COMMUNITY WEST BANCSHARES /
Form 10-K
March 03, 2017

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, 2016
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 No

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the 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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§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 No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information

statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a 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	Accelerated filer
Non-accelerated filer (Do not check if smaller reporting company)	Smaller reporting company

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

The aggregate market value of common stock, held by non-affiliates of the registrant was $35,568,010 based on the June 30, 2016 closing price of $7.36 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 February 24, 2017, 8,099,739 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 2017 Annual Meeting of Stockholders to be held on or about May 25, 2017 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, 2016.

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PART I

Forward-Looking Statements

Certain statements contained in this Annual Report on Form 10-K ("Form 10-K") 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 contained in the Private Securities Litigation Reform Act of 1995 and is including this statement for purposes of these safe harbor provisions. All statements other than statements of historical fact are "forward-looking statements" for purposes of Federal and State securities laws, including statements that are related to or are dependent upon 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 10-K 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 10-K. Risks and uncertainties include those set forth in our filings with the Securities and Exchange Commission ("SEC").

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 11. 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 ("CWBC") and its wholly-owned subsidiary Community West Bank N.A ("CWB" or the "Bank"). Unless otherwise stated, "the Company" refers to CWBC and CWB as a consolidated entity. References to "CWBC or to the "holding company," refer to Community West Bancshares, the parent company, on a stand-alone basis. 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, 2016 and 2015, herein referred to as the "Consolidated Financial Statements". These Consolidated Financial Statements are presented beginning on page 49 of this Form 10-K.

ITEM 1. BUSINESS

GENERAL

Community West Bancshares or CWBC, a California corporation, is a bank holding company registered under the Bank Holding Company Act of 1956, as amended, or "BHCA," with corporate headquarters in Goleta, California. Our principal business is to serve as the holding company for our wholly-owned subsidiary Community West Bank, N.A., a national banking association chartered by the Office of the Comptroller of the Currency ("OCC"). Through CWB, the Company provides a variety of financial products and services to customers through seven full-service branch offices in the cities of Goleta, Oxnard, San Luis Obispo, Santa Barbara, Santa Maria, Ventura and Westlake, California. The Oxnard branch was opened on January 30, 2017.

PRODUCTS AND SERVICES

CWB is focused on relationship-based business banking to small to medium-sized businesses and their owners in the communities served by its branch offices. CWB provides a variety of financial products and services to customers.

The products and services include deposit products such as checking accounts, savings accounts, money market accounts and fixed rate, fixed maturity certificates of deposits, cash management products, and lending products including; commercial, commercial real estate and consumer loans.

Competition in our markets remains healthy. The Company continues to be competitive due to its focus on high quality customer service and our experienced relationship bankers who have strong relationships within the communities we serve.

Manufactured Housing

The Company has a financing program for manufactured housing to provide affordable home ownership. These loans are offered in approved mobile home parks throughout California primarily on or near the coast. The parks must meet specific criteria. The manufactured housing loans are secured by the manufactured home and are retained in the Company’s loan portfolio.

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. These loan products are partially guaranteed by 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 $1,399,000 (amount adjusted annually based on inflation) for up to 40 years.

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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 can be 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.

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 maximum guaranteed amount is 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.

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

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. CWB was approved to increase this lending limit under the OCC's Special Lending Limits Program to 25%. This program ensures that national bank lending limits such as CWB's would remain competitive with state-chartered banks.

Foreign Operations

The Company has no foreign operations. The Bank may provide 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, 2016, the Company had 120 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.”

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Additional Available Information

The Company maintains an Internet website at http://www.communitywest.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 Exchange Act. 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 37.

Our business may be adversely affected by downturns in the national economy and in the economies in our market areas.

Substantially all of our loans are to businesses and individuals in the State of California. A decline in the economies of our local market areas of Santa Barbara, San Luis Obispo, and Ventura Counties in which we operate, and which we consider to be our primary market areas, could have a material adverse effect on our business, financial condition, results of operations and prospects.

While real estate values and unemployment rates have recently improved, a deterioration in economic conditions in the market areas we serve could result in the following consequences, any of which could have a materially adverse impact on our business, financial condition and results of operations:

- loan delinquencies, problem assets and foreclosures may increase;
- the sale of foreclosed assets may slow;
- demand for our products and services may decline possibly resulting in a decrease in our total loans or assets;
- collateral for loans made may decline further in value, exposing us to increased risk loans, reducing customers' borrowing power, and reducing the value of assets and collateral associated with existing loans;
- the net worth and liquidity of loan guarantors may decline, impairing their ability to honor commitments to us; and
- the amount of our low-cost or non-interest bearing deposits may decrease and the composition of our deposits may be adversely affected.

A decline in local economic conditions may have a greater effect on our earnings and capital than on the earnings and capital of larger financial institutions whose real estate loans are geographically diverse. If we are required to liquidate a significant amount of collateral during a period of reduced real estate values, our financial condition and profitability could be adversely affected.

A return of recessionary conditions could result in increases in our level of non-performing loans and/or reduce demand for our products and services, which could have an adverse effect on our results of operations.

Economic conditions have improved since the end of the economic recession; however, economic growth has been slow and uneven. A return of recessionary conditions and/or negative developments in the domestic and international credit markets may significantly affect the markets in which we do business, the value of our loans and investments, and our ongoing operations, costs and profitability. Declines in real estate value and sales volumes and high unemployment levels may result in higher than expected loan delinquencies and a decline in demand for our products and services. These negative events may cause us to incur losses and may adversely affect our capital, liquidity and financial condition.

Furthermore, the Board of Governors of the Federal Reserve System, in an attempt to help the overall economy, has among other things, kept interest rates low through its targeted federal funds rate and the purchase of U.S. Treasury and mortgage-backed securities. The Federal Reserve Board increased the federal funds rate by 25 basis points in December 2016 and indicated the potential for further increases in the federal funds rate in the near future. As the federal funds rate increases, market interest rates will likely rise, which may negatively impact the housing markets and the U.S. economic recovery. In addition, deflationary pressures, while possibly lowering our operating costs, could have a negative effect on our borrowers, especially our business borrowers, and the values of underlying collateral securing loans, which could negatively affect our financial performance.

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Reserve for loan 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. The Company maintains a reserve for loan losses to absorb estimated probable losses inherent in the loan and commitment portfolios as of the balance sheet date. Provisions are taken from earnings and applied to the loan loss reserves as the risk of loss in the loan and commitment portfolios increases. Conversely, credits to earnings from the loan loss reserves are made when asset qualities improve resulting in a decrease in the risk of loss in the loan and commitment portfolios. As of December 31, 2016, the Company's allowance for loan losses was $7.5 million, or 1.31% of loans held for investment. In addition, as of December 31, 2016, we had $3.1 million in loans on nonaccrual, $0.7 million of which are government guaranteed. In determining the level of the reserve for loan losses, Management makes various assumptions and judgments about the loan portfolio. Management relies 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 to Management at the time of the analysis. If Management's assumptions are incorrect, the reserve for loan losses may not be sufficient to cover losses, which could have a material adverse effect on the Company's financial condition and/or results of operations. While the allowance for loan losses was determined to be adequate at December 31, 2016, based on the information available to us at the time, there can be no assurance that the allowance will be adequate to cover actual losses in the loan portfolio 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 and, if not, the cumulative effect may have an adverse effect on our financial condition and/or results of operations.

The Company is dependent on real estate concentrated in the State of California.

As of December 31, 2016, approximately $386.2 million, or 61%, of our loan portfolio is secured by various forms of real estate, including residential and commercial real estate. A decline in current economic conditions or rising interest rates could have an adverse effect on the demand for new loans, the ability of borrowers to repay outstanding loans and the value of real estate and other collateral securing loans. The real estate securing our loan portfolio is concentrated in California. A decline in the real estate market could materially and adversely affect the business of CWB because a significant portion of its loans are secured by real estate. The ability to recover on defaulted loans by selling the real estate collateral would then be diminished and CWB would be more likely to suffer losses on loans. Substantially all of the real property collateral is located in California. If there is an additional decline in real estate values, especially in California, the collateral for their loans would provide less security. Real estate values could be affected by, among other things, a decline of economic conditions, an increase in foreclosures, a decline in home sale volumes, an increase in interest rates, high levels of unemployment, drought, earthquakes, brush fires and other natural disasters particular to California.

California's current drought may impact the economy.

At December 31, 2016, California was experiencing a severe drought in all areas of the state. At December 31, 2016, CWB had $28.5 million of agricultural loans which would be most impacted by the drought. The overall economy of California may be negatively impacted by this drought as the cost of water and availability of water may increase the

operating costs for businesses which could negatively affect their operating results, loan quality and collateral.

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.

The Company is 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. 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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Additional requirements imposed by the Dodd-Frank Act and related regulation could have an adverse effect on the Company.

Government efforts to strengthen the U.S. financial system have resulted in the imposition of additional regulatory requirements. The Dodd-Frank Act provided for sweeping regulatory changes, including the following:

- the establishment of strengthened capital and liquidity requirements for banks and bank holding companies, including minimum leverage and risk-based capital requirements no less than the strictest requirements in effect for depository institutions as of the date of enactment;
- the requirement by statute that bank holding companies serve as a source of financial strength for their depository institution subsidiaries;
- enhanced regulation of financial markets, including the derivative and securitization markets, and the elimination of certain proprietary trading activities by banks;
- additional corporate governance and executive compensation requirements; enhanced financial institution safety and soundness regulations,
- revisions in FDIC insurance assessment fees and a permanent increase in FDIC deposit insurance coverage to $250,000;
- authorization for financial institutions to pay interest on business checking accounts; and
- the establishment of new regulatory bodies, such as the Consumer Financial Protection Bureau and the Financial Services Oversight Counsel, to identify emerging systemic risks and improve interagency cooperation.

Current and future legal and regulatory requirements, restrictions, and regulations, including those imposed under Dodd-Frank, may adversely impact profitability of CWBC and CWB and may have a material and adverse effect on their respective businesses, financial condition, and results of operations. They may also be required to invest significant management attention and resources to evaluate and make changes required by the legislation and related regulations and may make it more difficult for them to attract and retain qualified executive officers and employees.

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

The federal banking agencies 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. 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 a further discussion of the capital rules, see “SUPERVISION AND REGULATION” herein.

Curtailment of government guaranteed loan programs could affect a segment of the Company’s business.

A 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.

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 the Company's service areas, the businesses of the Company's lending clients and their ability to repay outstanding loans may be negatively affected. As a consequence, the Company's 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 its liquidity and profitability.

The Company's profitability depends in part on successfully attracting and retaining a stable base of low-cost deposits. While the Company generally does not believe these core deposits are sensitive to interest rate fluctuations, the competition for these deposits in the Company's 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.

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

As of December 31, 2016, the Company has borrowings from the FHLB of San Francisco of $25.0 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 43% of the Company's loan portfolio at December 31, 2016 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. The Company 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 the Company is the owner or former owner of a contaminated site, it 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 the Company's business and prospects.

Changes in interest rates could adversely affect the Company's profitability, business and prospects

Most of the Company's assets and liabilities are monetary in nature, which subjects it to significant risks from changes in interest rates and can impact the Company's net income and the valuation of its assets and liabilities. Increases or decreases in prevailing interest rates could have an adverse effect on the Company's business, asset quality and prospects. The Company's operating income and net income depend to a great extent on is net interest margin. Net interest margin is the difference between the interest yields received on loans, securities and other earning assets and the interest rates paid on interest-bearing deposits, borrowings and other liabilities. These rates are highly sensitive to many factors beyond the Company's 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 paid on interest-bearing deposits, borrowings and other liabilities increases more than the rate of interest received on loans, securities and other earning assets increases, the Company's net interest income, and therefore earnings, would be adversely affected. The Company's earnings also could be adversely affected if the rates on its loans and other investments fall more quickly than those on its deposits and other liabilities.

