federal Reserve impacted interest earning assets more quickly than rates paid on interest bearing liabilities. The target fed funds rate was reduced from 4.25% at December 31, 2007 to a range of 0% to .25% at December 31, 2008. Rates paid on interest bearing liabilities, while responding more slowly to the rate cuts, have begun to decline. Specifically, rates paid on interest bearing have declined from 4.41% for the first quarter 2008 to 3.18% for the same period in 2009. As deposit and borrowing rates continue to adjust, this margin compression may ease in coming periods.

Net interest income declined by \$398,000 for the first quarter 2009 compared to 2008. Total interest income decreased \$1.8 million, or 14.9%, for the first quarter 2009 compared to 2008. While average loan balances increased by \$46.9 million, the margin on loans declined from 8.27% to 6.60% for the first quarter 2009 compared to 2008. Overall, the yield on interest earning assets declined from 7.95% for the first quarter 2008 to 6.31% for 2009. These declines were partly offset by lower interest expense which was \$4.5 million for the first quarter 2009 compared to \$5.9 million for the same period in 2008, a reduction of \$1.4 million, also primarily due to lower rates paid on deposits and borrowings. The resulting net interest margin was 3.56% for the first quarter 2009 compared to 4.08% for 2008.

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Provision for Loan Losses

The provision for loan losses increased \$11.9 million to \$12.6 million for the first quarter 2009 compared to \$673,000 for the first quarter 2008. The substantially higher comparable loan loss provision for the first quarter 2009 reflected the effect of increases in losses on specific credits as well as experienced loss frequency and severity on the provision calculation. During the first quarter 2009, the Company experienced significant deterioration and downgrades to specific loans in its portfolio, including net charge-offs of \$6.5 million, generally related to the current economic circumstances. A major component of the allowance calculation relates to historical loan losses. The Company has experienced elevated levels of loan losses over the past four quarters thereby resulting in a significantly higher allowance requirement. The migration of the losses through the loan portfolio has resulted in a calculated increase in the allowance of \$7.3 million at December 31, 2008 to \$13.4 million at March 31, 2009. This increase is directly related to increased inherent loss in our loan portfolio and the effect of historical loan loss experience on our estimate of losses inherent in the portfolio as of the balance sheet date and does not necessarily reflect expected future losses. Non-performing loans significantly decreased from \$16.9 million at December 31, 2008 to \$8.7 million at March 31, 2009, due to a combination of charge-offs, upgrades and payoffs. While total past due loans increased from \$12.0 million to \$18.9 million over the same period, \$7.4 million of this increase fell within the less than 60 days past due category.

Non-Interest Income

Total non-interest income declined by \$246,000 or 17.4%, for the first quarter 2009 compared to 2008. Non-interest income includes loan document fees, service charges on deposit accounts, gains on sale of loans, loan servicing fees and other revenues not derived from interest on earning assets. Other loan fees declined \$279,000 due to lower referral fees on 504 loans and gain on loan sales declined \$164,000 as the Bank did not sell SBA loans in the first quarter 2009. Net loan servicing increased by \$156,000, primarily due to a valuation adjustment to the interest only strip as the prepayment speeds on SBA loans declined.

Non-Interest Expenses

Total non-interest expenses increased by \$627,000, or 12.1% for the first quarter 2009 compared to 2008. Although salaries and employee benefits and occupancy declined, other non-interest expense increased. These expenses include other loan expense related to the reserve for undisbursed loans, which increased \$300,000 due to the increase in migration factors as discussed above in the "Provision for Loan Losses". The FDIC assessment and the loss on the sale of other foreclosed assets increased \$157,000 and \$66,000, respectively. As part of the decision to discontinue SBA lending east of the Rocky Mountains, the Company expensed severance, included in salaries and employee benefits, and lease commitments of \$117,000 and \$43,000, respectively. Also contributing to the difference between the first quarter 2009 and 2008 was a recovery of \$200,000 of sublease costs in the first quarter 2008 on a former loan which reduced other expenses.

Interest Rates and Differentials

The following table illustrates average yields on our interest-earning assets and average rates on interest-bearing liabilities for the periods 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 periods indicated. Amounts outstanding are averages of daily balances during the applicable periods.

