COMMUNITY WEST BANCSHARES /
Form 10-K
March 29, 2013

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, 2012
Commission File Number: 000-23575

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

California (State or other jurisdiction of incorporation or organization)	77-0446957 (I.R.S. Employer Identification No.)
445 Pine Avenue, Goleta, California (Address of principal executive offices)	93117 (Zip code)

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

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

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

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

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

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

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

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

The aggregate market value of common stock, held by non-affiliates of the registrant as of June 30, 2012, was $9,263,027 based on a closing price of $2.50 for the common stock, as reported on the Nasdaq Global Market. For purposes of the foregoing computation, all executive officers, directors and five percent beneficial owners of the registrant are deemed to be affiliates. Such determination should not be deemed to be an admission that such executive officers, directors or five percent beneficial owners are, in fact, affiliates of the registrant. As of March 28, 2013, 6,033,347 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 2013 Annual Meeting of Shareholders to be held on or about May 23, 2013 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, 2012.

PART I

ITEM 1. BUSINESS

GENERAL

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

Recent Regulatory Actions

On January 26, 2012, the Bank, entered into a consent agreement (“OCC Agreement”) with the Comptroller of the Currency (“OCC”), the Bank’s primary banking regulator, which requires the Bank to take certain corrective actions to address certain deficiencies in the operations of the Bank, as identified by the OCC, including but not limited to the Bank achieving and maintaining a Tier 1 Leverage Capital ratio of 9.00% and Total Risk-Based Capital ratio of 12.00%. In addition, on April 23, 2012, CWBC entered into a written agreement, (“FRB Agreement”) with the Federal Reserve Bank of San Francisco (“FRB”) pursuant to which CWBC has agreed to take certain corrective actions, including but not limited to taking appropriate steps to fully utilize CWBC’s financial and managerial resources to serve as a source of strength to the Bank to ensure the Bank’s compliance with the OCC Agreement. For a more detailed discussion of the requirements of the OCC Agreement and the FRB Agreement and the corrective actions taken by the Bank and CWBC in response thereto, please see “MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS – Recent Regulatory Action,” herein.

PRODUCTS AND SERVICES

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

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

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

One of CWB’s key strengths and a fundamental difference that the Company believes enables it to stand apart from the competition is the Bank personnel’s ability to develop and maintain lasting relationships with the business community. These individuals are able to develop, structure and underwrite the credit and manage the customer relationship. The Company believes this provides a competitive advantage as CWB’s competitors for the most part, have a centralized lending function where developing, underwriting and managing the relationship is split between multiple individuals.

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

The 7(a) serves as the SBA's primary business loan program to help qualified small businesses obtain financing when they might not be eligible for business loans through normal lending channels. Loan proceeds under this program can be used for most business purposes including working capital, machinery and equipment, furniture and fixtures, land and building (including purchase, renovation and new construction), leasehold improvements and debt refinancing. Loan maturity is generally up to 10 years for working capital and up to 25 years for fixed assets. The 7(a) loan is approved and funded by a qualified lender, guaranteed by the SBA and subject to applicable regulations. In general, the SBA guarantees up to 85% of the loan amount depending on loan size. The Company is required by the SBA to retain a contractual minimum of 5% on all SBA 7(a) loans. The SBA 7(a) loans are always variable interest rate loans. Gains recognized by the Company on the sales of the guaranteed portion of these loans and the ongoing servicing income received have in the past been significant revenue sources for the Company. The servicing spread is a minimum of 1% on the majority of loans.

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

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

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

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

Agricultural Loans for real estate and operating lines

The Company has expanded its agricultural lending program for agricultural land, agricultural operational lines, and agricultural term loans for crops, equipment and livestock. The primary product is supported by guarantees issued from the U.S. Department of Agriculture ("USDA"), Farm Service Agency ("FSA"), and the USDA Business and Industry loan program. The FSA loans typically issue a 90% guarantee up to $1,302,000 for 40 years or 480 months. The rates are typically fixed for 5 years and reset on the 61st month. The agricultural term loans and operating lines can be either fixed or variable. The operating lines are committed up to 7 years or 84 months and the term loans can be for 7 years or 84 months.

The USDA Business and Industry loans have up to 80% guarantee on loan amounts up to $5,000,000. These loans can be utilized for rural commercial real estate and equipment. The loans can be up to 30 years or 360 months and the rates can be fixed or variable.

In January 2013, CWB became an approved Federal Agricultural Mortgage Corporation (Farmer Mac) lender under the Farmer Mac I and Farmer Mac II Programs. Under the Farmer Mac I program, loans are sourced by CWB, underwritten, funded and serviced by Farmer Mac. CWB receives an origination fee and ongoing fee for serving the credit. The Farmer Mac II program was authorized by Congress in 1991 to establish a uniform national secondary market for originators and investors using the USDA guaranteed loan programs. Under this program, CWB will sell the guaranteed portions of USDA loans directly to Farmer Mac's subsidiary, Farmer Mac II LLC, service the loans, and retain the unguaranteed portions of those loans in accordance with the terms of the existing USDA guaranteed loan programs. Eligible loans include FSA and Business and Industrial loans. To participate in the program, CWB was subject to the requirement of purchasing 2,000 shares of Farmer Mac Class A Stock (AGM).

