COMMUNITY WEST BANCSHARES /
Form 10-K
March 17, 2014

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, 2013
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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x 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. o

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 was $21,888,169 based on the June 30, 2013 closing price of $4.72 per common share, 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 4, 2014, 8,179,591 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 2014 Annual Meeting of Shareholders to be held on or about May 22, 2014 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, 2013.

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PART I

Forward-Looking Statements

Certain statements contained in this Annual Report on Form 10-K ("Form 10K") are "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. The Company intends such forward-looking statements be covered by the safe harbor provisions for forward-looking statements. All statements other than statements of historical fact are "forward-looking statements" for purposes of Federal and State securities laws, including statements that related to or are dependent on estimates or assumptions relating to expectations, beliefs, projections, future plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts.

The forward-looking statements contained in this Form 10K reflect our current views about future events and financial performance and involve certain risks, uncertainties, assumptions and changes in circumstances that may cause our actual results to differ significantly from historical results and those expressed in any forward-looking statement, including those risks discussed under the heading "Risk Factors" in this Form 10K. Risks and uncertainties include those set forth in our filings with the Securities and Exchange Commission and the following factors that could cause actual results to differ materially from those presented: 1) reserve for credit losses may not be adequate to cover actual loan losses; 2) all of our lending involves underwriting risks; 3) dependency on real estate and events that negatively impact real estate; 4) future regulatory reforms from legislation will continue to impact on our business; 5) curtailment of government guaranteed loan programs could affect a segment of our business; 6) dependence on low-cost deposits; 7) ability to borrow from Federal Home Loan Bank ("FHLB") or Federal Reserve Bank ("FRB"); 8) risk associated with changes in internal controls and processes; 9) our ability to compete in a highly competitive market; 10) our ability to recruit and retain qualified employees, especially seasoned relationship bankers; 11) the effects of terrorist attacks or threats of war; 12) perpetration of internal fraud; 13) risk of operating in a highly regulated industry and our ability to remain in compliance; 14) the effects of interest rates and interest rate policy; 15) exposure to environmental liabilities related to the properties we acquire title; 16) cyber security risks; and 24) risks related to ownership of our common stock and ability to raise capital.

For more information regarding risks that may cause our actual results to differ materially from any forward-looking statements, see "Risk Factors" beginning on page 5. Forward-looking statements speak only as of the date they are made, the Company does not undertake any obligations to update forward-looking statements to reflect circumstances and or events that occur after the date the forward-looking statements are made.

Purpose

The following discussion is designed to provide insight on the financial condition and results of operations of Community West Bancshares and its wholly owned subsidiary Community West Bank ("CWB"). Unless otherwise stated, "the Company" or "CWBC" refers to this consolidated entity. This discussion should be read in conjunction with the Company's Consolidated Financial Statements and notes to the Consolidated Financial Statements for the years ended December 31, 2013 and 2012, herein referred to as the "Consolidated Financial Statements". These Consolidated Financial Statements are presented beginning on page 50 of this Form 10-K.

ITEM 1. BUSINESS

GENERAL

Community West Bancshares ("CWBC"), incorporated under the laws of the state of California, is a bank holding company providing full service banking through its wholly-owned subsidiary Community West Bank, N.A. ("CWB" or the "Bank"). These entities are collectively referred to herein as the "Company".

PRODUCTS AND SERVICES

Through its wholly owned bank, the Company provides a variety of financial products and services to customers including lending and deposit products. The Company has primarily focused on meeting the needs of professionals, small to mid-sized businesses and individual households.

Relationship Banking

Relationship banking is conducted at the community level through five full-service branch offices in the cities of Goleta, Santa Barbara, Santa Maria, Ventura and Westlake Village, California. The primary customers are small to mid-sized businesses in these communities and their owners and managers.

Through CWB the Company provides a variety of financial products and services to customers. These products and services include deposit products such as checking accounts, savings accounts, money market accounts and fixed rate, fixed maturity certificates of deposits and lending products including; commercial, commercial real estate and consumer loans.

The competition in our markets is strong. The Company has historically been successful due to its focus on high quality customer service and our experienced relationship bankers who have strong relationships within the communities we serve.

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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 ("SBA 7(a)") and the Certified Development Company ("CDC"), a Section 504 ("504") program.

The SBA 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 typically variable interest rate loans.

The 504 program is an economic development-financing program providing long-term, low down payment 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.

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.

The SBA has designated CWB as a "Preferred Lender". As a Preferred Lender, CWB has been delegated the loan approval, closing and most servicing and liquidation authority responsibility from the SBA.

Agricultural Loans for real estate and operating lines

The Company has an agricultural lending program for agricultural land, agricultural operational lines, and agricultural term loans for crops, equipment and livestock. The primary product is supported by guarantees issued from the U.S. Department of Agriculture ("USDA"), Farm Service Agency ("FSA"), and the USDA Business and Industry loan program. The FSA loans typically issue a 90% guarantee up to $1,355,000 (amount adjusted annually based on inflation) for up to 40 years.

CWB is an approved Federal Agricultural Mortgage Corporation ("Farmer Mac") lender under the Farmer Mac I and Farmer Mac II Programs. Under the Farmer Mac I Program, loans are sourced by CWB, underwritten, funded and serviced by Farmer Mac. CWB receives an origination fee and an ongoing field servicing fee for maintaining the relationship with the borrower and performing certain loan compliance monitoring, and other duties as directed by the Central Servicer. The Farmer Mac II Program was authorized by Congress in 1991 to establish a uniform national secondary market for originators and investors using the USDA guaranteed loan programs. Under this program, CWB will sell the guaranteed portions of USDA loans directly to Farmer Mac's subsidiary, Farmer Mac II LLC, services the loans, and retains the unguaranteed portions of those loans in accordance with the terms of the existing USDA guaranteed loan programs. Eligible loans include FSA and Business and Industrial loans. To participate in the program, CWB was subject to the requirement of purchasing 2,000 shares of Farmer Mac Class A Stock ("AGM").

Mortgage Lending

The Company originates residential real estate loans primarily in the Central Coast of California. At origination, the majority of these loans are classified as loans held for sale and sold into the secondary market.

Manufactured Housing

The Company has a financing program for manufactured housing to provide affordable home ownership generally to low-to-moderate income families that are purchasing or refinancing their manufactured house. These loans are offered in approved mobile home parks throughout California primarily on the coast. The parks must meet specific criteria. The manufactured housing loans are secured by the manufactured home and are generally retained in the Company's loan portfolio.

Loans to One Borrower

State banking law generally limits the amount of funds that a bank may lend to a single borrower. Under federal law, the unsecured obligations of any one borrower to a national bank generally may not exceed 15% of the sum of the bank's unimpaired capital and unimpaired surplus; and the secured and unsecured obligations of any one borrower to a bank generally may not exceed 25% of the unimpaired capital and unimpaired surplus of a national bank.

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Foreign Operations

The Company has no foreign operations. The bank provides loans, letters of credit and other trade-related services to commercial enterprises that conduct business outside the United States.

Customer Concentration

The Company does not have any customer relationships that individually account for 10% of consolidated or segment revenues, respectively.

COMPETITION

The financial services industry is highly competitive. Many of our competitors are much larger in total assets and capitalization, have greater access to capital markets, and offer a broader range of financial services than we can offer and may have lower cost structures.

This increasingly competitive environment is primarily a result of long term changes in regulation that made mergers and geographic expansion easier; changes in technology and product delivery systems and web-based tools; the accelerating pace of consolidation among financial services providers; and the flight of deposit customers to perceived increased safety. We compete for loans, deposits and customers with other banks, credit unions, securities and brokerage companies, mortgage companies, insurance companies, finance companies, and other non-bank financial services providers. This strong competition for deposit and loan products directly affects the rates of those products and the terms on which they are offered to consumers.

Technological innovation continues to contribute to greater competition in domestic and international financial services markets.

Mergers between financial institutions have placed additional pressure on banks to consolidate their operations, reduce expenses and increase revenues to remain competitive. The competitive environment is also significantly impacted by federal and state legislation that makes it easier for non-bank financial institutions to compete with the Company.

EMPLOYEES

As of December 31, 2013, the Company had 122 full-time equivalent team members. The Company's employees are not represented by a union or covered by a collective bargaining agreement. Management believes that 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.”

Additional Available Information

The Company maintains an Internet website at http://www.communitywestbank.com. The Company makes available its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to such reports filed or furnished pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended. Other information related to the Company is available free of charge, through this website as soon as reasonably practicable after it has been electronically filed or furnished to the Securities Exchange Commission ("SEC"). The SEC maintains an Internet site, http://www.sec.gov, in which all forms filed electronically may be accessed. The Company's internet website and the information contained therein are not intended to be incorporated in this Form 10-K. In addition, copies of the Company's annual report will be made available, free of charge, upon written request.

ITEM 1A. RISK FACTORS

Investing in our common stock involves various risks which are specific to the Company. Several of these risks and uncertainties, are discussed below and elsewhere in this report. This listing should not be considered as all-inclusive. These factors represent risks and uncertainties that could have a material adverse effect on our business, results of operations and financial condition. Other risks that we do not know about now, or that we do not believe are significant, could negatively impact our business or the trading price of our securities. In addition to common business risks such as theft, loss of market share and disasters, the Company is subject to special types of risk due to the nature of its business. See additional discussions about credit, interest rate, market and litigation risks in "Management's Discussion and Analysis of Financial Condition and Results of Operations" section of this report beginning on page 14 and additional information regarding legislative and regulatory risks in the "Supervision and Regulation" section beginning on page 39.

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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 for loan losses of ($1.9) million for the year, as of December 31, 2013, our allowance for loan losses was $12.2 million, or 2.98% of loans held for investment. In addition, as of December 31, 2013, we had $23.3 million in loans on nonaccrual, $6.4 million of which are SBA guaranteed, and $0.2 million in loans 30 to 89 days past due with interest accruing. In determining the level of the reserve for credit losses, 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, 2013, 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.

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, the Company typically takes additional security interests in other collateral of the borrower, such as real property, certificates of deposit, life insurance, and/or obtains personal guarantees. Despite efforts to reduce risk of loss, additional measures may not prove sufficient as the value of the additional collateral or personal guarantees may be significantly reduced. There can be no assurances that collateral values will be sufficient to repay loans should borrowers become unable to repay loans in accordance with their original terms.

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

As of December 31, 2013, approximately $185.0 million, or 39%, 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.

We operate in a highly regulated industry and the laws and regulations that govern our operations, corporate governance, executive compensation and financial accounting or reporting, including changes in them, or our failure to comply with them, may adversely affect us.

We are subject to extensive regulation and supervision that govern almost all aspects of our operations. Intended to protect customers, depositors, consumers, deposit insurance funds and the stability of the U.S. financial system, these laws and regulations, among other matters, prescribe minimum capital requirements, impose limitations on our business activities, limit the dividend or distributions that we can pay, restrict the ability of institutions to guarantee our debt and impose certain specific accounting requirements that may be more restrictive and may result in greater or earlier charges to earnings or reductions in our capital than accounting principles generally accepted in the United States (“GAAP”). Compliance with laws and regulations can be difficult and costly and changes to laws and regulations often impose additional compliance costs. We are currently facing increased regulation and supervision of our industry as a result of the financial crisis in the banking and financial markets. Such additional regulation and supervision may increase our costs and limit our ability to pursue business opportunities. Further, our failure to comply with these laws and regulations, even if the failure was inadvertent or reflects a difference in interpretation, could subject us to restrictions on our business activities, fines and other penalties, any of which could adversely affect our results of operations, capital base and the price of our securities. Further, any new laws, rules and regulations could make compliance more difficult or expensive or otherwise adversely affect our business and financial condition.

We are periodically subject to examination and scrutiny by a number of banking agencies and, depending upon the findings and determinations of these agencies, we may be required to make adjustments to our business that could adversely affect us.

Federal and state banking agencies periodically conduct examinations of our business, including compliance with applicable laws and regulations. If, as a result of an examination, a federal banking agency were to determine that the financial condition, capital resources, asset quality, asset concentration, earnings prospects, management, liquidity sensitivity to market risk or other aspects of any of our operations has become unsatisfactory, or that we or our management is in violation of any law or regulation, it could take a number of different remedial actions as it deems appropriate. These actions include the power to enjoin "unsafe or unsound" practices, to require affirmative actions to correct any conditions resulting from any violation or practice, to issue an administrative order that can be judicially enforced, to direct an increase in our capital, to restrict our growth, to change the asset composition of our portfolio or balance sheet, to assess civil monetary penalties against our officers or directors, to remove officers and directors and, if it is concluded that such conditions cannot be corrected or there is an imminent risk of loss to depositors, to terminate our deposit insurance. If we become subject to such regulatory actions, our business, results of operations and reputation may be negatively impacted.

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The enactment of the Dodd Frank Wall Street Reform and Consumer Protection Act of 2010 may have a material effect on our operations.

On July 21, 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (which we refer to as the "Dodd-Frank Act"), which imposes significant regulatory and compliance changes. The key effects of the Dodd-Frank Act on our business are:

- changes to regulatory capital requirements;
- exclusion of hybrid securities, including trust preferred securities, issued on or after May 19, 2010 from Tier 1 capital;
- creation of new government regulatory agencies (such as the Financial Stability Oversight Council, which will oversee systemic risk, and the Consumer Financial Protection Bureau, which will develop and enforce rules for bank and non-bank providers of consumer financial products);
- potential limitations on federal preemption;
- changes to deposit insurance assessments;
- regulation of debit interchange fees we earn;
- changes in retail banking regulations, including potential limitations on certain fees we may charge; and
- changes in regulation of consumer mortgage loan origination and risk retention.

In addition, the Dodd-Frank Act restricts the ability of banks to engage in certain proprietary trading or to sponsor or invest in private equity or hedge funds. The Dodd-Frank Act also contains provisions designed to limit the ability of insured depository institutions, their holding companies and their affiliates to conduct certain swaps and derivatives activities and to take certain principal positions in financial instruments.

Some provisions of the Dodd-Frank Act became effective immediately upon its enactment. Many provisions, however, will require regulations to be promulgated by various federal agencies in order to be implemented, some of which have been proposed by the applicable federal agencies. The provisions of the Dodd-Frank Act may have unintended effects, which will not be clear until implementation. The changes resulting from the Dodd-Frank Act may impact the profitability of our business activities, require changes to certain of our business practices, impose upon us more stringent capital, liquidity and leverage requirements or otherwise adversely affect our business. These changes may also require us to invest significant management attention and resources to evaluate and make any changes necessary to comply with new statutory and regulatory requirements. Failure to comply with the new requirements may negatively impact our results of operations and financial condition. While we cannot predict what effect any presently contemplated or future changes in the laws or regulations or their interpretations would have on us, these changes could be materially adverse to investors in our Class A common stock.

The short-term and long-term impact of the new regulatory capital standards and the new capital rules is uncertain.

As discussed in detail below, the federal banking agencies recently revised capital guidelines to reflect the requirements of the Dodd-Frank Act and to effect the implementation of the Basel III Accords. The quantitative measures, established by the regulators to ensure capital adequacy, require that a bank holding company maintain minimum ratios of capital to risk-weighted assets. These minimums are outlined above. Various provisions of the Dodd-Frank Act increase the capital requirements of bank holding companies, such as the Company, and non-bank financial companies that are supervised by the Federal Reserve. For CWBC, a bank holding company, common equity Tier 1 capital, a new category, includes only common stock, related surplus, retained earnings and qualified minority investments.

Additional Tier 1 capital includes non-cumulative perpetual preferred stock, certain qualifying minority interests, and for bank holding companies with less than $15 billion in consolidated assets, cumulative perpetual preferred stock and grandfathered trust preferred securities. Tier 2 capital includes subordinated debt, certain qualifying minority investments, and for bank holding companies with less than $15 billion in consolidated assets, non-qualifying capital instruments issued before May 19, 2010 that exceed 25% of Tier 1. Bank holding companies are also required to hold a capital conservation buffer of common equity Tier 1 capital of 2.5% to avoid limitations on capital distributions and executive compensation payments. The capital rules also codify a Tier 1 leverage ratio that has long been used by the agencies as an indicator of risk.

Under the guidelines, capital is compared with the relative risk related to the balance sheet. To derive the risk included in the balance sheet, a risk weighting is applied to each balance sheet asset and off-balance sheet item, primarily based on the relative credit risk of the asset or counterparty. The revised capital rules also modified the risk-weights applied to particular on and off balance sheet assets.

The revised capital rules require banks and bank holding companies to maintain a common equity Tier 1 capital ratio of 6.5%, a total Tier 1 capital ratio of 8%, a total capital ratio of 10%, and a leverage ratio of 5% to be deemed "well capitalized." Although these new capital ratios become effective as of January 1, 2015, the banking regulators will expect bank holding companies and banks to meet these requirements well ahead of that date.

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The Federal Reserve may also set higher capital requirements for holding companies whose circumstances warrant it. We cannot be certain what the impact of changes to existing capital guidelines will have on the Company.

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 USDA and the SBA. From time to time, the government agencies that guarantee these loans reach their internal limits and cease to guarantee loans. In addition, these agencies may change their rules for loans or Congress may adopt legislation that would have the effect of discontinuing or changing the 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 has historically been 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.

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 to 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.

If the Company lost a significant portion of its low-cost deposits, it could negatively impact our liquidity and profitability.

The Company's profitability depends in part on successfully attracting and retaining a stable base of low-cost deposits. While we generally do not believe these core deposits are sensitive to interest rate fluctuations, the competition for these deposits in our markets is strong and customers are increasingly seeking investments that are safe, including the purchase of U.S. Treasury securities and other government-guaranteed obligations, as well as the establishment of accounts at the largest, most-well capitalized banks. If the Company were to lose a significant portion of its low-cost deposits, it would negatively impact its liquidity and profitability.

From time to time, the Company has been dependent on borrowings from the FHLB and the FRB, and there can be no assurance these programs will be available as needed.

As of December 31, 2013, the Company has borrowings from the FHLB of San Francisco of $30.0 million and no borrowings from the FRB. The Company in the recent past has been reliant on such borrowings to satisfy its liquidity needs. The Company's borrowing capacity is generally dependent on the value of the Company's collateral pledged to these entities. These lenders could reduce the borrowing capacity of the Company or eliminate certain types of collateral and could otherwise modify or even terminate its loan programs. Any change or termination could have an adverse effect on the Company's liquidity and profitability.

The Company is exposed to risk of environmental liabilities with respect to properties to which we obtain title

Approximately 30% of the Company's loan portfolio at December 31, 2013 was secured by commercial real estate. In the course of our business, the Company may foreclose and take title to real estate, and could be subject to environmental liabilities with respect to these properties. We may be held liable to a governmental entity or to third parties for property damage, personal injury, investigation and clean-up costs incurred by these parties in connection with environmental contamination, or may be required to investigate or clean up hazardous or toxic substances, or chemical releases at a property. The costs associated with investigation or remediation activities could be substantial. In addition, if we are the owner or former owner of a contaminated site, we may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from the property. These costs and claims could adversely affect our business and prospects.

Changes in interest rates could adversely affect our profitability, business and prospects

Most of the Company's assets and liabilities are monetary in nature, which subjects us to significant risks from changes in interest rates and can impact our net income and the valuation of our assets and liabilities. Increases or decreases in prevailing interest rates could have an adverse effect on our business, asset quality and prospects. The Company's operating income and net income depend to a great extent on our net interest margin. Net interest margin is the difference between the interest yields we receive on loans, securities and other earning assets and the interest rates we pay on interest-bearing deposits, borrowings and other liabilities. These rates are highly sensitive to many factors beyond our control, including competition, general economic conditions and monetary and fiscal policies of various governmental and regulatory authorities, including the Federal Reserve. If the rate of interest we pay on our interest-bearing deposits, borrowings and other liabilities increases more than the rate of interest we receive on loans, securities and other earning assets increases, our net interest income, and therefore our earnings, would be adversely affected. The Company's earnings also could be adversely affected if the rates on our loans and other investments fall more quickly than those on our deposits and other liabilities.

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In addition, loan volumes are affected by market interest rates on loans. Rising interest rates generally are associated with a lower volume of loan originations while lower interest rates are usually associated with higher loan originations. Conversely, in rising interest rate environments, loan repayment rates will decline and in falling interest rate environments, loan repayment rates will increase. The Company cannot guarantee that it will be able to minimize interest rate risk. In addition, an increase in the general level of interest rates may adversely affect the ability of certain borrowers to pay the interest on and principal of their obligations.

Interest rates also affect how much money the Company can lend. When interest rates rise, the cost of borrowing increases. Accordingly, changes in market interest rates could materially and adversely affect our net interest spread, asset quality, loan origination volume, business, financial condition, results of operations and cash flows.

Because of the geographic concentration of our assets, our business is highly susceptible to local economic conditions

Our business is primarily concentrated in Santa Barbara and Ventura counties in the State of California. As a result of this geographic concentration, our financial condition and results of operations depend largely upon economic conditions in these market areas. Deterioration in economic conditions in the markets we serve could result in one or more of the following: an increase in loan delinquencies; an increase in problem assets and foreclosures; a decrease in the demand for our products and services; and a decrease in the value of collateral for loans, especially real estate, in turn reducing customers' borrowing power, the value of assets associated with problem loans and collateral coverage.

The Company's future success will depend on our ability to compete effectively in a highly competitive market

The Company faces substantial competition in all phases of our operations from a variety of different competitors. Our competitors, including commercial banks, community banks, savings and loan associations, mutual savings banks, credit unions, consumer finance companies, insurance companies, securities dealers, brokers, mortgage bankers, investment advisors, money market mutual funds and other financial institutions, compete with lending and deposit-gathering services offered by us. Increased competition in our markets may result in reduced loans and deposits.

There is very strong competition for financial services in the market areas in which we conduct our businesses from many local commercial banks as well as numerous national and commercial banks and regionally based commercial banks. Many of these competing institutions have much greater financial and marketing resources than we have. Due to their size, many competitors can achieve larger economies of scale and may offer a broader range of products and services than us. If we are unable to offer competitive products and services, our business may be negatively affected.

Some of the financial services organizations with which we compete are not subject to the same degree of regulation as is imposed on bank holding companies and federally insured depository institutions. As a result, these non-bank competitors have certain advantages over us in accessing funding and in providing various services. The banking business in our primary market areas is very competitive, and the level of competition facing us may increase further, which may limit our asset growth and financial results.

If we fail to maintain proper and effective internal controls, our ability to produce accurate financial statements on a timely basis could be impaired, which could result in a loss of investor confidence in our financial reports and have an adverse effect on our stock price.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles, or GAAP. If we are unable to maintain adequate internal control over financial reporting, we might be unable to report our financial information on a timely basis and might suffer adverse regulatory consequences or violate listing standards. There could also be a negative reaction in the financial markets due to a loss of investor confidence in us and the reliability of our financial statements. We have in the past and may in the future discover areas of our internal financial and accounting controls and procedures that need improvement. Our internal control conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system will be met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our company will be detected. If we are unable to maintain proper and effective internal controls, we may not be able to produce accurate financial statements on a timely basis, which could adversely affect our ability to operate our business and could result in regulatory action, and could require us to restate, our financial statements. Any such restatement could result in a loss of public confidence in the reliability of our financial statements and sanctions imposed on us by the SEC.

Changes in accounting standards or inaccurate estimates or assumptions in the application of accounting policies could adversely affect our financial condition and results of operations.

Our accounting policies and methods are fundamental to how we record and report our financial condition and results of operations. Some of these policies require use of estimates and assumptions that may affect the reported value of our assets or liabilities and results of operations and are critical because they require management to make difficult, subjective and complex judgments about matters that are inherently uncertain. If those assumptions, estimates or judgments were incorrectly made, we could be required to correct and restate prior period financial statements. Accounting standard-setters and those who interpret the accounting standards (such as the Financial Accounting Standards Board, the SEC, banking regulators and our independent registered public accounting firm) may also amend or even reverse their previous interpretations or positions on how various standards should be applied. These changes can be difficult to predict and can materially impact how we record and report our financial condition and results of operations. In some cases, we could be required to apply a new revised standard retroactively, resulting in the need to revise and republish prior period financial statements.

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Terrorist attacks and threats of war or actual war may impact all aspects of our operations, revenues, costs and stock price in unpredictable ways

Terrorist attacks in the United States, as well as future events occurring in response or in connection to them including, without limitation, future terrorist attacks against United States targets, rumors or threats of war, actual conflicts involving the United States or its allies or military or trade disruptions, may impact our operations. Any of these events could cause consumer confidence and savings to decrease or result in increased volatility in the United States and worldwide financial markets and economy. Any of these occurrences could have an adverse impact on the Company's operating results, revenues and costs and may result in the volatility of the market price for our securities, including our common stock, and impair their future price.

The business may be adversely affected by internet fraud.

The Company is inherently exposed to many types of operational risk, including those caused by the use of computer, internet and telecommunications systems. These risks may manifest themselves in the form of fraud by employees, by customers, other outside entities targeting us and/or our customers that use our internet banking, electronic banking or some other form of our telecommunications systems. Given the growing level of use of electronic, internet-based, and networked systems to conduct business directly or indirectly with our clients, certain fraud losses may not be avoidable regardless of the preventative and detection systems in place.

We may experience interruptions or breaches in our information system security.

We rely heavily on communications and information systems to conduct our business. Any failure, interruption or breach in the security of these systems could result in failures or disruptions in our customer relationship management, general ledger, deposit, loan and other systems. While we have policies and procedures designed to prevent or limit the effect of the failure, interruption or security breach of these information systems, there can be no assurance that any such failures, interruptions or security breaches will not occur or, if they do occur, that they will be adequately addressed. The occurrence of any failures, interruptions or security breaches of these information systems could damage our reputation, result in a loss of customer business, subject us to additional regulatory scrutiny, or expose us to civil litigation and possible financial liability, any of which could have a material adverse effect on our financial condition and results of operations.

A failure in or breach of our operational or security systems or infrastructure, or those of our third party vendors and other service providers, including as a result of cyber attacks, could disrupt our businesses, result in the disclosure or misuse of confidential or proprietary information, damage our reputation, increase our costs and cause losses

As a financial institution, we are susceptible to fraudulent activity that may be committed against us or our clients, which may result in financial losses to us or our clients, privacy breaches against our clients, or damage to our reputation. Such fraudulent activity may take many forms, including check fraud, electronic fraud, wire fraud, phishing, and other dishonest acts. In recent periods, there has been a rise in electronic fraudulent activity within the financial services industry, especially in the commercial banking sector, due to cyber criminals targeting commercial bank accounts. Consistent with industry trends, we have also experienced an increase in attempted electronic fraudulent activity in recent periods.

