COMMUNITY WEST BANCSHARES /
Form 10-K
March 25, 2011

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

FORM 10-K

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010
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)

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

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

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

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

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

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

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 o No o

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

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

Large accelerated filer o	Accelerated filer o
Non-accelerated filer (Do not check if smaller reporting company) o	Smaller reporting company x

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

The aggregate market value of common stock, held by non-affiliates of the registrant as of June 30, 2010, was $8,366,628 based on a closing price of $2.50 for the common stock, as reported on the Nasdaq Global Market. For purposes of the foregoing computation, all executive officers, directors and five percent beneficial owners of the registrant are deemed to be affiliates. Such determination should not be deemed to be an admission that such executive officers, directors or five percent beneficial owners are, in fact, affiliates of the registrant.

As of March 23, 2011, 5,976,374 shares of the registrant’s common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A in connection with the 2010 Annual Meeting of Shareholders to be held on or about May 26, 2011 are incorporated by reference into Part III of this Report. The proxy statement will be filed with the Securities and Exchange Commission not later than 120 days after the registrant's fiscal year ended December 31, 2010.

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PART I

ITEM 1. BUSINESS

GENERAL

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

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

PRODUCTS AND SERVICES

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

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

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

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

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

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

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

The 504 program is an economic development-financing program providing long-term, low downpayment loans to expanding businesses. Typically, a 504 project includes a loan secured from a private-sector lender with a senior lien, a loan secured from a CDC (funded by a 100% SBA-guaranteed debenture) with a junior lien covering up to 40% of the total cost, and a contribution of at least 10% equity from the borrower. Debenture limits are $5.0 million for regular 504 loans and $5.5 million for those 504 loans that meet a public policy goal.

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

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

CWB originates SBA loans in the states of California, Colorado, Oregon, Utah and Washington. The SBA has designated CWB as a "Preferred Lender", such status being awarded on a national basis. As a Preferred Lender, CWB has been delegated the loan approval, closing and most servicing and liquidation authority responsibility from the SBA.

CWB made the decision to discontinue as of April 1, 2009 SBA lending east of the Rocky Mountains.

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

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

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

COMPETITION AND SERVICE AREA

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

EMPLOYEES

As of December 31, 2010, the Company had 120 full-time and 11 part-time employees. The Company's employees are not represented by a union or covered by a collective bargaining agreement. Management of the Company believes that, in general, its employee relations are good.

GOVERNMENT POLICIES

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

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ITEM 1A. RISK FACTORS

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

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

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

Difficult Economic and Market Conditions Have Adversely Affected the Banking Industry

Dramatic declines in the housing market, with depressed home prices and high delinquencies and foreclosures during 2008 and through 2010, have negatively impacted the credit performance of mortgage and construction loans and resulted in significant write-downs of assets by many financial institutions and government sponsored entities. General downward economic trends, reduced availability of commercial credit and high unemployment have negatively impacted the credit performance of commercial and consumer credit, resulting in additional write-downs. Concerns over the stability of the financial markets and the economy have resulted in decreased lending by financial institutions to their customers and to each other. This market turmoil and tightening of credit has led to increased commercial and consumer deficiencies, lack of customer confidence, increased market volatility and widespread reduction in general business activity. In some instances, the related write-downs have caused many financial institutions to seek additional capital, to merge with larger and stronger institutions or to fail. The resulting economic pressure on consumers and businesses and the lack of confidence in the financial markets may adversely affect our business, financial condition, results of operations and stock price. A worsening of these conditions would likely exacerbate the adverse effects of these difficult market conditions on our Company. In particular, we may face the following risks in connection with these events:

- We may potentially face increased regulation of our industry. Compliance with such regulation may increase our respective costs and limit our ability to pursue business opportunities.

- The process we use to estimate losses inherent in our credit exposure requires difficult, subjective and complex judgments, including forecasts of economic conditions and how these economic conditions might impair the ability of our respective borrowers to repay their loans. The level of uncertainty concerning economic conditions may adversely affect the accuracy of these estimates which may, in turn, impact the reliability of the process.

- We could be affected by an increase in the number of clients and counterparties who become delinquent, file for protection under bankruptcy laws or default on their loans or other obligations to our Bank.

- In a sustained economic downturn, we may have an increase in the number of delinquencies, bankruptcies or defaults that could result in a higher level of nonperforming assets, net charge-offs and provision for loan losses.

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- We may experience a decrease in the demand for loans and other products and services that we offer.
  - Liquidity may be affected by an increase or decrease in the usage of unfunded commitments.
- We may be required to pay significantly higher FDIC premiums because market developments have significantly depleted the insurance fund of the FDIC and reduced the ratio of reserves to insured deposits.

If current levels of market disruption and volatility continue or worsen, there can be no assurance that we will not experience an adverse effect, which may be material, on our business, financial condition and results of operations.

Recently Enacted Legislative Reforms and Future Regulatory Reforms Required by Such Legislation Could Have a Significant Impact on Our Business, Financial Condition and Results of Operations.

On July 21, 2010, President Obama signed the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act") into law. The Dodd-Frank Act will have a broad impact on the financial services industry, including significant regulatory and compliance changes. Many of the requirements called for in the Dodd-Frank Act will be implemented over time and most will be subject to implementing regulations over the course of several years. Given the uncertainty associated with the manner in which the provisions of the Dodd-Frank Act will be implemented by the various regulatory agencies, the full extent of the impact such requirements will have on our operations is unclear. Certain provisions of the Dodd-Frank Act are expected to have a near term impact on us. For example, the Dodd-Frank Act:

- eliminates, effective one year after the date of enactment, the federal prohibitions on paying interest on demand deposits, thus allowing businesses to have interest-bearing checking accounts. Depending on competitive responses, this significant change to existing law could have an adverse impact on our interest expense;
- broadens the base for FDIC insurance assessments. Assessments will now be based on the average consolidated total assets less tangible equity capital of a financial institution;
- permanently increases the maximum amount of deposit insurance for banks, savings institutions and credit unions to $250,000 per depositor, retroactive to January 1, 2008, and noninterest-bearing transaction accounts have unlimited deposit insurance through December 31, 2013;
- requires publicly traded companies to give shareholders a non-binding vote on executive compensation and so-called "golden parachute" payments in certain circumstances;
- authorizes the SEC to promulgate rules that would allow stockholders to nominate their own candidates using a company's proxy materials, and the SEC has recently promulgated such rules;
- directs the Federal Reserve Board to promulgate rules prohibiting excessive compensation paid to bank holding company executives; and
- creates a new Consumer Financial Protection Bureau with broad powers to supervise and enforce consumer protection laws. The Consumer Financial Protection Bureau has broad rule-making authority for a wide range of consumer protection laws that apply to all banks and savings institutions, including the authority to prohibit "unfair, deceptive or abusive" acts and practices. The Consumer Financial Protection Bureau has examination and enforcement authority over all banks and savings institutions with more than $10 billion in assets. Institutions with $10 billion or less in assets, like our Company, will continued to be examined for compliance with the consumer laws by their primary bank regulators.

In addition, we anticipate that the potential impact of the Dodd-Frank Act on our operations and activities, both currently and prospectively, may include, among others:

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- a reduction in our ability to generate or originate revenue-producing assets as a result of compliance with heightened capital standards;

- an increase the cost of operations due to greater regulatory oversight, supervision and examination of banks and bank holding companies, and higher deposit insurance premiums;

- a limitation on our ability to raise capital through the use of trust preferred securities as these securities may no longer be included as Tier 1 capital going forward; and

- a limitation on our ability to expand consumer product and service offerings due to anticipated stricter consumer protection laws and regulations.

Further, we may be required to invest significant management attention and resources to evaluate and make any changes necessary to comply with new statutory and regulatory requirements under the Dodd-Frank Act. Failure to comply with the new requirements may negatively impact results of operations and financial condition. While it is difficult to predict at this time what specific impact the Dodd-Frank Act and the yet to be written implementing rules and regulations will have on us, we expect that at a minimum, operating and compliance costs and interest expense will increase.

FDIC Deposit Insurance Premiums Have Increased Substantially and May Increase Further, Which Will Adversely Affect Our Results of Operations

The Bank's FDIC insurance expense for the years ended December 31, 2010 and 2009 amounted to $1.2 million, and $1.6 million, respectively. The expense for the 2009 period included a $306,000 special assessment imposed in June 2009. We expect deposit insurance premiums will continue to increase for all banks, including the possibility of additional special assessments, due to recent strains on the FDIC deposit insurance fund resulting from the cost of recent bank failures and an increase in the number of banks likely to fail over the next few years. Our current level of FDIC insurance expense as well as any further increases thereto will continue to adversely affect our operating results.

Under the Federal Deposit Insurance Act, the FDIC, absent extraordinary circumstances, must establish and implement a plan to restore the deposit insurance reserve ratio to 1.15% of insured deposits at any time that the reserve ratio falls below 1.15%. Recent bank failures coupled with deteriorating economic conditions have significantly reduced the deposit insurance fund's reserve ratio. The FDIC expects insured institution failures to peak in 2010 which will result in continued charges against the Deposit Insurance Fund, and they have implemented a restoration plan that changes both its risk-based assessment system and its base assessment rates. As part of this plan, the FDIC imposed a special assessment in 2009. The recently enacted Dodd-Frank Act provides for a new minimum reserve ratio of not less than 1.35% of estimated insured deposits and requires that the FDIC take steps necessary to attain this 1.35% ratio by September 30, 2010; however, the Dodd-Frank Act exempts institutions with assets of less than $10 billion, like us, from the cost of this increase. See "SUPERVISION AND REGULATION – Recent Regulatory Developments." It is generally expected that assessment rates will continue to increase in the near term due to the significant cost of bank failures, the relatively large number of troubled banks and the requirement that the FDIC increase the reserve ratio. Any increase in assessments will adversely impact our future earnings.

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

As a result of our participation in the TARP-CPP, we have adopted the Treasury's standards for executive compensation and corporate governance for the period during which the Treasury holds an equity position acquired under the TARP-CPP. These standards generally apply to our Chief Executive Officer, our Chief Financial Officer, our Chief Credit Officer and up to the two next most highly compensated executive officers (collectively, the "senior executive officers") and with respect to certain requirements, to some or all of the Company's other employees. The standards include, without limitation: (i) ensuring that incentive compensation for senior executive officers does not encourage unnecessary and excessive risks that threaten the value of our Company, (ii) requiring the Company's compensation committee to conduct an assessment at least once every six months of the Company's compensation programs in relation to excessive risk taking and earnings manipulations, (iii) prohibiting the payment of any bonus, retention or incentive compensation to the most-highly compensated employee which may include a senior executive officer; (iv) requiring clawback of any bonus, retention or incentive compensation paid to any senior executive officer or any of the next twenty most highly-compensated employees based on statements of earnings, gains or other criteria that are later proven to be materially inaccurate, (v) prohibiting golden parachute payments to a senior executive officer, and the next five most-highly compensated employees including severance payments for any reason, (vi) prohibiting payment of any tax gross-ups with respect to any severance payments, perquisites or any other form of compensation for the senior executive officers and the next twenty highly compensated employees and (vii) our agreement not to deduct for tax purposes compensation to a senior executive officer in excess of $500,000. In particular, the change to the deductibility limit on executive compensation may increase the overall cost of our compensation programs in future periods or impact our ability to attract and retain quality executive personnel. We will be subject to the executive compensation and corporate governance restrictions for so long as the Treasury holds any equity securities issued as a result of our participation in TARP-CPP. This period could be more than ten years.

