COMMUNITY WEST BANCSHARES /
Form 10-K
March 28, 2008

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

FORM 10-K

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2007
Commission File Number: 000-23575

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

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

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

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

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

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

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a smaller reporting company. See definitions of "accelerated filer" and "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer £ Accelerated filer £

Non-accelerated filer (Do not check if smaller reporting company) £ Smaller reporting company T

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

The aggregate market value of common stock, held by non-affiliates of the registrant as of June 29, 2007, was $43,157,544 based on a closing price of $12.00 for the common stock, as reported on the Nasdaq Global Market. For purposes of the foregoing computation, all executive officers, directors and 5 percent beneficial owners of the registrant are deemed to be affiliates. Such determination should not be deemed to be an admission that such executive officers, directors or 5 percent beneficial owners are, in fact, affiliates of the registrant.

As of March 24, 2008, 5,909,630 shares of the registrant's common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A in connection with the 2008 Annual Meeting to be held on May 22, 2008 are incorporated by reference into Part III of this Report. The proxy statement will be filed with the Securities and Exchange Commission not later than 120 days after the registrant's fiscal year ended December 31, 2007.

COMMUNITY WEST BANCSHARES
FORM 10-K

INDEX

Index

PART I

ITEM 1. BUSINESS

GENERAL

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

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

PRODUCTS AND SERVICES

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

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

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

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

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

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

and building (including purchase, renovation and new construction), leasehold improvements and debt refinancing. Loan maturity is generally up to 10 years for working capital and up to 25 years for fixed assets. The 7(a) loan is approved and funded by a qualified lender, guaranteed by the SBA and subject to applicable regulations. The SBA typically guarantees 75%, and up to 85%, of the loan amount, depending on the loan size. The Company is required by the SBA to retain a contractual minimum of 5% on all SBA 7(a) loans. The SBA 7(a) loans are always variable interest rate loans. The servicing spread is a minimum of 1% on the majority of loans. Income recognized by the Company on the sales of the guaranteed portion of these loans and the ongoing servicing income received have in the past been significant revenue sources for the Company.

The 504 program is an economic development-financing program providing long-term, low downpayment loans to expanding businesses. Typically, a 504 project includes a loan secured from a private-sector lender with a senior lien, a loan secured from a CDC (funded by a 100% SBA-guaranteed debenture) with a junior lien covering up to 40% of the total cost, and a contribution of at least 10% equity from the borrower. Debenture limits are $1.5 million for regular 504 loans, $2 million for those 504 loans that meet a public policy goal and $4 million for manufacturing entities.

Index

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

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

CWB originates SBA loans in the states of California, Alabama, Arizona, Colorado, Florida, Georgia, Maryland, North Carolina, Ohio, Oregon, South Carolina, Tennessee and Washington. The SBA has designated CWB as a "Preferred Lender", such status being awarded on a national basis. As a Preferred Lender, CWB has been delegated the loan approval, closing and most servicing and liquidation authority responsibility from the SBA.

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

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

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

COMPETITION AND SERVICE AREA

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

Competition may adversely affect the Company's performance. The financial services business in the Company's markets is highly competitive and becoming increasingly more so due to changing regulations, technology and strategic consolidations amongst other financial service providers. Other banks, credit unions and specialty financial services companies may have more capital than the Company and can offer trust services, leasing and other financial products to the Company's customer base. When new competitors seek to enter one of the Company's markets, or when existing market participants seek to increase their market share, they sometimes undercut the pricing or credit terms prevalent in that market. Increasing levels of competition in the banking and financial services businesses may reduce the Company's market share or cause the prices to fall for which the Company can charge for products and services.

GOVERNMENT POLICIES

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

Index

EMPLOYEES

As of December 31, 2007, the Company had 146 full-time and 13 part-time employees. The Company's employees are not represented by a union or covered by a collective bargaining agreement. Management of the Company believes that, in general, its employee relations are good.

ITEM 1A. RISK FACTORS

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

Risk Due to Economic Conditions Due to Changes in Interest Rates

The well-publicized downturn in the housing market and the related crisis in subprime mortgage lending have impacted the economy in myriad ways, including:

- slowdown in construction, both residential and commercial, including construction lending
- slowdown in job growth
- tightening of credit markets
- dampening of consumer confidence and spending

Financial institutions have been directly impacted by:

- slowdown in overall economic growth
- write-offs of mortgage backed securities
- tightening of credit standards for business and consumers
- tightening of available credit for bank holding companies for financing growth

Responding to economic sluggishness and recession concerns, the Federal Reserve Board, through its Federal Open Market Committee (FOMC), began cutting the target federal funds rate in September 2007 with a 50 basis point reduction. This was followed by 25 basis point cuts in October and December and, in an unprecedented move, a 75 basis point reduction on January 22, 2008, between FOMC meetings. At the scheduled January 30, 2008 meeting, the Fed made an additional cut of 50 basis points and followed with a 75 basis point cut at the March 18, 2008 meeting. In all, these cuts in the target federal funds rate resulted in a reduction in the prime rate banks charge to their best customers from 8.25% to 5.25%.

The actions of the Federal Reserve, while designed to help the economy overall, may negatively impact in the short term the Bank’s earnings. Potentially lower earnings, combined with continued uncertainty in the credit markets, may also impact the Bank’s ability to raise capital and maintain required capital ratios.

Risk Due to Economic Conditions in the Regions the Company Serves

The Company serves three primary regions. The Tri-Counties region which consists of San Luis Obispo, Santa Barbara and Ventura counties in the state of California, the SBA Western Region where CWB originates SBA loans (Arizona, California, Colorado, Oregon and Washington) and the SBA Southeast Region (Alabama, Florida, Georgia, Maryland, North and South Carolina and Tennessee). A downturn in the National economy or in any of the markets the Company services may have a negative impact on the Company's future earnings or stock price.

Fluctuations in Interest Rates May Reduce Profitability

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

Index

Changes in the level of interest rates also may negatively affect the Company’s ability to originate loans, the value of these loans and the ability to realize gains from the sale of loans, all of which ultimately affect earnings. A decline in the market value of the Company’s assets may limit its ability to borrow additional funds. As a result, the Company could be required to sell some of its loans and investments under adverse market conditions, under terms that are not favorable, to maintain liquidity. If those sales are made at prices lower than the amortized costs of the investments, losses may be incurred. See additional discussion on interest rate risk in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity Management - Interest Rate Risk."

