COMMUNITY WEST BANCSHARES /
Form 10-Q
August 14, 2009

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2009

or

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

For the transition period from _________ to _________

Commission File Number: 000-23575

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

California	77-0446957
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

445 Pine Avenue, Goleta, California	93117
(Address of principal executive offices)	(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. T 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 T NO

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

Large accelerated filer £ Accelerated filer £

Non-accelerated filer £ Smaller reporting company T

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

The aggregate value of the Common Stock of the registrant held by non-affiliates as of June 30, 2009 was $7,304,531 based on the last closing price on a share of Common Stock of $2.10 as of June 30, 2009.

Number of shares of common stock of the registrant outstanding as of August 13, 2009: 5,915,130 shares

TABLE OF CONTENTS

The financial statements included in this Form 10-Q should be read with reference to Community West Bancshares' Annual Report on Form 10-K for the fiscal year ended December 31, 2008.

Table of Contents

PART I – FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

COMMUNITY WEST BANCSHARES
CONSOLIDATED BALANCE SHEETS

	June 30, 2009 (unaudited)	December 31, 2008
ASSETS	(dollars in thousands)	
Cash and due from banks	$4,209	$ 4,151
Federal funds sold	3,368	8,102
Cash and cash equivalents	7,577	12,253
Time deposits in other financial institutions	732	812
Investment securities available-for-sale, at fair value; amortized cost of $12,210 at June 30, 2009 and $6,871 at December 31, 2008	12,397	6,783
Investment securities held-to-maturity, at amortized cost; fair value of $24,568 at June 30, 2009 and $31,574 at December 31, 2008	23,911	31,192
Federal Home Loan Bank stock, at cost	5,660	5,660
Federal Reserve Bank stock, at cost	1,129	902
Loans:		
Loans held for sale, at lower of cost or fair value	102,072	131,786
Loans held for investment, net of allowance for loan losses of $13,419 at June 30, 2009 and $7,341 at December 31, 2008	494,467	449,289
Total loans	596,539	581,075
Servicing rights	1,095	1,161
Other assets acquired through foreclosure, net	1,876	1,146
Premises and equipment, net	3,489	3,718
Other assets	16,597	12,279
TOTAL ASSETS	$671,002	$ 656,981
LIABILITIES		
Deposits:		
Non-interest-bearing demand	$38,330	$ 35,080
Interest-bearing demand	117,634	57,474
Savings	17,671	14,718
Time certificates	313,005	368,167
Total deposits	486,640	475,439
Other borrowings	119,000	110,000
Other liabilities	4,915	4,924
Total liabilities	610,555	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	14,406	14,300
Common stock, no par value; 10,000,000 shares authorized; 5,915,130 shares issued and outstanding	33,095	33,081
Retained earnings	12,836	19,288
Accumulated other comprehensive income (loss), net	110	(51)
Total stockholders' equity	60,447	66,618

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$671,002	$ 656,981

See accompanying notes.

Table of Contents

COMMUNITY WEST BANCSHARES
CONSOLIDATED INCOME STATEMENTS (UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(dollars in thousands, except per share amounts)			
INTEREST INCOME				
Loans	$9,746	$10,720	$19,498	$22,080
Investment securities	437	590	886	1,155
Other	17	70	33	156
Total interest income	10,200	11,380	20,417	23,391
INTEREST EXPENSE				
Deposits	2,940	4,329	6,298	8,824
Other borrowings	1,026	1,248	2,122	2,603
Total interest expense	3,966	5,577	8,420	11,427
NET INTEREST INCOME	6,234	5,803	11,997	11,964
Provision for loan losses	743	2,531	13,298	3,204
NET INTEREST INCOME (LOSS) AFTER PROVISION FOR LOAN LOSSES	5,491	3,272	(1,301)	8,760
NON-INTEREST INCOME				
Other loan fees	694	656	985	1,226
Gains from loan sales, net	58	336	176	618
Document processing fees	235	214	469	402
Loan servicing, net	117	2	512	241
Service charges	117	101	220	210
Other	34	331	61	357
Total non-interest income	1,255	1,640	2,423	3,054
NON-INTEREST EXPENSES				
Salaries and employee benefits	2,931	3,446	6,383	7,087
Occupancy and equipment expenses	523	558	1,070	1,140
Professional services	264	178	512	405
Advertising and marketing	80	149	181	256
Depreciation and amortization	125	158	250	291
FDIC insurance assessment	585	81	823	174
Other operating expenses	875	743	1,971	1,140
Total non-interest expenses	5,383	5,313	11,190	10,493
Income (loss) before provision for income taxes	1,363	(401)	(10,068)	1,321
Provision (benefit) for income taxes	563	(149)	(4,139)	576
NET INCOME (LOSS)	$800	$(252)	$(5,929)	$745
Preferred stock dividends	262	-	523	-
NET INCOME (LOSS) AVAILABLE TO COMMON SHAREHOLDERS	$538	$(252)	$(6,452)	$745
Earnings (loss) per common share:				
Basic	$.09	$(.04)	$(1.09)	$.13
Diluted	$.09	$(.04)	$(1.09)	$.12

Basic weighted average number of common shares outstanding	5,915	5,913	5,915	5,911
Diluted weighted average number of common shares outstanding	5,915	5,913	5,915	5,974

See accompanying notes.

Table of Contents

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

	Preferred Stock	Common Stock Shares	Common Stock Amount	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
		(in thousands)				
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, recognized in earnings			14			14
Comprehensive income:						
Net loss				(5,929)		(5,929)
Change in unrealized gain (loss) on securities available-for-sale, net					161	161
Comprehensive loss						(5,768)
Dividends:						
Preferred	132			(523)		(391)
BALANCES AT JUNE 30, 2009	$14,406	5,915	$33,095	$12,836	$ 110	$ 60,447

Table of Contents

COMMUNITY WEST BANCSHARES
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
	(in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$(5,929)	$745
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	13,298	3,204
Depreciation and amortization	250	291
Stock-based compensation	14	79
Net amortization of discounts and premiums for investment securities	(10)	(42)
(Gain) loss on:		
Sale of other assets acquired through foreclosure	164	(301)
Sale of loans held for sale	(176)	(618)
Loan originated for sale and principal collections, net	1,318	1,374
Changes in:		
Servicing rights, net of amortization	66	54
Other assets	(4,583)	(1,374)
Other liabilities	152	1,548
Net cash provided by operating activities	4,564	4,960
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of held-to-maturity securities	(1,233)	(12,899)
Purchase of available-for-sale securities	(6,231)	-
Purchase of Federal Home Loan Bank and Federal Reserve stock	(227)	(30)
Federal Home Loan Bank stock dividends	-	(155)
Principal pay downs and maturities of available-for-sale securities	888	7,310
Principal pay downs and maturities of held-to-maturity securities	8,527	4,142
Loan originations and principal collections, net	(32,494)	(34,614)
Proceeds from sale of other assets acquired through foreclosure	1,687	421
Net decrease in time deposits in other financial institutions	80	101
Purchase of premises and equipment, net	(21)	(992)
Net cash used in investing activities	(29,024)	(36,716)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Preferred stock dividends	(523)	-
Amortization of discount on preferred stock, net of additional costs	106	-
Exercise of stock options	-	105
Cash dividends paid on common stock	-	(709)
Net increase (decrease) in demand deposits and savings accounts	66,363	(14,982)
Net increase (decrease) in time certificates of deposit	(55,162)	67,025
Proceeds from Federal Home Loan Bank and FRB advances	68,000	9,000
Repayment of Federal Home Loan Bank and FRB advances	(59,000)	(25,000)
Net cash provided by financing activities	19,784	35,439
NET INCREASE IN CASH AND CASH EQUIVALENTS	(4,676)	3,683
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	12,253	9,289
CASH AND CASH EQUIVALENTS, END OF PERIOD	$7,577	$12,972
Supplemental Disclosure of Cash Flow Information:		

Cash paid for interest	$9,216	$9,065
Cash paid for income taxes	16	1,780
Supplemental Disclosure of Noncash Investing Activity:		
Transfers to other assets acquired through foreclosure	$2,590	$674

See accompanying notes.

6

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 "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 six-month period ended June 30, 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.

Table of Contents

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

Servicing Rights – The guaranteed portion of certain SBA loans can be sold into the secondary market. Servicing rights are recognized as separate assets when loans are sold with servicing retained. 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 107-1 and APB-28-1, "Interim Disclosures about Fair Value of Financial Instruments" ("FSP FAS 107-1 and APB 28-1"). FSP FAS 107-1 and APB 28-1 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 adopted this FSP as of April 1, 2009. The adoption did not have a material impact on the Company's financial condition, results of operations or cash flows.

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 adopted this FSP as of April 1, 2009. The adoption did not have a material impact on the Company's financial condition, results of operations or cash flows.

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 adopted this FSP as of April 1, 2009. The adoption did not have a material impact on the Company's financial condition, results of operations or cash flows.

Table of Contents

2. INVESTMENT SECURITIES

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

June 30, 2009	(in thousands)			
Available-for-sale securities	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government agency: MBS	$11,199	$179	$-	$11,378
U.S. Government agency: CMO	1,011	8	-	1,019
Total	$12,210	$187	$-	$12,397
Held-to-maturity securities				
U.S. Government agency: MBS	$23,911	$683	$(26)	$24,568
U.S. Government agency: CMO	-	-	-	-
Total	$23,911	$683	$(26)	$24,568

December 31, 2008	(in thousands)			
Available-for-sale securities	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government agency: MBS	$5,371	$1	$(88)	$5,284
U.S. Government agency: CMO	1,500	3	(4)	1,499
Total	$6,871	$4	$(92)	$6,783
Held-to-maturity securities				
U.S. Government agency: MBS	$25,750	$459	$(21)	$26,188
U.S. Government agency: CMO	5,442	-	(56)	5,386
Total	$31,192	$459	$(77)	$31,574

At June 30, 2009, $36.3 million at carrying value was pledged to the Federal Home Loan Bank, San Francisco, as collateral for current and future advances.

The maturity periods and weighted average yields of investment securities at June 30, 2009 are as follows:

	Total Amount		Less than One Year		One to Five Years		Five to Ten Years	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
	(dollars in thousands)							
Available-for-sale securities								
U. S. Government:								
Agency: MBS	$11,378	3.5%	$-	-	$3,223	3.7%	$8,155	3.4%
Agency: CMO	1,019	4.9%	1,019	4.9%	-	-	-	-
Total	$12,397	3.6%	$1,019	4.9%	$3,223	3.7%	$8,155	3.4%
Held-to-maturity securities								
U.S. Government:								
Agency: MBS	$23,911	5.1%	$-	-	$22,533	5.1%	$1,378	4.6%

Agency: CMO	-	-		-	-	-	-		-		
Total	$23,911	5.1	%	$-	-	$22,533	5.1	%	$1,378	4.6	%

Table of Contents

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

June 30, 2009	Less than 12 months		More than 12 months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(in thousands)			
Available-for-sale securities						
U.S. Government agency: MBS	$-	$-	$-	$-	$-	$-
U.S. Government agency: CMO		-	-	-	-	-
Total	$-	$-	$-	$-	$-	$-
Held-to-maturity securities						
U.S. Government agency: MBS	$1,203	$26	$-	$-	$1,203	$26
U.S. Government agency: CMO	-	-	-	-	-	-
Total	$1,203	$26	$-	$-	$1,203	$26

December 31, 2008	Less than 12 months		More than 12 months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(in thousands)			
Available-for-sale securities						
U.S. Government agency: MBS	$4,249	$66	$716	$22	$4,965	$88
U.S. Government agency: CMO	-	-	1,106	4	1,106	4
Total	$4,249	$66	$1,822	$26	$6,071	$92
Held-to-maturity securities						
U.S. Government agency: MBS	$4,025	$21	$-	$-	$4,025	$21
U.S. Government agency: CMO	5,386	56	-	-	5,386	56
Total	$9,411	$77	$-	$-	$9,411	$77

As of June 30, 2009 and December 31, 2008, one and twelve securities, respectively, were in an unrealized loss position.

Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers, among other things (i) the length of time and the extent to which the fair value has been less than cost (ii) the financial condition and near-term prospects of the issuer and (iii) the Company does not intend to sell an impaired security and it is not more likely than not it will be required to sell the security before the recovery of its amortized basis.

The unrealized losses are largely due to increases in market interest rates over the yields available at the time the underlying securities were purchased. The fair value is expected to recover as the bonds approach their maturity date or repricing date or if market yields for such investments decline. Management does not believe any of the securities are impaired due to reasons of credit quality, as all are direct or indirect agencies of the U. S. government. Accordingly, as of June 30, 2009 and December 31, 2008, management believes the impairments detailed in the table above are temporary and no other-than-temporary impairment loss has been realized in the Company's consolidated statements of income.

3. LOAN SALES AND SERVICING

SBA Loan Sales - The Company occasionally 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.

Table of Contents

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

As of June 30, 2009 and December 31, 2008, the Company had approximately $98.9 million and $127.4 million, respectively, in SBA loans included in loans held for sale.

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

The mortgage rate lock agreement and the forward sale agreement qualify as derivatives 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 June 30, 2009 and December 31, 2008, the Company had $12.2 million and $7.3 million, respectively, in notional amount of outstanding mortgage loan rate locks and forward sale commitments, the impact of which was not material to the Company’s financial position or results of operations.

4. LOANS HELD FOR INVESTMENT

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

	June 30, 2009	December 31, 2008
	(in thousands)	
Commercial	$74,557	$ 74,895
Real Estate	179,078	135,521
SBA	44,810	40,066
Manufactured housing	192,385	190,838
Other installment	17,416	15,793
	508,246	457,113
Less:		
Allowance for loan losses	13,419	7,341
Deferred fees (costs)	(306)	(284)
Purchased premiums	(32)	(42)
Discount on SBA loans	698	809
Loans held for investment, net	$494,467	$ 449,289

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(in thousands)			
Balance, beginning of period	$13,414	$4,704	$7,341	$4,412

Loans charged off	(804)	(843)	(7,299)	(1,243)
Recoveries on loans previously charged off	66	31	79	50
Net charge-offs	(738)	(812)	(7,220)	(1,193)
Provision for loan losses	743	2,531	13,298	3,204
Balance, end of period	$13,419	$6,423	$13,419	$6,423

11

Table of Contents

As of June 30, 2009 and December 31, 2008, the Company also had reserves for credit losses on undisbursed loans of $401,000 and $97,000 respectively.

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

	June 30, 2009	December 31, 2008
	(in thousands)	
Impaired loans	$ 10,927	$ 8,566
Specific valuation allowances allocated to impaired loans	(723)	(151)
Impaired loans, net	$ 10,204	$ 8,415
Average investment in impaired loans	$ 7,401	$ 9,612

5. FAIR VALUE MEASUREMENT

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

Level 1 – Quoted prices in active markets for identical assets and liabilities
Level 2 – Observable inputs other than quoted market prices in active markets for identical assets and liabilities
Level 3 – Unobservable inputs

The following summarizes the fair value measurements of assets measured on a recurring basis as of June 30, 2009 and the relative levels of inputs from which such amounts were derived:

		Fair value measurements at reporting date using		
Description	Total	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	$ 12,397	$ -	$ 12,397	$ -
Interest only strips (included in other assets)	669			669
Total	$ 13,066	$ -	$ 12,397	$ 669

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. 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 and a valuation increase of $111,000 was recorded in income during the first six months of 2009. No other changes in the balance have occurred related to the interest only strips and such valuation adjustments are included as additions or offsets 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. Impairment is measured based on the fair value of the underlying collateral. The collateral value is determined based on appraisals and other market valuations for similar assets.

Table of Contents

The following summarizes the fair value measurements of assets measured on a non-recurring basis as of June 30, 2009 and the relative levels of inputs from which such amounts were derived:

		Fair value measurements at reporting date using		
Description	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
		(in thousands)		
Impaired loans	$ 10,927	$ -	$ 10,168	$ 759

6. BORROWINGS

Federal Home Loan Bank Advances – The Company has a blanket lien credit line with the Federal Home Loan Bank ("FHLB"). Advances are collateralized in the aggregate by CWB's eligible loans and securities. Total FHLB advances were $94.0 million and $110.0 million at June 30, 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 June 30, 2009 and December 31, 2008, CWB had securities pledged to FHLB of $36.3 million at carrying value and loans of $125.5 million, and $38.0 million at carrying value and loans of $149.0 million, respectively. Total FHLB interest expense for the six months ended June 30, 2009 and 2008 was $2.1 million and $2.6 million, respectively. At June 30, 2009, CWB had $26.9 million available for additional borrowings with the FHLB.

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 $25.0 million as of June 30, 2009 with remaining borrowing capacity of $89.3 million. No advances had been received as of December 31, 2008. Interest expense on these advances for the six months ended June 30, 2009 was $53,000.

7. STOCKHOLDERS' EQUITY

Preferred Stock

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

Table of Contents

A valuation was prepared which allocated the $15.6 million received, less related costs, between the Series A Preferred Stock and the Warrant at $14.4 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 (“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 June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(dollars in thousands except per share amounts)			
Basic weighted average common shares outstanding	5,915	5,913	5,915	5,911
Dilutive effect of options	-	-	-	63
Diluted weighted average common shares outstanding	5,915	5,913	5,915	5,974

8. FAIR VALUES OF FINANCIAL INSTRUMENTS

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

The following table represents the estimated fair values:

	June 30, 2009		December 31, 2008	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(in thousands)			
Assets:				
Cash and cash equivalents	$7,577	$7,577	$12,253	$12,253
Time deposits in other financial institutions	732	732	812	812
Federal Reserve and Federal Home Loan Bank stock	6,789	6,789	6,562	6,562
Investment securities	36,308	36,965	37,975	38,357
Net loans	596,539	574,914	581,075	560,532
Liabilities:				
Deposits (other than time deposits)	173,635	173,635	107,272	107,272

Time deposits	313,005	315,953	368,167	372,003
Other borrowings	119,000	120,277	110,000	111,797

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

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

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

Table of Contents

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

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

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

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

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

FHLB Advances – The fair value is estimated using discounted cash flow analysis based on rates for similar types of borrowing arrangements.

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

The fair value estimates presented herein are based on pertinent information available to management as of June 30, 2009 and December 31, 2008. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since those dates and, therefore, current estimates of fair value may differ significantly from the amounts presented herein.

9. SUBSEQUENT EVENTS

Subsequent events have been evaluated through August 14, 2009, the date the financial statements were issued.

Table of Contents

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF 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 second quarter 2009, net income was $800,000 compared to net loss of $252,000 for the second quarter 2008.

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

- The provision for loan losses declined to $743,000 for 2009 Q2 compared to $2.5 million for the same quarter in 2008. Primarily due to the provision recorded in Q1 2009, the allowance for loan losses increased $6.1 million from $7.3 million at December 31, 2008 to $13.4 million at June 30, 2009.

- The margin experienced a slight improvement to 3.78% for 2009 Q2 compared to 3.73% for 2008. Although yields on loans declined from 7.32% for 2008 Q2 to 6.18% for the same period in 2009, rates paid on deposits and borrowings have also declined from 4.08% to 2.77%. The net margin has shown a steady recovery throughout 2009.

- The strategic decision to discontinue SBA lending east of the Rocky Mountains contributed to a decline in salaries and employee benefits to $2.9 million for 2009 Q2 from $3.4 million for 2008, a reduction of $515,000.

- An increase of $504,000 in the FDIC assessment for 2009 Q2 compared to 2008 resulting from the combination of higher assessment rates and a special assessment of $306,000.

Critical Accounting Policies

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

16

Table of Contents

Results of Operations – Second 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 June 30, 2009	Three Months Ended June 30, 2008	Increase (Decrease)
	(dollars in thousands, except per share amounts)		
Interest income	$10,200	$11,380	$(1,180)
Interest expense	3,966	5,577	(1,611)
Net interest income	6,234	5,803	431
Provision for loan losses	743	2,531	(1,788)
Net interest income after provision for loan losses	5,491	3,272	2,219
Non-interest income	1,255	1,640	(385)
Non-interest expenses	5,383	5,313	70
Income (loss) before provision for income taxes	1,363	(401)	1,764
Provision (benefit) for income taxes	563	(149)	712
Net income (loss)	$800	$(252)	$1,052
Preferred stock dividends	262	-	262
Net income (loss) available to common shareholders	$538	$(252)	$790
Earnings (loss) per common share:			
Basic	$.09	$(.04)	$.13
Diluted	$.09	$(.04)	$.13
Dividends per common share	$-	$.06	$(.06)
Comprehensive income (loss)	$858	$(264)	$1,122

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

	Three Months Ended June 30, 2009 versus 2008		
	Total change	Change due to Rate	Change due to Volume
	(in thousands)		
Loans, net	$(974)	$(1,466)	$492
Investment securities	(153)	(137)	(16)
Other	(53)	(53)	-
Total interest-earning assets	(1,180)	(1,656)	476
Deposits	(1,389)	(1,336)	(53)
Other borrowings	(222)	(351)	129
Total interest-bearing liabilities	(1,611)	(1,687)	76
Net interest income	$431	$31	$400

Net Interest Income

Net interest income increased by $431,000 for the second quarter 2009 compared to 2008. Total interest income declined by $1.2 million. While average interest earning assets grew to $662.2 million for the second quarter 2009 compared to $625.3 million for the same period in 2008, an increase of $36.9 million, yields declined to 6.18% from 7.32%. The decline in interest income due to rates of $1.7 million was partly offset by the increase of $476,000 due to volume growth.

The decline in rates benefited the Bank in a reduction in interest expense of $1.6 million for the second quarter 2009 compared to 2008. The net impact of the decline in yields on interest earning assets and the decline in rates on interest-bearing liabilities was a slight increase in the margin from 3.73% for the second quarter of 2008 to 3.78% for the second quarter 2009.

Table of Contents

Provision for Loan Losses

The provision for loan losses declined to $743,000 for the second quarter 2009 compared to $2.5 million for 2008. Primarily due to the provision recorded in Q1 2009, the allowance for loan losses increased $6.1 million from $7.3 million at December 31, 2008 to $13.4 million at June 30, 2009. See the following discussion regarding the provision for loan losses for the first six months 2009.

Non-Interest Income

Non-interest income includes gains from sale of loans, loan document fees, service charges on deposit accounts, loan servicing fees and other revenues not derived from interest on earning assets. Total non-interest income decreased by $385,000, or 23.5%, for the second quarter 2009 compared to the same period in 2008. Gain on loan sales declined by $278,000 as no SBA loans were sold in the second quarter 2009 compared to $6.3 million in loans sales for the same period in 2008. Other non-interest income declined $297,000. The second quarter 2008 benefitted from a gain on the sale of other foreclosed assets of $301,000. These declines were partly offset by an increase in loan servicing income of $115,000 and other loan fees of $38,000.

Non-Interest Expenses

Non-interest expenses increased $70,000, or 1.3% for the second quarter 2009 compared to the same period in 2008. Reductions in salaries and employee benefits of $515,000, resulting from the discontinuation of SBA lending east of the Rockies, were offset by an increase in the FDIC assessment of $504,000.

Results of Operations –Six-Month Comparison

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

	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008	Increase (Decrease)
	(dollars in thousands, except per share amounts)		
Interest income	$20,417	$23,391	$(2,974)
Interest expense	8,420	11,427	(3,007)
Net interest income	11,997	11,964	33
Provision for loan losses	13,298	3,204	10,094
Net interest income (loss) after provision for loan losses	(1,301)	8,760	(10,061)
Non-interest income	2,423	3,054	(631)
Non-interest expenses	11,190	10,493	697
Income (loss) before provision for income taxes	(10,068)	1,321	(11,389)
Provision (benefit) for income taxes	(4,139)	576	(4,715)
Net income (loss)	$(5,929)	$745	$(6,674)
Preferred stock dividends	523	-	523
Net income (loss) available to common shareholders	$(6,452)	$745	$(7,197)
Earnings (loss) per common share:			
Basic	$(1.09)	$.13	$(1.22)
Diluted	$(1.09)	$.12	$(1.21)
Dividends per common share	$-	$.12	$(.12)
Comprehensive income (loss)	$(5,768)	$766	$(6,534)

18

Table of Contents

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

	Six Months Ended June 30, 2009 versus 2008		
	Total change	Change due to Rate	Change due to Volume
	(in thousands)		
Loans, net	$(2,582)	$(3,793)	$1,211
Investment securities	(269)	(250)	(19)
Other	(123)	(126)	3
Total interest-earning assets	(2,974)	(4,169)	1,195
Deposits	(2,526)	(2,748)	222
Other borrowings	(481)	(620)	139
Total interest-bearing liabilities	(3,007)	(3,368)	361
Net interest income	$33	$(801)	$834

Net Interest Income

Net interest income increased by $33,000 for the first six months of 2009 compared to 2008. Total interest income declined $3.0 million, or 12.7%, for the period ended June 30, 2009 compared to the same period in 2008. Of this decline, $4.2 million was due to declines in interest rates which were partly offset by an increase of $1.2 million due to growth in volume. The average balance for interest earning assets was $659.2 million for the first six months of 2009 compared to $616.4 for the same period in 2008, an increase of $42.8 million, while the yield declined from 7.63% to 6.25%.

Interest expense also declined, primarily due to a reduction in rates paid on deposits and borrowings. Rates paid on deposits and borrowings declined from 4.24% for the first six months of 2008 to 2.97% for 2009. These reductions in the rates paid on deposits and borrowings have contributed to a sequential improvement in the margin to 3.67% for the first six months of the year compared to 3.56% in the first quarter of 2009.

Provision for Loan Losses

The provision for loan losses increased $10.1 million to $13.3 million for the first six months of 2009 compared to $3.2 million for the same period of 2008. The substantially higher comparable loan loss provision for 2009 reflected the effect of increases in losses on specific credits as well as experienced loss frequency and severity on the allowance 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 June 30, 2009. This increase is directly related to increased inherent losses 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-Interest Income

Non-interest income declined for the first six months of 2009 to $2.4 million from $3.1 million for 2008. Declines of $442,000 in gain on loans sales, $241,000 in other loan fees and $296,000 in other income were partly offset by increases of $271,000 in loan servicing and $67,000 in document processing. There were no sales of SBA loans in the first six months of 2009 compared to $10.0 million in guaranteed loans sales and $1.7 million in unguaranteed over the same period in 2008. Other loan fees declined due to a reduction of referral fees on SBA 504 loans. In 2008, other income benefitted from a net gain on the sale of other foreclosed assets of $301,000. Loan servicing income increased in 2009 primarily due to a reduction of the amortization of the I/O strip and servicing asset due to slower prepayment speeds on serviced SBA loans.

Non-Interest Expenses

Non-interest expenses increased $697,000, from $10.5 million for the first six months of 2008 to $11.2 million for 2009. The FDIC assessment increased $649,000 and other expenses increased $831,000 and included increases in the reserve on undisbursed loans of $263,000, collection related costs of $241,000, and losses on the sale of other foreclosed assets of $159,000. Partly offsetting these increases was a reduction in salaries and employee benefits of $704,000, primarily resulting in the discontinuation of SBA lending east of the Rockies.

Table of Contents

Interest Rates and Differentials

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

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Interest-earning assets:	(dollars in thousands)			
Interest-earning deposits in other financial institutions:				
Average balance	$1,091	$982	$1,104	$1,004
Interest income	6	10	14	19
Average yield	2.39 %	4.11 %	2.61 %	3.76 %
Federal funds sold:				
Average balance	$11,124	$11,152	$11,083	$10,117
Interest income	11	60	19	137
Average yield	0.35 %	2.16 %	0.34 %	2.72 %
Investment securities:				
Average balance	$44,255	$45,835	$44,346	$45,294
Interest income	437	590	886	1,155
Average yield	3.97 %	5.18 %	4.03 %	5.13 %
Gross loans:				
Average balance	$605,684	$567,310	$602,648	$559,955
Interest income	9,746	10,720	19,498	22,080
Average yield	6.45 %	7.60 %	6.52 %	7.93 %
Total interest-earning assets:				
Average balance	$662,154	$625,279	$659,181	$616,370
Interest income	10,200	11,380	20,417	23,391
Average yield	6.18 %	7.32 %	6.25 %	7.63 %

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Interest-bearing liabilities:	(dollars in thousands)			
Interest-bearing demand deposits:				
Average balance	$96,695	$60,325	$81,976	$65,445
Interest expense	441	269	724	677
Average cost of funds	1.83 %	1.80 %	1.78 %	2.08 %
Savings deposits:				
Average balance	$19,513	$14,585	$17,385	$14,350
Interest expense	120	128	234	258
Average cost of funds	2.46 %	3.52 %	2.72 %	3.61 %
Time certificates of deposit:				
Average balance	$335,939	$366,258	$351,579	$349,299
Interest expense	2,380	3,932	5,340	7,889
Average cost of funds	2.84 %	4.32 %	3.06 %	4.54 %
Other borrowings:				
Average balance	$122,681	$108,000	$120,188	$112,291
Interest expense	1,025	1,248	2,122	2,603

Average cost of funds	3.35 %	4.64 %	3.56 %	4.66 %
Total interest-bearing liabilities:				
Average balance	$574,828	$549,168	$571,128	$541,385
Interest expense	3,966	5,577	8,420	11,427
Average cost of funds	2.77 %	4.08 %	2.97 %	4.24 %