COMMUNITY WEST BANCSHARES /
Form 10-Q
August 03, 2018

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

FORM 10-Q

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

For the quarterly period ended June 30, 2018 or

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

For the transition period from _________ to _________

Commission File Number: 000-23575

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

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

445 Pine Avenue, Goleta, California	93117
(Address of principal executive offices)	(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. 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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See definition of “large accelerated filer,” “accelerated filer”, “smaller reporting company” and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

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

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common stock of the registrant issued and outstanding of 8,253,582 as of July 27, 2018.

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

COMMUNITY WEST BANCSHARES
CONSOLIDATED BALANCE SHEETS

	June 30, 2018 (unaudited)	December 31, 2017
	(in thousands, except share amounts)	
Assets:		
Cash and due from banks	$ 3,376	$ 3,639
Federal funds sold	9	12
Interest-earning demand in other financial institutions	50,977	42,218
Cash and cash equivalents	54,362	45,869
Investment securities - available-for-sale, at fair value; amortized cost of $26,858 at June 30, 2018 and $28,742 at December 31, 2017	26,685	28,783
Investment securities - held-to-maturity, at amortized cost; fair value of $6,837 at June 30, 2018 and $7,671 at December 31, 2017	6,856	7,565
Investment securities - measured at fair value; amortized cost of $66 at June 30, 2018 and December 31, 2017.	179	—
Federal Home Loan Bank stock, at cost	2,714	2,347
Federal Reserve Bank stock, at cost	1,373	1,373
Loans:		
Held for sale, at lower of cost or fair value	52,886	55,094
Held for investment, net of allowance for loan losses of $8,622 at June 30, 2018 and $8,420 at December 31, 2017	698,382	671,095
Total loans	751,268	726,189
Other assets acquired through foreclosure, net	213	372
Premises and equipment, net	5,976	5,581
Other assets	15,501	15,236
Total assets	$ 865,127	$ 833,315
Liabilities:		
Deposits:		
Non-interest-bearing demand	$ 107,168	$ 108,500
Interest-bearing demand	260,708	256,717
Savings	14,515	14,085
Certificates of deposit ($250,000 or more)	88,752	81,985
Other certificates of deposit	231,460	238,397
Total deposits	702,603	699,684
Other borrowings	81,843	56,843
Other liabilities	7,233	6,718
Total liabilities	791,679	763,245
Stockholders' equity:		
Common stock — no par value, 60,000,000 shares authorized; 8,253,582 shares issued and outstanding at June 30, 2018 and 8,193,339 at December 31, 2017	43,117	42,604
Retained earnings	30,442	27,441

Accumulated other comprehensive income (loss)	(111)	25
Total stockholders' equity	73,448	70,070
Total liabilities and stockholders' equity	$ 865,127	$ 833,315

See the accompanying notes.

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COMMUNITY WEST BANCSHARES
CONSOLIDATED INCOME STATEMENTS (unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Interest income:	(in thousands, except per share amounts)			
Loans, including fees	$ 10,020	$ 8,788	$ 19,671	$ 17,230
Investment securities and other	381	278	718	539
Total interest income	10,401	9,066	20,389	17,769
Interest expense:				
Deposits	1,708	941	3,151	1,799
Other borrowings	382	89	577	160
Total interest expense	2,090	1,030	3,728	1,959
Net interest income	8,311	8,036	16,661	15,810
Provision (credit) for loan losses	117	120	(27)	264
Net interest income after provision for loan losses	8,194	7,916	16,688	15,546
Non-interest income:				
Other loan fees	323	342	619	645
Document processing fees	130	151	247	284
Service charges	122	112	238	208
Other	113	92	223	201
Total non-interest income	688	697	1,327	1,338
Non-interest expenses:				
Salaries and employee benefits	4,042	3,796	8,191	7,727
Occupancy, net	741	686	1,525	1,331
Professional services	301	299	605	478
Data processing	206	165	418	333
Depreciation	186	188	353	351
FDIC assessment	164	179	378	289
Advertising and marketing	163	195	333	351
Stock based compensation	87	87	203	171
Other	367	412	784	899
Total non-interest expenses	6,257	6,007	12,790	11,930
Income before provision for income taxes	2,625	2,606	5,225	4,954
Provision for income taxes	758	1,050	1,544	2,042
Net income	$ 1,867	$ 1,556	$ 3,681	$ 2,912
Earnings per share:				
Basic	$ 0.23	$ 0.19	$ 0.45	$ 0.36
Diluted	$ 0.21	$ 0.18	$ 0.42	$ 0.34
Weighted average number of common shares outstanding:				
Basic	8,227	8,136	8,218	8,118
Diluted	8,714	8,567	8,700	8,551
Dividends declared per common share	$ 0.050	$ 0.040	$ 0.090	$ 0.075

See the accompanying notes.

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COMMUNITY WEST BANCSHARES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(in thousands)			
Net income	$1,867	$1,556	$3,681	$2,912
Other comprehensive income, net:				
Unrealized income (loss) on securities available-for-sale (AFS), net (tax effect of $21, $(60), $48 and ($81) for each respective period presented)	(38)	116	(77)	116
Net other comprehensive income (loss)	(38)	116	(77)	116
Comprehensive income	$1,829	$1,672	$3,604	$3,028

See the accompanying notes.

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

	Common Stock Shares	Common Stock Amount	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Stockholders' Equity
	(in thousands)				
Balance, December 31, 2017:	8,193	$42,604	$ 25	$27,441	$ 70,070
Net income	—	—	—	3,681	3,681
Exercise of stock options	61	310	—	—	310
Stock based compensation	—	203	—	—	203
Dividends on common stock	—	—	—	(739)	(739)
Other comprehensive income, net	—	—	(77)	—	(77)
Impact of ASU 2016-01 and 2018-02 as of January 1, 2018	—	—	(59)	59	—
Balance, June 30, 2018	8,254	$43,117	$ (111)	$30,442	$ 73,448

See the accompanying notes.

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COMMUNITY WEST BANCSHARES

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

	Six Months Ended June 30,	
	2018	2017
	(in thousands)	
Cash flows from operating activities:		
Net income	$ 3,681	$ 2,912
Adjustments to reconcile net income to cash provided by operating activities:		
(Credit) provision for loan losses	(27)	264
Depreciation	353	351
Stock based compensation	203	171
Deferred income taxes	103	297
Net accretion of discounts and premiums for investment securities	54	17
Losses/(Gains) on:		
Sale of repossessed assets, net	62	(98)
Loans originated for sale and principal collections, net	2,208	483
Changes in:		
Investment securities held at fair value	(23)	—
Other assets	(484)	(301)
Other liabilities	562	616
Servicing assets, net	52	49
Net cash provided by operating activities	6,744	4,761
Cash flows from investing activities:		
Principal pay downs and maturities of available-for-sale securities	1,781	1,321
Purchase of available-for-sale securities	—	(9,413)
Principal pay downs and maturities of held-to-maturity securities	692	629
Loan originations and principal collections, net	(27,370)	(62,598)
Purchase of restricted stock, net	(367)	(277)
Purchase of premises and equipment, net	(748)	(1,303)
Proceeds from sale of other real estate owned and repossessed assets, net	271	243
Net cash used in investing activities	(25,741)	(71,398)
Cash flows from financing activities:		
Net increase in deposits	2,919	58,044
Net increase in borrowings	25,000	12,800
Exercise of stock options	310	291
Cash dividends paid on common stock	(739)	(610)
Net cash provided by financing activities	27,490	70,525
Net increase cash and cash equivalents	8,493	3,888
Cash and cash equivalents at beginning of year	45,869	34,116
Cash and cash equivalents at end of period	$ 54,362	$ 38,004
Supplemental disclosure:		
Cash paid during the period for:		
Interest	$ 3,617	$ 1,904
Income taxes	1,940	2,365
Non-cash investing and financing activity:		
Transfers to other assets acquired through foreclosure, net	73	370

See the accompanying notes.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Community West Bancshares (“CWBC”), incorporated under the laws of the state of California, is a bank holding company providing full service banking through its wholly-owned subsidiary Community West Bank, N.A. (“CWB” or the “Bank”). Unless indicated otherwise or unless the context suggests otherwise, these entities are referred to herein collectively and on a consolidated basis as the “Company.”

Basis of Presentation

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

Use of Estimates

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

Interim Financial Information

The accompanying unaudited consolidated financial statements as of and for the three and six months ended June 30, 2018 and 2017 have been prepared in a condensed format, and therefore do not include all of the information and footnotes required by GAAP for complete financial statements. These statements have been prepared on a basis that is substantially consistent with the accounting principles applied to our audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2017.

The information furnished in these interim statements reflects all adjustments which are, in the opinion of management, necessary for a fair statement of the results for each respective period presented. Such adjustments are of a normal recurring nature. The results of operations in the interim statements are not necessarily indicative of the results that may be expected for any other quarter or for the full year. The interim financial information should be read in conjunction with the Company’s audited consolidated financial statements.

Reclassifications

Certain amounts in the consolidated financial statements as of December 31, 2017 and for the three and six months ended June 30, 2017 have been reclassified to conform to the current presentation. The reclassifications have no effect on net income, comprehensive income or stockholders’ equity as previously reported.

Loans Held For Sale

Loans which are originated and intended for sale in the secondary market are carried at the lower of cost or estimated fair value determined on an aggregate basis. Valuation adjustments, if any, are recognized through a valuation allowance by charges to lower of cost or fair value provision. Loans held for sale are mostly comprised of SBA and commercial agriculture. The Company did not incur any lower of cost or fair value provision in the three and six months ended June 30, 2018 and 2017.

Loans Held for Investment and Interest and Fees from Loans

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

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

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

Nonaccrual loans: For all loan types, when a borrower discontinues making payments as contractually required by the note, the Company must determine whether it is appropriate to continue to accrue interest. Generally, the Company places loans in a nonaccrual status and ceases recognizing interest income when the loan has become delinquent by more than 90 days or when Management determines that the full repayment of principal and collection of interest is unlikely. The Company may decide to continue to accrue interest on certain loans more than 90 days delinquent if they are well secured by collateral and in the process of collection. Other personal loans are typically charged off no later than 120 days delinquent.

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

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

Troubled debt restructured loan ("TDR"): A TDR is a loan on which the Company, for reasons related to the borrower's financial difficulties, grants a concession to the borrower that the Company would not otherwise consider. These concessions 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 predominately term extensions. A TDR loan is also considered impaired. Generally, a loan that is modified at an effective market rate of interest may no longer be disclosed as a troubled debt restructuring in years subsequent to the restructuring if it is not impaired based on the terms specified by the restructuring agreement.

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

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

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

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

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

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

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

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

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

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

Commercial, CRE and SBA Loans

Charge-offs on these loan categories are taken as soon as all or a portion of any loan balance is deemed to be uncollectible. A loan is considered impaired when, based on current information, it is probable that the Company will be unable to collect the scheduled payments of principal and/or interest under the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and/or interest payments. Loans that experience insignificant payment delays or payment shortfalls generally are not classified as impaired. Generally, loan balances are

charged-down to the fair value of the collateral, if, based on a current assessment of the value, an apparent deficiency exists. In the event there is no perceived equity, the loan is charged-off in full. Unsecured loans which are delinquent over 90 days are also charged-off in full.

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

Consumer loans and residential mortgages secured by one-to-four family residential properties, HELOC and manufactured housing loans in which principal or interest is due and unpaid for 90 days, are evaluated for impairment. Loan balances are charged-off to the fair value of the property, less estimated selling costs, if, based on a current appraisal, an apparent deficiency exists. In the event there is no perceived equity, the loan is generally fully charged-off.

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Consumer Loans

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

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

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

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

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

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

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

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

- Concentrations of credit
- International risk
- Trends in volume, maturity, and composition of loans

- Volume and trend in delinquency, nonaccrual, and classified assets
- Economic conditions
- Geographic distance
- Policy and procedures or underwriting standards
- Staff experience and ability
- Value of underlying collateral
- Competition, legal, or regulatory environment
- Results of outside exams and quality of loan review and Board oversight

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Off Balance Sheet and Credit Exposure

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

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

Foreclosed Real Estate and Repossessed Assets

Foreclosed real estate and other repossessed assets are recorded at fair value at the time of foreclosure less estimated costs to sell. Any excess of loan balance over the fair value less estimated costs to sell of the other assets is charged-off against the allowance for loan losses. Any excess of the fair value less estimated costs to sell over the loan balance is recorded as a loan loss recovery to the extent of the loan loss previously charged-off against the allowance for loan losses; and, if greater, recorded as a gain on foreclosed assets. Subsequent to the legal ownership date, the Company 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.