Competition with Other Banking Institutions Could Adversely Affect Profitability

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

Changes in the Regulatory Environment

The financial services’ industry is heavily regulated. The Company is subject to federal and state regulation designed to protect the deposits of consumers, not to benefit shareholders. These regulations include the following:

- the amount of capital the Company must maintain
- the types of activities in which it can engage
- the types and amounts of investments it can make
- the locations of its offices
- insurance of the Company's deposits and the premiums paid for this insurance
- how much cash the Company must set aside as reserves for deposits

The regulations impose limitations on operations and may be changed at any time, possibly causing future results to vary significantly from past results. Moreover, certain of these regulations contain significant punitive sanctions for violations, including monetary penalties and limitations on a bank’s ability to implement components of its business plan, such as expansion through mergers and acquisitions. In addition, changes in regulatory requirements may act to add costs associated with compliance efforts. Furthermore, government policy and regulation, particularly as implemented through the Federal Reserve System, significantly affect credit conditions. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Supervision and Regulation."

Bank Regulations Could Discourage Changes in the Company's Ownership

Bank regulations could delay or discourage a potential acquirer who might have been willing to pay a premium price to acquire a large block of common stock. That possibility might decrease the value of the Company's common stock and the price that a stockholder will receive if shares are sold in the future. Before anyone can buy enough voting stock to exercise control over a bank holding company like CWBC, bank regulators must approve the acquisition. A stockholder must apply for regulatory approval to own 10 percent or more of the Company's common stock, unless the stockholder can show that they will not actually exert control over the Company. No single stockholder can own more than 25 percent of the Company's common stock without applying for regulatory approval.

Index

The Price of the Company's Common Stock May Change Rapidly and Significantly

The market price of the Company's common stock could change rapidly and significantly at any time. The market price of the Company's common stock has fluctuated in recent years. Fluctuations may occur, among other reasons, in response to:

- short-term or long-term operating results
- perceived strength of the banking industry in general
- the Company’s relatively low public float and thinly-traded stock
- perceived value of the Company's loan portfolio
- trends in the Company's nonperforming assets
- legislative/regulatory action or adverse publicity
- announcements by competitors
- economic changes and general market conditions

The trading price of the Company's common stock may continue to be subject to wide fluctuations in response to the factors set forth above and other factors, many of which are beyond the Company's control. The stock market can experience extreme price and trading volume fluctuations that often are unrelated or disproportionate to the operating performance of individual companies. The Company believes that investors should consider the likelihood of these market fluctuations before investing in the Company's common stock.

Dependence on Real Estate Concentrated in the State of California

Approximately $181 million, or 33.3%, of the loan portfolio of the Company is secured by various forms of real estate, including residential and commercial real estate. A decline in current economic conditions or rising interest rates could have an adverse effect on the demand for new loans, the ability of borrowers to repay outstanding loans and the value of real estate and other collateral securing loans. The real estate securing the Company's loan portfolio is concentrated in California. If real estate values decline significantly, especially in California, the change could harm the financial condition of the Company's borrowers, the collateral for its loans will provide less security and the Company would be more likely to suffer losses on defaulted loans.

Curtailment of Government Guaranteed Loan Programs Could Affect a Segment of the Company's Business

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

Reserve for Credit Losses May Not be Adequate to Cover Actual Loan Losses

The risk of nonpayment of loans is inherent in all lending activities, and nonpayment, if it occurs, may have an adverse effect on the Company’s financial condition or results of operation. The Company maintains a reserve for credit losses to absorb estimated probable credit losses inherent in the loan and commitment portfolios as of the balance sheet date. In determining the level of the reserve for credit losses, management makes various assumptions and judgments about the loan portfolio. If management's assumptions are incorrect, the reserve for credit losses may not be sufficient to cover losses, which could adversely affect the Company's financial condition or results of operations.

Environmental Laws Could Force the Company to Pay for Environmental Problems

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

Index

Operational Risk

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

Operational risk is inherent in all business activities and the management of this risk is important to the achievement of the Company's objectives. In the event of a breakdown in the internal control system, improper operation of systems or improper employee actions, the Company could suffer financial loss, face regulatory action and suffer damage to its reputation. The Company manages operational risk through a risk management framework and its internal control processes. While the Company believes that it has designed effective methods to minimize operational risks, there is no absolute assurance that business disruption or operational losses would not occur in the event of disaster.

An Information Systems Interruption or Breach in Security Might Result in Loss of Customers

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

Dependence on Technology and Technological Improvements

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

Loss of Key Management Personnel

The Bank is operated by key management personnel in each department of the Bank, including executive, lending, finance, operations and retail banking. Many of these key staff members have been employed by the Bank for a number of years and, accordingly, have developed expertise and a loyal customer following. In the event that a key management member were to terminate employment with the Bank, the effect may be to impair the Bank's ability to operate as effectively as it does at the present time, or in the case of a former employee being hired by a competitor, may result in a loss of customers to a competitor.

Variations in Quarterly Operating Results

The Company's results of operations are reported on a quarterly basis. In the event quarterly results fail to exceed results from the prior period or periods, securities analysts and stockholders might assume that a decline in profitability is indicative of lower results for a full fiscal year when they might be the result of temporary factors.

Accounting Policies

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

Litigation Risk

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

Index

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

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

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

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

No matters were submitted for a vote by the shareholders during the fourth quarter of 2007.

Index

PART II

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

Market Information, Holders and Dividends

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

	2007 Quarters				2006 Quarters			
	Fourth	Third	Second	First	Fourth	Third	Second	First
Stock Price Range:								
High	$ 12.24	$ 13.75	$ 15.85	$ 16.00	$ 15.99	$ 16.00	$ 16.00	$ 14.44
Low	9.26	10.26	11.75	15.50	15.00	15.17	14.05	13.85
Cash Dividends Declared	$ .06	$ .06	$ .06	$ .06	$ .06	$ .06	$ .06	$ .05

As of March 24, 2008 the year to date high and low stock sales prices were $10.25 and $7.05, respectively. As of March 24, 2008, the last reported sale price per share for the Company's common stock was $8.69.

As of March 24, 2008, the Company had 345 stockholders of record of its common stock.

It is the Company’s intention to declare and pay dividends quarterly. The sources of funds for dividends paid to shareholders are the Company’s capital and dividends received from the subsidiary bank, CWB. CWB’s ability to pay dividends to the Company is limited by California law and federal banking law. See “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Supervision and Regulation -CWBC - Limitations on Dividend Payments.”