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| | Three Months Ended March 31, | | | |
|--|---------------------------------|---|-----------|---|
| | 2009 | | 2008 | |
| | (dollars in thousands) | | | |
| Interest-earning assets: | | | | |
| Interest-earning deposits in other financial institutions: | | | | |
| Average balance | \$1,115 | | \$1,026 | |
| Interest income | 7 | | 9 | |
| Average yield | 2.84 | % | 3.43 | % |
| Federal funds sold: | | | | |
| Average balance | \$11,052 | | \$9,105 | |
| Interest income | 9 | | 77 | |
| Average yield | 0.33 | % | 3.40 | % |
| Investment securities: | | | | |
| Average balance | \$44,437 | | \$44,745 | |
| Interest income | 449 | | 565 | |
| Average yield | 4.09 | % | 5.08 | % |
| Gross loans: | | | | |
| Average balance | \$599,574 | | \$552,684 | |
| Interest income | 9,752 | | 11,360 | |
| Average yield | 6.60 | % | 8.27 | % |
| Total interest-earning assets: | | | | |
| Average balance | \$656,178 | | \$607,560 | |
| Interest income | 10,217 | | 12,011 | |
| Average yield | 6.31 | % | 7.95 | % |
| Interest-bearing liabilities: | | | | |
| Interest-bearing demand deposits: | | | | |
| Average balance | \$67,103 | | \$70,574 | |
| Interest expense | 283 | | 408 | |
| Average cost of funds | 1.71 | % | 2.32 | % |
| Savings deposits: | | | | |
| Average balance | \$15,226 | | \$14,114 | |
| Interest expense | 115 | | 130 | |
| Average cost of funds | 3.05 | % | 3.71 | % |
| Time certificates of deposit: | | | | |
| Average balance | \$367,367 | | \$332,358 | |
| Interest expense | 2,960 | | 3,957 | |
| Average cost of funds | 3.27 | % | 4.79 | % |
| Other borrowings: | | | | |
| Average balance | \$117,678 | | \$116,582 | |
| Interest expense | 1,096 | | 1,355 | |
| Average cost of funds | 3.78 | % | 4.67 | % |
| Total interest-bearing liabilities: | | | | |
| Average balance | \$567,374 | | \$533,628 | |
| Interest expense | 4,454 | | 5,850 | |
| Average cost of funds | 3.18 | % | 4.41 | % |
| Net interest income | | | | |
| Net interest income | \$5,763 | | \$6,161 | |
| Net interest spread | 3.13 | % | 3.55 | % |

| | | | | |
|--------------------|------|---|------|---|
| Average net margin | 3.56 | % | 4.08 | % |
|--------------------|------|---|------|---|

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

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Net interest income is the difference between the interest and fees earned on loans and investments and the interest expense paid on deposits and other liabilities. The amount by which interest income will exceed interest expense depends on the volume or balance of earning assets compared to the volume or balance of interest-bearing deposits and liabilities and the interest rate earned on those interest-earning assets compared to the interest rate paid on those interest-bearing liabilities.

Net interest margin is net interest income expressed as a percentage of average earning assets. It is used to measure the difference between the average rate of interest earned on assets and the average rate of interest that must be paid on liabilities used to fund those assets. To maintain its net interest margin, the Company must manage the relationship between interest earned and paid.

Financial Condition

Average total assets increased by \$50.0 million, or 8.0%, to \$672.7 million for the three months ended March 31, 2009 compared to \$622.7 million for the comparable period ended March 31, 2008. Average total gross loans increased by \$46.9 million, or 8.5%, to \$599.6 million for the three months ended March 31, 2009 from \$552.7 million for the three months ended March 31, 2008. Average deposits also increased by 7.6% from \$450.6 million for the three months ended March 31, 2008 to \$484.9 million for the three months ended March 31, 2009.

The book value per common share declined to \$7.68 at March 31, 2009 from \$8.84 at December 31, 2008.

| Selected balance sheet accounts (dollars in thousands) | March 31, 2009 | December 31, 2008 | Increase (Decrease) | Percent of Increase (Decrease) | |
|---|-------------------|----------------------|------------------------|--------------------------------------|---|
| Cash and cash equivalents | \$12,820 | \$12,253 | \$567 | 4.6 | % |
| Investment securities available-for-sale | 12,847 | 6,783 | 6,064 | 89.4 | % |
| Investment securities held-to-maturity | 26,394 | 31,192 | (4,798) | (15.4) | % |
| Loans-Held for sale | 99,581 | 131,786 | (32,205) | (24.4) | % |
| Loans-Held for investment, net | 486,168 | 449,289 | 36,879 | 8.2 | % |
| Total Assets | 669,808 | 656,981 | 12,827 | 2.0 | % |
| Total Deposits | 485,015 | 475,439 | 9,576 | 2.0 | % |
| Other borrowings | 120,000 | 110,000 | 10,000 | 9.1 | % |
| Total Stockholders' Equity | 59,778 | 66,618 | (6,840) | (10.3) | % |