Income Taxes

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

Management evaluates the Company's deferred tax asset for recoverability using a consistent approach which considers the relative impact of negative and positive evidence, including the Company's historical profitability and projections of future taxable income. The Company is required to establish a valuation allowance for deferred tax 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.

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

Earnings Per Share

Basic earnings per common share is computed using the weighted average number of common shares outstanding for the period divided into the net income. Diluted earnings per share include the effect of all dilutive potential common shares for the period. Potentially dilutive common shares include stock options and warrants.

Recent Accounting Pronouncements

In May 2014, the FASB issued guidance codified within ASU 2014-09, "Revenue Recognition - Revenue from Contracts with Customers," which amends the guidance in former Topic 605, Revenue Recognition. The new revenue recognition standard superseded virtually all revenue guidance in U.S. GAAP, including industry specific guidance. The guidance in this Update affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets, unless those contracts are within the scope of other standards. ASU 2014-09 is effective for the Company for annual reporting periods beginning after December 15, 2016. In August 2015, this effective date was extended for the Company to December 15, 2017. This Update allowed for using one of the following two adoption methods: 1) retrospectively to each prior reporting period presented or 2) retrospectively with the cumulative effect of initially applying this Update recognized at the date of initial application with the cumulative effect of initially applying the standard. Our revenue is comprised of net interest income on financial assets and liabilities, which is explicitly excluded from the scope of the new guidance, and noninterest income. The contracts that are in scope of the guidance are primarily related to service charges on deposit accounts, cardholder income, and other service charge fees. The Company adopted this standard effective January 1, 2018 using the modified retrospective approach. Since there was no net income impact upon adoption of the new guidance, a cumulative effect adjustment to opening retained earnings was not deemed necessary. See Note 10 Revenue Recognition for further information.

In January 2016, the FASB issued guidance codified within ASU 2016-01, "Financial Instruments – Overall, Subtopic 825-10: Recognition and Measurement of Financial Assets and Financial Liabilities," which amends certain guidance on classification and measurement of financial instruments. The update is intended to enhance the reporting model for financial instruments to provide users of financial instruments with more decision-useful information and addresses certain aspects of the recognition, measurement, presentation, and disclosure of financial instruments. ASU 2016-01 is effective for the Company for annual reporting periods beginning after December 15, 2017. The Company has evaluated the impact of the provisions in this standard on the Company's Consolidated Financial Statements. The adoption of ASU 2016-01 on January 1, 2018 did not have material impact on the Company's Consolidated Financial Statements. In accordance with the guidance, the Company measured the fair value of its loan portfolio as of March 31, 2018 using an exit price notion (see Note 6 Fair Value Measurement).

In February 2016, the FASB amended its standards with respect to the accounting for leases. The amended guidance serves to replace all current U.S. GAAP guidance on this topic and requires that an operating lease be recognized on the statement of financial condition as a "right-to-use" asset along with a corresponding liability representing the rent obligation. Key aspects of current lessor accounting remain unchanged from existing guidance. This standard is expected to result in an increase to assets and liabilities recognized and, therefore, increase risk-weighted assets for regulatory capital purposes. The guidance requires the use of the modified retrospective transition approach for existing leases that have not expired before the date of initial application and will become effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The standard is effective for the Company as of January 1, 2019. The Company continues to evaluate the provisions of ASU 2016-02 to determine how our financial statements will be affected, and we believe the primary effect of adopting the new standard will be to record right-of-use assets and obligations for our leases currently classified as operating leases and does not anticipate these to be significant.

In June of 2016, the FASB issued update guidance codified within ASU-2016-13, "Financial Instruments – Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments," which amends the guidance for recognizing credit losses from an "incurred loss" methodology that delays recognition of credit losses until it is probable a loss has been incurred to an expected credit loss methodology. The guidance requires the use of the modified retrospective transition method by means of a cumulative-effect adjustment to equity as of the beginning of the period in which the guidance is adopted. The standard is effective for the Company as of January 1, 2020. The Company is currently evaluating the impact of the amended guidance and has not yet determined the effect of the standard on its

ongoing financial reporting.

In March 2017, the FASB issued updated guidance codified within ASU-2017-08, “Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20),” which is intended to enhance the accounting for the amortization of premiums for purchased callable debt securities. The standard is effective for the Company as of January 1, 2019. The Company does not believe the standard will have a material impact on the Company’s financials.

In February 2018, the FASB issued guidance codified within ASU-2018-02, "Income Statement – Reporting Comprehensive Income (Topic 220), Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income," to address the income tax accounting treatment of the standard tax effects within other comprehensive income due to the prohibition of backward tracing due to an income tax rate change that was initially recorded in other comprehensive income. This issue came about from the enactment of the Tax Cuts and Jobs Act on December 22, 2017 that changed the Company's income tax rate from 34% to 21%. The ASU changed current accounting whereby an entity may elect to reclassify the standard tax effect from accumulated other comprehensive income to retained earnings. The ASU is effective for periods beginning after December 15, 2018 although early adoption is permitted. The Company elected to early adopt ASU-2018-02 in the first quarter of 2018 and elected to reclassify the income tax effects of the Tax Act from accumulated other comprehensive income ("AOCI") to retained earnings. The reclassification did not have a material impact to the Consolidated Financial Statements.

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2. INVESTMENT SECURITIES

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

	June 30, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Securities available-for-sale	(in thousands)			
U.S. government agency notes	$13,051	$ —	$ (164)	$12,887
U.S. government agency collateralized mortgage obligations ("CMO")	13,807	63	(72)	13,798
Total	$26,858	$ 63	$ (236)	$26,685
Securities held-to-maturity				
U.S. government agency mortgage backed securities ("MBS")	$6,856	$ 147	$ (166)	$6,837
Total	$6,856	$ 147	$ (166)	$6,837
Securities measured at fair value				
Equity securities: Farmer Mac class A stock	$66	$113	$—	$179
Total	$66	$113	$—	$179

	December 31, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Securities available-for-sale	(in thousands)			
U.S. government agency notes	$14,035	$ 35	$ (92)	$13,978
U.S. government agency collateralized mortgage obligations ("CMO")	14,641	66	(58)	14,649
Equity securities: Farmer Mac class A stock	66	90	—	156
Total	$28,742	$ 191	$ (150)	$28,783
Securities held-to-maturity				
U.S. government agency mortgage backed securities ("MBS")	$7,565	$ 216	$ (110)	$7,671
Total	$7,565	$ 216	$ (110)	$7,671

At June 30, 2018 and December 31, 2017, $33.5 million and $36.2 million of securities at carrying value, respectively, were pledged to the Federal Home Loan Bank (“FHLB”), as collateral for current and future advances.

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The maturity periods and weighted average yields of investment securities at the period ends indicated were as follows:

	June 30, 2018									
	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	$1,928	2.6 %	$1,436	2.1 %	$9,523	2.6 %	$—	—	$12,887	2.5 %
U.S. government agency CMO	—	—	3,033	2.3 %	7,838	2.5 %	2,927	2.9 %	13,798	2.5 %
Total	$1,928	2.6 %	$4,469	2.2 %	$17,361	2.6 %	$2,927	2.9 %	$26,685	2.5 %
Securities held-to-maturity										
U.S. government agency MBS	$—	—	$1,891	3.9 %	$4,965	3.2 %	$—	—	$6,856	3.4 %
Total	$—	—	$1,891	3.9 %	$4,965	3.2 %	$—	—	$6,856	3.4 %
Securities measured at fair value										
Farmer Mac class A stock	$—	—	$—	—	$—	—	$—	—	$179	—
Total	$—	—	$—	—	$—	—	$—	—	$179	—

	December 31, 2017									
	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	$1,967	2.6 %	$1,833	1.6 %	$10,178	2.0 %	$—	—	$13,978	2.0 %
U.S. government agency CMO	—	—	3,362	1.9 %	8,361	1.9 %	2,926	2.3 %	14,649	1.9 %
Farmer Mac class A stock	—	—	—	—	—	—	—	—	156	—
Total	$1,967	2.6 %	$5,195	1.8 %	$18,539	1.9 %	$2,926	2.3 %	$28,783	2.0 %
Securities held-to-maturity										
U.S. government agency MBS	$—	—	$2,802	3.6 %	$4,763	3.1 %	$—	—	$7,565	3.3 %
Total	$—	—	$2,802	3.6 %	$4,763	3.1 %	$—	—	$7,565	3.3 %

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The amortized cost and fair value of investment securities by contractual maturities as of the periods presented were as shown below:

	June 30, 2018		December 31, 2017	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Securities available-for-sale	(in thousands)			
Due in one year or less	$1,997	$ 1,928	$1,997	$ 1,967
After one year through five years	4,505	4,469	5,220	5,195
After five years through ten years	17,419	17,361	18,506	18,539
After ten years	2,937	2,927	2,953	2,926
Farmer Mac class A stock	—	—	66	156
Total	$26,858	$ 26,685	$28,742	$ 28,783
Securities held-to-maturity				
Due in one year or less	$—	$ —	$—	$ —
After one year through five years	1,891	1,986	2,802	2,938
After five years through ten years	4,965	4,851	4,763	4,733
After ten years	—	—	—	—
Total	$6,856	$ 6,837	$7,565	$ 7,671
Securities measured at fair value				
Farmer Mac class A stock	$66	$ 179	$—	$ —
Total	$66	$ 179	$—	$ —

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

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

	June 30, 2018					
	Less Than Twelve Months		More Than Twelve Months		Total	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
Securities available-for-sale	(in thousands)					
U.S. government agency notes	$70	$1,927	$ 9	$ 1,436	$79	$3,363
U.S. government agency CMO	90	9,167	67	3,920	157	13,087
Total	$160	$11,094	$ 76	$ 5,356	$236	$16,450
Securities held-to-maturity						
U.S. Government-agency MBS	$11	$653	$ 154	$ 2,110	$165	$2,763
Total	$11	$653	$ 154	$ 2,110	$165	$2,763
Securities measured at fair value						
Farmer Mac class A stock	$—	$—	$ —	$ —	$—	$—
Total	$—	$—	$ —	$ —	$—	$—

	December 31, 2017					
	Less Than Twelve Months		More Than Twelve Months		Total	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
Securities available-for-sale	(in thousands)					
U.S. government agency notes	$70	$6,324	$ 22	$ 3,106	$92	$9,430
U.S. government agency CMO	8	985	50	3,430	58	4,415
Equity securities: Farmer Mac class A stock	—	—	—	—	—	—
Total	$78	$7,309	$ 72	$ 6,536	$150	$13,845
Securities held-to-maturity						
U.S. Government-agency MBS	$—	$—	$ 110	$ 2,496	$110	$2,496
Total	$—	$—	$ 110	$ 2,496	$110	$2,496

As of June 30, 2018 and December 31, 2017, there were 8 and 14 securities, respectively, in an unrealized loss position. Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other-than-temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers, among other things (i) the length of time and the extent to which the fair value has been less than cost (ii) the financial condition and near-term prospects of the issuer and (iii) the Company's intent to sell an impaired security and if it is not more likely than not it will be required to sell the security before the recovery of its amortized basis.

The unrealized losses are primarily due to increases in market interest rates over the yields available at the time the underlying securities were purchased. The fair value is expected to recover as the bonds approach their maturity date, repricing date or if market yields for such investments decline. Management does not believe any of the securities are impaired due to reasons of credit quality. Accordingly, as of June 30, 2018 and December 31, 2017, management

believes the impairments detailed in the table above are temporary and no other-than-temporary impairment loss has been realized in the Company's consolidated income statements.

3. LOANS HELD FOR SALE

SBA and Agriculture Loans

As of June 30, 2018 and December 31, 2017, the Company had approximately $16.4 million and $18.9 million, respectively, of SBA loans included in loans held for sale. As of June 30, 2018 and December 31, 2017, the principal balance of SBA loans serviced for others was $8.4 million and $10.8 million, respectively.

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The Company’s agricultural lending program includes loans for agricultural land, agricultural operational lines, and agricultural term loans for crops, equipment and livestock. The primary products are supported by guarantees issued from the USDA, FSA, and the USDA Business and Industry loan program.

As of June 30, 2018 and December 31, 2017, the Company had $36.5 million and $36.2 million of USDA loans included in loans held for sale, respectively. As of June 30, 2018 and December 31, 2017, the principal balance of USDA loans serviced for others was $2.0 million.