In addition, our operations rely on the secure processing, storage and transmission of confidential and other information on our computer systems and networks. Although we take numerous protective measures to maintain the confidentiality, integrity and availability of our and our clients' information across all geographic and product lines, and endeavor to modify these protective measures as circumstances warrant, the nature of the threats continues to evolve. As a result, our computer systems, software and networks and those of our customers may be vulnerable to unauthorized access, loss or destruction of data (including confidential client information), account takeovers, unavailability of service, computer viruses or other malicious code, cyber attacks and other events that could have an adverse security impact and result in significant losses by us and/or our customers. Despite the defensive measures we take to manage our internal technological and operational infrastructure, these threats may originate externally from third parties, such as foreign governments, organized crime and other hackers, and outsource or infrastructure-support providers and application developers, or the threats may originate from within our organization. Given the increasingly high volume of our transactions, certain errors may be repeated or compounded before they can be discovered and rectified.

We also face the risk of operational disruption, failure, termination or capacity constraints of any of the third parties that facilitate our business activities, including exchanges, clearing agents, clearing houses or other financial intermediaries. Such parties could also be the source of an attack on, or breach of, our operational systems, data or infrastructure. In addition, as interconnectivity with our clients grows, we increasingly face the risk of operational failure with respect to our clients' systems.

Although to date we have not experienced any material losses relating to cyber attacks or other information security breaches, there can be no assurance that we will not suffer such losses in the future. Our risk and exposure to these matters remains heightened because of, among other things, the evolving nature of these threats, the outsourcing of some of our business operations, and the continued uncertain global economic environment. As cyber threats continue to evolve, we may be required to expend significant additional resources to continue to modify or enhance our protective measures or to investigate and remediate any information security vulnerabilities

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We maintain an insurance policy which we believe provides sufficient coverage at a manageable expense for an institution of our size and scope with similar technological systems. However, we cannot assure that this policy will afford coverage for all possible losses or would be sufficient to cover all financial losses, damages, penalties, including lost revenues, should we experience any one or more of our or a third party's systems failing or experiencing attack.

The success of the Company is dependent upon its ability to recruit and retain qualified employees especially seasoned relationship bankers.

The Company's business plan includes and is dependent upon hiring and retaining highly qualified and motivated executives and employees at every level. In particular, our relative success to date has been partly the result of our management's ability to identify and retain highly qualified relationship bankers that have long-standing relationships in their communities. These professionals bring with them valuable customer relationships and have been integral in our ability to attract deposits and to expand our market share. From time to time, the Company recruits or utilizes the services of employees who are subject to limitations on their ability to use confidential information of a prior employer, to freely compete with that employer, or to solicit customers of that employer. If the Company is unable to hire or retain qualified employees it may not be able to successfully execute its business strategy. If the Company or its employee is found to have violated any nonsolicitation or other restrictions applicable to it or its employees, the Company or its employee could become subject to litigation or other proceedings.

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.

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

The dividends on the Series A Preferred Stock reduce the net income available to common shareholders and our earnings per common share. The Series A Preferred Stock also receives 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 outstanding warrant ("Warrant") issued in conjunction with the Series A Preferred Stock is exercised. The shares of common stock underlying the Warrant represent approximately 6.6% of the shares of our common stock outstanding as of December 31, 2013 (including the shares issuable upon exercise of the Warrant in total shares outstanding). Although the Warrant holders have agreed not to vote any of the shares of common stock received 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.

We may be required to raise capital in the future, but that capital may not be available or may not be on acceptable terms when it is needed.

We are required by federal regulatory authorities to maintain adequate capital levels to support operations. Our ability to raise additional capital is dependent on capital market conditions at that time and on our financial performance and outlook. Pending regulatory changes, such as regulations to implement Basel III and the Dodd-Frank Act, may require us to have more capital than was previously required. If we cannot raise additional capital when needed, we may not be able to meet these requirements, and our ability to further expand our operations through organic growth or through acquisitions may be adversely affected.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

At December 31, 2013, the Company is headquartered at 445 Pine Avenue in Goleta, California. This facility houses the Company's corporate offices and the mortgage loan division. The Company operates five domestic branches one of which is owned. All other properties are leased by the Company, including the corporate headquarters.

The Company continually evaluates the suitability and adequacy of its offices. Management believes that the existing facilities are adequate for its present and anticipated future use.

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ITEM 3. LEGAL PROCEEDINGS

On or about December 16, 2013, CWB was served with the Summons and Complaint in the action entitled Residential Funding Company, LLC v. Community West Bank, N.A., United States District Court for the District of Minnesota, Case No. 0:13-CV-03468-JRT-JJK. The Summons was issued and Complaint filed on December 13, 2013. Generally, Residential Funding Company, LLC ("RFC") seeks damages in excess of $75,000 for breach of contract and indemnification for certain unspecified residential mortgage loans originated by CWB and sold to RFC in accordance with an agreement. RFC alleges that some $22 million in loans were sold over the course of the agreement. RFC further alleges that CWB made certain representations and warranties with respect to the loans and that CWB failed to comply with such representations and warranties.

RFC alleges it placed the loans from CWB into residential mortgage backed securitizations trusts ("Trusts") and issued certificates in the Trusts to outside investors. The loans CWB sold to RFC were eventually included along with numerous other third party lender loans in 30 different Trusts. RFC alleges that, over time, the loans defaulted or became delinquent and, from 2008 until May 14, 2012, RFC faced numerous claims and lawsuits stemming from the loans. RFC alleges that it had to file for bankruptcy protection to defend the claims. RFC claims all the lawsuits against RFC filed by investors in the Trusts allege that the securitizations were defective in a variety of ways, including borrower fraud, missing or inaccurate documentation, fraudulent appraisals and misrepresentations concerning occupancy. RFC alleges that CWB was responsible for the problems with the loans in this action and that numerous other lenders were responsible in the other actions RFC has filed. RFC also alleges that it was forced to settle many of the claims in the bankruptcy court but continues to litigate other claims. RFC alleges that under its agreement with CWB, CWB agreed to indemnify RFC for losses or repurchase the loans at RFC's option.

Since the Complaint is so vague and ambiguous concerning the "agreement", the specific loans in question and the circumstances surrounding the approval of such loans, CWB has determined to file a Motion to Dismiss under Rule 12(b)(6) of the Federal Rules of Civil Procedure or, in the alternative, for a Motion for More Definite Statement under Rule 12(e) when CWB's responsive pleading is due on March 17, 2014.

It is CWB's position to vigorously defend this action and CWB knows of no evidence that would support RFC's allegations of wrongdoing by CWB. Due to the preliminary stage of the pleadings and without the benefit of discovery, it is not possible to predict the probable outcome. This action is just one of many filed by RFC against various banks pending in courts in New York and Minnesota, among others. CWB has entered into a Joint Defense Agreement with other defendants in some of the other cases.

On March 5, 2014, RFC filed a Motion to Transfer Venue to the U.S. Bankruptcy Court for the Southern District of New York ("SDNY"). RFC argues that transfer will serve the interests of justice ensuring that (1) common issues are resolved in a common forum, (2) the SDNY Bankruptcy Court is already familiar with the claims, (3) convenience factors buttress the propriety of transfer, and (4) transfer is appropriate despite the fact that the agreement between the parties provides for Minnesota as the forum for resolutions of disputes. RFC's motion indicates that this is one of 83 recently commenced actions in which such a transfer motion has been filed. CWB has not had an opportunity to fully analyze the motion, but it is CWB's preliminary intention to oppose RFC's transfer motion.

The Company is involved in various other 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.

ITEM 4. MINE SAFETY DISCLOSURES (NOT APPLICABLE)

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PART II

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

Market Information

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:

	2013 Quarters				2012 Quarters			
	Fourth	Third	Second	First	Fourth	Third	Second	First
Range of stock prices:								
High	$6.73	$5.97	$ 5.00	$5.10	$3.50	$3.07	$ 2.85	$2.72
Low	5.35	4.50	4.00	2.80	2.50	2.20	2.05	1.27

There were no common dividends declared in 2013 or 2012.

Holders

As of February 28, 2014 the closing price of our common stock on NASDAQ was $7.2499 per share. As of that date, based on the records of our transfer agent, the company had approximately 273 stockholders of record of its common stock.

Preferred Stock Dividends

On December 26, 2013, the Company reported approval from the FRB to pay outstanding cumulative dividends on the Series A Preferred Stock. At December 31, 2013, the Company had accrued $1.4 million of dividends on its Series A Preferred Stock. The payment of the dividends had been previously denied by the FRB pursuant to the requirements under a written agreement with the FRB. The deferral of the dividends on the Series A Preferred Stock is permitted under its terms and did not constitute an event of default.

Common Stock Dividends

It is the Company's intention to review its dividend policy on a quarterly basis. The Company's has not paid dividends since the second quarter of 2008 and does not anticipate paying any cash dividends in the near future. As a holding company with limited significant assets other than the capital stock of our subsidiary bank, CWBC's ability to pay dividends depends primarily on the receipt of dividends from its subsidiary bank, CWB. CWB's ability to pay dividends to the Company is limited by California law and federal banking law.

Repurchases of Securities

The Company did not repurchase any of its securities during 2013 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.

Securities Authorized for Issuance under Equity Compensation Plans

The following table summarizes the securities authorized for issuance as of December 31, 2013:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Plans approved by shareholders	375,750	$ 5.25	169,075
Plans not approved by shareholders	-	-	-
Total	375,750	$ 5.25	169,075

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ITEM 6. SELECTED FINANCIAL DATA

The following summary presents selected financial data as of and for the periods indicated. You should read the selected financial data presented below in conjunction with "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS" and our consolidated financial statements and the related notes appearing elsewhere in this Form 10-K.

	Year Ended December 31,				
	2013	2012	2011	2010	2009
	(in thousands, except per share amounts)				
Results of Operations:					
Interest income	$27,866	$31,368	$36,542	$39,234	$40,903
Interest expense	4,332	5,949	8,250	9,957	14,945
Net interest income	23,534	25,419	28,292	29,277	25,958
Provision for loan losses	(1,944)	4,281	14,591	8,743	18,678
Net interest income after provision for loan losses	25,478	21,138	13,701	20,534	7,280
Non-interest income	2,831	4,281	3,211	4,015	4,418
Non-interest expenses	22,135	22,246	23,320	20,991	21,479
Income (loss) before income taxes	6,174	3,173	(6,408)	3,558	(9,781)
Provision (benefit) for income taxes	(2,812)	-	4,077	1,467	(4,018)
Net income (loss)	$8,986	$3,173	$(10,485)	$2,091	$(5,763)
Dividends and accretion on preferred stock	1,039	1,046	1,047	1,047	1,046
Net income (loss) available to common stockholders	$7,947	$2,127	$(11,532)	$1,044	$(6,809)
Per Share Data:					
Income (loss) per common share - basic	$1.13	$0.36	$(1.93)	$0.18	$(1.15)
Income (loss) per common share - diluted	$0.98	$0.31	$(1.93)	$0.18	$(1.15)
Weighted average shares outstanding - basic	7,017	5,990	5,980	5,915	5,915
Weighted average shares outstanding - diluted	8,390	8,233	5,980	6,833	5,915
Shares outstanding at period end	7,867	5,995	5,990	5,916	5,915
Book value per common share	$6.60	$6.29	$5.94	$7.92	$7.74
Selected Balance Sheet Data:					
Net loans	462,005	449,201	532,716	580,632	603,440
Allowance for loan losses	12,208	14,464	15,270	13,302	13,733
Total assets	539,000	532,101	633,348	667,604	684,216
Total deposits	436,135	434,220	511,262	529,893	531,392
Total liabilities	471,444	479,052	582,722	605,962	623,909
Total stockholders' equity	67,556	53,049	50,626	61,642	60,307
Selected Financial and Liquidity Ratios:					
Net interest margin	4.51%	4.49%	4.47%	4.50%	3.91%
Return on average assets	1.69%	0.55%	-1.60%	0.31%	-0.85%
Return on average stockholders' equity	15.15%	6.22%	-16.98%	3.42%	-9.24%
Equity to assets ratio	12.53%	9.97%	7.99%	9.23%	8.81%
Loan to deposit ratio	108.73%	106.78%	107.18%	112.09%	116.14%
Capital Ratios:					
Tier 1 leverage ratio	12.68%	9.72%	7.91%	9.08%	8.81%
Tier 1 risk-based capital ratio	15.65%	12.81%	10.08%	11.40%	10.93%
Total risk-based capital ratio	17.26%	15.98%	12.92%	14.16%	12.20%
Selected Asset Quality Ratios:					
Net charge-offs to average loans	0.07%	1.02%	2.21%	1.52%	2.03%
Allowance for loan losses to total loans	2.57%	3.12%	2.83%	2.24%	2.22%

Allowance for loan losses to nonaccrual loans	72.51	%	64.50	%	53.26	%	104.98	%	99.56	%
Nonaccrual loans to gross loans	3.55	%	4.84	%	5.23	%	2.13	%	2.62	%
Nonaccrual loans and repossessed assets to total loans	4.35	%	5.24	%	6.45	%	3.56	%	2.91	%
Loans past due 90 days or more and still accruing interest to total loans	0.01	%	0.00	%	0.11	%	0.03	%	0.01	%

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

The following discussion and analysis should be read in conjunction with "Item 8–Consolidated Financial Statements and Supplementary Data." This discussion and analysis contains forward-looking statements that involve risk, uncertainties and assumptions. Certain risks, uncertainties and other factors, including but not limited to those set forth under "Cautionary Note Regarding Forward-Looking Statements," on page 3 of this form 10-K, may cause actual results to differ materially from those projected in the forward-looking statements.

Financial Overview and Highlights

Community West Bancshares is a financial services company headquartered in Goleta, California that provides full service banking and lending through its wholly-owned subsidiary Community West Bank ("CWB"), which has five California branch banking offices in Goleta, Santa Barbara, Santa Maria, Ventura and Westlake Village.

Financial Result Highlights of 2013

Net income available to common stockholders for the Company of $7.9 million, or $0.98 per diluted share for 2013, compared to $2.1 million, or $0.31 per diluted share for 2012 and net loss available to common stockholders of $11.5 million or $(1.93) per diluted share for 2011.

The significant factors impacting earnings of the Company during 2013 were:

- Net income of $9.0 million for 2013 compared to a net income of $3.2 million for 2012 and net loss of $10.5 million for 2011.

- Net interest margin for the twelve months ended December 31, 2013 improved to 4.51% compared to 4.49% for the year ended 2012.

- Provision for loan losses was ($1.9 million) for 2013 compared to $4.3 million in 2012 and $14.6 million in 2011, resulting from decreased net charge offs which were $0.3 million for 2013 compared to $5.1 million in 2012 and $12.6 million in 2011 along with continued improvement in credit quality.

- Reversal of $2.8 million in deferred tax assets valuation allowance at December 31, 2013.

- Net nonaccrual loans decreased to $16.8 million at December 31, 2013, compared to $22.4 million at December 31, 2012.

- Allowance for loan losses was $12.2 million at December 31, 2013, or 2.98% of total loans held for investment compared to 3.66% at December 31, 2012.

- Other assets acquired through foreclosure increased to $3.8 million at December 31, 2013 from $1.9 million at December 31, 2012 primarily due to one property located in Oregon.

- During 2013, $6.4 million debentures converted to common stock. Outstanding debentures at December 31, 2013 were $1.4 million. Common shares outstanding at December 31, 2013 were 7.9 million.

- Total loans increased 2.9% to $462.0 million at December 31, 2013 compared to $449.2 million at December 31, 2012.

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, 2013 throughout the analysis sections of this report.

Subsequent Event

Effective as of January 27, 2014, the regulatory agreement between Community West Bank and the Office of the Comptroller of the Currency (“OCC”), the bank’s primary banking regulator, was terminated and, therefore, the Bank is no longer subject to the requirements of that regulatory agreement. Similarly, effective March 11, 2014, the Federal Reserve Board, (“FRB”) terminated its regulatory agreement (the “FRB Agreement”) with the Company and therefore, the Company is no longer subject to the requirements of that regulatory agreement.

In accordance with the terms of the FRB Agreement, the Company applied for approval to pay the dividends on the Company’s outstanding Series A Preferred Stock due on May 15, 2012, August 15, 2012, November 15, 2012, February 15, 2013, May 15, 2013 and August 15, 2013 which application was denied. On December 26, 2013, the FRB approved the Company’s request to pay outstanding cumulative dividends on its Series A preferred stock. These deferred dividends were paid by the Company on February 18, 2014.

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A summary of our results of operations and financial condition and select metrics is included in the following table:

	Year Ended December 31,		
	2013	2012	2011
	(in thousands, except per share amounts)		
Net income (loss) available to common stockholders	$7,947	$2,127	$(11,532)
Basic earnings (loss) per share	1.13	0.36	(1.93)
Diluted earnings (loss) per share	0.98	0.31	(1.93)
Total assets	539,000	532,101	633,348
Gross loans	474,213	463,665	547,986
Total deposits	436,135	434,220	511,262
Net interest margin	4.51 %	4.49 %	4.47 %
Return on average assets	1.69 %	0.55 %	(1.60)%
Return on average stockholders' equity	15.15 %	6.22 %	(16.98)%

As a bank holding company, management focuses on key ratios in evaluating the Company's financial condition and results of operations. In the current economic environment, key ratios regarding asset credit quality and efficiency are more informative as to the financial condition of the Company than those utilized in a more normal economic period such as return on equity and return on assets.

Asset Quality

For all banks and bank holding companies, asset quality plays a significant role in the overall financial condition of the institution and results of operations. The Company measures asset quality in terms of nonaccrual loans as a percentage of gross loans, and net charge-offs as a percentage of average loans. Net charge-offs are calculated as the difference between charged-off loans and recovery payments received on previously charged-off loans. The following table summarizes asset quality metrics:

	Year Ended December 31,		
	2013	2012	2011
	(in thousands)		
Non-accrual loans (net of guaranteed portion)	$16,837	$22,425	$28,670
Non-performing assets	23,997	31,548	53,840
Non-accrual loans to gross loans	3.55 %	4.84 %	5.23 %
Net charge-offs to average loans	0.07 %	1.02 %	2.21 %

Asset and Deposit Growth

The ability to originate new loans and attract new deposits is fundamental to the Company's asset growth. The Company's assets and liabilities are comprised primarily of loans and deposits. Total assets increased to $539.0 million at December 31, 2013 from $532.1 million at December 31, 2012. Total loans including net deferred fees and unearned income increased by $12.8 million, or 2.9%, to $462.0 million as of December 31, 2013 compared to December 31, 2012. Total deposits increased slightly to $436.1 million as of December 31, 2013 from $434.2 million as of December 31, 2012.

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RESULTS OF OPERATONS

The following table sets forth a summary financial overview for the comparable years:

	Year Ended December 31, 2013	2012	Increase (Decrease)	Year Ended December 31, 2012	2011	Increase (Decrease)
	(in thousands, except per share amounts)					
Consolidated Income Statement Data:						
Interest income	$27,866	$31,368	$ (3,502)	$31,368	$36,542	$ (5,174)
Interest expense	4,332	5,949	(1,617)	5,949	8,250	(2,301)
Net interest income	23,534	25,419	(1,885)	25,419	28,292	(2,873)
Provision for credit losses	(1,944)	4,281	(6,225)	4,281	14,591	(10,310)
Net interest income after provision for credit losses	25,478	21,138	4,340	21,138	13,701	7,437
Non-interest income	2,831	4,281	(1,450)	4,281	3,211	1,070
Non-interest expenses	22,135	22,246	(111)	22,246	23,320	(1,074)
Income before income taxes	6,174	3,173	3,001	3,173	(6,408)	9,581
Income taxes	(2,812)	-	(2,812)	-	4,077	(4,077)
Net income	$8,986	$3,173	$ 5,813	$3,173	$(10,485)	$ 13,658
Dividends and accretion on preferred stock	1,039	1,046	(7)	1,046	1,047	(1)
Net income available to common stockholders	$7,947	$2,127	$ 5,820	$2,127	$(11,532)	$ 13,659
Income per share - basic	$1.13	$0.36	$ 0.78	$0.36	$(1.93)	$ 2.29
Income per share - diluted	$0.98	$0.31	$ 0.67	$0.31	$(1.93)	$ 2.24

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Interest Rates and Differentials

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

	Year Ended December 31,					
	2013			2012		
	Average Balance	Interest	Average Yield/Cost	Average Balance	Interest	Average Yield/Cost
Interest-Earning Assets	(in thousands)					
Federal funds sold and interest-earning deposits (4)	$34,810	$81	0.23 %	$31,237	$71	0.23 %
Investment securities	29,213	714	2.44 %	35,093	807	2.30 %
Loans (1)	457,847	27,071	5.91 %	500,273	30,490	6.09 %
Total earnings assets	521,870	27,866	5.34 %	566,603	31,368	5.54 %
Nonearning Assets						
Cash and due from banks	1,122			979		
Allowance for loan losses	(13,240)			(15,208)		
Other assets	21,586			28,590		
Total assets	$531,338			$580,964		
Interest-Bearing Liabilities						
Interest-bearing demand deposits	258,345	1,185	0.46 %	280,831	1,839	0.65 %
Savings deposits	16,334	290	1.78 %	17,683	325	1.84 %
Time deposits	102,495	1,441	1.41 %	128,605	1,966	1.53 %
Total interest-bearing deposits	377,174	2,916	0.77 %	427,119	4,130	0.97 %
Convertible debentures	4,354	442	10.15 %	7,852	717	9.13 %
Other borrowings	33,474	974	2.91 %	40,090	1,102	2.75 %
Total interest-bearing liabilities	415,002	4,332	1.04 %	475,061	5,949	1.25 %
Noninterest-Bearing Liabilities						
Noninterest-bearing demand deposits	53,278			52,196		
Other liabilities	3,755			2,652		
Stockholders' equity	59,303			51,055		
Total Liabilities and Stockholders' Equity	$531,338			$580,964		
Net interest income and margin (2)		$23,534	4.51 %		$25,419	4.49 %
Net interest spread (3)			4.30 %			4.29 %

(1) Includes nonaccrual loans.

(2) Net interest income is the difference between the interest and fees earned on loans and investments and the interest expense paid on deposits and liabilities. The amount by which interest income will exceed interest expense depends on the volume or balance of earning assets compared to the volume or balance of interest-bearing deposits and liabilities and the interest rate earned on those interest-earning assets compared to the interest rate paid on those interest-bearing liabilities. Net interest margin is computed by dividing net interest income by total average earning assets. It is used to measure the difference between the average rate of interest earned on assets and the average rate of interest that must be paid on liabilities used to fund those assets. To maintain its net interest margin, the Company must manage the relationship between interest earned and paid.

(3) Net interest spread represents average yield earned on interest-earning assets less the average rate paid on interest-bearing liabilities.

(4) Certain amounts have been reclassified to conform to the current year presentation.

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	Year Ended December 31,					
	2012			2011		
	Average Balance	Interest	Average Yield/Cost	Average Balance	Interest	Average Yield/Cost
Interest-Earning Assets	(in thousands)					
Federal funds sold and interest-earning deposits (4)	$31,237	$71	0.23 %	$16,673	$40	0.24 %
Investment securities	35,093	807	2.30 %	45,113	1,067	2.37 %
Loans (1)	500,273	30,490	6.09 %	570,684	35,435	6.21 %
Total earnings assets	566,603	31,368	5.54 %	632,470	36,542	5.78 %
Nonearning Assets						
Cash and due from banks	979			1,012		
Allowance for loan losses	(15,208)			(13,721)		
Other assets	28,590			34,061		
Total assets	$580,964			$653,822		
Interest-Bearing Liabilities						
Interest-bearing demand deposits	280,831	1,839	0.65 %	280,950	2,894	1.03 %
Savings deposits	17,683	325	1.84 %	20,701	389	1.88 %
Time deposits	128,605	1,966	1.53 %	167,977	2,668	1.59 %
Total interest-bearing deposits	427,119	4,130	0.97 %	469,628	5,951	1.27 %
Convertible debentures	7,852	717	9.13 %	7,876	709	9.00 %
Other borrowings	40,090	1,102	2.75 %	63,299	1,590	2.51 %
Total interest-bearing liabilities	475,061	5,949	1.25 %	540,803	8,250	1.53 %
Noninterest-Bearing Liabilities						
Noninterest-bearing demand deposits	52,196			50,144		
Other liabilities	2,652			1,116		
Stockholders' equity	51,055			61,759		
Total Liabilities and Stockholders' Equity	$580,964			$653,822		
Net interest income and margin (2)		$25,419	4.49 %		$28,292	4.47 %
Net interest spread (3)			4.29 %			4.25 %

(1) Includes nonaccrual loans.

(2) Net interest income is the difference between the interest and fees earned on loans and investments and the interest expense paid on deposits and liabilities. The amount by which interest income will exceed interest expense depends on the volume or balance of earning assets compared to the volume or balance of interest-bearing deposits and liabilities and the interest rate earned on those interest-earning assets compared to the interest rate paid on those interest-bearing liabilities.. Net interest margin is computed by dividing net interest income by total average earning assets. It is used to measure the difference between the average rate of interest earned on assets and the average rate of interest that must be paid on liabilities used to fund those assets. To maintain its net interest margin, the Company must manage the relationship between interest earned and paid.

(3) Net interest spread represents average yield earned on interest-earning assets less the average rate paid on interest-bearing liabilities.

(4) Certain amounts have been reclassified to conform to the current year presentation.

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The table below sets forth the relative impact on net interest income of changes in the volume of earning assets and interest-bearing liabilities and changes in rates earned and paid by the Company on such assets and liabilities. For purposes of this table, nonaccrual loans have been included in the average loan balances.

	Year Ended December 31, 2013 versus 2012 Increase (Decrease) Due to Changes in (1)			Year Ended December 31, 2012 versus 2011 Increase (Decrease) Due to Changes in (1)		
	Volume	Rate	Total	Volume	Rate	Total
	(in thousands)			(in thousands)		
Interest income:						
Investment securities	$(142)	$49	$(93)	$(230)	$(30)	$(260)
Federal funds sold and other	10	-	10	33	(2)	31
Loans, net	(2,519)	(900)	(3,419)	(4,288)	(657)	(4,945)
Total interest income	(2,651)	(851)	(3,502)	(4,485)	(689)	(5,174)
Interest expense:						
Interest checking	(103)	(551)	(654)	(1)	(1,054)	(1,055)
Savings	(24)	(11)	(35)	(56)	(8)	(64)
Time deposits	(368)	(157)	(525)	(602)	(100)	(702)
Other borrowings	(193)	65	(128)	(638)	150	(488)
Convertible debentures	(355)	80	(275)	(2)	10	8
Total interest expense	(1,043)	(574)	(1,617)	(1,299)	(1,002)	(2,301)
Net increase	$(1,608)	$(277)	$(1,885)	$(3,186)	$313	$(2,873)

(1) Changes due to both volume and rate have been allocated to volume changes.

Comparison of interest income, interest expense and net interest margin

The Company's primary source of revenue is interest income. Interest income for the year ended December 31, 2013 was $27.9 million a decrease from $31.4 million and $36.5 million, respectively for the years ended December 31, 2012 and 2011. The majority of the declines in interest income resulted from lower average earning assets and decreased yields in 2013 compared to 2012 and 2011. The decrease in average earning assets was the result of strategic planning to reduce the balance sheet and problem assets. The yield on interest-earning assets for 2013 compared to 2012 and 2011 decreased to 5.34% mostly due to decreased yields on loans.