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 debt 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 the Company's net interest spread, asset quality, loan origination volume, business, financial condition, results of operations and cash flows.

CWBC and CWB have liquidity risk.

Liquidity risk is the risk that CWBC and CWB will have insufficient cash or access to cash to satisfy current and future financial obligations, including demands for loans and deposit withdrawals, funding operating costs, and for other corporate purposes. An inability to raise funds through deposits, borrowings, the sale of loans and other sources could have a material adverse effect on liquidity. Access to funding sources in amounts adequate to finance business activities could be impaired by factors that affect either entity specifically or the financial services industry in general. Factors that could detrimentally impact access to liquidity sources include a decrease in the level of business activity due to a market downturn or adverse regulatory action against either entity. The ability of CWB to acquire deposits or borrow could also be impaired by factors that are not specific to CWB, such as a severe disruption of the financial markets or negative views and expectations about the prospects for the financial services industry as a whole. CWB mitigates liquidity risk by establishing and accessing lines of credit with various financial institutions and having back-up access to the brokered Certificate of Deposits "CD's" markets. Results of operations could be adversely affected if either entity were unable to satisfy current or future financial obligations.

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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 its operations from a variety of different competitors. Its 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 the Company. Increased competition in the Company's 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.

The Company 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.

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.

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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 the Company's 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.

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.

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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. 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

The Company is headquartered at 445 Pine Avenue in Goleta, California. This facility houses the Company's corporate offices and the manufactured housing loan division. The Company operates seven domestic branch locations one of which is owned. Subsequent to year end, the Company opened the seventh full-service domestic branch in Oxnard, California. 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.

ITEM 3. LEGAL PROCEEDINGS

From time to time, the Company may be involved in various litigation matters of a routine nature 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 are not expected to 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:

	2016 Quarters				2015 Quarters			
	Fourth	Third	Second	First	Fourth	Third	Second	First
Range of stock prices:								
High	$9.95	$8.62	$7.55	$7.25	$7.30	$7.05	$ 6.88	$6.98
Low	7.85	7.35	6.80	6.79	6.85	6.85	6.46	6.52
Cash Dividends Declared:	$0.035	$0.035	$0.035	$0.03	$0.03	$0.03	$ 0.03	$0.02

Holders

As of February 24, 2017 the closing price of our common stock on NASDAQ was $10.35 per share. As of that date the Company had approximately 223 holders of record of its common stock. The Company has a greater number of beneficial owners of our common stock who own their shares through brokerage firms and institutional accounts.

Common Stock Dividends

It is the Company's intention to review its dividend policy on a quarterly basis. 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. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Supervision and Regulation – CWBC – Limitations on Dividend Payments."

Repurchases of Securities

Common

The Company authorized a $3.0 million common stock repurchase program. The repurchase program is expected to be executed over no more than a two-year period. Under this program the Company has repurchased 187,569 common stock shares for $1.4 million at an average price of $7.25 per share. There were no repurchases of common stock under this program during the three months ended December 31, 2016.

Securities Authorized for Issuance under Equity Compensation Plans

The following table summarizes the securities authorized for issuance as of December 31, 2016:

Plan Category	Number of securities to be issued upon exercise of outstanding	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity

	options, warrants and rights		compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Plans approved by shareholders	704,925	$ 6.41	123,750
Plans not approved by shareholders	-	-	-
Total	704,925	$ 6.41	123,750

For material features of the plans, see “Item 8. Financial Statements and Supplementary Data - Note 11. Stockholder’s Equity-Stock Option Plans.”

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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 "Item 7. 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,				
	2016	2015	2014	2013	2012
	(in thousands, except per share amounts)				
Results of Operations:					
Interest income	$32,216	$30,222	$28,004	$27,866	$31,368
Interest expense	3,127	2,516	3,275	4,332	5,949
Net interest income	29,089	27,706	24,729	23,534	25,419
Provision (credit) for loan losses	(48)	(2,274)	(5,135)	(1,944)	4,281
Net interest income after provision for loan losses	29,137	29,980	29,864	25,478	21,138
Non-interest income	2,253	2,309	2,197	2,831	4,281
Non-interest expenses	22,548	27,281	20,081	22,135	22,246
Income before income taxes	8,842	5,008	11,980	6,174	3,173
Provision (benefit) for income taxes	3,613	2,138	4,934	(2,812)	-
Net income	5,229	2,870	7,046	8,986	3,173
Dividends and accretion on preferred stock	-	445	937	1,039	1,046
Discount on partial redemption of preferred stock	-	(129)	(159)	-	-
Net income available to common stockholders	$5,229	$2,554	$6,268	$7,947	$2,127
Per Share Data:					
Income per common share - basic	$0.64	$0.31	$0.77	$1.13	$0.36
Income per common share - diluted	$0.62	$0.30	$0.75	$0.98	$0.31
Weighted average shares outstanding - basic	8,114	8,203	8,141	7,017	5,990
Weighted average shares outstanding - diluted	8,444	8,491	8,505	8,390	8,233
Shares outstanding at period end	8,096	8,206	8,203	7,867	5,995
Dividends declared per common share	$0.135	$0.11	$0.04	-	-
Book value per common share	$8.07	$7.55	$7.31	$6.60	$6.29
Selected Balance Sheet Data:					
Net loans	623,355	536,546	487,256	462,005	449,201
Allowance for loan losses	7,464	6,916	7,887	12,208	14,464
Total assets	710,572	621,213	557,318	539,000	532,101
Total deposits	612,236	544,338	477,084	436,135	434,220
Total liabilities	645,236	559,269	490,311	471,444	479,052
Total stockholders' equity	65,336	61,944	67,007	67,556	53,049
Selected Financial and Liquidity Ratios:					
Net interest margin	4.60%	4.80%	4.50%	4.51%	4.49%
Return on average assets	0.81%	0.49%	1.25%	1.69%	0.55%
Return on average stockholders' equity	8.19%	4.34%	10.42%	15.15%	6.22%
Equity to assets ratio	9.19%	9.97%	12.02%	12.53%	9.97%
Loan to deposit ratio	103.04%	99.84%	103.79%	108.73%	106.78%
Capital Ratios:					
Tier 1 leverage ratio (1)	9.64%	10.11%	11.86%	12.68%	9.72%
Common Equity Tier 1 ratio (1)	10.57%	12.12%	-	-	-
Tier 1 risk-based capital ratio (1)	10.57%	12.12%	14.94%	15.65%	12.81%
Total risk-based capital ratio (1)	11.80%	13.37%	16.19%	17.26%	15.98%

Selected Asset Quality Ratios:										
Net charge-offs (recoveries) to average loans	-0.10	%	-0.26	%	-0.16	%	0.70	%	1.02	%
Allowance for loan losses to total loans	1.18	%	1.27	%	1.59	%	2.57	%	3.12	%
Allowance for loan losses to nonaccrual loans	239.46	%	99.42	%	71.52	%	72.51	%	64.50	%
Nonaccrual loans to gross loans	0.49	%	1.28	%	2.23	%	3.55	%	4.84	%
Nonaccrual loans and repossessed assets to total loans	0.52	%	1.32	%	2.25	%	4.35	%	5.24	%
Loans past due 90 days or more and still accruing interest to total loans	-		-		-		0.01	%	-	

(1) Effective 2015, CWB was subject to Basel III regulatory capital guidelines. CWBC as a small bank holding company is not subject to the Basel III capital reporting requirements. The 2016 and 2015 ratios were the estimated consolidated capital ratios under Basel III.

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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–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 " 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 seven California branch banking offices located in Goleta, Oxnard, San Luis Obispo, Santa Barbara, Santa Maria, Ventura and Westlake Village.

Financial Result Highlights of 2016

Net income available to common stockholders of $5.2 million, or $0.62 per diluted share for 2016, compared to $2.6 million, or $0.30 per diluted share for 2015 and $6.3 million or $0.75 per diluted share for 2014.

The significant factors impacting the Company during 2016 were:

- Net income of $5.2 million for 2016 compared to a net income of $2.9 million for 2015.
- Total loans increased 16.1% to $630.8 million at December 31, 2016 compared to $543.5 million at December 31, 2015.
- Total deposits increased 12.5% to $612.2 million at December 31, 2016, compared to $544.3 million a year ago.
- Non-interest-bearing deposits increased 31.2% to $100.4 million at December 31, 2016, compared to $76.5 million a year ago.
- The provision (credit) for loan losses was ($48,000) for 2016 compared to ($2.3 million) in 2015. Net loan loss recoveries were ($0.6 million) for 2016 compared to ($1.3 million) in 2015.
- Net nonaccrual loans decreased to $2.4 million at December 31, 2016, compared to $5.0 million at December 31, 2015.
- Allowance for loan losses was $7.5 million at December 31, 2016, or 1.31% of total loans held for investment compared to 1.44% at December 31, 2015.
- Net interest margin for the year ended December 31, 2016 decreased to 4.60% compared to 4.80% for the year ended 2015.
- Full service branch office locations opened in San Luis Obispo, California and Oxnard, California (January 2017).

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, 2016

throughout the analysis sections of this report.

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

	Year Ended December 31,		
	2016	2015	2014
	(in thousands, except per share amounts)		
Net income available to common stockholders	$ 5,229	$ 2,554	$ 6,268
Basic earnings per share	0.64	0.31	0.77
Diluted earnings per share	0.62	0.30	0.75
Total assets	710,572	621,213	557,318
Gross loans	630,819	543,462	495,143
Total deposits	612,236	544,338	477,084
Net interest margin	4.60 %	4.80 %	4.50 %
Return on average assets	0.81 %	0.49 %	1.25 %
Return on average stockholders' equity	8.19 %	4.34 %	10.42 %

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 these asset quality metrics:

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	Year Ended December 31,		
	2016	2015	2014
	(in thousands)		
Non-accrual loans (net of guaranteed portion)	$2,375	$5,013	$11,027
Non-accrual loans to gross loans	0.38 %	0.92 %	2.23 %
Net charge-offs (recoveries) to average loans	(0.10)%	(0.26)%	(0.16)%

Asset and Deposit Growth

The Company's assets and liabilities are comprised primarily of loans and deposits. The ability to originate new loans and attract new deposits is fundamental to the Company's asset growth. Total assets increased to $710.6 million at December 31, 2016 from $621.2 million at December 31, 2015. Total loans including net deferred fees and unearned income increased by $87.3 million, or 16.1%, to $630.8 million as of December 31, 2016 compared to December 31, 2015. Total deposits increased by 12.5% to $612.2 million as of December 31, 2016 from $544.3 million as of December 31, 2015.