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

The risk of nonpayment of loans is inherent in all lending activities, and nonpayment, if it occurs, may have an adverse effect on our financial condition and/or results of operations. We maintain a reserve for credit losses to absorb estimated probable credit losses inherent in the loan and commitment portfolios as of the balance sheet date. After a provision of $8.7 million for the year, as of December 31, 2010, our allowance for loan losses was $13.3 million, or 2.60% of loans held for investment. In addition, as of December 31, 2010, we had $34,950,000 in loans on nonaccrual, $22,279,000 of which are SBA guaranteed, and $2,586,000 in loans 30 to 90 days past due with interest accruing. In determining the level of the reserve for credit losses, our management makes various assumptions and judgments about the loan portfolio. We rely on an analysis of the loan portfolio based on historical loss experience, volume and types of loans, trends in classifications, volume and trends in delinquencies and non-accruals, national and local economic conditions and other pertinent information known at the time of the analysis. If management's assumptions are incorrect, the reserve for credit losses may not be sufficient to cover losses, which could have a material adverse effect on our financial condition and/or results of operations. While the allowance was determined to be adequate at December 31, 2010, based on the information available to us at the time, there can be no assurance that the allowance will be adequate in the future.

All of our lending involves underwriting risks.

As of December 31, 2010, commercial business loans represented 9.7% of our total loan portfolio; real estate loans represented 32.4% of our total loan portfolio; SBA loans represented 21.7% of our total loan portfolio; manufactured housing loans represented 32.8% of our total portfolio and HELOC represented 3.4% of our total loan portfolio. All such lending, even when secured by the assets of a business, involves considerable risk of loss in the event of failure of the business. To reduce such risk, we typically take additional security interests in other collateral of the borrower, such as real property, certificates of deposit or life insurance, and/or obtain personal guarantees. In light of the economic downturn, our efforts to reduce risk of loss may not prove sufficient as the value of the additional collateral or personal guarantees may be significantly reduced. There can be no assurances that we have taken sufficient collateral or the values thereof will be sufficient to repay loans in accordance with their terms.

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

As of December 31, 2010, approximately $193 million, or 32.4%, of our loan portfolio is secured by various forms of real estate, including residential and commercial real estate. A further decline in current economic conditions or rising interest rates could have an adverse effect on the demand for new loans, the ability of borrowers to repay outstanding loans and the value of real estate and other collateral securing loans. The real estate securing our loan portfolio is concentrated in California. The decline in real estate values could harm the financial condition of our borrowers and the collateral for our loans will provide less security and we would be more likely to suffer losses on defaulted loans.

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

A major segment of our business consists of originating and periodically selling government guaranteed loans, in particular those guaranteed by the Small Business Administration. From time to time, the government agencies that guarantee these loans reach their internal limits and cease to guarantee loans. In addition, these agencies may change their rules for loans or Congress may adopt legislation that would have the effect of discontinuing or changing the loan programs. Non-governmental programs could replace government programs for some borrowers, but the terms might not be equally acceptable. Therefore, if these changes occur, the volume of loans to small business, industrial and agricultural borrowers of the types that now qualify for government guaranteed loans could decline. Also, the profitability of these loans could decline. As the funding of the guaranteed portion of 7(a) loans is a major portion of our business, the long-term resolution to the funding for the 7(a) loan program may have an unfavorable impact on our future performance and results of operations.

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

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

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

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

Fluctuations in interest rates may reduce profitability.

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

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

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

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

The Company serves two primary regions: the Tri-Counties region, which consists of San Luis Obispo, Santa Barbara and Ventura counties in the state of California; and, the SBA Region where the Bank originates SBA loans (California, Oregon, Colorado, Utah and Washington). The current economic slowdown in those regions as well as natural disasters such as hurricanes, floods, fires and earthquakes could result in the following consequences, any of which could hurt our business:

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

Competition with other banking institutions could adversely affect profitability.

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

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Regulatory considerations may adversely affect our operations.

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

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

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

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

Government agencies regulations also dictate the following:

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

Regulations impose limitations on operations and may be changed at any time, possibly causing future results to vary significantly from past results. Regulations can significantly increase the cost of doing business such as increased deposit insurance premiums imposed by the FDIC to be paid in 2011. Moreover, certain of these regulations contain significant punitive sanctions for violations, including monetary penalties and limitations on a bank’s ability to implement components of its business plan. In addition, changes in regulatory requirements may act to add costs associated with compliance efforts. Furthermore, government policy and regulation, particularly as implemented through the Federal Reserve System, significantly affect credit conditions.

Operational risks may result in losses.

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

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

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

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

We may depend on technology and technological improvements.

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

Loss of key management personnel may adversely affect our operations.

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

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

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

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

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

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

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

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

As a result of our participation in the TARP-CPP, our ability to declare or pay dividends on any of our common stock will be limited. Specifically, we will not be able to declare dividends payments on common, junior preferred or pari passu preferred shares if we are in arrears on the dividends on the shares of fixed rate cumulative perpetual preferred stock, Series A (the "Series A Preferred Stock"). Further, while we are permitted to pay stock dividends, effectuate stocks splits and reverse stock splits, we will not be permitted to declare or pay cash dividends on our common stock without the Treasury's approval until December 19, 2011, which is the third anniversary of the closing of the sale of the Series A Preferred Stock to Treasury, unless the Series A Preferred Stock has been redeemed or transferred. In addition, our ability to repurchase our shares will be restricted. Treasury consent generally will be required for us to make any stock repurchases until December 19, 2011 unless the Series A Preferred Stock has been redeemed or transferred. Further, common, junior preferred or pari passu preferred shares may not be repurchased if we are in arrears on the Series A Preferred Stock dividends to the Treasury.

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

The dividends on the Series A Preferred Stock will reduce the net income available to common shareholders and our earnings per common share. The Series A Preferred Stock will also receive preferential treatment in the event of liquidation, dissolution or winding up of the Company. Additionally, the ownership interest of the existing holders of our common stock will be diluted to the extent the warrant we issued to the Treasury ("Warrant") in conjunction with the sale to the Treasury of the Series A Preferred Stock is exercised. The shares of common stock underlying the Warrant represent approximately 8.8% of the shares of our common stock outstanding as of December 31, 2010 (including the shares issuable upon exercise of the Warrant in total shares outstanding). Although the Treasury has agreed not to vote any of the shares of common stock it receives upon exercise of the Warrant, a transferee of any portion of the Warrant or of any shares of common stock acquired upon exercise of the Warrant is not bound by this restriction.

The 9% Convertible Subordinated Debentures also impacts the net income available to our common shareholders and if converted may be dilutive to holders of our Common Stock.

On August 9, 2010, CWBC sold $8,085,000 of 9% Convertible Subordinated Debentures due in 2020 ("Debentures") in a public offering in the principal amount of $1,000. The payment of the interest on the Debentures will reduce the net income available to our common shareholders and our earnings per share. The Debentures are convertible into CWBC Common Stock at $3.50 per share, if converted on or before July 1, 2013; at $4.50 per share if converted during the period from July 2, 2013 to July 1, 2016; and, at $6.00 per share if converted during the period from July 2, 2016 to August 9, 2020. If the Debentures are converted at a price that is less than book value per share, the holders of our common stock will be diluted and the ownership interest of the existing holders of our common stock who do not convert may also be diluted.

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ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

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

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

ITEM 3. LEGAL PROCEEDINGS

The Company is involved in various litigation matters of a routine nature that are being handled and defended in the ordinary course of the Company's business. In the opinion of Management, based in part on consultation with legal counsel, the resolution of these litigation matters will not have a material impact on the Company's financial position or results of operations. There are no pending legal proceedings to which the Company or any of its directors, officers, employees or affiliates, or any principal security holder of the Company or any associate of any of the foregoing, is a party or has an interest adverse to the Company, or of which any of the Company's properties are subject.

ITEM 4. REMOVED AND RESERVED

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PART II

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

Market Information, Holders and Dividends

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

	2010 Quarters				2009 Quarters			
	Fourth	Third	Second	First	Fourth	Third	Second	First
Stock Price Range:								
High	$3.80	$3.70	$3.65	$3.15	$3.25	$2.83	$3.15	$4.02
Low	2.87	2.34	2.36	2.75	2.26	1.49	2.00	1.59
Common Dividends								
Declared	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00

As of March 23, 2011 the year to date high and low stock sales prices were $4.95 and $3.59, respectively. As of March 23, 2011, the last reported sale price per share for the Company's common stock was $4.40.

As of March 23, 2011, the Company had 314 stockholders of record of its common stock.

Preferred Stock Dividends

On December 19, 2008, as part of TARP-CPP, in exchange for an aggregate purchase price of $15,600,000, the Company issued 15,600 shares of Fixed Rate Cumulative Perpetual Preferred Stock, Series A, no par value, with a liquidation preference of $1,000 per share which pays cumulative dividends at a rate of 5% per year for the first five years and 9% per year thereafter. The Series A Preferred Stock has no maturity date and ranks senior to the common stock with respect to the payment of dividends and distributions. Preferred dividends are paid quarterly in accordance with the terms of the Series A Preferred Stock. During 2010, the Company recorded $780,000 for dividends and $267,000 in amortization of the discount on preferred stock, for a total of $1,047,000 in Series A Preferred Stock dividends. Actual Series A Preferred Stock dividends paid was $780,000 in 2010 and $706,000 in 2009. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Capital Resources – TARP-CPP."

Common Stock Dividends

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

Repurchases of Securities

The Company did not repurchase any of its securities during 2010 and does not currently have any publicly announced repurchase plan. The Company's ability to repurchase shares of its common stock is subject to prior approval of the FRB and the Treasury pursuant to the agreements the Company entered into in connection with its participation in the TARP-CCP.

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Securities Authorized for Issuance under Equity Compensation Plans

The following table summarizes the securities authorized for issuance as of December 31, 2010:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Plans approved by shareholders	428,685	$ 7.15	297,850
Plans not approved by shareholders			
Total	428,685	$ 7.15	297,850

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ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data have been derived from the Company's consolidated financial condition and results of operations, as of and for the years ended December 31, 2010, 2009, 2008, 2007 and 2006, and should be read in conjunction with the consolidated financial statements and the related notes included elsewhere in this report.

	Year Ended December 31,				
	2010	2009	2008	2007	2006
INCOME STATEMENT:	(in thousands, except per share data and ratios)				
Interest income	$39,234	$40,903	$45,532	$46,841	$39,303
Interest expense	9,957	14,945	22,223	22,834	16,804
Net interest income	29,277	25,958	23,309	24,007	22,499
Provision for loan losses	8,743	18,678	5,264	1,297	489
Net interest income after provision for loan losses	20,534	7,280	18,045	22,710	22,010
Non-interest income	4,015	4,418	5,081	4,845	5,972
Non-interest expenses	20,991	21,479	20,516	21,000	18,832
Income (loss) before income taxes	3,558	(9,781)	2,610	6,555	9,150
Provision (benefit) for income taxes	1,467	(4,018)	1,129	2,766	3,822
NET INCOME (LOSS)	$2,091	$(5,763)	$1,481	$3,789	$5,328
Preferred stock dividends	1,047	1,046	35	-	-
NET INCOME (LOSS) APPLICABLE TO COMMON STOCKHOLDERS	$1,044	$(6,809)	$1,446	$3,789	$5,328
PER COMMON SHARE DATA:					
Income (loss) per share – Basic	$0.18	$(1.15)	$0.24	$0.65	$0.92
Weighted average shares used in income per share calculation – Basic	5,915	5,915	5,913	5,862	5,785
Income (loss) per share – Diluted	$0.18	$(1.15)	$0.24	$0.63	$.89
Weighted average shares used in income per share calculation – Diluted	6,833	5,915	5,941	6,022	6,001
Book value per share	$7.92	$7.74	$8.84	$8.51	$8.05
BALANCE SHEET:					
Net loans	$580,632	$603,440	$581,075	$539,165	$451,572
Total assets	667,604	684,216	656,981	609,850	516,615
Total deposits	529,893	531,392	475,439	433,739	368,747
Total liabilities	605,962	623,909	590,363	559,691	469,795
Total stockholders' equity	61,642	60,307	66,618	50,159	46,820
OPERATING AND CAPITAL RATIOS:					
Return on average equity	3.42%	(9.24)%	2.85%	7.72%	11.88%
Return on average assets	0.31	(0.85)	0.23	0.67	1.12
Dividend payout ratio	-	-	49.07	36.92	24.97
Equity to assets ratio	9.23	8.81	10.14	8.22	9.06
Tier 1 leverage ratio	9.08	8.81	10.28	8.39	9.21
Tier 1 risk-based capital ratio	11.40	10.93	12.45	9.87	10.57
Total risk-based capital ratio	14.16	12.20	13.70	10.74	11.45

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

The following discussion is designed to provide insight into management's assessment of significant trends related to the consolidated financial condition, results of operations, liquidity, capital resources and interest rate risk for Community West Bancshares ("CWBC") and its wholly-owned subsidiary, Community West Bank ("CWB" or "Bank"). Unless otherwise stated, "Company" refers to CWBC and CWB as a consolidated entity. The following discussion should be read in conjunction with the Company's Consolidated Financial Statements and Notes thereto and the other financial information appearing elsewhere in this 2010 Annual Report on Form 10-K.

