

COMMUNITY WEST BANCSHARES /
Form 10-Q
November 06, 2017

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2017 or

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

For the transition period from _____ to _____

Commission File Number: 000-23575

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

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

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer," "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 a smaller reporting company) Smaller reporting company

Emerging growth company

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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

Common stock of the registrant issued and outstanding of 8,178,539 as of October 31, 2017.

Table of Contents

	Page
Index	
Part I. Financial Information	
Item 1 – Financial Statements	
<u>Consolidated Balance Sheets as of September 30, 2017 (unaudited) and December 31, 2016</u>	3
<u>Consolidated Income Statements for the three and nine months ended September 30, 2017 and 2016 (unaudited)</u>	4
<u>Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2017 and 2016 (unaudited)</u>	5
<u>Consolidated Statement of Stockholders’ Equity for the nine months ended September 30, 2017 (unaudited)</u>	6
<u>Consolidated Statements of Cash Flows for the nine months ended September 30, 2017 and 2016 (unaudited)</u>	7
<u>Notes to Unaudited Consolidated Financial Statements</u>	8
The financial statements included in this Form 10-Q should be read in conjunction with Community West Bancshares’ Annual Report on Form 10-K for the fiscal year ended December 31, 2016.	
Item 2 – <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	32
Item 3 – <u>Quantitative and Qualitative Disclosures About Market Risk</u>	48
Item 4 – <u>Controls and Procedures</u>	48
Part II. Other Information	
Item 1 – <u>Legal Proceedings</u>	49
Item 1A – <u>Risk Factors</u>	49
Item 2 – <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	49
Item 3 – <u>Defaults Upon Senior Securities</u>	49
Item 4 – <u>Mine Safety Disclosures</u>	49
Item 5 – <u>Other Information</u>	49
Item 6 – <u>Exhibits</u>	49
<u>Signatures</u>	50

Table of Contents

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

COMMUNITY WEST BANCSHARES
CONSOLIDATED BALANCE SHEETS

	September 30, 2017 (unaudited) (in thousands, except share amounts)	December 31, 2016
Assets:		
Cash and due from banks	\$ 2,356	\$ 2,385
Federal funds sold	13	16
Interest-earning demand in other financial institutions	49,202	31,715
Cash and cash equivalents	51,571	34,116
Investment securities - available-for-sale, at fair value; amortized cost of \$29,808 at September 30, 2017 and \$22,731 at December 31, 2016	29,927	22,681
Investment securities - held-to-maturity, at amortized cost; fair value of \$8,384 at September 30, 2017 and \$9,149 at December 31, 2016	8,190	9,002
Federal Home Loan Bank stock, at cost	2,347	2,070
Federal Reserve Bank stock, at cost	1,373	1,373
Loans:		
Held for sale, at lower of cost or fair value	58,561	61,416
Held for investment, net of allowance for loan losses of \$8,312 at September 30, 2017 and \$7,464 at December 31, 2016	655,822	561,939
Total loans	714,383	623,355
Other assets acquired through foreclosure, net	486	137
Premises and equipment, net	5,132	3,931
Other assets	15,741	13,907
Total assets	\$ 829,150	\$ 710,572
Liabilities:		
Deposits:		
Non-interest-bearing demand	\$ 116,170	\$ 100,372
Interest-bearing demand	266,835	253,023
Savings	14,619	14,007
Certificates of deposit (\$250,000 or more)	81,160	77,509
Other certificates of deposit	218,370	167,325
Total deposits	697,154	612,236
Other borrowings	55,843	29,000
Other liabilities	6,387	4,000
Total liabilities	759,384	645,236
Stockholders' equity:		
Common stock — no par value, 60,000,000 shares authorized; 8,169,439 shares issued and outstanding at September 30, 2017 and 8,096,039 at December 31, 2016	42,376	41,575
Retained earnings	27,320	23,790
Accumulated other comprehensive income (loss)	70	(29)

Edgar Filing: COMMUNITY WEST BANCSHARES / - Form 10-Q

Total stockholders' equity	69,766	65,336
Total liabilities and stockholders' equity	\$ 829,150	\$ 710,572

See the accompanying notes.