RESULTS OF OPERATIONS

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

	Year Ended December 31,		Increase	Year Ended December 31,		Increase
	2016	2015	(Decrease)	2015	2014	(Decrease)
	(in thousands, except per share amounts)					
Consolidated Income Statement Data:						
Interest income	$32,216	$30,222	$ 1,994	$30,222	$28,004	$ 2,218
Interest expense	3,127	2,516	611	2,516	3,275	(759)
Net interest income	29,089	27,706	1,383	27,706	24,729	2,977
Provision (credit) for losses	(48)	(2,274)	2,226	(2,274)	(5,135)	2,861
Net interest income after provision for loan losses	29,137	29,980	(843)	29,980	29,864	116
Non-interest income	2,253	2,309	(56)	2,309	2,197	112
Non-interest expenses	22,548	27,281	(4,733)	27,281	20,081	7,200
Income before provision for income taxes	8,842	5,008	3,834	5,008	11,980	(6,972)
Provision for income taxes	3,613	2,138	1,475	2,138	4,934	(2,796)
Net income	$5,229	$2,870	$ 2,359	$2,870	$7,046	$ (4,176)
Dividends and accretion on preferred stock	-	445	(445)	445	937	(492)
Discount on partial redemption of preferred stock	-	(129)	129	(129)	(159)	30
Net income available to common stockholders	$5,229	$2,554	$ 2,675	$2,554	$6,268	$ (3,714)
Earnings per share - basic	$0.64	$0.31	$ 0.33	$0.31	$0.77	$ (0.46)
Earnings per share - diluted	$0.62	$0.30	$ 0.32	$0.30	$0.75	$ (0.45)

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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,					
	2016			2015		
	Average Balance	Interest	Average Yield/Cost	Average Balance	Interest	Average Yield/Cost
Interest-Earning Assets	(in thousands)					
Federal funds sold and interest-earning deposits	$25,103	$121	0.48 %	$29,612	$93	0.31 %
Investment securities	34,867	998	2.86 %	34,317	990	2.88 %
Loans (1)	573,084	31,097	5.43 %	513,826	29,139	5.67 %
Total earnings assets	633,054	32,216	5.09 %	577,755	30,222	5.23 %
Nonearning Assets						
Cash and due from banks	2,660			1,763		
Allowance for loan losses	(7,095)			(7,459)		
Other assets	15,930			16,310		
Total assets	$644,549			$588,369		
Interest-Bearing Liabilities						
Interest-bearing demand deposits	251,644	934	0.37 %	257,785	902	0.35 %
Savings deposits	14,138	109	0.77 %	14,479	123	0.85 %
Time deposits	219,653	1,808	0.82 %	165,894	1,358	0.82 %
Total interest-bearing deposits	485,435	2,851	0.59 %	438,158	2,383	0.54 %
Other borrowings	10,699	276	2.58 %	9,415	133	1.41 %
Total interest-bearing liabilities	496,134	3,127	0.63 %	447,573	2,516	0.56 %
Noninterest-Bearing Liabilities						
Noninterest-bearing demand deposits	80,611			70,864		
Other liabilities	3,947			3,856		
Stockholders' equity	63,857			66,076		
Total Liabilities and Stockholders' Equity	$644,549			$588,369		
Net interest income and margin (2)		$29,089	4.60 %		$27,706	4.80 %
Net interest spread (3)			4.46 %			4.67 %

(1) Includes nonaccrual loans.
(2) Net interest margin is computed by dividing net interest income by total average earning assets.
(3) Net interest spread represents average yield earned on interest-earning assets less the average rate paid on interest-bearing liabilities.

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	Year Ended December 31,							
	2015				2014			
	Average Balance	Interest	Average Yield/Cost		Average Balance	Interest	Average Yield/Cost	
Interest-Earning Assets	(in thousands)							
Federal funds sold and interest-earning deposits	$29,612	$93	0.31	%	$26,296	$76	0.29	%
Investment securities	34,317	990	2.88	%	33,242	762	2.29	%
Loans (1)	513,826	29,139	5.67	%	489,598	27,166	5.55	%
Total earnings assets	577,755	30,222	5.23	%	549,136	28,004	5.10	%
Nonearning Assets								
Cash and due from banks	1,763				1,642			
Allowance for loan losses	(7,459)				(10,778)			
Other assets	16,310				22,474			
Total assets	$588,369				$562,474			
Interest-Bearing Liabilities								
Interest-bearing demand deposits	257,785	902	0.35	%	271,744	1,064	0.39	%
Savings deposits	14,479	123	0.85	%	15,923	202	1.27	%
Time deposits	165,894	1,358	0.82	%	123,354	1,397	1.13	%
Total interest-bearing deposits	438,158	2,383	0.54	%	411,021	2,663	0.65	%
Convertible debentures	-	-	0.00	%	241	30	12.45	%
Other borrowings	9,415	133	1.41	%	21,235	582	2.74	%
Total interest-bearing liabilities	447,573	2,516	0.56	%	432,497	3,275	0.76	%
Noninterest-Bearing Liabilities								
Noninterest-bearing demand deposits	70,864				58,456			
Other liabilities	3,856				3,921			
Stockholders' equity	66,076				67,600			
Total Liabilities and Stockholders' Equity	$588,369				$562,474			
Net interest income and margin (2)		$27,706	4.80	%		$24,729	4.50	%
Net interest spread (3)			4.67	%			4.34	%

(1) Includes nonaccrual loans.
(2) Net interest margin is computed by dividing net interest income by total average earning assets.
(3) Net interest spread represents average yield earned on interest-earning assets less the average rate paid on interest-bearing liabilities.

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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, 2016 versus 2015 Increase (Decrease) Due to Changes in [1]			Year Ended December 31, 2015 versus 2014 Increase (Decrease) Due to Changes in [1]		
	Volume	Rate	Total	Volume	Rate	Total
	(in thousands)			(in thousands)		
Interest income:						
Investment securities	$15	$(7)	$8	$32	$196	$228
Federal funds sold and other	(22)	50	28	12	5	17
Loans, net	3,191	(1,233)	1,958	1,385	588	1,973
Total interest income	3,184	(1,190)	1,994	1,429	789	2,218
Interest expense:						
Interest checking	(23)	55	32	(49)	(113)	(162)
Savings	(3)	(11)	(14)	(12)	(67)	(79)
Time deposits	441	9	450	349	(388)	(39)
Other borrowings	33	110	143	(167)	(282)	(449)
Total interest expense	448	163	611	121	(880)	(759)
Net increase	$2,736	$(1,353)	$1,383	$1,308	$1,669	$2,977

(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, 2016 was $32.2 million, an increase from $30.2 million and $28.0 million, respectively, for the years ended December 31, 2015 and 2014. The interest income was positively impacted by increased average earning assets primarily loans in 2016. Average loans for the year increased 11.5% over 2015 and 17.1 % over 2014. Average asset yields declined for 2016 as competition for new quality loans continued to further compress the interest rates and the margin. In 2015 the margin benefited by 22 basis points from the payoff of two large nonaccrual loan relationships. These loan interest recoveries on nonaccrual loans in 2015 also accounted for the increased average yield on loans for 2015 compared to 2016 and 2014.

Interest expense for the year ended December 31, 2016 increased compared to 2015 by $0.6 million and decreased compared to 2014 by $0.1 million, respectively, to $3.1 million. The increase for 2016 compared to 2015 was mostly the result of the increased volume of deposits and increased rates. Average interest-bearing deposits increased 10.8% in 2016 compared to 2015. The average cost on interest-bearing deposits also increased to 59 basis points in 2016 compared to 54 basis points in 2015.

The net impact of the changes in yields on interest-earning assets and the rates paid on interest-bearing liabilities was to decrease the margin for 2016 compared to 2015. The net interest margin was 4.60% for 2016 compared to 4.80% for 2015 and 4.50% in 2014.

Net interest income increased by $1.4 million for 2016 compared to 2015 and $4.4 million, compared to 2014.

Total interest income increased by $2.2 million to $30.2 million in 2015 compared to 2014. The interest income was positively impacted by increased yields on earning assets in 2015 which increased to 5.23% compared to 5.10% for 2014. The average yield on loans increased to 5.67% for 2015 compared to 5.55% for 2014 as the Company benefited from loan interest recoveries on nonaccrual loans during the year. Total interest expense decreased by $0.8 million in 2015 compared to 2014. This decline was primarily due to decreased total cost of funds which include non-interest bearing deposits from 67 basis points for 2014 to 49 basis points for 2015. Net interest income increased by $3.0 million for 2015 compared to 2014.

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 (credit) for loan losses was ($48,000) in 2016 compared to ($2.3 million) in 2015 and ($5.1 million) in 2014. The credit to provision for loan losses for 2016 resulted from $0.6 million net recoveries, reduced historical loss factors partially offset by loan growth. The credit to provision for 2015 resulted from $2.0 million from reduced historical loss factors, $1.3 million net recoveries, and $0.3 million reduction in impaired loan reserve and grade change improvements partially offset by provision of $1.4 million for loan growth and qualitative factor changes. The result of the improvements in credit quality, historical loss rates and net recoveries was the ratio of the allowance for loan losses to loans held for investment decreased from 1.44% at December 31, 2015 to 1.31% at December 31, 2016. Additional information regarding improved credit quality can be found beginning on page 26.

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The following table summarizes the provision (credit), charge-offs (recoveries) by loan category for the year ended December 31, 2016, 2015 and 2014:

	For the Year Ended December 31,							
	Manufactured Housing	Commercial Real Estate	Commercial	SBA	HELOC	Single Family Real Estate	Consumer	Total
2016	(in thousands)							
Beginning balance	$3,525	$ 1,853	$ 939	$451	$ 43	$ 103	$ 2	$6,916
Charge-offs	(123)	-	-	(121)	-	-	(1)	(245)
Recoveries	128	132	136	266	86	93	-	841
Net (charge-offs) recoveries	5	132	136	145	86	93	(1)	596
Provision (credit)	(1,329)	1,722	166	(490)	(29)	(87)	(1)	(48)
Ending balance	$2,201	$ 3,707	$ 1,241	$106	$ 100	$ 109	$ -	$7,464
2015								
Beginning balance	$4,032	$ 1,459	$ 986	$1,066	$ 140	$ 192	$ 2	$7,877
Charge-offs	(297)	-	-	-	-	(29)	-	(326)
Recoveries	205	545	422	454	10	3	-	1,639
Net (charge-offs) recoveries	(92)	545	422	454	10	(26)	-	1,313
Provision (credit)	(415)	(151)	(469)	(1,069)	(107)	(63)	-	(2,274)
Ending balance	$3,525	$ 1,853	$ 939	$451	$ 43	$ 103	$ 2	$6,916
2014								
Beginning balance	$5,114	$ 2,552	$ 2,064	$1,951	$ 280	$ 245	$ 2	$12,208
Charge-offs	(543)	(16)	-	(171)	-	(36)	-	(766)
Recoveries	143	857	149	393	24	4	-	1,570
Net (charge-offs) recoveries	(400)	841	149	222	24	(32)	-	804
Provision (credit)	(682)	(1,934)	(1,227)	(1,107)	(164)	(21)	-	(5,135)
Ending balance	$4,032	$ 1,459	$ 986	$1,066	$ 140	$ 192	$ 2	$7,877

The percentage of net non-accrual loans (net of government guarantees) to the total loan portfolio has decreased to 0.38% as of December 31, 2016 from 0.92% at December 31, 2015.

The allowance for loan losses compared to net non-accrual loans has increased to 314% as of December 31, 2016 from 138% as of December 31, 2015. Total past due loans decreased to $0.2 million as of December 31, 2016 from $1.9 million as of December 31, 2015.

Non-interest Income

The Company earned non-interest income primarily through fees related to services provided to loan and deposit customers.