Interest expense for the year ended December 31, 2013 compared to 2012 and 2011 decreased by $1.6 million and $3.9 million, respectively to $4.3 million. This decline was primarily due to decreased average cost of interest-bearing deposits, which declined 20 basis points to 77 basis points in 2013 compared to the same period in 2012 and declined 50 basis points compared to 2011. Interest paid on the debentures and other borrowings decreased in 2013 compared to 2012 and 2011 due to debenture conversions in 2013 and decreased Federal Home Loan Bank ("FHLB") borrowings.

The net impact of the changes in yields on interest-earning assets and interest-bearing liabilities was to improve the margin slightly to 4.51% for 2013 compared to 4.49% for 2012 and 4.47% in 2011.

Net interest income declined by $2.9 million, or 10.2%, for 2012 compared to 2011. Total interest income declined by $5.1 million, or 14.0%, from $36.5 million in 2011 to $31.4 million in 2012. The entire $5.1 million decline in total interest income resulted from the decline in average interest-earnings assets from $632.5 million for 2011 to

$566.6 million for 2012. Yields on interest-earning-assets decreased from 5.78% for 2011 to 5.54% for 2012.

The decline in interest income for 2012 compared to 2011 was partly offset by the $2.4 million reduction of interest expense, from $8.3 million for 2011 to $5.9 million for 2012. Of this decline, $1.0 million resulted from lower rates paid on deposits and borrowings. The remaining $1.3 million reduction of interest expense resulted from the decline in average interest-bearing liabilities from $540.8 million for 2011 to $475.1 million in 2012.

Provision for loan losses

The provision for loan losses in each period is reflected as a charge against earnings in that period. The provision for loan losses is equal to the amount required to maintain the allowance for loan losses at a level that is adequate to absorb probable losses inherent in the loan portfolio. The provision for loan losses was $(1.9 million) in 2013 compared to $4.3 million in 2012 and $14.6 million in 2011. The Company has been experiencing a downward trend in net charge-offs and increased credit quality, which resulted in a release of reserves. The ratio of the allowance for loan losses to loans held for investment decreased from 3.66% at December 31, 2012 to 2.98% at December 31, 2013.

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The following schedule summarizes the provision, charge-offs (recoveries) by loan category for the year ended December 31, 2013, 2012 and 2011:

	For the Year Ended December 31,							
	Manufactured Housing	Commercial Real Estate	Commercial	SBA	HELOC	Single Family Real Estate	Consumer	Total
2013	(in thousands)							
Beginning balance	$5,945	$ 2,627	$ 2,325	$2,733	$ 634	$ 198	$ 2	$14,464
Charge-offs	(1,294)	(349)	(149)	(547)	(39)	(179)	(37)	(2,594)
Recoveries	257	1,243	212	559	3	8	-	2,282
Net charge-offs	(1,037)	894	63	12	(36)	(171)	(37)	(312)
Provision	206	(969)	(324)	(794)	(318)	218	37	(1,944)
Ending balance	$5,114	$ 2,552	$ 2,064	$1,951	$ 280	$ 245	$ 2	$12,208
2012								
Beginning balance	$4,629	$ 3,528	$ 2,734	$3,877	$ 349	$ 150	$ 3	$15,270
Charge-offs	(3,652)	(1,687)	(656)	(623)	(76)	(314)	(8)	(7,016)
Recoveries	144	756	131	837	50	6	5	1,929
Net charge-offs	(3,508)	(931)	(525)	214	(26)	(308)	(3)	(5,087)
Provision	4,824	30	116	(1,358)	311	356	2	4,281
Ending balance	$5,945	$ 2,627	$ 2,325	$2,733	$ 634	$ 198	$ 2	$14,464
2011								
Beginning balance	$4,168	$ 2,532	$ 2,094	$3,753	$ 547	$ 135	$ 73	$13,302
Charge-offs	(2,996)	(4,224)	(2,153)	(2,930)	(1)	(788)	-	(13,092)
Recoveries	73	5	75	299	-	17	-	469
Net charge-offs	(2,923)	(4,219)	(2,078)	(2,631)	(1)	(771)	-	(12,623)
Provision	3,384	5,215	2,718	2,755	(197)	786	(70)	14,591
Ending balance	$4,629	$ 3,528	$ 2,734	$3,877	$ 349	$ 150	$ 3	$15,270

The percentage of net non-accrual loans to the total loan portfolio has decreased to 3.55% as of December 31, 2013 from 4.84% at December 31, 2012.

The allowance for loan losses compared to net non-accrual loans has increased to 72.5% as of December 31, 2013 from 64.5% as of December 31, 2012. Total past due loans declined to $2.6 million as of December 31, 2013 from $9.0 million as of December 31, 2012. Of these past due amounts, $0.4 million and $5.6 million were guaranteed by the SBA as of December 31, 2013 and December 31, 2012, respectively.

Non-interest Income

The Company earned non-interest income primarily through fees related to services provided to loan and deposit customers, gains from loan sales, investment securities gains and other.

The following tables present a summary of non-interest income for the periods presented:

	Year Ended December 31,		Increase	Year Ended December 31,		Increase
	2013	2012	(Decrease)	2012	2011	(Decrease)

	(in thousands)					
Other loan fees	$1,033	$1,124	$ (91)	$1,124	$1,380	$ (256)
Gains from loan sales, net	361	1,660	(1,299)	1,660	370	1,290
Document processing fees	463	407	56	407	418	(11)
Loan servicing, net	198	268	(70)	268	300	(32)
Service charges	318	410	(92)	410	505	(95)
Gains from sales of available-for-sale securities	-	121	(121)	121	-	121
Other	458	291	167	291	238	53
Total non-interest income	$2,831	$4,281	$ (1,450)	$4,281	$3,211	$ 1,070

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Non-interest income decreased by $1.5 million to $2.8 million for 2013 compared to $4.3 million in 2012 primarily due to gains of $1.4 million in 2012 resulting from the sale of SBA and USDA loans and investment securities. There were no such sales in 2013.

Non-interest income increased by $1.1 million to $4.3 million for 2012 compared to $3.2 million in 2011 primarily due to the sales of loans and securities mentioned above in 2012 that did not happen in 2011. The increase in gains was partially offset by a decline in other loan fees mostly due to a decline in the volume of new loans in 2012 compared to 2011.

Non-Interest Expense

The following tables present a summary of non-interest expense for the periods presented:

	Year Ended December 31,		Increase	Year Ended December 31,		Increase
	2013	2012	(Decrease)	2012	2011	(Decrease)
	(in thousands)					
Salaries and employee benefits	$12,842	$11,552	$ 1,290	$11,552	$11,816	$ (264)
Occupancy expense, net	1,814	1,829	(15)	1,829	1,969	(140)
Loan servicing and collection	1,444	1,492	(48)	1,492	1,538	(46)
Professional services	1,219	1,484	(265)	1,484	1,058	426
FDIC assessment	1,046	1,342	(296)	1,342	957	385
Data processing	549	533	16	533	529	4
Advertising and marketing	512	367	145	367	395	(28)
Depreciation	300	306	(6)	306	374	(68)
Net loss on sales/write-downs of foreclosed real estate and repossessed assets	388	1,161	(773)	1,161	2,630	(1,469)
Other	2,021	2,180	(159)	2,180	2,054	126
Total non-interest expenses	$22,135	$22,246	$ (111)	$22,246	$23,320	$ (1,074)

Non-interest expenses decreased slightly to $22.1 million in 2013 compared to $22.2 million for 2012. Salaries and benefits increased by $1.3 million in 2013 compared to 2012 due to increased staffing in the loan production and credit administration as well as severance paid on the closure of the Roseville SBA production office in the second quarter 2013. In addition, advertising and marketing expense increased $0.1 million for the comparable periods mostly due to increased print media advertising. These increases were mostly offset by decreased losses on sales and write-downs of foreclosed assets of $0.8 million, decreased professional services of $0.3 million and FDIC insurance of $0.3 million mostly the result of the decline in problem assets.

Non-interest expenses decreased $1.1 million, or 4.7%, to $22.2 million in 2012 compared to $23.3 million for 2011. The largest decrease resulted from loss on sale and write-down of foreclosed real estate and repossessed assets. This expense was $1.2 million for 2012 compared to $2.6 million for 2011, a decrease of $1.4 million mostly due to a decline in volume of new foreclosed properties. This decline in non-interest expenses from repossessed assets' expenses was partly offset by the FHLB advance prepayment fee of $0.4 million as a result of the prepayment of $22 million of FHLB advances, as well as an increase in professional services of $0.4 million from $1.5 million in 2012 to $1.1 million for 2011 for audit-related expenses.

Income Taxes

The income tax provision for 2013 was a benefit of $2.8 million compared to no income tax expense in 2012 and income tax expense of $4.1 million in 2011. The effective income tax rate was (45.5)%, 0% and 63.6%, respectively for 2013, 2012 and 2011.

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts and their respective tax bases including operating losses and tax credit carryforwards. Net deferred tax assets are reported in the consolidated balance sheet as a component of total assets.

Accounting standards Codification Topic 740, Income Taxes, requires that companies assess whether a valuation allowance should be established against their deferred tax assets based on the consideration of all available evidence using a “more likely than not” standard. The determination of whether a valuation allowance for deferred tax assets is appropriate is subject to considerable judgment and requires an evaluation of all positive and negative evidence with more weight given to evidence that can be objectively verified. Each period, management considers both positive and negative evidence and analyzes changes in near-term market conditions as well as other factors which may impact future operating results.

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The valuation on deferred tax assets was zero and $5.4 million, respectively, at December 31, 2013 and 2012. The determination of whether a valuation allowance for deferred tax assets is appropriate is subject to considerable judgment and requires an evaluation of all the positive and negative evidence.

At December 31, 2013, the Company reversed $2.8 million of valuation allowance on its net deferred tax assets. The Company established a full valuation allowance on its net deferred tax assets in 2011 due to realization of significant losses and uncertainty about future earnings forecasts.

The Company evaluated the need for a valuation allowance at December 31, 2013. Based on the assessment of all the positive and negative evidence, management concluded that it is more likely than not that all of the $4.5 million net deferred tax asset will be realized based upon future taxable income. The positive evidence considered by management in arriving at the conclusion that a valuation allowance is not necessary included six consecutive profitable quarters beginning with the third quarter of 2012, the Company is not in a three-year cumulative loss position, the Company's strong pre-crisis earnings history and growth in pre-tax earnings and significant improvement in credit measures, which improve both the sustainability of profitability and management's ability to forecast future credit losses. The negative evidence considered by management included its regulatory agreements with the banking regulatory agencies. Effective January 27, 2014 the regulatory agreement between CWB and the OCC was terminated and, therefore CWB is no longer subject to the requirements of that regulatory agreement. All these factors were given the appropriate weighting in our analysis and management concluded that such positive evidence was sufficient to overcome the weight of negative evidence related to operating losses in prior years.

The Company is subject to the provisions of ASC 740, Income Taxes (ASC 740). ASC 740 prescribes a more-likely-than-not threshold for the financial statement recognition of uncertain tax positions. ASC 740 clarifies the accounting for income taxes by prescribing a minimum recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. On a quarterly basis, the Company undergoes a process to evaluate whether income tax accruals are in accordance with ASC 740 guidance on uncertain tax positions.

Additional information regarding income taxes, including a reconciliation of the differences between the recorded income tax provision and the amount of tax computed by applying statutory federal and state income tax rates before income taxes, can be found in Note 7 "Income Taxes" to the consolidated financial statements of this annual report on Form 10-K beginning on page 78.

BALANCE SHEET ANALYSIS

Total assets increased $6.9 million to $539.0 million at December 31, 2013 compared to $532.1 million at December 31, 2012. The majority of the increase was in total loans of $10.5 million, or 2.3%, to $474.2 million. Investment securities increased by $4.1 million as the Company invested excess liquidity.

Total liabilities decreased $7.6 million, or 1.6% to $471.4 million at December 31, 2013 from $479.1 million at December 31, 2012. Total deposits increased slightly by $1.9 million to $436.1 million at December 31, 2013 from $434.2 million at December 31, 2012. Non-interest bearing demand deposits decreased slightly to $52.5 million at December 31, 2013 from $53.6 million at December 31, 2012.

Total stockholders' equity increased by $14.6 million to $67.6 million at December 31, 2013 from $53.0 million at December 31, 2012.

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The following tables present the Company's average balances as of the dates indicated:

	December 31,								
	2013			2012			2011		
	Amount	Percent		Amount	Percent		Amount	Percent	
ASSETS:	(dollars in thousands)								
Cash and due from banks	$1,122	0.2	%	$979	0.2	%	$1,012	0.2	%
Interest-earning deposits in other institutions	34,786	6.5	%	30,330	5.2	%	15,746	2.4	%
Federal funds sold	24	0.0	%	907	0.2	%	927	0.1	%
Investment securities available-for-sale	14,339	2.7	%	16,541	2.8	%	23,857	3.7	%
Investment securities held-to-maturity	10,862	2.0	%	13,393	2.3	%	15,279	2.3	%
FRB and FHLB stock	4,012	0.8	%	5,159	0.9	%	5,977	0.9	%
Loans - held for sale, net	64,259	12.1	%	62,906	10.8	%	76,951	11.8	%
Loans - held for investment, net	380,348	71.6	%	422,159	72.7	%	480,012	73.4	%
Servicing rights	654	0.1	%	732	0.1	%	717	0.1	%
Other assets acquired through foreclosure, net	3,821	0.7	%	3,869	0.7	%	8,462	1.3	%
Premises and equipment, net	3,013	0.6	%	3,070	0.5	%	3,006	0.5	%
Other assets	14,098	2.7	%	20,919	3.6	%	21,876	3.3	%
TOTAL ASSETS	$531,338	100.0	%	$580,964	100.0	%	$653,822	100.0	%
LIABILITIES:									
Deposits:									
Non-interest bearning demand	$53,278	10.0	%	$52,196	9.0	%	$50,144	7.6	%
Interest-bearing demand	258,345	48.6	%	280,831	48.3	%	280,950	43.0	%
Savings	16,334	3.1	%	17,683	3.0	%	20,701	3.2	%
Time certificates of $100,000 or more	86,810	16.3	%	99,831	17.2	%	124,397	19.0	%
Other time certificates	15,685	3.0	%	28,774	5.0	%	43,580	6.7	%
Total deposits	430,452	81.0	%	479,315	82.5	%	519,772	79.5	%
Other borrowings	37,828	7.1	%	47,942	8.2	%	71,175	10.9	%
Other liabilities	3,755	0.7	%	2,652	0.5	%	1,116	0.2	%
Total liabilities	472,035	88.8	%	529,909	91.2	%	592,063	90.6	%
STOCKHOLDERS' EQUITY									
Preferred stock	15,466	2.9	%	15,193	2.6	%	14,931	2.3	%
Common stock	37,159	7.0	%	33,440	5.8	%	33,370	5.1	%
Retained earnings	6,759	1.3	%	2,369	0.4	%	13,311	2.0	%
Accumulated other comprehensive (loss) income	(81)	(0.0)	%	53	0.0	%	147	0.0	%
Total stockholders' equity	59,303	11.2	%	51,055	8.8	%	61,759	9.4	%
TOTAL LIBILITIES AND STOCKHOLDERS' EQUITY	$531,338	100.0	%	$580,964	100.0	%	$653,822	100.0	%

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Loan Portfolio

The table below summarizes the distribution of the Company's loans at the year-end:

	December 31, 2013	2012	2011	2010	2009
	(in thousands)				
Manufactured housing	$172,055	$177,391	$189,331	$194,682	$195,656
Commercial real estate	142,678	126,677	168,812	173,906	180,688
Commercial	62,420	37,266	42,058	57,369	61,810
SBA	71,692	86,389	112,012	129,004	139,541
HELOC	15,418	17,852	20,719	20,273	17,902
Single family real estate	10,150	9,939	11,779	13,722	14,793
Consumer	184	232	312	379	286
Mortgage loans held for sale	-	8,223	3,179	4,865	6,896
Total loans	474,597	463,969	548,202	594,200	617,572
Less:					
Allowance for loan losses	12,208	14,464	15,270	13,302	13,733
Deferred costs, net	45	(128)	(109)	(195)	(228)
Discount on SBA loans	339	432	325	461	627
Total loans, net	$462,005	$449,201	$532,716	$580,632	$603,440
Percentage to Total Loans:					
Manufactured housing	36.3 %	38.2 %	34.5 %	32.8 %	31.7 %
Commercial real estate	30.1 %	27.3 %	30.8 %	29.3 %	29.3 %
Commercial	13.2 %	8.0 %	7.7 %	9.6 %	10.0 %
SBA	15.1 %	18.6 %	20.4 %	21.7 %	22.6 %
HELOC	3.2 %	3.8 %	3.8 %	3.4 %	2.9 %
Single family real estate	2.1 %	2.2 %	2.1 %	2.3 %	2.4 %
Consumer	-	0.1 %	0.1 %	0.1 %	0.0 %
Mortgage loans held for sale	-	1.8 %	0.6 %	0.8 %	1.1 %
	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %

Commercial Loans

Commercial loans consist of term loans and revolving business lines of credit. Under the terms of the revolving lines of credit, the Company grants a maximum loan amount, which remains available to the business during the loan term. The collateral for these loans typically are secured by Uniform Commercial Code ("UCC-1") lien filings, real estate and personal guarantees. The Company 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, commercial and industrial properties or single-family residences. This loan category also includes SBA 504 loans and land loans.

Commercial and industrial real estate loans are secured by nonresidential property. Office buildings or other commercial property primarily secure these types of loans. Loan to appraised value ratios on nonresidential real estate loans are generally restricted to 75% of appraised value of the underlying real property if occupied by the owner or owner's business; otherwise, these loans are generally restricted to 70% of appraised value of the underlying real property.

The Company makes real estate construction loans on commercial properties and single family dwellings. These loans are collateralized by first and second trust deeds on 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%.

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. Construction loans of this type must provide additional collateral to reduce the loan-to-value to approximately 75%. Conventional and investor loans are sometimes funded by our secondary-market partners and the Bank receives a premium for these transactions.

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SBA Loans

SBA loans consist of SBA 7(a) and Business and Industry loans (“B&I”). The SBA 7(a) loan proceeds are used for working capital, machinery and equipment purchases, land and building purposes, leasehold improvements and debt refinancing. At present, the SBA guarantees as much as 85% on loans up to $150,000 and 75% on loans more than $150,000. In certain instances, the Company sells a portion of the loans, however, 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 maximum guaranteed amount is 80%. B&I loans are similar to the SBA 7(a) loans but are made to businesses in designated rural areas. These loans can also be sold into the secondary market.

Agricultural Loans for real estate and operating lines

The Company has an agricultural lending program for agricultural land, agricultural operational lines, and agricultural term loans for crops, equipment and livestock. The primary product is supported by guarantees issued from the U.S. Department of Agriculture (“USDA”), Farm Service Agency (“FSA”), and the USDA Business and Industry loan program. The FSA loans typically issue a 90% guarantee up to $1,355,000 (amount adjusted annually based on inflation) for up to 40 years.

CWB is an approved Federal Agricultural Mortgage Corporation (“Farmer Mac”) lender under the Farmer Mac I and Farmer Mac II Programs. Under the Farmer Mac I program, loans are sourced by CWB, underwritten, funded and serviced by Farmer Mac. CWB receives an origination fee and an ongoing field servicing fee for maintaining the relationship with the borrower and performing certain loan compliance monitoring, and other duties as directed by the Central Servicer. The Farmer Mac II program was authorized by Congress in 1991 to establish a uniform national secondary market for originators and investors using the USDA guaranteed loan programs. Under this program, CWB will sell the guaranteed portions of USDA loans directly to Farmer Mac’s subsidiary, Farmer Mac II LLC, service the loans, and retain the unguaranteed portions of those loans in accordance with the terms of the existing USDA guaranteed loan programs. Eligible loans include FSA and Business and Industrial loans. To participate in the program, CWB was required to purchase 2,000 shares of Farmer Mac Class A Stock (“AGM”).

Single Family Real Estate Loans

The Company originates loans that 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 Bank originates loans secured by manufactured homes located in approved mobile home parks in our primary lending area of Santa Barbara and Ventura Counties as well as in approved mobile home parks along the California coast from San Diego to San Francisco. The loans are serviced internally and are originated under one of two programs: fixed rate loans written for terms of 10 to 25 years; and adjustable rate loans written for a terms of 25 to 30 years with the initial interest rates fixed for the first 5 or 10 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 are collateralized by a second deed of trust. The combined loan-to-value, first trust deed and second trust deed, are not to exceed 75% on all new HELOCs.

Other Installment Loans

Installment loans consist of automobile and general-purpose loans made to individuals.

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The following table sets forth the amount of loans outstanding by type of loan as of December 31, 2013 that were contractually due in one year or less, more than one year and less than five years, and more than five years based on remaining scheduled repayments of principal. Lines of credit or other loans having no stated final maturity and no stated schedule of repayments are reported as due in one year or less. The tables also present an analysis of the rate structure for loans within the same maturity time periods. Actual cash flows from these loans may differ materially from contractual maturities due to prepayment, refinancing or other factors.

	Due in one year or less	Due after one year to five years	Due after five years	Total
	(in thousands)			
Manufactured housing				
Floating rate	$2,078	$9,619	$83,832	$95,529
Fixed rate	10,899	46,625	19,002	76,526
Commercial real estate				
Floating rate	20,471	29,636	75,659	125,766
Fixed rate	1,498	5,867	9,547	16,912
Commercial				
Floating rate	9,637	15,716	29,242	54,595
Fixed rate	1,451	6,342	32	7,825
SBA				
Floating rate	5,883	21,702	44,107	71,692
Fixed rate	-	-	-	-
HELOC				
Floating rate	2,544	733	12,141	15,418
Fixed rate	-	-	-	-
Single family real estate				
Floating rate	130	791	5,437	6,358
Fixed rate	760	938	2,094	3,792
Consumer				
Floating rate	97	-	-	97
Fixed rate	17	70	-	87
Total	$55,465	$138,039	$281,093	$474,597

At December 31, 2013, total loans consisted of 77.8 % with floating rates and 22.2% with fixed rates.

The following table presents total gross loans based on remaining scheduled contractual repayments of principal as of the periods indicated:

	December 31, 2013		2012		2011		2010		2009
	(in thousands)								
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate	Fixed Rate
Less than one year	$14,625	$40,840	$19,274	$31,754	$19,822	$53,168	$20,542	$62,708	$20,571
One to five years	59,842	78,197	73,550	100,061	85,870	126,661	85,103	121,569	87,062

Over five years	30,675	250,418	40,027	199,303	56,085	206,596	81,915	222,363	111,243
Total	$105,142	$369,455	$132,851	$331,118	$161,777	$386,425	$187,560	$406,640	$218,876
Percentage of total	22.2 %	77.8 %	28.6 %	71.4 %	29.5 %	70.5 %	31.6 %	68.4 %	35.4 %

Concentrations of Lending Activities

The Company's lending activities are primarily driven by the customers served in the market areas where the Company has branch offices in the Central Coast of California. The Company monitors concentrations within five broad categories: geography, industry, product, call code, and collateral. The Company grants manufactured housing, commercial, SBA, construction, real estate and consumer loans to customers through branch offices located in the Company's primary markets. The Company's business is concentrated in these areas and the loan portfolio includes significant credit exposure to the manufactured housing and commercial real estate markets of these areas. As of December 31, 2013 and 2012, manufactured housing comprised 36.3% and 38.3%, respectively of total loans. The Company performs a monthly analysis of the manufactured housing loan portfolio which includes weighted average and stratification of various components of credit quality, including loan-to-value, borrower FICO score, loan maturity, debt-to-income ratio, loan amount, mobile home age, mobile home park and location. This concentration is somewhat mitigated by the fact that the portfolio consists of 1,786 individual borrowers as of December 31, 2013 in over 50 mobile home parks. 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. As of December 31, 2013 and 2012, commercial real estate loans accounted for approximately 30.1% and 27.3% of total loans, respectively. Approximately 62.2% and 59.1% of these commercial real estate loans were owner-occupied at December 31, 2013 and 2012, respectively. Substantially all of these loans are secured by first liens with an average loan to value ratios of 48.5% and 47.8% at December 31, 2013 and 2012, respectively. The Company was within established policy limits at December 31, 2013 and 2012.

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Interest Reserves

Interest reserves are generally established at the time of the loan origination as an expense item in the budget for a construction and land development loan. The Company's practice is to monitor the construction, sales and/or leasing progress to determine the feasibility of ongoing construction and development projects. If, at any time during the life of the loan, the project is determined not to be viable, the Company discontinues the use of the interest reserve and may take appropriate action to protect its collateral position via renegotiation and/or legal action as deemed appropriate. At December 31, 2013, the Company had five loans with an outstanding balance of $5.7 million with available interest reserves of $0.1 million.

Impaired loans

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

A loan is considered a troubled debt restructured loan ("TDR") when concessions have been made to the borrower and the borrower is in financial difficulty. These concessions include but are not limited to term extensions, rate reductions and principal reductions. Forgiveness of principal is rarely granted and modifications for all classes of loans are predominantly term extensions. TDR loans are also considered impaired.

The overall credit quality of the loan portfolio has improved as reflected in the decline in past due loans of $6.4 million or 71.1%, from $9.0 million at December 31, 2012 to $2.6 million at December 31, 2013 mostly due to declined past due loans in the SBA portfolio which decreased $6.3 million, from $6.8 million at December 31, 2012 to $0.5 million at December 31, 2013.