Forward-Looking Statements

This 2010 Annual Report on Form 10-K contains statements that constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Those forward-looking statements include statements regarding the intent, belief or current expectations of the Company and its management. Any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and actual results may differ materially from those projected in the forward-looking statements.

Overview of Earnings Performance

Net income applicable to common shareholders of the Company was $1.0 million, or $0.18 per basic and diluted common share, for 2010 compared to net loss applicable to common shareholders of $6.8 million, or $(1.15) per basic and diluted common share for 2009. The Company's earnings performance was impacted in 2010 by:

§ The provision for loan losses declined to $8.7 million for 2010 compared to $18.7 million for 2009. Net charge-offs declined from $12.3 million to $9.2 million.

§ An increase in net interest income of $3.3 million, or 12.8%, from $26.0 million for 2009 to $29.3 million for 2010.

§ The increase in net interest income primarily resulted from an improvement in the margin from 3.91% for 2009 to 4.5% for 2010.

§ A slight decline in yields on interest-earning assets was more than offset by the reduction in rates paid on deposits and other borrowings which were 1.73% for 2010 compared to 2.60% for 2009.

§ Cost of deposits declined from 2.24% for 2009 to 1.41% for 2010.

§ Non-interest expense declined slightly to $21.0 million for 2010 from $21.5 million for 2009.

The impact to the Company from these items, and others of both a positive and negative nature, will be discussed in more detail as they pertain to the Company's overall comparative performance for the year ended December 31, 2010 throughout the analysis sections of this Annual Report.

Critical Accounting Policies

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

Provision and Allowance for Loan Losses – The Company maintains a detailed, systematic analysis and procedural discipline to determine the amount of the allowance for loan losses ("ALL"). The ALL is based on estimates and is intended to be adequate to provide for probable losses inherent in the loan portfolio. This process involves deriving probable loss estimates that are based on migration analysis/historical loss rates and qualitative factors that are based on management's judgment. The migration analysis and historical loss rate calculations are based upon the annualized loss rates utilizing a twelve quarter loss history. Migration analysis is utilized for the Commercial Real Estate, Commercial and SBA portfolio segments. The historical loss rate method is utilized for the homogeneous loan segments which include Manufactured Housing, HELOC's, Single Family Residential and Consumer loans. The migration analysis takes into account the risk rating of loans that are charged off in each loan segment. In loan segments that historic loss rates are utilized, management increases the reserve requirement for Special Mention and Substandard loans. Loans that are considered doubtful are typically charged off.

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Foreclosed Real Estate and Repossessed Assets – Foreclosed real estate and repossessed assets 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 evaluates its servicing rights for impairment quarterly. Servicing rights are evaluated for impairment based upon the fair value of the rights as compared to amortized cost. Fair value is determined using discounted future cash flows calculated on a loan-by-loan basis and aggregated by predominated risk characteristics. The initial servicing rights and resulting gain on sale are calculated based on the difference between the best actual par and premium bids on an individual loan basis.

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

In January 2010, FASB issued a final Accounting Standards Update, ASU 2010-06, that requires entities to provide new disclosures about fair value measurements including transfers between Level 1 and Level 2, reasons for transfers out of Level 3 and a reconciliation of Level 3 including purchases, sales, issuances and settlements on a gross basis. The update also amends ASC 820 to clarify certain existing disclosure requirements pertaining to each class of assets and liabilities. This amendment is effective for annual reporting periods beginning after December 15, 2009, and for interim periods therein. Adoption of ASU 2010-06 did not have a material impact on the Company's financial condition, results of operations or cash flows.

In July 2010, FASB issued a final Accounting Standards Update, ASU 2010-20, that requires entities to provide extensive new disclosures in their financial statements about their financial receivables, including credit risk exposures and allowance for credit losses. The ASU requires new qualitative and quantitative disclosures on the allowance for credit losses, credit quality, impaired loans, modifications and nonaccrual and past due financing receivables. Generally, the update is effective for interim or annual reporting periods ending after December 15, 2010. Certain elements of the ASU regarding disclosures for troubled debt restructuring have been deferred and will be effective for periods ending on or after June 15, 2011. Adoption of ASU 2010-20 did not have a material impact on the Company's financial condition, results of operations or cash flows.

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Changes in Interest Income and Interest Expense

The Company primarily earns income from the management of its financial assets and from charging fees for services it provides. The Company's income from managing assets consists of the difference between the interest income received from its loan portfolio and investments and the interest expense paid on its funding sources, primarily interest paid on deposits. This difference or spread is net interest income. The amount by which interest income will exceed interest expense depends on the volume or balance of interest-earning assets compared to the volume or balance of interest-bearing deposits and liabilities and the interest rate earned on those interest-earning assets compared to the interest rate paid on those interest-bearing liabilities.

Net interest income, when expressed as a percentage of average total interest-earning assets, is referred to as net interest margin on interest-earning assets. The Company's net interest income is affected by the change in the level and the mix of interest-earning assets and interest-bearing liabilities, referred to as volume changes. The Company's net yield on interest-earning assets is also affected by changes in the yields earned on assets and rates paid on liabilities, referred to as rate changes. Interest rates charged on the Company's loans are affected principally by the demand for such loans, the supply of money available for lending purposes, competitive factors and general economic conditions such as federal economic policies, legislative tax policies and governmental budgetary matters. To maintain its net interest margin, the Company must manage the relationship between interest earned and paid.

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

	Year Ended December 31,			
	2010 vs. 2009		2009 vs. 2008	
	Amount of Increase (decrease)	Percent of Increase (decrease)	Amount of Increase (decrease)	Percent of Increase (decrease)
INTEREST INCOME	(dollars in thousands)			
Loans	$(1,285)	(3.3)%	$(3,987)	(9.3)%
Investment securities	(338)	(19.4)%	(439)	(20.1)%
Other	(46)	(66.7)%	(203)	(74.6)%
Total interest income	(1,669)	(4.1)%	(4,629)	(10.2)%
INTEREST EXPENSE				
Deposits	(3,643)	(32.4)%	(5,985)	(34.7)%
Other borrowings and convertible debentures	(1,345)	(36.3)%	(1,293)	(25.9)%
Total interest expense	(4,988)	(33.4)%	(7,278)	(32.7)%
NET INTEREST INCOME	3,319	12.8%	2,649	11.4%
Provision for loan losses	(9,935)	(53.2)%	13,414	254.8%
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	13,254	182.1%	(10,765)	(59.7)%
NON-INTEREST INCOME				
Other loan fees	72	3.8%	(211)	(10.0)%
Gains from loan sales, net	104	28.7%	(655)	(64.3)%
Document processing fees, net	(259)	(32.3)%	85	11.8%
Loan servicing fees, net	(445)	(57.6)%	285	58.4%
Service charges	75	16.4%	22	5.1%
Other	50	38.5%	(189)	(59.2)%
Total non-interest income	(403)	(9.1)%	(663)	(13.0)%
NON-INTEREST EXPENSES				
Salaries and employee benefits	(73)	(0.6)%	(1,494)	(11.2)%
Occupancy and equipment expenses	(107)	(5.1)%	(229)	(9.8)%
FDIC assessment	(386)	(24.2)%	1,227	332.5%
Professional services	(84)	(9.3)%	113	14.3%
Advertising and marketing	(43)	(12.5)%	(77)	(18.3)%
Depreciation	(66)	(13.4)%	(27)	(5.2)%
Loss on sale and write-down of foreclosed real estate and repossessed assets	536	87.2%	615	-
Data processing	(83)	(13.4)%	79	14.6%
Other	(182)	(6.3)%	756	35.2%
Total non-interest expenses	(488)	(2.3)%	963	4.7%
Income (loss) before provision for income taxes	13,339		(12,391)	
Provision (benefit) for income taxes	5,485		(5,147)	
NET INCOME (LOSS)	$7,854		$(7,244)	
Preferred stock dividends	1		1,011	
NET INCOME (LOSS) APPLICABLE TO COMMON STOCKHOLDERS	$7,853		$(8,255)	

Comparison of 2010 to 2009

Net interest income increased by $3.3 million, or 12.8%, for 2010 compared to 2009.

Total interest income declined by $1.7 million, or 4.1%, from $40.9 million in 2009 to $39.2 million in 2010. Of this decline, $1.3 million was due to a decline in yields on interest-earning assets, which declined from 6.17% for 2009 to 6.03% for 2010. The remaining decline resulted from the decline in the average balance of interest-earning assets from $663.2 million for 2009 to $650.4 million for 2010.

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The decline in interest income was more than offset by the reduction of interest expense from $14.9 million for 2009 to $10.0 million for 2010. Of this decline, $4.2 million resulted from lower rates paid on deposits and borrowings. Rates on interest-bearing deposits declined from 2.42% for 2009 to 1.52% for 2010. Overall, rates on deposits and borrowings were 1.73% for 2010 compared to 2.60% for 2009.

The combination of the decline in rates paid on deposits and borrowings and the decline in yields on interest-earning assets resulted in a margin improvement of 0.59% from 3.91% for 2009 to 4.50% for 2010.

Comparison of 2009 to 2008

Net interest income increased by $2.6 million, or 11.4%, for 2009 compared to 2008.

Total interest income declined by $4.6 million, or 10.2%, from $45.5 million in 2008 to $40.9 million in 2009. Of this decline, $6.7 million was due to changes in rates and is reflective of the targeted fed funds rate range of 0.00% to 0.25% following 400 to 425 basis point reduction in the targeted Fed funds rate between December 2007 and December 2008. The $6.7 million decline was offset by $2.0 million increase in interest income due to the growth of interest-earning assets. Average loan balances increased by $36.9 million for 2009 compared to 2008. Yields on interest-earning assets declined to 6.17% for 2009 compared to 7.27% for 2008.

Total interest expense decreased by $7.3 million, or 32.7%, in 2009 compared to 2008. Resulting from lower rates paid on deposits and borrowings, interest expense on deposits declined $6.0 million while the interest expense on other borrowings declined $1.3 million. Rates paid on interest-bearing liabilities declined to 2.60% for 2009 from 4.05% for 2008.

