COMMUNITY WEST BANCSHARES /
Form 10-K
March 02, 2018

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, 2017
Commission File Number: 000-23575

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

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

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

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

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

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

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See definitions 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 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 Act). Yes No

The aggregate market value of common stock held by non-affiliates of the registrant was $49,406,928 based on the June 30, 2017 closing price of $10.10 per common share as reported on the Nasdaq Global Market. For purposes of the foregoing computation, all executive officers, directors and five percent beneficial owners of the registrant are deemed to be affiliates. Such determination should not be deemed to be an admission that such executive officers, directors or five percent beneficial owners are, in fact, affiliates of the registrant.

As of February 23, 2018, 8,214,564 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 2018 Annual Meeting of Shareholders 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, 2017.

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PART I

Forward-Looking Statements

Certain statements contained in this Annual Report on Form 10-K ("Form 10-K") are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, Section 21E of the Securities Exchange Act of 1934, as amended, and the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical fact are "forward-looking statements" for purposes of Federal and State securities laws, including statements that are related to or are dependent upon estimates or assumptions relating to expectations, beliefs, projections, future plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts.

The forward-looking statements contained in this Form 10-K reflect our current views about future events and financial performance and involve certain risks, uncertainties, assumptions and changes in circumstances that may cause our actual results to differ materially from historical results and those expressed in any forward-looking statement, including those risks discussed under the heading "Risk Factors" in this Form 10-K. Risks and uncertainties include those set forth in our filings with the Securities and Exchange Commission ("SEC").

For more information regarding risks that may cause our actual results to differ materially from any forward-looking statements, see "Risk Factors" beginning on page 7. Forward-looking statements speak only as of the date they are made and the Company does not undertake any obligations to update forward-looking statements to reflect circumstances and or events that occur after the date the forward-looking statements are made.

Purpose

The following discussion is designed to provide insight on the financial condition and results of operations of Community West Bancshares ("CWBC") and its wholly-owned subsidiary Community West Bank N.A ("CWB" or the "Bank"). Unless otherwise stated, "the Company" refers to CWBC and CWB as a consolidated entity. References to "CWBC or to the "holding company," refer to Community West Bancshares, the parent company, on a stand-alone basis. This discussion should be read in conjunction with the Company's Consolidated Financial Statements and notes to the Consolidated Financial Statements for the years ended December 31, 2017 and 2016, herein referred to as the "Consolidated Financial Statements". These Consolidated Financial Statements are presented beginning on page 49 of this Report.

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ITEM 1. BUSINESS

GENERAL

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

PRODUCTS AND SERVICES

CWB is focused on relationship-based business banking to small to medium-sized businesses and their owners in the communities served by its branch offices. The products and services provided include deposit products such as checking accounts, savings accounts, money market accounts and fixed rate, fixed maturity certificates of deposits, cash management products, and lending products including; commercial, commercial real estate and consumer loans.

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

Manufactured Housing

The Company has a financing program for manufactured housing to provide affordable home ownership. These loans are offered in approved mobile home parks that meet specific criteria. We primarily lend in coastal California communities from San Diego to San Francisco. The manufactured housing loans are secured by the manufactured home and are retained in the Company's loan portfolio.

Agricultural Loans for Real Estate and Operating Lines

The Company has an agricultural lending program for agricultural land, agricultural operational lines, and agricultural term loans for crops, equipment and livestock. These loan products are partially guaranteed by the U.S. Department of Agriculture ("USDA"), Farm Service Agency ("FSA"), and the USDA Business and Industry loan program. The FSA loans typically issue a 90% guarantee up to $1,399,000 (amount adjusted annually based on inflation) for up to 40 years.