4. LOANS HELD FOR INVESTMENT

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

	June 30, 2018	December 31, 2017
	(in thousands)	
Manufactured housing	$234,598	$ 223,115
Commercial real estate	364,679	354,617
Commercial	81,773	75,282
SBA	6,408	7,424
HELOC	9,502	9,422
Single family real estate	10,682	10,346
Consumer	75	83
	707,717	680,289
Allowance for loan losses	(8,622)	(8,420)
Deferred fees, net	(632)	(652)
Discount on SBA loans	(81)	(122)
Total loans held for investment, net	$698,382	$ 671,095

The following table presents the contractual aging of the recorded investment in past due held for investment loans by class of loans:

	June 30, 2018							
	Current	30-59 Days Past Due	60-89 Days Past Due	Over 90 Days Past Due	Total Past Due	Nonaccrual	Total	Recorded Investment Over 90 Days and Accruing
	(in thousands)							
Manufactured housing	$234,339	$ —	$ —	$ —	$ —	$ 259	$234,598	$ —
Commercial real estate:								
Commercial real estate	274,339	—	—	—	—	112	274,451	—
SBA 504 1st trust deed	26,356	—	—	—	—	166	26,522	—
Land	4,873	—	—	—	—	—	4,873	—
Construction	58,833	—	—	—	—	—	58,833	—
Commercial	77,888	—	—	—	—	3,885	81,773	—
SBA	5,500	19	—	—	19	889	6,408	—

HELOC	9,295	—	—	—	—	207	9,502	—
Single family real estate	10,472	17	25	—	42	168	10,682	—
Consumer	75	—	—	—	—	—	75	—
Total	$701,970	$ 36	$ 25	$ —	$ 61	$ 5,686	$707,717	$ —

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	December 31, 2017							
	Current	30-59 Days Past Due	60-89 Days Past Due	Over 90 Days Past Due	Total Past Due	Nonaccrual	Total	Recorded Investment Over 90 Days and Accruing
	(in thousands)							
Manufactured housing	$222,342	$ 355	$ —	$ —	$ 355	$ 418	$223,115	$ —
Commercial real estate:								
Commercial real estate	271,134	—	—	—	—	122	271,256	—
SBA 504 1st trust deed	26,463	—	—	—	—	184	26,647	—
Land	5,092	—	—	—	—	—	5,092	—
Construction	51,622	—	—	—	—	—	51,622	—
Commercial	70,481	15	—	—	15	4,786	75,282	—
SBA	6,461	19	—	—	19	944	7,424	—
HELOC	9,208	—	—	—	—	214	9,422	—
Single family real estate	10,170	—	—	—	—	176	10,346	—
Consumer	83	—	—	—	—	—	83	—
Total	$673,056	$ 389	$ —	$ —	$ 389	$ 6,844	$680,289	$ —

Allowance for Loan Losses

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(in thousands)			
Beginning balance	$8,458	$7,785	$ 8,420	$ 7,464
Charge-offs	—	(52)	(6)	(170)
Recoveries	47	141	235	436
Net recoveries	47	89	229	266
Provision (credit)	117	120	(27)	264
Ending balance	$8,622	$7,994	$ 8,622	$ 7,994

As of June 30, 2018 and December 31, 2017, the Company had reserves for credit losses on undisbursed loans of $97,000 and $95,000, respectively, which were included in other liabilities.

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

For the Three Months Ended June 30,							
Manufactured Housing	Commercial Real Estate	Commercial	SBA	HELOC	Single Family Real Estate	Consumer	Total

2018	(in thousands)							
Beginning balance	$2,102	$ 4,976	$ 1,127	$61	$ 93	$ 99	$ —	$8,458
Charge-offs	—	—	—	—	—	—	—	—
Recoveries	9	—	19	6	12	1	—	47
Net (charge-offs) recoveries	9	—	19	6	12	1	—	47
Provision (credit)	34	31	75	(10)	(12)	(1)	—	117
Ending balance	$2,145	$ 5,007	$ 1,221	$57	$ 93	$ 99	$ —	$8,622
2017								
Beginning balance	$2,160	$ 4,138	$ 1,184	$101	$ 101	$ 101	$ —	$7,785
Charge-offs	(15)	—	—	(16)	—	(21)	—	(52)
Recoveries	65	—	68	5	2	1	—	141
Net (charge-offs) recoveries	50	—	68	(11)	2	(20)	—	89
Provision (credit)	(86)	194	10	1	(5)	6	—	120
Ending balance	$2,124	$ 4,332	$ 1,262	$91	$ 98	$ 87	$ —	$7,994

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	For the Six Months Ended June 30,							
	Manufactured Housing	Commercial Real Estate	Commercial	SBA	HELOC	Single Family Real Estate	Consumer	Total
2018	(in thousands)							
Beginning balance	$2,180	$ 4,844	$ 1,133	$73	$ 92	$ 98	$ —	$8,420
Charge-offs	(6)	—	—	—	—	—	—	(6)
Recoveries	108	15	24	68	19	1	—	235
Net (charge-offs) recoveries	102	15	24	68	19	1	—	229
Provision (credit)	(137)	148	64	(84)	(18)	—	—	(27)
Ending balance	$2,145	$ 5,007	$ 1,221	$57	$ 93	$ 99	$ —	$8,622
2017								
Beginning balance	$2,201	$ 3,707	$ 1,241	$106	$ 100	$ 109	$ —	$7,464
Charge-offs	(119)	—	—	(30)	—	(21)	—	(170)
Recoveries	68	227	72	64	4	1	—	436
Net (charge-offs) recoveries	(51)	227	72	34	4	(20)	—	266
Provision (credit)	(26)	398	(51)	(49)	(6)	(2)	—	264
Ending balance	$2,124	$ 4,332	$ 1,262	$91	$ 98	$ 87	$ —	$7,994

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

Loans Held for Investment as of June 30, 2018:	Manufactured Housing	Commercial Real Estate	Commercial	SBA	HELOC	Single Family Real Estate	Consumer	Total Loans
	(in thousands)							
Recorded Investment:								
Impaired loans with an allowance recorded	$6,442	$525	$591	$477	$—	$2,109	$—	$10,144
Impaired loans with no allowance recorded	1,962	—	6,787	431	207	168	—	9,555
Total loans individually evaluated for impairment	8,404	525	7,378	908	207	2,277	—	19,699
Loans collectively evaluated for impairment	226,194	364,154	74,395	5,500	9,295	8,405	75	688,018
Total loans held for investment	$234,598	$364,679	$81,773	$6,408	$9,502	$10,682	$75	$707,717
Unpaid Principal Balance								
Impaired loans with an allowance recorded	$6,442	$641	$591	$594	$—	$2,109	$—	$10,377
Impaired loans with no allowance recorded	3,080	—	6,868	673	249	216	—	11,086
Total loans individually evaluated for impairment	9,522	641	7,459	1,267	249	2,325	—	21,463
Loans collectively evaluated for impairment	226,194	364,154	74,395	5,500	9,295	8,405	75	688,018
Total loans held for investment	$235,716	$364,795	$81,854	$6,767	$9,544	$10,730	$75	$709,481
Related Allowance for Credit Losses								
Impaired loans with an allowance recorded	$449	$12	$11	$2	$—	$33	$—	$507
Impaired loans with no allowance recorded	—	—	—	—	—	—	—	—
Total loans individually evaluated for impairment	449	12	11	2	—	33	—	507
Loans collectively evaluated for impairment	1,696	4,995	1,210	55	93	66	—	8,115
Total loans held for investment	$2,145	$5,007	$1,221	$57	$93	$99	$—	$8,622

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Loans Held for Investment as of December 31, 2017:	Manufactured Housing	Commercial Real Estate	Commercial	SBA	HELOC	Single Family Real Estate	Consumer	Total Loans
	(in thousands)							
Recorded Investment:								
Impaired loans with an allowance recorded	$5,830	$557	$3,551	$281	$—	$2,133	$—	$12,352
Impaired loans with no allowance recorded	2,163	—	5,023	699	214	176	—	8,275
Total loans individually evaluated for impairment	7,993	557	8,574	980	214	2,309	—	20,627
Loans collectively evaluated for impairment	215,122	354,060	66,708	6,444	9,208	8,037	83	659,662
Total loans held for investment	$223,115	$354,617	$75,282	$7,424	$9,422	$10,346	$83	$680,289
Unpaid Principal Balance								
Impaired loans with an allowance recorded	$5,836	$661	$3,551	$281	$—	$2,133	$—	$12,462
Impaired loans with no allowance recorded	3,328	—	5,042	1,026	249	220	—	9,865
Total loans individually evaluated for impairment	9,164	661	8,593	1,307	249	2,353	—	22,327
Loans collectively evaluated for impairment	215,122	354,060	66,708	6,444	9,208	8,037	83	659,662
Total loans held for investment	$224,286	$354,721	$75,301	$7,751	$9,457	$10,390	$83	$681,989
Related Allowance for Credit Losses								
Impaired loans with an allowance recorded	$427	$11	$50	$1	$—	$35	$—	$524
Impaired loans with no allowance recorded	—	—	—	—	—	—	—	—
Total loans individually evaluated for impairment	427	11	50	1	—	35	—	524
Loans collectively evaluated for impairment	1,753	4,833	1,083	72	92	63	—	7,896
Total loans held for investment	$2,180	$4,844	$1,133	$73	$92	$98	$—	$8,420

Included in impaired loans are $2.3 million and $2.6 million of loans guaranteed by government agencies at June 30, 2018 and December 31, 2017, respectively. A valuation allowance is established for an impaired loan when the fair value of the loan is less than the recorded investment. In certain cases, portions of impaired loans are charged-off to realizable value instead of establishing a valuation allowance and are included, when applicable in the table below as "Impaired loans without specific valuation allowance under ASC 310." The valuation allowance disclosed above is included in the allowance for loan losses reported in the consolidated balance sheets as of June 30, 2018 and December 31, 2017.

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

	June 30, 2018	December 31, 2017
	(in thousands)	
Impaired loans with a specific valuation allowance under ASC 310	$ 10,144	$ 12,352
Impaired loans without a specific valuation allowance under ASC 310	9,555	8,275
Total impaired loans	$ 19,699	$ 20,627
Valuation allowance related to impaired loans	$ 507	$ 524

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The following table summarizes impaired loans by class of loans:

	June 30, 2018	December 31, 2017
	(in thousands)	
Manufactured housing	$8,404	$ 7,993
Commercial real estate :		
Commercial real estate	112	122
SBA 504 1st trust deed	413	435
Land	—	—
Construction	—	—
Commercial	7,378	8,574
SBA	908	980
HELOC	207	214
Single family real estate	2,277	2,309
Consumer	—	—
Total	$19,699	$ 20,627

The following tables summarize average investment in impaired loans by class of loans and the related interest income recognized:

	Three Months Ended June 30,			
	2018		2017	
	Average Investment in Impaired Loans	Interest Income	Average Investment in Impaired Loans	Interest Income
	(in thousands)			
Manufactured housing	$8,278	$ 173	$7,738	$ 162
Commercial real estate:				
Commercial real estate	113	—	124	—
SBA 504 1st trust deed	413	5	642	5
Land	—	—	—	—
Construction	—	—	—	—
Commercial	7,537	49	4,155	50
SBA	914	—	868	1
HELOC	205	—	331	—
Single family real estate	2,251	27	1,983	25
Consumer	—	—	—	—
Total	$19,711	$ 254	$15,841	$ 243

	Six Months Ended June 30,			
	2018		2017	
	Average Investment in Impaired Loans	Interest Income	Average Investment in Impaired Loans	Interest Income
	(in thousands)			
Manufactured housing	$8,190	$ 335	$7,683	$ 314

Commercial real estate:				
Commercial real estate	116	—	126	—
SBA 504 1st trust deed	420	10	566	10
Land	—	—	—	—
Construction	—	—	—	—
Commercial	7,885	98	4,392	101
SBA	937	1	808	2
HELOC	208	—	300	—
Single family real estate	2,272	54	1,985	50
Consumer	—	—	—	—
Total	$20,028	$ 498	$15,860	$ 477

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

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

	June 30, 2018	December 31, 2017
	(in thousands)	
Nonaccrual loans	$5,686	$ 6,844
Government guaranteed portion of loans included above	$1,982	$ 2,372
Troubled debt restructured loans, gross	$18,080	$ 16,603
Loans 30 through 89 days past due with interest accruing	$61	$ 389
Loans 90 days or more past due with interest accruing	$—	$ —
Allowance for loan losses to gross loans held for investment	1.22 %	1.24 %

The accrual of interest is discontinued when substantial doubt exists as to collectability of the loan; generally at the time the loan is 90 days delinquent. Any unpaid but accrued interest is reversed at that time. Thereafter, interest income is no longer recognized on the loan. Interest income may be recognized on impaired loans to the extent they are not past due by 90 days. Interest on nonaccrual loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all of the principal and interest amounts contractually due are brought current and future payments are reasonably assured. Foregone interest on nonaccrual and TDR loans for the three months ended June 30, 2018 and 2017 was $0.1 million. Foregone interest on nonaccrual and TDR loans for the six months ended June 30, 2018 and 2017 was $0.2 million and $0.1 million, respectively.