The combination of the decline in rates paid on deposits and borrowings and the decline in yields on interest-earning assets resulted in a margin improvement of 0.19% from 3.72% for 2008 to 3.91% for 2009.

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

	Year Ended December 31,					
	2010 versus 2009			2009 versus 2008		
	Total change	Change due to Rate	Change due to Volume	Total change	Change due to Rate	Change due to Volume
	(in thousands)					
Interest-earning deposits in other financial institutions (including time deposits)	$(14)	$-	$(14)	$(4)	$(7)	$3
Federal funds sold	(32)	(4)	(28)	(199)	(196)	(3)
Investment securities	(338)	(318)	(20)	(439)	(467)	28
Loans, net	(1,285)	(1,012)	(273)	(3,987)	(6,001)	2,014
Total interest-earning assets	(1,669)	(1,334)	(335)	(4,629)	(6,671)	2,042
Interest-bearing demand	1,000	(515)	1,515	976	(108)	1,084
Savings	(4)	(65)	61	(56)	(105)	49
Time certificates of deposit	(4,639)	(3,308)	(1,331)	(6,905)	(5,879)	(1,026)
Other borrowings	(1,345)	(303)	(1,042)	(1,293)	(1,348)	55
Total interest-bearing liabilities	(4,988)	(4,191)	(797)	(7,278)	(7,440)	162
Net interest income	$3,319	$2,857	$462	$2,649	$769	$1,880

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

	Year Ended December 31, 2010	2009	2008
	(dollars in thousands)		
Interest income	$39,234	$40,903	$45,532
Interest expense	9,957	14,945	22,223
Net interest income	$29,277	$25,958	$23,309
Net interest margin	4.50 %	3.91 %	3.72 %

Provision for Loan Losses

The provision for loan losses declined $9.9 million to $8.7 million for 2010 compared to $18.7 million for 2009.

The following schedule summarizes the provision, charge-offs and recoveries by loan segment for the year ended December 31, 2010:

	Allowance 12/31/09	Provision	Charge-offs (in thousands)	Recoveries	Net Charge-offs	Allowance 12/31/10
Commercial real estate	$2,843	$873	$ (1,192)	$8	$ (1,184)	$2,532
Manufactured housing	2,255	4,072	(2,202)	43	(2,159)	4,168
Commercial	3,448	(398)	(1,055)	99	(956)	2,094
SBA	4,837	3,184	(4,628)	360	(4,268)	3,753
Single family real estate	143	172	(186)	6	(180)	135
HELOC	124	873	(458)	8	(450)	547
Consumer	83	(33)	(1)	24	23	73
Total	$13,733	$8,743	$ (9,722)	$548	$ (9,174)	$13,302

The following schedule summarizes the provision, charge-offs and recoveries for the year ended December 31, 2009 by loan category:

	Allowance 12/31/08	Provision	Charge-offs (in thousands)	Recoveries	Net Charge-offs	Allowance 12/31/09
Commercial real estate	$1,470	$3,345	$ (1,972)	$-	$ (1,972)	$2,843
Manufactured housing	1,659	2,170	(1,574)	-	(1,574)	2,255
Commercial	1,428	5,584	(3,609)	45	(3,564)	3,448
SBA	2,556	7,189	(5,004)	96	(4,908)	4,837
Single family real estate	113	184	(161)	7	(154)	143
HELOC	104	20	-	-	-	124
Consumer	11	186	(117)	3	(114)	83
Total	$7,341	$18,678	$ (12,437)	$151	$ (12,286)	$13,733

The commercial and commercial real estate portfolios have relatively stabilized and have seen declines in net charge-offs of $2.6 million and $788,000, respectively. The SBA portfolio continues to face challenges, but, has also seen a decline in net charge-offs of $640,000. Charge-offs in manufactured housing increased from $1.6 million for

2009 to $2.2 million for 2010, which is approximately 1.1% of the year-end loan balance of $194.7 million.

Included in the Company's held-to-maturity portfolio is home equity loans, "HELOC", which guidance issued by the SEC characterizes as higher-risk. The HELOC portfolio of $20.3 million consists of credits secured by residential real estate in Santa Barbara and Ventura counties. In 2010, the net charge-offs in this portfolio were $450,000. As of December 31, 2010, $2,000 of the portfolio is past due and $31,000 is on non-accrual status. The allowance for loan losses for this portfolio is $547,000, or 2.7%. The Company believes that, overall, this portfolio is adequately supported by real estate collateral.

The percentage of net non-accrual loans to the total loan portfolio has declined to 2.13% as of December 31, 2010 from 2.62% at December 31, 2009. The allowance for loan losses compared to net non-accrual loans has increased to 105% as of December 31, 2010 from 85% as of December 31, 2009.

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Non-Interest Income

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

Non-interest income	Year Ended December 31, 2010	2009	2008
		(in thousands)	
Other loan fees	$1,965	$1,893	$2,104
Gains from loan sales, net	467	363	1,018
Document processing fees, net	544	803	718
Loan servicing fees, net	328	773	488
Service charges	531	456	434
Other	180	130	319
Total non-interest income	$4,015	$4,418	$5,081

Comparison of 2010 to 2009

Non-interest income declined by $403,000 to $4.0 million for 2010 compared to $4.4 million for 2009, primarily due to the decline in loan servicing fees. No SBA loans were sold in 2010 and servicing income has declined as the principle balance of loans on which servicing is earned pay down. The amortization of the servicing asset and adjustments to the valuation of the interest only strip were higher in 2010 by $250,000, also contributing to a reduction in servicing income.

Comparison of 2009 to 2008

Non-interest income declined by $663,000 to $4.4 million for 2009 compared to $5.1 million for 2008. Gain on loan sales declined $655,000 for 2009 compared to 2008. No SBA loans were sold in 2009 compared to $19.7 million guaranteed loans sales in 2008. Other loan fees have declined $211,000, primarily related to lower referral fees received on SBA 504 loans. Partly offsetting these declines was an increase of $285,000 in loan servicing.

Non-Interest Expenses

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

Non-interest expenses	Year Ended December 31, 2010	2009	2008
		(in thousands)	
Salaries and employee benefits	$11,823	$11,896	$13,390
Occupancy and equipment expenses	2,005	2,112	2,341
FDIC assessment	1,210	1,596	369
Professional services	817	901	788
Advertising and marketing	301	344	421
Depreciation	425	491	518
Loss on sale and write-down of foreclosed real estate and repossessed assets	1,151	615	-
Data processing	537	620	541
Other	2,722	2,904	2,148
Total non-interest expenses	$20,991	$21,479	$20,516

Comparison of 2010 to 2009

Non-interest expenses declined $488,000, to $21.0 million for 2010 from $21.5 million for 2009. Expenses declined in all categories except for the loss on sale and write-down of foreclosed real estate and repossessed assets. The FDIC assessment declined in 2010 by $386,000 in comparison to 2009 which was subject to a special assessment in June 2009 of $306,000. The loss on sale and write-down of foreclosed real estate and repossessed assets increased $536,000 primarily due to losses and write-downs of manufactured housing properties.

Comparison of 2009 to 2008

Non-interest expenses increased $963,000, from $20.5 million for 2008 to $21.5 million for 2009. The FDIC assessment increased $1.2 million due to higher rates and a special assessment in June 2009 of $306,000 and loss on the sale of foreclosed real estate and repossessed assets increased $615,000. Other expenses increased $756,000, primarily due to an increase in the reserve on undisbursed loans of $380,000, and higher collection and foreclosed asset related expenses of $346,000. Partly offsetting these increases was a reduction in salaries and employee benefits of $1.5 million, primarily resulting from the discontinuation of SBA lending east of the Rocky Mountains as of April 1, 2009. Occupancy expense also declined $229,000 for 2009 compared to 2008.

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The following table compares the various elements of non-interest expenses as a percentage of average assets and the efficiency ratio which is the ratio of non-interest expense to the total of net interest income and non-interest income:

Year Ended December 31, (dollars in thousands)	Average Assets	Total Non-Interest Expenses	Salaries and Employee Benefits	Occupancy and Depreciation Expenses	Efficiency Ratio
2010	$676,776	3.10 %	1.75 %	0.36 %	63 %
2009	$675,672	3.18 %	1.76 %	0.39 %	71 %
2008	$640,993	3.20 %	2.09 %	0.45 %	72 %

Income Taxes

The provision for income taxes was $1.5 million for 2010 compared to benefit for income tax of $4.0 million in 2009 and a provision of $1.1 million in 2008. The effective income tax rate was 41.2%, 41.1%, and 43.3% for 2010, 2009 and 2008, respectively. See Note 12, “Income Taxes”, in the notes to the Consolidated Financial Statements.

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Schedule of Average Assets, Liabilities and Stockholders' Equity

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

	December 31,					
	2010		2009		2008	
	Amount	%	Amount	%	Amount	%
ASSETS			(dollars in thousands)			
Cash and due from banks	$11,748	1.7 %	$4,949	0.7 %	$4,419	0.7 %
Time and interest-earning deposits in other financial institutions	607	0.1 %	1,081	0.2 %	997	0.2 %
Federal funds sold	1,748	0.3 %	10,751	1.6 %	11,488	1.8 %
Investment securities available-for-sale	19,776	2.9 %	14,178	2.1 %	6,889	1.1 %
Investment securities held-to-maturity	18,435	2.7 %	24,619	3.6 %	31,319	4.9 %
Federal Reserve Bank & Federal Home Loan Bank stock	6,741	1.0 %	6,781	1.0 %	6,634	1.0 %
Loans held for sale, net	90,560	13.4 %	100,823	14.9 %	120,339	18.7 %
Loans held for investment, net	499,018	73.7 %	493,016	73.0 %	442,908	69.1 %
Servicing rights	875	0.1 %	1,086	0.2 %	1,161	0.2 %
Foreclosed real estate and repossessed assets	4,745	0.7 %	2,496	0.4 %	540	0.1 %
Premises and equipment, net	3,103	0.5 %	3,506	0.5 %	3,814	0.6 %
Other assets	19,420	2.9 %	12,386	1.8 %	10,485	1.6 %
TOTAL ASSETS	$676,776	100.0 %	$675,672	100.0 %	$640,993	100.0 %
LIABILITIES						
Deposits:						
Non-interest-bearing demand	$39,025	5.8 %	$37,408	5.5 %	$35,618	5.5 %
Interest-bearing demand	232,540	34.3 %	119,923	17.8 %	58,893	9.2 %
Savings	19,452	2.9 %	16,807	2.5 %	14,989	2.3 %
Time certificates of $100,000 or more	173,860	25.7 %	149,291	22.1 %	88,385	13.8 %
Other time certificates	72,576	10.7 %	178,744	26.4 %	278,510	43.5 %
Total deposits	537,453	79.4 %	502,173	74.3 %	476,395	74.3 %
Other borrowings	76,138	11.3 %	109,767	16.3 %	108,141	16.9 %
Other liabilities	2,053	0.3 %	1,379	0.2 %	4,562	0.7 %
Total liabilities	615,644	91.0 %	613,319	90.8 %	589,098	91.9 %
STOCKHOLDERS' EQUITY						
Preferred stock	14,668	2.2 %	14,407	2.1 %	464	0.1 %
Common stock	33,121	4.9 %	33,097	4.9 %	31,808	4.9 %
Retained earnings	13,161	1.9 %	14,763	2.2 %	19,630	3.1 %
Accumulated other comprehensive income (loss)	182	-	86	-	(7)	-
Total stockholders' equity	61,132	9.0 %	62,353	9.2 %	51,895	8.1 %
	$676,776	100.0 %	$675,672	100.0 %	$640,993	100.0 %

TOTAL LIABILITIES AND
STOCKHOLDERS' EQUITY

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Interest Rates and Differentials