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

	Year Ended December 31,				
	2013	2012	2011	2010	2009
	(in thousands)				
Impaired loans without specific valuation allowances	$4,980	$17,484	$31,678	$13,285	$13,699
Impaired loans with specific valuation allowances	15,140	12,163	8,226	1,703	716
Specific valuation allowance related to impaired loans	(1,439)	(1,794)	(248)	(362)	(622)
Impaired loans, net	$18,681	$27,853	$39,656	$14,626	$13,793
Average investment in impaired loans	$24,435	$42,555	$34,852	$15,591	$9,058

The following schedule summarizes impaired loans and specific reserves by loan class as of the periods indicated:

	Manufactured	Commercial	Single Family	Total

	Housing	Real Estate	Commercial	SBA	HELOC	Real Estate	Consumer	Loans
Impaired Loans as of December 31, 2013:	(in thousands)							
Recorded Investment:								
Impaired loans with an allowance recorded	$6,368	$ 2,322	$ 3,583	$1,607	$ 615	$ 645	$ -	$15,140
Impaired loans with no allowance recorded	2,782	1,628	254	210	-	106	-	4,980
Total loans individually evaluated for impairment	9,150	3,950	3,837	1,817	615	751	-	20,120
Related Allowance for Credit Losses								
Impaired loans with an allowance recorded	618	159	437	139	29	57	-	1,439
Impaired loans with no allowance recorded	-	-	-	-	-	-	-	-
Total loans individually evaluated for impairment	618	159	437	139	29	57	-	1,439
Total impaired loans, net	$8,532	$ 3,791	$ 3,400	$1,678	$ 586	$ 694	$ -	$18,681

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	Manufactured Housing	Commercial Real Estate	Commercial	SBA	HELOC	Single Family Real Estate	Consumer	Total Loans
Impaired Loans as of December 31, 2012:	(in thousands)							
Recorded Investment:								
Impaired loans with an allowance recorded	$5,748	$ 519	$ 5,044	$503	$ 269	$ 80	$ -	$12,163
Impaired loans with no allowance recorded	4,687	11,389	49	1,238	-	121	-	17,484
Total loans individually evaluated for impairment	10,435	11,908	5,093	1,741	269	201	-	29,647
Related Allowance for Credit Losses								
Impaired loans with an allowance recorded	1,103	4	569	58	49	11	-	1,794
Impaired loans with no allowance recorded	-	-	-	-	-	-	-	-
Total loans individually evaluated for impairment	1,103	4	569	58	49	11	-	1,794
Total impaired loans, net	$9,332	$ 11,904	$ 4,524	$1,683	$ 220	$ 190	$ -	$27,853

Total impaired loans decreased by $9.5 million, or 32.1% at December 31, 2013 compared to December 31, 2012. The majority of this decrease was in commercial real estate impaired loans which decreased by $8.0 million or 67.2% from the end of 2012. During 2013, the Company sold $5.1 million of impaired commercial real estate loans to third parties. The remaining decrease in impaired commercial real estate loans was due to upgrades and payments partially offset by $1.9 million added during 2013. Impaired manufactured housing and impaired commercial loans decreased by $1.3 million, respectively in 2013 compared to 2012. Impaired commercial loans decreased in 2013 compared to 2012 mostly the result of upgrades with some payments and a charge-off. The number of impaired manufactured housing loans remained relatively the same, with approximately149 impaired manufactured housing loans at December 31, 2013 compared to 151 at December 31, 2012. The Company believes the credit quality in the manufactured housing portfolio has stabilized. The increase of $0.9 million in impaired single family and HELOC loans is due to $0.8 million of new loans transferred to impaired loan status during 2013 offset by payments and a small HELOC charge-off.

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

	Year Ended December 31,				
	2013	2012	2011	2010	2009
	(in thousands)				
Nonaccrual loans	$23,263	$29,643	$42,343	$34,950	$40,265
SBA guaranteed portion of loans included above	(6,426)	(7,218)	(13,673)	(22,279)	(24,088)
Total nonaccrual loans, net	$16,837	$22,425	$28,670	$12,671	$16,177
TDR loans, gross	$12,308	$19,931	$17,885	$11,088	$7,013
Loans 30 through 89 days past due with interest accruing	$161	$521	$3,114	$2,586	$17,686
Allowance for loan losses to gross loans held for investment	2.98 %	3.66 %	3.24 %	2.60 %	2.67 %
Interest income recognized on impaired loans	$876	$1,406	$1,643	$381	$426
	$1,754	$2,692	$2,920	$2,344	$2,109

Interest income that would have been recorded under the original terms of nonaccrual loans

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 usually 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.

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The following table summarizes the composite of nonaccrual loans net of SBA guarantee:

	At Decmber 31, 2013			At December 31, 2012		
	Nonaccrual Balance	%	Percent of Total Loans	Nonaccrual Balance	%	Percent of Total Loans
	(dollars in thousands)					
Manufactured housing	$6,235	37.03 %	1.31 %	$7,542	33.63 %	1.63 %
Commercial real estate	3,672	21.81 %	0.77 %	11,105	49.52 %	2.39 %
Commercial	3,837	22.79 %	0.81 %	1,945	8.68 %	0.42 %
SBA	1,803	10.71 %	0.38 %	1,442	6.43 %	0.31 %
HELOC	615	3.65 %	0.13 %	269	1.20 %	0.06 %
Single family real estate	675	4.01 %	0.14 %	121	0.54 %	0.03 %
Consumer	-	0.00 %	0.00 %	1	0.00 %	0.00 %
Total nonaccrual loans	$16,837	100.00 %	3.55 %	$22,425	100.00 %	4.84 %

Net nonaccrual loans decreased $5.6 million or 24.9%, from $22.4 million at December 31, 2012 to $16.8 million at December 31, 2013. The percentage of net nonaccrual loans to the total loan portfolio has decreased to 3.55% as of December 31, 2013 from 4.84% at December 31, 2012. During the third quarter 2013, the Company sold $5.1 million of nonaccrual commercial real estate loans to third parties.

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

Total gross TDRs have declined $7.6 million or 38.2% to $12.3 million at December 31, 2013 from $19.9 million at December 31, 2012. At December 31, 2013, there were $5.8 million of manufactured housing TDR loans, $3.8 million of commercial loan TDRs, $1.2 million of commercial real estate TDRs, $0.7 million of SBA 504 1st TDRs, $0.5 million residential real estate TDR loans, $0.2 million HELOC TDR loans and $0.1 million SBA TDR loans compared to $6.3 million of manufactured housing TDR loans, $4.9 million of commercial TDR loans, $6.8 million commercial real estate TDR loans, $1.3 million SBA 504 1st trust deed TDR loans, $0.2 million HELOC TDR loans and $0.4 million SBA TDR loans at December 31, 2012.

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Allowance for Loan Losses

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

	Year Ended December 31,				
	2013	2012	2011	2010	2009
Allowance for loan losses:	(dollars in thousands)				
Balance at beginning of period	$14,464	$15,270	$13,302	$13,733	$7,341
Provisions charged to operating expenses:					
Manufactured housing	206	4,824	3,384	4,072	2,170
Commercial real estate	(969)	30	5,215	873	3,345
Commercial	(324)	116	2,718	(398)	5,584
SBA	(794)	(1,358)	2,755	3,184	7,189
HELOC	(318)	311	(197)	873	20
Single family real estate	218	356	786	172	184
Consumer	37	2	(70)	(33)	186
Total Provision	(1,944)	4,281	14,591	8,743	18,678
Recoveries of loans previously charged-off:					
Manufactured housing	257	144	73	43	-
Commercial real estate	1,243	756	5	8	-
Commercial	212	131	75	99	45
SBA	559	837	299	360	96
HELOC	3	50	-	8	-
Single family real estate	8	6	17	6	7
Consumer	-	5	-	24	3
Total recoveries	2,282	1,929	469	548	151
Loans charged-off:					
Manufactured housing	1,294	3,652	2,996	2,202	1,574
Commercial real estate	349	1,687	4,224	1,192	1,972
Commercial	149	656	2,153	1,055	3,609
SBA	547	623	2,930	4,628	5,004
HELOC	39	76	1	458	-
Single family real estate	179	314	788	186	161
Consumer	37	8	-	1	117
Total charged-off	2,594	7,016	13,092	9,722	12,437
Net charge-offs	312	5,087	12,623	9,174	12,286
Balance at end of period	$12,208	$14,464	$15,270	$13,302	$13,733
Net charge-offs to average loans outstanding	0.07 %	1.02 %	2.21 %	1.52 %	2.03 %
Allowance for loan losses to gross loans	2.57 %	3.12 %	2.83 %	2.24 %	2.22 %

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The following table summarizes the allocation of allowance for loan losses by loan type. However allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories:

	December 31, 2013		2012		2011		2010		2009	
	(dollars in thousands)									
	Amount	% of Loans in Each Category to Gross Loans	Amount	% of Loans in Each Category to Gross Loans	Amount	% of Loans in Each Category to Gross Loans	Amount	% of Loans in Each Category to Gross Loans	Amount	% of Loans in Each Category to Gross Loans
Manufactured housing	$5,114	41.9 %	$5,945	38.2 %	$4,629	34.5 %	$4,168	32.8 %	$2,255	31.7 %
Commercial real estate	2,552	20.9 %	2,627	27.3 %	3,528	30.8 %	2,532	29.3 %	2,843	29.3 %
Commercial	2,064	16.9 %	2,325	8.0 %	2,734	7.7 %	2,094	9.6 %	3,448	10.0 %
SBA	1,951	16.0 %	2,733	18.6 %	3,877	20.4 %	3,753	21.7 %	4,837	22.6 %
HELOC	280	2.3 %	634	3.8 %	349	3.8 %	547	3.4 %	124	2.9 %
Single family real estate	245	2.0 %	198	4.0 %	150	2.7 %	135	3.1 %	143	3.5 %
Consumer	2	0.0 %	2	0.1 %	3	0.1 %	73	0.1 %	83	0.0 %
Total	$12,208	100.0 %	$14,464	100.0 %	$15,270	100.0 %	$13,302	100.0 %	$13,733	100.0 %

Total ALL decreased by $2.3 million from $14.5 million at December 31, 2012 to $12.2 million at December 31, 2013 mostly the result of decreased net charge-offs of $4.8 million, or 94.1% in 2013 compared to 2012. The majority of the decrease relates to the improved credit quality in the manufactured housing loan portfolio and the commercial real estate portfolio. The manufactured housing portfolio's net losses decreased by $2.5 million, or 71.4% to $1.0 million in 2013 compared to $3.5 million in 2012. Manufactured housing impaired loans, nonaccrual loans and TDRs each declined in 2013 compared to 2012 indicating the credit quality in this portfolio has stabilized. The commercial real estate portfolio had net recoveries of $0.9 million in 2013 compared to net losses of $0.9 million in 2012. Impaired commercial real estate loans decreased by $7.8 million, or 66.4% at December 31, 2013 compared to 2012.

Potential Problem Loans

The Company classifies loans consistent with federal banking regulations. These loan grades are described in further detail in Footnote 1, "Summary of Significant Accounting Policies" of this Form 10-K. The following table presents information regarding potential problem loans consisting of loans graded watch or worse, but still performing:

December 31, 2013			
Number of Loans	Loan Balance (1)	Percent	Percent of Total Loans
(dollars in thousands)			

Manufactured housing	70	$5,001	25.54 %	1.05 %
Commercial real estate	9	7,654	39.08 %	1.61 %
Commercial	13	2,160	11.03 %	0.46 %
SBA	13	3,282	16.76 %	0.69 %
HELOC	7	1,314	6.71 %	0.28 %
Single family real estate	3	173	0.88 %	0.04 %
Consumer	-	-	0.00 %	0.00 %
Total	115	$19,584	100.00%	4.13 %

(1) Loan balance includes $3.8 million guaranteed by government agencies

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Investment Securities

Investment securities are classified at the time of acquisition as either held-to-maturity or available-for-sale based upon various factors, including asset/liability management strategies, liquidity and profitability objectives, and regulatory requirements. Held-to-maturity securities are carried at amortized cost, adjusted for amortization of premiums or accretion of discounts. Available-for-sale securities are securities that may be sold prior to maturity based upon asset/liability management decisions. Investment securities identified as available-for-sale are carried at fair value. Unrealized gains or losses on available-for-sale securities are recorded as accumulated other comprehensive income in stockholders' equity. Amortization of premiums or accretion of discounts on mortgage-backed securities is periodically adjusted for estimated prepayments.

The investment securities portfolio of the Company is utilized as collateral for borrowings, required collateral for public deposits and to manage liquidity, capital, and interest rate risk.

The carrying value of investment securities for the years indicated was as follows:

	December 31,		
	2013	2012	2011
	(in thousands)		
U.S. government agency notes	$7,478	$1,988	$2,486
U.S. government agency mortgage backed securities ("MBS")	9,752	12,207	20,007
U.S. government agency collateralized mortgage obligations ("CMO")	10,861	9,845	16,430
Equity securities: Farmer Mac class A stock	69	-	-
	$28,160	$24,040	$38,923

The weighted average yields of investment securities by maturity period were as follows at December 31, 2013:

	December 31, 2013									
	Less than One Year		One to Five Years		Five to Ten Years		Over Ten Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
Securities available-for-sale	(dollars in thousands)									
U.S. government agency notes	$7,478	1.9 %	$-	-	$-	-	$-	-	$7,478	1.9 %
U.S. government agency MBS	-	-	-	-	64	2.2 %	-	-	64	2.2 %
U.S. government agency CMO	-	-	5,075	0.6 %	3,854	0.6 %	1,932	0.9 %	10,861	0.7 %
Farmer Mac class A stock	-	-	-	-	-	-	-	-	69	-
Total	$7,478	1.9 %	$5,075	0.6 %	$3,918	0.6 %	$1,932	0.9 %	$18,472	1.2 %
Securities held-to-maturity										
U.S. government agency MBS	$-	-	$2,641	4.4 %	$7,047	2.7 %	$-	-	$9,688	3.1 %
Total	$-	-	$2,641	4.4 %	$7,047	2.7 %	$-	-	$9,688	3.1 %

Expected maturities may differ from contractual maturities because borrowers or issuers have the right to call or prepay certain investment securities. Changes in interest rates may also impact prepayment or call options.

The Company does not own any subprime MBS in its investment portfolio. Gross unrealized losses at December 31, 2013 are primarily caused by interest rate fluctuations, credit spread widening and reduced liquidity in applicable markets. The Company has reviewed all securities on which there was an unrealized loss in accordance with its accounting policy for other than temporary impaired ("OTTI") described in Note 2, "Investment Securities" and determined no impairment was required. At December 31, 2013, the Company had the intent and the ability to retain its investments for a period of time sufficient to allow for any anticipated recovery in fair value.

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Other Assets Acquired Through Foreclosure

The following table represents the changes in other assets acquired through foreclosure:

	December 31, 2013	2012	2011
	(in thousands)		
Balance, beginning of period	$1,889	$6,701	$8,478
Additions	6,084	7,329	7,417
Dispositions and receivables from participants	(3,774)	(10,980)	(6,564)
Losses on sales, net	(388)	(1,161)	(2,630)
Balance, end of period	$3,811	$1,889	$6,701

Other assets acquired through foreclosure consist primarily of properties acquired as a result of, or in-lieu-of, foreclosure. Properties or other assets (primarily manufactured housing) are classified as other real estate owned and other repossessed assets and are reported at fair value at the time of foreclosure less estimated costs to sell. Costs relating to development or improvement of the assets are capitalized and costs related to holding the assets are charged to expense. At December 31, 2013 and 2012, the Company had a valuation allowance on foreclosed assets of $0.5 million and $0.1 million, respectively.

Deposits

The average balances by deposit type for the years ended December 31, 2013, 2012 and 2011 are presented below:

	Year Ended December 31, 2013		2012		2011	
	Average Balance	Percent of Total	Average Balance	Percent of Total	Average Balance	Percent of Total
	(dollars in thousands)					
Non-interest bearing demand deposits	$53,278	12.4 %	$52,196	10.9 %	$50,144	9.6 %
Interest-bearing demand deposits	258,345	60.0 %	280,831	58.6 %	280,950	54.1 %
Savings	16,334	3.8 %	17,683	3.7 %	20,701	4.0 %
Time deposits of $100,000 or more	86,810	20.2 %	99,831	20.8 %	124,397	23.9 %
Other time deposits	15,685	3.6 %	28,774	6.0 %	43,580	8.4 %
Total deposits	$430,452	100.0 %	$479,315	100.0 %	$519,772	100.0 %

Total deposits increased to $436.1 million at December 31, 2013 from $434.2 million at December 31, 2012, an increase of $1.9 million. This increase was primarily from certificates of deposit. Deposits have historically been the primary source of funding the Company's asset growth. In addition the bank is a member of Certificate of Deposit Registry Service ("CDARS"). CDARS provides a mechanism for obtaining FDIC insurance for large deposits. At December 31, 2013 and 2012, the Company had $1.7 million and $4.7 million, respectively of CDARS deposits.

Time Certificates of Deposits

The following table presents TCD maturities:

December 31, 2013		2012	
	Other		Other

	TCDs Over $ 100,000	TCDs	TCDs Over $ 100,000	TCDs
Less than three months	$9,614	$1,524	$15,427	$1,762
Three to six months	7,742	923	9,990	1,515
Six to twelve months	11,725	2,785	15,870	3,341
Over twelve months	66,898	7,860	39,423	7,470
Total deposits	$95,979	$13,092	$80,710	$14,088

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The Company’s deposits may fluctuate as a result of local and national economic conditions. Management does not believe that deposit levels are influenced by seasonal factors.

The Company utilizes money desk and brokered deposits in accordance with strategic and liquidity planning.

Convertible Debt and Other Borrowings

The following table sets forth certain information regarding FHLB advances and Convertible Debentures.

	December 31,		
	2013	2012	2011
FHLB Advances	(in thousands)		
Maximum month-end balance	$34,000	$61,000	$65,000
Balance at year end	30,000	34,000	61,000
Average balance	33,474	40,090	63,299
Convertible Debentures			
Maximum month-end balance	7,852	7,852	7,872
Balance at year end	1,442	7,852	7,852
Average balance	4,354	7,852	7,852
Total borrowed funds	$31,442	$41,852	$68,852
Weighted average interest rate at end of year	3.06 %	4.04 %	3.10 %
Weighted average interest rate during the year	3.74 %	3.79 %	3.23 %

FHLB and FRB Advances

The Company utilizes borrowed funds to support liquidity needs. The Company’s borrowing capacity at FHLB and FRB is determined based on collateral pledged, generally consisting of securities and loans. At December 31, 2013, no advances were outstanding from the FRB.

Convertible Debentures

In 2010, the Company completed an offering of $8.1 million convertible subordinated debentures. The debentures are a general unsecured obligation and are subordinated in right of payment to all present and future senior indebtedness. 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 $4.50 per share until July 1, 2016 and $6.00 per share from July 2, 2016 until maturity or redemption. In January 2014, the Company exercised its option to redeem outstanding convertible debentures in accordance with the Debenture Agreement. The Company determined March 10, 2014 as the date for early redemption. For the year ended December 31, 2013, $6.4 million of principal and $0.1 million of accrued interest had been converted to equity. At December 31, 2013 and 2012, the balance of the convertible debentures was $1.4 million and $7.9 million, respectively.

Preferred Stock

The Company’s Series A Preferred Stock paid cumulative dividends at a rate of 5% per year until February 15, 2014 then increased to a rate of 9% per year thereafter, but will be paid only if, as and when declared by the Company's Board of Directors subject to any regulatory approval requirements as may then be imposed. 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.

In December 2012, Treasury sold all of the Series A Preferred Stock to third party purchasers unaffiliated with the Company. The Company did not receive any proceeds from this auction, nor were any of the terms modified in connection with the sales.

On June 4, 2013, four members of the Board of Directors purchased 1.1 million shares of the Company's Series A Cumulative Perpetual Preferred stock from private investors.

During the years ended December 31, 2013 and 2012, the Company recorded $0.8 million of dividends and $0.3 million in accretion of the discount on preferred stock.

The Company has paid all the quarterly dividends on such Series A Preferred Stock through February 15, 2012. While the Company declared and accrued for the subsequent seven quarters of dividends, the Company's request to the FRB was denied until the fourth quarter 2013. The accrued but unpaid dividends of $1.4 million were paid on or about February 18, 2014. The deferral of the dividends on the Series A Preferred Stock is permitted under its terms and does not constitute an event of default.

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Capital Resources

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

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

Quantitative measures established by regulation to ensure capital adequacy require the Company and CWB to maintain minimum amounts and ratios (set forth in the following table) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier 1 leverage capital (as defined) to adjusted average assets (as defined).

The Company's and CWB's actual capital amounts and ratios as of December 31, 2013 and 2012 are presented in the table below:

	Total Capital	Tier 1 Capital	Risk-Weighted Assets	Adjusted Average Assets	Total Risk-Based Capital Ratio	Tier 1 Risk-Based Capital Ratio	Tier 1 Leverage Ratio
December 31, 2013	(dollars in thousands)						
CWBC (Consolidated)	$74,712	$67,773	$432,958	$534,408	17.26 %	15.65 %	12.68 %
Capital in excess of well capitalized					$31,416	$ 41,796	$41,053
CWB	$72,886	$67,391	$432,802	$531,503	16.84 %	15.57 %	12.68 %
Capital in excess of well capitalized					$29,606	$ 41,423	$40,816
December 31, 2012							
CWBC (Consolidated)	$66,076	$52,941	$413,378	$544,778	15.98 %	12.81 %	9.72 %
Capital in excess of well capitalized					$24,738	$ 28,138	$25,702
CWB	$63,089	$57,808	$413,199	$540,985	15.27 %	13.99 %	10.69 %

Capital in excess of well capitalized	$21,769	$ 33,016	$30,759
Well-capitalized ratios	10.00 %	6.00 %	5.00 %
Minimum capital ratios	8.00 %	4.00 %	4.00 %

The OCC Agreement specified that the Bank shall maintain certain minimum capital ratios, Tier 1 capital at least equal to 9.00% of adjusted total assets and total risk-based capital at least equal to 12.00% of risk weighted assets. CWB maintained the capital requirements to be deemed "well capitalized" and the capital requirements of the OCC Agreement at December 31, 2013, however, the Bank was deemed to be "adequately capitalized" as a result of the OCC Agreement. As of January 27, 2014, the OCC Agreement has been terminated and CWB is no longer subject to these capital requirements.

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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Contractual Obligations and Off-Balance Sheet Arrangements

The Company enters into contracts for services in the ordinary course of business that may require payment for services to be provided in the future and may contain penalty clauses for early termination of the contracts. To meet the financing needs of customers, the Company has financial instruments with off-balance sheet risk, including commitments to extend credit and standby letters of credit. The Company does not believe that these off-balance sheet arrangements have or are reasonably likely to have a material effect on its financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources. However, there can be no assurance that such arrangements will not have a future effect.

The following table sets forth our significant contractual obligations as of December 31, 2013.

	Payments due by Period				
	Total	Less Than 1 Year	1 to 3 Years	3 to 5 Years	After 5 Years
	(dollars in thousands)				
Time deposit maturities	$109,071	$34,313	$43,860	$30,873	$ 25
FHLB advances (including fixed rate interest)	30,000	20,000	10,000	-	-
Purchase obligations	1,398	784	577	37	-
Operating lease obligations	2,377	828	1,376	173	-
Total deposits	$142,846	$55,925	$55,813	$31,083	$ 25

Purchase obligations primarily related to contracts for software licensing and maintenance and outsourced service providers. Off-balance sheet commitments associated with outstanding letters of credit, commitments to extend credit, and overdraft lines as of December 31, 2013 are summarized below. Since commitments associated with letters of credit and commitments to extend credit may expire unused, the amounts shown do not necessarily reflect the actual future cash funding requirements.

		Amount of Commitment By Period of Expirtion			
	Total Commitments	Less Than 1 Year	1 to 3 Years	3 to 5 Years	After 5 Years
	(dollars in thousands)				
Commitments to extend credit	$19,573	$13,037	$1,994	$626	$3,916
Standby letters of credit	75	75	-	-	-
Total deposits	$19,648	$13,112	$1,994	$626	$3,916

Critical Accounting Policies

The Notes to Consolidated Financial Statements contain a discussion of our significant accounting policies, including information regarding recently issued accounting pronouncements, our adoption of such policies and the related impact of their adoption. We believe that certain of these policies, along with various estimates that we are required to make in recording our financial transactions, are important to have a complete understanding of our financial position. In addition, these estimates require us to make complex and subjective judgments, many of which include matters with a high degree of uncertainty. See "Item 8. Financial Statements and Supplementary Data - Note 1. Summary of Significant Accounting Policies for a discussion of these critical accounting policies and significant estimates.

Liquidity

Liquidity is the ongoing ability to accommodate liability maturities and deposit withdrawals, fund asset growth and business operations, and meet contractual obligations through unconstrained access to funding at reasonable market rates. Liquidity management involves forecasting funding requirements and maintaining sufficient capacity to meet the needs and accommodate fluctuations in asset and liability levels due to changes in our business operations or unanticipated events.

The ability to have readily available funds sufficient to repay fully maturing liabilities is of primary importance to depositors, creditors and regulators. Our liquidity, represented by cash and amounts due from banks, federal funds sold and non-pledged marketable securities, is a result of our operating, investing and financing activities and related cash flows. In order to ensure funds are available when necessary, on at least a quarterly basis, we project the amount of funds that will be required, and we strive to maintain relationships with a diversified customer base. Liquidity requirements can also be met through short-term borrowings or the disposition of short-term assets. The Company has federal funds borrowing lines at correspondent banks totaling $10 million. In addition, loans and securities are pledged to the FHLB providing $61.4 million in available borrowing capacity as of December 31, 2013. Loans and securities pledged to the FRB discount window provided $123.9 million in borrowing capacity. As of December 31, 2013, there were no outstanding borrowings from the FRB.

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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 through CWB has a blanket lien credit line with the FHLB. FHLB advances are collateralized in the aggregate by the Company's eligible loans and securities. Total FHLB advances were $30.0 million and $34.0 million at December 31, 2013 and 2012, respectively, borrowed at fixed rates. At December 31, 2013, CWB had pledged to FHLB, securities of $28.0 million at carrying value and loans of $27.3 million, and had $61.4 million available for additional borrowing. At December 31, 2012, the Company had pledged to FHLB, securities of $24.0 million at carrying value and loans of $25.5 million, and had $65.8 million available for additional borrowing. In 2012, the Company prepaid $5.0 million and $17.0 million, respectively, of FHLB advances.

The Company 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, 2013 and unused borrowing capacity was $123.9 million.

The Company also maintains two federal funds purchased lines with a total borrowing capacity of $25.0 million. There was no amount outstanding as of December 31, 2013 and 2012.

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 19% and 20%, respectively at December 31, 2013 and December 31, 2012. The Company's liquidity ratio fluctuates in conjunction with loan funding demands. The liquidity ratio consists of the sum 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 consisted of certain operating expenses, preferred dividends and interest payments on the convertible debentures. CWBC obtains funding to meet its obligations from dividends collected from CWB and has the capability to issue debt securities. Federal banking laws regulate the amount of dividends that may be paid by banking subsidiary without prior approval.

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 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 is caused by the mismatch in the maturities or 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 happens because loans tend to reprice more quickly than funding sources. Since CWB is somewhat asset sensitive, this would typically 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 is due to item pricing tied to different indices which tend to react differently, however, most of CWB's variable products are priced off the prime rate.

Prepayment risk results from borrowers paying down or paying off their loans prior to maturity. Prepayments on fixed-rate products increase in falling interest rate environments and decrease in rising interest rate environments. A majority of CWB's loans have adjustable rates and are reset based on changes in the prime rate resulting in little lag time on the reset. CWB generally has not experienced significant loan prepayments.

The Company's ability to originate, purchase and sell loans is also significantly impacted by changes in interest rates. In addition, increases in interest rates may reduce the amount of loan and commitment fees received by CWB.

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 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. The Company has not used derivative instruments to help manage risk, but will consider such instruments in the future if the perceived need should arise.

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For further discussion regarding the impact to the Company of interest rate changes, see "Item 7A. Quantitative and Qualitative Disclosure about Market Risk."