The following table presents the composition of nonaccrual loans by class of loans:

	June 30, 2018	December 31, 2017
	(in thousands)	
Manufactured housing	$259	$ 418
Commercial real estate:		
Commercial real estate	112	122
SBA 504 1st trust deed	166	184
Land	—	—
Construction	—	—
Commercial	3,885	4,786
SBA	889	944
HELOC	207	214
Single family real estate	168	176
Consumer	—	—
Total	$5,686	$ 6,844

Included in nonaccrual loans are $2.0 million of loans guaranteed by government agencies at June 30, 2018 and $2.4 million at December 31, 2017.

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

established related to these loans.

The Company utilizes an internal asset classification system as a means of reporting problem and potential problem loans. Under the Company's risk rating system, the Company classifies problem and potential problem loans as "Special Mention," "Substandard," "Doubtful" and "Loss". For a detailed discussion on these risk classifications see "Note 1 Summary of Significant Accounting Policies - Allowance for Loan Losses and Provision for Loan Losses".   Loans that do not currently expose the Company to sufficient risk to warrant classification in one of the aforementioned categories but possess weaknesses that deserve management's close attention are deemed to be Special Mention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or in the institution's credit position at some future date. Special Mention assets are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification. Risk ratings are updated as part of our normal loan monitoring process, at a minimum, annually.

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The following tables present gross loans by risk rating:

	June 30, 2018				
	Pass	Special Mention	Substandard	Doubtful	Total
	(in thousands)				
Manufactured housing	$234,077	$ —	$ 521	$ —	$234,598
Commercial real estate:					
Commercial real estate	274,340	—	112	—	274,452
SBA 504 1st trust deed	25,873	—	648	—	26,521
Land	4,873	—	—	—	4,873
Construction	58,833	—	—	—	58,833
Commercial	74,017	660	5,605	—	80,282
SBA	4,644	100	384	—	5,128
HELOC	9,295	—	207	—	9,502
Single family real estate	10,509	—	173	—	10,682
Consumer	75	—	—	—	75
Total, net	696,536	760	7,650	—	704,946
Government guarantee	—	—	2,771	—	2,771
Total	$696,536	$ 760	$ 10,421	$ —	$707,717

	December 31, 2017				
	Pass	Special Mention	Substandard	Doubtful	Total
	(in thousands)				
Manufactured housing	$222,429	$ —	$ 686	$ —	$223,115
Commercial real estate:					
Commercial real estate	271,134	—	122	—	271,256
SBA 504 1st trust deed	25,973	—	674	—	26,647
Land	5,092	—	—	—	5,092
Construction	49,832	1,790	—	—	51,622
Commercial	64,543	817	8,083	—	73,443
SBA	4,221	102	1,752		6,075
HELOC	9,208	—	214	—	9,422
Single family real estate	10,165	—	181	—	10,346
Consumer	83	—	—	—	83
Total, net	662,680	2,709	11,712	$ —	677,101
Government guarantee	—	—	3,188	—	3,188
Total	$662,680	$ 2,709	$ 14,900	$ —	$680,289

Troubled Debt Restructured Loan (TDR)

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

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The following tables summarize the financial effects of TDR loans by loan class for the periods presented:

	For the Three Months Ended June 30, 2018					
	Number of Loans	Pre-Modification Recorded Investment	Post Modification Recorded Investment	Balance of Loans with Rate Reduction	Balance of Loans with Term Extension	Effect on Allowance for Loan Losses
	(dollars in thousands)					
Manufactured housing	5	$ 447	$ 447	$ 447	$ 447	$ 26
Total	5	$ 447	$ 447	$ 447	$ 447	$ 26

	For the Six Months Ended June 30, 2018					
	Number of Loans	Pre-Modification Recorded Investment	Post Modification Recorded Investment	Balance of Loans with Rate Reduction	Balance of Loans with Term Extension	Effect on Allowance for Loan Losses
	(dollars in thousands)					
Manufactured housing	10	$ 1,047	$ 1,047	$ 1,047	$ 1,047	$ 63
Commercial	3	1,781	1,781	—	1,781	—
Total	13	$ 2,828	$ 2,828	$ 1,047	$ 2,828	$ 63

	For the Three Months Ended June 30, 2017					
	Number of Loans	Pre-Modification Recorded Investment	Post Modification Recorded Investment	Balance of Loans with Rate Reduction	Balance of Loans with Term Extension	Effect on Allowance for Loan Losses
	(dollars in thousands)					
Manufactured housing	4	$ 189	$ 189	$ 189	$ 189	$ 6
Total	4	$ 189	$ 189	$ 189	$ 189	$ 6

	For the Six Months Ended June 30, 2017					
	Number of Loans	Pre-Modification Recorded Investment	Post Modification Recorded Investment	Balance of Loans with Rate Reduction	Balance of Loans with Term Extension	Effect on Allowance for Loan Losses
	(dollars in thousands)					
Manufactured housing	7	$ 444	$ 444	$ 444	$ 444	$ 21
SBA	1	$ 88	$ 88	$ —	$ 88	$ 2
HELOC	1	$ 17	$ 17	$ —	$ 17	$ 1
Total	9	$ 549	$ 549	$ 444	$ 549	$ 24

The average rate concessions were 100 basis points and 76 basis points, for the three and six months ended June 30, 2018 and 94 basis points and 96 basis points for the three and six months ended June 30, 2017, respectively. The average term extension in months was 181 and 147 for the three and six months ended June 30, 2018 and 180 and 142 for the three and six months ended June 30, 2017, respectively.

A TDR loan is deemed to have a payment default when the borrower fails to make 2 consecutive payments or the collateral is transferred to repossessed assets. The Company had no TDR’s with payment defaults for the three or six months ended June 30, 2018 or 2017.

At June 30, 2018 there were no material loan commitments outstanding on TDR loans.

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5. OTHER ASSETS ACQUIRED THROUGH FORECLOSURE

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(in thousands)			
Balance, beginning of period	$ 233	$ 145	$ 372	$ 137
Additions	73	252	174	370
Proceeds from dispositions	(57)	(135)	(271)	(243)
(Loss) gain on sales, net	(36)	100	(62)	98
Balance, end of period	$ 213	$ 362	$ 213	$ 362

6. FAIR VALUE MEASUREMENT

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

- Level 1— Observable quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
- Level 2— Observable quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, matrix pricing or model-based valuation techniques where all significant assumptions are observable, either directly or indirectly in the market.
- Level 3— Model-based techniques where all significant assumptions are not observable, either directly or indirectly, in the market. These unobservable assumptions reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques may include use of discounted cash flow models and similar techniques.

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

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

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

Management uses its best judgment in estimating the fair value of the Company’s financial instruments; however, there are inherent limitations in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates presented herein are not necessarily indicative of the amounts the Company could have realized in a sales transaction at June 30, 2018 and December 31, 2017. The estimated fair value amounts for June 30, 2018 and December 31, 2017 have been measured as of period-end, and have not been reevaluated or updated for purposes of these consolidated financial statements subsequent to those dates. As such, the estimated fair values of these financial instruments subsequent to the reporting date may be different than the amounts reported at the period-end.

This information should not be interpreted as an estimate of the fair value of the entire Company since a fair value calculation is only required for a limited portion of the Company’s assets and liabilities.

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

The following tables summarize the fair value of assets measured on a recurring basis:

	Fair Value Measurements at the End of the Reporting Period Using:			
June 30, 2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value
Assets:	(in thousands)			
Investment securities available-for-sale	$ 179	$ 26,685	$ —	$26,864
Interest only strips	—	—	75	75
Servicing assets	—	—	60	60
	$ 179	$ 26,685	$ 135	$26,999

	Fair Value Measurements at the End of the Reporting Period Using:			
December 31, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value
Assets:	(in thousands)			
Investment securities available-for-sale	$ 156	$ 28,627	$ —	$28,783
Interest only strips	—	—	87	87
Servicing assets	—	—	97	97
	$ 156	$ 28,627	$ 184	$28,967

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

On certain SBA loan sales, the Company retained interest only strip assets ('I/O strips") which represent the present value of excess net cash flows generated by the difference between (a) interest at the stated rate paid by borrowers and (b) the sum of (i) pass-through interest paid to third-party investors and (ii) contractual servicing fees. I/O strips are classified as Level 3 in the fair value hierarchy. The fair value is determined on a quarterly basis through a discounted cash flow analysis prepared by an independent third party using industry prepayment speeds. I/O strip valuation adjustments are recorded as additions or offsets to loan servicing income.

Historically, the Company has elected to use the amortizing method for the treatment of servicing assets and has measured for impairment on a quarterly basis through a discounted cash flow analysis prepared by an independent third party using industry prepayment speeds. In connection with the sale of certain SBA and USDA loans the Company recorded servicing assets and elected to measure those assets at fair value in accordance with ASC 825-10. Significant assumptions in the valuation of servicing assets include estimated loan repayment rates, the discount rate, and servicing costs, among others. Servicing assets are classified as Level 3 measurements due to the use of significant unobservable inputs, as well as significant management judgment and estimation.

The Company also has assets that under certain conditions are subject to measurement at fair value on a non-recurring basis. These assets include loans held for sale, foreclosed real estate and repossessed assets and certain loans that are considered impaired per generally accepted accounting principles.

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The following summarizes the fair value measurements of assets measured on a non-recurring basis:

	Total	Fair Value Measurements at the End of the Reporting Period Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Active Markets for Similar Assets (Level 2)	Unobservable Inputs (Level 3)
	(in thousands)			
June 30, 2018:				
Impaired loans	$4,915	$—	$4,915	$ —
Loans held for sale	52,886	—	52,886	—
Foreclosed real estate and repossessed assets	213	—	213	—
	$58,014	$—	$58,014	$ —

	Total	Fair Value Measurements at the End of the Reporting Period Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Active Markets for Similar Assets (Level 2)	Unobservable Inputs (Level 3)
	(in thousands)			
December 31, 2017:				
Impaired loans	$6,323	$—	$6,323	$ —
Loans held for sale	56,222	—	56,222	—
Foreclosed real estate and repossessed assets	372	—	372	—
	$62,917	—	62,917	—

The Company records certain loans at fair value on a non-recurring basis. When a loan is considered impaired an allowance for a loan loss is established. The fair value measurement and disclosure requirement applies to loans measured for impairment using the practical expedients method permitted by accounting guidance for impaired loans. Impaired loans are measured at an observable market price, if available or at the fair value of the loan's collateral, if the loan is collateral dependent. The fair value of the loan's collateral is determined by appraisals or independent valuation. When the fair value of the loan's collateral is based on an observable market price or current appraised value, given the current real estate markets, the appraisals may contain a wide range of values and accordingly, the Company classifies the fair value of the impaired loans as a non-recurring valuation within Level 2 of the valuation

hierarchy. For loans in which impairment is determined based on the net present value of cash flows, the Company classifies these as a non-recurring valuation within Level 3 of the valuation hierarchy.

Foreclosed real estate and repossessed assets are carried at the lower of book value or fair value less estimated costs to sell. Fair value is based upon independent market prices obtained from certified appraisers or the current listing price, if lower. When the fair value of the collateral is based on a current appraised value, the Company reports the fair value of the foreclosed collateral as non-recurring Level 2. When a current appraised value is not available or if management determines the fair value of the collateral is further impaired, the Company reports the foreclosed collateral as non-recurring Level 3.