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

	Year Ended December 31,					
Interest-earning assets:	2010		2009		2008	
	(dollars in thousands)					
Time and interest-earning deposits in other financial institutions:						
Average outstanding	$607		$1,081		$997	
Interest income	18		32		36	
Average yield	3.00	%	2.95	%	3.66	%
Federal funds sold:						
Average outstanding	$1,748		$10,751		$11,488	
Interest income	5		37		236	
Average yield	0.31	%	0.34	%	2.05	%
Investment securities:						
Average outstanding	$44,952		$45,578		$44,841	
Interest income	1,402		1,740		2,179	
Average yield	3.12	%	3.82	%	4.86	%
Gross loans:						
Average outstanding	$603,141		$605,741		$568,861	
Interest income	37,809		39,094		43,081	
Average yield	6.27	%	6.45	%	7.57	%
Total interest-earning assets:						
Average outstanding	$650,448		$663,151		$626,187	
Interest income	39,234		40,903		45,532	
Average yield	6.03	%	6.17	%	7.27	%
Interest-bearing liabilities:						
Interest-bearing demand deposits:						
Average outstanding	$232,540		$119,923		$58,893	
Interest expense	3,130		2,130		1,153	
Average effective rate	1.35	%	1.78	%	1.96	%
Savings deposits:						
Average outstanding	$19,452		$16,807		$14,989	
Interest expense	447		451		507	
Average effective rate	2.30	%	2.68	%	3.39	%
Time certificates of deposit:						
Average outstanding	$246,436		$328,035		$366,895	
Interest expense	4,020		8,659		15,565	
Average effective rate	1.63	%	2.64	%	4.24	%
Other borrowings:						
Average outstanding	$72,926		$109,767		$108,141	
Interest expense	2,071		3,705		4,998	
Average effective rate	2.84	%	3.38	%	4.62	%
Convertible debentures:						

Average outstanding	$3,212		-		-	
Interest expense	289		-		-	
Average effective rate	9.00	%	-		-	
Total interest-bearing liabilities:						
Average outstanding	$574,566		$574,532		$548,918	
Interest expense	9,957		14,945		22,223	
Average effective rate	1.73	%	2.60	%	4.05	%
Net interest income	$29,277		$25,958		$23,309	
Net interest spread	4.30	%	3.57	%	3.22	%
Average net margin	4.50	%	3.91	%	3.72	%

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

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Loan Portfolio

The Company's largest categories of loans held in the portfolio are commercial, commercial real estate and construction, SBA and manufactured housing loans. Loans are carried at face amount, net of payments collected, the allowance for loan loss and deferred loan fees/costs. Interest on all loans is accrued daily, primarily on a simple interest basis. For all loan segments, the accrual of interest is discontinued when substantial doubt exists as to collectability of the loan, generally at the time the loan is 90 days delinquent, unless the credit is well secured and in process of collection. Any unpaid but accrued interest is reversed at that time. Thereafter, interest income is no longer recognized on the loan. Interest on non-accrual loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all of the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

The rates charged on variable rate loans are set at specific increments. These increments vary in relation to the Company's published prime lending rate or other appropriate indices. At December 31, 2010 and 2009, approximately 68.4% and 64.6%, respectively, of the Company's loan portfolio was comprised of variable interest rate loans. Management monitors the maturity of loans and the sensitivity of loans to changes in interest rates.

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

	December 31,									
	2010		2009		2008		2007		2006	
In Years	(in thousands)									
	Fixed	Variable	Fixed	Variable	Fixed	Variable	Fixed	Variable	Fixed	V
Less than One	$20,542	$62,708	$20,571	$81,132	$16,405	$78,005	$16,445	$83,356	$16,442	$7
One to Five	85,103	121,569	87,062	130,364	87,034	82,298	79,549	67,549	65,083	5
Over Five	81,915	222,363	111,243	187,200	137,632	187,525	129,335	167,878	103,242	1
Total	$187,560	$406,640	$218,876	$398,696	$241,071	$347,828	$225,329	$318,783	$184,767	$2
	31.6 %	68.4 %	35.4 %	64.6 %	40.9 %	59.1 %	41.4 %	58.6 %	40.5 %	5

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Distribution of Loans

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

	December 31,				
	2010	2009	2008	2007	2006
	(dollars in thousands)				
	Loan Balance	Loan Balance	Loan Balance	Loan Balance	Loan Balance
Commercial	$57,369	$61,810	$74,895	$72,470	$53,725
Commercial real estate	173,906	180,688	160,540	158,670	152,113
SBA	129,004	139,541	132,707	116,963	84,911
Manufactured housing	194,682	195,656	190,838	172,938	142,804
Single family real estate	13,722	14,793	9,765	11,482	12,343
HELOC	20,273	17,902	15,191	8,969	7,247
Consumer	379	286	602	1,058	1,054
Mortgage loans held for sale	4,865	6,896	4,361	1,562	2,146
Gross Loans	594,200	617,572	588,899	544,112	456,343
Less:					
Allowance for loan losses	13,302	13,733	7,341	4,412	3,926
Deferred fees/costs	(195)	(228)	(326)	(48)	43
Discount on SBA loans	461	627	809	583	802
Net Loans	$580,632	$603,440	$581,075	$539,165	$451,572
Percentage to Gross Loans:					
Commercial	9.6%	10.0%	12.7%	13.3%	11.8%
Commercial real estate	29.3%	29.2%	27.3%	29.1%	33.3%
SBA	21.7%	22.6%	22.5%	21.5%	18.6%
Manufactured housing	32.8%	31.7%	32.4%	31.8%	31.3%
Single family real estate	2.3%	2.4%	1.7%	2.1%	2.7%
HELOC	3.4%	2.9%	2.6%	1.7%	1.6%
Consumer	0.1%	0.1%	0.1%	0.2%	0.2%
Mortgage loans held for sale	0.8%	1.1%	0.7%	0.3%	0.5%
	100.0%	100.0%	100.0%	100.0%	100.0%

Commercial Loans

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

Commercial Real Estate

Commercial real estate and construction loans are primarily made for the purpose of purchasing, improving or constructing single-family residences, commercial or industrial properties. This loan segment also includes SBA 504 loans and loans made on land.

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

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

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

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SBA Loans

The SBA loans consist of 7(a) and Business and Industry loans ("B&I"). The 7(a) loan proceeds are used for working capital, machinery and equipment purchases, land and building purposes, leasehold improvements and debt refinancing. In general, the SBA guarantees up to 85% of the loan amount depending on loan size. Under the SBA 7(a) loan program, the Company is required to retain a minimum of 5% of the principal balance of each loan it sells into the secondary market.

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

CWB made the decision to discontinue as of April 1, 2009 SBA lending east of the Rocky Mountains.

Single Family Real Estate Loans

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

Manufactured Housing Loans

The mortgage loan division originates loans secured by manufactured homes located in mobile home parks along the California coast and in the Sacramento area. The loans are serviced internally and are originated under one of two programs: fixed rate loans written for terms of 7 to 15 years with balloon payments ranging from 7 to 15 years; adjustable rate loans written for a term of 30 years with the initial interest rates fixed for the first five years and then adjusting annually subject to caps and floors.

HELOC

The Bank provides lines of credit collateralized by residential real estate, home equity lines of credit (HELOC), for consumer related purposes. Typically, HELOCs will be collateralized by a second deed of trust.

Other Installment Loans

Installment loans consist of automobile and general-purpose loans made to individuals. These loans are primarily fixed rate.

Off-Balance Sheet Arrangements

The Bank has various "off-balance sheet" arrangements that might have an impact on its financial condition, liquidity or result of operations. The Bank's primary source of funds for its lending is its deposits. If necessary to meet the demand of deposit withdrawals or loan fundings, the Bank could obtain funding through federal funds lines of credit, advances from the Federal Home Loan Bank ("FHLB"), Fed discount window borrowing or issuance of deposits through brokers. The Bank has continuous lines of credit with correspondent banks providing for federal funds lines of credit up to a maximum of $23.5 million. Of the $23.5 million in borrowing capacity, two of the lines for a total of $10.0 million require the Company to furnish acceptable collateral. The Bank has availability under agreements with the Fed discount window and the FHLB for additional borrowing capacity of $119.0 million and $56.8 million, respectively, at December 31, 2010. There were no borrowings outstanding on the federal funds facilities at December 31, 2010 or from the Fed discount window. As of December 31, 2010, the Bank had advances from the FHLB in the amount of $64.0 million.

At December 31, 2010, the Bank had outstanding commitments to fund existing loans of approximately $27.2 million pursuant to credit availability terms in the loan agreements, including standby letters of credit of $552,000. Because these commitments generally have fixed expiration dates and many will expire without being drawn upon, the total commitment level does not necessarily represent future cash requirements. If needed to fund these outstanding commitments, the Bank has the ability to liquidate federal funds sold or securities available-for-sale or, on a short-term basis, to borrow and purchase federal funds from other financial institutions, to obtain advances from the FHLB or the Fed discount window and to issue new certificates of deposit through the money desk or brokers.

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

	December 31,				
	2010	2009	2008	2007	2006
	(in thousands)				
Commercial	$14,956	$16,065	$17,940	$21,612	$24,431
Commercial real estate	3,420	6,595	4,376	8,649	18,839
SBA	815	1,133	6,526	9,453	5,508
HELOC	7,383	7,992	8,333	10,503	9,658
Consumer	40	4	-	-	4
Standby letters of credit	552	543	552	518	847
Total commitments	$27,166	$32,332	$37,727	$50,735	$59,287

Loan Concentrations

The Company makes loans to borrowers in a number of different industries. Loans collateralized by manufactured housing comprise over 10% of the Company's loan portfolio. This concentration is somewhat mitigated by the fact that the portfolio consists of over 1,900 individual borrowers with diverse income sources. Commercial, commercial real estate, construction and SBA loans also comprised over 10% of the Company's loan portfolio as of December 31, 2010 and 2009. The Bank analyzes these concentrations on a quarterly basis and reports the risk related to concentrations to the Board of Directors. Management believes the systems in place coupled with the diversity of the portfolios are adequate to mitigate concentration risk.

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Allowance for Loan Losses

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

	Year Ended December 31,				
	2010	2009	2008	2007	2006
			(in thousands)		
Average gross loans, held for investment,	$512,581	$504,918	$448,522	$401,036	$348,161
Gross loans at end of year, held for investment	511,614	514,599	456,630	433,162	379,703
Allowance for loan losses, beginning of year	$13,733	$7,341	$4,412	$3,926	$3,954
Loans charged off:					
Commercial (including SBA)	5,683	8,613	1,499	775	459
Commercial real estate	1,192	1,972	263	-	-
Manufactured housing	2,202	1,574	298	-	-
HELOC	458	-	-	-	-
Consumer	1	117	27	-	-
Single family real estate	186	161	372	142	341
Total	9,722	12,437	2,459	917	800
Recoveries of loans previously charged off					
Commercial (including SBA)	459	141	106	45	93
Commercial real estate	8	-	-	-	-
Manufactured housing	43	-	2	-	-
HELOC	8	-	-	-	-
Consumer	24	3	-	-	-
Single family real estate	6	7	16	61	190
Total	548	151	124	106	283
Net loans charged off	9,174	12,286	2,335	811	517
Provision for loan losses	8,743	18,678	5,264	1,297	489
Allowance for loan losses, end of year	$13,302	$13,733	$7,341	$4,412	$3,926
Ratios:					
Net loan charge-offs to average loans	1.79 %	2.43 %	0.52 %	0.20 %	0.15 %
Net loan charge-offs to loans at end of period	1.79 %	2.39 %	0.51 %	0.19 %	0.14 %
Allowance for loan losses to loans held for investment at end of period	2.60 %	2.67 %	1.61 %	1.02 %	1.03 %
Net loan charge-offs to allowance for loan losses at beginning of period	66.80 %	167.36 %	52.92 %	20.66 %	13.08 %
Net loan charge-offs to provision for loan losses	104.92 %	65.78 %	44.36 %	62.53 %	105.73 %

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The following table summarizes the allowance for loan losses:

	December 31,									
	2010		2009		2008		2007		2006	
	(dollars in thousands)									
Balance at end of period applicable to:	Amount	Percent of loans in each category to total loans	Amount	Percent of loans in each category to total loans	Amount	Percent of loans in each category to total loans	Amount	Percent of loans in each category to total loans	Amount	Percent of loans in each category to total loans
SBA	$3,753	21.7 %	$4,837	22.6 %	$2,556	28.4 %	$1,810	26.3 %	$1,365	22.6 %
Manufactured housing	4,168	32.8 %	2,255	31.7 %	1,659	32.4 %	610	31.8 %	786	31.3 %
All other loans	5,381	45.5 %	6,641	45.7 %	3,126	39.2 %	1,992	41.9 %	1,775	46.1 %
Total	$13,302	100.0 %	$13,733	100.0 %	$7,341	100.0 %	$4,412	100.0 %	$3,926	100.0 %

Total allowance for loan losses ("ALL") declined by $431,000 from December 31, 2009 to December 31, 2010.