Small Business Administration Lending

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

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

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

Loans to One Borrower

State banking law generally limits the amount of funds that a bank may lend to a single borrower. Under federal law, the unsecured obligations of any one borrower to a national bank generally may not exceed 15% of the sum of the bank’s unimpaired capital and unimpaired surplus, and the secured and unsecured obligations of any one borrower. CWB was approved to increase this lending limit under the OCC’s Special Lending Limits Program to 25%. This program ensures that national bank lending limits such as CWB’s would remain competitive with state-chartered banks.

Foreign Operations

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

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Customer Concentration

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

COMPETITION

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

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

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

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

EMPLOYEES

As of December 31, 2017, the Company had 128 full-time equivalent team members. The Company's employees are not represented by a union or covered by a collective bargaining agreement. Management believes that its employee relations are good.

GOVERNMENT POLICIES

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

Additional Available Information

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

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ITEM 1A. RISK FACTORS

Investing in our common stock involves various risks which are specific to the Company. Several of these risks and uncertainties, are discussed below and elsewhere in this report. This listing should not be considered as all-inclusive. These factors represent risks and uncertainties that could have a material adverse effect on our business, results of operations and financial condition. Other risks that we do not know about now, or that we do not believe are significant, could negatively impact our business or the trading price of our securities. In addition to common business risks such as theft, loss of market share and disasters, the Company is subject to special types of risk due to the nature of its business. See additional discussions about credit, interest rate, market and litigation risks in "Management's Discussion and Analysis of Financial Condition and Results of Operations" section of this report beginning on page 15 and additional information regarding legislative and regulatory risks in the "Supervision and Regulation" section beginning on page 37.

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

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

A deterioration in economic conditions in the market areas we serve could result in the following consequences, any of which could have a materially adverse impact on our business, financial condition and results of operations:

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

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

The Company has liquidity risk.

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

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

The risk of nonpayment of loans is inherent in all lending activities, and nonpayment, if it occurs, may have an adverse effect on our financial condition and/or results of operations. The Company maintains a reserve for loan losses to absorb estimated probable losses inherent in the loan and commitment portfolios as of the balance sheet date. Provisions are taken from earnings and applied to the loan loss reserves as the risk of loss in the loan and commitment portfolios increases. Conversely, credits to earnings from the loan loss reserves are made when asset qualities improve resulting in a decrease in the risk of loss in the loan and commitment portfolios. As of December 31, 2017, the Company’s allowance for loan losses was $8.4 million, or 1.24% of loans held for investment. In addition, as of December 31, 2017, the Company had $6.8 million in loans on nonaccrual, $2.4 million of which are government guaranteed. In determining the appropriate level of the reserve for loan losses, Management makes various assumptions and judgments about the loan portfolio. Management relies on an analysis of the loan portfolio based on historical loss experience, volume and types of loans, trends in classifications, volume and trends in delinquencies and non-accruals, national and local economic conditions and other pertinent information known at the time of the analysis. If Management’s assumptions are incorrect, the reserve for loan losses may not be sufficient to cover losses, which could have a material adverse effect on the Company’s financial condition and/or results of operations. While the allowance for loan losses was determined to be adequate at December 31, 2017, based on the information available to us at the time, there can be no assurance that the allowance will be adequate to cover actual losses in the loan portfolio in the future.

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All of our lending involves underwriting risks.

Lending, even when secured by the assets of a business, involves considerable risk of loss in the event of failure of the business. To reduce such risk, the Company typically takes additional security interests in other collateral of the borrower, such as real property, certificates of deposit, life insurance, and/or obtains personal guarantees. Despite efforts to reduce risk of loss, additional measures may not prove sufficient as the value of the additional collateral or personal guarantees may be significantly reduced. There can be no assurances that collateral values will be sufficient to repay loans should borrowers become unable to repay loans in accordance with their original terms and, if not, the cumulative effect may have an adverse effect on our financial condition and/or results of operations.