Litigation

On or about December 16, 2013, CWB was served with the Summons and Complaint in the action entitled Residential Funding Company, LLC v. Community West Bank, N.A., United States District Court for the District of Minnesota, Case No. 0:13-CV-03468-JRT-JJK. The Summons was issued and Complaint filed on December 13, 2013. Generally, Residential Funding Company, LLC ("RFC") seeks damages in excess of $75,000 for breach of contract and indemnification for certain unspecified residential mortgage loans originated by CWB and sold to RFC in accordance with an agreement. RFC alleges that some $22 million in loans were sold over the course of the agreement. RFC further alleges that CWB made certain representations and warranties with respect to the loans and that CWB failed to comply with such representations and warranties.

RFC alleges it placed the loans from CWB into residential mortgage backed securitizations trusts ("Trusts") and issued certificates in the Trusts to outside investors. The loans CWB sold to RFC were eventually included along with numerous other third party lender loans in 30 different Trusts. RFC alleges that, over time, the loans defaulted or became delinquent and, from 2008 until May 14, 2012, RFC faced numerous claims and lawsuits stemming from the loans. RFC alleges that it had to file for bankruptcy protection to defend the claims. RFC claims all the lawsuits against RFC filed by investors in the Trusts allege that the securitizations were defective in a variety of ways, including borrower fraud, missing or inaccurate documentation, fraudulent appraisals and misrepresentations concerning occupancy. RFC alleges that CWB was responsible for the problems with the loans in this action and that numerous other lenders were responsible in the other actions RFC has filed. RFC also alleges that it was forced to settle many of the claims in the bankruptcy court but continues to litigate other claims. RFC alleges that under its agreement with CWB, CWB agreed to indemnify RFC for losses or repurchase the loans at RFC's option.

Since the Complaint is so vague and ambiguous concerning the "agreement", the specific loans in question and the circumstances surrounding the approval of such loans, CWB has determined to file a Motion to Dismiss under Rule 12(b)(6) of the Federal Rules of Civil Procedure or, in the alternative, for a Motion for More Definite Statement under Rule 12(e) when CWB's responsive pleading is due on March 17, 2014.

It is CWB's position to vigorously defend this action and CWB knows of no evidence that would support RFC's allegations of wrongdoing by CWB. Due to the preliminary stage of the pleadings and without the benefit of discovery, it is not possible to predict the probable outcome. This action is just one of many filed by RFC against various banks pending in courts in New York and Minnesota, among others. CWB has entered into a Joint Defense Agreement with other defendants in some of the other cases.

On March 5, 2014, RFC filed a Motion to Transfer Venue to the U.S. Bankruptcy Court for the Southern District of New York ("SDNY"). RFC argues that transfer will serve the interests of justice ensuring that (1) common issues are resolved in a common forum, (2) the SDNY Bankruptcy Court is already familiar with the claims, (3) convenience factors buttress the propriety of transfer, and (4) transfer is appropriate despite the fact that the agreement between the parties provides for Minnesota as the forum for resolutions of disputes. RFC's motion indicates that this is one of 83 recently commenced actions in which such a transfer motion has been filed. CWB has not had an opportunity to fully analyze the motion, but it is CWB's preliminary intention to oppose RFC's transfer motion.

The Company is involved in various other 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.

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 the Company 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).

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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.

Dodd-Frank Wall Street Reform and Consumer Protection Act

On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act") was signed into law. The Dodd-Frank Act is intended to effect a fundamental restructuring of federal banking regulation. Among other things, the Dodd-Frank Act creates a new Financial Stability Oversight Council to identify systemic risks in the financial system and gives federal regulators new authority to take control of and liquidate financial firms. The Dodd-Frank Act additionally creates a new independent federal regulator to administer federal consumer protection laws. The Dodd-Frank Act is expected to have a significant impact on our business operations as its provisions take effect. Among the provisions that may affect the Company are the following:

Holding Company Capital Requirements. The Dodd-Frank Act requires the FRB to apply consolidated capital requirements to depository institution holding companies that are no less stringent than those currently applied to depository institutions. Under these standards, trust preferred securities will be excluded from Tier 1 capital unless such securities were issued prior to May 19, 2010 by a bank holding company with less than $15 billion in assets. The Dodd-Frank Act additionally requires capital requirements to be countercyclical so that the required amount of capital increases in times of economic expansion and decreases in times of economic contraction, consistent with safety and soundness.

Deposit Insurance. The Dodd-Frank Act permanently increases the maximum deposit insurance amount for banks, savings institutions and credit unions to $250,000 per depositor, retroactive to January 1, 2009, and extends unlimited deposit insurance to non-interest-bearing transaction accounts through December 31, 2012. The Dodd-Frank Act also 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. The Dodd-Frank Act requires the FDIC to increase the reserve ratio of the Deposit Insurance Fund from 1.15% to 1.35% of insured deposits by 2020 and eliminates the requirement that the FDIC pay dividends to insured depository institutions when the reserve ratio exceeds certain thresholds. Effective July 21, 2011, the Dodd-Frank Act eliminated the federal statutory prohibition against the payment of interest on business checking accounts.

Corporate Governance. The Dodd-Frank Act requires publicly traded companies to give stockholders a non-binding vote on executive compensation at their first annual meeting taking place six months after the date of enactment and at least every three years thereafter and on so-called "golden parachute" payments in connection with approvals of mergers and acquisitions unless previously voted on by shareholders. The new legislation also authorizes the SEC to promulgate rules that would allow stockholders to nominate their own candidates using a company's proxy materials. Additionally, the Dodd-Frank Act directs the federal banking regulators to promulgate rules prohibiting excessive compensation paid to executives of depository institutions and their holding companies with assets in excess of $1.0 billion, regardless of whether the company is publicly traded or not. The Dodd-Frank Act gives the SEC authority to prohibit broker discretionary voting on elections of directors and executive compensation matters.

Prohibition Against Charter Conversions of Troubled Institutions. The Dodd-Frank Act prohibits a depository institution from converting from a state to federal charter or vice versa while it is the subject of a cease and desist order or other formal enforcement action or a memorandum of understanding with respect to a significant supervisory matter unless the appropriate federal banking agency gives notice of the conversion to the federal or state authority that issued the enforcement action and that agency does not object within 30 days. The notice must include a plan to address the significant supervisory matter. The converting institution must also file a copy of the conversion application with its current federal regulator which must notify the resulting federal regulator of any ongoing supervisory or investigative proceedings that are likely to result in an enforcement action and provide access to all supervisory and investigative information relating hereto.

Interstate Branching. The Dodd-Frank Act authorizes national and state banks to establish branches in other states to the same extent as a bank chartered by that state would be permitted to branch. Previously, banks could only establish branches in other states if the host state expressly permitted out-of-state banks to establish branches in that state. Accordingly, banks will be able to enter new markets more freely.

Limits on Derivatives. The Dodd-Frank Act prohibits state-chartered banks from engaging in derivatives transactions unless the loans to one borrower limits of the state in which the bank is chartered takes into consideration credit exposure to derivatives transactions. For this purpose, derivative transaction includes any contract, agreement, swap, warrant, note or option that is based in whole or in part on the value of, any interest in, or any quantitative measure or the occurrence of any event relating to, one or more commodities securities, currencies, interest or other rates, indices or other assets.

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Transactions with Affiliates and Insiders. The Dodd-Frank Act expands the definition of affiliate for purposes of quantitative and qualitative limitations of Section 23A of the Federal Reserve Act to include mutual funds advised by a depository institution or its affiliates. The Dodd-Frank Act will apply Section 23A and Section 22(h) of the Federal Reserve Act (governing transactions with insiders) to derivative transactions, repurchase agreements and securities lending and borrowing transaction that create credit exposure to an affiliate or an insider. Any such transactions with affiliates must be fully secured. The current exemption from Section 23A for transactions with financial subsidiaries will be eliminated. The Dodd-Frank Act also prohibits an insured depository institution from purchasing an asset from or selling an asset to an insider unless the transaction is on market terms and, if representing more than 10% of capital, is approved in advance by the disinterested directors.

Debit Card Interchange Fees. The Dodd-Frank Act requires that the amount of any interchange fee charged by a debit card issuer with respect to a debit card transaction must be reasonable and proportional to the cost incurred by the issuer. Within nine months of enactment, the FRB is required to establish standards for reasonable and proportional fees which may take into account the costs of preventing fraud. The restrictions on interchange fees, however, do not apply to banks that, together with their affiliates, have assets of less than $10 billion.

Consumer Financial Protection Bureau. The Dodd-Frank Act creates a new, independent federal agency called the Consumer Financial Protection Bureau ("CFPB"), which is granted broad rulemaking, supervisory and enforcement powers under various federal consumer financial protection laws, including the Equal Credit Opportunity Act, Truth in Lending Act, Real Estate Settlement Procedures Act, Fair Credit Reporting Act, Fair Debt Collection Act, the Consumer Financial Privacy provisions of the Gramm-Leach-Bliley Act and certain other statutes. The CFPB will have examination and primary enforcement authority with respect to depository institutions with $10 billion or more in assets. Smaller institutions will be subject to rules promulgated by the CFPB but will continue to be examined and supervised by federal banking regulators for consumer compliance purposes. The CFPB will have authority to prevent unfair, deceptive or abusive practices in connection with the offering of consumer financial products. The Dodd-Frank Act authorizes the CFPB to establish certain minimum standards for the origination of residential mortgages including a determination of the borrower's ability to repay. In addition, the Dodd-Frank Act will allow borrowers to raise certain defenses to foreclosure if they receive any loan other than a "qualified mortgage" as defined by the CFPB. The Dodd-Frank Act permits states to adopt consumer protection laws and standards that are more stringent than those adopted at the federal level and, in certain circumstances, permits state attorneys general to enforce compliance with both the state and federal laws and regulations.

Basel III

In addition to the Dodd-Frank Act, the international oversight body of the Basel Committee on Banking Supervision, or Basel III, reached agreements in July, 2010 to introduce a minimum common equity tier 1 capital requirement of 4.50 percent, along with a capital conservation buffer of 2.50 percent to bring total common equity capital requirements to 7.00 percent. The federal banking agencies issued proposed rules in June 2012 to implement Basel III and certain other recent revisions to the Basel capital framework, as well as the minimum leverage and risk-based capital requirements of the Dodd Frank Act, but they have yet to issue any final rules. Federal regulators periodically propose amendments to the risk-based capital guidelines and the related regulatory framework and consider changes to the capital standards that could significantly increase the amount of capital needed to meet applicable standards. The timing of adoption, ultimate form and effect of any such proposed amendments cannot be determined at this time.

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 NASDAQ. 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.

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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;
§ 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.

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

The Sarbanes-Oxley Act of 2002. The Sarbanes-Oxley Act of 2002, or the "SOX Act", 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 Act 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.

The SOX Act 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 Act, NASDAQ 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 Act, 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

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- 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 Act, 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. 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 and FDIC. CWB's deposits are insured by the FDIC up to the maximum extent provided by law. The regulations of these agencies govern most aspects of CWB's business and establish a comprehensive framework governing its operations.

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

The following table sets forth the regulatory capital for CWB and CWBC (on a consolidated basis) at December 31, 2013.

	Adequately Capitalized (greater than or equal to)	Well Capitalized	Required for CWB by OCC(1)	CWB	CWBC (consolidated)
Total risk-based capital	8.00%	10.00%	12.00%	16.84%	17.26%
Tier 1 risk-based capital ratio	4.00%	6.00%		15.57%	15.65%
Tier 1 leverage capital ratio	4.00%	5.00%	9.00%	12.68%	12.68%

(1) Requirement eliminated on January 27, 2014.

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 "critically 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 and, in many instances, required, banks and bank holding companies to achieve and maintain higher ratios as a matter of safety and soundness.

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. 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.

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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. Further, a bank that otherwise meets the capital levels to be categorized as "well capitalized," will be deemed to be "adequately capitalized," if the bank is subject to a written agreement requiring that the bank maintain specific capital levels. Despite the Bank meeting the capital levels to be deemed "well capitalized" under prompt corrective action regulations, the Bank is deemed to be "adequately capitalized" as a result of the OCC Agreement's requirement to achieve and maintain specific capital levels. At each successive lower capital category, an insured bank is subject to more restrictions. The federal banking agencies, however, may not treat an institution as "critically undercapitalized" unless its capital ratios actually warrant such treatment.

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

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

FDIC Insurance and Insurance Assessments.

The FDIC utilizes a risk-based assessment system to set quarterly 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:

	Supervisory Subgroup		
	A	B	C
1. Well Capitalized	I		
2. Adequately Capitalized		II	III
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. The base assessment rates as of April 1, 2011 are 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	Maximum	II	III	IV	Large & Highly Complex Institutions
	5	9	14	23	35	5-35

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

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

Total Base Assessment Rates*

	Risk Category I	Risk Category II	Risk Category III	Risk Category IV	Large & Highly Complex Institutions
Initial base assessment rate	5 – 9	14	23	35	5 - 35
Unsecured debt adjustment**	-4.5 – 0	-5 – 0	-5 – 0	-5 – 0	-5 – 0
Brokered deposit adjustment	N/A	0 – 10	0 – 10	0 – 10	0 – 10
Total base assessment rate	2.5 – 9	9 – 24	18 – 33	30 – 45	2.5 – 45

* Total base assessment rates do not include the depository institution debt adjustment.

** The unsecured debt adjustment cannot exceed the lesser of 5 basis points or 50% of an insured depository institution's initial base assessment rate.

The Dodd-Frank Act requires the FDIC to take such steps as necessary to increase the reserve ratio of the Deposit Insurance Fund from 1.15% to 1.35% of insured deposits by 2020. In setting the assessments, the FDIC is required to offset the effect of the higher reserve ratio against insured depository institutions with total consolidated assets of less than $10 billion. The Dodd-Frank Act also broadens the base for FDIC insurance assessments so that assessments will be based on the average consolidated total assets less average tangible equity capital of a financial institution rather than on its insured deposits. The FDIC has adopted a new restoration plan to increase the reserve ratio to 1.35% by September 30, 2020 and will issue additional rules regarding the method to be used to achieve a 1.35% reserve ratio by that date and offset the effect on institutions with assets less than $10 billion in assets.

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.

Community Reinvestment Act. The Community Reinvestment Act ("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, 2013.

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.

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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.

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. 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 a simulation model, combined with downloaded 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 400 basis points compared to a flat interest rate scenario. The current rate environment precluded a decrease in rates for the analysis. The model assumes that the rate change shock occurs immediately. The following table presents the impact of that analysis in dollars and percentages at December 31, 2013.

Sensitivity of Net Interest Income

	Interest Rate Scenario (change in basis point from Base)					
	Down 100	Base	Up 100	Up 200	Up 300	Up 400
	(dollars in thousands)					
Interest income	$-	$26,715	$28,379	$30,001	$31,647	$33,328
Interest expense	-	3,326	4,806	6,287	7,769	9,250

Net interest income	$-	$23,389	$23,573	$23,714	$23,878	$24,078
% change	-		0.8 %	1.4 %	2.1 %	2.9 %

At December 31, 2012, the following table presents the impact of that analysis in dollars and percentages:

Sensitivity of Net Interest Income

	Interest Rate Scenario (change in basis point from Base)					
	Down 100	Base	Up 100	Up 200	Up 300	Up 400
	(dollars in thousands)					
Interest income	$-	$26,603	$28,216	$29,881	$31,630	$33,374
Interest expense	-	3,761	5,322	6,883	8,443	10,004
Net interest income	$-	$22,842	$22,894	$22,998	$23,187	$23,370
% change	-		0.2 %	0.7 %	1.5 %	2.3 %

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As of December 31, 2013 and 2012, the Fed Funds target rate was a range of 0.0% to 0.25% and the prime rate was 3.25%.

Economic Value of Equity. We measure the impact of market interest rate changes on the net present value of estimated cash flows from our assets, liabilities and off-balance sheet items, defined as economic value of equity, using a simulation model. This simulation model assesses the changes in the market value of interest rate sensitive financial instruments that would occur in response to an instantaneous and sustained increase or decrease (shock) in market interest rates.

At December 31, 2013, our economic value of equity exposure related to these hypothetical changes in market interest rates was within the current guidelines established by us. The following table shows projected change in economic value of equity for this set of rate shocks.

Economic Value of Equity

	Interest Rate Scenario (change in basis point from Base)					
	Down 100	Base	Up 100	Up 200	Up 300	Up 400
	(dollars in thousands)					
Assets	$-	$542,250	$526,837	$512,400	$502,120	$492,827
Liabilities	-	446,330	437,348	428,918	420,985	413,500
Net present value	$-	$95,920	$89,489	$83,482	$81,135	$79,327
% change	-		-6.7 %	-13.0 %	-15.4 %	-17.3 %

At December 31, 2012, our economic value of equity exposure related to these hypothetical changes in market interest rates was within the current guidelines established by us. The following table shows projected change in economic value of equity for this set of rate shocks.

Economic Value of Equity

	Interest Rate Scenario (change in basis point from Base)					
	Down 100	Base	Up 100	Up 200	Up 300	Up 400
	(dollars in thousands)					
Assets	$-	$543,602	$531,252	$519,656	$511,014	$503,240
Liabilities	-	464,877	457,526	450,527	443,849	437,465
Net present value	$-	$78,725	$73,726	$69,129	$67,165	$65,775
% change	-		-6.3 %	-12.2 %	-14.7 %	-16.4 %

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. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Our consolidated financial statements and supplementary data included in this annual report begin on page 51 immediately following the index to consolidated financial statements page to this annual report.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Community West Bancshares

We have audited the accompanying consolidated balance sheets of Community West Bancshares (the Company) as of December 31, 2013 and 2012, and the related consolidated income statements and statements of comprehensive income (loss), stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2013. 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. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Community West Bancshares at December 31, 2013 and 2012, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles.

/s/Ernst & Young LLP
Los Angeles, California
March 14, 2014

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COMMUNITY WEST BANCSHARES
CONSOLIDATED BALANCE SHEETS

	December 31, 2013	2012
	(in thousands, except share amounts)	
Assets:		
Cash and due from banks	$1,449	$1,103
Federal funds sold	23	25
Interest-earning demand in other financial institutions	18,006	26,763
Cash and cash equivalents	19,478	27,891
Money market investments	99	3,653
Investment securities - available-for-sale, at fair value; amortized cost of $18,937 at December 31, 2013 and $11,944 at December 31, 2012	18,472	12,004
Investment securities - held-to-maturity, at amortized cost; fair value of $10,101 at December 31, 2013 and $12,765 at December 31, 2012	9,688	12,036
Federal Home Loan Bank stock, at cost	1,870	3,283
Federal Reserve Bank stock, at cost	1,373	1,373
Loans:		
Held for sale, at lower of cost or fair value	64,399	68,694
Held for investment, net of allowance for loan losses of $12,208 at December 31, 2013 and $14,464 at December 31, 2012	397,606	380,507
Total loans	462,005	449,201
Other assets acquired through foreclosure, net	3,811	1,889
Premises and equipment, net	2,983	3,068
Other assets	19,221	17,703
Total assets	$539,000	$532,101
Liabilities:		
Deposits:		
Non-interest-bearing demand	$52,461	$53,605
Interest-bearing demand	258,445	269,466
Savings	16,158	16,351
Certificates of deposit	109,071	94,798
Total deposits	436,135	434,220
Other borrowings	30,000	34,000
Convertible debentures	1,442	7,852
Other liabilities	3,867	2,980
Total liabilities	471,444	479,052
Stockholders’ equity:		
Preferred stock — no par value, 10,000,000 shares authorized; 15,600 shares issued and outstanding at December 31, 2013 and December 31, 2012	15,600	15,341
Common stock — no par value, 20,000,000 shares authorized; 7,866,783shares issued and outstanding at December 31, 2013 and 5,994,510 at December 31, 2012	40,165	33,555
Retained earnings	12,065	4,118
Accumulated other comprehensive (loss) income, net	(274)	35
Total stockholders’ equity	67,556	53,049
Total liabilities and stockholders’ equity	$539,000	$532,101

See the accompanying notes.

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COMMUNITY WEST BANCSHARES
CONSOLIDATED INCOME STATEMENTS

	Year Ended December 31,		
	2013	2012	2011
	(in thousands, except per share amounts)		
Interest income:			
Loans, including fees	$27,071	$30,490	$35,435
Investment securities and other	795	878	1,107
Total interest income	27,866	31,368	36,542
Interest expense:			
Deposits	2,916	4,130	5,951
Other borrowings and convertible debt	1,416	1,819	2,299
Total interest expense	4,332	5,949	8,250
Net interest income	23,534	25,419	28,292
Provision for credit losses	(1,944)	4,281	14,591
Net interest income after provision for credit losses	25,478	21,138	13,701
Non-interest income:			
Other loan fees	1,033	1,124	1,380
Gains from loan sales, net	361	1,660	370
Document processing fees	463	407	418
Service Charges	318	410	505
Loan servicing, net	198	268	300
Gains from sales of securities	—	121	—
Other	458	291	238
Total non-interest income	2,831	4,281	3,211
Non-interest expenses:			
Salaries and employee benefits	12,842	11,552	11,816
Occupancy expense, net	1,814	1,829	1,969
Loan servicing and collection	1,444	1,492	1,538
Professional services	1,219	1,484	1,058
FDIC assessment	1,046	1,342	957
Data processing	549	533	529
Advertising and marketing	512	367	395
Depreciation	300	306	374
Net loss on sales/write-downs of foreclosed real estate and repossessed assets	388	1,161	2,630
Other	2,021	2,180	2,054
Total non-interest expense	22,135	22,246	23,320
Income before provision for income taxes	6,174	3,173	(6,408)
Income taxes	(2,812)	—	4,077
Net income	8,986	3,173	(10,485)
Dividends and accretion on preferred stock	1,039	1,046	1,047
Net income available to common stockholders	$7,947	$2,127	$(11,532)
Earnings per share:			
Basic	$1.13	$0.36	$(1.93)
Diluted	$0.98	$0.31	$(1.93)
Weighted average number of common shares outstanding:			
Basic	7,017	5,990	5,980
Diluted	8,390	8,233	5,980
Dividends declared per common share	$—	$—	$—

See the accompanying notes.

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COMMUNITY WEST BANCSHARES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Year Ended December 31,		
	2013	2012	2011
	(in thousands)		
Net income (loss)	$8,986	$3,173	$(10,485)
Other comprehensive loss, net:			
Unrealized loss on securities available-for-sale (AFS), net (tax effect of $216, $4, $26 for each respective period presented)	(309)	(5)	(40)
Realized gain on sale of securities AFS included in income, net (tax effect of $0, $22, $0 for each respective period presented)	—	(99)	—
Net other comprehensive loss	(309)	(104)	(40)
Comprehensive income (loss)	$8,677	$3,069	$(10,525)

See the accompanying notes.

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COMMUNITY WEST BANCSHARES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Preferred Stock		Common Stock		Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Stockholders' Equity
	Shares	Amount	Shares	Amount			
	(in thousands)						
Balance, December 31, 2010:	16	$14,807	5,916	$33,133	$ 179	$13,523	$ 61,642
Net loss	—	—	—	—	—	(10,485)	(10,485)
Exercise of stock options	—	—	8	25	—	—	25
Conversion of debentures	—	—	66	231			231
Stock option expense	—	—	—	33	—	—	33
Dividends on preferred stock	—	—	—	—	—	(780)	(780)
Accretion on preferred stock	—	267	—	—	—	(267)	—
Other comprehensive loss, net	—	—	—	—	(40)	—	(40)
Balance, December 31, 2011	16	15,074	5,990	33,422	139	1,991	50,626
Net income	—	—	—	—	—	3,173	3,173
Exercise of stock options	—	—	5	16	—	—	16
Stock option expense	—	—	—	117	—	—	117
Dividends on preferred stock	—	—	—	—	—	(779)	(779)
Accretion on preferred stock	—	267	—	—	—	(267)	—
Other comprehensive loss, net	—	—	—	—	(104)	—	(104)
Balance, December 31, 2012:	16	15,341	5,995	33,555	35	4,118	53,049
Net income	—	—	—	—	—	8,986	8,986
Exercise of stock options	—	—	7	24	—	—	24
Conversion of debentures	—	—	1,865	6,527			6,527
Stock option expense	—	—	—	59	—	—	59
Dividends on preferred stock	—	—	—	—	—	(780)	(780)
Accretion on preferred stock	—	259	—	—	—	(259)	—
Other comprehensive loss, net	—	—	—	—	(309)	—	(309)
Balance, December 31, 2013	16	$15,600	7,867	$40,165	$ (274)	$12,065	$ 67,556

See the accompanying notes.

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COMMUNITY WEST BANCSHARES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2013	2012	2011
	(in thousands)		
Cash flows from operating activities:			
Net income	$8,986	$3,173	$(10,485)
Adjustments to reconcile net income to cash provided by operating activities:			
Provision for loan losses	(1,944)	4,281	14,591
Depreciation	300	306	374
Stock-based compensation	59	117	33
Deferred income taxes	1,123	(98)	5,625
Net accretion of discounts and premiums for investment securities	(8)	(17)	(60)
(Gains)/Losses on:			
Sales of investment securities, AFS	—	(121)	—
Sale of repossessed assets, net	388	1,161	2,630
Sale of loans, net	(361)	(1,660)	(370)
Loans originated for sale and principal collections, net	4,656	(4,752)	1,920
Changes in:			
Other assets	(2,588)	8,117	(4,957)
Other liabilities	224	(316)	(1,418)
Servicing rights, net	163	(106)	157
Net cash provided by operating activities	10,998	10,085	8,040
Cash flows from investing activities:			
Proceeds from held for investment loan sales	6,215	—	—
Proceeds from sale of available-for-sale securities	—	4,137	—
Principal pay downs and maturities of available-for-sale securities	4,890	9,439	9,029
Purchase of available-for-sale securities	(11,854)	(1,998)	(9,269)
Proceeds from principal pay downs and maturities of securities held-to-maturity	2,327	3,264	2,934
Purchase of held-to-maturity securities	—	—	(1,388)
Loan originations and principal collections, net	(27,454)	78,317	24,334
Liquidation of restricted stock, net	1,413	901	796
Net increase (decrease) in interest-bearing deposits in other financial institutions	3,554	(3,413)	50
Purchase of premises and equipment, net	(215)	(284)	(549)
Proceeds from sale of other real estate owned and repossessed assets, net	3,774	8,985	4,862
Net cash (used in) provided by investing activities	(17,350)	99,348	30,799
Cash flows from financing activities:			
Net increase (decrease) in deposits	1,915	(77,042)	(18,631)
Net decrease in borrowings	(4,000)	(27,000)	(3,000)
Exercise of stock options	24	16	25
Cash dividends paid on preferred stock	—	(195)	(780)
Net cash used in financing activities	(2,061)	(104,221)	(22,386)
Net (decrease) increase in cash and cash equivalents	(8,413)	5,212	16,453
Cash and cash equivalents at beginning of year	27,891	22,679	6,226
Cash and cash equivalents at end of year	$19,478	$27,891	$22,679
Supplemental disclosure:			
Cash paid during the period for:			
Interest	$4,567	$6,103	$8,319
Income taxes	1,181	910	1,941

Non-cash investing and financing activity:			
Transfers to other assets acquired through foreclosure, net	6,084	7,329	7,417
Preferred stock dividends declared, not paid	780	584	—
Conversion of debentures	6,410	—	229

See the accompanying notes.