In management's opinion, the balance of the allowance for loan losses was sufficient to absorb known and inherent probable losses in the portfolio as of December 31, 2010.

Nonaccrual, Past Due and Restructured Loans

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

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

	Year Ended December 31,				
	2010	2009	2008	2007	2006
	(in thousands)				
Impaired loans without specific valuation allowances	$13,285	$13,699	$8,043	$7,509	$754
Impaired loans with specific valuation allowances	1,703	716	523	8,992	4,454
Specific valuation allowance related to impaired loans	(362)	(622)	(151)	(966)	(641)
Impaired loans, net	$14,626	$13,793	$8,415	$15,535	$4,567

Average investment in impaired loans	$15,591	$9,058	$9,612	$9,386	$4,074

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

	Year Ended December 31,				
	2010	2009	2008	2007	2006
			(in thousands)		
Nonaccrual loans	$34,950	$40,265	$28,821	$15,341	$7,417
SBA guaranteed portion of loans included above	(22,279)	(24,088)	(11,918)	(5,695)	(4,256)
Nonaccrual loans, net	$12,671	$16,177	$16,903	$9,646	$3,161
Troubled debt restructured loans	$11,088	$7,013	$5,408	$7,255	$68
Loans 30 through 90 days past due with interest accruing	$2,586	$17,686	$11,974	$18,898	$2,463
Interest income recognized on impaired loans	$381	$426	$12	$691	$242
Interest foregone on nonaccrual loans and troubled debt restructured loans outstanding	2,344	2,109	1,707	904	488
Gross interest income on impaired and nonaccrual loans	$2,725	$2,535	$1,719	$1,595	$730

The accrual of interest is discontinued when substantial doubt exists as to collectability of the loan; generally at the time the loan is 90 days delinquent. Any unpaid but accrued interest is reversed at that time. Thereafter, interest income is no longer recognized on the loan. Interest income may be recognized on impaired loans to the extent they are not past due by 90 days. Interest on nonaccrual loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all of the principal and interest amounts contractually due are brought current and future payments are reasonably assured. Total net nonaccrual loans declined by $3.5 million from 2009 to 2010.

Total net impaired loans increased by $833,000 as of December 31, 2010 compared to December 31, 2009.

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

Foreclosed Real Estate and Repossessed Assets

The following is a summary of activity in foreclosed real estate and repossessed assets:

	Year Ended December 31,		
	2010	2009	2008
		(in thousands)	
Balance, beginning of year	$1,822	$1,146	$150
Transfers to foreclosed real estate and repossessed assets	11,438	5,107	1,886
Proceeds from sale of foreclosed real estate and repossessed assets	(3,631)	(3,816)	(1,095)
(Losses) gains on sale of foreclosed real estate and repossessed assets	(1,151)	(615)	205
Balance, end of year	$8,478	$1,822	$1,146

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Investment Portfolio

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

	2010	December 31, 2009	2008
Available-for-sale securities		(in thousands)	
U.S. Government agency: MBS	$5,678	$10,461	$5,284
U.S. Government agency: CMO	17,664	7,209	1,499
Total	$23,342	$17,670	$6,783

	2010	December 31, 2009	2008
Held-to-maturity securities		(in thousands	
U.S. Government agency: MBS	$16,893	$22,678	$25,750
U.S. Government agency: CMO	-	-	5,442
Total	$16,893	$22,678	$31,192

At December 31, 2010, $40.2 million at carrying value was pledged to the Federal Home Loan Bank, San Francisco, as collateral for current and future advances.

The maturity periods and weighted average yields of investment securities at December 31, 2010 are as follows:

	Total Amount			Less than One Year			One to Five Years			Five to Ten Years		
	Amount	Yield		Amount	Yield		Amount	Yield		Amount	Yield	
					(dollars in thousands)							
Available-for-sale securities												
U. S. Government:	$5,678	2.4	%	$-	-		$4,731	2.4	%	$947	2.3	%
Agency: CMO	17,664	0.8	%	1,718	0.9	%	14,015	0.8	%	1,931	0.8	%
Total	$23,342	1.2	%	$1,718	0.9	%	$18,746	1.2	%	$2,878	1.3	%
Held-to-maturity securities												
U.S. Government:												
Agency: MBS	$16,893	4.4	%	$62	5.0	%	$9,603	4.7	%	$7,228	4.0	%
Agency: CMO	-	-		-	-		-	-		-		
Total	$16,893	4.4	%	$62	5.0	%	$9,603	4.7	%	$7,228	4.0	%

Capital Resources

The Federal Deposit Insurance Corporation Improvement Act ("FDICIA") contains rules as to the legal and regulatory environment for insured depository institutions, including reductions in insurance coverage for certain kinds of deposits, increased supervision by the federal regulatory agencies, increased reporting requirements for insured institutions and new regulations concerning internal controls, accounting and operations.

The prompt corrective action regulations of FDICIA define specific capital categories based on the institutions' capital ratios. The capital categories, in declining order, are "well capitalized", "adequately capitalized", "undercapitalized", "significantly undercapitalized" and "critically undercapitalized". To be considered "well capitalized", an institution must have a core capital ratio of at least 5% and a total risk-based capital ratio of at least 10%. Additionally, FDICIA imposed in 1994 a new Tier I risk-based capital ratio of at least 6% to be considered "well capitalized". Tier I risk-based capital is, primarily, preferred stock, common stock and retained earnings, net of goodwill and other intangible assets.

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

(dollars in thousands)	Total Capital	Tier 1 Capital	Risk-Weighted Assets	Adjusted Average Assets	Total Risk-Based Capital Ratio	Tier 1 Risk-Based Capital Ratio	Tier 1 Leverage Ratio
				(dollars in thousands)			
December 31, 2010							
CWBC (Consolidated)	$ 76,283	$ 61,385	$ 538,685	$ 676,397	14.16 %	11.40 %	9.08 %
Capital in excess of well capitalized					$ 22,415	$ 29,064	$ 27,565
CWB	$ 69,308	$ 62,494	$ 538,463	$ 676,127	12.87 %	11.61 %	9.24 %
Capital in excess of well capitalized					$ 15,462	$ 30,186	$ 28,688
December 31, 2009							
CWBC (Consolidated)	$ 66,984	$ 60,029	$ 549,207	$ 681,101	12.20 %	10.93 %	8.81 %
Capital in excess of well capitalized					$ 12,063	$ 27,077	$ 25,974
CWB	$ 66,175	$ 59,219	$ 549,240	$ 681,129	12.05 %	10.78 %	8.69 %
Capital in excess of well capitalized					$ 11,251	$ 26,265	$ 25,163
Well capitalized ratios					10.00 %	6.00 %	5.00 %
Minimum capital ratios					8.00 %	4.00 %	4.00 %

Convertible Debentures

On August 9, 2010, the Company announced the completion of its previously announced offering of $8,085,000 convertible subordinated debentures. The debentures pay interest at 9% until conversion, redemption or maturity and will mature on August 9, 2020. The debentures may be redeemed by the Company after January 1, 2014. Prior to maturity or redemption, the debentures can be converted into common stock at the election of the holder at $3.50 per share if converted on or prior to July 1, 2013, $4.50 per share between July 2, 2013 and July 1, 2016 and $6.00 per share from July 2, 2016 until maturity or redemption. At December 31, 2010, the balance of the convertible debentures was $8,081,000.

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 with the Treasury, pursuant to which the Company issued to the Treasury, in exchange for an aggregate purchase price of $15.6 million in cash: (i) 15,600 shares of the Company's Fixed Rate Cumulative Perpetual Preferred Stock, Series A, no par value, having a liquidation preference of $1,000 per share (Series A Preferred Stock), and (ii) a warrant (Warrant) to purchase up to 521,158 shares of the Company's common stock, no par value, at an exercise price of $4.49 per share.

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

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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.

Liquidity Management

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

The Company maintains strategic liquidity and contingency plans. The 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.

The Company has a blanket lien credit line with the FHLB. Advances are collateralized in the aggregate by CWB's eligible mortgage loans, securities of the U.S Government and its agencies and certain other loans. The outstanding advances at December 31, 2010 were $64.0 million borrowed at fixed rates. At December 31, 2010, CWB had pledged to FHLB, securities of $40.2 million at carrying value and loans of $76.6 million, and had $56.8 million available for additional borrowing. At December 31, 2009, CWB had $92.3 million of loans and $40.3 million of securities pledged as collateral and outstanding advances of $68.0 million.

CWB also has established a credit line with the FRB. Advances are collateralized in the aggregate by eligible loans. There were no advances outstanding as of December 31, 2010 and unused borrowing capacity was $119 million.

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

The Company has not experienced disintermediation and does not believe this is a likely occurrence, although there is significant competition for core deposits. The liquidity ratio of the Company was 17% at December 31, 2010 compared to 18% at December 31, 2009. The Company's liquidity ratio fluctuates in conjunction with loan funding demands. The liquidity ratio consists of cash and due from banks, deposits in other financial institutions, available for sale investments, federal funds sold and loans held for sale, divided by total assets.

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

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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 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 can sell a portion of its SBA loan originations. While the Company has some interest rate exposure in excess of five years, it has internal policy limits designed to minimize risk should interest rates rise. Currently, the Company does not use derivative instruments to help manage risk, but will consider such instruments in the future if the perceived need should arise.

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

Deposits

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

	Year Ended December 31,		
	2010	2009	2008

	Average Balance	Percent of Total		Average Balance	Percent of Total		Average Balance	Percent of Total	
				(dollars in thousands)					
Noninterest-bearing demand	$39,025	7.3	%	$37,408	7.5	%	$35,618	7.5	%
Interest-bearing demand	232,540	43.3	%	119,923	23.9	%	58,893	12.4	%
Savings	19,452	3.6	%	16,807	3.3	%	14,989	3.1	%
TCD’s of $100,000 or more	173,860	32.3	%	174,786	34.8	%	88,385	18.5	%
Other TCD’s	72,576	13.5	%	153,249	30.5	%	278,510	58.5	%
Total Deposits	$537,453	100.0	%	$502,173	100.0	%	$476,395	100.0	%

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

	December 31,			
	2010		2009	
	TCD's over $100,000	Other TCD's	TCD's over $100,000	Other TCD's
	(in thousands)			
Less than three months	$40,958	$17,469	$44,736	$53,639
Over three months through six months	20,098	9,003	30,569	29,392
Over six months through twelve months	29,248	9,191	36,042	13,042
Over twelve months through five years	72,813	12,544	62,247	15,721
Total	$163,117	$48,207	$173,594	$111,794

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

The Company manages its money desk and obtains brokered deposits in accordance with its liquidity and strategic planning. The Company can use the money desk or obtain broker deposits when necessary in a short time frame.