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

As of December 31, 2017, approximately $460.8 million, or 63%, of our loan portfolio is secured by various forms of real estate, including residential and commercial real estate. A decline in current economic conditions or rising interest rates could have an adverse effect on the demand for new loans, the ability of borrowers to repay outstanding loans and the value of real estate and other collateral securing loans. The real estate securing our loan portfolio is concentrated in California. A decline in the real estate market could materially and adversely affect the business of CWB because a significant portion of its loans are secured by real estate. The ability to recover on defaulted loans by selling the real estate collateral would then be diminished and CWB would be more likely to suffer losses on loans. Substantially all of the real property collateral is located in California. If there is an additional decline in real estate values, especially in California, the collateral for their loans would provide less security. Real estate values could be affected by, among other things, a decline of economic conditions, an increase in foreclosures, a decline in home sale volumes, an increase in interest rates, high levels of unemployment, drought, earthquakes, brush fires and other natural disasters particular to California.

California’s current drought may impact the economy.

At December 31, 2017, CWB had $35.5 million of agricultural loans which would be most impacted by the drought. The overall economy of California may be negatively impacted by drought as the cost of water and availability of water may increase the operating costs for businesses which could negatively affect the Company’s operating results, loan quality and collateral.

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

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

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

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

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

The federal banking agencies revised capital guidelines to reflect the requirements of the Dodd-Frank Act and to effect the implementation of the Basel III Accords. The quantitative measures, established by the regulators to ensure capital adequacy, require that a bank holding company maintain minimum ratios of capital to risk-weighted assets. Various provisions of the Dodd-Frank Act increase the capital requirements of bank holding companies, such as the Company, and non-bank financial companies that are supervised by the Federal Reserve. For a further discussion of the capital rules, see "SUPERVISION AND REGULATION" herein.

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

A segment of our business consists of originating and periodically selling government guaranteed loans, in particular those guaranteed by the USDA and the SBA. From time to time, the government agencies that guarantee these loans reach their internal limits and cease to guarantee loans. In addition, these agencies may change their rules for loans or Congress may adopt legislation that would have the effect of discontinuing or changing the loan programs. Non-governmental programs could replace government programs for some borrowers, but the terms might not be equally acceptable. Therefore, if these changes occur, the volume of loans to small business, industrial and agricultural borrowers of the types that now qualify for government guaranteed loans could decline. Also, the profitability of these loans could decline.

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

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

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

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

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

As of December 31, 2017, the Company has borrowings from the FHLB of San Francisco of $50.0 million and no borrowings from the FRB. The Company in the recent past has been reliant on such borrowings to satisfy its liquidity needs. The Company's borrowing capacity is generally dependent on the value of the Company's collateral pledged to these entities. These lenders could reduce the borrowing capacity of the Company or eliminate certain types of collateral and could otherwise modify or even terminate their loan programs which could have an adverse effect on the Company's liquidity and profitability.

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

Approximately 48% of the Company's loan portfolio at December 31, 2017 was secured by commercial real estate. In the course of our business, the Company may foreclose and take title to real estate, and could be subject to environmental liabilities with respect to these properties. The Company may be held liable to a governmental entity or to third parties for property damage, personal injury, investigation and clean-up costs incurred by these parties in connection with environmental contamination, or may be required to investigate or clean up hazardous or toxic substances, or chemical releases at a property. The costs associated with investigation or remediation activities could be substantial. In addition, if the Company is the owner or former owner of a contaminated site, it may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from the property. These costs and claims could adversely affect the Company's business and prospects.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The business may be adversely affected by internet fraud.

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

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

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

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

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

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

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

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

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

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

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

The Company is headquartered at 445 Pine Avenue in Goleta, California. This facility houses the Company's corporate offices and the manufactured housing loan division. The Company operates seven domestic branch locations one of which is owned, and a loan production office in Paso Robles. All other properties are leased by the Company, including the corporate headquarters.