Mortgage Lending - CWB has a Mortgage Loan Division that originates residential real estate loans primarily in the California counties of Santa Barbara and Ventura. Loans are originated through retail loan originators in the Bank's offices and by approved third party originators. At origination, most of these loans are classified as loans held for sale and sold into the secondary market with a small number of these loans kept in the Bank's loans held for investment portfolio.

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

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

COMPETITION AND SERVICE AREA

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

EMPLOYEES

As of December 31, 2012, the Company had 119 full-time and 11 part-time employees. The Company's employees are not represented by a union or covered by a collective bargaining agreement.

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."

ITEM 1A. RISK FACTORS

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

Regulatory considerations and recent regulatory action.

As a bank holding company under the Bank Holding Company Act, we are regulated, supervised and examined by the Board of Governors of the Federal Reserve System, or Federal Reserve Board. This regulatory framework is intended primarily for the protection of depositors and the federal deposit insurance funds and not for the protection of our shareholders. As a result of this regulatory framework, our earnings are affected by actions of the Federal Reserve

Board, the Office of the Comptroller of the Currency (the "Comptroller"), which regulates the Bank, and the FDIC, which insures the deposits of the Bank within certain limits.

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

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

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

Government agencies regulations also dictate the following:

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

Regulations impose limitations on operations and may be changed at any time, possibly causing future results to vary significantly from past results. Regulations can significantly increase the cost of doing business such as increased deposit insurance premiums imposed by the FDIC that was paid in 2012. Moreover, certain of these regulations contain significant punitive sanctions for violations, including monetary penalties and limitations on a bank's ability to implement components of its business plan. In addition, changes in regulatory requirements may act to add costs associated with compliance efforts. Furthermore, government policy and regulation, particularly as implemented through the Federal Reserve System, significantly affect credit conditions.

On January 26, 2012, the Bank, entered into the OCC Agreement which requires the Bank to take certain corrective actions to address certain deficiencies in the operations of the Bank, including but not limited to the Bank achieving and maintaining a Tier 1 Leverage Capital ratio of 9.00% and Total Risk-Based Capital ratio of 12.00%. In addition, on April 23, 2012, CWBC entered into the FRB Agreement with the Federal Reserve Bank of San Francisco pursuant to which CWBC has agreed to take certain corrective actions, including but not limited to taking appropriate steps to fully utilize CWBC's financial and managerial resources to serve as a source of strength to the Bank to ensure the Bank's compliance with the OCC Agreement. For a more detailed discussion of the requirements of the OCC Agreement and the FRB Agreement and the corrective actions taken by the Bank and CWBC in response thereto, please see "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS – Recent Regulatory Action," herein.

The failure to comply with these regulatory agreements may subject the Company to further regulatory action including but not limited to, the Bank being deemed undercapitalized for purposes of the OCC Agreement. Additional risks associated with compliance with these regulatory agreements include, but are not limited to:

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

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

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

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

The risk of nonpayment of loans is inherent in all lending activities, and nonpayment, if it occurs, may have an adverse effect on our financial condition and/or results of operations. We maintain a reserve for credit losses to absorb estimated probable credit losses inherent in the loan and commitment portfolios as of the balance sheet date. After a provision of $4.3 million for the year, as of December 31, 2012, our allowance for loan losses was $14.5 million, or 3.66% of loans held for investment. In addition, as of December 31, 2012, we had $29.6 million in loans on nonaccrual, $7.2 million of which are SBA guaranteed, and $521,000 in loans 30 to 89 days past due with interest accruing. In determining the level of the reserve for credit losses, our Management makes various assumptions and judgments about the loan portfolio. We rely on an analysis of the loan portfolio based on historical loss experience, volume and types of loans, trends in classifications, volume and trends in delinquencies and non-accruals, national and local economic conditions and other pertinent information known at the time of the analysis. If Management's assumptions are incorrect, the reserve for credit losses may not be sufficient to cover losses, which could have a material adverse effect on our financial condition and/or results of operations. While the allowance was determined to be adequate at December 31, 2012, based on the information available to us at the time, there can be no assurance that the allowance will be adequate in the future.

All of our lending involves underwriting risks.

As of December 31, 2012, commercial business loans represented 7.0% of our total loan portfolio; real estate loans represented 32.2% of our total loan portfolio; SBA loans represented 18.6% of our total loan portfolio; manufactured housing loans represented 38.2% of our total portfolio and HELOC represented 3.9% of our total loan portfolio. All such lending, even when secured by the assets of a business, involves considerable risk of loss in the event of failure of the business. To reduce such risk, we typically take additional security interests in other collateral of the borrower, such as real property, certificates of deposit or life insurance, and/or obtain personal guarantees. In light of the economic downturn, our efforts to reduce risk of loss may not prove sufficient as the value of the additional collateral or personal guarantees may be significantly reduced. There can be no assurances that we have taken sufficient collateral or the values thereof will be sufficient to repay loans in accordance with their terms.

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

As of December 31, 2012, approximately $149.6 million, or 32.2%, of our loan portfolio is secured by various forms of real estate, including residential and commercial real estate. A further decline in current economic conditions or rising interest rates could have an adverse effect on the demand for new loans, the ability of borrowers to repay outstanding loans and the value of real estate and other collateral securing loans. The real estate securing our loan portfolio is concentrated in California. The decline in real estate values could harm the financial condition of our borrowers and the collateral for our loans will provide less security and we would be more likely to suffer losses on defaulted loans.