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COMMUNITY WEST BANCSHARES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Community West Bancshares (“CWBC”), incorporated under the laws of the state of California, is a bank holding company providing full service banking through its wholly-owned subsidiary Community West Bank, N.A. (“CWB” or the “Bank”). These entities are collectively referred to herein as the “Company”.

Basis of Presentation

The accounting and reporting policies of the Company are in accordance with accounting principles generally accepted in the United States (“GAAP”) and conform to practices within the financial services industry. The accounts of the Company and its consolidated subsidiary are included in these Consolidated Financial Statements. All significant intercompany balances and transactions have been eliminated.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant changes in the near term relate to the determination of the allowance for credit losses and fair value of other real estate owned. Although Management believes these estimates to be reasonably accurate, actual amounts may differ. In the opinion of Management, all adjustments considered necessary have been reflected in the financial statements during their preparation.

Reclassifications

Certain amounts in the consolidated financial statements as of and for the years ended December 31, 2012 and 2011 have been reclassified to conform to the current presentation. The reclassifications have no effect on net income or stockholders’ equity as previously reported.

Business Segments

Reportable business segments are determined using the “management approach” and are intended to present reportable segments consistent with how the chief operating decision maker organizes segments within the company for making operating decisions and assessing performance. As of December 31, 2013 and 2012, the Company had only one reportable business segment.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks (including cash items in process of clearing), and federal funds sold. Cash flows from loans originated by the Company and deposits are reported net.
The Company maintains amounts due from banks, which at times may exceed federally insured limits. The Company has not experienced any losses in such accounts.

Cash Reserve Requirement

Depository institutions are required by law to maintain reserves against their transaction deposits. The reserves must be held in cash or with the Federal Reserve Bank ("FRB"). The amount of the reserve varies by bank as the bank is permitted to meet this requirement by maintaining the specified amount as an average balance over a two-week period. The total of reserve balances was approximately $0.7 million as of December 31, 2013. There were no reserve balance requirements at December 31, 2012.

Investment Securities

Investment securities may be classified as held-to-maturity ("HTM"), available-for-sale ("AFS") or trading. The appropriate classification is initially decided at the time of purchase. Securities classified as held-to-maturity are those debt securities the Company has both the intent and ability to hold to maturity regardless of changes in market conditions, liquidity needs or general economic conditions. These securities are carried at amortized cost. The sale of a security within three months of its maturity date or after the majority of the principal outstanding has been collected is considered a maturity for purposes of classification and disclosure.

Securities classified as AFS or trading are reported as an asset on the Consolidated Balance Sheets at their estimated fair value. As the fair value of AFS securities changes, the changes are reported net of income tax as an element of other comprehensive income ("OCI"), except for impaired securities. When AFS securities are sold, the unrealized gain or loss is reclassified from OCI to non-interest income. The changes in the fair values of trading securities are reported in non-interest income. Securities classified as AFS are debt securities the Company intends to hold for an indefinite period of time, but not necessarily to maturity. Any decision to sell a security classified as AFS would be based on various factors, including significant movements in interest rates, changes in the maturity mix of the Company's assets and liabilities, liquidity needs, decline in credit quality, and regulatory capital considerations. The Company does not currently have any investment securities classified as trading.

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Interest income is recognized based on the coupon rate and increased by accretion of discounts earned or decreased by the amortization of premiums paid over the contractual life of the security using the interest method. For mortgage-backed securities, estimates of prepayments are considered in the constant yield calculations.

In estimating whether there are any other than temporary impairment losses, management considers 1) the length of time and the extent to which the fair value has been less than amortized cost, 2) the financial condition and near term prospects of the issuer, 3) the impact of changes in market interest rates, and 4) the intent and ability of the Company to retain its investment for a period of time sufficient to allow for any anticipated recovery in fair value and it is not more likely than not the Company would be required to sell the security.

Declines in the fair value of individual debt securities available for sale that are deemed to be other than temporary are reflected in earnings when identified. The fair value of the debt security then becomes the new cost basis. For individual debt securities where the Company does not intend to sell the security and it is not more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis, the other than temporary decline in fair value of the debt security related to 1) credit loss is recognized in earnings, and 2) market or other factors is recognized in other comprehensive income or loss. Credit loss is recorded if the present value of cash flows is less than amortized cost.

For individual debt securities where the Company intends to sell the security or more likely than not will not recover all of its amortized cost, the other than temporary impairment is recognized in earnings equal to the entire difference between the securities cost basis and its fair value at the balance sheet date. For individual debt securities for which a credit loss has been recognized in earnings, interest accruals and amortization and accretion of premiums and discounts are suspended when the credit loss is recognized. Interest received after accruals have been suspended is recognized on a cash basis.

Federal Home Loan Bank ("FHLB") and Federal Reserve Bank ("FRB") Stock

The Company's subsidiary bank is a member of the Federal Home Loan Bank ("FHLB") system and maintains an investment in capital stock of the FHLB. The bank also maintains an investment in FRB stock. These investments are considered equity securities with no actively traded market. These investments are carried at cost, which is equal to the value at which they may be redeemed. The dividend income received from the stock is reported in interest income. We conduct a periodic review and evaluation of our FHLB stock to determine if any impairment exists.

Servicing Rights

The guaranteed portion of certain Small Business Administration ("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 predominate 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.

Loans Held For Sale

Loans which are originated and intended for sale in the secondary market are carried at the lower of cost or estimated fair value determined on an aggregate basis. Valuation adjustments, if any are recognized through a valuation allowance by charges to lower of cost or market provision. Loans held for sale are mostly comprised of SBA and single family residential loans. The Company did not incur any lower of cost or fair value provision in the years ended December 31, 2013, 2012 and 2011.

Loans Held for Investment and Interest and Fees from Loans

Loans are recognized at the principal amount outstanding, net of unearned income, loan participations and amounts charged off. Unearned income includes deferred loan origination fees reduced by loan origination costs. Unearned income on loans is amortized to interest income over the life of the related loan using the level yield method.

Interest income on loans is accrued daily using the effective interest method and recognized over the terms of the loans. Loan fees collected for the origination of loans less direct loan origination costs (net deferred loan fees) are amortized over the contractual life of the loan through interest income. If the loan has scheduled payments, the amortization of the net deferred loan fee is calculated using the interest method over the contractual life of the loan. If the loan does not have scheduled payments, such as a line of credit, the net deferred loan fee is recognized as interest income on a straight-line basis over the contractual life of the loan commitment. Commitment fees based on a percentage of a customer's unused line of credit and fees related to standby letters of credit are recognized over the commitment period.

When loans are repaid, any remaining unamortized balances of unearned fees, deferred fees and costs and premiums and discounts paid on purchased loans are accounted for though interest income.

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Nonaccrual loans: For all loan types, when a borrower discontinues making payments as contractually required by the note, the Company must determine whether it is appropriate to continue to accrue interest. Generally, the Company places loans in a nonaccrual status and ceases recognizing interest income when the loan has become delinquent by more than 90 days or when Management determines that the full repayment of principal and collection of interest is unlikely. The Company may decide to continue to accrue interest on certain loans more than 90 days delinquent if they are well secured by collateral and in the process of collection. Other personal loans are typically charged off no later than 180 days delinquent.

For all loan types, when a loan is placed on nonaccrual status, all interest accrued but uncollected is reversed against interest income in the period in which the status is changed. Subsequent payments received from the customer are applied to principal and no further interest income is recognized until the principal has been paid in full or until circumstances have changed such that payments are again consistently received as contractually required. The Company occasionally recognizes income on a cash basis for non-accrual loans in which the collection of the remaining principal balance is not in doubt.

Impaired loans: A loan is considered impaired when, based on current information; it is probable that the Company will be unable to collect the scheduled payments of principal and/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/or interest payments. Loans that experience insignificant payment delays or payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays or payment shortfalls on a case-by-case basis. When determining the possibility of impairment, management considers the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. For collateral-dependent loans, the Company uses the fair value of collateral method to measure impairment. The collateral-dependent loans that recognize impairment are charged down to the fair value less costs to sell. All other loans are measured for impairment either based on the present value of future cash flows or the loan’s observable market price.

Troubled debt restructured loan (“TDR”): A TDR is a loan on which the Company, for reasons related to the borrower’s financial difficulties, grants a concession to the borrower that the Company would not otherwise consider. These concessions included but are not limited to term extensions, rate reductions and principal reductions. Forgiveness of principal is rarely granted and modifications for all classes of loans are predominately term extensions. A TDR loan is also considered impaired. Generally, a loan that is modified at an effective market rate of interest may no longer be disclosed as a troubled debt restructuring in years subsequent to the restructuring if it is not impaired based on the terms specified by the restructuring agreement.

Allowance for Loan Losses and Provision for Credit 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 appropriate to provide for probable losses inherent in the loan portfolio. This process involves deriving probable loss estimates that are based on migration analysis and historical loss rates, in addition to qualitative factors that are based on management’s judgment. The migration analysis and historical loss rate calculations are based on the annualized loss rates utilizing a twelve-quarter loss history. Migration analysis is utilized for the Commercial Real Estate (“CRE”), Commercial, Commercial Agriculture, Small Business Association (“SBA”), Home Equity Line of Credit (“HELOC”), Single Family Residential, and Consumer portfolios. The historical loss rate method is utilized primarily for the Manufactured Housing portfolio. The migration analysis takes into account the risk rating of loans that are charged off in each loan category. Loans that are considered Doubtful are typically charged off. The following is a description of the characteristics of loan ratings. Loan ratings are reviewed as part of our normal loan monitoring process, but, at a minimum, updated on an annual basis.

Outstanding – This is the highest quality rating that is assigned to any loan in the portfolio. These loans are made to the highest quality borrowers with strong financial statements and unquestionable repayment sources. Collateral securing these types of credits are generally cash deposits in the bank or marketable securities held in custody.

Good – Loans rated in this category are strong loans, underwritten well, that bear little risk of loss to the Company. Loans in this category are loans to quality borrowers with very good financial statements that present an identifiable strong primary source and good secondary source of repayment. Generally, these credits are well collateralized by good quality and liquid assets or low loan to value market real estate.

Pass - Loans rated in this category are acceptable loans, appropriately underwritten, bearing an ordinary risk of loss to the Company. Loans in this category are loans to quality borrowers with financial statements presenting a good primary source as well as an adequate secondary source of repayment. In the case of individuals, borrowers with this rating are quality borrowers demonstrating a reasonable level of secure income, a net worth adequate to support the loan and presenting a good primary source as well as an adequate secondary source of repayment.

Watch – Acceptable credit that requires a temporary increase in attention by management. This can be caused by declines in sales, margins, liquidity or working capital. Generally the primary weakness is lack of current financial statements and industry issues.

Special Mention - A Special Mention loan has potential weaknesses that require management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or in the institution's credit position at some future date. Special mention assets are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification.

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Substandard - A Substandard loan is inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any. These loans have a well-defined weakness or weaknesses that jeopardize full collection of amounts due. They are characterized by the distinct possibility that the Company will sustain some loss if the borrower's deficiencies are not corrected.

Doubtful - A loan classified Doubtful has all the weaknesses inherent in one classified Substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. The possibility of loss is extremely high, but because of certain important and reasonably specific pending factors, which may work to the advantage and strengthening of the loan, its classification as an estimated loss is deferred until its more exact status may be determined. Pending factors include proposed merger, acquisition or liquidation procedures, capital injection, perfecting liens on additional collateral and refinancing plans.

Loss - Loans classified Loss are considered uncollectible and of such little value that their continuance as bankable loans is not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing off this loan even though partial recovery may be realized in the future. Losses are taken in the period in which they are considered uncollectible.

The Company's ALL is maintained at a level believed appropriate by management to absorb known and inherent probable losses on existing loans. The allowance is charged for losses when management believes that full recovery on the loan is unlikely. The following is the Company's policy regarding charging off loans.

Commercial, CRE and SBA Loans

Charge-offs on these loan categories are taken as soon as all or a portion of any loan balance is deemed to be uncollectible. A loan is considered impaired when, based on current information, it is probable that the Company will be unable to collect the scheduled payments of principal and/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/or interest payments. Loans that experience insignificant payment delays or payment shortfalls generally are not classified as impaired. Generally, loan balances are charged-down to the fair value of the collateral, if, based on a current assessment of the value, an apparent deficiency exists. In the event there is no perceived equity, the loan is charged-off in full. Unsecured loans which are delinquent over 90 days are also charged-off in full.

Single Family Real Estate, HELOC's and Manufactured Housing Loans

Consumer loans and residential mortgages secured by one-to-four family residential properties, HELOC and manufactured housing loans in which principal or interest is due and unpaid for 90 days, are evaluated for impairment. Loan balances are charged-off to the fair value of the property, less estimated selling costs, if, based on a current appraisal, an apparent deficiency exists. In the event there is no perceived equity, the loan is generally fully charged-off. Other consumer loans which are not secured and unpaid over 90-120 days are charged-off in full.

Consumer Loans

All consumer loans (excluding real estate mortgages, HELOCs and savings secured loans) are charged-off or charged-down to net recoverable value before becoming 120 days or five payments delinquent.

The ALL calculation for the different loan portfolios is as follows:

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- Commercial Real Estate, Commercial, Commercial Agriculture, SBA, HELOC, Single Family Residential, and Consumer – Migration analysis combined with risk rating is used to determine the required ALL for all non-impaired loans. In addition, the migration results are adjusted based upon qualitative factors that affect this specific portfolio category. Reserves on impaired loans are determined based upon the individual characteristics of the loan.
- Manufactured Housing – The ALL is calculated on the basis of loss history and risk rating, which is primarily a function of delinquency. In addition, the loss results are adjusted based upon qualitative factors that affect this specific portfolio.

The Company evaluates and individually assesses for impairment loans generally greater than $500,000, classified as substandard or doubtful in addition to loans either on nonaccrual, considered a TDR or when other conditions exist which lead management to review for possible impairment. Measurement of impairment on impaired loans is determined on a loan-by-loan basis and in total establishes a specific reserve for impaired loans. The amount of impairment is determined by comparing the recorded investment in each loan with its value measured by one of three methods:

- The expected future cash flows are estimated and then discounted at the effective interest rate.
- The value of the underlying collateral net of selling costs. Selling costs are estimated based on industry standards, the Company's actual experience or actual costs incurred as appropriate. When evaluating real estate collateral, the Company typically uses appraisals or valuations, no more than twelve months old at time of evaluation. When evaluating non-real estate collateral securing the loan, the Company will use audited financial statements or appraisals no more than twelve months old at time of evaluation. Additionally, for both real estate and non-real estate collateral, the Company may use other sources to determine value as deemed appropriate.

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- The loan's observable market price.

Interest income is not recognized on impaired loans except for limited circumstances in which a loan, although impaired, continues to perform in accordance with the loan contract and the borrower provides financial information to support maintaining the loan on accrual.

The Company determines the appropriate ALL on a monthly basis. Any differences between estimated and actual observed losses from the prior month are reflected in the current period in determining the appropriate ALL determination and adjusted as deemed necessary. The review of the appropriateness of the allowance takes into consideration such factors as concentrations of credit, changes in the growth, size and composition of the loan portfolio, overall and individual portfolio quality, review of specific problem loans, collateral, guarantees and economic and environmental conditions that may affect the borrowers' ability to pay and/or the value of the underlying collateral. Additional factors considered include: geographic location of borrowers, changes in the Company's product-specific credit policy and lending staff experience. These estimates depend on the outcome of future events and, therefore, contain inherent uncertainties.

Another component of the ALL considers qualitative factors related to non-impaired loans. The qualitative portion of the allowance on each of the loan pools is based on the following factors:

- Concentrations of credit
- International risk
- Trends in volume, maturity, and composition
- Volume and trend in delinquency
- Economic conditions
- Outside exams
- Geographic distance
- Policy and changes
- Staff experience and ability

Off Balance Sheet and Credit Exposure

In the ordinary course of business, the Company has entered into off-balance sheet financial instruments consisting of commitments to extend credit and standby letters of credit. Such financial instruments are recorded in the consolidated financial statements when they are funded. They involve, to varying degrees, elements of credit risk in excess of amounts recognized in the consolidated balance sheets. Losses would be experienced when the Company is contractually obligated to make a payment under these instruments and must seek repayment from the borrower, which may not be as financially sound in the current period as they were when the commitment was originally made. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The Company enters into credit arrangements that generally provide for the termination of advances in the event of a covenant violation or other event of default. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the party. The commitments are collateralized by the same types of assets used as loan collateral.

As with outstanding loans, the Company applies qualitative factors and utilization rates to its off-balance sheet obligations in determining an estimate of losses inherent in these contractual obligations. The estimate for loan losses on off-balance sheet instruments is included within other liabilities and the charge to income that establishes this liability is include in non-interest expense.

Premises and Equipment

Premises and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the terms of the leases or the estimated useful lives of the improvements, whichever is shorter. Generally, the estimated useful lives of other items of premises and equipment are as follows:

	Years
Building and improvements	31.5
Furniture and equipment	5 – 10
Electronic equipment and software	3 – 5

Foreclosed Real Estate and Repossessed Assets

Foreclosed real estate and other repossessed assets are recorded at fair value at the time of foreclosure less estimated costs to sell. Any excess of loan balance over the fair value less estimated costs to sell of the other assets is charged-off against the allowance for loan losses. Any excess of the fair value less estimated costs to sell over the loan balance is recorded as a loan loss recovery to the extent of the loan loss previously charged-off against the allowance for loan losses; and, if greater, recorded as a gain on foreclosed assets. 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 less estimated costs to sell. Operating expenses or income, and gains or losses on disposition of such properties, are recorded in current operations.

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Income Taxes

The Company uses the asset and liability method, which recognizes an asset or liability representing the tax effects of future deductible or taxable amounts that have been recognized in the consolidated financial statements. Due to tax regulations, certain items of income and expense are recognized in different periods for tax return purposes than for financial statement reporting. These items represent "temporary differences." Deferred income taxes are recognized for the tax effect of temporary differences between the tax basis of assets and liabilities and their financial reporting amounts at each period end based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. A valuation allowance is established for deferred tax assets if, based on weight of available evidence, it is more likely than not that some portion or all of the deferred tax assets may not be realized. Any interest or penalties assessed by the taxing authorities is classified in the financial statements as income tax expense. Deferred tax assets are included in other assets on the consolidated balance sheets.

Management evaluates the Company's deferred tax asset for recoverability using a consistent approach which considers the relative impact of negative and positive evidence, including the Company's historical profitability and projections of future taxable income. The Company is required to establish a valuation allowance for deferred tax asset and record a charge to income if Management determines, based on available evidence at the time the determination is made, that it is more likely than not that some portion or all of the deferred tax asset may not be realized.

The Company is subject to the provisions of ASC 740, Income Taxes (ASC 740). ASC 740 prescribes a more-likely-than-not threshold for the financial statement recognition of uncertain tax positions. ASC 740 clarifies the accounting for income taxes by prescribing a minimum recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. On a quarterly basis, the Company evaluates income tax accruals in accordance with ASC 740 guidance on uncertain tax positions.

Bank Owned Life Insurance

Bank owned life insurance is stated at its cash surrender value with changes recorded in other non-interest income in the consolidated statements of operations. The cash surrender value of the underlying policies was $3.1 million and $1.1 million as of December 31, 2013 and 2012, respectively. There are no loans offset against cash surrender values, and there are no restrictions as to the use of proceeds.

Preferred Stock

The Company's Series A Preferred Stock paid cumulative dividends at a rate of 5% per year until February 15, 2014 then increased to a rate of 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 and amounts payable upon liquidation, dissolution and winding up of the Company.

Fair Value of Financial Instruments

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities. FASB ASC 820, Fair Value Measurements and Disclosures ("ASC 820") established a framework for measuring fair value establishes a three-level valuation hierarchy for disclosure of fair value measurement and enhances disclosure requirements for fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The Company uses various valuation approaches, including market, income and/or cost approaches. ASC 820 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions about the factors market participants would consider in pricing the asset or liability developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the reliability of inputs, as follows:

- Level 1— Observable quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

- Level 2— Observable quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, matrix pricing or model-based valuation techniques where all significant assumptions are observable, either directly or indirectly in the market.

- Level 3— Model-based techniques where all significant assumptions are not observable, either directly or indirectly, in the market. These unobservable assumptions reflect our own estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques may include use of discounted cash flow models and similar techniques.

The availability of observable inputs varies based on the nature of the specific financial instrument. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by the Company in determining fair value is greatest for instruments categorized in Level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

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Fair value is a market-based measure considered from the perspective of a market participant who holds the asset or owes the liability rather than an entity-specific measure. When market assumptions are available, ASC 820 requires the Company to make assumptions regarding the assumptions that market participants would use to estimate the fair value of the financial instrument at the measurement date.

FASB ASC 825, Financial Instruments (“ASC 825”) requires disclosure of fair value information about financial instruments, whether or not recognized in the balance sheet, for which it is practicable to estimate that value.

Management uses its best judgment in estimating the fair value of the Company’s financial instruments; however, there are inherent limitations in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates presented herein are not necessarily indicative of the amounts the Company could have realized in a sales transaction at December 31, 2013 or 2012. The estimated fair value amounts for December 31, 2013 and 2012 have been measured as of period-end, and have not been reevaluated or updated for purposes of these consolidated financial statements subsequent to those dates. As such, the estimated fair values of these financial instruments subsequent to the reporting date may be different than the amounts reported at the period-end.

The information on page 87 in Note 15, “Fair Value Measurement,” should not be interpreted as an estimate of the fair value of the entire Company since a fair value calculation is only required for a limited portion of the Company’s assets and liabilities.

Due to the wide range of valuation techniques and the degree of subjectivity used in making the estimate, comparisons between the Company’s disclosures and those of other companies or banks may not be meaningful.

The following methods and assumptions were used by the Company in estimating the fair value of its financial instruments:

Cash and cash equivalents

The carrying amounts reported in the consolidated balance sheets for cash and due from banks approximate their fair value.

Money market investments

The carrying amounts reported in the consolidated balance sheets for money market investments approximate their fair value.

Investment securities

The fair value of Farmer Mac class A stock is based on quoted market prices and are categorized as Level 1 of the fair value hierarchy.

The fair value of other investment securities were determined based on matrix pricing. Matrix pricing is a mathematical technique that utilizes observable market inputs including, for example, yield curves, credit ratings and prepayment speeds. Fair values determined using matrix pricing are generally categorized as Level 2 in the fair value hierarchy.

FRB and FHLB stock

CWB is a member of the FHLB system and maintains an investment in capital stock of the FHLB. CWB also maintain an investment in FRB stock. These investments are carried at cost since no ready market exists for them, and they have no quoted market value. The Company conducts a periodic review and evaluation of our FHLB stock to determine if any impairment exists. The fair values have been categorized as Level 2 in the fair value hierarchy.

Loans

Fair value for loans is estimated based on discounted cash flows using interest rates currently being offered for loans with similar terms to borrowers with similar credit quality with adjustments that the Company believes a market participant would consider in determining fair value based on a third party independent valuation. As a result, the fair value for loans disclosed in Note 15, "Fair Value Measurement," is categorized as Level 2 in the fair value hierarchy.

Deposit liabilities

The fair value disclosed for demand and savings deposits is by definition equal to the amount payable on demand at their reporting date (that is, their carrying amount) which the Company believes a market participant would consider in determining fair value. The carrying amount for variable-rate deposit accounts approximates their fair value. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on these deposits. The fair value measurement of the deposit liabilities disclosed in Note 15, "Fair Value Measurement," is categorized as Level 2 in the fair value hierarchy.

Federal Home Loan Bank and Federal Reserve advances and other borrowings

The fair values of the Company's borrowings are estimated using discounted cash flow analyses, based on the market rates for similar types of borrowing arrangements. The other borrowings have been categorized as Level 3 in the fair value hierarchy. The FHLB and FRB advances have been categorized as Level 2 in the fair value hierarchy.

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Off-balance sheet instruments

Fair values for the Company's off-balance sheet instruments (lending commitments and standby letters of credit) are based on quoted fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing.

Earnings Per Share

Basic earnings per common share is computed using the weighted average number of common shares outstanding for the period divided into the net income (loss) available to common shareholders. Diluted earnings per share include the effect of all dilutive potential common shares for the period. Potentially dilutive common shares include stock options, warrants and shares that could result from the conversion of debenture bonds.

Recent Accounting Pronouncements

In February 2013, the FASB issued guidance within ASU 2013-02 "Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income." The amendments in ASU 2013-02 to Topic 220, Comprehensive Income, update, supersede and replace the presentation requirements for reclassifications out of accumulated other comprehensive income in ASUs 2011-05 and 2011-12. The amendments require an entity to provide additional information about reclassifications out of accumulated other comprehensive income. The amendments are effective prospectively for reporting periods beginning after December 15, 2012. The adoption of ASU No. 2013-02 resulted in presentation changes to the Company's consolidated income statements. The adoption of ASU No. 2013-02 had no impact on the Company's balance sheets.

In July 2013, the FASB issued guidance within ASU 2013-11, "Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists." The amendments in ASU 2013-11 to Topic 740, Income Taxes, updates the presentation of an unrecognized tax benefit in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. However, to the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. ASU 2013-11 was effective for the Company on January 1, 2014 and was not to be applied prospectively, although early adoption and retrospective adoption were permitted. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

In January 2014, the FASB issued guidance within ASU 2014-04, "Receivables - Troubled Debt Restructurings by Creditors: Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure." The amendments in ASU 2014-04, Subtopic 310-40, Receivables -Troubled Debt Restructurings by Creditors, clarify that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure, or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the amendments require interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. ASC 2014-04 are effective for the Company using either a modified retrospective transition method or a prospective transition method for reporting periods beginning after December 15, 2014. The adoption of this standard is not expected to have a material impact on the Company’s consolidated financial statements.

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2. INVESTMENT SECURITIES

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

	December 31, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Securities available-for-sale	(in thousands)			
U.S. government agency notes	$7,867	$ -	$ (389)	$7,478
U.S. government agency mortgage backed securities ("MBS")	61	3	-	64
U.S. government agency collateralized mortgage obligations ("CMO")	10,943	11	(93)	10,861
Equity securities: Farmer Mac class A stock	66	3	-	69
Total	$18,937	$ 17	$ (482)	$18,472
Securities held-to-maturity				
U.S. government agency MBS	$9,688	$ 442	$ (29)	$10,101
Total	$9,688	$ 442	$ (29)	$10,101

	December 31, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Securities available-for-sale	(in thousands)			
U.S. government agency notes	$1,998	$ -	$ (10)	$1,988
U.S. government agency MBS	163	8	-	171
U.S. government agency CMO	9,783	62	-	9,845
Total	$11,944	$ 70	$ (10)	$12,004
Securities held-to-maturity				
U.S. government agency MBS	$12,036	$ 729	$ -	$12,765
Total	$12,036	$ 729	$ -	$12,765

At December 31, 2013 and 2012, $28.0 million and $24.0 million of securities at carrying value, respectively, were pledged to the Federal Home Loan Bank San Francisco, as collateral for current and future advances.