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

ITEM 3. LEGAL PROCEEDINGS

From time to time we may be involved in claims that arise during the ordinary course of business. Although the results of litigation and claims cannot be predicted with certainty, we do not currently have any pending litigation to which we are a party or to which our property is subject that we believe would have a material impact on our financial position or results of operations. Regardless of the outcome, litigation can be costly and time consuming, and it can divert management’s attention from important business matters and initiatives, negatively impacting our overall operations.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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PART II

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

Market Information

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

	2017 Quarters				2016 Quarters			
	Fourth	Third	Second	First	Fourth	Third	Second	First
Range of Stock Prices								
High	$11.00	$10.45	$10.40	$10.65	$9.95	$8.62	$7.55	$7.25
Low	10.25	10.05	9.95	9.12	7.85	7.35	6.80	6.79
Cash Dividends Declared	$0.04	$0.04	$0.04	$0.035	$0.035	$0.035	$0.035	$0.03

Holders

As of February 23, 2017 the closing price of our common stock on NASDAQ was $11.20 per share. As of that date the Company had approximately 219 holders of record of its common stock. The Company has a greater number of beneficial owners of our common stock who own their shares through brokerage firms and institutional accounts.

Common Stock Dividends

As a holding company with limited significant assets other than the capital stock of our subsidiary bank, CWBC's ability to pay dividends depends primarily on the receipt of dividends from its subsidiary bank, CWB. CWB's ability to pay dividends to the Company is limited by California law and federal law. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Supervision and Regulation – CWBC – Limitations on Dividend Payments."

Repurchases of Securities

On August 24, 2017, the Board of Directors extended the common stock repurchase program of up to $3.0 million for two additional years. As of December 31, 2017, the Company has repurchased 187,569 common stock shares for $1.4 million at an average price of $7.25 per share under this program. There were no repurchases of common stock under this program during the three months ended December 31, 2017.

Securities Authorized for Issuance under Equity Compensation Plans

The following table summarizes the securities authorized for issuance as of December 31, 2017:

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

				reflected in column (a))
	(a)	(b)		(c)
Plans approved by shareholders	1,200,983	$	6.03	258,000
Plans not approved by shareholders	-		-	-
Total	1,200,983	$	6.03	258,000

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

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ITEM 6. SELECTED FINANCIAL DATA

The following summary presents selected financial data as of and for the periods indicated. You should read the selected financial data presented below in conjunction with “Item 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS” and our consolidated financial statements and the related notes appearing elsewhere in this Form 10-K.