Securities Authorized for Issuance under Equity Compensation Plans

The following table summarizes the securities authorized for issuance as of December 31, 2007:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Plans approved by shareholders	462,320	$ 8.63	418,350
Plans not approved by shareholders			
Total	462,320	$ 8.63	418,350

- 11 -

Index

ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data have been derived from the Company's consolidated financial condition and results of operations, as of and for the years ended December 31, 2007, 2006, 2005, 2004 and 2003, and should be read in conjunction with the consolidated financial statements and the related notes included elsewhere in this report.

	Year Ended December 31,				
	2007	2006	2005	2004	2003
INCOME STATEMENT:	(in thousands, except per share data and ratios)				
Interest income	$ 46,841	$ 39,303	$ 29,778	$ 21,845	$ 20,383
Interest expense	22,834	16,804	10,347	7,845	9,342
Net interest income	24,007	22,499	19,431	14,000	11,041
Provision for loan losses	1,297	489	566	418	1,669
Net interest income after provision for loan losses	22,710	22,010	18,865	13,582	9,372
Non-interest income	4,845	5,972	7,310	10,462	10,675
Non-interest expenses	21,000	18,832	18,160	17,521	16,736
Income before income taxes	6,555	9,150	8,015	6,523	3,311
Provision for income taxes	2,766	3,822	2,373	2,688	1,128
NET INCOME	$ 3,789	$ 5,328	$ 5,642	$ 3,835	$ 2,183
PER SHARE DATA:					
Income per common share – Basic	$ 0.65	$ 0.92	$ 0.98	$ 0.67	$ 0.38
Weighted average shares used in income per share calculation – Basic	5,862	5,785	5,744	5,718	5,694
Income per common share – Diluted	$ 0.63	$ .89	$ 0.95	$ 0.65	$ 0.38
Weighted average shares used in income per share calculation – Diluted	6,022	6,001	5,931	5,867	5,758
Book value per share	$ 8.51	$ 8.05	$ 7.34	$ 6.56	$ 6.02
BALANCE SHEET:					
Net loans	$ 539,165	$ 451,572	$ 381,517	$ 290,506	$ 244,274
Total assets	609,850	516,615	444,354	365,203	304,250
Total deposits	433,739	368,747	334,238	284,568	224,855
Total liabilities	559,691	469,795	402,119	327,634	269,919
Total stockholders' equity	50,159	46,820	42,235	37,569	34,331
OPERATING AND CAPITAL RATIOS:					
Return on average equity	7.72%	11.88%	14.16%	10.60%	6.65%
Return on average assets	0.67	1.12	1.43	1.15	0.73
Dividend payout ratio	36.92	24.97	19.39	17.91	-
Equity to assets ratio	8.22	9.06	9.50	10.29	11.28
Tier 1 leverage ratio	8.39	9.21	9.80	10.41	11.15
Tier 1 risk-based capital ratio	9.87	10.57	11.21	12.51	14.05
Total risk-based capital ratio	10.74	11.45	12.26	13.76	15.31

Index

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

The following discussion is designed to provide insight into management's assessment of significant trends related to the consolidated financial condition, results of operations, liquidity, capital resources and interest rate risk for Community West Bancshares ("CWBC") and its wholly-owned subsidiary, Community West Bank ("CWB" or "Bank"). Unless otherwise stated, "Company" refers to CWBC and CWB as a consolidated entity. The following discussion should be read in conjunction with the Company's Consolidated Financial Statements and Notes thereto and the other financial information appearing elsewhere in this 2007 Annual Report on Form 10-K.

Forward-Looking Statements

This 2007 Annual Report on Form 10-K contains statements that constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Those forward-looking statements include statements regarding the intent, belief or current expectations of the Company and its management. Any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and actual results may differ materially from those projected in the forward-looking statements.

Overview of Earnings Performance

Net income of the Company was $3.8 million, or $0.65 per basic share, and $0.63 per diluted share, for 2007 compared to $5.3 million, or $0.92 per basic share, and $0.89 per diluted share, for 2006. The Company's earnings performance was impacted in 2007 by:

§ despite relatively stable yields on loans, net margin declined from 4.89% in 2006 to 4.38% in 2007 due to higher deposit and borrowing costs

§ increase in non-performing assets, which contributed to an increase in the provision for loan losses and a decrease in interest income, reflecting an economy that has recently experienced setbacks in the real estate and credit markets

§ net loan portfolio growth of $87.6 million, or 19.4%, primarily in manufactured housing, commercial real estate, commercial, and SBA loans which contributed to increased net interest income over the comparative periods. Net interest income grew to $24.0 million for the year ended December 31, 2007 compared to $22.5 million and $19.4 million for the years ended December 31, 2006 and 2005, respectively

§ decline in non-interest income primarily due to selling fewer SBA loans and an increase in non-interest expenses

The impact to the Company from these items, and others of both a positive and negative nature, will be discussed in more detail as they pertain to the Company's overall comparative performance for the year ended December 31, 2007 throughout the analysis sections of this Annual Report.

Critical Accounting Policies

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

Provision and Allowance for Loan Losses – The Company maintains a detailed, systematic analysis and procedural discipline to determine the amount of the allowance for loan losses ("ALL"). The ALL is based on estimates and is intended to be adequate to provide for probable losses inherent in the loan portfolio. This process involves deriving probable loss estimates that are based on individual loan loss estimation, migration analysis/historical loss rates and management's judgment.

The Company employs several methodologies for estimating probable losses. Methodologies are determined based on a number of factors, including type of asset, risk rating, concentrations, collateral value and the input of the Special Assets group, functioning as a workout unit.

Index

The ALL calculation for the different major loan types is as follows:

- SBA – All loans are reviewed and classified loans are assigned a specific allowance. Those not classified are assigned a pass rating. A migration analysis and various portfolio specific factors are used to calculate the required allowance on those pass loans.

- Relationship Banking – Includes commercial, commercial real estate and other installment loans. Classified loans are assigned a specific allowance. A migration analysis and various portfolio specific factors are used to calculate the required allowance on the remaining pass loans.

- Manufactured Housing – An allowance is calculated on the basis of risk rating, which is a combination of delinquency, value of collateral on classified loans and perceived risk in the product line.