The Company had no security sales in 2013. In 2012, the Company sold $4.1 million of securities for a net gain on sale of $0.1 million.

In January 2013, CWB became an approved Federal Agricultural Mortgage Corporation (“Farmer Mac”) lender under the Farmer Mac I and Farmer Mac II Programs. Under the Farmer Mac I program loans are sourced by CWB, underwritten, funded and serviced by Farmer Mac. CWB receives an origination fee and ongoing fee for serving the credit. The Farmer Mac II program was authorized by Congress in 1991 to establish a uniform national secondary market for originators and investors using the United States Department of Agriculture (“USDA”) guaranteed loan programs. Under this program, CWB can sell the guaranteed portions of USDA loans directly to Farmer Mac’s subsidiary, Farmer Mac II LLC, services the loans, and retains the unguaranteed portions of those loans in accordance with the terms of the existing USDA guaranteed loan programs. Eligible loans include Farm Service Agency (“FSA”) and Business and Industrial loans. To participate in the program, CWB was required to purchase 2,000 shares of Farmer Mac Class A Stock (“AGM”) which was classified as available-for-sale.

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The maturity periods and weighted average yields of investment securities at December 31, 2013 and 2012 were as follows:

	December 31, 2013									
	Less than One Year		One to Five Years		Five to Ten Years		Over Ten Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
Securities available-for-sale	(dollars in thousands)									
U.S. government agency notes	$7,478	1.9 %	$-	-	$-	-	$-	-	$7,478	1.9 %
U.S. government agency MBS	-	-	-	-	64	2.2 %	-	-	64	2.2 %
U.S. government agency CMO	-	-	5,075	0.6 %	3,854	0.6 %	1,932	0.9 %	10,861	0.7 %
Farmer Mac class A stock	-	-	-	-	-	-	-	-	69	-
Total	$7,478	1.9 %	$5,075	0.6 %	$3,918	0.6 %	$1,932	0.9 %	$18,472	1.2 %
Securities held-to-maturity										
U.S. government agency MBS	$-	-	$2,641	4.4 %	$7,047	2.7 %	$-	-	$9,688	3.1 %
Total	$-	-	$2,641	4.4 %	$7,047	2.7 %	$-	-	$9,688	3.1 %

	December 31, 2012									
	Less than One Year		One to Five Years		Five to Ten Years		Over Ten Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
Securities available-for-sale	(dollars in thousands)									
U.S. government agency notes	$1,988	1.0 %	$-	-	$-	-	$ -	-	$1,988	1.0 %
U.S. government agency MBS	-	-	-	-	171	2.7 %	-	-	171	2.7 %
U.S. government agency CMO	2,925	1.1 %	6,920	0.7 %	-	-	-	-	9,845	0.8 %
Total	$4,913	1.0 %	$6,920	0.7 %	$171	2.7 %	$ -	-	$12,004	0.9 %
Securities held-to-maturity										
U.S. government agency MBS	$-	-	$4,051	4.4 %	$7,985	2.9 %	$ -	-	$12,036	3.4 %
Total	$-	-	$4,051	4.4 %	$7,985	2.9 %	$ -	-	$12,036	3.4 %

The amortized cost and fair value of securities as of December 31, 2013 and 2012, by contractual maturities, are shown below:

	December 31, 2013		2012	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Securities available for sale	(in thousands)			
Due in one year or less	$7,867	$ 7,478	$4,923	$ 4,913
After one year through five years	5,070	5,075	6,858	6,920
After five years through ten years	3,945	3,918	163	171
After ten years	1,989	1,932	-	-
Farmer Mac class A stock	66	69	-	-

	$18,937	$ 18,472	$11,944	$ 12,004
Securities held to maturity				
Due in one year or less	$-	$ -	$-	$ -
After one year through five years	2,641	2,815	4,051	4,314
After five years through ten years	7,047	7,286	7,985	8,451
After ten years	-	-	-	-
	$9,688	$ 10,101	$12,036	$ 12,765

Actual maturities may differ from contractual maturities as borrowers or issuers have the right to prepay or call the investment securities. Changes in interest rates may also impact prepayments.

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The following tables show all securities that are in an unrealized loss position:

	December 31, 2013					
	Less Than Twelve Months		More Than Twelve Months		Total	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
Securities available-for-sale	(in thousands)					
U.S. government agency notes	$389	$7,478	$ -	$ -	$389	$7,478
U.S. government agency CMO	93	6,958	$ -	$ -	93	6,958
Equity securities: Farmer Mac class A stock	-	-	-	-	-	-
	$482	$14,436	$ -	$ -	$482	$14,436
Securities held-to-maturity						
U.S. Government-agency MBS	$29	$1,063	$ -	$ -	$29	$1,063
Total	$29	$1,063	$ -	$ -	$29	$1,063

	December 31, 2012					
	Less Than Twelve Months		More Than Twelve Months		Total	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
Securities available-for-sale	(in thousands)					
U.S. government agency notes	$10	$1,988	$ -	$ -	$10	$1,988
U.S. government agency CMO	1	876	1	411	2	1,287
Total	$11	$2,864	$1	$411	$12	$3,275

As of December 31, 2013 and 2012, there were nine and four securities, respectively, in an unrealized loss position.

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

The unrealized losses are primarily due to increases in market interest rates over the yields available at the time the underlying securities were purchased. The fair value is expected to recover as the bonds approach their maturity date, repricing date or if market yields for such investments decline. Management does not believe any of the securities are impaired due to reasons of credit quality. Accordingly, as of December 31, 2013 and 2012, management believes the impairments detailed in the table above are temporary and no other-than-temporary impairment loss has been realized in the Company’s consolidated income statements.

3. LOAN SALES AND SERVICING

Loan Sales

The Company periodically sells the guaranteed portion of selected SBA loans into the secondary market, on a servicing-retained basis. The Company retains the unguaranteed portion of these loans and services the loans as required under the SBA programs to retain specified yield amounts.

On certain SBA loan sales that occurred prior to 2003, the Company retained interest only strips (“I/O strips”), which represent the present value of excess net cash flows generated by the difference between (a) interest at the stated rate paid by borrowers and (b) the sum of (i) pass-through interest paid to third-party investors and (ii) contractual servicing fees. The fair value is determined on a quarterly basis through a discounted cash flow analysis prepared by an independent third party using industry prepayment speeds.

Historically, the Company elected to use the amortizing method for the treatment of servicing assets and measured for impairment on a quarterly basis through a discounted cash flow analysis prepared by an independent third party using industry prepayment speeds. In connection with the sale of SBA loans in 2012, the Company recorded a servicing asset and elected to measure this asset at fair value in accordance with ASC 825-10 – Fair Value Option to better reflect the impact of subsequent changes in interest rates. The SBA program stipulates that the Company retains a minimum of 5% of the loan balance, which is unguaranteed. The percentage of each unguaranteed loan in excess of 5% may be periodically sold to a third party, typically for a cash premium. The Company records servicing liabilities for the sold unguaranteed loans. These servicing liabilities are calculated based on the present value of the estimated future servicing costs associated with each loan. As of December 31, 2013 and 2012, total servicing liability was $30,000 and $39,000, respectively.

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The Company may also periodically sell certain SBA loans into the secondary market, on a servicing-released basis, typically for a cash premium. As of December 31, 2013 and 2012, the Company had approximately $47.6 million and $55.7 million, respectively, of SBA loans included in loans held for sale. As of December 31, 2013 and 2012, the principal balance of SBA loans serviced for others was $30.7 million and $39.7 million, respectively.

The Company previously expanded its agricultural lending program to include agricultural land, agricultural operational lines, and agricultural term loans for crops, equipment and livestock. The primary products are supported by guarantees issued from the USDA, FSA, and the USDA Business and Industry loan program. In 2012, the Company sold $2.5 million in USDA loans and recorded the related servicing asset at fair value. There have been no loan sales of this type in 2013.

As of December 31, 2013 and 2012, the Company had $16.8 million and $4.8 million of USDA loans included in loans held for sale, respectively. As of December 31, 2013 and 2012, the principal balance of USDA loans serviced for others was $2.5 million.

The following table presents the I/O strips activity as of the periods presented:

	Year Ended December 31,		
	2013	2012	2011
	(in thousands)		
Beginning balance	$426	$419	$492
Adjustment to fair value	(92)	7	(73)
Ending balance	$334	$426	$419

The fair value adjustments on the I/O strips are recorded in non-interest income.

The key data assumptions used in estimating the fair value of the I/O strips as of the periods presented were as follows:

	December 31,	
	2013	2012
Weighted-average constant prepayment rate	5.24 %	5.13 %
Weighted-average life (in years)	6	6
Weighted-average discount rate	12.89%	12.61%

A sensitivity analysis of the fair value of the I/O strips to changes in certain key assumptions is presented in the following table:

	December 31,	
	2013	2012
	(in thousands)	
Discount Rate		
Increase in fair value from 100 basis point decrease	$9	$13
Decrease in fair value from 100 basis point increase	(9)	(12)
Constant Prepayment Rate		
Increase in fair value from 10 percent decrease	5	6

Decrease in fair value from 10 percent increase	(5)	(6)

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The following is a summary of the activity for servicing rights accounted for under the amortization method:

	Year Ended December 31,		
	2013	2012	2011
	(in thousands)		
Beginning balance	$383	$625	$782
Amortization	(115)	(242)	(157)
Ending balance	$268	$383	$625

The amortization on the servicing rights has been recorded in non-interest income.

The following is a summary of the activity for servicing rights accounted for under the fair value method:

	Year Ended December 31,		
	2013	2012	2011
	(in thousands)		
Beginning balance	$348	$-	$ -
Additions through loan sales	-	349	-
Adjustment to fair value	(48)	(1)	-
Ending balance	$300	$348	$ -

The fair value adjustments on the servicing rights have been recorded in non-interest income.

The key data and assumptions used in estimating the fair value of servicing rights as of the periods presented were as follows:

	December 31,	
	2013	2012
Weighted-average constant prepayment rate	5.04 %	4.56 %
Weighted-average life (in years)	9	9
Weighted-average discount rate	12.93 %	13.51 %

A sensitivity analysis of the fair value of servicing rights to change in certain key assumptions is presented in the following table:

	December 31,	
	2013	2012
	(in thousands)	
Discount Rate		
Increase in fair value from 100 basis points decrease	$12	$15
Decrease in fair value from 100 basis points increase	(12)	(14)
Constant Prepayment Rate		
Increase in fair value from 10 percent decrease	6	6
Decrease in fair value from 10 percent increase	(6)	(6)

This sensitivity analysis generally cannot be extrapolated because the relationship of a change in one key assumption to the change in the fair value of the Company's servicing rights usually is not linear. In addition, the effect of changing one key assumption without changing other assumptions is not a viable option.

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

The mortgage rate lock agreement and the forward sale agreement qualify as derivatives. The value of these derivatives is generally equal to the fee, if any, charged to the borrower at inception but may fluctuate in the event of changes in interest rates. These derivative financial instruments are recorded at fair value if material. Although the Company does not attempt to qualify these transactions for the special hedge accounting, management believes that changes in the fair value of the two commitments generally offset and create an economic hedge. At December 31, 2012, the Company had $15.8 million, respectively, in outstanding mortgage loan interest rate lock and forward sale commitments. The value of related derivative instruments was not material to the Company's financial position or results of operations. The Company had no commitments of this nature at December 31, 2013.

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4. LOANS HELD FOR INVESTMENT

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

	December 31, 2013	2012
	(in thousands)	
Manufactured housing	$172,055	$177,391
Commercial real estate	142,678	126,677
Commercial	45,647	32,496
SBA	24,066	30,688
HELOC	15,418	17,852
Single family real estate	10,150	9,939
Consumer	184	232
	410,198	395,275
Allowance for loan losses	12,208	14,464
Deferred costs, net	45	(128)
Discount on SBA loans	339	432
Total loans held for investment, net	$397,606	$380,507

The following tables present the contractual aging of the recorded investment in past due held for investment loans by class of loans and excluding deferred fees and cost and discount on SBA loans:

	December 31, 2013						
	Current	30-59 Days Past Due	60-89 Days Past Due	Over 90 Days Past Due	Total Past Due	Total	Recorded Investment Over 90 Days and Accruing
	(in thousands)						
Manufactured housing	$170,647	$1,076	$135	$197	$1,408	$172,055	$ -
Commercial real estate:							
Commercial real estate	96,393	-	-	-	-	96,393	-
SBA 504 1st trust deed	33,798	-	-	467	467	34,265	-
Land	1,817	140	-	-	140	1,957	-
Construction	10,063	-	-	-	-	10,063	-
Commercial	45,605	42	-	-	42	45,647	-
SBA (1)	23,613	149	-	304	453	24,066	-
HELOC	15,393	25	-	-	25	15,418	-
Single family real estate	10,084	-	-	66	66	10,150	66
Consumer	184	-	-	-	-	184	-
Total	$407,597	$1,432	$135	$1,034	$2,601	$410,198	$ 66

(1) $0.4 million of the $0.5 million SBA loans past due are guaranteed by the SBA.

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December 31, 2012

	Current	30-59 Days Past Due	60-89 Days Past Due	Over 90 Days Past Due	Total Past Due	Total	Recorded Investment Over 90 Days and Accruing
	(in thousands)						
Manufactured housing	$176,249	$467	$258	$417	$1,142	$177,391	$ -
Commercial real estate:							
Commercial real estate	81,682	-	-	830	830	82,512	-
SBA 504 1st trust deed	34,502	-	-	-	-	34,502	-
Land	4,556	-	-	-	-	4,556	-
Construction	5,107	-	-	-	-	5,107	-
Commercial	32,324	40	-	132	172	32,496	-
SBA (1)	23,906	713	-	6,069	6,782	30,688	-
HELOC	17,852	-	-	-	-	17,852	-
Single family real estate	9,895	32	-	12	44	9,939	12
Consumer	232	-	-	-	-	232	-
Total	$386,305	$1,252	$258	$7,460	$8,970	$395,275	$ 12

(1) $5.6 million of the $6.8 million SBA loans past due are guaranteed by the SBA.

Allowance for Loan Losses

The following table summarizes the changes in the allowance for loan losses:

	2013	2012	2011
	(in thousands)		
Beginning balance	$14,464	$15,270	$13,302
Charge-offs	(2,594)	(7,016)	(13,092)
Recoveries	2,282	1,929	469
Net charge-offs	(312)	(5,087)	(12,623)
Provision	(1,944)	4,281	14,591
Ending balance	$12,208	$14,464	$15,270

As of December 31, 2013 and 2012, the Company had reserves for credit losses on undisbursed loans of $0.1 million which were included in Other liabilities.

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The following tables summarize the changes in the allowance for loan losses by portfolio type:

	For the Year Ended December 31,							
	Manufactured Housing	Commercial Real Estate	Commercial	SBA	HELOC	Single Family Real Estate	Consumer	Total
2013	(in thousands)							
Beginning balance	$5,945	$ 2,627	$ 2,325	$2,733	$ 634	$ 198	$ 2	$14,464
Charge-offs	(1,294)	(349)	(149)	(547)	(39)	(179)	(37)	(2,594)
Recoveries	257	1,243	212	559	3	8	-	2,282
Net charge-offs	(1,037)	894	63	12	(36)	(171)	(37)	(312)
Provision	206	(969)	(324)	(794)	(318)	218	37	(1,944)
Ending balance	$5,114	$ 2,552	$ 2,064	$1,951	$ 280	$ 245	$ 2	$12,208
2012								
Beginning balance	$4,629	$ 3,528	$ 2,734	$3,877	$ 349	$ 150	$ 3	$15,270
Charge-offs	(3,652)	(1,687)	(656)	(623)	(76)	(314)	(8)	(7,016)
Recoveries	144	756	131	837	50	6	5	1,929
Net charge-offs	(3,508)	(931)	(525)	214	(26)	(308)	(3)	(5,087)
Provision	4,824	30	116	(1,358)	311	356	2	4,281
Ending balance	$5,945	$ 2,627	$ 2,325	$2,733	$ 634	$ 198	$ 2	$14,464
2011								
Beginning balance	$4,168	$ 2,532	$ 2,094	$3,753	$ 547	$ 135	$ 73	$13,302
Charge-offs	(2,996)	(4,224)	(2,153)	(2,930)	(1)	(788)	-	(13,092)
Recoveries	73	5	75	299	-	17	-	469
Net charge-offs	(2,923)	(4,219)	(2,078)	(2,631)	(1)	(771)	-	(12,623)
Provision	3,384	5,215	2,718	2,755	(197)	786	(70)	14,591
Ending balance	$4,629	$ 3,528	$ 2,734	$3,877	$ 349	$ 150	$ 3	$15,270

The following tables present impairment method information related to loans and allowance for loan losses by loan portfolio segment:

	Manufactured Housing	Commercial Real Estate	Commercial	SBA	HELOC	Single Family Real Estate	Consumer	Total Loans
Loans Held for Investment as of December 31, 2013:	(in thousands)							
Recorded Investment:								
Impaired loans with an allowance recorded	$6,368	$ 2,322	$ 3,583	$1,607	$615	$645	$ -	$15,140
Impaired loans with no allowance recorded	2,782	1,628	254	210	-	106	-	4,980
Total loans individually evaluated for impairment	9,150	3,950	3,837	1,817	615	751	-	20,120
Loans collectively evaluated for impairment	162,905	138,728	41,810	22,249	14,803	9,399	184	390,078
	$172,055	$ 142,678	$ 45,647	$24,066	$15,418	$10,150	$ 184	$410,198

Total loans held for investment								
Unpaid Principal Balance								
Impaired loans with an allowance recorded	$6,962	$ 2,367	$ 3,956	$8,045	$630	$664	$ -	$22,624
Impaired loans with no allowance recorded	4,536	3,834	235	1,610	-	244	-	10,459
Total loans individually evaluated for impairment	11,498	6,201	4,191	9,655	630	908	-	33,083
Loans collectively evaluated for impairment	162,905	138,728	41,810	22,249	14,803	9,399	184	390,078
Total loans held for investment	$174,403	$ 144,929	$ 46,001	$31,904	$15,433	$10,307	$ 184	$423,161
Related Allowance for Credit Losses								
Impaired loans with an allowance recorded	$618	$ 159	$ 437	$139	$29	$57	$ -	$1,439
Impaired loans with no allowance recorded	-	-	-	-	-	-	-	-
Total loans individually evaluated for impairment	618	159	437	139	29	57	-	1,439
Loans collectively evaluated for impairment	4,496	2,393	1,627	1,812	251	188	2	10,769
Total loans held for investment	$5,114	$ 2,552	$ 2,064	$1,951	$280	$245	$ 2	$12,208

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	Manufactured Housing	Commercial Real Estate	Commercial	SBA	HELOC	Single Family Real Estate	Consumer	Total Loans
Loans Held for Investment as of December 31, 2012:	(in thousands)							
Recorded Investment:								
Impaired loans with an allowance recorded	$5,748	$ 519	$ 5,044	$503	$269	$80	$ -	$12,163
Impaired loans with no allowance recorded	4,687	11,389	49	1,238	-	121	-	17,484
Total loans individually evaluated for impairment	10,435	11,908	5,093	1,741	269	201	-	29,647
Loans collectively evaluated for impairment	166,956	114,769	27,403	28,947	17,583	9,738	232	365,628
Total loans held for investment	$177,391	$ 126,677	$ 32,496	$30,688	$17,852	$9,939	$ 232	$395,275
Unpaid Principal Balance								
Impaired loans with an allowance recorded	$5,922	$ 570	$ 5,430	$2,536	$271	$80	$ -	$14,809
Impaired loans with no allowance recorded	6,828	17,624	50	6,736	-	197	-	31,435
Total loans individually evaluated for impairment	12,750	18,194	5,480	9,272	271	277	-	46,244
Loans collectively evaluated for impairment	166,956	114,769	27,403	28,947	17,583	9,738	232	365,628
Total loans held for investment	$179,706	$ 132,963	$ 32,883	$38,219	$17,854	$10,015	$ 232	$411,872
Related Allowance for Credit Losses								
Impaired loans with an allowance recorded	$1,103	$ 4	$ 569	$58	$49	$11	$ -	$1,794
Impaired loans with no allowance recorded	-	-	-	-	-	-	-	-
Total loans individually evaluated for impairment	1,103	4	569	58	49	11	-	1,794
Loans collectively evaluated for impairment	4,842	2,623	1,756	2,675	585	187	2	12,670
Total loans held for investment	$5,945	$ 2,627	$ 2,325	$2,733	$634	$198	$ 2	$14,464

A valuation allowance is established for an impaired loan when the fair value of the loan is less than the recorded investment. In certain cases, portions of impaired loans are charged-off to realizable value instead of establishing a valuation allowance and are included, when applicable in the table above as “Impaired loans without specific valuation allowance under ASC 310.” The valuation allowance disclosed above is included in the allowance for loan losses reported in the consolidated balance sheets as of December 31, 2013 and 2012.

The table below reflects recorded investment in loans classified as impaired:

December 31,

	2013	2012
	(in thousands)	
Impaired loans with a specific valuation allowance under ASC 310	$15,140	$12,163
Impaired loans without a specific valuation allowance under ASC 310	4,980	17,484
Total impaired loans	$20,120	$29,647
Valuation allowance related to impaired loans	$1,439	$1,794

The following tables summarize impaired loans by class of loans:

	December 31,	
	2013	2012
	(in thousands)	
Manufactured housing	$9,150	$10,435
Commercial real estate :		
Commercial real estate	2,805	10,615
SBA 504 1st trust deed	1,005	1,293
Land	140	-
Construction	-	-
Commercial	3,837	5,093
SBA	1,817	1,741
HELOC	615	269
Single family real estate	751	201
Consumer	-	-
Total	$20,120	$29,647

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The following table summarizes the average investment in impaired loans by class and the related interest income recognized:

	Year Ended December 31,					
	2013		2012		2011	
	Average Investment in Impaired Loans	Interest Income	Average Investment in Impaired Loans	Interest Income	Average Investment in Impaired Loans	Interest Income
	(in thousands)					
Manufactured housing	$9,429	$ 323	$8,374	$333	$405	$30
Commercial real estate:						
Commercial real estate	7,638	146	17,552	315	15,293	575
SBA 504 1st trust deed	1,128	7	3,897	159	3,405	420
Land	28	7	-	-	563	-
Construction	-	-	4,808	108	7,515	165
Commercial	3,823	179	5,540	292	4,607	351
SBA	1,506	198	1,800	176	3,048	101
HELOC	372	5	255	13	-	-
Single family real estate	511	11	324	10	-	-
Consumer	-	-	5	-	16	1
Total	$24,435	$ 876	$42,555	$1,406	$34,852	$1,643

The Company is not committed to lend significant additional funds on these impaired loans.

The following table summarizes nonperforming assets:

	December 31,	
	2013	2012
	(in thousands)	
Nonaccrual loans, net	$16,837	$22,425
Loans past due 90 days or more on accrual status	66	12
Troubled debt restructured loans on accrual	3,283	7,222
Total nonperforming loans	20,186	29,659
Other assets acquired through foreclosure, net	3,811	1,889
Total nonperforming assets	$23,997	$31,548

The following table reflects the recorded investment in certain types of loans at the periods indicated:

	Year Ended December 31,		
	2013	2012	2011
	(in thousands)		
Nonaccrual loans	$23,263	$29,643	$42,343
SBA guaranteed portion of loans included above	(6,426)	(7,218)	(13,673)
Total nonaccrual loans, net	$16,837	$22,425	$28,670
Troubled debt restructured loans, gross	$3,283	$19,931	$17,885
Loans 30 through 89 days past due with interest accruing	$161	$521	$3,114
Interest income recognized on impaired loans	$876	$1,406	$1,643

Foregone interest on nonaccrual and troubled debt restructured loans	$1,754	$2,692	$2,920
Allowance for loan losses to gross loans held for investment	2.98 %	3.66 %	3.24 %

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.

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The following table presents the composition of nonaccrual loans, net of SBA guarantee, by class of loans:

	December 31,	
	2013	2012
	(in thousands)	
Manufactured housing	$6,235	$7,542
Commercial real estate:		
Commercial real estate	2,806	10,615
SBA 504 1st trust deed	726	490
Land	140	-
Construction	-	-
Commercial	3,837	1,945
SBA	1,803	1,442
HELOC	615	269
Single family real estate	675	121
Consumer	-	1
Total	$16,837	$22,425

The guaranteed portion of each SBA loan is repurchased from investors when those loans become past due 120 days by either CWB or the SBA directly. After the foreclosure and collection process is complete, the principal balance portion of loans repurchased by CWB are reimbursed by the SBA. Although these balances do not earn interest during this period, they generally do not result in a loss of principal to CWB; therefore a repurchase reserve has not been established related to these loans.

The Company utilizes an internal asset classification system as a means of reporting problem and potential problem loans. Under the Company’s risk rating system, the Company classifies problem and potential problem loans as “Special Mention,” “Substandard,” “Doubtful” and “Loss”. Substandard loans are inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected. Loans classified as Doubtful, have all the weaknesses inherent in those classified Substandard with the added characteristic that the weaknesses present make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. The possibility of loss is extremely high, but because of certain important and reasonably specific pending factors, which may work to the advantage and strengthening of the loan, its classification as an estimated loss is deferred until its more exact status may be determined. Pending factors include proposed merger, acquisition or liquidation procedures, capital injection, perfecting liens on additional collateral and refinancing plans. Loans classified Loss are considered uncollectible and of such little value that their continuance as bankable loans is not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing off this loan even though partial recovery may be affected in the future. Losses are taken in the period in which they surface as uncollectible. Loans that do not currently expose the Company to sufficient risk to warrant classification in one of the aforementioned categories but possess weaknesses that deserve management’s close attention are deemed to be Special Mention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or in the institution's credit position at some future date. Special mention assets are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification. Risk ratings are updated as part of our normal loan monitoring process, at a minimum, annually.