Contractual Obligations

The Company has contractual obligations that include long-term debt, deposits, operating leases and purchase obligations for service providers. The following table is a summary of those obligations at December 31, 2010:

	Total	< 1 Year	1-3 Years	3-5 Years	Over 5 Years
			(in thousands)		
Other borrowing	$72,081	$8,000	$22,000	$34,000	$8,081
Time certificates of deposits	211,324	125,967	60,019	25,338	-
Operating lease obligations	2,706	1,104	858	512	232
Purchase obligations for service providers	1,996	540	900	556	-
Total	$288,107	$135,611	$83,777	$60,406	$8,313

SUPERVISION AND REGULATION

Introduction

Banking is a complex, highly regulated industry. The primary goals of the regulatory scheme are to maintain a safe and sound banking system, protect depositors and the Federal Deposition Insurance Corporation's insurance fund, and facilitate the conduct of sound monetary policy. In furtherance of these goals, Congress and the states have created several largely autonomous regulatory agencies and enacted numerous laws that govern banks, bank holding companies and the financial services industry. Consequently, the growth and earnings performance of CWBC and CWB can be affected not only by management decisions and general economic conditions, but also by the requirements of applicable state and federal statues, regulations and the policies of various governmental regulatory authorities, including the Board of Governors of the Federal Reserve System (FRB), the Office of the Comptroller of the Currency (OCC), and Federal Deposit Insurance Corporation (FDIC).

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

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

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CWBC

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

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

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

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

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

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

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

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

§ making or acquiring loans or other extensions of credit for its own account or for the account of others

§ servicing loans and other extensions of credit;

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

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

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

- the customer must obtain or provide some additional credit, property or services from or to CWB other than a loan, discount, deposit or trust services:
- the customer must obtain or provide some additional credit, property or service from or to CWBC or any subsidiaries; or
- the customer must not obtain some other credit, property or services from competitors, except reasonable requirements to assure soundness of credit extended

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

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

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

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

§ assets (exclusive of goodwill and other intangible assets) would be 1.25 times its liabilities (exclusive of deferred taxes, deferred income and other deferred credits); and

§ current assets would be at least equal to current liabilities.

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

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

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

- the creation of an independent accounting oversight board;
- auditor independence provisions that restrict non-audit services that accountants may provide to their audit clients;
- additional corporate governance and responsibility measures, including the requirement that the chief executive officer and chief financial officer of a public company certify financial statements;
- the forfeiture of bonuses or other incentive-based compensation and profits from the sale of an issuer's securities by directors and senior officers in the twelve month period following initial publication of any financial statements that later require restatement;
- an increase in the oversight of, and enhancement of certain requirements relating to, audit committees of public companies and how they interact with CWBC's independent auditors;
- requirements that audit committee members must be independent and are barred from accepting consulting, advisory or other compensatory fees from the issuer;
- requirements that companies disclose whether at least one member of the audit committee is a "financial expert' (as such term is defined by the SEC) and if not discussed, why the audit committee does not have a financial expert;
- expanded disclosure requirements for corporate insiders, including accelerated reporting of stock transactions by insiders and a prohibition on insider trading during pension blackout periods;
- a prohibition on personal loans to directors and officers, except certain loans made by insured financial institutions on non-preferential terms and in compliance with other bank regulatory requirements;
- disclosure of a code of ethics and filing a Form 8-K for a change or waiver of such code;
- a range of enhanced penalties for fraud and other violations; and
- expanded disclosure and certification relating to an issuer's disclosure controls and procedures and internal controls over financial reporting.

As a result of the SOX, and its regulations, CWBC has incurred substantial cost to interpret and ensure compliance with the law and its regulations including, without limitation, increased expenditures by CWBC in auditors' fees, attorneys' fees, outside advisors fees, and increased errors and omissions insurance premium costs. The requirement for management to assess the effectiveness of internal controls over financial reporting has been extended by the SEC for non-accelerated filers, such as CWBC, and will become effective for fiscal years ending on or after June 15, 2010. CWBC believes that the foregoing legislation will have minimal further effect on the business of CWBC although there will be increased external audit costs of compliance. Future changes in the laws, regulation, or policies that impact CWBC cannot necessarily be predicted and may have a material effect on the business and earnings of CWBC.

CWB

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

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

	Adequately Capitalized		Well Capitalized		CWB		CWBC (consolidated)	
	(greater than or equal to)							
Total risk-based capital	8.00	%	10.00	%	12.87	%	14.16	%
Tier 1 risk-based capital ratio	4.00	%	6.00	%	11.61	%	11.40	%
Tier 1 leverage capital ratio	4.00	%	5.00	%	9.24	%	9.08	%

As of December 31, 2010, management believes that CWBC's capital levels met all minimum regulatory requirements and that CWB was considered "well capitalized" under the regulatory framework for prompt corrective action.

Prompt Corrective Action. The federal banking agencies possess broad powers to take prompt corrective action to resolve the problems of insured banks. Each federal banking agency has issued regulations defining five capital categories: "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized," and "critical undercapitalized." Under the regulations, a bank shall be deemed to be:

§ "well capitalized" if it has a total risk-based capital ratio of 10% or more, has a Tier 1 risk-based capital ratio of 6% or more, has a leverage capital ratio of 5% or more and is not subject to specified requirements to meet and maintain a specific capital level for any capital measure;
§ "adequately capitalized" if it has a total risk-based capital ratio of 8% or more, a Tier 1 risk-based capital ratio of 4% or more and a leverage capital ratio of 4% or more (3% under certain circumstances) and does not meet the definition of "well capitalized";
§ "undercapitalized" if it has a total risk-based capital ratio that is less than 8%, a Tier 1 risk-based capital ratio that is less than 4%, or a leverage capital ratio that is less than 4% (3% under certain circumstances)
§ "significantly undercapitalized" if it has a total risk-based capital ratio that is less than 6%, a Tier 1 risk-based capital ratio that is less than 3% or a leverage capital ratio that is less than 3%; and
§ "critically undercapitalized" if it has a ratio of tangible equity to total assets that is equal to or less than 2%

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

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

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

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

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

FDIC Insurance and Insurance Assessments.

As a result of the Federal Deposit Insurance Reform Act of 2006 (the “FDI Reform Act”) and regulations adopted by the FDIC effective as of November 2, 2007: (i) the BIF and the SAIF have been merged into the Deposit Insurance Fund (the “DIF”); (ii) the $100,000 insurance level has been indexed to reflect inflation (the first adjustment for inflation will be effective January 1, 2011 and thereafter adjustments will occur every 5 years); (iii) deposit insurance coverage for retirement accounts has been increased to $250,000, and will also be subject to adjustment every five years; (iv) banks that historically have capitalized the BIF are entitled to a one-time credit that can be used to off-set premiums otherwise due (this addresses the fact that institutions that have grown rapidly have not had to pay deposit premiums); (v) a cap on the level of the DIF has been imposed and dividends will be paid when the DIF grows beyond a specified threshold; and (vi) the previous risk-based system for assessing premiums has been revised. On October 3, 2008, the $100,000 insurance level was raised temporarily to $250,000. Effective July 21, 2010, the Dodd-Frank Act made permanent the increase in the deposit insurance level to $250,000 retroactive to January 1, 2008 and continued unlimited FDIC insurance for noninterest-bearing demand deposits through December 31, 2013.

Under the Federal Deposit Insurance Act, the FDIC, absent extraordinary circumstances, must establish and implement a plan to restore the deposit insurance reserve ratio to 1.15% of insured deposits at any time that the reserve ratio falls below 1.15%. Recent bank failures coupled with deteriorating economic conditions have significantly reduced the deposit insurance fund’s reserve ratio. The FDIC expects insured institution failures to peak in 2010 which will result in continued charges against the Deposit Insurance Fund, and they have implemented a restoration plan that changes both its risk-based assessment system and its base assessment rates. As part of this plan, the FDIC imposed a special assessment in 2009. The recently enacted Dodd-Frank Act provides for a new minimum reserve ratio of not less than 1.35% of estimated insured deposits and requires that the FDIC take steps necessary to attain this 1.35% ratio by September 30, 2010; however, the Dodd-Frank Act exempts institutions with assets of less than $10 billion, like CWB, from the cost of this increase. It is generally expected that assessment rates will continue to increase in the near term due to the significant cost of bank failures, the relatively large number of troubled banks, and the requirement that the FDIC increase the reserve ratio. Any increase in assessments will adversely impact future earnings of CWB.

On October 16, 2008, in response to the problems facing the financial markets and the economy, the FDIC published a restoration plan (the “Restoration Plan”) designed to replenish the DIF such that the reserve ratio would return to 1.15% within five years. On December 16, 2008, the FDIC adopted a final rule increasing risk-based assessment rates uniformly by seven basis points, on an annual basis, for the first quarter of 2009. On February 27, 2009, the FDIC concluded that the problems facing the financial services sector and the economy at large constituted extraordinary circumstances and amended the Restoration Plan and extended the time within which the reserve ratio would return to

1.15% from five to seven years (the “Amended Restoration Plan”). In May 2009, Congress amended the statutory provision governing establishment and implementation of a Restoration Plan to allow the FDIC eight years to bring the reserve ratio back to 1.15%, absent extraordinary circumstances.

In a final rule issued on September 29, 2009, the FDIC amended the Amended Restoration Plan as follows:

- The period of the Amended Restoration Plan was extended from seven to eight years.
- The FDIC announced that it will not impose any further special assessments under the final rule it adopted in May 2009.

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- The FDIC announced plans to maintain assessment rates at their current levels through the end of 2010. The FDIC also immediately adopted a uniform three basis point increase in assessment rates effective January 1, 2011 to ensure that the DIF returns to 1.15% within the Amended Restoration Plan period of eight years.

- The FDIC announced that, at least semi-annually following the adoption of the Amended Restoration Plan, it will update its loss and income projections for the DIF. The FDIC also announced that it may, if necessary, adopt a new rule prior to the end of the eight-year period to increase assessment rates to return the reserve ratio to 1.15%.

The recently enacted Dodd-Frank Act has set a new minimum reserve ratio of not less than 1.35% of estimated insured deposits and requires the FDIC to take steps necessary to attain the 1.35% ratio by September 30, 2020. However, financial institutions like CWB with assets of less than $10 billion are exempt from the cost of this increase.

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

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

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

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

On February 27, 2009, the FDIC adopted final rules modifying the risk-based assessment system and setting initial base assessment rates beginning April 1, 2009. Under these new rules, risk assessments for small Risk Category I institutions and large Risk Category I institutions with no long-term debt rating include a consideration of such institution’s adjusted brokered deposit ratio. The new rules also revised the method for calculating the assessment rate for a large Risk Category I institution with a long-term debt issuer rating so that it equally weights the institution's weighted average CAMELS component ratings, its long-term debt issuer ratings and the financial ratios method assessment rate. the new rules set forth three possible adjustments to an institution's initial base assessment rate: (i) a decrease of up to five basis points for long-term unsecured debt, including senior unsecured debt (other than debt guaranteed under the Temporary Liquidity Guarantee Program) and subordinated debt and, for small institutions, a portion of Tier 1 capital; (ii) an increase not to exceed 50 percent of an institution's assessment rate before the increase for secured liabilities in excess of 25 percent of domestic deposits; and (ii) for non-Risk Category I institutions, an increase not to exceed 10 basis points for brokered deposits in excess of 10 percent of domestic deposits.