The Company calculates the required ALL on a monthly basis. Any difference between estimated and actual observed losses from the prior month are reflected in the current period required ALL calculation and adjusted as deemed necessary. The review of the adequacy of the allowance takes into consideration such factors as concentrations of credit, changes in the growth, size and composition of the loan portfolio, overall and individual portfolio quality, review of specific problem loans, collateral, guarantees and economic 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.

The Company's ALL is maintained at a level believed adequate by management to absorb known and inherent probable losses on existing loans. A provision for loan losses is charged to expense. The allowance is charged for losses when management believes that full recovery on the loan is unlikely. Generally, the Company charges off any loan classified as a "loss"; portions of loans which are deemed to be uncollectible; overdrafts which have been outstanding for more than 90 days; and, all other unsecured loans past due 120 or more days. Subsequent recoveries, if any, are credited to the ALL.

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

Other Assets Acquired Through Foreclosure – Other assets acquired through foreclosure includes real estate and other assets acquired through foreclosure on the collateral property and is recorded at the lesser of the appraised value at the time of foreclosure less estimated costs to sell or the loan balance. Any excess of loan balance over the net realizable value of the other assets is charged-off against the allowance for loan losses. Subsequent to foreclosure, management periodically performs a new valuation and the asset is carried at the lower of carrying amount or fair value. Operating expenses or income, and gains or losses on disposition of such properties, are recorded in current operations.

Changes in Interest Income and Interest Expense

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

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

Index

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

	Year Ended December 31,			
	2007 vs. 2006		2006 vs. 2005	
	Amount of Increase (decrease)	Percent of Increase (decrease)	Amount of Increase (decrease)	Percent of Increase (decrease)
INTEREST INCOME	(dollars in thousands)			
Loans	$ 6,994	18.8%	$ 8,910	31.5%
Investment securities	376	23.9%	302	23.7%
Other	168	31.1%	313	137.3%
Total interest income	7,538	19.2%	9,525	32.0%
INTEREST EXPENSE				
Deposits	4,583	34.7%	5,524	71.7%
Bonds payable and other borrowings	1,447	40.4%	933	35.3%
Total interest expense	6,030	35.9%	6,457	62.4%
NET INTEREST INCOME	1,508	6.7%	3,068	15.8%
Provision for loan losses	808	165.2%	(77)	(13.6)%
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	700	3.2%	3,145	16.7%
NON-INTEREST INCOME				
Other loan fees	(92)	(3.3)%	(76)	(2.6)%
Gains from loan sales, net	(697)	(46.5)%	(1,000)	(40.0)%
Document processing fees, net	(66)	(8.1)%	(7)	(0.9)%
Loan servicing fees, net	(255)	(98.5)%	(316)	(55.0)%
Service charges	78	21.4%	46	14.5%
Other	(95)	(46.6)%	15	7.9%
Total non-interest income	(1,127)	(18.9)%	(1,338)	(18.3)%
NON-INTEREST EXPENSES				
Salaries and employee benefits	1,001	7.7%	1,018	8.5%
Occupancy and equipment expenses	234	12.6%	15	0.8%
Professional services	(57)	(6.0)%	(69)	(6.8)%
Advertising and marketing	149	24.8%	71	13.4%
Depreciation	17	3.4%	(44)	(8.1)%
Other	824	43.1%	(319)	(14.3)%
Total non-interest expenses	2,168	11.5%	672	3.7%
Income before provision for income taxes	(2,595)		1,135	
Provision for income taxes	(1,056)		1,449	
NET INCOME	$ (1,539)		$ (314)	

Comparison of 2007 to 2006

Net interest income increased by $1.5 million, or 6.7%, for 2007 compared to 2006. Total interest income increased by $7.5 million, or 19.2%, from $39.3 million in 2006 to $46.8 million in 2007. Of this increase, $7.4 million was due to interest-earning asset growth, primarily loans, and $134,000 resulted from rate increases. Total interest expense increased by $6.0 million, or 35.9%, in 2007 compared to 2006. Interest expense on deposits increased $4.6 million while the interest expense on other borrowings increased $1.4 million. Of the increase in interest expense on deposits, $2.8 million was due to deposit growth, including broker deposits, and $1.8 million resulted from higher rates. The increase in interest expense is primarily due to increased competition for core deposits which resulted in higher deposit rates and increased use of wholesale funding sources to fund loan growth.

Interest income from loans increased primarily due to overall net growth in the loan portfolio. The manufactured housing, commercial real estate, commercial and SBA loan portfolios increased by $30.1 million, $5.7 million, $18.7 million and $32.3 million, respectively, during 2007. This loan growth contributed to increased interest income from manufactured housing of $2.9 million, or 26.2%, commercial real estate of $1.3 million, or 12.3%, commercial of $1.1 million, or 22.1%, and SBA of $2.1 million, or 29.5%, for 2007 compared to 2006. These increases to loan interest income were partially offset by a decrease in interest income from the securitized loan portfolio of $398,000, or 25.6%, for 2007 compared to 2006. Interest income from investments and federal funds sold increased by $376,000 and $150,000, respectively for 2007 compared to 2006.

Index

The increase in interest income resulted almost entirely from growth in interest earning assets with yields remaining flat at 8.55% from 2006 to 2007. Margins continued to be compressed as deposit and borrowing rates increased from 4.31% to 4.81%. The upward pressure on interest rates paid on deposits began to ease as the FOMC reduced the target level for the federal funds rate in September 2007. Responding to concerns about a weakening economic outlook, the rate was reduced from 5.25% to 4.25% by December 31, 2007. In 2008, the rate has been adjusted three times and as of March 18, 2008 was 2.25%.

Comparison of 2006 to 2005

Total interest income increased by $9.5 million, or 32.0%, from $29.7 million in 2005 to $39.3 million in 2006. Of this increase, $6.8 million was due to interest-earning asset growth, primarily loans, and $2.7 million resulted from rate increases. Total interest expense increased by $6.5 million, or 62.4%, from $10.3 million in 2005 to $16.8 million in 2006. Interest expense on deposits increased $5.5 million, primarily due to an increase in volume of time certificates of deposit, while the interest expense on other borrowings increased $933,000.