3

Table of ContentsCOMMUNITY WEST BANCSHARES
CONSOLIDATED INCOME STATEMENTS (unaudited)

	Three Months		Nine Months Ended	
	Ended		September 30,	
	September 30,	September 30,	September 30,	September 30,
	2017	2016	2017	2016
	(in thousands, except per share amounts)			
Interest income:				
Loans, including fees	\$ 9,340	\$ 8,228	\$ 26,570	\$ 22,817
Investment securities and other	355	288	894	817
Total interest income	9,695	8,516	27,464	23,634
Interest expense:				
Deposits	1,185	733	2,984	2,088
Other borrowings	134	74	294	219
Total interest expense	1,319	807	3,278	2,307
Net interest income	8,376	7,709	24,186	21,327
Provision (credit) for loan losses	159	22	423	(164)
Net interest income after provision for loan losses	8,217	7,687	23,763	21,491
Non-interest income:				
Other loan fees	354	270	999	827
Document processing fees	146	130	430	381
Service charges	118	100	326	292
Other	98	59	299	215
Total non-interest income	716	559	2,054	1,715
Non-interest expenses:				
Salaries and employee benefits	3,839	3,809	11,566	10,755
Occupancy, net	754	564	2,085	1,631
Stock based compensation	283	97	454	261
Professional services	281	196	759	653
Data Processing	192	173	525	513
FDIC assessment	172	74	461	270
Depreciation	168	162	519	486
Advertising and marketing	137	154	488	447
Loan servicing and collection	35	108	196	198
Other	526	499	1,264	1,464
Total non-interest expenses	6,387	5,836	18,317	16,678
Income before provision for income taxes	2,546	2,410	7,500	6,528
Provision for income taxes	992	929	3,034	2,639
Net income	\$ 1,554	\$ 1,481	\$ 4,466	\$ 3,889
Earnings per share:				
Basic	\$ 0.19	\$ 0.18	\$ 0.55	\$ 0.48
Diluted	\$ 0.18	\$ 0.18	\$ 0.52	\$ 0.46
Weighted average number of common shares outstanding:				
Basic	8,165	8,096	8,134	8,128
Diluted	8,598	8,421	8,569	8,442
Dividends declared per common share	\$ 0.04	\$ 0.035	\$ 0.115	\$ 0.10

See the accompanying notes.

Table of Contents

COMMUNITY WEST BANCSHARES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (unaudited)

	Common Stock		Accumulated Other Comprehensive	Retained	Total
	Shares	Amount	Income (Loss)	Earnings	Stockholders' Equity
	(in thousands)				
Balance, December 31, 2016:	8,096	\$41,575	\$ (29)	\$23,790	\$ 65,336
Net income	—	—	—	4,466	4,466
Exercise of stock options	73	347	—	—	347
Stock based compensation	—	454	—	—	454
Dividends on common stock	—	—	—	(936)	(936)
Other comprehensive income, net	—	—	99	—	99
Balance, September 30, 2017	8,169	\$42,376	\$ 70	\$27,320	\$ 69,766

See the accompanying notes.

Table of Contents

COMMUNITY WEST BANCSHARES

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

	Nine Months Ended September 30,	
	2017	2016
	(in thousands)	
Cash flows from operating activities:		
Net income	\$ 4,466	\$ 3,889
Adjustments to reconcile net income to cash provided by operating activities:		
Provision (credit) for loan losses	423	(164)
Depreciation	519	486
Stock based compensation	454	261
Deferred income taxes	(714)	(304)
Net accretion of discounts and premiums for investment securities	65	(82)
(Gains)/Losses on:		
Sale of repossessed assets, net	(150)	14
Loans originated for sale and principal collections, net	2,855	2,107
Changes in:		
Other assets	(1,222)	(1,633)
Other liabilities	2,337	(208)
Servicing assets, net	54	50
Net cash provided by operating activities	9,087	4,416
Cash flows from investing activities:		
Principal pay downs and maturities of available-for-sale securities	2,315	9,483
Purchase of available-for-sale securities		