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The following tables present gross loans by risk rating:

	December 31, 2013				
	Pass	Special Mention	Substandard	Doubtful	Total
	(in thousands)				
Manufactured housing	$158,533	$ -	$ 13,522	$ -	$172,055
Commercial real estate:					
Commercial real estate	89,319	3,600	3,474	-	96,393
SBA 504 1st trust deed	33,012	248	1,005	-	34,265
Land	1,817	-	140	-	1,957
Construction	10,063	-	-	-	10,063
Commercial	41,147	327	4,150	23	45,647
SBA	14,773	136	2,053	-	16,962
HELOC	13,806	491	1,121	-	15,418
Single family real estate	9,226	-	924	-	10,150
Consumer	184	-	-	-	184
Total, net	$371,880	$ 4,802	$ 26,389	$ 23	$403,094
SBA guarantee	-	-	6,719	385	7,104
Total	$371,880	$ 4,802	$ 33,108	$ 408	$410,198

	December 31, 2012				
	Pass	Special Mention	Substandard	Doubtful	Total
	(in thousands)				
Manufactured housing	$164,269	$-	$ 13,122	$ -	$177,391
Commercial real estate:					
Commercial real estate	63,793	6,478	12,241	-	82,512
SBA 504 1st trust deed	31,385	1,461	1,656	-	34,502
Land	3,333	300	923	-	4,556
Construction	5,107	-	-	-	5,107
Commercial	27,015	997	4,413	71	32,496
SBA	16,302	1,514	2,504	54	20,374
HELOC	9,432	245	8,175	-	17,852
Single family real estate	9,622	-	317	-	9,939
Consumer	231	-	1	-	232
Total, net	$330,489	$10,995	$ 43,352	$ 125	$384,961
SBA guarantee	-	-	7,551	2,763	10,314
Total	$330,489	$10,995	$ 50,903	$ 2,888	$395,275

Troubled Debt Restructured Loan (TDR)

A troubled debt restructured loan is a loan on which the bank, for reasons related to a borrower's financial difficulties, grants a concession to the borrower that the bank would not otherwise consider. The loan terms that have been modified or restructured due to a borrower's financial situation include, but are not limited to, a reduction in the stated interest rate, an extension of the maturity or renewal of the loan at an interest rate below current market, a reduction in the face amount of the debt, a reduction in the accrued interest, extensions, deferrals, renewals and rewrites. The majority of the bank's modifications are extensions in terms or deferral of payments which result in no lost principal or interest followed by reductions in interest rates or accrued interest. A troubled debt restructured loan is also considered impaired. Generally, a loan that is modified at an effective market rate of interest may no longer be disclosed as a troubled debt restructuring in years subsequent to the restructuring if it is not impaired based on the terms specified by the restructuring agreement.

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The following table presents information on the financial effects of troubled debt restructured loans by class for the periods presented:

	For the Year Ended December 31, 2013					
	Balance	Effect on Allowance for Loan Losses	Balance of Loans with Rate Reduction	Average Rate Reduction (basis points)	Balance of Loans with Term Extension	Average Extension (in months)
	(dollars in thousands)					
Manufactured housing	$1,982	$ 197	$ 1,021	136	$ 1,982	147
Commercial real estate	655	45	-	-	655	8
Construction	-	-	-	-	-	-
Commercial	4,011	256	-	-	4,011	41
SBA	87	16	-	-	87	4
HELOC	-	-	-	-	-	-
Single family real estate	385	32	385	263	147	6
Total	$7,120	$ 546	$ 1,406	152	$ 6,882	110

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	For the Year Ended December 31, 2012					
	Balance	Effect on Allowance for Loan Losses	Balance of Loans with Rate Reduction	Average Rate Reduction (basis points)	Balance of Loans with Term Extension	Average Extension (in months)
	(dollars in thousands)					
Manufactured housing	$5,224	$ 664	$ 277	315	$ 5,224	151
Commercial real estate	830	61	-	-	830	70
SBA 504 1st trust deed	489	5	-	-	489	228
Construction	-	-	-	-	-	-
Commercial	49	6	-	-	49	70
SBA	117	26	-	-	117	57
HELOC	203	36	-	-	203	70
Single family real estate	80	11	-		80	180
Consumer	-	-	-	-	-	-
Total	$6,992	$ 809	$ 277	315	$ 6,992	145

The following tables present TDR's by class that occurred in the past twelve months for which there was a payment default during the period:

	Year Ended December 31,					
	2013			2012		
	Balance	Effect on Allowance for Loan Losses	Number of Loans	Balance	Effect on Allowance for Loan Losses	Number of Loans
	(dollars in thousands)					

Manufactured housing	$456	$ 11	7	$202	$ 5	4
SBA 504 1st	-	-	-	173	-	1
SBA	-	-	-	68	-	1
Total	$456	$ 11	7	$443	$ 5	6

A TDR loan is deemed to have a payment default when the borrower fails to make two consecutive payments or the collateral is transferred to repossessed assets.

At December 31, 2013, there were no material loan commitments outstanding on TDR loans.

Related Parties

Principal stockholders, directors, and executive officers of the Company, together with companies they control, are considered to be related parties. In the ordinary course of business, the Company has extended credit to these related parties. Federal banking regulations require that any such extensions of credit not be offered on terms more favorable than would be offered to non-related party borrowers of similar creditworthiness.

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The following table summarizes the aggregate activity in such loans:

	Year Ended December 31,	
	2013	2012
	(in thousands)	
Balance, beginning	$4,560	$3,733
New loans	1,046	974
Repayments and other	(790)	(147)
Balance, ending	$4,816	$4,560

None of these loans are past due, on nonaccrual status or have been restructured to provide a reduction or deferral of interest or principal because of deterioration in the financial position of the borrower. There were no loans to a related party that were considered classified loans at December 31, 2013 or 2012.

Unfunded loan commitments outstanding with related parties total approximately $0.8 million and $0.9 million at December 31, 2013 and 2012, respectively.

5. PREMISES AND EQUIPMENT

	Year Ended December 31,	
	2013	2012
	(in thousands)	
Bank Premises and land	$1,400	$1,408
Furniture, fixtures and equipment	8,526	8,311
Leasehold improvements	2,591	2,591
	12,517	12,310
Accumulated depreciation	(9,534)	(9,242)
Premises and equipment, net	$2,983	$3,068

Lease Obligations

The Company leases certain premises under non-cancelable operating leases expiring through 2017. The following is a schedule of future minimum rental payments under these leases at December 31, 2013:

	(in thousands)
2014	$ 828
2015	723
2016	653
2017	173
2018	-
Thereafter	-
	$ 2,377

The Company leases the majority of its office locations and many of these leases contain multiple renewal options and provisions for increased rents. Total rent expense of $0.9 million, $1.0 million and $1.1 million is included in occupancy expenses for the years ended December 31, 2013, 2012 and 2011, respectively. Total depreciation expense of $0.3 million, $0.3 million, and $0.4 million is included in occupancy expenses for the years ended December 31, 2013, 2012 and 2011, respectively.

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6. OTHER ASSETS ACQUIRED THROUGH FORECLOSURE

The following table summarizes the changes in other assets acquired through foreclosure:

	December 31,		
	2013	2012	2011
	(in thousands)		
Balance, beginning of period	$1,889	$6,701	$8,478
Additions	6,084	7,329	7,417
Dispositions and receivables from participants	(3,774)	(10,980)	(6,564)
Losses on sales, net	(388)	(1,161)	(2,630)
Balance, end of period	$3,811	$1,889	$6,701

7. INCOME TAXES

The provision for income taxes consisted of the following:

	December 31,		
	2013	2012	2011
Current:	(in thousands)		
Federal	$1,430	$(98)	$(1,545)
State	-	-	(3)
	1,430	(98)	(1,548)
Deferred:			
Federal	453	1,072	(372)
State	670	347	(689)
	1,123	1,419	(1,061)
(Decrease) increase in deferred tax asset valuation allowance	(5,365)	(1,321)	6,686
Total (benefit) provision for income taxes	$(2,812)	$-	$4,077

The reconciliation between the statutory income tax rate and the Company's effective tax rate follows:

	December 31,		
	2013	2012	2011
Federal income tax at statutory rate	34.0 %	34.0 %	(34.0)%
State franchise tax, net of federal benefit	7.2	7.2	(7.2)
Other	-	-	0.5
(Benefit) provision related to deferred tax asset valuation allowance	(86.7)	(41.2)	104.3
Total (benefit) provision for income taxes	(45.5)%	- %	63.6 %

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The cumulative tax effects of the primary temporary differences are as shown in the following table:

	December 31,	
	2013	2012
Deferred Tax Assets:	(in thousands)	
Allowance for loan losses	$4,829	$5,681
Unrealized loss on AFS securities	191	-
State net operating loss	80	595
Other	483	510
Total gross deferred tax assets	5,583	6,786
Deferred tax asset valuation allowance	-	(5,365)
Total deferred tax assets	5,583	1,421
Deferred Tax Liabilities:		
Deferred state taxes	(447)	(691)
Depreciation	(139)	(145)
Other	(296)	(377)
Total deferred tax liabilities	(882)	(1,213)
Net deferred tax asset	$4,701	$208

Deferred tax assets and liabilities are included in the financial statements at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. Management assesses the valuation allowance recorded against deferred tax assets at each reporting period. The determination of whether a valuation allowance for deferred tax assets is appropriate is subject to judgment and requires an evaluation of all positive and negative evidence.

The valuation on deferred tax assets was zero and $5.4 million, respectively, at December 31, 2013 and 2012. The determination of whether a valuation allowance for deferred tax assets is appropriate is subject to considerable judgment and requires an evaluation of all the positive and negative evidence.

At December 31, 2013, the Company reversed $2.8 million of valuation allowance on its net deferred tax asset. The Company established a valuation allowance on its net deferred tax asset in 2011 due to the realization of significant losses and uncertainty about future earnings.

The Company evaluated the need for a valuation allowance at December 31, 2013. Based on the assessment of all the positive and negative evidence, management concluded that it is more likely than not that all of the deferred tax assets will be realized based on current and future income. The positive evidence considered by management in arriving at the conclusion that a valuation allowance is not necessary included six profitable quarters beginning with the third quarter of 2012, projected earnings, significant improvement in credit quality measures, which improve both the sustainability of profitability and management's ability to forecast future credit losses and that the Company is no longer in a three-year cumulative loss position. The negative evidence considered by management included its current memorandums of understanding with banking regulatory agencies.

At December 31, 2013, the Company has $0.5 million state of California net operating losses which will expire beginning in 2032.

The need for a valuation allowance could change in future periods based on the assessment of positive and negative evidence. Management's conclusion at December 31, 2013 that it was more likely than not that all of the net deferred tax assets will be realized is based upon management's estimate of future taxable income. Management's estimate of future taxable income is based on internal forecasts which consider historical performance, various internal estimates and assumptions, as well as certain external data all of which management believes to be reasonable although inherently subject to significant judgment. If actual results differ significantly from the current estimates of future taxable income, a valuation allowance may need to be established which could have a material adverse effect on the Company's financial condition and results of operations.

The Company is subject to income taxation in the United States and certain state jurisdictions. The Company's federal and state income tax returns are filed on a consolidated basis. The Company is open to examination by tax authorities for the years 2010, 2011 and 2012. Although the Company is unable to determine the outcome under examination, it has evaluated whether there are any uncertain tax positions in accordance with ASC 740-10 and concluded that there are no significant uncertain tax positions requiring recognition in the financial statements.

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8. DEPOSITS

The table below summarizes deposits and their related interest expense by type:

	Year Ended December 31,					
	2013		2012		2011	
	Balance	Interest Expense	Balance	Interest Expense	Balance	Interest Expense
	(in thousands)					
Non-interest bearing demand deposits	$52,461	$ -	$53,605	$ -	$49,894	$ -
Interest-bearing deposits:						
NOW accounts	20,367	35	20,120	73	23,401	281
Money market deposit account	238,078	1,150	249,346	1,766	266,395	2,613
Savings accounts	16,158	290	16,351	325	19,429	389
Time deposits of $100,000 or more	95,979	1,166	80,710	1,609	113,336	2,123
Other time deposits	13,092	275	14,088	357	38,807	545
Total deposits	$436,135	$ 2,916	$434,220	$ 4,130	$511,262	$ 5,951

Of the total deposits at December 31, 2013, $327.1 million may be immediately withdrawn. Time certificates of deposit are the only deposits which have a specified maturity.

The summary of the contractual maturities for all time deposits is as follows:

	(in thousands)
2014	$ 34,313
2015	30,783
2016	13,077
2017	3,446
2018	27,427
Thereafter	25
	$ 109,071

The Company through the bank is a member of Certificate Deposit Registry Service (“CDARS”), which provides Federal Deposit Insurance Corporation (“FDIC”) insurance for large deposits. Federal banking law and regulation place restrictions on depository institutions regarding brokered deposits as they pose increased liquidity risk for institutions that gather significant amounts of brokered deposits. At December 31, 2013 and 2012, the Company had $1.7 million and $4.7 million, respectively, of reciprocal CDARS deposits.

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9. OTHER BORROWINGS AND CONVERTIBLE DEBENTURES

The following table summarizes the Company's FHLB advances by maturity date:

	December 31,			
	2013		2012	
Contractual Maturity Date	Amount	Rate	Amount	Rate
	(dollars in thousands)			
November 14, 2013	$-	-	$4,000	3.810%
May 5, 2014	4,000	2.880%	4,000	2.880%
May 7, 2014	4,000	2.760%	4,000	2.760%
May 19, 2014	4,000	2.790%	4,000	2.790%
October 9, 2014	4,000	2.680%	4,000	2.680%
November 17, 2014	4,000	2.780%	4,000	2.780%
March 9, 2015	5,000	2.745%	5,000	2.745%
May 4, 2015	5,000	2.735%	5,000	2.735%
Total FHLB advances	$30,000		$34,000	
Weighted average rate		2.770%		2.890%

The Company through the bank has a blanket lien credit line with the FHLB. FHLB advances are collateralized in the aggregate by the Company's eligible loans and securities. Total FHLB advances were $30.0 million and $34.0 million at December 31, 2013 and 2012, respectively, borrowed at fixed rates. At December 31, 2013, CWB had pledged to the FHLB, $28.0 million of securities and $27.3 million of loans. At December 31, 2013, the Company had $61.4 million available for additional borrowing. At December 31, 2012, the Company had pledged to the FHLB, $24.0 million of securities and $25.5 million of loans. At December 31, 2012, CWB had $65.8 million available for additional borrowing. In 2012, the Company incurred $0.4 million in debt termination expense related to the early repayment of $22.0 million in fixed-rate term FHLB advances. Total FHLB interest expense for the years ended December 31, 2013, 2012 and 2011 was $1.0 million, $1.1 million and $1.6 million, respectively.

Federal Reserve Bank – The Company has established a credit line with the FRB. Advances are collateralized in the aggregate by eligible loans for up to 28 days. There were no outstanding FRB advances as of December 31, 2013 and 2012. Available borrowing capacity was $123.9 million and $66.3 million as of December 31, 2013 and 2012, respectively.

Convertible Debentures – In 2010, the Company completed an offering of $8.1 million convertible subordinated debentures. The debentures are a general unsecured obligation and are subordinated in right of payment to all present and future senior indebtedness. 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 $4.50 per share until July 1, 2016 and $6.00 per share from July 2, 2016 until maturity or redemption. For the year ended December 31, 2013, $6.4 million of principal and $0.1 million of accrued interest had been converted to equity. At December 31, 2013 and 2012, the balance of the convertible debentures was $1.4 million and $7.9 million, respectively.

Federal Funds Purchased Lines – The Company has federal funds borrowing lines at correspondent banks totaling $25.0 million. There was no amount outstanding as of December 31, 2013 and 2012.

10. COMMITMENTS AND CONTINGENCIES

Unfunded Commitments and Letters of Credit

The Company is party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. They involve, to varying degrees, elements of credit risk in excess of amounts recognized in the consolidated balance sheets.

Lines of credit are obligations to lend money to a borrower. Credit risk arises when the borrowers' current financial condition may indicate less ability to pay than when the commitment was originally made. In the case of standby letters of credit, the risk arises from the possibility of the failure of the customer to perform according to the terms of a contract. In such a situation, the third party might draw on the standby letter of credit to pay for completion of the contract and the Company would look to its customer to repay these funds with interest. To minimize the risk, the Company uses the same credit policies in making commitments and conditional obligations as it would for a loan to that customer.

Standby letters of credit are commitments issued by the Company to guarantee the performance of a customer to a third party in borrowing arrangements. Typically, letters of credit issued have expiration dates within one year.

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A summary of the contractual amounts for unfunded commitments and letters of credit are as follows:

	Year Ended December 31,	
	2013	2012
	(in thousands)	
Commitments to extend credit	$19,573	$17,958
Standby letters of credit	75	9
Total	$19,648	$17,967

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The Company enters into credit arrangements that generally provide for the termination of advances in the event of a covenant violation or other event of default. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the party. The commitments are collateralized by the same types of assets used as loan collateral.

The Company has exposure to credit losses from unfunded commitments and letters of credit. As funds have not been disbursed on these commitments, they are not reported as loans outstanding. Credit losses related to these commitments are not included in the allowance for credit losses reported in Note 4, "Loans Held For Investment" of these Consolidated Financial Statements and are accounted for as a separate loss contingency as a liability. This loss contingency for unfunded loan commitments and letters of credit was $0.1 million as of December 31, 2013 and 2012, respectively. Changes to this liability are adjusted through other non-interest expense.

Concentrations of Lending Activities

The Company's lending activities are primarily driven by the customers served in the market areas where the Company has branch offices in the Central Coast of California. The Company monitors concentrations within five broad categories: geography, industry, product, call code, and collateral. The Company grants manufactured housing, commercial, SBA, construction, real estate and consumer loans to customers through branch offices located in the Company's primary markets. The Company's business is concentrated in these areas and the loan portfolio includes significant credit exposure to the manufactured housing and commercial real estate markets of these areas. As of December 31, 2013 and 2012, manufactured housing comprised 36.3% and 38.3%, respectively of total loans. The Company performs a monthly analysis of the manufactured housing loan portfolio which includes weighted average and stratification of various components of credit quality, including loan-to-value, borrower FICO score, loan maturity, debt-to-income ratio, loan amount, mobile home age, mobile home park and location. This concentration is somewhat mitigated by the fact that the portfolio consists of 1,786 individual borrowers as of December 31, 2013 in over 50 mobile home parks. 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. As of December 31, 2013 and 2012, commercial real estate loans accounted for approximately 30.1% and 27.3% of total loans, respectively. Approximately 62.2% and 59.1% of these commercial real estate loans were owner occupied at December 31, 2013 and 2012, respectively. Substantially all of these loans are secured by first liens with an average loan to value ratios of 48.5% and 47.8% at December 31, 2013 and 2012, respectively. The Company was within established policy limits at December 31, 2013 and 2012.

Loan Sales and Servicing

The Company retains a certain level of risk relating to the servicing activities and retained interest in sold loans. In addition, during the period of time that the loans are held for sale, the Company is subject to various business risks associated with the lending business, including borrower default, foreclosure and the risk that a rapid increase in interest rates would result in a decline of the value of loans held for sale to potential purchasers.

In connection with certain loan sales, the Company enters agreements which generally require the company to repurchase or substitute loans in the event of a breach of a representation or warranty made by the Company to the loan purchaser, any misrepresentation during the loan origination process or, in some cases, upon any fraud or early default on such loans.

The Company has sold loans that are guaranteed or insured by government agencies for which the Company retains all servicing rights and responsibilities. The Company is required to perform certain monitoring functions in connection with these loans to preserve the guarantee by the government agency and prevent loss to the Company in the event of nonperformance by the borrower. Management believes that the Company is in compliance with these requirements. The outstanding balance of the loans serviced for others was approximately $33.2 million and $42.2 million at December 31, 2013 and 2012, respectively.

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Salary Continuation

The Company has an agreement with a former officer which provides for $50,000 per year in monthly cash payments. The remaining contractual obligation at December 31, 2013 is five years. At December 31, 2013 and 2012, the Company had accrued salary continuation liability of $0.2 million and $0.3 million, respectively.

Contingencies

On or about December 16, 2013, CWB was served with the Summons and Complaint in the action entitled Residential Funding Company, LLC v. Community West Bank, N.A., United States District Court for the District of Minnesota, Case No. 0:13-CV-03468-JRT-JJK. The Summons was issued and Complaint filed on December 13, 2013. Generally, Residential Funding Company, LLC ("RFC") seeks damages in excess of $75,000 for breach of contract and indemnification for certain unspecified residential mortgage loans originated by CWB and sold to RFC in accordance with an agreement. RFC alleges that some $22 million in loans were sold over the course of the agreement. RFC further alleges that CWB made certain representations and warranties with respect to the loans and that CWB failed to comply with such representations and warranties.

RFC alleges it placed the loans from CWB into residential mortgage backed securitizations trusts ("Trusts") and issued certificates in the Trusts to outside investors. The loans CWB sold to RFC were eventually included along with numerous other third party lender loans in 30 different Trusts. RFC alleges that, over time, the loans defaulted or became delinquent and, from 2008 until May 14, 2012, RFC faced numerous claims and lawsuits stemming from the loans. RFC alleges that it had to file for bankruptcy protection to defend the claims. RFC claims all the lawsuits against RFC filed by investors in the Trusts allege that the securitizations were defective in a variety of ways, including borrower fraud, missing or inaccurate documentation, fraudulent appraisals and misrepresentations concerning occupancy. RFC alleges that CWB was responsible for the problems with the loans in this action and that numerous other lenders were responsible in the other actions RFC has filed. RFC also alleges that it was forced to settle many of the claims in the bankruptcy court but continues to litigate other claims. RFC alleges that under its agreement with CWB, CWB agreed to indemnify RFC for losses or repurchase the loans at RFC's option.

Since the Complaint is so vague and ambiguous concerning the "agreement", the specific loans in question and the circumstances surrounding the approval of such loans, CWB has determined to file a Motion to Dismiss under Rule 12(b)(6) of the Federal Rules of Civil Procedure or, in the alternative, for a Motion for More Definite Statement under Rule 12(e) when CWB's responsive pleading is due on March 17, 2014.

It is CWB's position to vigorously defend this action and CWB knows of no evidence that would support RFC's allegations of wrongdoing by CWB. Due to the preliminary stage of the pleadings and without the benefit of discovery, it is not possible to predict the probable outcome. This action is just one of many filed by RFC against various banks pending in courts in New York and Minnesota, among others. CWB has entered into a Joint Defense Agreement with other defendants in some of the other cases.

On March 5, 2014, RFC filed a Motion to Transfer Venue to the U.S. Bankruptcy Court for the Southern District of New York ("SDNY"). RFC argues that transfer will serve the interests of justice ensuring that (1) common issues are resolved in a common forum, (2) the SDNY Bankruptcy Court is already familiar with the claims, (3) convenience factors buttress the propriety of transfer, and (4) transfer is appropriate despite the fact that the agreement between the parties provides for Minnesota as the forum for resolutions of disputes. RFC's motion indicates that this is one of 83 recently commenced actions in which such a transfer motion has been filed. CWB has not had an opportunity to fully analyze the motion, but it is CWB's preliminary intention to oppose RFC's transfer motion.

The Company is involved in various other lawsuits of a routine nature that are being handled and defended in the ordinary course of the Company's business. Expenses are being incurred in connection with defending the Company, but in the opinion of Management, based in part on consultation with legal counsel, the resolution of these lawsuits and associated defense costs will not have a material impact on the Company's financial position, results of operations, or cash flows.

11. STOCKHOLDERS' EQUITY

Preferred Stock

The Company's Series A Preferred Stock paid cumulative dividends at a rate of 5% per year until February 15, 2014 then increased to a rate of 9% per year thereafter, but will be paid only if, as and when declared by the Company's Board of Directors subject to any regulatory approval requirements as may then be imposed. 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.

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In December 2012, the United States Department of the Treasury sold all of the Series A Preferred Stock to third party purchasers unaffiliated with the Company. The Company did not receive any proceeds from this auction, nor were any of the terms modified in connection with the sales.

On June 4, 2013, four members of the Board of Directors purchased 1.1 million shares of the Company's Series A Cumulative Perpetual Preferred stock from private investors.

During the years ended December 31, 2013 and 2012, the Company recorded $1.0 million of dividends and accretion of the discount on preferred stock.

The Company has paid all the quarterly dividends on such Series A Preferred Stock through February 15, 2012. While the Company declared and accrued for the subsequent seven quarters of dividends, the Company's request to the FRB was not approved until December 2013, as such, the Company had not paid the dividends as of December 31, 2013. The aggregate amount of the dividends that would have been paid was $1.4 million. The deferral of the dividends on the Series A Preferred Stock is permitted under its terms and does not constitute an event of default.

Common Stock Warrant

The Warrant issued as part of the TARP provides for the purchase of up to 521,158 shares of the common stock, at an exercise price of $4.49 per share ("Warrant Shares"). The Warrant is immediately exercisable and has a 10-year term. The exercise price and the ultimate number of shares of common stock that may be issued under the Warrant are subject to certain anti-dilution adjustments, such as upon stock splits or distributions of securities or other assets to holders of the common stock, and upon certain issuances of the common stock at or below a specified price relative to the then current market price of the common stock. On June 6, 2013, the Treasury sold its warrant position to private investors. Pursuant to the Securities Purchase Agreement, the private investors have agreed not to exercise voting power with respect to any Warrant Shares.

Common Stock Issuance

During 2013, the Company issued 1,864,748 shares of common stock in conjunction with debenture conversions.

Stock Option Plans

The Company has one stock option plan, the Community West Bancshares 2006 Stock Option Plan. As of December 31, 2013, 169,075 options were available for future grant.

The fair value of each option award is estimated on the date of grant using the Black-Scholes option valuation model that uses the assumptions noted in the following table. This model requires the input of highly subjective assumptions, changes to which can materially affect the fair value estimate. The expected volatility is based on the historical volatility of the stock of the Company over the expected life of the options. The risk-free rate for the periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of the grant. The dividend rate assumption of zero is based on management's intention not to pay dividends for the foreseeable future. A summary of the assumptions used in calculating the fair value of option awards during the years ended December 31, 2013, 2012 and 2011 are as follows:

	December 31,		
	2013	2012	2011
Expected life in years	6.3	5.8	6.4
Risk-free interest rate	1.42%	1.05%	1.45%

Expected volatility	69.2%	69.0%	63.1%
Annual dividend rate	- %	- %	- %

Stock options granted in 2013 generally have a vesting period of 5 years and a contractual life of 10 years. The Company recognizes compensation cost for options ratably over the requisite service period for all awards.

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A summary of option activity under the plan is presented below:

	Year Ended December 31, 2013			
	Option Shares	Weighted Average Exercise Price	Weighted Average Remaining Term	Aggregate Intrinsic Value
	(in thousands, except exercise price and contractual terms)			
Outstanding options, beginning of period	447	$ 5.38		
Granted	21	4.91		
Exercised	(7)	3.24		
Forefeited or expired	(85)	6.07		
Outstanding options, end of period	376	$ 5.25	6.1	$ 937
Options exerciseable, end of period	241	$ 6.56	4.8	$ 443
Options expected to vest, end of period	135	$ 2.90	8.4	$ 494

	Year Ended December 31, 2012			
	Option Shares	Weighted Average Exercise Price	Weighted Average Remaining Term	Aggregate Intrinsic Value
	(in thousands, except exercise price and contractual terms)			
Outstanding options, beginning of period	377	$ 6.76		
Granted	147	2.92		
Exercised	(5)	3.25		
Forefeited or expired	(72)	7.68		
Outstanding options, end of period	447	$ 5.38	6.1	$ 160
Options exerciseable, end of period	278	$ 7.00	4.4	$