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

	Year Ended December 31, (in thousands)					
	2007 versus 2006			2006 versus 2005		
	Total change	Change due to Rate	Change due to Volume	Total change	Change due to Rate	Change due to Volume
Interest earning deposits in other financial institutions (including time deposits)	$ 18	$ 1	$ 17	$ (8)	$ 13	$ (21)
Federal funds sold	150	33	117	321	91	230
Investment securities	376	155	221	302	183	119
Loans, net	6,994	(55)	7,049	8,910	2,451	6,459
Total interest-earning assets	7,538	134	7,404	9,525	2,738	6,787
Interest-bearing demand	582	324	258	(447)	443	(890)
Savings	105	89	16	110	149	(39)
Time certificates of deposit	3,896	1,367	2,529	5,861	1,786	4,075
Other borrowings	1,447	91	1,356	933	664	269
Total interest-bearing liabilities	6,030	1,871	4,159	6,457	3,042	3,415
Net interest income	$ 1,508	$ (1,737)	$ 3,245	$ 3,068	$ (304)	$ 3,372

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

	Year Ended December 31, 2007	2006	2005
	(dollars in thousands)		
Interest income	$ 46,841	$ 39,303	$ 29,778
Interest expense	22,834	16,804	10,347
Net interest income	$ 24,007	$ 22,499	$ 19,431
Net interest margin	4.38%	4.89%	5.14%

Provision for Loan Losses

The provision for loan losses increased $808,000 to $1.3 million for 2007 compared to $489,000 in 2006. The increase was driven primarily by net charge-offs in the SBA loan portfolio of $618,000 as well as loan growth.

The economy as a whole has recently experienced setbacks in the real estate and credit markets that have lead to a growth in non-performing assets for many financial institutions. The Bank has experienced an increase in impaired loans and has provided specific reserves believed to be adequate to cover potential losses. Nonetheless, increasing provisions for loan losses remain possible in the current economic environment.

Index

Non-Interest Income

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

Non-interest income	Year Ended December 31, 2007	2006	2005
	(in thousands)		
Other loan fees	$ 2,738	$ 2,830	$ 2,906
Gains from loan sales, net	802	1,499	2,499
Document processing fees, net	750	816	823
Loan servicing fees, net	4	259	575
Service charges	442	364	318
Other	109	204	189
Total non-interest income	$ 4,845	$ 5,972	$ 7,310

Comparison of 2007 to 2006

Total non-interest income for the Company declined by $1.1 million, or 18.9%, in 2007 compared to 2006. The decline is primarily due to the Company's continued plan to grow the Bank's SBA loan portfolio and sell fewer SBA loans which impacted gains from loan sales and loan servicing fees.

The following table summarizes this change:

Gains from loan sales, net	Year Ended December 31, 2007	2006	Change
	(in thousands)		
SBA	$ 713	$ 1,361	$ (648)
Mortgage	89	138	(49)
Total	$ 802	$ 1,499	$ (697)

Management's strategic shift gradually to sell fewer SBA loans and grow the portfolio contributed to the comparative decrease in net gains from SBA loans sales of $648,000, or 47.6%, for 2007 compared to 2006. The Company sold $8.8 million in SBA 7(a) loans in 2007 compared to $15.8 million in 2006. The reduction in loan sales, along with higher prepayments, also impacted net loan servicing fees which decreased by $255,000 in 2007 compared to 2006. Net gains from mortgage loan sales decreased by $49,000, or 35.3% in 2007 compared to 2006, primarily related to a decline in mortgage loan originations from $43.4 million in 2006 to $39.6 million in 2007. Total other non-interest income, including document processing fees and service charges declined by $83,000 in 2007 compared to 2006.

Comparison of 2006 to 2005

Total non-interest income for the Company declined by $1.3 million, or 18.3%, in 2006 compared to 2005. The decline is primarily due to the Company's continued plan to grow the Bank's SBA loan portfolio and sell fewer SBA loans which impacted gains from loan sales and loan servicing fees. Management's strategic shift gradually to sell fewer SBA loans and grow the portfolio, combined with market declines in loan sale pricing during 2006, contributed to the comparative decrease in net gains from SBA loan sales of $829,000, or 37.8%, for 2006 compared to 2005. Also impacted were net loan servicing fees which decreased by $316,000, or 55.0%, in 2006 compared to 2005.

- 17 -

Index

Non-Interest Expenses

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

Non-interest expenses	Year Ended December 31, 2007	2006	2005
	(in thousands)		
Salaries and employee benefits	$ 14,012	$ 13,011	$ 11,993
Occupancy and equipment expenses	2,089	1,855	1,840
Professional services	896	953	1,022
Advertising and marketing	751	602	531
Depreciation	516	499	543
Other	2,736	1,912	2,231
Total non-interest expenses	$ 21,000	$ 18,832	$ 18,160

Comparison of 2007 to 2006

Total non-interest expenses increased $2.2 million, or 11.5%, in 2007 compared to 2006. This increase was primarily due to an increase in salaries and employee benefits of $1.0 million, or 7.7%, in 2007 compared to 2006. Contributing to the increase in salaries and employee benefits was the full year of operation of the new Westlake Village Branch which opened in 2006, higher costs for health insurance and increased stock option expense. The Company also incurred increased occupancy costs of $234,000 and advertising and marketing of $149,000. Other non-interest expenses were impacted by sublease costs of $220,000 related to a former loan, and increases in the FDIC assessment, loan servicing and data processing of $188,000, $128,000 and $119,000, respectively.

Comparison of 2006 to 2005

Total non-interest expenses increased $672,000, or 3.7%, in 2006 compared to 2005. This increase was primarily due to an increase in salaries and employee benefits of $1.0 million, or 8.5%, in 2006 compared to 2005. Also contributing to the increase were the additional months of expense for the two full-service-branches added in May and October 2005 and the recognition of $163,000 in stock option expense as a result of the 2006 adoption of FAS 123R. This increase was partially offset by decreases in other non-interest expenses, professional services and depreciation expense, which declined by $248,000, $69,000 and $44,000, respectively.

The following table compares the various elements of non-interest expenses as a percentage of average assets:

Year Ended December 31, (dollars in thousands)	Average Assets	Total Non-Interest Expenses	Salaries and Employee Benefits	Occupancy and Depreciation Expenses
2007	$ 563,493	3.73%	2.49%	0.46%
2006	$ 474,465	3.97%	2.74%	0.50%
2005	$ 393,210	4.62%	3.05%	0.61%

Income Taxes

Income tax expense was $2.8 million in 2007, $3.8 million in 2006 and $2.4 million in 2005. The effective income tax rate was 42.2%, 41.8% and 29.6% for 2007, 2006 and 2005, respectively. The effective income tax rate for 2005 was generally less than the effective income tax rate in other periods presented as a tax reserve of $914,000, or $.16

per share (basic), related to the resolution of tax issues. See Note 10, "Income Taxes", in the notes to the Consolidated Financial Statements.