Recently enacted legislative reforms and future regulatory reforms required by such legislation will have a significant impact on our business, financial condition and results of operations.

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

- eliminates the federal prohibitions on paying interest on demand deposits, thus allowing businesses to have interest-bearing checking accounts. Depending on competitive responses, this significant change to existing law could have an adverse impact on our interest expense;

- broadens the base for FDIC insurance assessments. Assessments will now be based on the average consolidated total assets less tangible equity capital of a financial institution;

- permanently increases the maximum amount of deposit insurance for banks, savings institutions and credit unions to $250,000 per depositor, retroactive to January 1, 2008, and noninterest-bearing transaction accounts had unlimited deposit insurance through December 31, 2012, at which time the unlimited deposit insurance expired;

- requires publicly traded companies to give shareholders a non-binding vote on executive compensation and so-called "golden parachute" payments in certain circumstances;

-

allows stockholders to nominate their own candidates using a company's proxy materials in accordance with SEC regulations;

- directs the Federal Reserve Board to promulgate rules prohibiting excessive compensation paid to bank holding company executives; and

- creates a new Consumer Financial Protection Bureau with broad powers to supervise and enforce consumer protection laws. The Consumer Financial Protection Bureau has broad rule-making authority for a wide range of consumer protection laws that apply to all banks and savings institutions, including the authority to prohibit "unfair, deceptive or abusive" acts and practices. The Consumer Financial Protection Bureau has examination and enforcement authority over all banks and savings institutions with more than $10 billion in assets. Institutions with $10 billion or less in assets, like our Company, will continued to be examined for compliance with the consumer laws by their primary bank regulators.

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

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

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

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

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

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

FDIC deposit insurance premiums have increased substantially and may increase further, which will adversely affect our results of operations.

The Bank's FDIC insurance expense for the years ended December 31, 2012 and 2011 amounted to $1.3 million, and $957,000, respectively. We expect deposit insurance premiums will continue to increase for all banks, including the possibility of additional special assessments, due to recent strains on the FDIC deposit insurance fund resulting from the cost of recent bank failures. Our current level of FDIC insurance expense as well as any further increases thereto will continue to adversely affect our operating results.

The recently enacted Dodd-Frank Act provides for a minimum deposit insurance reserve ratio of not less than 1.35% of estimated insured deposits and requires that the FDIC take steps necessary to attain this 1.35% ratio; however, the Dodd-Frank Act exempts institutions with assets of less than $10 billion, like us, from the cost of this increase. See "Supervision and Regulation– Recent Regulatory Developments." It is generally expected that assessment rates will continue to increase in the near term due to the significant cost of bank failures, the relatively large number of troubled banks and the requirement that the FDIC increase the reserve ratio. Any increase in assessments will adversely impact our future earnings.

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

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

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

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

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

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

Fluctuations in interest rates may reduce profitability.

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

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

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

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

The Company serves two primary regions: Santa Barbara and Ventura counties in the state of California; and, a loan production office in Roseville, California where the Bank originates SBA loans. The current economic slowdown in those regions as well as natural disasters such as hurricanes, floods, fires and earthquakes could result in the following consequences, any of which could hurt our business:

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

Competition with other banking institutions could adversely affect profitability.

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

Operational risks may result in losses.

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

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

We are subject to cybersecurity risks and may incur increasing costs in an effort to minimize those risks.

Our business employs systems that allow for the secure storage and transmission of customers' proprietary information. Security breaches could expose us to a risk of loss or misuse of this information, litigation and potential liability. We may not have the resources or technical sophistication to anticipate or prevent rapidly evolving types of cyber attacks. Any compromise of our security could result in a violation of applicable privacy and other laws, significant legal and financial exposure, damage to our reputation, and a loss of confidence in our security measures, which could harm our business.

A cybersecurity incident could have a negative impact on the Company

A cyber-attack that bypasses our information technology (IT) security systems causing an IT security breach, may lead to a material disruption of our IT business systems and/or the loss of business information resulting in an adverse business impact. Risks may include:

- future results could be adversely affected due to the theft, destruction, loss, misappropriation or release of confidential data or intellectual property;

- operational or business delays resulting from the disruption of IT systems and subsequent clean-up and mitigation activities; and

- negative publicity resulting in reputation or brand damage with customers, partners or industry peers.

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

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

We may depend on technology and technological improvements.

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

Loss of key management personnel may adversely affect our operations.

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

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

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

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

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

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

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

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

The dividends on the Series A Preferred Stock will reduce the net income available to common shareholders and our earnings per common share. The Series A Preferred Stock will also receive preferential treatment in the event of liquidation, dissolution or winding up of the Company. Additionally, the ownership interest of the existing holders of our common stock will be diluted to the extent the warrant we issued to the Treasury ("Warrant") in conjunction with the sale to the Treasury of the Series A Preferred Stock is exercised. The shares of common stock underlying the Warrant represent approximately 8.7% of the shares of our common stock outstanding as of December 31, 2012 (including the shares issuable upon exercise of the Warrant in total shares outstanding). Although the Treasury has agreed not to vote any of the shares of common stock it receives upon exercise of the Warrant, a transferee of any portion of the Warrant or of any shares of common stock acquired upon exercise of the Warrant is not bound by this restriction.