	Year Ended December 31,				
	2017	2016	2015	2014	2013
Results of Operations:					
Interest income	$ 37,391	$32,216	$30,222	$28,004	27,866
Interest expense	4,729	3,127	2,516	3,275	4,332
Net interest income	32,662	29,089	27,706	24,729	23,534
Provision (credit) for loan losses	411	(48)	(2,274)	(5,135)	(1,944)
Net interest income after provision for loan losses	32,251	29,137	29,980	29,864	25,478
Non-interest income	2,950	2,253	2,309	2,197	2,831
Non-interest expenses	24,738	22,548	27,281	20,081	22,135
Income before income taxes	10,463	8,842	5,008	11,980	6,174
Provision (benefit) for income taxes	5,548	3,613	2,138	4,934	(2,812)
Net income	4,915	5,229	2,870	7,046	8,986
Dividends and accretion on preferred stock	-	-	445	937	1,039
Discount on partial redemption of preferred stock	-	-	(129)	(159)	-
Net income available to common stockholders	$ 4,915	$5,229	$2,554	$6,268	7,947
Per Share Data:					
Income per common share - basic	$ 0.60	$0.64	$0.31	$0.77	1.13
Income per common share - diluted	$ 0.57	$0.62	$0.30	$0.75	0.98
Weighted average shares outstanding - basic	8,146	8,114	8,203	8,141	7,017
Weighted average shares outstanding - diluted	8,589	8,444	8,491	8,505	8,390
Shares outstanding at period end	8,193	8,096	8,206	8,203	7,867
Dividends declared per common share	$ 0.155	$0.135	$0.110	0.040	-
Book value per common share	$ 8.55	$8.07	$7.55	$7.31	$6.60
Selected Balance Sheet Data:					
Net loans	726,189	623,355	536,546	487,256	462,005
Allowance for loan losses	8,420	7,464	6,916	7,887	12,208
Total assets	833,315	710,572	621,213	557,318	539,000
Total deposits	699,684	612,236	544,338	477,084	436,135
Total liabilities	763,245	645,236	559,269	490,311	471,444
Total stockholders' equity	70,070	65,336	61,944	67,007	67,556
Selected Financial and Liquidity Ratios:					
Net interest margin	4.34 %	4.60 %	4.80 %	4.50 %	4.51 %
Return on average assets	0.64 %	0.81 %	0.49 %	1.25 %	1.69 %
Return on average stockholders' equity	7.16 %	8.19 %	4.34 %	10.42 %	15.15 %
Equity to assets ratio	8.96 %	9.91 %	11.23 %	12.02 %	11.16 %
Loan to deposit ratio	104.99 %	103.04 %	99.84 %	103.79 %	108.73 %
Capital Ratios:					
Tier 1 leverage ratio (1)	8.72 %	9.64 %	10.11 %	11.86 %	12.68 %
Common Equity Tier 1 ratio (1)	9.96 %	10.57 %	12.12 %	-	-
Tier 1 risk-based capital ratio (1)	9.96 %	10.57 %	12.12 %	14.94 %	15.65 %
Total risk-based capital ratio (1)	11.17 %	11.80 %	13.37 %	16.19 %	17.26 %
Selected Asset Quality Ratios:					

Net charge-offs (recoveries) to average loans	-0.08	%	-0.10	%	-0.26	%	-0.16	%	0.70	%
Allowance for loan losses to total loans	1.15	%	1.18	%	1.27	%	1.59	%	2.57	%
Allowance for loan losses to nonaccrual loans	123.03	%	239.46	%	99.42	%	71.52	%	72.51	%
Nonaccrual loans to gross loans	0.93	%	0.49	%	1.28	%	2.23	%	3.55	%
Nonaccrual loans and repossessed assets to total loans	0.98	%	0.52	%	1.32	%	2.25	%	4.35	%
Loans past due 90 days or more and still accruing interest to total loans	-		-		-		-		0.01	%

(1) Effective 2015, CWB was subject to Basel III regulatory capital guidelines. CWBC as a small bank holding company is not subject to the Basel III capital reporting requirements. The 2017, 2016 and 2015 ratios were the estimated consolidated capital ratios under Basel III.

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

The following discussion and analysis should be read in conjunction with "Item 8–Financial Statements and Supplementary Data." This discussion and analysis contains forward-looking statements that involve risk, uncertainties and assumptions. Certain risks, uncertainties and other factors, including but not limited to those set forth under " Forward-Looking Statements," on page 4 of this Form 10-K, may cause actual results to differ materially from those projected in the forward-looking statements.

Financial Overview and Highlights

Community West Bancshares is a financial services company headquartered in Goleta, California that provides full service banking and lending through its wholly-owned subsidiary Community West Bank ("CWB"), which has seven California branch banking offices located in Goleta, Oxnard, San Luis Obispo, Santa Barbara, Santa Maria, Ventura and Westlake Village, and one loan production office in Paso Robles.

Financial Result Highlights of 2017

Net income available to common stockholders of $4.9 million, or $0.57 per diluted share for 2017, compared to $5.2 million, or $0.62 per diluted share for 2016 and $2.6 million or $0.30 per diluted share for 2015.