Index

Schedule of Average Assets, Liabilities and Stockholders' Equity

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

	December 31,					
	2007		2006		2005	
	Amount	%	Amount	%	Amount	%
ASSETS			(dollars in thousands)			
Cash and due from banks	$ 4,374	0.8%	$ 5,264	1.1%	$ 5,428	1.4%
Time and interest-earning deposits in other financial institutions	935	0.2%	567	0.1%	1,057	0.3%
Federal funds sold	12,938	2.3%	10,661	2.3%	5,923	1.5%
Investment securities available-for-sale	19,929	3.5%	22,655	4.8%	22,474	5.7%
Investment securities held-to-maturity	14,741	2.6%	8,759	1.9%	7,703	2.0%
Federal Reserve Bank & Federal Home Loan Bank stock	5,657	1.0%	4,342	0.9%	2,882	0.7%
Loans held for sale, net	92,867	16.5%	64,785	13.6%	50,106	12.7%
Loans held for investment, net	388,419	68.9%	332,315	70.0%	265,799	67.6%
Securitized loans, net	8,444	1.5%	11,913	2.5%	18,241	4.6%
Servicing rights	1,580	0.3%	2,410	0.5%	3,118	0.8%
Other assets acquired through foreclosure, net	499	0.1%	52	-	43	-
Premises and equipment, net	3,007	0.5%	2,287	0.5%	2,011	0.5%
Other assets	10,103	1.8%	8,455	1.8%	8,425	2.2%
TOTAL ASSETS	$ 563,493	100.0%	$ 474,465	100.0%	$ 393,210	100.0%
LIABILITIES						
Deposits:						
Non-interest-bearing demand	$ 34,172	6.0%	$ 34,555	7.3%	$ 34,758	8.8%
Interest-bearing demand	65,687	11.7%	58,569	12.3%	87,587	22.3%
Savings	15,642	2.8%	15,184	3.2%	16,479	4.2%
Time certificates of $100,000 or more	155,156	27.5%	138,897	29.2%	62,545	15.9%
Other time certificates	135,831	24.1%	102,604	21.7%	89,304	22.7%
Total deposits	406,488	72.1%	349,809	73.7%	290,673	73.9%
Other borrowings	102,167	18.2%	74,597	15.8%	46,285	11.8%
Bonds payable in connection with securitized loans	-	-	-	-	10,469	2.7%
Other liabilities	5,785	1.0%	5,210	1.1%	5,948	1.5%
Total liabilities	514,440	91.3%	429,616	90.6%	353,375	89.9%
STOCKHOLDERS' EQUITY						
Common stock	31,210	5.5%	30,517	6.4%	30,127	7.6%
Retained earnings	17,953	3.2%	14,523	3.0%	9,783	2.5%
Accumulated other comprehensive (loss)	(110)	-	(191)	-	(75)	-

Total stockholders' equity		49,053	8.7%		44,849	9.4%		39,835	10.1%
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$	563,493	100.0%	$	474,465	100.0%	$	393,210	100.0%

Index

Interest Rates and Differentials

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

	Year Ended December 31,		
Interest-earning assets:	2007	2006	2005
	(dollars in thousands)		
Time and interest earning deposits in other financial institutions:			
Average outstanding	$ 935	$ 567	$ 1,057
Interest income	43	25	32
Average yield	4.57%	4.31%	3.03%
Federal funds sold:			
Average outstanding	$ 12,938	$ 10,661	$ 5,923
Interest income	666	516	196
Average yield	5.15%	4.84%	3.31%
Investment securities:			
Average outstanding	$ 40,326	$ 35,756	$ 33,059
Interest income	1,952	1,576	1,274
Average yield	4.84%	4.41%	3.85%
Gross loans, excluding securitized:			
Average outstanding	$ 485,114	$ 400,540	$ 319,008
Interest income	43,022	35,631	25,804
Average yield	8.87%	8.90%	8.09%
Securitized loans:			
Average outstanding	$ 8,789	$ 12,407	$ 19,147
Interest income	1,158	1,555	2,472
Average yield	13.18%	12.54%	12.91%
Total interest-earning assets:			
Average outstanding	$ 548,102	$ 459,931	$ 378,194
Interest income	46,841	39,303	29,778
Average yield	8.55%	8.55%	7.87%

Index

Interest-bearing liabilities:	Year Ended December 31, 2007	2006	2005
	(dollars in thousands)		
Interest-bearing demand deposits:			
Average outstanding	$ 65,687	$ 58,569	$ 87,587
Interest expense	2,378	1,796	2,242
Average effective rate	3.62%	3.07%	2.56%
Savings deposits:			
Average outstanding	$ 15,642	$ 15,184	$ 16,479
Interest expense	560	455	344
Average effective rate	3.58%	2.99%	2.09%
Time certificates of deposit:			
Average outstanding	$ 290,987	$ 241,502	$ 151,849
Interest expense	14,870	10,974	5,115
Average effective rate	5.11%	4.54%	3.37%
Other borrowings:			
Average outstanding	$ 102,167	$ 74,602	$ 56,754
Interest expense	5,026	3,579	2,646
Average effective rate	4.92%	4.80%	4.66%
Total interest-bearing liabilities:			
Average outstanding	$ 474,483	$ 389,857	$ 312,669
Interest expense	22,834	16,804	10,347
Average effective rate	4.81%	4.31%	3.31%
Net interest income	$ 24,007	$ 22,499	$ 19,431
Net interest spread	3.74%	4.24%	4.56%
Average net margin	4.38%	4.89%	5.14%

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

Loan Portfolio

The Company's largest categories of loans held in the portfolio are commercial, commercial real estate and construction, SBA and manufactured housing loans. Loans are carried at face amount, net of payments collected, the allowance for loan loss and deferred loan fees/costs. Interest on all loans is accrued daily, primarily on a simple interest basis. It is the Company's policy to place a loan on nonaccrual status when the loan is 90 days past due. Thereafter, previously recorded interest is reversed and interest income is typically recognized on a cash basis.