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

On August 9, 2010, CWBC sold $8,085,000 of 9% Convertible Subordinated Debentures due in 2020 ("Debentures") in a public offering. The payment of the interest on the Debentures will reduce the net income available to our common shareholders and our earnings per share. The Debentures are convertible into shares of our common stock at $3.50 per share, if converted on or before July 1, 2013; at $4.50 per share if converted during the period from July 2, 2013 to July 1, 2016; and, at $6.00 per share if converted during the period from July 2, 2016 to August 9, 2020. If the Debentures are converted at a price that is less than book value per share, the holders of our common stock will be diluted and the ownership interest of the existing holders of our common stock who do not convert may also be diluted. At December 31, 2012 and December 31, 2011 the balance of the convertible debentures was $7,852,000.

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

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

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

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. NOT APPLICABLE

PART II

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

Market Information, Holders and Dividends

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

	2012 Quarters				2011 Quarters			
	Fourth	Third	Second	First	Fourth	Third	Second	First
Stock Price Range:								
High	$3.50	$3.07	$2.85	$2.72	$2.60	$3.90	$4.66	$4.95
Low	$2.50	$2.20	$2.05	$1.27	$1.36	$1.88	$3.38	$3.59
Common Dividends								
Declared	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00

As of March 22, 2013 the year to date high and low stock sales prices were $5.10 and $2.80, respectively. As of March 22, 2013, the last reported sale price per share for the Company's common stock was $4.78.

As of March 22, 2013, the Company had 291 stockholders of record of its common stock.

Preferred Stock Dividends

On December 19, 2008, as part of TARP-CPP, in exchange for an aggregate purchase price of $15,600,000, the Company issued to Treasury 15,600 shares of Fixed Rate Cumulative Perpetual Preferred Stock, Series A, no par value, with a liquidation preference of $1,000 per share which pays cumulative dividends at a rate of 5% per year for the first five years and 9% per year thereafter. The Series A Preferred Stock has no maturity date and ranks senior to the common stock with respect to the payment of dividends and distributions. Preferred dividends are paid quarterly in accordance with the terms of the Series A Preferred Stock. In the year ended December 31, 2012, the Company recorded $779,000 of dividends and $267,000 in accretion of the discount on preferred stock, for a total of $1,046,000 in Series A Preferred Stock dividends and accretion on preferred stock. The Company has paid all the quarterly dividends on such Series A Preferred Stock through February 15, 2012; therefore, the Company is not in arrears on any such prior dividends. While the Company declared and accrued for its May 15, 2012, August 15, 2012, November 15, 2012 and February 15, 2013 dividends, the Company’s request to the FRB, pursuant to the requirements under a written agreement with the FRB, to pay the dividends was denied by the FRB and, as such, the Company has not paid the dividends. The aggregate amount of the dividends that would have been paid on May 15, 2012, August 15, 2012 and November 15, 2012 on the Series A Preferred Stock was $584,000. The deferral of the dividends on the Series A Preferred Stock is permitted under its terms and does not constitute an event of default.

On December 11, 2012, Treasury sold all 15,600 of its shares of Series A Preferred Stock to third party purchasers unaffiliated with the Company in a non-public offering as part of a modified “Dutch Auction” process. The Company did not bid on any of the shares. Treasury continues to hold a warrant to purchase up to 521,158 shares of the Company’s common stock at an exercise price of $4.49 per share. The Company did not receive any proceeds from this auction, nor were any terms modified in connection with the sales.

See “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Capital Resources – TARP-CPP.”

Common Stock Dividends

It is the Company’s intention to review its dividend policy on a quarterly basis. The Company’s last declared dividend was in April 2008. The sources of funds for dividends paid to shareholders are the Company’s capital and dividends received from its subsidiary bank, CWB. CWB’s ability to pay dividends to the Company is limited by California law and federal banking law. Further, the Company has agreed with the FRB that it will refrain from accepting any dividends from the Bank without prior regulatory approval. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Capital Resources –– TARP-CPP" and see “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Supervision and Regulation -CWBC - Limitations on Dividend Payments.”

Repurchases of Securities

The Company did not repurchase any of its securities during 2012 and does not currently have any publicly announced repurchase plan. The Company's ability to repurchase shares of its common stock is subject to prior approval of the FRB.

Securities Authorized for Issuance under Equity Compensation Plans

The following table summarizes the securities authorized for issuance as of December 31, 2012:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Plans approved by shareholders	447,075	$ 5.38	162,500
Plans not approved by shareholders			
Total	447,075	$ 5.38	162,500