FAIR VALUES OF FINANCIAL INSTRUMENTS

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

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The estimated fair value of the Company's financial instruments are as follows:

	June 30, 2018				
	Carrying	Fair Value			
	Amount	Level 1	Level 2	Level 3	Total
Financial assets:	(in thousands)				
Cash and cash equivalents	$54,362	$54,362	$—	$—	$54,362
FRB and FHLB stock	4,087	—	4,087	—	4,087
Investment securities	33,720	179	33,522	—	33,701
Loans, net	751,268	—	732,568	14,562	747,130
Financial liabilities:					
Deposits	702,603	—	701,534	—	701,534
Other borrowings	81,843	—	81,714	—	81,714

	December 31, 2017				
	Carrying	Fair Value			
	Amount	Level 1	Level 2	Level 3	Total
Financial assets:	(in thousands)				
Cash and cash equivalents	$45,869	$45,869	$—	$—	$45,869
FRB and FHLB stock	3,720	—	3,720	—	3,720
Investment securities	36,348	156	36,298	—	36,454
Loans, net	726,189	—	705,723	13,779	719,502
Financial liabilities:					
Deposits	699,684	—	699,211	—	699,211
Other borrowings	56,843	—	56,842	—	56,842

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

Cash and cash equivalents

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

Money market investments

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

Investment securities

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

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

Federal Reserve Stock and Federal Home Loan Bank Stock

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

Loans Held for Sale

Loans held for sale are carried at the lower of cost or fair value. The fair value of loans held for sale is based on what secondary markets are currently offering for portfolios with similar characteristics or based on the agreed-upon sale price. As such, the Company classifies the fair value of loans held for sale as a non-recurring valuation within Level 2 of the fair value hierarchy. At June 30, 2018 and December 31, 2017, the Company had loans held for sale with an aggregate carrying value of $52.9 million and $55.1 million respectively.

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Loans

Fair value of loans is estimated by calculating loan level fair values for all loans utilizing a discounted cash flow methodology incorporating "exit pricing" analytics in conformance with ASU 2016-01. All active loans were valued in the portfolio as of date of exercise, excluding any loans held for sale, and utilized assumptions such as probability of default, loss given default, recovery delay and prepayment assumptions. Fair value was calculated in accordance with ASC 820. The fair value for loans is categorized as Level 2 in the fair value hierarchy. Fair values of impaired loans using a discounted cash flow method to measure impairment have been categorized as Level 3.

Deposits

The amount payable at demand at report date is used to estimate the fair value of demand and savings deposits. The estimated fair values of fixed-rate time deposits are determined by discounting the cash flows of segments of deposits that have similar maturities and rates, utilizing a discount rate that approximates the prevailing rates offered to depositors as of the measurement date. The fair value measurement of deposit liabilities is categorized as Level 2 in the fair value hierarchy.

Federal Home Loan Bank advances and other borrowings

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

Off-balance sheet instruments

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

There were no standby letters of credit outstanding at June 30, 2018 or at December 31, 2017. Unfunded loan commitments at June 30, 2018 and December 31, 2017 were $70.5 million and $68.8 million, respectively.

7. OTHER BORROWINGS

Federal Home Loan Bank Advances – The Company through the bank has a blanket lien credit line with the FHLB. FHLB advances are collateralized in the aggregate by CWB's eligible loans and securities. Total FHLB advances were $75.0 million and $50.0 million at June 30, 2018 and December 31, 2017, respectively, borrowed at fixed rates. The Company also had $125.0 million of letters of credit with FHLB at June 30, 2018 to secure public funds. At June 30, 2018, CWB had pledged to the FHLB, $33.5 million of securities and $284.4 million of loans. At June 30, 2018, CWB had $36.4 million available for additional borrowing. At December 31, 2017, CWB had pledged to the FHLB, $36.2 million of securities and $235.4 million of loans. At December 31, 2017, CWB had $56.8 million available for additional borrowing. Total FHLB interest expense for the three months ended June 30, 2018 and 2017 was $0.3 million and $0.1 million, respectively. Total FHLB interest expense for the six months ended June 30, 2018 and 2017 was $0.4 million and $0.1 million, respectively.

Federal Reserve Bank – The Company has established a credit line with the FRB. Advances are collateralized in the aggregate by eligible loans for up to 28 days. There were no outstanding FRB advances as of June 30, 2018 and December 31, 2017. Available borrowing capacity was $108.8 million and $104.3 million as of June 30, 2018 and December 31, 2017, respectively.

Federal Funds Purchased Lines – The Company has federal funds borrowing lines at correspondent banks totaling $20.0 million. There was no amount outstanding as of June 30, 2018 and December 31, 2017.

Line of Credit - In July of 2017, the Company entered into a one-year revolving line of credit agreement for up to $15.0 million. 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 $1.7 million at June 30, 2018. 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%. At June 30, 2018, the line of credit balance was $6.8 million at a rate of 5.84%.

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8. STOCKHOLDERS' EQUITY

The following table summarizes the changes in other comprehensive income (loss) by component, net of tax for the period indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	Unrealized holding gains (losses) on AFS		Unrealized holding gains (losses) on AFS	
	(in thousands)			
Beginning balance	$(73)	$(29)	$25	$(29)
Other comprehensive income before reclassifications	(38)	116	(77)	116
Amounts reclassified from accumulated other comprehensive income	—	—	(59)	—
Net current-period other comprehensive income	(38)	116	(136)	116
Ending Balance	$(111)	$87	$(111)	$87

The adoption of ASU-2018-02 during the first quarter of 2018 created a $6,000 reclassification within accumulated other comprehensive income to retained earnings. The Company also recorded a $53,000 adjustment during the first quarter of 2018 from AOCI to retained earnings on adoption of ASU 2016-01.

Common Stock

On August 24, 2017, the Board of Directors extended the common stock repurchase program of up to $3.0 million for two additional years. 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 or six months ended June 30, 2018.

During the three and six months ended June 30, 2018, the Company paid common stock dividends of $0.4 million and $0.7 million, respectively. During the three and six months ended June 30, 2017, the Company paid common stock dividends of $0.3 million and $0.6 million, respectively.

Common Stock Warrant

The Warrant issued as part of the TARP provides for the purchase of up to 521,158 shares of the common stock, at an exercise price of $4.49 per share ("Warrant Shares"). The Warrant is immediately exercisable and expires on December 19, 2018. The exercise price and the ultimate number of shares of common stock that may be issued under the Warrant are subject to certain anti-dilution adjustments, such as upon stock splits or distributions of securities or other assets to holders of the common stock, and upon certain issuances of the common stock at or below a specified price relative to the then current market price of the common stock. In the second quarter of 2013, the Treasury sold its warrant position to a private investor. Pursuant to the Securities Purchase Agreement, the private investor has agreed not to exercise voting power with respect to any Warrant Shares.

9. CAPITAL REQUIREMENT

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.

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The following tables illustrates the Bank's regulatory ratios and the Federal Reserve's current adequacy guidelines as of June 30, 2018 and December 31, 2017. The Federal Reserve's fully phased-in guidelines applicable in 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/Tier 1 Capital (To Average Assets)	
June 30, 2018								
CWB's actual regulatory ratios	11.28	%	10.10	%	10.10	%	8.88	%
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	

	Total Capital (To Risk-Weighted Assets)		Tier 1 Capital (To Risk-Weighted Assets)		Common Equity Tier 1 (To Risk-Weighted Assets)		Leverage Ratio/Tier 1 Capital (To Average Assets)	
December 31, 2017								
CWB's actual regulatory ratios	11.31	%	10.10	%	10.10	%	8.83	%
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	

The Company has evaluated the impact of the Final Rules and believes that, as of June 30, 2018, the Company would meet all capital adequacy requirements under the Basel III capital rules on a fully phased-in basis as if all such requirements were currently in effect. There are no conditions or events since June 30, 2018 that management believes have changed the Company's or the Bank's risk-based capital category.

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10. REVENUE RECOGNITION

The Company adopted ASU No, 2014-09 “Revenue from Contracts with Customers” (Topic 606) and all subsequent ASUs that modified Topic 606 on January 1, 2018. The implementation of the new standard did not have a material impact on the measurement or recognition of revenue; as such, a cumulative effect adjustment to opening retained earnings was not deemed necessary. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period amounts were not adjusted and continue to be reported in accordance with our historic accounting under Topic 605.

Topic 606 does not apply to revenue associated with financial instruments, including revenue from loans and securities. In addition, certain non-interest income streams such as servicing rights, financial guarantees and certain credit card fees are also not in scope of the new guidance. Topic 606 is applicable to non-interest income streams such as deposit related fees, interchange fees and merchant income. However the recognition of these income streams did not change upon the adoption of Topic 606. Substantially all of the Company’s revenue is generated from contracts with customers. Non-interest revenue streams in-scope of Topic 606 are discussed below.

Service Charges on Deposit Accounts

Service charges on deposit accounts consist of monthly service fees, check orders, account analysis fees, and other deposit account related fees. The Company’s performance obligation for monthly service fees and account analysis fees is generally satisfied, and the related income recognized, over the period in which the service is provided. Check orders and other deposit related fees are largely transactional based and therefore, the Company’s performance obligation is satisfied and related income recognized, at a point in time. Payment for service charges on deposit accounts is primarily received immediately or in the following month through a direct charge to customers’ accounts.

Exchange Fees and Other Service Charges

Exchange fees and other service charges are primarily comprised of debit and credit card income, merchant services income, ATM fees and other service charges. Debit and credit card income is primarily comprised of interchange fees earned whenever the Company’s debit and credit cards are processed through card payment networks such as Visa or MasterCard. Merchant services income is primarily fees charged to merchants to process their debit and credit card transactions. ATM fees are primarily generated when a Company cardholder uses a non-Company ATM or a non-Company cardholder uses a Company ATM. Other service charges include fees from processing wire transfers, cashier’s checks and other services. The Company’s performance obligation for exchange and other service charges are largely satisfied, and related revenue recognized, when the services are rendered or upon completion. Payment is typically received immediately or in the following month.

The following table presents non-interest income, segregated by revenue streams in-scope and out-of-scope of Topic 606, for periods indicated.

Non-interest income	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
In-scope of Topic 606:	(in thousands)			
Service charges on deposit accounts	$94	$85	$186	$159
Exchange fees and other service charges	52	36	99	67
Non-interest income (in-scope of Topic 606)	146	121	285	226
Non-interest income (out-of-scope of Topic 606)	542	576	1,042	1,112

$688	$697	$1,327	$1,338

Contract Balances

A contract asset balance occurs when an entity performs a service for a customer before the customer pays consideration (resulting in a contract receivable) or before payment is due (resulting in a contract asset). A contract liability balance is an entity's obligation to transfer a service to a customer for which the entity has already received payment (or payment is due) from the customer. The Company's non-interest income streams are largely based on transactional activity. Consideration is often received immediately or shortly after the Company satisfies its performance obligation and income is recognized. The Company does not typically enter into long-term revenue contracts with customers, and therefore, does not experience significant contract balances. As of June 30, 2018 and December 31, 2017, the Company did not have any signficant contract balances.

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Contract Acquisition Costs

In connection with the adoption of Topic 606, an entity is required to capitalize, and subsequently amortize into expense, certain incremental costs of obtaining a contract with a customer if these costs are expected to be recovered. The incremental costs of obtaining a contract are those costs that an entity incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained. The Company utilizes the practical expedient which allows entities to immediately expense contract acquisition costs when the asset that would have resulted from capitalizing these costs would have been amortized in one year or less. Upon adoption of Topic 606, the Company did not capitalize any contract acquisition cost.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This discussion is designed to provide insight into management's assessment of significant trends related to the Company's consolidated financial condition, results of operations, liquidity, capital resources and interest rate sensitivity. It should be read in conjunction with the Company's unaudited interim consolidated financial statements and notes thereto included herein and the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017, and the other financial information appearing elsewhere in this report.

Forward Looking Statements

This report contains certain forward-looking statements, within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, which are intended to be covered by the safe harbor for "forward-looking statements" provided by the Private Securities Litigation Reform Act of 1995. These statements may include statements that expressly or implicitly predict future results, performance or events. Statements other than statements of historical fact are forward-looking statements. In addition, the words "anticipates," "expects," "believes," "estimates" and "intends" or the negative of these terms or other comparable terminology constitute "forward-looking statements." Forward-looking statements relate to expectations, beliefs, projections, future plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts. Except as required by law, the Company disclaims any obligation to update any such forward-looking statements or to publicly announce the results of any revisions to any of the forward-looking statements contained herein to reflect future events or developments.

Forward-looking statements contained in this Quarterly Report on Form 10-Q involve substantial risks and uncertainties, many of which are difficult to predict and are generally beyond the control of the Company and may cause our actual results to differ significantly from historical results and those expressed in any forward-looking statement. Risks and uncertainties include those set forth in our filings with the Securities and Exchange Commission and the following factors that could cause actual results to differ materially from those presented:

- general economic conditions, either nationally or locally in some or all areas in which business is conducted, or conditions in the real estate or securities markets or the banking industry which could affect liquidity in the capital markets, the volume of loan origination, deposit flows, real estate values, the levels of non-interest income and the amount of loan losses;
- changes in existing loan portfolio composition and credit quality, and changes in loan loss requirements;
- legislative or regulatory changes which may adversely affect the Company's business;
- the water shortage in certain areas of California and its impact on the economy;
- the Company's success in implementing its new business initiatives, including expanding its product line, adding new branches and successfully building its brand image;
- changes in interest rates which may reduce or increase net interest margin and net interest income;

- increases in competitive pressure among financial institutions or non-financial institutions;
- technological changes which may be more difficult to implement or more expensive than anticipated;
- changes in borrowing facilities, capital markets and investment opportunities which may adversely affect the business;
- changes in accounting principles, policies or guidelines which may cause conditions to be perceived differently;
- litigation or other matters before regulatory agencies, whether currently existing or commencing in the future, which may delay the occurrence or non-occurrence of events longer than anticipated;
- the ability to originate loans with attractive terms and acceptable credit quality;
- the ability to attract and retain key members of management;
- the ability to realize cost efficiencies; and
- a failure or breach of our operational or security systems or infrastructure.

For additional information regarding risks that may cause our actual results to differ materially from any forward-looking statements, see "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2017 and in item 1A of Part II of this Quarterly Report.

Financial Overview and Highlights

Community West Bancshares ("CWBC") incorporated under the laws of the state of California, is a bank holding company headquartered in Goleta, California providing full service banking and lending through its wholly-owned subsidiary Community West Bank ("CWB" or the "Bank"), which has seven California branch banking offices in Goleta, Santa Barbara, Santa Maria, Ventura, Westlake Village, San Luis Obispo and Oxnard, and a loan production office in Paso Robles. These entities are collectively referred to herein as the "Company".

Financial Result Highlights for the Second Quarter of 2018

Net income of $1.9 million, or $0.21 per diluted share in the second quarter of 2018 (2Q18) compared to a net income of $1.6 million or $0.18 per diluted share in the second quarter a year ago (2Q17).

The significant factors impacting the Company's second quarter earnings performance were:

- Net income of $1.9 million in 2Q18 compared to $1.6 million in 2Q17.

- Net interest margin for 2Q18 was 4.06% compared to 4.39% in 2Q17.

- Total loans increased $25.1 million to $751.3 million at June 30, 2018 compared to $726.2 million at December 31, 2017.

- Total deposits increased $2.9 million to $702.6 million at June 30, 2018, compared to $699.7 at December 31, 2017.

- Allowance for loan losses was $8.6 million at June 30, 2018, or 1.22% of total loans held for investment compared to 1.24% at December 31, 2017 and 1.27% at June 30, 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 three and six months ended June 30, 2018 throughout the analysis sections of this report.

Critical Accounting Policies

A number of critical accounting policies are used in the preparation of the Company's consolidated financial statements. These policies relate to areas of the financial statements that involve estimates and judgments made by management. These include provision and allowance for loan losses and investment securities. These critical accounting policies are discussed in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2017 with a description of how the estimates are determined and an indication of the consequences of an over or under estimate.

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RESULTS OF OPERATIONS

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(in thousands, except per share amounts)			
Net income	$1,867	$1,556	$3,681	$2,912
Basic earnings per share	0.23	0.19	0.45	0.36
Diluted earnings per share	0.21	0.18	0.42	0.34
Total assets	865,127	784,972	865,127	784,972
Total loans	751,268	684,836	751,268	684,836
Total deposits	702,603	670,280	702,603	670,280
Total stockholders' equity	73,448	68,216	73,448	68,216
Book value per common share	8.90	8.36	8.90	8.36
Net interest margin	4.06 %	4.39 %	4.15 %	4.42 %
Return on average assets	0.90 %	0.83 %	0.90 %	0.80 %
Return on average stockholders' equity	10.26 %	9.20 %	10.28 %	8.75 %

The following table sets forth a summary financial overview for the comparable three and six months ended June 30, 2018 and 2017:

	Three Months Ended June 30,		Increase	Six Months Ended June 30,		Increase
	2018	2017	(Decrease)	2018	2017	(Decrease)
	(in thousands, except per share amounts)					
Consolidated Income Statement Data:						
Interest income	$10,401	$9,066	$ 1,335	$20,389	$17,769	$ 2,620
Interest expense	2,090	1,030	1,060	3,728	1,959	1,769
Net interest income	8,311	8,036	275	16,661	15,810	851
Credit (provision) for loan losses	117	120	(3)	(27)	264	(291)
Net interest income after provision for loan losses	8,194	7,916	278	16,688	15,546	1,142
Non-interest income	688	697	(9)	1,327	1,338	(11)
Non-interest expenses	6,257	6,007	250	12,790	11,930	860
Income before income taxes	2,625	2,606	19	5,225	4,954	271
Provision for income taxes	758	1,050	(292)	1,544	2,042	(498)
Net income	$1,867	$1,556	$ 311	$3,681	$2,912	$ 769
Income per share - basic	$0.23	$0.19	$ 0.04	$0.45	$0.36	$ 0.09
Income per share - diluted	$0.21	$0.18	$ 0.03	$0.42	$0.34	$ 0.08

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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:

	Three Months Ended June 30,					
	2018			2017		
	Average Balance	Interest	Average Yield/Cost (2)	Average Balance	Interest	Average Yield/Cost (2)
Interest-Earning Assets	(in thousands)					
Federal funds sold and interest-earning deposits	$31,767	$118	1.49 %	$21,841	$45	0.83 %
Investment securities	38,512	263	2.74 %	40,523	233	2.31 %
Loans (1)	750,575	10,020	5.35 %	672,677	8,788	5.24 %
Total earnings assets	820,854	10,401	5.08 %	735,041	9,066	4.95 %
Nonearning Assets						
Cash and due from banks	3,577			2,128		
Allowance for loan losses	(8,503)			(7,784)		
Other assets	20,466			18,405		
Total assets	$836,394			$747,790		
Interest-Bearing Liabilities						
Interest-bearing demand deposits	265,890	463	0.70 %	260,065	241	0.37 %
Savings deposits	14,558	31	0.85 %	14,009	28	0.80 %
Time deposits	310,997	1,214	1.57 %	269,921	672	1.00 %
Total interest-bearing deposits	591,445	1,708	1.16 %	543,995	941	0.69 %
Other borrowings	52,777	382	2.90 %	29,229	89	1.22 %
Total interest-bearing liabilities	644,222	2,090	1.30 %	573,224	1,030	0.72 %
Noninterest-Bearing Liabilities						
Noninterest-bearing demand deposits	112,806			102,321		
Other liabilities	6,373			4,425		
Stockholders' equity	72,993			67,820		
Total Liabilities and Stockholders' Equity	$836,394			$747,790		
Net interest income and margin (3)		$8,311	4.06 %		$8,036	4.39 %
Net interest spread (4)			3.78 %			4.23 %

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

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	Six Months Ended June 30,					
	2018			2017		
	Average Balance	Interest	Average Yield/Cost (2)	Average Balance	Interest	Average Yield/Cost (2)
Interest-Earning Assets	(in thousands)					
Federal funds sold and interest-earning deposits	$26,492	$189	1.44 %	$21,815	$85	0.79 %
Investment securities	39,001	529	2.74 %	38,363	454	2.39 %
Loans (1)	743,640	19,671	5.33 %	661,791	17,230	5.25 %
Total earnings assets	809,133	20,389	5.08 %	721,969	17,769	4.96 %
Nonearning Assets						
Cash and due from banks	3,533			2,202		
Allowance for loan losses	(8,475)			(7,724)		
Other assets	20,420			18,335		
Total assets	$824,611			$734,782		
Interest-Bearing Liabilities						
Interest-bearing demand deposits	261,782	795	0.61 %	258,318	496	0.39 %
Savings deposits	14,357	60	0.84 %	14,097	54	0.77 %
Time deposits	314,737	2,296	1.47 %	263,608	1,249	0.96 %
Total interest-bearing deposits	590,876	3,151	1.08 %	536,023	1,799	0.68 %
Other borrowings	42,285	577	2.75 %	26,634	160	1.21 %
Total interest-bearing liabilities	633,161	3,728	1.19 %	562,657	1,959	0.70 %
Noninterest-Bearing Liabilities						
Noninterest-bearing demand deposits	112,443			100,627		
Other liabilities	6,790			4,393		
Stockholders' equity	72,217			67,105		
Total Liabilities and Stockholders' Equity	$824,611			$734,782		
Net interest income and margin (3)		$16,661	4.15 %		$15,810	4.42 %
Net interest spread (4)			3.89 %			4.26 %

(1) Includes nonaccrual loans.
(2) Annualized.
(3) Net interest margin is computed by dividing net interest income by total average earning assets.
(4) 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.

	Three Months Ended June 30, 2018 versus 2017 Increase (Decrease) Due to Changes in (1)			Six Months Ended June 30, 2018 versus 2017 Increase (Decrease) Due to Changes in (1)		
	Volume	Rate	Total	Volume	Rate	Total
	(in thousands)			(in thousands)		
Interest income:						
Federal funds sold and interest-earning deposits	$ 37	$ 36	$ 73	$ 33	$ 71	$ 104
Investment securities	(14)	44	30	9	66	75
Loans, net	1,039	193	1,232	2,163	278	2,441
Total interest income	1,062	273	1,335	2,205	415	2,620
Interest expense:						
Interest-bearing demand deposits	10	212	222	10	289	299
Savings deposits	1	2	3	1	5	6
Time deposits	161	381	542	373	674	1,047
Short-term borrowings	170	123	293	213	204	417
Total interest expense	342	718	1,060	597	1,172	1,769
Net increase	$ 720	$ (445)	$ 275	$ 1,608	$ (757)	$ 851

(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 three and six months ended June 30, 2018 was $10.4 million and $20.4 million, respectively, compared to $9.1 million and $17.8 million for the three and six months ended June 30, 2017. Total interest income in the second quarter of 2018 benefited from loan growth of $66.4 million compared to the second quarter of 2017. Interest income from interest-bearing deposits in other institutions increased primarily due to an increased average balance held with the Federal Reserve Bank during the second quarter of 2018 compared to 2017. The annualized yield on interest-earning assets for the second quarter 2018 compared to 2017 was 5.08% and 4.95%, respectively. Fed rate increases of 25 basis points each in December 2017, March 2018, and June 2018 were partially responsible for the increased yield on interest-earning assets, primarily through the loan portfolio.

Interest expense for the three and six months ended June 30, 2018 compared to 2017 increased by $1.1 million and $1.8 million, respectively. This increase for the comparable periods was primarily due to increased time deposit balances and repricing of maturing time deposits, in addition to increased borrowings. The annualized average cost of interest-bearing liabilities increased by 58 basis points to 1.30% for the three months ended June 30, 2018 compared to the same period in 2017. The increase in deposit interest expense for the six months ended June 30, 2018 compared to 2017 was due to both growth in interest bearing certificates of deposits and increased average cost of those deposits due to the 75 basis points of Federal Reserve rate increases. The cost of other borrowings for the comparable periods increased by 168 basis points to 2.90% for the three months ended June 30, 2018 compared to the same period in 2017 due to the increased use of long-term FHLB borrowings to cover loan demand.

The net impact of the changes in yields on interest-earning assets and the rates paid on interest-bearing liabilities were decreases in the interest margin for the three and six months ended June 30, 2018 to 4.06% and 4.15%, respectively,

compared to 4.39% and 4.42% in the three and six months ended June 30, 2017, respectively.

Provision for loan losses

The provision for loan losses in each period is reflected as a charge against earnings in that period. The provision for loan losses is equal to the amount required to maintain the allowance for loan losses at a level that is adequate to absorb probable losses inherent in the loan portfolio. The provision for loan losses was $0.1 million for the second quarter of 2018 and 2017. The provision (credit) for the six months ended June 30, 2018 was $(27,000) compared to $0.3 million for the six months ended June 30, 2017. The improvements in credit quality, historical loss rates and net recoveries resulted in the decrease in the ratio of allowance for loan losses to loans held for investment from 1.27% at June 30, 2017 to 1.22% at June 30, 2018.