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

Increase	Year Ended December 31,	Increase

	Year Ended December 31,					
	2016	2015	(Decrease)	2015	2014	(Decrease)
	(in thousands)					
Other loan fees	$1,042	$1,014	$ 28	$ 1,014	$ 904	$ 110
Document processing fees	496	466	30	466	394	72
Service charges	403	372	31	372	306	66
Gains from loan sales, net	-	132	(132)	132	186	(54)
Loan servicing, net	90	166	(76)	166	127	39
Other	222	159	63	159	280	(121)
Total non-interest income	$2,253	$2,309	$ (56)	$ 2,309	$ 2,197	$ 112

Total non-interest income declined slightly for 2016 compared to 2015. The decline was mostly from the Company's exit from the wholesale mortgage loan origination and sale business line in 2015 which contributed $0.1 million in gains from loan sales. The Company did not sell any loans in 2016. Also contributing to the decline was lower income from loan servicing, net of $0.1 million. Legacy sold loans continued to pay-off in 2016 and have not been replaced with new loan sales. These declines were partially offset by increased service charges and loan fees which are the result of loan and deposit growth in 2016.

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Total non-interest income increased by $0.1 million, or 5.1 %, for 2015 compared to 2014. This increase was primarily from other loan fees and document processing fees which increased by $0.2 million for 2015 compared to 2014 as a result of increased loan volumes in 2015 compared to 2014. Service charges income increased slightly for 2015 compared to 2014 mostly from account analysis charges and ATM fees. These increases were partially offset by declined gains from loan sales and other non-interest income in 2015 compared to 2014 of $0.1 million. Other non-interest income was impacted by lower other loan related income in 2015 compared to 2014 and gains on loan sales was impacted negatively due to the exit of the Company from originating mortgage loans for sale towards the end of 2015.

Non-Interest Expenses

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

	Year Ended December 31,		Increase	Year Ended December 31,		Increase
	2016	2015	(Decrease)	2015	2014	(Decrease)
	(in thousands)					
Salaries and employee benefits	$14,383	$12,904	$ 1,479	$ 12,904	$ 12,154	$ 750
Occupancy expense, net	2,264	1,943	321	1,943	1,833	110
Professional services	873	993	(120)	993	1,551	(558)
Data processing	793	533	260	533	570	(37)
Depreciation	678	399	279	399	324	75
Advertising and marketing	616	466	150	466	608	(142)
FDIC assessment	376	342	34	342	338	4
Stock compensation expense	338	412	(74)	412	308	104
Loan servicing and collection	209	395	(186)	395	845	(450)
Net (gain) loss on sales/write-downs of foreclosed real estate and repossessed assets	16	10	6	10	(435)	445
Loan litigation settlement, net	-	7,095	(7,095)	7,095	-	7,095
Other	2,002	1,789	213	1,789	1,985	(196)
Total non-interest expenses	$22,548	$27,281	$ (4,733)	$ 27,281	$ 20,081	$ 7,200

Total non-interest expenses for the year ended December 31, 2016 compared to 2015 decreased by $4.7 million primarily due to the loan litigation settlement, net of $7.1 million in 2015. Excluding the loan litigation settlement, net, total non-interest expenses for 2016 compared to 2015 increased by $2.3 million. The majority of this increase was $1.5 million in salaries and benefits as a result of opening a full-service branch in San Luis Obispo and adding other strategic positions throughout the organization. Total occupancy expenses and depreciation expense increased by $0.3 million, respectively, for 2016 compared to 2015 mostly due to the addition of the San Luis Obispo Branch location and the move of the Santa Maria Branch to a new more strategic location. Data processing expenses for 2016 compared to 2015 increased by $0.3 million as a result of a Company-wide initiative to upgrade information technology systems and enhance product lines to meet customer needs. Advertising and marketing expenses increased in 2016 compared to 2015 as a result of additional advertising for the branches and complete redesign of the Company’s website.

Total non-interest expenses for the year ended December 31, 2015 compared to 2014 increased by $7.2 million primarily due to the loan litigation settlement, net of $7.1 million related to certain residential mortgage loan sales. Salaries and employee benefits increased by $0.8 million for 2015 compared to 2014 mostly due to the addition of the loan production office in San Luis Obispo and other strategic loan production positions. Net (gain) loss on sales/write-downs of foreclosed real estate and repossessed assets increased by $0.4 million in 2015 compared to 2014

as the sales in 2014 resulted in a net gain primarily from one large OREO property versus a smaller number of sales in 2015 primarily manufactured houses resulting in a small net loss. Partially offsetting these increases were decreased professional services expense of $0.6 million and loan servicing and collection expenses of $0.5 million for 2015 compared to 2014. Professional services decreased for the comparable twelve month periods mostly due to decreased legal and accounting and audit fees. Legal fees for 2015 compared to 2014 declined mostly due to one corporate legal matter. Accounting and audit fees declined for 2015 compared to 2014 primarily from increased credit quality which resulted in changes to the frequency of external loan review. Loan servicing and collection expenses decreased for 2015 compared to 2014 due to improved credit quality and fewer foreclosures.

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Income Taxes

The income tax provision for 2016 was $3.6 million compared to $2.1 million in 2015 and a tax benefit of $4.9 million in 2014. The effective income tax rate was 40.9%, 42.7% and 41.2%, respectively for 2016, 2015 and 2014.

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 basis including operating losses and tax credit carryforwards. Net deferred tax assets of $3.7 million at December 31, 2016 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.

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. Management evaluates the Company’s deferred tax assets 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 assets 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 assets may not be realized.

There was no valuation allowance on deferred tax assets at December 31, 2016 and 2015.

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. There were no uncertain tax positions at December 31, 2016 and 2015.

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 75.

BALANCE SHEET

Total assets increased $89.4 million to $710.6 million at December 31, 2016 compared to $621.2 million at December 31, 2015. The majority of the increase was in total loans of $87.3 million, or 16.1%, to $630.8 million. Total commercial real estate loans increased by 51.6% to $272.1 million at December 31, 2016 compared to 2015, and comprised 43.1% of the total loan portfolio. Manufactured housing loans increased by 9.2% to $194.2 million at December 31, 2016 compared to 2015, and represented 30.8% of the total loan portfolio. Total commercial loans including commercial agriculture loans decreased 2.1% to $105.3 million at December 31, 2016 compared to 2015, and represented 16.7% of the total loan portfolio.

Total liabilities increased $86.0 million, or 15.4% to $645.2 million at December 31, 2016 from $559.3 million at December 31, 2015. The majority of this increase was due to deposit growth. Total deposits increased by $67.9 million, or 12.5% to $612.2 million at December 31, 2016 from $544.3 million at December 31, 2015. Non-interest bearing demand deposits increased by $23.9 million to $100.4 million at December 31, 2016 from $76.5 million at

December 31, 2015. Certificates of deposit increased by $41.2 million to $244.8 million at December 31, 2016 compared to $203.7 million at December 31, 2015. Interest-bearing demand deposits increased by $2.5 million to $253.0 million at December 31, 2016 compared to 2015. Savings deposits increased slightly to $14.0 million at December 31, 2016 compared to $13.7 million at December 31, 2015. Other borrowings increased by $18.5 million to $29.0 million at December 31, 2016 compared to 2015 due to increased FHLB advances which were $25.0 million at December 31, 2016 compared to $5.0 million at December 31, 2015.

Total stockholders' equity increased to $65.3 million at December 31, 2016 from $61.9 million at December 31, 2015. This increase was primarily from 2016 net income of $5.2 million reduced by common stock repurchases of $1.3 million and quarterly common stock dividends of $1.1 million.

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

	December 31,					
	2016		2015		2014	
	Amount	Percent	Amount	Percent	Amount	Percent
ASSETS:	(dollars in thousands)					
Cash and due from banks	$2,660	0.4 %	$1,763	0.3 %	$1,642	0.3 %
Interest-earning deposits in other institutions	25,087	3.9 %	29,590	5.0 %	26,273	4.7 %
Federal funds sold	16	0.0 %	22	0.0 %	23	0.0 %
Investment securities available-for-sale	23,809	3.7 %	23,516	4.0 %	21,118	3.8 %
Investment securities held-to-maturity	7,672	1.2 %	7,595	1.3 %	9,008	1.6 %
FRB and FHLB stock	3,387	0.5 %	3,206	0.5 %	3,116	0.6 %
Loans - held for sale, net	61,792	9.6 %	65,266	11.1 %	67,361	12.0 %
Loans - held for investment, net	504,197	78.2 %	441,101	75.0 %	422,237	75.0 %
Servicing assets	289	0.1 %	349	0.1 %	479	0.1 %
Other assets acquired through foreclosure, net	123	0.0 %	236	0.0 %	1,961	0.3 %
Premises and equipment, net	3,122	0.5 %	2,994	0.5 %	2,977	0.5 %
Other assets	12,395	1.9 %	12,731	2.2 %	6,279	1.1 %
TOTAL ASSETS	$644,549	100.0 %	$588,369	100.0 %	$562,474	100.0 %
LIABILITIES:						
Deposits:						
Non-interest bearing demand	$80,611	12.5 %	$70,864	12.0 %	$58,456	10.4 %
Interest-bearing demand	251,644	39.0 %	257,785	43.8 %	271,744	48.3 %
Savings	14,138	2.2 %	14,479	2.5 %	15,923	2.8 %
Time certificates of $100,000 or more	177,122	27.5 %	153,388	26.1 %	103,633	18.4 %
Other time certificates	42,531	6.6 %	12,506	2.1 %	19,721	3.5 %
Total deposits	566,046	87.8 %	509,022	86.5 %	469,477	83.5 %
Other borrowings	10,699	1.7 %	9,415	1.6 %	21,476	3.8 %
Other liabilities	3,947	0.6 %	3,856	0.7 %	3,921	0.7 %
Total liabilities	580,692	90.1 %	522,293	88.8 %	494,874	88.0 %
STOCKHOLDERS' EQUITY						
Preferred stock	-	0.0 %	4,936	0.8 %	11,287	2.0 %
Common stock	41,716	6.5 %	42,162	7.2 %	41,590	7.4 %
Retained earnings	22,131	3.4 %	19,006	3.2 %	14,840	2.6 %
Accumulated other comprehensive (loss) income	10	0.0 %	(28)	0.0 %	(117)	0.0 %
Total stockholders' equity	63,857	9.9 %	66,076	11.2 %	67,600	12.0 %
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$644,549	100.0 %	$588,369	100.0 %	$562,474	100.0 %

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Loan Portfolio

Market Summary

Total loans increased by $87.3 million during 2016 to $630.8 million. The majority of this increase was driven by $42.7 million of organic growth as the Company expanded into the San Luis Obispo County market. Total commercial real estate loans increased by $92.6 million and manufactured housing loans increased by $16.3 million. Total commercial loans including commercial agriculture loans decreased slightly by $2.2 million. SBA and single family real estate declined by $11.4 million and $6.3 million, respectively as the Company no longer originates SBA loans outside of California and did not focus on this product in 2016. The Company exited from the single family real estate origination business in 2015 and the remaining portfolio balance will continue to decrease. With the recent rise in interest rates and our expansion into the San Luis Obispo and Oxnard markets we believe the Company is well positioned for continued growth.

The table below summarizes the distribution of the Company's loans (including loans held for sale) at the year-end:

	December 31,				
	2016	2015	2014	2013	2012
	(in thousands)				
Manufactured housing	$194,222	$177,891	$169,662	$172,055	$177,391
Commercial real estate	272,142	179,491	159,432	142,678	126,677
Commercial	105,290	107,510	74,792	62,420	37,266
SBA	36,659	48,071	62,201	71,692	86,389
HELOC	10,292	10,934	13,481	15,418	17,852
Single family real estate	12,750	19,073	14,957	10,150	9,939
Consumer	87	123	178	184	232
Mortgage loans held for sale	-	-	785	-	8,223
Total loans	631,442	543,093	495,488	474,597	463,969
Less:					
Allowance for loan losses	7,464	6,916	7,877	12,208	14,464
Deferred fees (costs), net	453	(560)	118	45	(128)
Discount on SBA loans	170	191	237	339	432
Total loans, net	$623,355	$536,546	$487,256	$462,005	$449,201
Percentage to Total Loans:					
Manufactured housing	30.8 %	32.8 %	34.2 %	36.3 %	38.2 %
Commercial real estate	43.1 %	33.0 %	32.2 %	30.1 %	27.3 %
Commercial	16.7 %	19.8 %	15.1 %	13.2 %	8.0 %
SBA	5.8 %	8.9 %	12.6 %	15.1 %	18.6 %
HELOC	1.6 %	2.0 %	2.7 %	3.2 %	3.8 %
Single family real estate	2.0 %	3.5 %	3.0 %	2.1 %	2.2 %
Consumer	0.0 %	0.0 %	0.0 %	0.0 %	0.1 %
Mortgage loans held for sale	0.0 %	0.0 %	0.2 %	0.0 %	1.8 %
	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. This loan category also includes SBA 504 loans and land loans.

Commercial and industrial real estate loans are primarily 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 CWB receives a premium for these transactions.

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. The SBA’s maximum exposure amount is $3,750,000. The Company may sell 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% for loans of $5 million or less. 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 B&I loan program. The FSA loans typically have a 90% guarantee up to $1,399,000 (amount adjusted annually based on inflation) for up to 40 years, but not always. The Company had $63.4 million of these loans at December 31, 2016.

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 does some servicing such as collecting client information, processing payments and performing site visits. 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. CWB underwrites loans under the Farmer Mac 1 program which are funded by Farmer Mac and do not have a guarantee. Eligible loans include FSA and B&I loans.

Manufactured Housing Loans

CWB originates loans secured by manufactured homes located in approved rental, co-operative ownership, condominium and planned unit development mobile home parks in Santa Barbara, Ventura and San Luis Obispo Counties as well as along the California coast from San Diego to San Francisco. The loans are made to borrowers for purchasing or refinancing new or existing manufactured homes. The loans are made under either fixed rate programs for terms of 10 to 20 years or adjustable rate programs with terms of 25 to 30 years. The adjustable rate loans have an initial fixed rate period of five to 10 years and then adjust annually subject to interest rate caps.

HELOC

The Bank holds a portfolio of 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 HELOCs. The Bank is not actively originating new HELOCs.

Other Installment Loans

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

Single Family Real Estate Loans

Until the third quarter of 2015, the Company originated loans that consisted of first and second mortgage loans secured by trust deeds on one-to-four family homes. These loans were made to borrowers for purposes such as purchasing a home, refinancing an existing home, interest rate reduction or home improvement.

The following table sets forth the amount of loans outstanding by type of loan as of December 31, 2016 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.

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	Due in one year or less (in thousands)	Due after one year to five years	Due after five years	Total
Manufactured housing				
Floating rate	$3,929	$ 18,314	$116,604	$138,847
Fixed rate	8,162	19,266	27,947	55,375
Commercial real estate				
Floating rate	33,670	48,286	150,573	232,529
Fixed rate	5,035	20,089	14,489	39,613
Commercial				
Floating rate	17,846	15,836	60,826	94,508
Fixed rate	2,502	7,952	328	10,782
SBA				
Floating rate	2,676	9,246	24,737	36,659
Fixed rate	-	-	-	-
HELOC				
Floating rate	20	1,586	8,686	10,292
Fixed rate	-	-	-	-
Single family real estate				
Floating rate	300	1,919	8,457	10,676
Fixed rate	75	722	1,277	2,074
Consumer				
Floating rate	-	-	-	-
Fixed rate	87	-	-	87
Total	$74,302	$ 143,216	$413,924	$631,442

At December 31, 2016, total loans consisted of 82.9% with floating rates and 17.1% with fixed rates. Manufactured housing loans which are generally fixed rate for the first five years are included in floating rate loans during the fixed period.

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

	December 31, 2016 (in thousands)		2015		2014		2013		2012
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate	Fixed Rate
Less than one year	$15,861	$58,441	$15,564	$42,274	$14,791	$36,900	$14,625	$40,840	$19,274
One to five years	48,029	95,187	36,106	95,485	46,432	92,232	59,842	78,197	73,550
Over five years	44,041	369,883	28,047	325,617	33,525	271,608	30,675	250,418	40,027
Total	$107,931	$523,511	$79,717	$463,376	$94,748	$400,740	$105,142	$369,455	$132,851
Percentage of total	17.1 %	82.9 %	14.7 %	85.3 %	19.1 %	80.9 %	22.2 %	77.8 %	28.6 %

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 selected categories such as geography and product. The Company makes manufactured housing, commercial, SBA, construction, commercial 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, 2016 and 2015, manufactured housing loans comprised 30.8% and 32.7%, of total loans, respectively. As of December 31, 2016 and 2015, commercial real estate loans accounted for approximately 43.1% and 33.0% of total loans, respectively. Approximately 32.3% and 53.7% of these commercial real estate loans were owner occupied at December 31, 2016 and 2015, respectively. Substantially all of these loans are secured by first liens with an average loan to value ratios of 54.6% and 50.3% at December 31, 2016 and 2015, respectively. The Company was within established policy limits at December 31, 2016 and 2015.

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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, 2016, the Company had 15 loans with an outstanding balance of $21.7 million with available interest reserves of $2.9 million. Total construction and land loans are approximately 5% and 3% of the Company's loan portfolio and December 31, 2016 and 2015.

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

	Year Ended December 31,				
	2016	2015	2014	2013	2012
	(in thousands)				
Impaired loans without specific valuation allowances	$4,463	$7,591	$3,821	$4,980	$17,484
Impaired loans with specific valuation allowances	13,080	11,940	20,108	15,140	12,163
Specific valuation allowance related to impaired loans	(759)	(573)	(854)	(1,439)	(1,794)
Impaired loans, net	$16,784	$18,958	$23,075	$18,681	$27,853
Average investment in impaired loans	$17,285	$16,302	$17,741	$24,435	$42,555

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

	Manufactured Housing	Commercial Real Estate	Commercial	SBA	HELOC	Single Family Real Estate	Consumer	Total Loans
Impaired Loans as of December 31, 2016:	(in thousands)							

Recorded Investment:								
Impaired loans with an allowance recorded	$6,065	$ 1,112	$ 3,749	$70	$ 45	$2,039	$ -	$13,080
Impaired loans with no allowance recorded	2,846	-	31	1,067	328	191	-	4,463
Total loans individually evaluated for impairment	8,911	1,112	3,780	1,137	373	2,230	-	17,543
Related Allowance for Credit Losses								
Impaired loans with an allowance recorded	548	17	165	-	1	28	-	759
Impaired loans with no allowance recorded	-	-	-	-	-	-	-	-
Total loans individually evaluated for impairment	548	17	165	-	1	28	-	759
Total impaired loans, net	$8,363	$ 1,095	$ 3,615	$1,137	$ 372	$2,202	$ -	$16,784

$1.0 million of the above impaired loans are government guaranteed.

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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, 2015:	(in thousands)							
Recorded Investment:								
Impaired loans with an allowance recorded	$4,914	$ 376	$ 2,966	$1,695	$ 19	$ 1,970	$ -	$11,940
Impaired loans with no allowance recorded	3,672	2,247	44	1,052	294	282	-	7,591
Total loans individually evaluated for impairment	8,586	2,623	3,010	2,747	313	2,252	-	19,531
Related Allowance for Credit Losses								
Impaired loans with an allowance recorded	483	3	45	25	-	17	-	573
Impaired loans with no allowance recorded	-	-	-	-	-	-	-	-
Total loans individually evaluated for impairment	483	3	45	25	-	17	-	573
Total impaired loans, net	$8,103	$ 2,620	$ 2,965	$2,722	$ 313	$ 2,235	$ -	$18,958

$2.4 million of the above impaired loans are government guaranteed.

Total impaired loans decreased by $2.0 million at December 31, 2016 compared to December 31, 2015. The SBA impaired loans decreased by $1.6 million and commercial real estate impaired loans decreased by $1.5 million in 2016 compared to 2015. Partially offsetting these decreases were increased impaired commercial loans of $0.7 million, impaired manufactured housing of $0.3 million and impaired HELOC loans of $0.1 million, respectively. SBA impaired loans declined due to $1.9 million in upgrades and $0.5 million of loan pay-offs partially offset by $0.8 million additions to impaired SBA loans in 2016 compared to 2015. Impaired commercial real estate loans decreased due to $1.2 million in loan pay-offs and pay-downs, one loan upgrade of $0.2 million and one loan charged-off of $0.1 million. Impaired commercial loans increased for 2016 compared to 2015 due to five newly impaired loans partially offset by payments on existing loans and one small loan pay-off. Impaired manufactured housing loans increased by $0.3 million in 2016 compared to 2015. The number of impaired manufactured housing loans increased, with approximately 142 impaired manufactured housing loans at December 31, 2015 compared to 136 at December 31, 2015. The Company added 26 newly impaired manufactured housing loans in 2016 and decreased by 19 impaired manufactured housing loans mostly due to payoffs.

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

	Year Ended December 31,				
	2016	2015	2014	2013	2012
	(in thousands)				
Total nonaccrual loans	$3,117	$6,956	$17,883	$23,263	$29,643
Government guaranteed portion of loans included above	(742)	(1,943)	(6,856)	(6,426)	(7,218)
Total nonaccrual loans without government guarantees	$2,375	$5,013	$11,027	$16,837	$22,425
TDR loans, gross	$14,437	$13,741	$9,685	$12,308	$19,931
Loans 30 through 89 days past due with interest accruing	$-	$-	$-	$161	$521
	1.31 %	1.44 %	1.84 %	2.98 %	3.66 %

Allowance for loan losses to gross loans held for investment					
Interest income recognized on impaired loans	$1,148	$933	$825	$876	$1,406
Interest income that would have been recorded under the original terms of nonaccrual loans	$412	$761	$1,276	$1,754	$2,692

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:

	At Decmber 31, 2016			At December 31, 2015		
	Nonaccrual Balance	%	Percent of Total Loans	Nonaccrual Balance	%	Percent of Total Loans
	(dollars in thousands)					
Manufactured housing	$800	25.67 %	0.15 %	$1,615	23.22 %	0.30 %
Commercial real estate	853	27.37 %	0.16 %	2,356	33.87 %	0.43 %
Commercial	31	0.99 %	0.01 %	44	0.63 %	0.01 %
SBA	868	27.84 %	0.16 %	2,346	33.73 %	0.43 %
HELOC	373	11.97 %	0.07 %	313	4.50 %	0.06 %
Single family real estate	192	6.16 %	0.04 %	282	4.05 %	0.05 %
Consumer	-	-	-	-	-	-
Total nonaccrual loans	$3,117	100.00 %	0.57 %	$6,956	100.00 %	1.28 %

Nonaccrual balances include $0.7 million and $1.9 million, respectively of loans that are government guaranteed at December 31, 2016 and 2015, respectively. Nonaccrual loans net of government guarantees decreased $2.6 million or 52%, from $5.0 million at December 31, 2015 to $2.4 million at December 31, 2016. The percentage of nonaccrual loans to the total loan portfolio has decreased to 0.57% as of December 31, 2016 from 1.28% at December 31, 2015.

CWB or the SBA 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.

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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,				
	2016	2015	2014	2013	2012
Allowance for loan losses:	(dollars in thousands)				
Balance at beginning of period	$6,916	$7,877	$12,208	$14,464	$15,270
Provisions charged to operating expenses:					
Manufactured housing	(1,329)	(415)	(682)	206	4,824
Commercial real estate	1,722	(151)	(1,934)	(969)	30
Commercial	166	(469)	(1,227)	(324)	116
SBA	(490)	(1,069)	(1,107)	(794)	(1,358)
HELOC	(29)	(107)	(164)	(318)	311
Single family real estate	(87)	(63)	(21)	218	356
Consumer	(1)	-	-	37	2
Total provision (credit)	(48)	(2,274)	(5,135)	(1,944)	4,281
Recoveries of loans previously charged-off:					
Manufactured housing	128	205	143	257	144
Commercial real estate	132	545	857	1,243	756
Commercial	136	422	149	212	131
SBA	266	454	393	559	837
HELOC	86	10	24	3	50
Single family real estate	93	3	4	8	6
Consumer	-	-	-	-	5
Total recoveries	841	1,639	1,570	2,282	1,929
Loans charged-off:					
Manufactured housing	123	297	543	1,294	3,652
Commercial real estate	-	-	16	349	1,687
Commercial	-	-	-	149	656
SBA	121	-	171	547	623
HELOC	-	-	-	39	76
Single family real estate	-	29	36	179	314
Consumer	1	-	-	37	8
Total charged-off	245	326	766	2,594	7,016
Net charge-offs (recoveries)	(596)	(1,313)	(804)	312	5,087
Balance at end of period	$7,464	$6,916	$7,877	$12,208	$14,464
Net charge-offs (recoveries) to average loans outstanding	(0.10)%	(0.26)%	(0.16)%	0.07%	1.02%
Allowance for loan losses to gross loans including held for sale loans	1.18%	1.27%	1.59%	2.57%	3.12%

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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, 2016			2015			2014			2013			2012		
	(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	$2,201	29.5	%	$3,525	51.0	%	$4,032	51.2	%	$5,114	41.9	%	$5,945	38.2	%
Commercial real estate	3,707	49.7	%	1,853	26.8	%	1,459	18.5	%	2,552	20.9	%	2,627	27.3	%
Commercial	1,241	16.6	%	939	13.6	%	986	12.5	%	2,064	16.9	%	2,325	8.0	%
SBA	106	1.4	%	451	6.5	%	1,066	13.6	%	1,951	16.0	%	2,733	18.6	%
HELOC	100	1.3	%	43	0.6	%	140	1.8	%	280	2.3	%	634	3.8	%
Single family real estate	109	1.5	%	103	1.5	%	192	2.4	%	245	2.0	%	198	4.0	%
Consumer	-	0.0	%	2	0.0	%	2	0.0	%	2	0.0	%	2	0.1	%
Total	$7,464	100.0	%	$6,916	100.0	%	$7,877	100.0	%	$12,208	100.0	%	$14,464	100.0	%

Total allowance for loan losses increased by $0.6 million from $6.9 million at December 31, 2015 to $7.5 million at December 31, 2016 mostly the result of loan growth and increased specific impairment reserves. In addition, the Company had net recoveries of $0.6 million in 2016 compared to net recoveries of $1.3 million in 2015.

Potential Problem Loans

The Company classifies loans consistent with federal banking regulations. These loan grades are described in further detail in “Item 8. Note 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, 2016					
	Number of Loans	Loan Balance (1)	Percent		Percent of Total Loans	
	(dollars in thousands)					
Manufactured housing	5	$ 417	3.04	%	0.07	%
Commercial real estate	5	3,331	24.29	%	0.53	%
Commercial	7	7,778	56.71	%	1.23	%
SBA	10	1,935	14.11	%	0.31	%
HELOC	1	248	1.81	%	0.04	%
Single family real estate	1	5	0.04	%	0.00	%
Consumer	-	-	0.00	%	0.00	%

Total	29	$ 13,714	100.00 %	2.17 %

(1) Loan balance includes $2.9 million guaranteed by government agencies.

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	December 31, 2015			
	Number of Loans	Loan Balance (1)	Percent	Percent of Total Loans
	(dollars in thousands)			
Manufactured housing	24	$ 1,044	6.05 %	0.19 %
Commercial real estate	9	7,519	43.55 %	1.38 %
Commercial	10	7,551	43.74 %	1.39 %
SBA	14	464	2.69 %	0.09 %
HELOC	3	573	3.32 %	0.11 %
Single family real estate	2	113	0.65 %	0.02 %
Consumer	-	-	0.00 %	0.00 %
Total	62	$ 17,264	100.00 %	3.18 %

(1) Of the $17.3 million of potential problem loans, $3.2 million are guaranteed by the U.S. government.

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,		
	2016	2015	2014
	(in thousands)		
U.S. government agency notes	$5,572	$11,147	$7,862
U.S. government agency mortgage backed securities ("MBS")	9,002	7,025	8,447
U.S. government agency collateralized mortgage obligations ("CMO")	16,994	12,231	14,271
Equity securities: Farmer Mac class A stock	115	63	61
	$31,683	$30,466	$30,641

The weighted average yields of investment securities by maturity period were as follows at December 31, 2016:

	December 31, 2016									
	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	$1,973	2.6 %	$ 1,963	0.8 %	$ 1,636	1.3 %	$ -	-	$5,572	1.6 %
U.S. government agency CMO	-	-	2,063	1.9 %	11,827	1.1 %	3,104	1.5 %	16,994	1.2 %
Farmer Mac class A stock	-	-	-	-	-	-	-	-	115	-
Total	$1,973	2.6 %	$ 4,026	1.4 %	$ 13,463	1.1 %	$ 3,104	1.5 %	$22,681	1.3 %
Securities held-to-maturity										
U.S. government agency MBS	$-	-	$ 797	5.0 %	$ 5,531	3.2 %	$ 2,674	2.5 %	$9,002	3.2 %
Total	$-	-	$ 797	5.0 %	$ 5,531	3.2 %	$ 2,674	2.5 %	$9,002	3.2 %

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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 mortgage backed securities ("MBS") in its investment portfolio. Gross unrealized losses at December 31, 2016 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 "Item 8. Note 2 in this Form 10-K, "Investment Securities" and determined no impairment was required. At December 31, 2016, 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.

Other Assets Acquired Through Foreclosure

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

	December 31,		
	2016	2015	2014
	(in thousands)		
Balance, beginning of period	$198	$137	$3,811
Additions	350	609	1,879
Proceeds from dispositions	(395)	(538)	(5,988)
Gains (losses) on sales, net	(16)	(10)	435
Balance, end of period	$137	$198	$137

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, 2015, the Company had a valuation allowance on foreclosed assets of $35,000 and no valuation allowance on foreclosed assets at December 31, 2016 and 2014. At December 31, 2016, the Company had no mortgage loans in process of foreclosure.

Deposits

The average balances by deposit type as of the dates presented below:

	Year Ended December 31,					
	2016		2015		2014	
	Average Balance	Percent of Total	Average Balance	Percent of Total	Average Balance	Percent of Total
	(dollars in thousands)					
Non-interest bearing demand deposits	$80,611	14.2 %	$70,864	13.9 %	$58,456	12.5 %
Interest-bearing demand deposits	251,644	44.5 %	257,785	50.7 %	271,744	57.9 %
Savings	14,138	2.5 %	14,479	2.8 %	15,923	3.4 %
Time deposits of $100,000 or more	177,122	31.3 %	153,388	30.1 %	103,633	22.1 %
Other time deposits	42,531	7.5 %	12,506	2.5 %	19,721	4.2 %
Total deposits	$566,046	100.0 %	$509,022	100.0 %	$469,477	100.0 %

Total deposits increased to $612.2 million at December 31, 2016 from $544.3 million at December 31, 2015, an increase of $67.9 million. This increase was primarily from certificates of deposit and non-interest bearing demand deposits. Certificates of deposits increased by $41.1 million to $244.8 million at December 31, 2016 compared to 2015. Non-interest bearing demand deposits increased by $23.9 million to $100.4 million at December 31, 2016 compared to $76.5 million at December 31, 2015. Deposits have been the primary source of funding the Company's asset growth. In addition the bank is a member of Certificate of Deposit Account Registry Service ("CDARS"). CDARS provides a mechanism for obtaining FDIC insurance for large deposits. At December 31, 2016 and 2015, the Company had $46.8 million and $24.3 million, respectively of CDARS deposits.

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Time Certificates of Deposits

The following table presents TCD maturities:

	December 31,			
	2016		2015	
	TCDs Over $ 100,000	Other TCDs	TCDs Over $ 100,000	Other TCDs
Less than three months	$64,945	$12,827	$23,509	$1,651
Three to six months	54,126	1,867	63,724	11,263
Six to twelve months	23,698	2,080	29,957	1,374
Over twelve months	78,276	7,015	65,292	6,900
Total deposits	$221,045	$23,789	$182,482	$21,188

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.

Other Borrowings

The following table sets forth certain information regarding FHLB advances and other borrowings.

	December 31,		
	2016	2015	2014
FHLB Advances	(in thousands)		
Maximum month-end balance	$25,000	$20,000	$30,000
Balance at year end	25,000	5,000	10,000
Average balance	5,453	8,466	21,235
Other Borrowings			
Maximum month-end balance	5,500	5,500	1,442
Balance at year end	4,000	5,500	-
Average balance	5,246	949	241
Total borrowed funds	$29,000	$10,500	$10,000
Weighted average interest rate at end of year	1.13 %	2.35 %	2.74 %
Weighted average interest rate during the year	2.35 %	1.34 %	2.85 %

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, 2016, no advances were outstanding from the FRB.

Other Borrowing

In October of 2015, the Company entered into a one year revolving line of credit agreement for up to $10.0 million. At December 31, 2015, the balance was $5.5 million at a rate of 3.993%. The Company must maintain a

compensating deposit with the lender of 25% of the outstanding principal balance in a non-interest bearing deposit account which was $1.0 million and $1.4 million at December 31, 2016 and 2015, respectively. In addition, the Company must maintain a minimum debt service coverage ratio of 1.65, a minimum Tier 1 leverage ratio of 7.0% and a minimum total risked based capital ratio of 10.0%. The Company incurred a quarterly unused commitment fee of 50 basis points per annum on the average available balance. The outstanding balance of the revolving line of credit converted to a five-year term loan on October 31, 2016 and maturity date of October 31, 2021. At December 31, 2016, the balance was $4.0 million at a rate of 4.521%. On January 31, 2017, the Company made a principal reduction payment of $2.0 million.

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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. 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.

During 2015 and 2014 the Company redeemed the 15,600 shares of Series A Preferred Stock for $15.4 million and recognized discounts on the redemptions of $0.3 million. Total preferred dividends for both years was $1.4 million.

There are no shares issued and outstanding as of December 31, 2016 and 2015.

Capital Resources

The Federal Reserve has adopted capital adequacy guidelines that are used to assess the adequacy of capital in supervising a bank holding company. In July 2013, the federal banking agencies approved the final rules ("Final Rules") to establish a new comprehensive regulatory capital framework with a phase-in period beginning January 1, 2015 and ending January 1, 2019. The Final Rules implement the third installment of the Basel Accords ("Basel III") regulatory capital reforms and changes required by the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act") and substantially amend the regulatory risk-based capital rules applicable to the Company. Basel III redefines the regulatory capital elements and minimum capital ratios, introduces regulatory capital buffers above those minimums, revises rules for calculating risk-weighted assets and adds a new component of Tier 1 capital called Common Equity Tier 1, which includes common equity and retained earnings and excludes preferred equity.

The following tables illustrates the Bank's regulatory ratios and the Federal Reserve's current adequacy guidelines as of December 31, 2016 and 2015. The Federal Reserve's fully phased-in guidelines applicable on January 1, 2019 are also summarized.

	Total Capital (To Risk-Weighted Assets)		Tier 1 Capital (To Risk-Weighted Assets)		Common Equity Tier 1 (To Risk-Weighted Assets)		Leverage Ratio/Tier1 Capital (To Average Assets)	
December 31, 2016								
CWB's actual regulatory ratios	12.27	%	11.04	%	11.04	%	10.08	%
Minimum capital requirements	8.00	%	6.00	%	4.50	%	4.00	%
Well-capitalized requirements	10.00	%	8.00	%	6.50	%	5.00	%
Minimum capital requirements including fully-phased in capital conservation buffer (2019)	10.50	%	8.50	%	7.00	%	N/A	
December 31, 2015								
CWB's actual regulatory ratios	13.70	%	12.45	%	12.45	%	10.38	%
Minimum capital requirements	8.00	%	6.00	%	4.50	%	4.00	%
Well-capitalized requirements	10.00	%	8.00	%	6.50	%	5.00	%
Minimum capital requirements including fully-phased in capital conservation buffer (2019)	10.50	%	8.50	%	7.00	%	N/A	

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.

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The following table sets forth our significant contractual obligations as of December 31, 2016.

	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	$244,834	$159,543	$79,168	$6,123	$-
FHLB advances	25,000	25,000	-	-	-
Other borrowings	4,000	800	1,562	1,638	-
Purchase obligations	4,943	1,250	1,281	1,223	1,189
Operating lease obligations	7,992	1,057	1,980	1,719	3,236
Total	$286,769	$187,650	$83,991	$10,703	$4,425

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, 2016 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 Expiration			
	Total Commitments	Less Than 1 Year	1 to 3 Years	3 to 5 Years	After 5 Years
	(dollars in thousands)				
Commitments to extend credit	$82,954	$ 23,835	$ 51,031	$ 904	$ 7,184
Standby letters of credit	-	-	-	-	-
Total	$82,954	$ 23,835	$ 51,031	$ 904	$ 7,184

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 fund asset growth and business operations, to accommodate liability maturities and deposit withdrawals 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 $20.0 million. In addition, loans and securities are pledged to the FHLB providing $56.8 million in available borrowing capacity as of December 31, 2016. Loans pledged to the FRB discount window provided $95.1 million in borrowing capacity. As of December 31, 2016, there were no outstanding borrowings from the FRB.

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.

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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 $25.0 million and $5.0 million at December 31, 2016 and 2015, respectively, borrowed at fixed rates. At December 31, 2016, CWB had pledged to FHLB, securities of $31.7 million at carrying value and loans of $161.3 million and had $67.8 million available for additional borrowing. At December 31, 2015, the Company had pledged to FHLB, securities of $30.5 million at carrying value and loans of $140.0 million, and had $67.8 million available for additional borrowing.

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, 2016 and unused borrowing capacity was $95.1 million.

The Company also maintains federal funds purchased lines with a total borrowing capacity of $20.0 million. There was no amount outstanding as of December 31, 2016 and 2015.

The Company has not experienced disintermediation and does not believe this is a likely occurrence, although there is significant competition for core deposits. The liquidity ratio of the Company was 17% and 20%, at December 31, 2016 and December 31, 2015, respectively. 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 and common stock dividends and interest payments on the other borrowings. 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 a 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.

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.

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

Litigation

See “Part 1. Item 3: Legal Proceedings” beginning on page 11 of this Form 10-K.

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SUPERVISION AND REGULATION

Introduction

CWBC is a bank holding company within the meaning of the Bank Holding Company Act of 1956, as amended, and is registered with, regulated and examined by the Board of Governors of the Federal Reserve System (the "FRB"). In addition to the regulation of the Company by the FRB, CWB is subject to extensive regulation and periodic examination, principally by the Office of the Comptroller of the Currency ("OCC"). The Federal Deposit Insurance Corporation ("FDIC") insures the Bank's deposits up to certain prescribed limits. The Company is also subject to jurisdiction of the Securities and Exchange Commission ("SEC") and to the disclosure and regulatory requirements of the Securities Act and the Securities Exchange Act, and through the listing of the common stock on the NASDAQ Capital Select Market is subject to the rules of NASDAQ.

Banking is a complex, highly regulated industry. The primary goals of the rules and regulations are to maintain a safe and sound banking system, protect depositors and the FDIC'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.

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 the Company.

Securities Registration and Listing

CWBC's common stock is registered with the SEC under the Exchange Act and, therefore, is subject to the information, proxy solicitation, insider trading, corporate governance, and other disclosure requirements and restrictions of the Exchange Act, as well as the Securities Act of 1933 (the "Securities Act"), both administered by the SEC. CWBC is required to file annual, quarterly and other current reports with the SEC. The SEC maintains an Internet site, http://www.sec.gov, at which CWBC's filings with the SEC may be accessed. CWBC's SEC filings are also available on its website at www.communitywest.com.

CWBC's common stock is listed on the NASDAQ Capital Market and trade under the symbol "CWBC." As a company listed on the NASDAQ Capital Market, CWBC is subject to NASDAQ standards for listed companies. CWBC is also subject to certain provisions of the Sarbanes-Oxley Act of 2002 ("SOX"), the Federal Deposit Insurance Corporation Improvement Act ("FDICIA"), provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank"), and other federal and state laws and regulations that govern financial presentations, corporate governance requirements for board audit and compensation committees and their members, and disclosure of controls and procedures and internal control over financial reporting, auditing and accounting, executive compensation, and enhanced and timely disclosure of corporate information. NASDAQ has also adopted corporate governance rules, which are intended to allow shareholders and investors to more easily and efficiently monitor the performance of companies and their directors.

Dodd-Frank Wall Street Reform and Consumer Protection Act

On July 21, 2010, Dodd-Frank was signed into law to effect a fundamental restructuring of federal banking regulation. Among other things, Dodd-Frank created a 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. Dodd-Frank additionally created an independent federal regulator to administer federal consumer protection laws. Dodd-Frank 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. Dodd-Frank 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 are 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. Dodd-Frank 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. Dodd-Frank permanently increased the maximum deposit insurance amount for banks, savings institutions and credit unions to $250,000 per depositor, retroactive to January 1, 2009. Dodd-Frank also broadens the base for FDIC insurance assessments. Assessments are now based on the average consolidated total assets less tangible equity capital of a financial institution. Dodd-Frank 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, Dodd-Frank eliminated the federal statutory prohibition against the payment of interest on business checking accounts.

Corporate Governance. Dodd-Frank 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 legislation also authorized the SEC to promulgate rules that would allow stockholders to nominate their own candidates using a company's proxy materials. Additionally, Dodd-Frank 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. Dodd-Frank gives the SEC authority to prohibit broker discretionary voting on elections of directors and executive compensation matters.

Interstate Branching. Dodd-Frank authorized 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. Dodd-Frank 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.

Transactions with Affiliates and Insiders. Dodd-Frank expanded 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. Dodd-Frank 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.

Consumer Financial Protection Bureau. Dodd-Frank created an independent federal agency called the Consumer Financial Protection Bureau ("CFPB"), which has been 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 Practices Act, the Consumer Financial Privacy provisions of the Gramm-Leach-Bliley Act and certain other statutes. CFPB has examination and primary enforcement authority with respect to depository institutions with $10 billion or more in assets. Smaller institutions are subject to rules promulgated by CFPB but are still examined and supervised by their federal banking regulators for consumer compliance purposes. CFPB has authority to prevent unfair, deceptive or abusive practices in connection with the offering of consumer financial products. Dodd-Frank authorized CFPB to establish certain minimum standards for the origination of residential mortgages including a determination of the borrower's ability to repay. In addition, Dodd-Frank allows borrowers to raise certain defenses to foreclosure if they receive any loan other than a "qualified mortgage" as defined by the CFPB. Dodd-Frank 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.

On February 3, 2017, President Donald Trump issued an executive order designed to reduce the perceived regulatory burdens of the Dodd-Frank Act. The executive order proclaims that the policy of President Trump's administration

will be to “regulate the United States financial system in a manner consistent with the following principles of regulation.”

- empower Americans to make independent financial decisions and informed choices in the marketplace, save for retirement, and build individual wealth;
- prevent taxpayer-funded bailouts;
- foster economic growth and vibrant financial markets through more rigorous regulatory impact analysis that addresses systemic risk and market failures, such as moral hazard and information asymmetry;
- enable American companies to be competitive with foreign firms in domestic and foreign markets;
- advance American interests in international financial regulatory negotiations and meetings;
- make regulation efficient, effective, and appropriately tailored; and
- restore public accountability within Federal financial regulatory agencies and rationalize the Federal financial regulatory framework.

President Trump’s order directs the Secretary of the Treasury to consult with the heads of the member agencies of the Financial Stability Oversight Council on the extent to which existing laws, treaties, regulations, guidance, reporting and recordkeeping requirements, and other government policies promote his administration’s regulatory principles and to identify what actions have been taken, and are currently being taken, to promote and support these principles.

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In light of President Trump's executive order, the Company cannot predict which provisions of the Dodd-Frank Act will be repealed, put in to effect, delayed or enforced under the current Administration and, therefore, cannot predict the effect, if any, that the Dodd-Frank Act will have on the Company's future operations and financial condition.

Financial Institutions Capital Rules

In addition to Dodd-Frank, the international oversight body of the Basel Committee on Banking Supervision, or Basel III, reached agreements that introduced 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 final rules that implemented Basel III and certain other revisions to the Basel capital framework, as well as the minimum leverage and risk-based capital requirements of Dodd Frank. 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.

The following are among the requirements that were phased in beginning January 1, 2015:

- An increase in the minimum Tier 1 capital ratio from 4.00% to 6.00% of risk-weighted assets;

- A new category and a required 4.50% of risk-weighted assets ratio is established for "common equity Tier 1" as a subset of Tier 1 capital limited to common equity;

- A minimum non-risk-based leverage ratio is set at 4.00% eliminating a 3.00% exception for higher rated banks;

- Changes in the permitted composition of Tier 1 capital to exclude trust preferred securities, mortgage servicing rights and certain deferred tax assets and include unrealized gains and losses on available for sale debt and equity securities;

- An additional capital conservation buffer of 2.5% of risk-weighted assets over each of the required capital ratios will be phased in beginning January 2016 at 0.625% of risk-weighted assets until fully implemented in January 2019. This conservation buffer level must be met to avoid limitations on the ability to pay dividends, repurchase shares or pay discretionary bonuses;

- The risk weights of certain assets for purposes of calculating the risk-based capital ratios are changed for high volatility commercial real estate acquisition, development and construction loans, certain past due non-residential mortgage loans and certain mortgage-backed and other securities exposures; and

- An additional "countercyclical capital buffer" is required for larger and more complex institutions.