ITEM 6. SELECTED FINANCIAL DATA

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

	Year Ended December 31,				
	2012	2011	2010	2009	2008
CONSOLIDATED STATEMENTS OF OPERATIONS:	(in thousands, except per share data and ratios)				
Interest income	$31,309	$36,512	$39,234	$40,903	$45,532
Interest expense	5,949	8,250	9,957	14,945	22,223
Net interest income	25,360	28,262	29,277	25,958	23,309
Provision for loan losses	4,281	14,591	8,743	18,678	5,264
Net interest income after provision for loan losses	21,079	13,671	20,534	7,280	18,045
Non-interest income	4,219	3,144	4,015	4,418	5,081
Non-interest expenses	22,125	23,223	20,991	21,479	20,516
Income (loss) before income taxes	3,173	(6,408)	3,558	(9,781)	2,610
Provision (benefit) for income taxes	-	4,077	1,467	(4,018)	1,129
NET INCOME (LOSS)	$3,173	$(10,485)	$2,091	$(5,763)	$1,481
Dividends and accretion on preferred stock	1,046	1,047	1,047	1,046	35
NET INCOME (LOSS) APPLICABLE TO COMMON STOCKHOLDERS	$2,127	$(11,532)	$1,044	$(6,809)	$1,446
PER COMMON SHARE DATA:					
Income (loss) per share – Basic	$0.36	$(1.93)	$0.18	$(1.15)	$0.24
Weighted average shares used in income per share calculation – Basic	5,990	5,980	5,915	5,915	5,913
Income (loss) per share – Diluted	$0.31	$(1.93)	$0.18	$(1.15)	$0.24
Weighted average shares used in income per share calculation – Diluted	8,233	5,980	6,833	5,915	5,941
Book value per common share	$6.29	$5.94	$7.92	$7.74	$8.84
BALANCE SHEET:					
Net loans	$449,201	$532,716	$580,632	$603,440	$581,075
Total assets	532,101	633,348	667,604	684,216	656,981
Total deposits	434,220	511,262	529,893	531,392	475,439
Total liabilities	479,052	582,722	605,962	623,909	590,363
Total stockholders' equity	53,049	50,626	61,642	60,307	66,618
OPERATING AND CAPITAL RATIOS:					
Return on average equity	6.22 %	(16.98)%	3.42 %	(9.24)%	2.85 %
Return on average assets	0.55	(1.60)	0.31	(0.85)	0.23
Dividend payout ratio	-	-	-	-	49.07
Equity to assets ratio	9.97	7.99	9.23	8.81	10.14
Tier 1 leverage ratio	9.72	7.91	9.08	8.81	10.28
Tier 1 risk-based capital ratio	12.81	10.08	11.40	10.93	12.45

Total risk-based capital ratio	15.98	12.92	14.16	12.20	13.70

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

The following discussion is designed to provide insight into Management's assessment of significant trends related to the consolidated financial condition, results of operations, liquidity, capital resources and interest rate risk for Community West Bancshares ("CWBC") and its wholly-owned subsidiary, Community West Bank ("CWB" or "Bank"). Unless otherwise stated, "Company" refers to CWBC and CWB as a consolidated entity. The following discussion should be read in conjunction with the Company's Consolidated Financial Statements and Notes thereto and the other financial information appearing elsewhere in this 2012 Annual Report on Form 10-K.

Forward-Looking Statements

This 2012 Annual Report on Form 10-K contains statements that constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Those forward-looking statements include statements regarding the intent, belief or current expectations of the Company and its management. Any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and actual results may differ materially from those projected in the forward-looking statements.

Overview of Earnings Performance

Net income applicable to common shareholders of the Company was $2.1 million, or $0.36 per basic common share and $0.31 per diluted common share for 2012 compared to net loss applicable to common shareholders of $11.5 million, or $(1.93) per basic and diluted common share for 2011. The Company's earnings performance was impacted in 2012 by:

§ The provision for loan losses decreased from $14.6 million for 2011 to $4.3 million for 2012, resulting from net charge-offs decreasing from $12.6 million for 2011 to $5.1 million for 2012 and net loans held for investment decreasing from $455.4 million in 2011 to $380.5 million in 2012. The ratio of Allowance for loan losses to loans held for investment increased from 3.24% at December 31, 2011 to 3.66% at December 31, 2012.

§ No income tax provision for 2012 compared to an income tax provision of $4.1 million for 2011 due to the recognition of a deferred tax valuation allowance of $6.7 million in 2011.

§ A decrease in net interest income of $2.9 million, or 10.3%, from $28.3 million for 2011 to $25.4 million for 2012.

§ Interest income declined by $5.2 million, or 14.3%, from $36.5 million for 2011 to $31.3 million for 2012, primarily from lower average interest-earning assets of $539.9 million for 2012 compared to $617.0 million in 2011.

§ Interest expense declined $2.3 million, or 27.9%, from $8.2 million for 2011 to $5.9 million for 2012, resulting from a combination of lower average interest-bearing liabilities of $475.1 million for 2012 compared to $540.8 million for 2011, and lower yields on interest-bearing liabilities of 1.25% for 2012 compared to 1.53% for 2011.

§ The combination of the decline in rates paid on deposits and borrowings and the decline in yields on interest-earning assets resulted in a margin improvement of 0.12% from 4.58% for 2011 to 4.70% for 2012.

§ Non-interest income increased $1.1 million, or 34.2%, from $3.1 million in 2011 to $4.2 million in 2012, primarily from the sale of $10.1 million in SBA loans with the resulting gain of $973,000, the sale of $2.5 million of guaranteed USDA loans, generating a net gain of $277,000, and the sale of $4.0 million of investment securities resulting in a gain of $121,000.

§ Non-interest expenses decreased $1.1 million, or 4.7%, from $23.2 million in 2011 to $22.1 million in 2012, primarily from a $1.5 million decrease in loss on sale and write-down of foreclosed real estate and repossessed assets, offset by an FHLB advance prepayment fee of $431,000 from the prepayment of $22 million of FHLB advances and an $426,000 increase in professional fees.

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, 2012 throughout the analysis sections of this Annual Report.