The rates charged on variable rate loans are set at specific increments. These increments vary in relation to the Company's published prime lending rate or other appropriate indices. At December 31, 2007 and 2006, approximately 59% and 60%, respectively, of the Company's loan portfolio was comprised of variable interest rate loans. Management monitors the maturity of loans and the sensitivity of loans to changes in interest rates.

Index

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

	December 31,									
	2007		2006		2005		2004		2003	
In Years	(in thousands)									
	Fixed	Variable	Fixed	Variable	Fixed	Variable	Fixed	Variable	Fixed	Var
Less than One	$ 16,445	$ 83,356	$ 16,442	$ 76,509	$ 19,797	$ 49,796	$ 3,877	$ 44,896	$ 2,382	$ 3
One to Five	79,549	67,549	65,083	50,931	39,081	50,708	12,922	29,567	4,128	1
Over Five	129,335	167,878	103,242	144,136	88,086	139,570	94,568	110,215	85,390	11
Total	$ 225,329	$ 318,783	$ 184,767	$ 271,576	$ 146,964	$ 240,074	$ 111,367	$ 184,678	$ 91,900	$ 15
	41.4%	58.6%	40.5%	59.5%	38.0%	62.0%	37.6%	62.4%	36.7%	

Distribution of Loans

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

	December 31,				
	2007	2006	2005	2004	2003
	(dollars in thousands)				
	Loan Balance	Loan Balance	Loan Balance	Loan Balance	Loan Balance
Commercial	$ 72,470	$ 53,725	$ 44,957	$ 30,893	$ 24,592
Real estate	136,734	135,902	116,938	85,357	71,010
SBA	142,874	103,361	95,217	78,878	67,663
Manufactured housing	172,938	142,804	101,336	66,423	39,073
Other installment	10,027	8,301	11,355	8,645	5,770
Securitized	7,507	10,104	14,858	23,474	37,386
Mortgage loans held for sale	1,562	2,146	2,377	2,375	5,073
Gross Loans	544,112	456,343	387,038	296,045	250,567
Less:					
Allowance for loan losses	4,412	3,926	3,954	3,894	4,675
Deferred fees/costs	(48)	43	181	(103)	69
Discount on SBA loans	583	802	1,386	1,748	1,549
Net Loans	$ 539,165	$ 451,572	$ 381,517	$ 290,506	$ 244,274
Percentage to Gross Loans:					
Commercial	13.3%	11.8%	11.6%	10.5%	9.8%
Real estate	25.1	29.8	30.2	28.8	28.3
SBA	26.3	22.7	24.6	26.6	27.0
Manufactured housing	31.8	31.3	26.2	22.5	15.6
Other installment	1.8	1.8	2.9	2.9	2.3
Securitized	1.4	2.2	3.9	7.9	14.9

Mortgage loans held for sale	.3	.4	.6	.8	2.1
	100.0%	100.0%	100.0%	100.0%	100.0%

Commercial Loans

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

Index

Commercial Real Estate and Construction Loans

Commercial real estate and construction loans are primarily made for the purpose of purchasing, improving or constructing single-family residences, commercial or industrial properties.

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

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

SBA Loans

The SBA loans consist of 7(a), 504, conventional, investor and Business and Industry loans ("B&I"). The 7(a) loan proceeds are used for working capital, machinery and equipment purchases, land and building purposes, leasehold improvements and debt refinancing. The SBA guarantees up to 85% of the loan amount depending on loan size. Under the SBA 7(a) loan program, the Company is required to retain a minimum of 5% of the principal balance of each loan it sells into the secondary market

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

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

Real Estate Loans

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

Manufactured Housing Loans

The mortgage loan division originates loans secured by manufactured homes located in mobile home parks along the California coast and in the Sacramento area. The loans are serviced internally and are generally fixed rate written for terms of 5 to 30 years with balloon payments ranging from 5 to 15 years.

Other Installment Loans

Installment loans consist of automobile, small home equity lines of credit and general-purpose loans made to individuals. These loans are primarily fixed rate.

Index

Off-Balance Sheet Arrangements

The Bank has various “off-balance sheet” arrangements that might have an impact on its financial condition, liquidity, or result of operations. The Bank’s primary source of funds for its lending is its deposits. If necessary to meet the demand of deposit withdrawals or loan fundings, the Bank could obtain funding through federal funds lines of credit, advances from the FHLB or issuance of deposits through brokers. The Bank has continuous lines of credit with correspondent banks providing for federal funds lines of credit up to a maximum of $23.5 million and availability under agreements with the FHLB in the approximate amount of $5.1 million. There were no borrowings outstanding on the federal funds facilities at December 31, 2007, and advances from the FHLB in the amount of $121 million.

At December 31, 2007, the Bank had outstanding commitments to fund existing loans of approximately $50.7 million pursuant to credit availability terms in the loan agreements, including standby letters of credit of $518,000. Because these commitments generally have fixed expiration dates and many will expire without being drawn upon, the total commitment level does not necessarily represent future cash requirements. If needed to fund these outstanding commitments, the Bank has the ability to liquidate federal funds sold or securities available-for-sale or, on a short-term basis, to borrow and purchase federal funds from other financial institutions, to obtain advances from the FHLB or to issue new certificates of deposit through brokers.

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

	December 31,				
	2007	2006	2005	2004	2003
	(in thousands)				
Commercial	$ 21,612	$ 24,431	$ 22,327	$ 19,010	$ 13,867
Real estate	8,649	18,839	19,323	7,618	11,676
SBA	9,453	5,508	3,408	6,107	9,531
Installment loans	10,503	9,662	9,330	8,966	5,112
Standby letters of credit	518	847	1,499	403	522
Total commitments	$ 50,735	$ 59,287	$ 55,887	$ 42,104	$ 40,708

Loan Concentrations

The Company makes loans to borrowers in a number of different industries. Other than Manufactured Housing, no single concentration comprises 10% or more of the Company’s loan portfolio. Commercial, commercial real estate, construction and SBA loans each comprised over 10% of the Company’s loan portfolio as of December 31, 2007 and 2006, but consisted of diverse borrowers.