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The following schedule summarizes the provision, charge-offs (recoveries) by loan category for the three and six months ended June 30, 2018 and 2017:

	For the Three Months Ended June 30,							
	Manufactured Housing	Commercial Real Estate	Commercial	SBA	HELOC	Single Family Real Estate	Consumer	Total
2018	(in thousands)							
Beginning balance	$2,102	$ 4,976	$ 1,127	$61	$ 93	$ 99	$ —	$8,458
Charge-offs	—	—	—	—	—	—	—	—
Recoveries	9	—	19	6	12	1	—	47
Net (charge-offs) recoveries	9	—	19	6	12	1	—	47
Provision (credit)	34	31	75	(10)	(12)	(1)	—	117
Ending balance	$2,145	$ 5,007	$ 1,221	$57	$ 93	$ 99	$ —	$8,622
2017								
Beginning balance	$2,160	$4,138	$1,184	$101	$101	$101	$—	$7,785
Charge-offs	(15)	—	—	(16)	—	(21)	—	(52)
Recoveries	65	—	68	5	2	1	—	141
Net (charge-offs) recoveries	50	—	68	(11)	2	(20)	—	89
Provision (credit)	(86)	194	10	1	(5)	6	—	120
Ending balance	$2,124	$4,332	$1,262	$91	$98	$87	$—	$7,994

	For the Six Months Ended June 30,							
	Manufactured Housing	Commercial Real Estate	Commercial	SBA	HELOC	Single Family Real Estate	Consumer	Total
2018	(in thousands)							
Beginning balance	$2,180	$ 4,844	$ 1,133	$73	$ 92	$ 98	$ —	$8,458
Charge-offs	(6)	—	—	—	—	—	—	—
Recoveries	108	15	24	68	19	1	—	47
Net (charge-offs) recoveries	102	15	24	68	19	1	—	47
Provision (credit)	(137)	148	64	(84)	(18)	—	—	117
Ending balance	$2,145	$ 5,007	$ 1,221	$57	$ 93	$ 99	$ —	$8,622
2017								
Beginning balance	$2,201	$3,707	$1,241	$106	$100	$109	$—	$7,785
Charge-offs	(119)	—	—	(30)	—	(21)	—	(52)
Recoveries	68	227	72	64	4	1	—	141
Net (charge-offs) recoveries	(51)	227	72	34	4	(20)	—	89
Provision (credit)	(26)	398	(51)	(49)	(6)	(2)	—	120
Ending balance	$2,124	$4,332	$1,262	$91	$98	$87	$—	$7,994

The percentage of net nonaccrual loans to the total loan portfolio has decreased to 0.49% as of June 30, 2018 from 0.61% at December 31, 2017.

The allowance for loan losses compared to net nonaccrual loans has increased to 232.8% as of June 30, 2018 from 188.3% as of December 31, 2017. Total past due loans decreased to $0.1 million as of June 30, 2018 from $0.4

million as of December 31, 2017. This decrease was mainly in manufactured housing loans past due.

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Non-Interest Income

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

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

	Three Months Ended June 30,		Increase	Six Months Ended June 30,		Increase
	2018	2017	(Decrease)	2018	2017	(Decrease)
	(in thousands)					
Other loan fees	$323	$342	$ (19)	$619	$645	$ (26)
Document processing fees	130	151	(21)	247	284	(37)
Service charges	122	112	10	238	208	30
Other	113	92	21	223	201	22
Total non-interest income	$688	$697	$ (9)	$1,327	$1,338	$ (11)

Total non-interest income remained flat at $0.7 million for the three months ended June 30, 2018 compared to 2017. Service charges for the three and six months ended June 30, 2018 compared to 2017 increased slightly as the Company is in the process of enhancing its products and services. Other loan fees and document processing fees for the three and six months ended June 30, 2018 and 2017 decreased due to decreased loan fundings during the first six months of 2018 compared to 2017.

Non-Interest Expenses

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

	Three Months Ended June 30,		Increase	Six Months Ended June 30,		Increase
	2018	2017	(Decrease)	2018	2017	(Decrease)
	(in thousands)					
Salaries and employee benefits	$4,042	$3,796	$ 246	$8,191	$7,727	$ 464
Occupancy, net	741	686	55	1,525	1,331	194
Professional services	301	299	2	605	478	127
Data processing	206	165	41	418	333	85
Depreciation	186	188	(2)	353	351	2
FDIC assessment	164	179	(15)	378	289	89
Advertising and marketing	163	195	(32)	333	351	(18)
Stock based compensation	87	87	-	203	171	32
Other	367	412	(45)	784	899	(115)
Total non-interest expenses	$6,257	$6,007	$ 250	$12,790	$11,930	$ 860

Total non-interest expenses increased $0.3 million and $0.9 million in the three and six months ended June 30, 2018 compared to 2017, respectively. The increase in non-interest expenses for the year is primarily due to increased salaries and employee benefits, occupancy, depreciation and advertising as a result of the Bank’s expansions in the Northern and Southern regions, and addition of customer relationship and support positions. FDIC assessment increased $0.1 million the six months ended June 30, 2018 compared to 2017 due to a higher asset base for assessment

and increased assessment factor. Professional services increased $0.1 million in the six months ended June 30, 2018 compared to 2017 due to increased consulting costs for operational training and project implementation. The decrease in other expenses were partially due to a legal loan collection recovered during the three months ended June 30, 2018.

Income Taxes

Income tax provision for the three and six months ended June 30, 2018 was $0.8 million and $1.5 million, respectively, compared to $1.1 million and $2.0 million in the same periods during 2017. The combined state and federal effective income tax rates for the six months ended June 30, 2018 and 2017 were 29.6% and 41.2%, respectively. The effective tax rate decreased in 2018 primarily as a result of the enacted tax rate change from 34% to 21% under the Tax Cuts and Jobs Act of December 2017.

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 $3.3 million at June 30, 2018 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.

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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 June 30, 2018 or December 31, 2017.

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 June 30, 2018 and December 31, 2017.

BALANCE SHEET ANALYSIS

Total assets increased $31.8 million to $865.1 million at June 30, 2018 from $833.3 million at December 31, 2017. Net loans increased by $25.1 million to $751.3 million at June 30, 2018 from $726.2 million at December 31, 2017. The majority of the loan increase was due to increases of $10.1 million and $11.5 million in our commercial real estate and manufactured housing portfolios, respectively. This increase was partially offset by a decrease of $2.1 million in investment securities available-for-sale.

Total liabilities increased $28.4 million to $791.7 million at June 30, 2018 from $763.2 million at December 31, 2017 mostly due to increased other borrowings of $25.0 million. Non-interest-bearing demand deposits decreased by $1.3 million and interest-bearing demand deposits increased by $4.0 million, while savings and certificates of deposit remained relatively flat.

Total stockholders' equity increased $3.4 million to $73.4 million at June 30, 2018 from $70.1 million at December 31, 2017. The $3.7 million increase in retained earnings from net income was offset by a $0.7 million decrease from common stock dividends. The book value per common share was $8.90 at June 30, 2018 compared to $8.55 at December 31, 2017.

Selected Balance Sheet Accounts

	June 30, 2018	December 31, 2017	Increase (Decrease)	Percent Increase (Decrease)
	(dollars in thousands)			
Cash and cash equivalents	$54,362	$ 45,869	$ 8,493	18.5 %
Investment securities available-for-sale	26,685	28,783	(2,098)	(7.3)%
Investment securities held-to-maturity	6,856	7,565	(709)	(9.4)%
Loans - held for sale	52,886	55,094	(2,208)	(4.0)%
Loans - held for investment, net	698,382	671,095	27,287	4.1 %
Total assets	865,127	833,315	31,812	3.8 %
Total deposits	702,603	699,684	2,919	0.4 %
Other borrowings	81,843	56,843	25,000	44.0 %
Total stockholder's equity	73,448	70,070	3,378	4.8 %

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The table below summarizes the distribution of the Company's loans held for investment at the end of each of the periods indicated.

	June 30, 2018	December 31, 2017
	(in thousands)	
Manufactured housing	$234,598	$ 223,115
Commercial real estate	364,679	354,617
Commercial	81,773	75,282
SBA	6,408	7,424
HELOC	9,502	9,422
Single family real estate	10,682	10,346
Consumer	75	83
	707,717	680,289
Allowance for loan losses	(8,622)	(8,420)
Deferred costs, net	(632)	(652)
Discount on SBA loans	(81)	(122)
Total loans held for investment, net	$698,382	$ 671,095

The Company had $52.9 million of loans held for sale at June 30, 2018 compared to $55.1 million at December 31, 2017. Loans held for sale at June 30, 2018 consisted of $16.4 million SBA loans and $36.5 million commercial agriculture loans. Loans held for sale at December 31, 2017, were $18.9 million SBA loans and $36.2 million commercial agriculture loans.

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, 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 June 30, 2018 and December 31, 2017, manufactured housing loans comprised 31.8% and 30.7%, respectively, of total loans. As of June 30, 2018 and December 31, 2017, commercial real estate loans accounted for approximately 49.5% and 48.8% of total loans, respectively. Approximately 34.9% and 33.9% of these commercial real estate loans were owner-occupied at June 30, 2018 and December 31, 2017, respectively. Substantially all of these loans are secured by first liens with an average loan to value ratios of 55.9% and 55.0% at June 30, 2018 and December 31, 2017, respectively. The Company was within established concentration policy limits at June 30, 2018 and December 31, 2017.

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.

	June 30, 2018	December 31, 2017
	(in thousands)	
Nonaccrual loans (net of government guaranteed portion)	$3,704	$ 4,472

Troubled debt restructured loans, gross	18,080	16,603
Nonaccrual loans (net of government guaranteed portion) to gross loans	0.49 %	0.93 %
Net charge-offs (recoveries) (annualized) to average loans	(0.03)%	(0.03)%
Allowance for loan losses to nonaccrual loans (net of government guaranteed portion)	232.78 %	314.27 %
Allowance for loan losses to gross loans	1.22 %	1.24 %

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

	June 30, 2018	December 31, 2017
	(in thousands)	
Total nonaccrual loans	$5,686	$ 6,844
Government guaranteed portion of loans included above	(1,982)	(2,372)
Total nonaccrual loans, without guarantees	$3,704	$ 4,472
Troubled debt restructured loans, gross	$18,080	$ 16,603
Loans 30 through 89 days past due with interest accruing	$61	$ 389
Loans 90 days or more past due with interest accruing	$—	$ —
Allowance for loan losses to gross loans held for investment	1.22 %	1.24 %

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.

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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 June 30, 2018:	(in thousands)							
Recorded Investment:								
Impaired loans with an allowance recorded	$6,442	$ 525	$ 591	$477	$ —	$ 2,109	$ —	$10,144
Impaired loans with no allowance recorded	1,962	—	6,787	431	207	168	—	9,555
Total loans individually evaluated for impairment	8,404	525	7,378	908	207	2,277	—	19,699
Related Allowance for Credit Losses								
Impaired loans with an allowance recorded	449	12	11	2	—	33	—	507
Impaired loans with no allowance recorded	—	—	—	—	—	—	—	—
Total loans individually evaluated for impairment	449	12	11	2	—	33	—	507
Total impaired loans, net	$7,955	$ 513	$ 7,367	$906	$ 207	$ 2,244	$ —	$19,192

	Manufactured Housing	Commercial Real Estate	Commercial	SBA	HELOC	Single Family Real Estate	Consumer	Total Loans
Impaired Loans as of December 31, 2017:								
Recorded Investment:								
Impaired loans with an allowance recorded	$ 5,830	$ 557	$ 3,551	$281	$ —	$ 2,133	$ —	$12,352
Impaired loans with no allowance recorded	2,163	—	5,023	699	214	176	—	8,275
Total loans individually evaluated for impairment	7,993	557	8,574	980	214	2,309	—	20,627
Related Allowance for Credit Losses								
Impaired loans with an allowance recorded	427	11	50	1	—	35	—	524
Impaired loans with no allowance recorded	—	—	—	—	—	—	—	—
Total loans individually evaluated for impairment	427	11	50	1	—	35	—	524
Total impaired loans, net	$ 7,566	$ 546	$ 8,524	$979	$ 214	$ 2,274	$ —	$20,103

Total impaired loans decreased $0.9 million in the second quarter of 2018 compared to December 31, 2017. An increase in impaired manufactured housing loans of $0.4 million was offset by a decrease in impaired commercial loans of $1.2 million. The increase in impaired manufactured housing loans was due to the addition of four new impaired loans. The decrease in impaired commercial loans was due to eight loans that paid off.