Recent Regulatory Action

Office of the Comptroller of the Currency

On January 26, 2012, the Bank, entered into the OCC Agreement with the OCC, the Bank's primary banking regulator, which requires the Bank to take certain corrective actions to address certain deficiencies in the operations of the Bank, as identified by the OCC. In accordance with the terms of the OCC Agreement, the Bank took the following actions:

Article I of the OCC Agreement requires the formation of a compliance committee. The Bank established a Board Regulatory Compliance Committee ("Compliance Committee") on January 26, 2012. The Compliance Committee meets and reports to the Bank's Board of Directors on a monthly basis. The Compliance Committee's reports to the Bank's Board of Directors include information concerning the status of actions taken or needed to be taken to achieve full compliance with the OCC Agreement, the personnel of the Bank primarily responsible for implementing such action and the expected timing of such actions.

Article II of the OCC Agreement requires an updated strategic plan covering at least a three-year period. The Bank has adopted, submitted and received approval from the OCC for the three-year strategic plan, and updates on an annual basis, which includes, among other things, strategic goals, objectives, key financial performance indicators and risk tolerances, identification and prioritization of initiatives and opportunities including timeframes, a management employment and succession program, assignment of responsibilities and accountability for the strategic planning process, and a description of systems designed to monitor the Bank's progress in meeting the goals set forth in the strategic plan.

Article III of the OCC Agreement requires a capital plan and requires that the Bank achieve and maintain a Tier 1 Leverage Capital ratio of 9% and Total Risk-Based Capital ratio of 12% on or before May 25, 2012. The Bank's Board of Directors has incorporated a three-year capital plan into the Bank's strategic plan. The Bank successfully met the minimum capital requirements as of May 25, 2012 and has continued to exceed such requirements since then. Notwithstanding that the Bank has achieved the required minimum capital ratios required by the OCC Agreement, the existence of a requirement to maintain a specific capital level in the OCC Agreement means that the Bank may not be deemed "well capitalized" under applicable banking regulations. As of December 31, 2012, the Bank's Tier 1 Leverage Capital ratio was 10.69% and the Total Risk-Based Capital ratio was 15.27%.

In connection with the capital plan, the Bank took a number of steps to streamline its balance sheet and enhance its capital position, including:

- Closed remaining out-of-state (CO, OR, UT and WA) SBA lending operations in February 2012;
- Sold $10.1 million of guaranteed SBA loans in March 2012, generating a net gain of $973,000 and $2.5 million of guaranteed USDA loans in September 2012, generating a net gain of $277,000;
- Prepaid $5 million of FHLB advances in March 2012 and another $17 million in April 2012;
- Sold $4 million of investment securities in March 2012 at a net gain of $121,000; and
- Sold $9.0 million in REO and repossessed assets in 2012.

The Bank's Board of Directors prepares a written evaluation of the Bank's performance against the capital plan on a quarterly basis, including a description of actions the Bank will take to address any shortcomings, which is documented in Board meeting minutes.

Article IV of the OCC Agreement requires the Bank to take steps to improve the management and oversight of the Bank. In that regard, the Bank has recently appointed several key officers, including the Bank's appointment of its President and Chief Executive Officer, the appointment of a new Chief Credit Officer; and several other officers in key areas of the Bank. The Bank believes that these management changes have facilitated clearer lines of responsibility and authority. At its monthly meetings, the Compliance Committee reviews the Bank's processes, personnel and control systems to ensure they are adequate.

Article V of the OCC Agreement requires the Bank to have a written program designed to ensure that the risks associated with the Bank's loan portfolio are properly reflected and accounted for on the Bank's books and records. The Bank's Board of Directors has adopted such a written program, including with respect to risk grading and valuation of loans, that losses are charged off, as appropriate, and that current information is gathered and maintained regarding loans and collateral. The Bank has submitted written information regarding the foregoing to the OCC. The Bank's Board of Directors and Management will continue to review this program and take steps, as appropriate, to ensure the Bank complies with the requirements of the OCC Agreement.

Article VI of the OCC Agreement requires the Bank to have a written program to ensure compliance with applicable financial accounting standards. The Bank's Board of Directors has adopted such a program, which includes specific measures for monitoring of loans, and identification of, and accounting for, loan impairment, loss recognition and troubled debt restructurings.

Article VII of the OCC Agreement requires that the Bank employ an external firm, acceptable to the OCC, to perform a semi-annual review of the Bank's loan portfolio. The Bank has done so, and a review for all quarters of 2012 has been performed, and the findings from those reviews were considered by the Bank in performing an assessment of the Bank's loan portfolio and related allowance for loan losses.

Article VIII of the OCC Agreement requires the Bank to have a program to monitor assets which have been criticized by internal or external loan reviews or by the OCC. As so required, the Bank maintains a Criticized Assets Report, which reports the status of assets that have been identified by the Bank as evidencing a higher degree of risk of loss. The report is updated at least monthly.

Article IX of the OCC Agreement requires the Bank to have a program for the maintenance of an adequate allowance for loan and lease losses. The Bank's Board of Directors has adopted such a written plan, which is designed to ensure that the Bank's allowance for loan and lease losses is consistent with all regulatory and financial accounting requirements. An external review is performed quarterly prior to the timely quarterly filing of the Bank's Consolidated Report of Condition and Income ("Call Report").

Article X of the OCC Agreement requires the Bank to review and revise the Bank's other real estate owned ("OREO") section of the Bank's loan policy. The Bank's Board of Directors has adopted an updated policy concerning OREO, which has been incorporated into the Bank's three-year strategic plan. The OREO policy reflects updates to ensure compliance with applicable regulatory and financial accounting requirements, including procedures to ensure that periodic, appropriate appraisals and valuations are performed.

Article XI of the OCC Agreement requires the Bank to adhere to and implement the Bank's liquidity risk management program. The Bank has adopted and implemented a liquidity risk management program, which is designed to address current and projected funding needs, ensure the Bank has sufficient liquidity to meet such needs, reduce reliance on high cost and wholesale funding sources, and comply with applicable restrictions on brokered deposits. The Bank's Board of Directors reviews its compliance with this policy on a monthly basis, and provides quarterly reports to the OCC, as required by the OCC Agreement.

Article XII of the OCC Agreement requires that the Bank take steps to correct all violations of law, rules or regulations identified by the OCC. The Bank's Board of Directors and Compliance Committee monitor the Bank's progress on a monthly basis.

The OCC Agreement requires that the Bank furnish periodic written progress reports to the OCC detailing the form and manner of any actions taken to secure compliance with the OCC Agreement. The Bank has submitted such progress reports on a monthly basis, as required by the OCC Agreement.

While the Bank believes that it is in substantial compliance with the OCC Agreement, no assurance can be given that the OCC will concur with the Bank's assessment. Failure to comply with the provisions of the OCC Agreement may subject the Bank to further regulatory action, including but not limited to, being deemed undercapitalized for purposes of the OCC Agreement, and the imposition by the OCC of prompt corrective action measures or civil money penalties which may have a material adverse impact on the Company's financial condition and results of operations.

Actions required of the Bank in response to the OCC Agreement have prompted the Bank to reassess future financial results and financial forecasts. In addition, financial results are subject to many external factors, including the interest rate environment, loan demand, deposit pricing and the economy as a whole, both locally and nationally. The Bank does not currently expect future financial results to be significantly impacted by specific responses to, or actions taken pursuant to, the OCC Agreement. However, the Bank is implementing a number of measures to mitigate any potential impact that such external factors could have on the Bank's future financial results, which measures have been incorporated into the Bank's ongoing risk management and strategic planning processes. No assurances can be provided that these measures will be successful in mitigating any such potential impact. In that regard, the Bank does not currently expect credit quality trends to be significantly impacted by the actions required of the Bank pursuant to the OCC Agreement. However, in connection with the Bank's risk management process, the allowance for loan losses requires continuous oversight to ensure its adequacy and responsiveness to changes in risk within the Bank's credit portfolio. The Bank has not made changes to its methodology for calculating the allowance for loan losses in specific response to the OCC Agreement. However, from time to time, in connection with the Bank's periodic evaluation of the credit portfolio and related allowance for loan losses methodology, the Bank may make changes as the Bank deems appropriate. Any significant changes to the Bank's allowance for loan losses methodology will be appropriately disclosed, including any material impact to CWBC's financial statements.

Federal Reserve Bank of San Francisco

On April 23, 2012, the Company entered into a written agreement (FRB Agreement) with the Federal Reserve Board (FRB). Without admitting or denying any of the alleged charges of unsafe or unsound banking practices and any violations of law, the Company has agreed to take the following corrective actions to address certain alleged violations of law and/or regulation:

- Take appropriate steps to fully utilize the Company's financial and managerial resources to serve as a source of strength to the Bank, including taking steps to ensure the Bank's compliance with the OCC Agreement and any other supervisory action taken by the Bank's federal and state regulators;
- Refrain from declaring or paying dividends absent prior regulatory approval;
- Refrain from taking dividends or any form of payment from the Bank representing a reduction in the Bank's capital absent prior regulatory approval;
- Refrain from incurring, increasing or guaranteeing any debt or repurchasing or redeeming any shares of its stock absent prior regulatory approval;
- Develop and submit for regulatory approval a written capital plan to maintain sufficient capital on a consolidated basis, which capital plan should, at a minimum, address, consider and include current and future capital requirements on a consolidated basis and compliance with federal regulations and guidelines; the adequacy of the Bank's capital, the sources and timing of funds necessary to fulfill future capital requirements; and the requirements of federal law that the Company serve as a source of strength to the Bank. The FRB accepted the capital plan on July 10, 2012;
- Develop and submit for regulatory approval a cash flow projection of the Company's planned sources and uses of cash for debt service, operating expenses and other purposes. The FRB accepted the cash flow projection on July 10, 2012;
- Comply with appropriate regulatory notice and approval requirements when appointing any new directors or senior executive officers or changing the responsibilities of any senior executive officer and comply with the limitations on indemnification and severance payments set forth in Section 18(k) of the Federal Deposit Insurance Act (12 USC 1828(i)) and Part 359 of the FDIC's implementing regulations; and
- Furnish written progress reports to the FRB detailing the form and manner of any actions taken to secure compliance with the Regulatory Agreement.

In accordance with the FRB Agreement, the Company requested the FRB's approval to pay the dividend due on May 15, 2012, August 15, 2012, November 15, 2012 and February 15, 2013 on the Company's Series A Preferred Stock. Those requests were denied. Consequently, the Company did not pay the dividends and the dividends remain accrued as of, and subsequent to, December 31, 2012. As indicated in the FRB Agreement, all future dividends are subject to regulatory approval.