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Under these new rules, the FDIC adopted new initial base assessment rates as of December 20, 2010, as follows, expressed in terms of cents per $100 in insured deposits:

Initial Base Assessment Rates

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

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

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

Total Base Assessment Rates

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

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

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

Effective November 21, 2008 and until December 31, 2009, the FDIC expanded deposit insurance limits for certain accounts under the FDIC's TLGP. Provided an institution has not opted out of the TLGP, the FDIC may (i) guarantee, through the earlier of maturity or June 30, 2012, certain newly issued senior unsecured debt issued by participating institutions on or after October 14, 2008 and before June 30, 2009 (which was subsequently extended to October 31, 2009) and (ii) provide full FDIC deposit insurance coverage for noninterest-bearing transaction deposit accounts, Negotiable Order of Withdrawal ("NOW") accounts paying less than 0.5% interest per annum and Interest on Lawyers Trust Accounts (IOLTAs) held at participating FDIC-insured institutions through December 31, 2009 (subsequently extended to December 31, 2010). Coverage under the TLGP was available for the first 30 days without charge. The fee assessment for coverage of senior unsecured debt ranges from 50 basis points to 100 basis points per annum, depending on the initial maturity of the debt. The fee assessment for deposit insurance coverage is 10 basis points per quarter on amounts in covered accounts exceeding $250,000. On June 29, 2010, the FDIC extended the Transaction Account Guarantee Program of the TLGP to December 31, 2010. CWB has not opted out of the TLGP.

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Community Reinvestment Act. The CRA is intended to encourage insured depository institutions, while operating safely and soundly, to help meet the credit needs of their communities. The CRA specifically directs the federal bank regulatory agencies, in examining insured depository institutions, to assess their record of helping to meet the credit needs of their entire community, including low- and moderate-income neighborhoods, consistent with safe and sound banking practices. The CRA further requires the agencies to take a financial institution's record of meeting its community credit needs into account when evaluating applications for, among other things, domestic branches, consummating mergers or acquisitions or holding company formations.

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

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

Environmental Regulation. Federal, state and local laws and regulations regarding the discharge of harmful materials into the environment may have an impact on CWB. Since CWB is not involved in any business that manufactures, uses or transports chemicals, waste, pollutants or toxins that might have a material adverse effect on the environment, CWB’s primary exposure to environmental laws is through its lending activities and through properties or businesses CWB may own, lease or acquire. Based on a general survey of CWB’s loan portfolio, conversations with local appraisers and the type of lending currently and historically done by CWB, management is not aware of any potential liability for hazardous waste contamination that would be reasonably likely to have a material adverse effect on CWBC as of December 31, 2010.

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

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

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

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

Recent Regulatory Developments. In light of current conditions in the global financial markets and the global economy, regulators have increased their focus on the regulation of the financial services industry. Proposals for legislation that could substantially intensify the regulation of the financial services industry are expected to be introduced in the U.S. Congress and in state legislatures. The agencies regulating the financial services industry also frequently adopt changes to their regulations. Substantial regulatory and legislative initiatives, including a comprehensive overhaul of the regulatory system in the U.S., are possible in the months or years ahead. Any such action could have a materially adverse effect on our business, financial condition and results of operations.

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Beginning in late 2008 and continuing throughout 2009, there was an unprecedented number of government initiatives designed to respond to economic stresses. In response to the financial crises affecting the banking system and financial markets generally and going concern threats to investment banks and other financial institutions, the Emergency Economic Stabilization Act of 2008, or EESA)was signed into law on October 3, 2008. Pursuant to EESA, the Treasury was given the authority to, among other things, purchase up to $700 billion of mortgages, mortgage-backed securities and certain other financial instruments from financial institutions for the purpose of stabilizing and providing liquidity to the U.S. financial markets. Pursuant to EESA, Treasury established the Troubled Asset Relief Program, or TARP, and has since injected capital into many financial institutions under the TARP Capital Purchase Program, or TARP-CPP.

On December 19, 2008, CWBC entered into a Securities Purchase Agreement–Standard Terms with the Treasury pursuant to which, among other things, CWBC sold preferred stock and warrants to the Treasury for an aggregate purchase price of $15.6 million. Under the terms of the TARP-CPP, CWBC is prohibited from increasing dividends on its common stock, and from making certain repurchases of equity securities, including its common stock, without the Treasury's consent. Furthermore, as long as the preferred stock issued to the Treasury is outstanding, dividend payments and repurchases or redemptions relating to certain equity securities, including CWBC's common stock, are prohibited until all accrued and unpaid dividends are paid on such preferred stock, subject to certain limited exceptions.

On February 10, 2009, Treasury announced the Financial Stability Plan, or FSP, which, among other things, established a new Capital Assistance Program ("CAP") through which eligible banking institutions will have access to Treasury capital as a bridge to private capital until market conditions normalize, and extended the Debt Guarantee Program of the FDIC's Temporary Liquidity Guarantee Program ("TLGP") to October 31, 2009 pursuant to which the FDIC fully guaranteed certain newly issued senior unsecured debt and provided full FDIC deposit insurance coverage for certain accounts, including noninterest-bearing transaction deposit accounts. The FSP also extended the Transaction Account Guarantee Program of the TLGP to June 30, 2010. As a complement to CAP, a new Public-Private Investment Fund on an initial scale of up to $500 billion, with the potential to expand up to $1 trillion, was announced to catalyze the removal of legacy assets from the balance sheets of financial institutions. This proposed fund will combine public and private capital with government financing to help free up capital to support new lending. In addition, the existing Term Asset-Backed Securities Lending Facility ("TALF") would be expanded (up to $1 trillion) to reduce credit spreads and restart the securitized credit markets that in recent years supported a substantial portion of lending to households, students, small businesses, and others. Furthermore, the FSP proposed a new framework of governance and oversight to help ensure that banks receiving funds are held responsible for appropriate use of those funds through stronger conditions on lending, dividends and executive compensation along with enhanced reporting to the public.

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

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

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

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

It is impossible to predict what effect the enactment of certain of the above-mentioned legislation will have on CWB. Moreover, in light of current conditions in the global financial markets and the global economy, legislators and banking regulators have increased their focus on the financial services industry. Proposals for legislation that could substantially intensify the regulation of the financial services industry are expected to be introduced in the U.S. Congress and in state legislatures. The agencies regulating the financial services industry also adopt changes to their regulations. Substantial regulatory and legislative initiatives, including a comprehensive overhaul of the regulatory system in the U.S., are possible in the months or years ahead. Any such action could have a materially adverse effect on the business, financial condition and results of operations of CWB and, in turn, CWBC.

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ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

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

To mitigate the impact of changes in interest rates on the Company's interest-earning assets and interest-bearing liabilities, the Company actively manages the amounts and maturities. The Company sells substantially all of its mortgage products and a portion of its SBA loan originations. While the Company has some assets and liabilities in excess of five years, it has internal policy limits designed to minimize risk should interest rates rise. Currently, the Company does not use derivative instruments to help manage risk, but will consider such instruments in the future if the perceived need should arise.

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

Interest Rate Sensitivity	200 bp increase		200 bp decrease	
	2010	2009	2010	2009
	(dollars in thousands)			
Anticipated impact over the next twelve months:				
Net interest income (NII)	$ 693	$ 263	$ -	$ -
	2.3 %	0.9 %	-	-
Economic value of equity (EVE)	$ (7,172)	$ (12,744)	$ -	$ -
	(11.5 %)	(19.1 %)	-	-

As of December 31, 2010, the Fed Funds target rate was between 0.0% and 0.25% and the prime rate was 3.25%. In the present rate environment, a 200 basis point decrease was not considered in the December 31, 2010 and December 31, 2009 interest rate sensitivity analysis.

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

ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

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ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of Community West Bancshares

We have audited the accompanying consolidated balance sheets of Community West Bancshares and subsidiary (the Company) as of December 31, 2010 and 2009, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2010. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Community West Bancshares and subsidiary at December 31, 2010 and 2009, and the consolidated results of their operations and their cash flows for each of three years in the period ended December 31, 2010, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

Los Angeles, California
March 25, 2011

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COMMUNITY WEST BANCSHARES
CONSOLIDATED BALANCE SHEETS

	December 31, 2010	December 31, 2009
	(dollars in thousands)	
ASSETS		
Cash and due from banks	$6,201	$4,906
Federal funds sold	25	605
Cash and cash equivalents	6,226	5,511
Time deposits in other financial institutions	290	640
Investment securities available-for-sale, at fair value; amortized cost of $23,038 at December 31, 2010 and $17,367 at December 31, 2009	23,342	17,670
Investment securities held-to-maturity, at amortized cost; fair value of $17,514 at December 31, 2010 and $23,538 at December 31, 2009	16,893	22,678
Federal Home Loan Bank stock, at cost	5,031	5,660
Federal Reserve Bank stock, at cost	1,322	1,322
Loans:		
Held for sale, at lower of cost or fair value	82,320	102,574
Held for investment, net of allowance for loan losses of $13,302 at December 31, 2010 and $13,733 at December 31, 2009	498,312	500,866
Total loans	580,632	603,440
Servicing rights	782	998
Foreclosed real estate and repossessed assets	8,478	1,822
Premises and equipment, net	2,915	3,279
Other assets	21,693	21,196
TOTAL ASSETS	$667,604	$684,216
LIABILITIES		
Deposits:		
Non-interest-bearing demand	$35,767	$37,703
Interest-bearing demand	262,431	191,905
Savings	20,371	16,396
Time certificates	211,324	285,388
Total deposits	529,893	531,392
Other borrowings	64,000	89,000
Convertible debentures	8,081	-
Other liabilities	3,988	3,517
Total liabilities	605,962	623,909
Commitments and contingencies-See Note 17		
STOCKHOLDERS' EQUITY		
Preferred stock, no par value; 10,000,000 shares authorized; 15,600 shares issued and outstanding	14,807	14,540
Common stock, no par value; 10,000,000 shares authorized; 5,916,272 shares issued and outstanding at December 31, 2010 and 5,915,130 at December 31, 2009	33,133	33,110
Retained earnings	13,523	12,479
Accumulated other comprehensive income	179	178
Total stockholders' equity	61,642	60,307
TOTAL LIABILITIES AND STOCKHOLDERS’ EQUITY	$667,604	$684,216

See accompanying notes.

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COMMUNITY WEST BANCSHARES
CONSOLIDATED INCOME STATEMENTS

	Year Ended December 31,		
	2010	2009	2008
	(in thousands, except per share data)		
INTEREST INCOME			
Loans	$37,809	$39,094	$43,081
Investment securities	1,402	1,740	2,179
Other	23	69	272
Total interest income	39,234	40,903	45,532
INTEREST EXPENSE			
Deposits	7,597	11,240	17,225
Other borrowings and convertible debentures	2,360	3,705	4,998
Total interest expense	9,957	14,945	22,223
NET INTEREST INCOME	29,277	25,958	23,309
Provision for loan losses	8,743	18,678	5,264
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	20,534	7,280	18,045
NON-INTEREST INCOME			
Other loan fees	1,965	1,893	2,104
Gains from loan sales, net	467	363	1,018
Document processing fees, net	544	803	718
Service charges	531	456	434
Loan servicing fees, net	328	773	488
Other	180	130	319
Total non-interest income	4,015	4,418	5,081
NON-INTEREST EXPENSES			
Salaries and employee benefits	11,823	11,896	13,390
Occupancy and equipment expenses	2,005	2,112	2,341