Including the capital conservation buffer of 2.5% above, the regulatory minimum capital ratios established under the final capital rule resulted in the following minimum ratios: (i) a common equity Tier 1 capital ratio of 7.0%, (ii) a Tier 1 capital ratio of 8.5%, and (iii) a total capital ratio of 10.5%. The countercyclical capital buffer is not applicable to CWB or CWBC.

The final rules also revised the prompt corrective action framework. Under the prompt corrective action requirements, which are designed to complement the capital conservation buffer, insured depository institutions will be required to meet the following increased capital level requirements in order to qualify as "well capitalized:" (i) a new common equity Tier 1 capital ratio of 6.5%; (ii) a Tier 1 capital ratio of 8% (increased from 6%); (iii) a total capital ratio of 10% (unchanged from current rules); and (iv) a Tier 1 leverage ratio of 5% (increased from 4%).

Under Dodd Frank, 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.

While the final capital rule sets higher regulatory capital standards for CWBC and CWB, bank regulators may also continue their past policies of expecting banks to maintain additional capital beyond the new minimum requirements. The implementation of the capital rules or more stringent requirements to maintain higher levels of capital or to maintain higher levels of liquid assets could adversely impact their net income and return on equity, restrict the ability to pay dividends and require the raising of additional capital.

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Final Volcker Rule

In December 2013, the federal bank regulatory agencies adopted final rules that implement a part of Dodd-Frank commonly referred to as the “Volcker Rule.” Under these rules and subject to certain exceptions, banking entities, including CWBC and CWB, will be restricted from engaging in activities that are considered proprietary trading and from sponsoring or investing in certain entities, including hedge or private equity funds that are considered “covered funds.” These rules were originally scheduled to become effective on April 1, 2014; however, the FRB granted banking institutions two additional one-year extensions to conform their ownership interests in and sponsorship of these covered funds. Certain collateralized loan obligations (“CLO”) securities backed by trust preferred securities were initially defined as covered funds subject to the investment prohibitions of the final rule. Action taken by the FRB in January 2014 exempted many such securities to address the concern that many community banks holding such CLO securities may have been required to recognize losses on those securities.

At December 31, 2016, neither CWBC nor CWB held any investment positions which were subject to the Volcker Rule. Therefore, while these new rules may require CWBC and CWB to conduct certain internal analyses and reporting, we believe that the rules will not require any material changes in their respective operations or business.

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.

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

Transactions with Affiliates and Insiders. 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 company and its other affiliates from borrowing from a banking subsidiary of the bank holding company 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.

The Federal Reserve Act and FRB Regulation O place limitations and conditions on loans or extensions of credit to a bank or bank holding company’s executive officers, directors and principal shareholders; any company controlled by any such executive officer, director or shareholder; or any political or campaign committee controlled by such executive officer, director or principal shareholder. Additionally, such loans or extensions of credit must comply with loan-to-one-borrower limits; require prior full board approval when aggregate extensions of credit to the person exceed specified amounts; must be made on substantially the same and follow credit-underwriting procedures no less stringent than those prevailing at the time for comparable transactions with non-insiders; must not involve more than

the normal risk of repayment or present other unfavorable features; and must not exceed the bank's unimpaired capital and unimpaired surplus in the aggregate.

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.

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.

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

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

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

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

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

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

§ assets (exclusive of goodwill and other intangible assets) would be 1.25 times its liabilities (exclusive of deferred taxes, deferred income and other deferred credits); and
§ current assets would be at least equal to current liabilities.

Additionally, the FRB's policy regarding dividends provides that a bank holding 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 ("SOX"). SOX became effective on July 30, 2002, and represents the most far reaching corporate and accounting reform legislation since the enactment of the Securities Act and the Exchange Act. SOX is intended to provide a permanent framework that improves the quality of independent audits and accounting services, improves the quality of financial reporting, strengthens the independence of accounting firms and increases the responsibility of management for corporate disclosures and financial statements.

SOX 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 SOX, NASDAQ has adopted corporate governance rules intended to allow shareholders to more easily and effectively monitor the performance of companies and directors.

As a result of SOX, and its regulations, CWBC has incurred substantial cost to interpret and ensure compliance with the law and its regulations including, without limitation, increased expenditures by CWBC in auditors' fees, attorneys' fees, outside advisors fees, and increased errors and omissions insurance premium costs. 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 150%.

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The following table sets forth the regulatory capital for CWB and CWBC (on a consolidated basis) at December 31, 2016.

	Adequately Capitalized		Well Capitalized		CWB		CWBC (consolidated)	
Total risk-based capital	8.00	%	10.00	%	12.27	%	11.80	%
Tier 1 risk-based capital ratio	6.00	%	8.00	%	11.04	%	10.57	%
Common Equity Tier 1	4.50	%	6.50	%	11.04	%	10.57	%
Tier 1 leverage capital ratio	4.00	%	5.00	%	10.08	%	9.64	%

Prompt Corrective Action Authority. 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.

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. 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.

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Brokered Deposit Restrictions. Well-capitalized banks are not subject to limitations on brokered deposits, while an adequately capitalized bank is able to accept, renew or roll over brokered deposits only with a waiver from the FDIC and subject to certain restrictions on the yield paid on such deposits. Undercapitalized banks are generally not permitted to accept, renew, or roll over brokered deposits. As of December 31, 2016, CWB is deemed to be "well capitalized" and, therefore, is eligible to accept brokered deposits.

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.

Dodd-Frank 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. Dodd-Frank 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.

Anti-Money Laundering and OFAC Regulation

A major focus of governmental policy on financial institutions in recent years has been aimed at combating money laundering and terrorist financing. The Bank Secrecy Act of 1970 ("BSA") and subsequent laws and regulations requires CWB to take steps to prevent the use of it or its systems from facilitating the flow of illegal or illicit money and to file suspicious activity reports. Those requirements include ensuring effective Board and management oversight, establishing policies and procedures, developing effective monitoring and reporting capabilities, ensuring adequate training and establishing a comprehensive internal audit of BSA compliance activities. The USA Patriot Act of 2001 ("Patriot Act") significantly expanded the anti-money laundering ("AML") and financial transparency laws and regulations by imposing significant new compliance and due diligence obligations, creating new crimes and penalties and expanding the extra-territorial jurisdiction of the United States. Regulations promulgated under the Patriot Act impose various requirements on financial institutions, such as standards for verifying client identification at account opening and maintaining expanded records (including "Know Your Customer" and "Enhanced Due Diligence" practices) and other obligations to maintain appropriate policies, procedures and controls to aid the process of preventing, detecting, and reporting money laundering and terrorist financing.

CWB must provide AML training to employees, designate an AML compliance officer and annually audit the AML program to assess its effectiveness. The federal regulatory agencies continue to issue regulations and new guidance with respect to the application and requirements of BSA and AML. The United States has imposed economic sanctions that affect transactions with designated foreign countries, nationals and others. Based on their administration by Treasury's Office of Foreign Assets Control ("OFAC"), these are typically known as the "OFAC" rules. The OFAC-administered sanctions targeting countries take many different forms. Generally, however, they contain one or more of the following elements: (i) restrictions on trade with or investment in a sanctioned country, including

prohibitions against direct or indirect imports from and exports to a sanctioned country and prohibitions on "U.S. persons" engaging in financial transactions relating to making investments in, or providing investment-related advice or assistance to, a sanctioned country; and (ii) a blocking of assets in which the government or specially designated nationals of the sanctioned country have an interest, by prohibiting transfers of property subject to U.S. jurisdiction (including property in the possession or control of U.S. persons). Blocked assets (e.g., property and bank deposits) cannot be paid out, withdrawn, set off or transferred in any manner without a license from OFAC.

Failure of CWB to maintain and implement adequate BSA, AML and OFAC programs, or to comply with all of the relevant laws or regulations, could have serious legal and reputational consequences for the institution. CWB has augmented its systems and procedures to accomplish this. CWB believes that the ongoing cost of compliance with the BSA, AML and OFAC programs is not likely to be material to CWB

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. 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. 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.

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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.

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.

Consumer Compliance and Fair Lending Laws. CWB is subject to a number of federal and state laws designed to protect borrowers and promote lending to various sectors of the economy and population. These laws include the Patriot Act, BSA, the Foreign Account Tax Compliance Act (effective 2013), CRA, the Fair Credit Reporting Act, as amended by the Fair and Accurate Credit Transactions Act, the Equal Credit Opportunity Act, the Truth in Lending Act, the Fair Housing Act, the Home Mortgage Disclosure Act, the Real Estate Settlement Procedures Act, the National Flood Insurance Act, various state law counterparts, and the Consumer Financial Protection Act of 2010, which constitutes part of Dodd-Frank. The enforcement of Fair Lending laws has been an increasing area of focus for regulators, including the FDIC and CFPB.

In addition, federal law and certain state laws (including California) currently contain client privacy protection provisions. These provisions limit the ability of banks and other financial institutions to disclose non-public information about consumers to affiliated companies and non-affiliated third parties. These rules require disclosure of privacy policies to clients and, in some circumstance, allow consumers to prevent disclosure of certain personal information to affiliates or non-affiliated third parties by means of "opt out" or "opt in" authorizations. Pursuant to the GLB Act and certain state laws (including California) companies are required to notify clients of security breaches resulting in unauthorized access to their personal information.

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 compared to a flat interest rate scenario. The prior rate environment precluded a decrease in rates for the analysis. The model assumes that the rate change shock occurs immediately.

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The following table presents the impact of that analysis in dollars and percentages at December 31, 2016.

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	Up 500
	(dollars in thousands)						
Interest income	$31,115	$33,188	$35,485	$37,749	$40,074	$42,411	$44,584
Interest expense	1,993	3,318	5,826	8,334	10,842	13,350	15,858
Net interest income	$29,122	$29,870	$29,659	$29,415	$29,232	$29,061	$28,726
% change	-2.5 %		-0.7 %	-1.5 %	-2.1 %	-2.7 %	-3.8 %

At December 31, 2015, 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	Up 500
	(dollars in thousands)						
Interest income	$27,872	$29,712	$31,722	$33,703	$35,753	$37,810	$39,285
Interest expense	1,636	2,673	3,959	5,245	6,531	7,817	9,103
Net interest income	$26,236	$27,039	$27,763	$28,458	$29,222	$29,993	$30,182
% change	-3.0 %		2.7 %	5.3 %	8.1 %	10.9 %	11.6 %

As of December 31, 2016 the Fed Funds target rate was a range of 0.50% to 0.75% and the prime rate was 3.75%. As of December 31, 2015, the Fed Funds target rate was a range of 0.25% to 0.50% and the prime rate was 3.50%.

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, 2016 and 2015, 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 tables show 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	Up 500
	(dollars in thousands)						
Assets	$717,826	$698,123	$679,315	$664,298	$652,452	$640,693	$626,206
Liabilities	632,987	617,359	606,434	596,260	586,768	577,898	569,595
Net present value	$84,839	$80,764	$72,881	$68,038	$65,684	$62,795	$56,611
% change	5.0 %		-9.8 %	-15.8 %	-18.7 %	-22.2 %	-29.9 %

Economic Value of Equity

	Interest Rate Scenario (change in basis point from Base)						
	Down 100	Base	Up 100	Up 200	Up 300	Up 400	Up 500
	(dollars in thousands)						
Assets	$637,662	$621,530	$605,770	$591,246	$580,664	$570,127	$547,419