Since the appointment of a new Chief Executive Officer in November 2011 and Chief Credit Officer in July 2011, the Bank has maintained a focus on addressing the areas of concern that have been raised by the regulators. As a result, all of the prudent actions required in the OCC Agreement and FRB Agreement have been addressed, and either have been or will be completed in the near future. No assurances can be provided that CWBC and CWB will achieve full compliance with the regulatory agreements and the regulatory response in the event of any non-compliance.

The Board and Management will continue to work closely with the OCC and FRB to achieve compliance with the terms of both agreements and improve the Company's and Bank's strength, security and performance.

Critical Accounting Policies

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

Provision and Allowance for Loan Losses – The Company maintains a detailed, systematic analysis and procedural discipline to determine the amount of the allowance for loan losses ("ALL"). The ALL is based on estimates and is intended to be adequate to provide for probable losses inherent in the loan portfolio. This process involves deriving probable loss estimates that are based on migration analysis/historical loss rates and qualitative factors that are based on Management's judgment. The migration analysis and historical loss rate calculations are based upon the annualized loss rates utilizing a twelve-quarter loss history. Migration analysis is utilized for the Commercial Real Estate, Commercial, SBA, HELOC, Single Family Residential, and Consumer loan portfolios. The historical loss rate method is utilized for the homogeneous loan categories, primarily the Manufactured Housing portfolio. The migration analysis takes into account the risk rating of loans that are charged off in each loan category.

Foreclosed Real Estate and Repossessed Assets – Foreclosed real estate and other repossessed assets are recorded at fair value at the time of foreclosure less estimated costs to sell. Any excess of loan balance over the fair value less estimated costs to sell of the other assets is charged-off against the allowance for loan losses. Any excess of the fair value less estimated costs to sell over the loan balance is recorded as a loan loss recovery to the extent of the loan loss previously charged-off against the allowance for loan losses; and, if greater, recorded as a gain on foreclosed real estate. Subsequent to the legal ownership date, Management periodically performs a new valuation and the asset is carried at the lower of carrying amount or fair value less estimated costs to sell. Operating expenses or income, and gains or losses on disposition of such properties, are recorded in current operations.

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

Recent Accounting Pronouncements –In May 2011, the FASB issued ASU No. 2011-04, "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs." ASU No. 2011-04 results in a consistent definition of fair value and common requirements for measurement of and disclosure about fair value between U.S. GAAP and International Financial Reporting Standards ("IFRS"). The changes to U.S. GAAP as a result of ASU No. 2011-04 are as follows: (1) The concepts of highest and best use and valuation premise are only relevant when measuring the fair value of nonfinancial assets (that is, it does not apply to financial assets or any liabilities); (2) U.S. GAAP currently prohibits application of a blockage factor in valuing financial instruments with quoted prices in active markets. ASU No. 2011-04 extends that prohibition to all fair value measurements; (3) An exception is provided to the basic fair value measurement principles for an entity that holds a group of financial assets and financial liabilities with offsetting positions in market risks or counterparty credit risk that are managed on the basis of the entity's net exposure to either of those risks. This exception allows the entity, if certain criteria are met, to measure the fair value of the net asset or liability position in a manner consistent with how market participants would price the net risk position; (4) Aligns the fair value measurement of instruments classified within an entity's stockholders' equity with the guidance for liabilities; and (5) Disclosure requirements have been enhanced for recurring Level 3 fair value measurements to disclose quantitative information about unobservable inputs and assumptions used, to describe the valuation processes used by the entity, and to describe the sensitivity of fair value measurements to changes in unobservable inputs and interrelationships between those inputs. In addition, entities must report the level in the fair value hierarchy of items that are not measured at fair value in the balance sheet but whose fair value must be disclosed. The provisions of ASU No. 2011-04 are effective for the Company's interim reporting period beginning on or after December 15, 2011. The adoption of ASU No. 2011-04 did not have a material impact on the Company's balance sheets and statements of income.

In June 2011, the FASB issued ASU No. 2011-05, "Presentation of Comprehensive Income." The provisions of ASU No. 2011-05 allow an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income ("OCI") either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of OCI along with a total for OCI, and a total amount for comprehensive income. The statement(s) are required to be presented with equal prominence as the other primary financial statements. ASU No. 2011-05 eliminates the option to present the components of OCI as part of the statement of changes in stockholders' equity but does not change the items that must be reported in OCI or when an item of OCI must be reclassified to net income. The provisions of ASU No. 2011-05 are effective for the Company's interim reporting period beginning on or after December 15, 2011, with retrospective application required. The adoption of ASU No. 2011-05 resulted in presentation changes to the Company's statements of income and the addition of a statement of comprehensive income. The adoption of ASU No. 2011-05 had no impact on the Company's balance sheets.

In December 2011, the FASB issued ASU 2011-12 "Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05". The amendments are being made to allow the FASB time to re-deliberate whether to present on the face of the financial statements the effects of reclassifications out of accumulated other comprehensive income on the components of net income and OCI for all periods presented. Entities should continue to report reclassifications out of accumulated other comprehensive income consistent with the presentation requirements in effect before ASU 2011-05. The adoption of ASU 2011-12 will have no impact on the Company's balance sheets.

Changes in Interest Income and Interest Expense

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

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

Results of Operations

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

	Year Ended December 31,			
	2012 vs. 2011		2011 vs. 2010	
	Amount of Increase (Decrease)	Percent of Increase (Decrease)	Amount of Increase (Decrease)	Percent of Increase (Decrease)
INTEREST INCOME	(dollars in thousands)			