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

| | March 31, 2009 | December 31, 2008 | Increase (Decrease) | Percent of Increase (Decrease) | |
|--|-------------------|-------------------------|------------------------|--------------------------------------|---|
| (dollars in thousands) | | | | | |
| Non-interest-bearing deposits | \$34,354 | \$35,080 | \$(726) | (2.1) | % |
| Interest-bearing deposits | 78,596 | 57,474 | 21,122 | 36.8 | % |
| Savings | 17,142 | 14,718 | 2,424 | 16.5 | % |
| Time certificates of \$100,000 or more | 178,331 | 138,330 | 40,001 | 28.9 | % |
| Other time certificates | 176,592 | 229,837 | (53,245) | (23.2) | % |
| Total deposits | \$485,015 | \$475,439 | \$9,576 | 2.0 | % |

Nonaccrual, Past Due and Restructured Loans

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

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

| | March 31, 2009 | December 31, 2008 |
|---|-------------------|-------------------------|
| | (in thousands) | |
| Impaired loans | \$7,535 | \$8,566 |
| Specific valuation allowances allocated to impaired loans | (728) | (151) |
| Impaired loans, net | \$6,807 | \$8,415 |
| Average investment in impaired loans | \$5,788 | \$9,612 |

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

| | March 31, 2009 | December 31, 2008 |
|--|------------------------|-------------------------|
| | (dollars in thousands) | |
| Nonaccrual loans | \$21,066 | \$28,821 |
| SBA guaranteed portion of loans included above | (12,352) | (11,918) |
| Nonaccrual loans, net | \$8,714 | \$16,903 |
| Troubled debt restructured loans, gross | \$3,942 | \$5,408 |
| Loans 30 through 89 days past due with interest accruing | \$18,868 | \$11,974 |
| Allowance for loan losses to gross loans (including loans held for sale) | 2.24 % | 1.25 % |

The increase in past due loans from \$12.0 million to \$18.9 million primarily fell within the less than 60 days past due category.

CWB generally repurchases the guaranteed portion of SBA loans from investors when those loans become past due 120 days. After the foreclosure and collection process is complete, the SBA reimburses CWB for this principal balance. Therefore, although these balances do not earn interest during this period, they generally do not result in a loss of principal to CWB.

Liquidity and Capital Resources

Liquidity Management

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

The Company maintains strategic liquidity and contingency plans. The contingency funding plan outlines practical and realistic funding alternatives that can be readily implemented as access to regular funding is reduced. Such plan incorporates events that could rapidly affect the bank's liquidity, including a tightening of collateral requirements or other restrictive terms associated with secured borrowings or the loss of certain deposit or funding relationship. Periodically, the Company has used short-term time certificates from other financial institutions to meet projected liquidity needs.

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CWB has a credit line with the Federal Home Loan Bank (FHLB). Advances are collateralized in the aggregate by CWB's eligible loans and securities. Total FHLB advances were \$98.0 million and \$110.0 million at March 31, 2009 and December 31, 2008, respectively, and include \$4.0 million borrowed at variable rates which adjust to the current LIBOR rate either monthly or quarterly. At March 31, 2009 and December 31, 2008, CWB had securities pledged to FHLB of \$39.2 million at carrying value and loans of \$133.3 million, and \$38.0 million at carrying value and loans of \$149.0 million, respectively. At March 31, 2009, CWB had \$22.7 million available for additional borrowing.

CWB has a credit line with the Federal Reserve Bank. Advances are collateralized in the aggregate by eligible loans for up to ninety days at the current rate of 0.5%. Total FRB advances were \$22.0 million as of March 31, 2009 with remaining borrowing capacity of \$99.1 million. No advances had been received as of December 31, 2008.

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

The aforementioned credit lines are granted based on the lenders' evaluation of the Company's creditworthiness. There are no assurances that the terms and borrowing capacity of these lines will not be amended at a future date.

The Company has not experienced disintermediation and does not believe this is a probable occurrence, although the competition for core deposits has heightened. The liquidity ratio of the Company was 18.8% at March 31, 2009 compared to 23% at December 31, 2008. The Company's liquidity ratio fluctuates in conjunction with loan funding demands. The liquidity ratio consists of cash and due from banks, deposits in other financial institutions, available for sale investments, federal funds sold and loans held for sale, divided by total assets.

CWBC's routine funding requirements primarily consist of certain operating expenses and TARP preferred dividends. Normally, CWBC obtains funding to meet its obligations from dividends collected from its subsidiary and has the capability to issue debt securities. Federal banking laws regulate the amount of dividends that may be paid by banking subsidiaries without prior approval. CWB anticipates that for the foreseeable future, it will fund its expenses and TARP preferred dividends from its own funds and will not receive dividends from its bank subsidiary.

Interest Rate Risk

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

- Lag Risk – lag risk results from the inherent timing difference between the repricing of the Company's adjustable rate assets and liabilities. For instance, certain loans tied to the prime rate index may only reprice on a quarterly basis. However, at a community bank such as CWB, when rates are rising, funding sources tend to reprice more slowly than the loans. Therefore, for CWB, the effect of this timing difference is generally favorable during a period of rising interest rates and unfavorable during a period of declining interest rates. This lag can produce some short-term volatility, particularly in times of numerous prime rate changes.
- Repricing Risk – repricing risk is caused by the mismatch in the maturities / repricing periods between interest-earning assets and interest-bearing liabilities. If CWB was perfectly matched, the net interest margin would expand during rising rate periods and contract during falling rate periods. This is so since loans tend to reprice more quickly than do funding sources. Typically, since CWB is somewhat asset sensitive, this would also tend to expand the net interest margin during times of interest rate increases. However, the margin relationship is somewhat dependent on the shape of the yield curve.
- Basis Risk – item pricing tied to different indices may tend to react differently, however, all CWB's variable products are priced off the prime rate.

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

Management of Interest Rate Risk

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

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

Capital Resources

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

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

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the following table) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier 1 leverage capital (as defined) to adjusted average assets (as defined). The Company's and CWB's actual capital amounts and ratios as of March 31, 2009 and December 31, 2008 are also presented in the table below:

| (dollars in thousands) | Total Capital | Tier 1 Capital | Risk-Weighted Assets | Adjusted Average Assets | Total Risk-Based Capital Ratio | Tier 1 Risk-Based Capital Ratio | Tier 1 Leverage Ratio |
|-------------------------|---------------|----------------|----------------------|-------------------------|--------------------------------|---------------------------------|-----------------------|
| March 31, 2009 | | | | | | | |
| CWBC | | | | | | | |
| (Consolidated) | \$66,389 | \$59,609 | \$ 535,350 | \$672,624 | 12.40 % | 11.13 % | 8.86 % |
| CWB | 58,483 | 51,704 | 535,356 | 672,963 | 10.92 | 9.66 | 7.68 |
| December 31, 2008 | | | | | | | |
| CWBC | | | | | | | |
| (Consolidated) | \$73,245 | \$66,553 | \$ 534,628 | \$647,413 | 13.70 % | 12.45 % | 10.28 % |
| CWB | 60,597 | 53,904 | 534,655 | 647,432 | 11.33 | 10.08 | 8.33 |
| Well capitalized ratios | | | | | 10.00 % | 6.00 % | 5.00 % |

| | | | | | | |
|------------------------|------|---|------|---|------|---|
| Minimum capital ratios | 8.00 | % | 4.00 | % | 4.00 | % |
|------------------------|------|---|------|---|------|---|

As of March 31, 2009 and December 31, 2008, management believed that the Company and CWB met all applicable capital adequacy requirements and is correctly categorized as “well capitalized” under the regulatory framework for prompt corrective action.

On April 9, 2009, CWBC downstreamed \$4.0 million to CWB as an additional capital investment.

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TARP CPP

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

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

The Series A Preferred Stock pays cumulative dividends at a rate of 5% per year for the first five years and at a rate of 9% per year thereafter, but will be paid only if, as and when declared by the Company's Board of Directors. The Series A Preferred Stock has no maturity date and ranks senior to the Common Stock with respect to the payment of dividends and distributions and amounts payable upon liquidation, dissolution and winding up of the Company. The Series A Preferred Stock is generally non-voting, other than class voting on certain matters that could adversely affect the Series A Preferred Stock.

The Company may redeem the Series A Preferred Stock after February 15, 2012 for \$1,000 per share plus accrued and unpaid dividends. Prior to this date, the Company may redeem the Series A Preferred Stock for \$1,000 per share plus accrued and unpaid dividends if: (i) the Company has raised aggregate gross proceeds in one or more "qualified equity offerings" (as defined in the Purchase Agreement) in excess of \$15.6 million, and (ii) the aggregate redemption price does not exceed the aggregate net cash proceeds from such qualified equity offerings. Any redemption is subject to the prior approval of the Company's primary banking regulator.

Prior to December 19, 2011, unless the Company has redeemed the Series A Preferred Stock or the Treasury has transferred the Series A Preferred Stock to a third party, the consent of the Treasury will be required for the Company to: (i) declare or pay any dividend or make any distribution on the Common Stock (other than regularly quarterly cash dividends of not more than \$0.06 per share of Common Stock) or (ii) redeem, purchase or acquire any shares of Common Stock or other equity or capital securities, other than in connection with benefit plans consistent with past practice and certain other circumstances specified in the Purchase Agreement. In addition, under the Certificate of Determination, the Company's ability to declare or pay dividends or repurchase Common Stock or other equity or capital securities will be subject to restrictions in the event that the Company fails to declare or pay (or set aside for payment) full dividends on the Series A Preferred Stock.

The Warrant is immediately exercisable and has a 10-year term. The exercise price and the ultimate number of shares of Common Stock that may be issued under the Warrant are subject to certain anti-dilution adjustments, such as upon stock splits or distributions of securities or other assets to holders of the Common Stock, and upon certain issuances of the Common Stock at or below a specified price relative to the then current market price of the Common Stock. If, on or prior to December 31, 2009, the Company receives aggregate gross cash proceeds of not less than \$15.6 million from "qualified equity offerings", the number of shares of Common Stock issuable pursuant to the Treasury's exercise of the Warrant will be reduced by one-half of the original number of Warrant Shares, taking into account all adjustments, underlying the Warrant. Pursuant to the Purchase Agreement, the Treasury has agreed not to exercise

voting power with respect to any Warrant Shares.

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

Supervision and Regulation

Banking is a complex, highly regulated industry. The banking regulatory scheme serves not to protect investors, but is designed to maintain a safe and sound banking system, to protect depositors and the FDIC insurance fund, and to facilitate the conduct of sound monetary policy. In furtherance of these goals, Congress and the states have created several largely autonomous regulatory agencies and enacted numerous laws that govern banks, bank holding companies and the banking industry. Consequently, the Company's growth and earnings performance, as well as that of CWB, may be affected not only by management decisions and general economic conditions, but also by the requirements of applicable state and federal statutes and regulations and the policies of various governmental regulatory authorities, including the Board of Governors of the Federal Reserve Bank ("FRB"), the FDIC, and the Office of the Comptroller of the Currency ("OCC"). For a detailed discussion of the regulatory scheme governing the Company and CWB, please see the discussion in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2008 under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operation – Supervision and Regulation."

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ITEM 4T. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company's Chief Executive Officer and Chief Financial Officer, with the participation of the Company's management, carried out an evaluation of the effectiveness of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(e). Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer believe that, as of the end of the period covered by this report, the Company's disclosure controls and procedures are effective in making known to them material information relating to the Company (including its consolidated subsidiaries) required to be included in this report.

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

Changes in Internal Control over Financial Reporting

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

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

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

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

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

Not applicable

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

Exhibits.

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

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

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

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

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SIGNATURES

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

COMMUNITY WEST BANCSHARES
(Registrant)

Date: May 14, 2009

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

On Behalf of Registrant and as
Principal Financial and Accounting Officer

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EXHIBIT INDEX

| Exhibit Number | Description of Document |
|----------------|--|
| <u>31.1</u> | Certification of Chief Executive Officer of the Registrant pursuant to Rule 13a-14(a) or Rule 15d-14(a), promulgated under the Securities Exchange Act of 1934, as amended. |
| <u>31.2</u> | Certification of Chief Financial Officer of the Registrant pursuant to Rule 13a-14(a) or Rule 15d-14(a), promulgated under the Securities Exchange Act of 1934, as amended. |
| <u>32.1*</u> | Certification of Chief Executive Officer and Chief Financial Officer of the Registrant pursuant to Rule 13a-14(b) or Rule 15d-14(b), promulgated under the Securities Exchange Act of 1934, as amended, and 18 U.S.C.1350. |

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