The significant factors impacting the Company during 2017 were:

- Net income of $4.9 million for 2017 compared to a net income of $5.2 million for 2016.
- Total loans increased 16.5% to $734.6 million at December 31, 2017 compared to $630.8 million at December 31, 2016.
- Total deposits increased 14.3% to $699.7 million at December 31, 2017 compared to $612.2 million at December 31, 2016.
- Non-interest-bearing deposits increased 8.1% to $108.5 million at December 31, 2017, compared to $100.4 million at December 31, 2016.
- The provision (credit) for loan losses was $0.4 million for 2017 compared to ($48,000) for 2016. Net loan loss recoveries were ($0.5 million) for 2017 compared to ($0.6 million) in 2016.
- Net nonaccrual loans increased to $4.5 million at December 31, 2017, compared to $2.4 million at December 31, 2016.
- Allowance for loan losses was $8.4 million at December 31, 2017, or 1.24% of total loans held for investment compared to $7.5 million, or 1.31% at December 31, 2016.
- Net interest margin for the year ended December 31, 2017 decreased to 4.34% compared to 4.60% for the year ended December 31, 2016.
- Full service branch office location opened in Oxnard, California.
- Net DTA revaluation to write down $1.3 million due to the Tax Cuts and Job Act law change enacted in December 2017.

The impact to the Company from these factors, and others of both a positive and negative nature are discussed in more detail below as they pertain to the Company's overall comparative performance for the year ended December 31, 2017.

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

	Year Ended December 31,		
	2017	2016	2015
	(in thousands, except per share amounts)		

Net income available to common stockholders	$ 4,915	$ 5,229	$ 2,554
Basic earnings per share	0.60	0.64	0.31
Diluted earnings per share	0.57	0.62	0.30
Total assets	833,315	710,572	621,213
Gross loans	734,609	630,819	543,462
Total deposits	699,684	612,236	544,338
Net interest margin	4.34 %	4.60 %	4.80 %
Return on average assets	0.64 %	0.81 %	0.49 %
Return on average stockholders' equity	7.16 %	8.19 %	4.34 %

Asset Quality

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

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	Year Ended December 31,		
	2017	2016	2015
	(in thousands)		
Non-accrual loans (net of guaranteed portion)	$4,472	$2,375	$5,013
Non-accrual loans to gross loans	0.61 %	0.38 %	0.92 %
Net charge-offs (recoveries) to average loans	-0.08 %	-0.10 %	-0.26 %

Asset and Deposit Growth

The Company's assets and liabilities are comprised primarily of loans and deposits respectively. The ability to originate new loans and attract new deposits is fundamental to the Company's asset growth. Total assets increased to $833.3 million at December 31, 2017 from $710.6 million at December 31, 2016. Total loans including net deferred fees and unearned income, increased by $103.8 million, or 16.5%, to $734.6 million as of December 31, 2017 compared to December 31, 2016. Total deposits increased by 14.3% to $699.7 million as of December 31, 2017 from $612.2 million as of December 31, 2016.

RESULTS OF OPERATIONS

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

	Year Ended December 31,		Increase	Year Ended December 31,		Increase
	2017	2016	(Decrease)	2016	2015	(Decrease)
Consolidated Income Statement Data:						
Interest income	$37,391	$32,216	$ 5,175	$32,216	$30,222	$ 1,994
Interest expense	4,729	3,127	1,602	3,127	2,516	611
Net interest income	32,662	29,089	3,573	29,089	27,706	1,383
Provision (credit) for losses	411	(48)	459	(48)	(2,274)	2,226
Net interest income after provision for loan losses	32,251	29,137	3,114	29,137	29,980	(843)
Non-interest income	2,950	2,253	697	2,253	2,309	(56)
Non-interest expenses	24,738	22,548	2,190	22,548	27,281	(4,733)
Income before provision for income taxes	10,463	8,842	1,621	8,842	5,008	3,834
Provision for income taxes	5,548	3,613	1,935	3,613	2,138	1,475
Net income	$4,915	$5,229	$ (314)	$5,229	$2,870	$ 2,359
Dividends and accretion on preferred stock	-	-	-	-	445	(445)
Discount on partial redemption of preferred stock						