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

	At June 30, 2018				At December 31, 2017			
	Nonaccrual Balance	%	Percent of Total Loans		Nonaccrual Balance	%	Percent of Total Loans	
	(dollars in thousands)							
Manufactured housing	$259	4.56 %	0.04	%	$418	6.11 %	0.06	%
Commercial real estate	278	4.89 %	0.04	%	306	4.47 %	0.04	%
Commercial	3,885	68.33 %	0.55	%	4,786	69.93 %	0.65	%
SBA	889	15.63 %	0.13	%	944	13.79 %	0.13	%
HELOC	207	3.64 %	0.03	%	214	3.13 %	0.03	%
Single family real estate	168	2.95 %	0.02	%	176	2.57 %	0.02	%
Consumer	—	—	—		—	—	—	
Total nonaccrual loans	$5,686	100.00 %	0.81	%	$6,844	100.00 %	0.93	%

Nonaccrual balances include $2.0 million and $2.4 million, respectively, of loans that are government guaranteed at June 30, 2018 and December 31, 2017, respectively. Nonaccrual loans net of government guarantees decreased $0.8 million or 17%, from $4.5 million at December 31, 2017 to $3.7 million at June 30, 2018 The percentage of nonaccrual loans net of government guarantees to the total loan portfolio has decreased to 0.52% as of June 30, 2018 from 0.66% at December 31, 2017.

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.

Allowance For Loan Losses

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:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Allowance for loan losses:			(in thousands)	
Balance at beginning of period	$ 8,458	$ 7,785	$ 8,420	$ 7,464
Provisions charged to operating expenses:				
Manufactured housing	34	(86)	(137)	(26)
Commercial real estate	31	194	148	398
Commercial	75	11	64	(51)
SBA	(10)	1	(84)	(49)
HELOC	(12)	(5)	(18)	(6)
Single family real estate	(1)	6	—	(2)
Consumer	—	—	—	—
Total Provision (credit)	117	121	(27)	264
Recoveries of loans previously charged-off:				
Manufactured housing	9	65	108	68
Commercial real estate	—	—	15	227
Commercial	19	67	24	72
SBA	6	5	68	64

HELOC	12	2	19	4
Single family real estate	1	1	1	1
Consumer	—	—	—	—
Total recoveries	47	140	235	436
Loans charged-off:				
Manufactured housing	—	15	6	119
Commercial real estate	—	—	—	—
Commercial	—	—	—	—
SBA	—	16	—	30
HELOC	—	—	—	—
Single family real estate	—	21	—	21
Consumer	—	—	—	—
Total charged-off	—	52	6	170
Net charge-offs (recoveries)	(47)	(88)	(229)	(266)
Balance at end of period	$ 8,622	$ 7,994	$ 8,622	$ 7,994

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Potential Problem Loans

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

	June 30, 2018			
	Number of Loans	Loan Balance (1)	Percent	Percent of Total Loans
	(dollars in thousands)			
Manufactured housing	—	$ —	0.00 %	0.00 %
Commercial real estate	5	2,431	58.11 %	0.32 %
Commercial	3	378	9.03 %	0.05 %
SBA	8	1,370	32.74 %	0.18 %
HELOC	—	—	0.00 %	0.00 %
Single family real estate	1	5	0.12 %	0.00 %
Total	17	$ 4,184	100.00 %	0.55 %

(1) Of the $4.2 million of potential problem loans, $1.3 million are guaranteed by government agencies.

	December 31, 2017			
	Number of Loans	Loan Balance (1)	Percent	Percent of Total Loans
	(dollars in thousands)			
Manufactured housing	—	$ —	0.00 %	0.00 %
Commercial real estate	6	8,118	79.40 %	1.11 %
Commercial	3	374	3.66 %	0.05 %
SBA	8	1,727	16.89 %	0.24 %
HELOC	—	—	0.00 %	0.00 %
Single family real estate	1	5	0.05 %	0.00 %
Total	18	$ 10,224	100.00 %	1.40 %

(1) Of the $10.2 million of potential problem loans, $1.5 million are guaranteed by government agencies.

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 was as follows:

	June 30, 2018	December 31, 2017
	(in thousands)	
U.S. government agency notes	$12,887	$ 13,978
U.S. government agency mortgage backed securities ("MBS")	6,856	7,565
U.S. government agency collateralized mortgage obligations ("CMO")	13,798	14,649
Equity securities: Farmer Mac class A stock	179	156
	$33,720	$ 36,348

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Other Assets Acquired Through Foreclosure

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(in thousands)			
Balance, beginning of period	$233	$145	$372	$137
Additions	73	252	174	370
Proceeds from dispositions	(57)	(135)	(271)	(243)
(Loss) Gain on sales, net	(36)	100	(62)	98
Balance, end of period	$213	$362	$213	$362

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. The Company had a valuation allowance on foreclosed assets of $20,000 at June 30, 2018 and $15,000 at June 30, 2017. At June 30, 2018, the Company had no loans in process of foreclosure.

Deposits

The following table provides the balance and percentage change in the Company’s deposits:

	June 30, 2018	December 31, 2017	Increase (Decrease)	Percent Increase (Decrease)
	(dollars in thousands)			
Non-interest bearing demand deposits	$107,168	$ 108,500	$ (1,332)	(1.2)%
Interest-bearing demand deposits	260,708	256,717	3,991	1.6%
Savings	14,515	14,085	430	3.1%
Certificates of deposit ($250,000 or more)	88,752	81,985	6,767	8.3%
Other certificates of deposit	231,460	238,397	(6,937)	(2.9)%
Total deposits	$702,603	$ 699,684	$ 2,919	0.4%

Total deposits increased to $702.6 million at June 30, 2018 from $699.7 million at December 31, 2017, an increase of $2.9 million. This increase was primarily from interest-bearing demand deposits, and slightly offset by a decline in non-interest bearing demand deposits. Deposits are 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 June 30, 2018 and December 31, 2017, the Company had $25.7 million and $32.1 million, respectively, of CDARS deposits.

Liquidity and Capital Resources

Liquidity Management

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

The ability to have readily available funds sufficient to repay fully maturing liabilities is of primary importance to depositors, creditors and regulators. Our liquidity, represented by cash and amounts due from banks, federal funds sold and non-pledged marketable securities, is a result of our operating, investing and financing activities and related cash flows. 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 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.

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The Company has asset and liability management committees ("ALCO") at the Board and Bank management level to review asset and liability management and liquidity issues.

CWB has a blanket lien credit line with the Federal Home Loan Bank ("FHLB"). Advances are collateralized in the aggregate by CWB's eligible loans and securities. CWB had $75.0 million and $50.0 million of FHLB advances at June 30, 2018 and December 31, 2017, respectively, borrowed at fixed rates. The Company also had $125.0 million of letters of credit with FHLB at June 30, 2018 to secure public funds. At June 30, 2018, CWB had pledged to the FHLB, $33.5 million of securities and $284.4 million of loans. At June 30, 2018, CWB had $36.4 million available for additional borrowing. At December 31, 2017, CWB had pledged to the FHLB, securities of $36.2 million at carrying value and $235.4 million of loans.

CWB has established a credit line with the Federal Reserve Bank ("FRB"). There were no outstanding FRB advances as of June 30, 2018 and December 31, 2017. CWB had $108.8 million and $104.3 million in borrowing capacity as of June 30, 2018 and December 31, 2017, respectively.

The Company has federal funds purchased lines at correspondent banks with a total borrowing capacity of $20.0 million. There was no amount outstanding as of June 30, 2018 and December 31, 2017.

The Company continues to face strong competition for core deposits. The liquidity ratio of the Company was 15.5% and 15.6% at June 30, 2018 and December 31, 2017, 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 consist of certain operating expenses and common stock dividends. Normally, CWBC obtains funding to meet its obligations from dividends collected from the Bank and has the capability to issue debt securities. Federal banking laws regulate the amount of dividends that may be paid by banking subsidiaries without prior approval.

Capital Resources

Maintaining capital strength continues to be a long-term objective for the Company. Ample capital is necessary to sustain growth, provide protection against unanticipated declines in asset values, and to safeguard depositor funds. Capital is also a source of funds for loan demand and enables the Company to effectively manage its assets and liabilities. The Company has the capacity to issue 60,000,000 shares of common stock of which 8,253,582 have been issued at June 30, 2018. Conversely, the Company may decide to repurchase shares of its outstanding common stock, depending on the market price and other relevant factors.

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.

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The following tables illustrates the Bank's regulatory ratios and the Federal Reserve's current adequacy guidelines as of June 30, 2018 and December 31, 2017. The Federal Reserve's fully phased-in guidelines applicable in 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/Tier 1 Capital (To Average Assets)
June 30, 2018				
CWB's actual regulatory ratios	11.28 %	10.10 %	10.10 %	8.88 %
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

	Total Capital (To Risk-Weighted Assets)	Tier 1 Capital (To Risk-Weighted Assets)	Common Equity Tier 1 (To Risk-Weighted Assets)	Leverage Ratio/Tier 1 Capital (To Average Assets)
December 31, 2017				
CWB's actual regulatory ratios	11.31 %	10.10 %	10.10 %	8.83 %
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

The Company has evaluated the impact of the Final Rules and believes that, as of June 30, 2018, the Company would meet all capital adequacy requirements under the Basel III capital rules on a fully phased-in basis as if all such requirements were currently in effect. There are no conditions or events since June 30, 2018 that management believes have changed the Company's or the Bank's risk-based capital category.

Supervision and Regulation

Banking is a complex, highly regulated industry. The primary goals of the regulatory scheme are to maintain a safe and sound banking system, protect depositors and the Federal Deposit Insurance Corporation's ("FDIC") 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 statutes, regulations and the policies of various governmental regulatory authorities, including the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency ("OCC"), and FDIC.

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

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

For a detailed discussion of the regulatory scheme governing the Company and CWB, please see the discussion in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2017 under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operation – Supervision and Regulation."

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Certain qualitative and quantitative disclosures about market risk is set forth in Item 7A of the Company's Annual Report on Form 10-K for the year ended December 31, 2017. There has been no material change in these disclosures as previously disclosed in the Company's Form 10-K. For further discussion of interest rate risk, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity - Interest Rate Risk."

ITEM 4. CONTROLS AND PROCEDURES

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, carried out an evaluation of the effectiveness of disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(e). Based upon that evaluation, the Company's management, which includes the Company's Chief Executive Officer and the Chief Financial Officer, has concluded that, as of the end of the period covered by this report, disclosure controls and procedures are effective in ensuring that information relating to the Company (including its consolidated subsidiary) required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

Disclosure controls and procedures, no matter how well designed and implemented, can provide only reasonable assurance of achieving an entity's disclosure objectives. The likelihood of achieving such objectives is affected by limitations inherent in disclosure controls and procedures. These include the fact that human judgment in decision-making can be faulty and that breakdowns in internal control can occur because of human failures such as simple errors or mistakes or intentional circumvention of the established process.

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated whether there was any change in internal control over financial reporting that occurred during the quarter ended June 30, 2018 and determined that there was no change in internal control over financial reporting that occurred during the quarter ended June 30, 2018 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is involved in various other litigation matters of a routine nature that are being handled and defended in the ordinary course of the Company's business. In the opinion of Management, based in part on consultation with legal counsel, the resolution of these litigation matters are not expected to have a material impact on the Company's financial position or results of operations.

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 in Item 1A of Part I of the Company's Annual Report on Form 10-K for the year ended December 31, 2017. There has been no material change in the Company's risk factors as previously disclosed in the Company's Form 10-K.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

On August 24, 2017, the Board of Directors extended the common stock repurchase program of up to $3.0 million for two additional years. 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 or six months ended June 30, 2018. The repurchase program is effective until August 2019.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

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ITEM 6. EXHIBITS

The following Exhibits are filed herewith.

Exhibit Number	
31.1	Certification of Chief Executive Officer of the Registrant pursuant to Rule 13a-14(a) or Rule 15d-14(a), promulgated under the Securities Exchange Act of 1934, as amended.
31.2	Certification of Chief Financial Officer of the Registrant pursuant to Rule 13a-14(a) or Rule 15d-14(a), promulgated under the Securities Exchange Act of 1934, as amended.
32.1*	Certification of Chief Executive Officer and Chief Financial Officer of the Registrant pursuant to Rule 13a-14(b) or Rule 15d-14(b), promulgated under the Securities Exchange Act of 1934, as Amended, and 18 U.S.C. 1350.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

* This certification is furnished to, but shall not be deemed filed, with the Commission. This certification shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent that the Registrant specifically incorporates it by reference.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

COMMUNITY WEST BANCSHARES
(Registrant)

Date: August 3, 2018 BY: /s/ Susan C. Thompson
Susan C. Thompson
Executive Vice President and Chief Financial Officer

On Behalf of Registrant and as a Duly Authorized Officer
and as Principal Financial and Accounting Officer

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