Index

Allowance for Loan Losses

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

	Year Ended December 31,				
	2007	2006	2005	2004	2003
			(in thousands)		
Average gross loans, held for investment,	$ 401,036	$ 348,161	$ 288,049	$ 230,533	$ 202,563
Gross loans at end of year, held for investment	433,162	379,703	324,965	248,412	206,912
Allowance for loan losses, beginning of year	$ 3,926	$ 3,954	$ 3,894	$ 4,676	$ 5,950
Loans charged off:					
Commercial (including SBA)	775	459	228	185	445
Real estate	-	-	8	274	471
Installment	-	-	-	-	3
Short-term consumer	-	-	-	-	902
Securitized	142	341	831	1,356	2,512
Total	917	800	1,067	1,815	4,333
Recoveries of loans previously charged off					
Commercial (including SBA)	45	93	20	31	88
Real estate	-	-	89	44	42
Short-term consumer	-	-	-	-	672
Securitized	61	190	452	540	588
Total	106	283	561	615	1,390
Net loans charged off	811	517	506	1,200	2,943
Provision for loan losses	1,297	489	566	418	1,669
Allowance for loan losses, end of year	$ 4,412	$ 3,926	$ 3,954	$ 3,894	$ 4,676
Ratios:					
Net loan charge-offs to average loans	0.2%	0.1%	0.2%	0.5%	1.5%
Net loan charge-offs to loans at end of period	0.2%	0.1%	0.2%	0.5%	1.4%
Allowance for loan losses to loans held for investment at end of period	1.0%	1.0%	1.2%	1.6%	2.3%
Net loan charge-offs to allowance for loan losses at beginning of period	20.7%	13.1%	13.0%	25.7%	49.5%
Net loan charge-offs to provision for loan losses	62.5%	105.7%	89.4%	287.1%	176.3%

Index

The following table summarizes the allowance for loan losses:

	December 31,									
	2007		2006		2005		2004		2003	
	(dollars in thousands)									
Balance at end of period applicable to:	Amount	Percent of loans in each category to total loans	Amount	Percent of loans in each category to total loans	Amount	Percent of loans in each category to total loans	Amount	Percent of loans in each category to total loans	Amount	Percent of loans in each category to total loans
SBA	$ 1,810	26.3%	$ 1,365	22.6%	$ 1,409	24.6%	$ 1,388	24.6%	$ 1,550	27.0%
Manufactured housing	610	31.8%	786	31.3%	563	26.2%	465	22.5%	372	15.6%
Securitized	322	1.4%	351	2.2%	628	3.9%	1,109	7.9%	2,024	14.9%
All other loans	1,670	40.5%	1,424	43.9%	1,354	45.3%	932	45.0%	730	42.5%
Total	$ 4,412	100%	$ 3,926	100%	$ 3,954	100%	$ 3,894	100%	$ 4,676	100%

Total allowance for loan losses ("ALL") increased by $486,000 from December 31, 2006 to December 31, 2007. The increase was primarily due to loan growth and the impact of charge-offs on the migration analysis. Net loans charged-offs were $811,000 in 2007, $517,000 in 2006 and $506,000 in 2005.

In management's opinion, the balance of the allowance for loan losses was sufficient to absorb known and inherent probable losses in the loan portfolio as of December 31, 2007.

Nonaccrual, Past Due and Restructured Loans

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

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

	Year Ended December 31,				
	2007	2006	2005	2004	2003
	(in thousands)				
Impaired loans without specific valuation allowances	$ 33	$ 63	$ 77	$ 49	$ 235
	16,468	5,145	3,406	3,926	6,843

Impaired loans with specific valuation allowances										
Specific valuation allowance related to impaired loans		(966)		(641)		(473)		(425)		(640)
Impaired loans, net	$	15,535	$	4,567	$	3,010	$	3,550	$	6,438
Average investment in impaired loans	$	9,386	$	4,074	$	3,716	$	5,137	$	6,584

- 26 -

Index

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

	Year Ended December 31,				
	2007	2006	2005	2004	2003
			(in thousands)		
Nonaccrual loans	$ 15,341	$ 7,417	$ 6,797	$ 8,350	$ 7,174
SBA guaranteed portion of loans included above	(5,695)	(4,256)	(4,332)	(5,287)	(4,106)
Nonaccrual loans, net	$ 9,646	$ 3,161	$ 2,465	$ 3,063	$ 3,068
Troubled debt restructured loans	$ 7,255	$ 68	$ 75	$ 124	$ 193
Loans 30 through 90 days past due with interest accruing	$ 18,898	2,463	1,792	1,804	3,907
Interest income recognized on impaired loans	$ 691	$ 242	$ 141	$ 103	$ 277
Interest foregone on nonaccrual loans and troubled debt restructured loans outstanding	$ 904	488	253	208	216
Gross interest income on impaired loans	$ 1,595	$ 730	$ 394	$ 311	$ 493

The accrual of interest is discontinued when substantial doubt exists as to collectibility 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. All of the nonaccrual loans are impaired. Total net nonaccrual loans increased by $6.5 million from 2006 to 2007. The increase in net non-accrual loans was primarily due to one construction loan of $5.3 million for which the collateral appears to adequately secure principal recovery.

Total net impaired loans increased by $11.0 million as of December 31, 2007 compared to December 31, 2006. Three loans of $5.3 million, $4.0 million and $1.0 million constituted most of the increase. In consideration of the collateral, specific reserves for these three loans total $122,000.

Financial difficulties encountered by certain borrowers may cause the Company to restructure the terms of their loan to facilitate loan repayment. A troubled debt restructured loan ("TDR") would generally be considered impaired. The balance of impaired loans disclosed above includes all TDRs that, as of December 31, 2007, 2006 and 2005, are considered impaired.

Investment Portfolio

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

	December 31,		
	2007	2006	2005
Available-for-sale securities		(in thousands)	
U.S. Government agency notes	$ 5,993	$ 13,184	$ 15,148
U.S. Government agency: MBS	5,004	7,005	5,148
U.S. Government agency: CMO	1,667	1,908	2,323
Total	$ 12,664	$ 22,097	$ 22,619

	December 31,		
	2007	2006	2005
Held-to-maturity securities		(in thousands	
U.S. Government agency notes	$ 200	$ 200	$ 200
U.S. Government agency: MBS	25,417	10,335	8,477
Total	$ 25,617	$ 10,535	$ 8,677

Index

At December 31, 2007, $200,000 at carrying value of held-to-maturity securities were pledged as collateral to the U.S. Treasury for CWB’s treasury, tax and loan account and $38.1 million at carrying value were pledged to the Federal Home Loan Bank, San Francisco, as collateral for current and future advances.

The maturity periods and weighted average yields of investment securities at December 31, 2007 are as follows: