HCA Holdings, Inc.
Form DEF 14A
March 14, 2014
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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**SCHEDULE 14A**

Proxy Statement Pursuant to Section 14(a) of the Securities

Exchange Act of 1934 (Amendment No. )

Filed by the Registrant x

Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement
¨ Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
x Definitive Proxy Statement
¨ Definitive Additional Materials
¨ Soliciting Material under §240.14a-12

HCA Holdings, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.
¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

¨ Fee paid previously with preliminary materials.

¨ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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# HCA HOLDINGS, INC.

**One Park Plaza**

**Nashville, Tennessee 37203**

## NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

**To Be Held April 23, 2014**

Dear Stockholder:

On Wednesday, April 23, 2014, HCA Holdings, Inc. will hold its annual meeting of stockholders at its corporate headquarters located at One Park Plaza, Nashville, Tennessee 37203. The meeting will begin at 2:00 p.m. (CDT), and is being held for the following purposes:

1. To elect thirteen nominees for director of the Company, nominated by the Board of Directors, with each director to serve until the 2015 annual meeting of the stockholders of the Company or until such director s respective successor is duly elected and qualified;

2. To ratify the appointment of Ernst & Young LLP as our independent registered public accounting firm for the year ending December 31, 2014;

3. To approve the HCA Holdings, Inc. Employee Stock Purchase Plan;

4. To approve, in an advisory (non-binding) vote, the compensation of the Company s named executive officers as described in the accompanying proxy statement ( say-on-pay ); and

5. To transact such other business as may properly come before the meeting or any postponement or adjournment of the meeting.

Only stockholders that owned our common stock at the close of business on February 28, 2014 are entitled to notice of and may vote at this meeting. A list of our stockholders of record will be available at our corporate headquarters located at One Park Plaza, Nashville, Tennessee 37203, during ordinary business hours, for 10 days prior to the annual meeting.

References to HCA, the Company, we, us, or our in this notice and the accompanying proxy statement refer to HCA Holdings, Inc. and its applicable affiliates unless otherwise indicated.

WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING IN PERSON, TO ENSURE THE PRESENCE OF A QUORUM, PLEASE VOTE OVER THE INTERNET OR BY TELEPHONE AS INSTRUCTED IN THESE MATERIALS OR COMPLETE, DATE, AND SIGN A PROXY CARD AS PROMPTLY AS POSSIBLE. IF YOU ATTEND THE MEETING AND WISH TO VOTE YOUR SHARES PERSONALLY, YOU MAY DO SO AT ANY TIME BEFORE THE PROXY IS EXERCISED.

By Order of the Board of Directors,

John M. Franck II

*Vice President Legal and Corporate Secretary*

Nashville, Tennessee

March 14, 2014

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# HCA HOLDINGS, INC.

**One Park Plaza**

**Nashville, Tennessee 37203**

**Proxy Statement for Annual Meeting of Stockholders**

**to be held on April 23, 2014**

**IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE**

**STOCKHOLDER MEETING TO BE HELD ON WEDNESDAY, APRIL 23, 2014**

**The Company s Proxy Statement and 2013 Annual Report to Stockholders are available on our website at www.hcahealthcare.com. Additionally, and in accordance with Securities and Exchange Commission Rules, you may access our proxy materials, including the Company s Proxy Statement, form of Proxy Card and 2013 Annual Report to Stockholders at https://materials.proxyvote.com/40412C.**


# HCA HOLDINGS, INC.

**One Park Plaza**

**Nashville, Tennessee 37203**


**QUESTIONS AND ANSWERS**

1. **Q: WHEN WAS THIS PROXY STATEMENT FIRST MAILED OR MADE AVAILABLE TO STOCKHOLDERS?**

   A: This proxy statement was first mailed or made available to stockholders on or about March 14, 2014. Our 2013 Annual Report to Stockholders is being mailed or made available with this proxy statement. The annual report is not part of the proxy solicitation materials.

2. **Q: WHY DID I RECEIVE A ONE-PAGE NOTICE IN THE MAIL REGARDING THE INTERNET AVAILABILITY OF PROXY MATERIALS THIS YEAR INSTEAD OF A FULL SET OF PROXY MATERIALS?**

   A: Pursuant to rules adopted by the Securities and Exchange Commission ( SEC ), the Company has elected to provide access to our proxy materials and annual report over the Internet. Accordingly, we are sending to our stockholders of record and beneficial owners a notice of Internet availability of the proxy materials instead of sending a paper copy of the proxy materials and annual report. All stockholders receiving the notice will have the ability to access the proxy materials and annual report on a website referenced in the notice or to request a printed set of the proxy materials and annual report. Instructions on how to access the proxy materials and annual report over the Internet or to request a printed copy may be found in the notice and in this proxy statement. In addition, the notice contains instructions on how you may request to access our proxy materials and annual report in printed form by mail or electronically on an ongoing basis.

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3. **Q: WHAT IS THE PURPOSE OF THE ANNUAL MEETING?**

A: At the annual meeting, stockholders will act upon the following matters outlined in the notice of meeting on the cover page of this proxy statement: the election of directors nominated by the Board of Directors; the ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm for the year ending December 31, 2014; the approval of the HCA Holdings, Inc. Employee Stock Purchase Plan; and an advisory resolution to approve our executive compensation as described in this proxy statement ( say-on-pay ). In addition, following the formal business of the meeting, our management will be available to respond to questions from our stockholders.

4. **Q: WHO MAY ATTEND THE ANNUAL MEETING?**

A: Stockholders of record as of the close of business on February 28, 2014, or their duly appointed proxies, may attend the meeting. Street name holders (those whose shares are held through a broker or other nominee) should bring a copy of a brokerage statement reflecting their ownership of our common stock as of the record date. Space limitations may make it necessary to limit attendance to stockholders and valid picture identification may be required. Cameras, recording devices, and other electronic devices are not permitted at the meeting. Registration will begin at 1:00 p.m. (CDT), and the annual meeting will commence at 2:00 p.m. (CDT).

5. **Q: WHO IS ENTITLED TO VOTE AT THE ANNUAL MEETING?**

A: Only stockholders of record as of the close of business on February 28, 2014 are entitled to receive notice of and participate in the annual meeting. As of the record date, there were 443,756,462 shares of our common stock outstanding. Every stockholder is entitled to one vote for each share held as of the record date. Cumulative voting is not permitted with respect to the election of directors or any other matter to be considered at the annual meeting.

6. **Q: WHO IS SOLICITING MY VOTE?**

A: The Company s Board of Directors is sending you this proxy statement in connection with the solicitation of proxies for use at the 2014 annual meeting. The Company pays the cost of soliciting proxies. Proxies may be solicited in person or by telephone, facsimile, electronic mail, or other electronic medium by certain of our directors, officers, and employees, without additional compensation. Forms of proxies and proxy materials may also be distributed through brokers, custodians, and other like parties to the beneficial owners of shares of our common stock, in which case we will reimburse these parties for their reasonable out-of-pocket expenses.

7. **Q: ON WHAT MAY I VOTE?**

A: You may vote on the election of directors nominated to serve on our Board of Directors; the ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm for the year ending December 31, 2014; the approval of the HCA Holdings, Inc. Employee Stock Purchase Plan; and the advisory say-on-pay resolution to approve our executive compensation.

8. **Q: HOW DOES THE BOARD RECOMMEND I VOTE ON THE PROPOSALS?**

A: The Board unanimously recommends that you vote as follows:

**FOR** each of the director nominees;

**FOR** the ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm for the year ending December 31, 2014;

**FOR** approval of the HCA Holdings, Inc. Employee Stock Purchase Plan; and

**FOR** the advisory say-on-pay resolution to approve our executive compensation.

9. **Q: HOW WILL VOTING ON ANY OTHER BUSINESS BE CONDUCTED?**

A: It is not expected that any matter not referred to herein will be presented for action at the annual meeting. If any other matters are properly brought before the annual meeting, including, without limitation, a motion to adjourn the annual meeting to another time and/or place for the purpose of, among other matters, permitting dissemination of information regarding material developments relating to any of the proposals or soliciting additional proxies in favor of the approval of any of the proposals, the persons named on the accompanying Proxy Card will vote the shares represented by such proxy upon such matters in their discretion. Should the annual meeting be reconvened, all proxies will be voted in the same manner as such proxies would have been voted when the annual meeting was originally convened, except for the proxies effectively revoked or withdrawn prior to the time proxies are voted at such reconvened meeting.

10. **Q: HOW DO I VOTE IF MY SHARES ARE REGISTERED DIRECTLY IN MY NAME?**

A: You may vote in person at the annual meeting or authorize the persons named as proxies on the Proxy Card to vote your shares by returning the Proxy Card by mail, through the Internet, or by telephone. **Although we offer four different voting methods, we encourage you to vote through the Internet as we believe it is the most cost-effective method for the Company.** We also recommend that you vote as soon as possible, even if you are planning to attend the annual meeting, so that the vote count will not be delayed. Both the Internet and the telephone provide convenient, cost-effective alternatives to returning your Proxy Card by mail. If you choose to vote your shares through the Internet or by telephone, there is no need for you to mail back your Proxy Card.

***To Vote Over the Internet:***

Log on to the Internet and go to the website www.proxyvote.com (24 hours a day, 7 days a week). Have your Proxy Card available when you access the Website. You will need the control number from your Proxy Card to vote.

***To Vote By Telephone:***

On a touch-tone telephone, call 1-800-690-6903 (24 hours a day, 7 days a week). Have your Proxy Card available when you make the call. You will need the control number from your Proxy Card to vote.

***To Vote By Proxy Card:***

Complete and sign the Proxy Card and return it to the address indicated on the Proxy Card. If you received a notice of Internet availability of the proxy materials instead of a paper copy of the proxy materials and annual report, you should follow the voting instructions set forth in the notice. You have the right to revoke your proxy at any time before the meeting by: (i) notifying our Corporate Secretary in writing at One Park Plaza, Nashville, Tennessee 37203; (ii) voting in person; (iii) submitting a later-dated Proxy Card; (iv) submitting another vote by telephone or over the Internet; or (v) if applicable, submitting new voting instructions to your broker or nominee. If you have questions about how to vote or revoke your proxy, you should contact our Corporate Secretary at One Park Plaza, Nashville, Tennessee 37203. For shares held in street name, refer to Question 11 below.

11. **Q: HOW DO I VOTE MY SHARES IF THEY ARE HELD IN THE NAME OF MY BROKER (STREET NAME)?**

A: If your shares are held by your broker or other nominee, often referred to as held in street name, you will receive a form from your broker or nominee seeking instruction as to how your shares should be voted. You should contact your broker or other nominee with questions about how to provide or revoke your instructions.

12. **Q: WHAT IS THE VOTE REQUIRED TO ELECT DIRECTORS?**

A: Each of the director nominees must receive affirmative votes from a plurality of the votes cast at the annual meeting to be elected. This means that the nominees receiving the greatest number of affirmative votes of the shares present in person or represented by proxy at the annual meeting and entitled to vote will be elected as directors.

13. **Q: WHAT IS THE VOTE REQUIRED TO APPROVE THE OTHER PROPOSALS?**

A: ***Ratification of Ernst & Young LLP:*** The ratification of the appointment of Ernst & Young LLP as the Company s independent registered public accounting firm for the year ending December 31, 2014 must receive affirmative votes from the holders of a majority of the shares present in person or represented by proxy at the annual meeting and entitled to vote.

***Employee Stock Purchase Plan:*** The approval of the HCA Holdings, Inc. Employee Stock Purchase Plan must receive affirmative votes from the holders of a majority of the shares present in person or represented by proxy at the annual meeting and entitled to vote.

***Advisory Say-On-Pay Resolution:*** The advisory say-on-pay resolution to approve our executive compensation must receive affirmative votes from the holders of a majority of the shares present in person or represented by proxy at the annual meeting and entitled to vote to be approved. Because your vote is advisory, it will not be binding on the Company, the Board of Directors, or our Compensation Committee. Although non-binding, our Compensation Committee will review and consider the voting results when making future decisions regarding our executive compensation program.

14. **Q: WHAT CONSTITUTES A QUORUM ?**

A: The presence at the meeting, in person or by proxy, of the holders of a majority of the aggregate voting power of the common stock outstanding on the record date will constitute a quorum. There must be a quorum for business to be conducted at the meeting. Failure of a quorum to be represented at the annual meeting will necessitate an adjournment or postponement and will subject the Company to additional expense. Votes withheld from any nominee for director, abstentions, and broker non-votes are counted as present or represented for purposes of determining the presence or absence of a quorum.

15. **Q: WHAT IF I ABSTAIN FROM VOTING?**

A: If you attend the meeting or send in your signed Proxy Card, but abstain from voting on any proposal, you will still be counted for purposes of determining whether a quorum exists. If you abstain from voting on Proposal 1, your abstention will have no effect on the outcome. If you abstain from voting on Proposals 2, 3 or 4, your abstention will have the same legal effect as a vote against these proposals.

16. **Q: WILL MY SHARES BE VOTED IF I DO NOT SIGN AND RETURN MY PROXY CARD OR VOTE BY TELEPHONE OR OVER THE INTERNET?**

A: If you are a registered stockholder and you do not sign and return your Proxy Card or vote by telephone or over the Internet, your shares will not be voted at the annual meeting. Questions concerning stock certificates and registered stockholders may be directed to Wells Fargo Shareowner Services at 1110 Centre Pointe Curve, Suite 101, Mendota Heights, Minnesota 55120-4100 or by telephone at (800) 468-9716 (domestic). If your shares are held in street name and you do not issue instructions to your broker, your broker may vote your shares at its discretion on routine matters, but may not vote your shares on non-routine matters. Under New York Stock Exchange ( NYSE ) rules, Proposal 2 relating to the ratification of the appointment of the independent registered public accounting firm is deemed to be a routine matter and brokers and nominees may exercise their voting discretion without receiving instructions from the beneficial owner of the shares. Proposals 1, 3 and 4 are non-routine matters and, therefore, may only be voted in accordance with instructions received from the beneficial owner of the shares.

17. **Q: WHAT IS A BROKER NON-VOTE ?**

A: Under NYSE rules, brokers and nominees may exercise their voting discretion without receiving instructions from the beneficial owner of the shares on proposals that are deemed to be routine matters. If a proposal is a non-routine matter, a broker or nominee may not vote the shares on the proposal without receiving instructions from the beneficial owner of the shares. If a broker turns in a Proxy Card expressly stating that the broker is not voting on a non-routine matter, such action is referred to as a broker non-vote.

18. **Q: WHAT IS THE EFFECT OF A BROKER NON-VOTE?**

A: Broker non-votes will be counted for the purpose of determining the presence of a quorum but will not be counted for purposes of determining the outcome of the vote on any proposal, other than Proposal 2.

19. **Q: WHO WILL COUNT THE VOTES?**

A: Broadridge Financial Solutions, Inc. has been engaged as our independent inspector of election to tabulate stockholder votes for the annual meeting.

20. **Q: CAN I PARTICIPATE IF I AM UNABLE TO ATTEND?**

A: If you are unable to attend the meeting in person, we encourage you to send in your Proxy Card or to vote by telephone or over the Internet. We will provide a live webcast of the annual meeting accessible at https://event.webcasts.com/starthere.jsp?ei=1031433. The webcast will be one-way audio only, and webcast attendees will not be able to participate or vote at the meeting via the webcast.

21. **Q: WHERE CAN I FIND THE VOTING RESULTS OF THE ANNUAL MEETING?**

A: We intend to announce preliminary voting results at the annual meeting and publish final results in a Current Report on Form 8-K that will be filed with the SEC following the annual meeting. All reports we file with the SEC are publicly available when filed. Please refer to Question 24 below.

22. **Q: WHEN ARE STOCKHOLDER PROPOSALS DUE IN ORDER TO BE INCLUDED IN OUR PROXY MATERIALS FOR THE NEXT ANNUAL MEETING?**

A: Any stockholder proposal must be submitted in writing to our Corporate Secretary at HCA Holdings, Inc., One Park Plaza, Nashville, Tennessee 37203, prior to the close of business on November 14, 2014, to be considered timely for inclusion in next year s proxy statement and form of proxy. Such proposal must also comply with SEC regulations, including Rule 14a-8 regarding the inclusion of stockholder proposals in company-sponsored proxy materials.

23. **Q: WHEN ARE OTHER STOCKHOLDER PROPOSALS DUE?**

A: Our bylaws contain an advance notice provision that requires stockholders to deliver to us notice of a proposal to be considered at an annual meeting not less than ninety (90) nor more than one hundred twenty (120) days before the date of the first anniversary of the prior year s annual meeting. Such proposals are also subject to informational and other requirements set forth in our bylaws, a copy of which is available under the Corporate Governance section of our website, www.hcahealthcare.com.

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24. **Q: HOW CAN I OBTAIN ADDITIONAL INFORMATION ABOUT THE COMPANY?**

A: **We will provide copies of this proxy statement and our 2013 Annual Report to Stockholders, including our Annual Report on Form 10-K for the year ended December 31, 2013, without charge to any stockholder who makes a written request to our Corporate Secretary at HCA Holdings, Inc., One Park Plaza, Nashville, Tennessee 37203. Our Annual Report on Form 10-K and other SEC filings may also be accessed at www.sec.gov or on the Investor Relations section of the Company s website at www.hcahealthcare.com.** Our website address is provided as an inactive textual reference only. The information provided on or accessible through our website is not part of this proxy statement and is not incorporated herein by this or any other reference to our website provided in this proxy statement.

25. **Q: HOW MANY COPIES SHOULD I RECEIVE IF I SHARE AN ADDRESS WITH ANOTHER STOCKHOLDER?**

A: The SEC has adopted rules that permit companies and intermediaries, such as brokers, to satisfy the delivery requirements for proxy statements and annual reports with respect to two or more stockholders sharing the same address by delivering a single proxy statement addressed to those stockholders. This process, commonly referred to as householding, potentially provides extra convenience for stockholders and cost savings for companies. The Company and some brokers may be householding our proxy materials by delivering a single proxy statement and annual report to multiple stockholders sharing an address unless contrary instructions have been received from the affected stockholders. Once you have received notice from your broker, or us, that they, or we, will be householding materials to your address, householding will continue until you are notified otherwise or until you revoke your consent. If at any time you no longer wish to participate in householding and would prefer to receive a separate proxy statement and annual report, or if you are receiving multiple copies of the proxy statement and annual report and wish to receive only one, please notify your broker if your shares are held in a brokerage account or us if you are a stockholder of record. You can notify us by sending a written request to our Corporate Secretary at HCA Holdings, Inc., One Park Plaza, Nashville, Tennessee 37203, or by calling the Corporate Secretary at (615) 344-9551. In addition, we will promptly deliver, upon written or oral request to the address or telephone number above, a separate copy of the annual report and proxy statement to a stockholder at a shared address to which a single copy of the documents was delivered.

## BACKGROUND

On November 17, 2006, HCA Inc. was acquired by a private investor group, including affiliates of or funds sponsored by Bain Capital Partners, LLC, Kohlberg Kravis Roberts & Co., BAML Capital Partners (formerly Merrill Lynch Global Private Equity) (each a Sponsor ) and affiliates of HCA founder, Dr. Thomas F. Frist, Jr. (the Frist Entities, and together with the Sponsors, the Investors ) and by members of management and certain other investors (the Merger ).

On November 22, 2010, HCA Inc. reorganized by creating a new holding company structure (the Corporate Reorganization ). HCA Holdings, Inc. became the parent company, and HCA Inc. became HCA Holdings, Inc. s 100% owned direct subsidiary. As part of the Corporate Reorganization, HCA Inc. s outstanding shares of capital stock were automatically converted, on a share for share basis, into identical shares of HCA Holdings, Inc. s common stock. Immediately following the Corporate Reorganization, our amended and restated certificate of incorporation, amended and restated bylaws, executive officers and Board of Directors were the same as HCA Inc. s in effect immediately prior to the Corporate Reorganization, and the rights, privileges and interests of HCA Inc. s stockholders remained the same with respect to us as the new holding company.

During March 2011, we completed the initial public offering of 87,719,300 shares of our common stock (the IPO ). Certain of our stockholders also sold 57,410,700 shares of our common stock in the IPO. Our common stock is traded on the New York Stock Exchange ( NYSE ) (symbol HCA ). During September 2011, the Company repurchased 80,771,143 shares of its common stock beneficially owned by affiliates of Bank of America Corporation. During December 2012, February 2013 and November 2013, certain Investors (excluding the Frist Entities) sold 32,000,000, 50,000,000 and 30,000,000 shares of our common stock, respectively. During November 2013, the Company repurchased 10,656,436 shares of its common stock from certain of the Sponsors.

## CORPORATE GOVERNANCE

*Director Independence.* NYSE listing standards require that a majority of our directors be independent in accordance with the independence requirements set forth in such listing standards. In addition, our Audit and Compliance Committee, Compensation Committee and Nominating and Corporate Governance Committee must be composed solely of independent directors to comply with such listing standards and, in the case of our Audit and Compliance Committee, with SEC rules.

Our Board of Directors affirmatively determines the independence of each director and director nominee in accordance with guidelines it has adopted, which include all elements of independence set forth in the NYSE listing standards as well as certain Board-adopted categorical independence standards. These guidelines are contained in our Corporate Governance Guidelines which are posted on the Corporate Governance portion of our website located at www.hcahealthcare.com. The Board first analyzes whether any director has a relationship covered by the NYSE listing standards that would prohibit an independence finding for Board or committee purposes. The Board then analyzes any relationship of a director to HCA or to our management that does not fall within the parameters set forth in the Board s separately adopted categorical independence standards to determine whether or not that relationship is material. The Board may determine that a director who has a relationship that falls outside of the parameters of the categorical independence standards is nonetheless independent (to the extent that the relationship would not constitute a bar to independence under the NYSE listing standards).

Our Board of Directors has affirmatively determined that Robert J. Dennis, Nancy-Ann DeParle, Ann H. Lamont, Jay O. Light, Geoffrey G. Meyers, Wayne J. Riley, M.D. and John W. Rowe, M.D. are independent from our management under both the NYSE s listing standards and our additional standards. The Board has also affirmatively determined that Messrs. Light, Meyers and Riley, the members of our Audit and Compliance Committee, meet the independence requirements of Rule 10A-3 of the Securities Exchange Act of 1934, as amended (the Exchange Act ). Any relationships between an independent director and HCA or our management fell within the Board-adopted categorical standards and, accordingly, were not specifically reviewed by our Board.

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Our Board of Directors consists of thirteen directors. We have entered into a stockholders agreement (the Stockholders Agreement ) with Hercules Holding II, LLC ( Hercules Holding ) and the Investors which, among other things, provides for certain rights of the Sponsors (with the exception of the BAML Investors who were released and removed as parties to the Stockholders Agreement and ceased to be entitled to any rights, or to be subject to any obligations thereunder pursuant to the Amendment to the Stockholders Agreement entered into in connection with the Company s repurchase of shares beneficially owned by the BAML Investors in September 2011) and the Frist Entities to nominate members of our Board of Directors. See Director Qualifications and Certain Relationships and Related Person Transactions. In addition, Richard M. Bracken s employment agreement provides that he will continue to serve as our Chairman until December 31, 2014, and R. Milton Johnson s employment agreement provides that he will continue to serve as a member of our Board of Directors so long as he remains an officer of HCA.

*Executive Sessions*. Our Corporate Governance Guidelines provide that non-management directors shall meet at regularly scheduled executive sessions, which will typically occur at regularly scheduled Board meetings, without any member of management present and must so meet at least annually. In addition, at least annually the independent directors will meet in separate executive session. Mr. Light has been chosen as the non-management and independent presiding director. Our Corporate Governance Guidelines also provide that the independent and/or non-management directors shall be entitled, acting as a group by vote of a majority of such independent and/or non-management directors, to retain legal counsel, accountants, health care consultants, or other experts, at the Company s expense, to advise the independent and/or non-management directors concerning issues arising in the exercise of their functions and powers.

*Stockholder Nominees*. Our Amended and Restated Bylaws provide that stockholders seeking to nominate candidates for election as directors or to bring business before an annual or special meeting of stockholders must provide timely notice of their proposal in writing to the Corporate Secretary of the Company. Generally, to be timely, a stockholder s notice must be delivered to, mailed or received at our principal executive offices, addressed to the secretary of the Company, and within the following time periods:

- in the case of an annual meeting, no earlier than 120 days and no later than 90 days prior to the first anniversary of the date of the preceding year s annual meeting; provided, however, that if (A) the annual meeting is advanced by more than 30 days, or delayed by more than 60 days, from the first anniversary of the preceding year s annual meeting, or (B) no annual meeting was held during the preceding year, to be timely the stockholder notice must be received no earlier than 120 days before such annual meeting and no later than the later of 90 days before such annual meeting or the tenth day after the day on which public disclosure of the date of such meeting is first made; and

- in the case of a nomination of a person or persons for election to the Board of Directors at a special meeting of the stockholders called for the purpose of electing directors, no earlier than 120 days before such special meeting and no later than the later of 90 days before such annual or special meeting or the tenth day after the day on which public disclosure of the date of such meeting is first made.

In no event shall an adjournment, postponement or deferral, or public disclosure of an adjournment, postponement or deferral, of a meeting of the stockholders commence a new time period (or extend any time period) for the giving of the stockholder notice. You should consult our bylaws for more detailed information regarding the process by which stockholders may nominate directors. Our bylaws are posted on the Corporate Governance portion of our website located at www.hcahealthcare.com.

*Board Committees.* Our Board of Directors currently has four standing committees: the Audit and Compliance Committee, the Compensation Committee, the Nominating and Corporate Governance Committee and the Patient Safety and Quality of Care Committee. The Board of Directors has determined that all members

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of the Audit and Compliance Committee, Compensation Committee and Nominating and Corporate Governance Committee are independent as defined in the NYSE listing standards and in our Corporate Governance Guidelines. The Board of Directors has adopted a written charter for each of these committees. All such charters are available on the Corporate Governance portion of our website located at www.hcahealthcare.com.

The chart below reflects the current composition of the standing committees.

| Name of Director | Audit and Compliance | Compensation | Nominating and Corporate Governance | Patient Safety and Quality of Care |
|---|---|---|---|---|
| Richard M. Bracken* | | | | |
| R. Milton Johnson* | | | | |
| Robert J. Dennis | | | X | |
| Nancy-Ann DeParle | | | | X |
| Thomas F. Frist III | | | | |
| William R. Frist | | | | X |
| Ann H. Lamont | | X | Chair | |
| Jay O. Light | X | Chair | | |
| Geoffrey G. Meyers | Chair | X | | |
| Michael W. Michelson | | | | X |
| Stephen G. Pagliuca | | | | X |
| Wayne J. Riley, M.D. | X | | X | Chair |
| John W. Rowe, M.D. | | | | X |

* Indicates management director.

*Director Qualifications.* The Board of Directors seeks to ensure the Board is composed of members whose particular experience, qualifications, attributes and skills, when taken together, will allow the Board to satisfy its oversight responsibilities effectively. In identifying candidates for membership on the Board, the Board takes into account (1) individual qualifications, such as high ethical standards, integrity, mature and careful judgment, industry knowledge or experience and an ability to work collegially with the other members of the Board and (2) all other factors it considers appropriate, including alignment with our stockholders. While we do not have any specific diversity policies for considering Board candidates, we believe each director contributes to the Board of Directors overall diversity diversity being broadly construed to mean a variety of opinions, perspectives, personal and professional experiences and backgrounds.

In 2013, Messrs. Bracken, Johnson, Frist III, Frist, Light, Meyers, Michelson and Pagliuca, and Dr. Riley were elected to the Company s Board at the Company s 2013 annual meeting of stockholders. Ms. Lamont was appointed to the Board effective May 9, 2013. Ms. DeParle, Mr. Dennis and Dr. Rowe were appointed to the Company s Board effective February 1, 2014. Messrs. Frist III, Frist, Michelson and Pagliuca were appointed to the Board as a consequence of their respective relationships with investment funds affiliated with the Sponsors and the Frist Entities and are collectively referred to as the Investor Directors. Messrs. Bracken and Johnson are collectively referred to as the Management Directors.

When considering whether the Board s directors and nominees have the experience, qualifications, attributes and skills, taken as a whole, to enable the Board to satisfy its oversight responsibilities effectively in light of the Company s business and structure, the Board focused primarily on the information discussed in each of the Board members biographical information set forth below under Proposal 1 Election of Directors.

Each of the Company s directors possesses high ethical standards, acts with integrity, and exercises careful, mature judgment. Each is committed to employing their skills and abilities to aid the long-term interests of the

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stakeholders of the Company. In addition, our directors are knowledgeable and experienced in one or more business, governmental, or civic endeavors, which further qualifies them for service as members of the Board. Alignment with our stockholders is important in building value at the Company over time.

Each of the Investor Directors was elected to the Board pursuant to the Stockholders Agreement. Under the Stockholders Agreement, (i) each Sponsor has the right to nominate one director to our Board of Directors; however, a Sponsor will lose its right to nominate any directors to our Board of Directors once such Sponsor owns less than 3% of our outstanding shares of common stock; and (ii) the Frist Entities have the right to nominate two directors to our Board of Directors; however, the Frist Entities will lose their right to nominate any directors to our Board of Directors once the Frist Entities own less than 3% of our outstanding shares of common stock. Pursuant to such agreement, Mr. Michelson was appointed to the Board as a consequence of his relationships with Kohlberg Kravis Roberts & Co., Mr. Pagliuca was appointed to the Board as a consequence of his relationships with Bain Capital Partners, LLC and Messrs. Frist III and Frist were appointed to the Board as a consequence of their respective relationships with the Frist Entities. As of February 28, 2014, Kohlberg Kravis Roberts & Co. indirectly owned approximately 6.8% of our common stock, Bain Capital Partners, LLC indirectly owned approximately 6.8% of our common stock and the Frist Entities indirectly owned approximately 15.5% of our common stock. The Board of Directors determines the composition of each committee of the Board of Directors.

As a group, the Investor Directors possess experience in owning and managing enterprises like the Company and are familiar with corporate finance, strategic business planning activities and issues involving stakeholders more generally.

The Management Directors bring leadership, extensive business, operating, legal and policy experience, and tremendous knowledge of our Company and the Company s industry, to the Board. In addition, the Management Directors bring their broad strategic vision for our Company to the Board. Mr. Bracken s prior service as the Chief Executive Officer of the Company from 2009 through 2013 and current service as Chairman of the Company and Mr. Johnson s service as President, Chief Executive Officer and director of the Company (and, previously, as Chief Financial Officer) creates a critical link between management and the Board, enabling the Board to perform its oversight function with the benefits of management s perspectives on the business. In addition, having Messrs. Bracken and Johnson on our Board provides our Company with ethical, decisive and effective leadership.

Mr. Dennis was selected as a director in light of his experience as a chief executive officer of a public company and experience serving as a director of several firms, including public companies, which will be beneficial in providing the Board of Directors with financial and general business expertise. Ms. DeParle was selected as a director in light of her service in governmental health care positions and experience serving as a director of other firms, including public companies, which will be particularly beneficial in providing health care and general business expertise to the Board of Directors. Ms. Lamont was selected as a director in light of her experience serving as a director of other firms, including public companies, her financial expertise and her service with other health care organizations, which will be particularly beneficial in providing financial and general business expertise to the Board of Directors. Mr. Light was selected as a director in light of his experience serving as a director of several companies, including public companies, his financial expertise and his service with other health care organizations, which will be particularly beneficial in providing financial and general business expertise to the Board of Directors. Mr. Meyers was selected as a director in light of his experience serving as a director of several companies, including public companies, and his extensive experience in the health care industry. In addition, Mr. Meyers previous experience as a chief financial officer of a public company will provide valuable experience in his role as chair of our Audit and Compliance Committee. Dr. Riley was selected as a director in light of the leadership and management skills he has acquired through his prior experience as the president and chief executive officer of Meharry Medical College and executive positions at Baylor College of Medicine and Ben Taub General Hospital. In addition, Dr. Riley has significant medical and academic experience in the health care field as well as experience as a director of publicly traded companies. Dr. Rowe was selected as a director in light of his experience as a chief executive officer of a public company,

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experience serving as a director of several firms, including public companies, and experience as a physician, which will be beneficial in providing financial, general business and health care expertise to the Board of Directors.

*Criteria for Director Nomination.* Our Nominating and Corporate Governance Committee recommends to the Board persons to be nominated to serve as directors of the Company. When determining whether to nominate a current director to stand for reelection as a director, the Nominating and Corporate Governance Committee reviews and considers the performance of such director during the prior year using performance criteria established by the Board. The Nominating and Corporate Governance Committee also considers the requirements of any stockholders agreement in existence (as such may be amended from time to time) which governs the composition requirements of the Company s Board of Directors. In recruiting and evaluating new director candidates, the Nominating and Corporate Governance Committee assesses a candidate s independence, as well as the candidate s background and experience, current board skill needs and diversity. The Company endeavors to have a Board representing diverse experience at policy-making levels in business, education or areas that are relevant to the Company s business. The Nominating and Corporate Governance Committee considers, consistent with applicable law, the Company s certificate of incorporation and bylaws, the criteria set forth in our Corporate Governance Guidelines and the requirements of any stockholders agreement in existence, any candidates proposed by any senior executive officer, director or stockholder.

In addition, individual directors and any person nominated to serve as a director should demonstrate high ethical standards and integrity in their personal and professional dealings, be willing to act on and remain accountable for their boardroom decisions, and be in a position to devote an adequate amount of time to the effective performance of director duties.

In addition, each director should contribute knowledge, experience, or skill in at least one domain that is important to the Company. To provide such a contribution to the Company, a director must possess experience in one or more of the following:

- business or management for complex and large consolidated companies or other complex and large institutions;
- accounting or finance for complex and large consolidated companies or other complex and large institutions;
- leadership, strategic planning, or crisis response for complex and large consolidated companies or other complex and large institutions;
- the health care industry; and
- other significant and relevant areas deemed by the Nominating and Corporate Governance Committee to be valuable to the Company.

Each director must also take reasonable steps to keep informed on the complex, rapidly evolving health care environment. Prior to nominating a person to serve as a director, the Nominating and Corporate Governance Committee evaluates the candidate based on the criteria described above. In addition, prior to accepting renomination, each director should evaluate himself or herself as to whether he or she satisfies the criteria described above.

*Board Leadership Structure.* The Board of Directors regularly considers the appropriate leadership structure for the Company and has concluded that the Company and its stockholders are best served by the Board of Directors retaining discretion to determine whether the same individual should serve as both Chief Executive Officer and Chairman of the Board of Directors, or whether the roles should be separated. The Board of Directors believes that it is important to retain the flexibility to make this determination at any given point in time based on what it believes will provide the best leadership structure for the Company. This approach allows the Board of Directors to utilize its considerable experience and knowledge to elect the most qualified director as Chairman of the Board of Directors, while maintaining the ability to separate the Chairman of the Board of Directors and Chief Executive Officer roles when necessary. Accordingly, at different points in the Company s history, the

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Chief Executive Officer and Chairman of the Board of Directors roles have been held by the same person. At other times, the roles have been held by different individuals. In each instance, the decision on whether to combine or separate the roles was made in the best interests of the Company s stockholders, based on the circumstances at the time.

In 2013, the Board of Directors reviewed its leadership structure in connection with Mr. Bracken s announcement of his plans to retire as Chief Executive Officer at the end of 2013. The Board of Directors determined that the transition to the new Chief Executive Officer would be best accomplished by having Mr. Bracken serve as Chairman through 2014, which results in a separation of the roles of Chairman and Chief Executive Officer. As Chairman, Mr. Bracken will lead the Board in its governance and oversight responsibilities with regard to the Company. At present, the Board of Directors believes that this structure, along with the presence of a non-management and independent presiding director, effectively maintains independent oversight of management. We plan to continue to examine our corporate governance policies and leadership structures on an ongoing basis to ensure that they continue to meet the Company s needs.

*Board s Role in Risk Oversight.* Risk is inherent with every business. Management is responsible for the day-to-day management of risks the Company faces, while the Board of Directors, as a whole and through its committees, has responsibility for the oversight of risk management. In its risk oversight role, the Board of Directors has the responsibility to satisfy itself that the risk management processes designed and implemented by management are adequate and functioning as designed. Our Board of Directors oversees an enterprise-wide approach to risk management, designed to support the achievement of organizational objectives, including strategic objectives, to improve long-term organizational performance and enhance stockholder value. A fundamental aspect of risk management is not only understanding the risks a company faces and what steps management is taking to manage those risks, but also understanding what level of risk is appropriate for the company. The involvement of the full Board of Directors in setting our business strategy is a key part of its assessment of management s appetite for risk and also a determination of what constitutes an appropriate level of risk for the Company.

We conduct an annual enterprise risk management assessment, which is facilitated by our enterprise risk management team in collaboration with our internal auditors. The senior internal audit executive officer reports to the Chief Executive Officer and to the Audit and Compliance Committee in this capacity. In this process, we assess risk throughout the Company by conducting surveys and interviews of our employees and directors, soliciting information regarding business risks that could significantly adversely affect the Company, including the achievement of its strategic plan. We then identify any controls or initiatives in place to mitigate any material risk and the effectiveness of any such controls or initiatives. The enterprise risk management team annually prepares a report for senior management and, ultimately, the Board of Directors regarding the key identified risks and how we manage these risks both on an annual and ongoing basis. Senior management attends the quarterly Board meetings and is available to address any questions or concerns raised by the Board regarding risk management and any other matters. Additionally, each quarter, the Board of Directors receives presentations from senior management on strategic matters involving our operations.

While the Board of Directors has the ultimate oversight responsibility for the risk management process, various committees of the Board assist the Board in fulfilling its oversight responsibilities in certain areas of risk. In particular, the Audit and Compliance Committee focuses on financial and enterprise risk exposures, including internal controls, and discusses with management, the senior internal audit executive officer, the senior chief ethics and compliance officer and the independent registered public accounting firm, our policies with respect to risk assessment and risk management. The Audit and Compliance Committee also assists the Board in fulfilling its duties and oversight responsibilities relating to the Company s compliance with applicable laws and regulations, the Company Code of Conduct and related Company policies and procedures, including the Corporate Ethics and Compliance Program. The Compensation Committee assists the Board in fulfilling its oversight responsibilities with respect to the management of risks arising from our compensation policies and programs, as described below under Executive Compensation Compensation Risk Assessment. The Patient Safety and Quality of Care Committee assists the Board in fulfilling its risk oversight responsibility with respect to our policies and procedures relating to patient safety and the delivery of quality medical care to patients.

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*Board Meetings and Committees; Policy Regarding Director Attendance at Annual Meetings of Stockholders.* During 2013, our Board of Directors held five meetings. All directors attended at least 75% of the Board meetings and meetings of thee="TEXT-ALIGN: right">89 395

| | | |
|---|---|---|
| Service charges | 129 | 103 |
| Other | 41 | 27 |
| Total non-interest income | 839 | 1,168 |
| NON-INTEREST EXPENSES | | |
| Salaries and employee benefits | 3,008 | 3,452 |
| Occupancy and equipment expenses | 499 | 547 |
| FDIC assessment | 325 | 238 |
| Professional services | 203 | 248 |
| Advertising and marketing | 92 | 101 |
| Depreciation and amortization | 113 | 125 |
| Loss on sale of foreclosed real estate and repossessed assets | 62 | 67 |
| Data processing | 127 | 161 |
| Other operating expenses | 542 | 868 |
| Total non-interest expenses | 4,971 | 5,807 |
| Income (loss) before provision for income taxes | 89 | (11,431) |
| Provision (benefit) for income taxes | 38 | (4,702) |
| NET INCOME (LOSS) | $51 | $(6,729) |
| Preferred stock dividends | 262 | 261 |
| NET (LOSS) APPLICABLE TO COMMON STOCKHOLDERS | $(211) | $(6,990) |
| (Loss) per common share: | | |
| Basic | $(.04) | $(1.18) |
| Diluted | $(.04) | $(1.18) |
| Basic weighted average number of common shares outstanding | 5,915 | 5,915 |
| Diluted weighted average number of common shares outstanding | 5,915 | 5,915 |

See accompanying notes.

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

| | Preferred Stock | Common Stock Shares | Common Stock Amount | Retained Earnings | Accumulated Other Comprehensive Income | Total Stockholders' Equity |
|---|---|---|---|---|---|---|
| | | (in thousands) | | | | |
| BALANCES AT JANUARY 1, 2010 | $14,540 | 5,915 | $33,110 | $12,479 | $ 178 | $60,307 |
| Stock option expense, recognized in earnings | | | 5 | | | 5 |
| Comprehensive income: | | | | | | |
| Net income | | | | 51 | | 51 |
| Change in unrealized gain on securities available-for-sale, net | | | | | 14 | 14 |
| Comprehensive income | | | | | | 65 |
| Dividends paid on preferred | 67 | | | (262) | | (195) |
| BALANCES AT MARCH 31, 2010 | $14,607 | 5,915 | $33,115 | $12,268 | $ 192 | $60,182 |

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COMMUNITY WEST BANCSHARES
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

| | Three Months Ended March 31, 2010 | 2009 |
|---|---|---|
| | (in thousands) | |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income (loss) | $ 51 | $ (6,729) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Provision for loan losses | 3,074 | 12,555 |
| Depreciation and amortization | 113 | 125 |
| Stock-based compensation | 5 | 7 |
| Net amortization of discounts and premiums for investment securities | (66) | (10) |
| Loss (gain) on: | | |
| Sale of foreclosed real estate and repossessed assets | 62 | 67 |
| Sale of loans held for sale | (103) | (118) |
| Loan originated for sale and principal collections, net | 5,795 | (257) |
| Changes in: | | |
| Servicing rights, net of amortization | 62 | - |
| Other assets | (145) | (4,930) |
| Other liabilities | (118) | 194 |
| Net cash provided by operating activities | 8,730 | 904 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchase of available-for-sale securities | (2,204) | (6,230) |
| Principal pay downs and maturities of available-for-sale securities | 2,298 | 341 |
| Principal pay downs and maturities of held-to-maturity securities | 2,571 | 4,809 |
| Loan originations and principal collections, net | 3,893 | (19,097) |
| Proceeds from sale of foreclosed real estate and repossessed assets | 359 | 281 |
| Net decrease in time deposits in other financial institutions | 165 | 221 |
| Purchase of premises and equipment, net | (23) | (17) |
| Net cash provided by (used in) investing activities | 7,059 | (19,692) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Preferred stock dividends | (262) | (261) |
| Amortization of discount on preferred stock, net of additional costs | 67 | 40 |
| Net increase in demand deposits and savings accounts | 34,859 | 22,820 |
| Net decrease in time certificates of deposit | (26,152) | (13,244) |
| Proceeds from Federal Home Loan Bank and FRB advances | 22,000 | 26,000 |
| Repayment of Federal Home Loan Bank and FRB advances | (37,000) | (16,000) |
| Net cash (used in) provided by financing activities | (6,488) | 19,355 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 9,301 | 567 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | 5,511 | 12,253 |
| CASH AND CASH EQUIVALENTS, END OF YEAR | $ 14,812 | $ 12,820 |
| Supplemental Disclosure of Cash Flow Information: | | |
| Cash paid for interest | $ 2,380 | $ 4,677 |
| Cash paid for income taxes | 5 | 16 |
| Supplemental Disclosure of Noncash Investing Activity: | | |
| Transfers to foreclosed real estate and repossessed assets | $ 2,299 | $ 2,243 |

See accompanying notes.

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COMMUNITY WEST BANCSHARES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

The interim consolidated financial statements reflect all adjustments and reclassifications that, in the opinion of management, are necessary for the fair presentation of the results of operations and financial condition for the interim period. The unaudited consolidated financial statements include Community West Bancshares (“CWBC") and its wholly-owned subsidiary, Community West Bank, N.A. ("CWB" or the “Bank”). CWBC and CWB are referred to herein as “the Company”. The accompanying unaudited condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) and with the instructions to Form 10-Q and Article 8-03 of Regulation S-X promulgated by the Securities and Exchange Commission (“SEC”). Accordingly, they do not include all of the information and footnotes required for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring accruals) considered necessary for a fair statement have been reflected in the financial statements. However, the results of operations for the three-month period ended March 31, 2010 are not necessarily indicative of the results to be expected for the full year.

These unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto of Community West Bancshares included in the Company's Annual Report on Form 10-K for the year ended December 31, 2009.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

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

- SBA – A migration analysis and various portfolio specific factors are used to determine the required allowance for all non-impaired loans. In addition, the migration results are adjusted based upon qualitative factors. Qualitative factors include, but are not limited to, adjustments for existing economic conditions, past due trends and concentration exposure. Impaired loans are assigned a specific reserve based upon the individual characteristics of the loan.

- Relationship Banking – Primarily includes commercial, commercial real estate and construction loans. A migration analysis and various portfolio specific factors are used to calculate the required allowance for all non-impaired loans. In addition, the migration results are adjusted based upon qualitative factors. Qualitative factors include, but are not limited to, adjustments for existing economic conditions, past due trends and concentration exposure. Impaired loans are assigned a specific reserve based upon the individual characteristics of the loan.

- Manufactured Housing – The allowance is calculated on the basis of loss history and risk rating, which is primarily a function of delinquency. In addition, the loss history is adjusted based upon qualitative factors similar to those used for SBA loans.

The Company determines the required ALL on a monthly basis. Any differences between estimated and actual observed losses from the prior month are reflected in the current period required ALL determination 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.

The Bank has a centralized appraisal management process that tracks and monitors appraisal, appraisal reviews and other valuations. The centralization focus is to ensure the use of qualified and independent appraisers capable of providing reliable real estate values in the context of ever changing market conditions. The review process is monitored to ensure application of the appropriate appraisal methodology, agreement with the interpretation of market data and the resultant real estate value. The process also provides the means of tracking the performance quality of the appraisers on the Bank's approved appraiser list. Any loan evaluation that results in the Bank determining that elevated credit risk and/or default risk exists and also exhibits a lack of a timely valuation of the collateral or apparent collateral value deterioration is reappraised and reevaluated to determine the current extent of any change in collateral value and credit risk. A similar review process is conducted quarterly on all classified and criticized real estate credits to determine the timeliness and adequacy of the real estate collateral value. A detection of non-compliance is then addressed through a new appraisal or reappraisal and review.

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

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

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

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

Recent Accounting Pronouncements – In June 2009, amended ASC 860 "Transfers and Servicing". ASC 860 eliminates the concept of a qualifying special purpose entity, creates more stringent conditions for reporting a transfer of a portion of a financial asset as a sale, clarifies other sale-accounting criteria, and changes the initial measurement of a transferor's interest in transferred financial assets. ASC 860 applies to transfers of government-guaranteed portions of loans, such as those guaranteed by the Small Business Administration ("SBA"). In this regard, if the Bank transfers the guaranteed portion of an SBA loan at a premium, it is obligated by the SBA to refund the premium to the purchaser if the loan is repaid within ninety days of the transfer. Under ASC 860, this premium refund obligation is a form of recourse, which means that the transferred guarantee portion of the loan does not meet the definition of a participating interest for the ninety day period that the premium refund obligation exists. As a result, the transfer must be accounted for as a secured borrowing during this period. After the ninety day period, assuming the transferred guaranteed portion and the retained unguaranteed portion of the SBA loan now meet the definition of a participating interest, the transfer of the guaranteed portion can be accounted for as a sale if all of the conditions for sale accounting in ASC 860 are met. Essentially, ASC 860 delays recognition of the gain on the sale of an SBA loan at a premium for ninety days and precludes recognition of gain on loans sold at par. This amendment is effective for annual reporting periods beginning after November 15, 2009, and for interim periods therein. Adoption of ASC 860 did not have a material impact on the Company's financial condition, results of operations or cash flows.

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2. INVESTMENT SECURITIES

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

| March 31, 2010 | (in thousands) | | | |
|---|---|---|---|---|
| Available-for-sale securities | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| U.S. Government agency: MBS | $11,634 | $301 | $- | $11,935 |
| U.S. Government agency: CMO | 5,683 | 43 | (19) | 5,707 |
| Total | $17,317 | $344 | $(19) | $17,642 |
| | | | | |
| Held-to-maturity securities | | | | |
| U.S. Government agency: MBS | $20,103 | $792 | $(24) | $20,871 |
| U.S. Government agency: CMO | - | - | - | - |
| Total | $20,103 | $792 | $(24) | $20,871 |

| December 31, 2009 | (in thousands) | | | |
|---|---|---|---|---|
| Available-for-sale securities | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| U.S. Government agency: MBS | $10,175 | $286 | $- | $10,461 |
| U.S. Government agency: CMO | 7,192 | 37 | (20) | 7,209 |
| Total | $17,367 | $323 | $(20) | $17,670 |
| | | | | |
| Held-to-maturity securities | | | | |
| U.S. Government agency: MBS | $22,678 | $891 | $(31) | $23,538 |
| U.S. Government agency: CMO | - | - | - | - |
| Total | $22,678 | $891 | $(31) | $23,538 |

At March 31, 2010, $37.7 million of securities, at carrying value, was 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 March 31, 2010 are as follows:

| | Total Amount | | Less than One Year | | One to Five Years | | Five to Ten Years | |
|---|---|---|---|---|---|---|---|---|
| | Amount | Yield | Amount | Yield | Amount | Yield | Amount | Yield |
| | | | (dollars in thousands) | | | | | |
| Available-for-sale securities | | | | | | | | |
| U. S. Government: | | | | | | | | |
| Agency: MBS | $11,934 | 2.6% | $2,023 | 2.8% | $9,911 | 2.5% | $- | - |
| Agency: CMO | 5,708 | 1.7% | 198 | 4.8% | 5,510 | 1.6% | - | - |
| Total | $17,642 | 2.3% | $2,221 | 2.9% | $15,421 | 2.2% | $- | - |
| | | | | | | | | |
| Held-to-maturity securities | | | | | | | | |
| U.S. Government: | | | | | | | | |
| Agency: MBS | $20,103 | 4.8% | $112 | 4.9% | $16,996 | 4.9% | $2,995 | 4.3% |
| Agency: CMO | - | - | - | - | - | - | - | - |
| Total | $20,103 | 4.8% | $112 | 4.9% | $16,996 | 4.9% | $2,995 | 4.3% |

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The following tables show all securities that are in an unrealized loss position and temporarily impaired as of:

| March 31, 2010 | Less than 12 months | | More than 12 months | | Total | |
|---|---|---|---|---|---|---|
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Vale | Unrealized Losses |
| | | | (in thousands) | | | |
| Available-for-sale securities | | | | | | |
| U.S. Government agency: MBS | $ - | $ - | $ - | $ - | $ - | $ - |
| U.S. Government agency: CMO | 1,702 | 19 | - | - | 1,702 | 19 |
| Total | $ 1,702 | $ 19 | $ - | $ - | $ 1,702 | $ 19 |
| | | | | | | |
| Held-to-maturity securities | | | | | | |
| U.S. Government agency: MBS | $ 2,841 | $ 24 | $ - | $ - | $ 2,841 | $ 24 |
| U.S. Government agency: CMO | - | - | - | - | - | - |
| Total | $ 2,841 | $ 24 | $ - | $ - | $ 2,841 | $ 24 |

| December 31, 2009 | Less than 12 months | | More than 12 months | | Total | |
|---|---|---|---|---|---|---|
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| | | | (in thousands) | | | |
| Available-for-sale securities | | | | | | |
| U.S. Government agency: MBS | $ - | $ - | $ - | $ - | $ - | $ - |
| U.S. Government agency: CMO | 1,816 | 20 | - | - | 1,816 | 20 |
| Total | $ 1,816 | $ 20 | $ - | $ - | $ 1,816 | $ 20 |
| | | | | | | |
| Held-to-maturity securities | | | | | | |
| U.S. Government agency: MBS | $ 2,854 | $ 31 | $ - | $ - | $ 2,854 | $ 31 |
| U.S. Government agency: CMO | - | - | - | - | - | - |
| Total | $ 2,854 | $ 31 | $ - | $ - | $ 2,854 | $ 31 |

As of March 31, 2010 and December 31, 2009, three securities were in an unrealized loss position.

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

The unrealized losses are primarily due to increases in market interest rates over the yields available at the time the underlying securities were purchased. The fair value is expected to recover as the bonds approach their maturity date or repricing date or if market yields for such investments decline. Management does not believe any of the securities are impaired due to reasons of credit quality, as all are direct or indirect agencies of the U. S. Government. Accordingly, as of March 31, 2010 and December 31, 2009, management believes the impairments detailed in the table above are temporary and no other-than-temporary impairment loss has been realized in the Company's consolidated income statements.

3. LOAN SALES AND SERVICING

SBA Loan Sales - The Company periodically sells the guaranteed portion of selected SBA loans into the secondary market, on a servicing-retained basis. The Company retains the unguaranteed portion of these loans and services the loans as required under the SBA programs to retain specified yield amounts. The SBA program stipulates that the Company retains a minimum of 5% of the loan balance, which is unguaranteed. The percentage of each unguaranteed loan in excess of 5% may be periodically sold to a third party, typically for a cash premium. The Company records servicing liabilities for the unguaranteed loans sold calculated based on the present value of the estimated future servicing costs associated with each loan. The balance of all servicing rights and obligations is subsequently amortized over the estimated life of the loans using an estimated prepayment rate of 5-25%. Quarterly, the servicing asset is analyzed for impairment.

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The Company also periodically sells certain SBA loans into the secondary market, on a servicing-released basis, typically for a cash premium.

As of March 31, 2010 and December 31, 2009, the Company had approximately $94.8 million and $95.7 million, respectively, in SBA loans included in loans held for sale.

Mortgage Loan Sales – The Company enters into mortgage loan rate lock commitments (normally for 30 days) with potential borrowers. In conjunction therewith, the Company enters into a forward sale commitment to sell the locked loan to a third party investor. This forward sale agreement requires delivery of the loan on a "best efforts" basis but does not obligate the Company to deliver if the mortgage loan does not fund.

The mortgage rate lock agreement and the forward sale agreement qualify as derivatives. The value of these derivatives is generally equal to the fee, if any, charged to the borrower at inception but may fluctuate in the event of changes in interest rates. These derivative financial instruments are recorded at fair value if material. Although the Company does not attempt to qualify these transactions for the special hedge accounting, management believes that changes in the fair value of the two commitments generally offset and create an economic hedge. At March 31, 2010 and December 31, 2009, the Company had $6.7 million and $13.6 million, respectively, in outstanding mortgage loan interest rate lock and forward sale commitments, the value of related derivative instruments were not material to the Company's financial position or results of operations.

## 4. LOANS HELD FOR INVESTMENT

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

| | March 31, 2010 | December 31, 2009 |
|---|---|---|
| | (in thousands) | |
| Commercial | $57,795 | $61,810 |
| Real Estate | 189,541 | 195,480 |
| SBA | 41,582 | 43,863 |
| Manufactured housing | 197,267 | 195,656 |
| Other installment | 21,057 | 18,189 |
| | 507,242 | 514,998 |
| Less: | | |
| Allowance for loan losses | 14,409 | 13,733 |
| Deferred costs | (236) | (204) |
| Purchased premiums | (21) | (24) |
| Discount on SBA loans | 584 | 627 |
| Loans held for investment, net | $492,506 | $500,866 |

An analysis of the allowance for credit losses for loans held for investment follows:

| | Three Months Ended March 31, 2010 | 2009 |
|---|---|---|
| | (in thousands) | |
| Balance, beginning of period | $13,733 | $7,341 |
| | | |
| Loans charged off | (2,442) | (6,496) |
| Recoveries on loans previously charged off | 44 | 14 |
| Net charge-offs | (2,398) | (6,482) |
| | | |
| Provision for loan losses | 3,074 | 12,555 |
| Balance, end of period | $14,409 | $13,414 |

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As of March 31, 2010 and December 31, 2009, the Company also had established reserves for credit losses on undisbursed loans of $370,000 and $501,000 respectively which are included in other liabilities in the consolidated balance sheet.

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

| | March 31, 2010 | December 31, 2009 |
|---|---|---|
| | (in thousands) | |
| Impaired loans without specific valuation allowances | $ 10,737 | $ 13,699 |
| Impaired loans with specific valuation allowances | 7,104 | 716 |
| Specific valuation allowances allocated to impaired loans | (2,360 ) | (622 ) |
| Impaired loans, net | $ 15,481 | $ 13,793 |

The following schedule reflects the average investment in impaired loans:

| | Three Months Ended March 31, 2010 | 2009 |
|---|---|---|
| | (in thousands) | |
| Average investment in impaired loans | $ 14,560 | $ 5,788 |
| Interest income recognized on impaired loans | $ 87 | $ 2 |

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5. FAIR VALUE MEASUREMENT

Fair value is the exchange price that would be received for an asset or the price that would be paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. U. S. GAAP establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Three levels of inputs may be used to measure fair value:

Level 1 – Quoted prices in active markets for identical assets and liabilities
Level 2 – Observable inputs other than quoted market prices in active markets for identical assets and liabilities
Level 3 – Unobservable inputs

The following summarizes the fair value measurements of assets measured on a recurring basis as of March 31, 2010 and December 31, 2009 and the relative levels of inputs from which such amounts were derived:

| | Fair value measurements at March 31, 2010 using | | | |
|---|---|---|---|---|
| Description | Total | Quoted prices in active markets for identical assets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
| | (in thousands) | | | |
| Investment securities available-for-sale | $17,642 | $- | $17,642 | $- |
| Interest only strips (included in other assets) | 594 | - | - | 594 |
| Total | $18,236 | $- | $17,642 | $594 |

| | Fair value measurements at December 31, 2009 using | | | |
|---|---|---|---|---|
| Description | Total | Quoted prices in active markets for identical assets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
| | (in thousands) | | | |
| Investment securities available-for-sale | $17,670 | $- | $17,670 | $- |
| Interest only strips (included in other assets) | 623 | - | - | 623 |
| Total | $18,293 | $- | $17,670 | $623 |

On certain SBA loan sales that occurred prior to 2003, the Company retained interest only strips (“I/O strips”), which represent the present value of excess net cash flows generated by the difference between (a) interest at the stated rate paid by borrowers and (b) the sum of (i) pass-through interest paid to third-party investors and (ii) contractual servicing fees. I/O strips are classified as level 3 in the fair value hierarchy. The fair value is determined on a quarterly basis through a discounted cash flow analysis prepared by an independent third party using industry prepayment speeds. The I/O strips were valued at $623,000 as of December 31, 2009 and a valuation adjustment of $29,000 was recorded in income during the first three months of 2010. No other changes in the balance have occurred related to the I/O strips and such valuation adjustments are included as additions or offsets to loan servicing income.

The Company also has assets that under certain conditions are subject to measurement at fair value on a non-recurring basis. These assets are loans that are considered impaired per generally accepted accounting principles. A loan is considered impaired when, based on current information or events, it is probable that not all amounts due will be collected according to the contractual terms of the loan agreement. Impairment is measured based on the fair value of the underlying collateral. The collateral value is determined based on appraisals and other market valuations for similar assets.

The following summarizes the fair value measurements of assets measured on a non-recurring basis as of March 31, 2010 and December 31, 2009 and the relative levels of inputs from which such amounts were derived:

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| Description | Total | Fair value measurements at March 31, 2010 using Quoted prices in active markets for identical assets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
|---|---|---|---|---|
| | | (in thousands) | | |
| Impaired loans | $ 15,481 | $ - | $ 14,852 | $ 629 |

| Description | Total | Fair value measurements at December 31, 2009 using Quoted prices in active markets for identical assets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
|---|---|---|---|---|
| | | (in thousands) | | |
| Impaired loans | $ 13,793 | $ - | $ 13,562 | $ 231 |

6. BORROWINGS

Federal Home Loan Bank Advances – The Company has a blanket lien credit line with the Federal Home Loan Bank ("FHLB"). Advances are collateralized in the aggregate by CWB's eligible loans and securities. Total FHLB advances were $74 million and $68 million at March 31, 2010 and December 31, 2009, respectively, borrowed at fixed rates. At March 31, 2010, CWB had securities and loans pledged to FHLB with carrying value of $37.7 million and $105 million, respectively. At December 31, 2009, CWB had securities and loans pledged with carrying value of $40.3 million and $92.3 million, respectively. Total FHLB interest expense for the three months ended March 31, 2010 and 2009 was $571,000 and $1.1 million, respectively. At March 31, 2010, CWB had $30 million available for additional borrowing.

Federal Reserve Bank – CWB has established a credit line with the Federal Reserve Bank. Advances are collateralized in the aggregate by eligible loans for up to 28 days. The discount rate was raised to 0.75% from 0.50% in February 2010. There were no outstanding FRB advances as of March 31, 2010 and $21 million outstanding as of December 31, 2009. Interest expense on these advances for the three months ended March 31, 2010 was $17,000.

7. STOCKHOLDERS' EQUITY

Preferred Stock

On December 19, 2008, as part of the United States Department of the Treasury's (Treasury) Troubled Asset Relief Program - Capital Purchase Program (TARP Program), the Company entered into a Letter Agreement with the Treasury, pursuant to which the Company issued to the Treasury, in exchange for an aggregate purchase price of $15.6 million in cash: (i) 15,600 shares of the Company's Fixed Rate Cumulative Perpetual Preferred Stock, Series A, no par value, having a liquidation preference of $1,000 per share (Series A Preferred Stock), and (ii) a warrant (Warrant) to purchase up to 521,158 shares of the Company's common stock, no par value (Common Stock), at an exercise price of $4.49 per share.

Series A Preferred Stock pays cumulative dividends at a rate of 5% per year for the first five years and at a rate of 9% per year thereafter, but will be paid only if, as and when declared by the Company's Board of Directors. The Series A Preferred Stock has no maturity date and ranks senior to the common stock with respect to the payment of dividends and distributions and amounts payable upon liquidation, dissolution and winding up of the Company. The Series A Preferred Stock is generally non-voting, other than class voting on certain matters that could adversely affect the Series A Preferred Stock. In the event that dividends payable on the Series A Preferred Stock have not been paid for the equivalent of six or more quarters, whether or not consecutive, the Company's authorized number of Directors will be automatically increased by two and the holders of the Series A Preferred Stock, voting together with holders of any then outstanding voting parity stock, will have the right to elect those Directors at the Company's next annual meeting of shareholders or at a special meeting of shareholders called for that purpose. These Directors will be elected annually and will serve until all accrued and unpaid dividends on the Series A Preferred Stock have been paid.

The Company may redeem the Series A Preferred Stock after February 15, 2012 for $1,000 per share plus accrued and unpaid dividends. Prior to this date, the Company may redeem the Series A Preferred Stock for $1,000 per share plus accrued and unpaid dividends if: (i) the Company has raised aggregate gross proceeds in one or more "qualified equity offerings" (as defined in the Securities Purchase Agreement entered into between the Company and the Treasury) in excess of $15.6 million, and (ii) the aggregate redemption price does not exceed the aggregate net cash proceeds from such qualified equity offerings.  Any redemption is subject to the prior approval of the Company's primary banking regulator.

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A valuation was prepared which allocated the $15.6 million received, less related costs, between the Series A Preferred Stock and the Warrant at $14.4 million and $1.2 million, respectively. The resulting difference between the proceeds received and the liquidation amount of the Series A Preferred Stock and related costs are being amortized on a straight line basis over five years.

Common Stock

Common Stock Warrant

The Warrant issued as part of the TARP provide for the purchase of up to 521,158 shares of the common stock, at an exercise price of $4.49 per share (Warrant Shares). The Warrant is immediately exercisable and has a 10-year term. The exercise price and the ultimate number of shares of common stock that may be issued under the Warrant are subject to certain anti-dilution adjustments, such as upon stock splits or distributions of securities or other assets to holders of the common stock, and upon certain issuances of the common stock at or below a specified price relative to the then current market price of the common stock. Pursuant to the Securities Purchase Agreement, the Treasury has agreed not to exercise voting power with respect to any Warrant Shares.

Earnings per Common Share-Calculation of Weighted Average Shares Outstanding

| | Three Months Ended March 31, | |
|---|---|---|
| | 2010 | 2009 |
| | (in thousands) | |
| Basic weighted average common shares outstanding | 5,915 | 5,915 |
| Dilutive effect of options | - | - |
| Diluted weighted average common shares outstanding | 5,915 | 5,915 |

8. FAIR VALUES OF FINANCIAL INSTRUMENTS

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

The following table represents the estimated fair values:

| | March 31, 2010 | | December 31, 2009 | |
|---|---|---|---|---|
| | Carrying Amount | Estimated Fair Value | Carrying Amount | Estimated Fair Value |
| | (in thousands) | | | |
| Assets: | | | | |
| Cash and cash equivalents | $14,812 | $14,812 | $5,511 | $5,511 |
| Time deposits in other financial institutions | 475 | 475 | 640 | 640 |
| Federal Reserve and Federal Home Loan Bank stock | 6,982 | 6,982 | 6,982 | 6,982 |
| Investment securities | 37,745 | 38,513 | 40,348 | 41,208 |
| Loans | 602,891 | 577,452 | 617,173 | 589,858 |
| Liabilities: | | | | |
| Deposits (other than time deposits) | 280,863 | 280,863 | 246,004 | 246,004 |
| Time deposits | 259,236 | 261,618 | 285,388 | 287,806 |
| Other borrowings | 74,000 | 74,178 | 89,000 | 89,751 |

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The methods and assumptions used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value are explained below:

Cash and cash equivalents - The carrying amounts approximate fair value because of the short-term nature of these instruments.

Time deposits in other financial institutions - The carrying amounts approximate fair value because of the relative short-term nature of these instruments.

Federal Reserve Stock - The carrying value approximates the fair value because the stock can be sold back to the Federal Reserve at any time.

Federal Home Loan Bank Stock - The carrying value approximates the fair value. The FHLB is rated AAA by Moody's and S&P as of March 31, 2010 and no impairment was recognized as of March 31, 2010.

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

Loans – For most loan categories, the fair value is estimated using discounted cash flows utilizing an appropriate discount rate and historical prepayment speeds. Certain adjustable loans that reprice on a frequent basis are valued at book value.

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

Other borrowings – The fair value of FHLB and FRB advances are estimated using discounted cash flow analysis based on rates for similar types of borrowing arrangements.

Commitments to Extend Credit, Commercial and Standby Letters of Credit – Due to the proximity of the pricing of these commitments to the period end, the fair values of commitments are immaterial to the financial statements.

The fair value estimates presented herein are based on pertinent information available to management as of March 31, 2010 and December 31, 2009. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since those dates and, therefore, current estimates of fair value may differ significantly from the amounts presented herein.

## 9. SUBSEQUENT EVENTS

Debenture offering - On May 4, 2010, the Company announced its intention to offer $8 million, and up to $8.8 million with oversubscription privileges, of convertible subordinated debentures which will pay interest at 9% until conversion, redemption or maturity. The Company has filed a registration statement (including a prospectus) with the SEC for this offering. The effective date of the prospectus was May 10, 2010. The debentures, which will mature 10 years from the date of issuance, will be sold in $1,000 increments and pay interest quarterly on January 15, April 15, July 15 and October 15. The debentures may be redeemed by the Company after January 1, 2014. Prior to maturity or redemption, the debentures can be converted into common stock at $3.50 per share if converted prior to July 1, 2013, $4.50 per share between July 2, 2013 and July 1, 2016 and $6.00 per share from July 2, 2016 until maturity or redemption. The debentures will be initially offered to shareholders as of April 30, 2010 on a pro-rata basis. Each shareholder will be given the right to purchase one $1,000 debenture for each 750 shares owned. All remaining debentures not subscribed for in the offering will be offered to the general public and to existing shareholders alike. The debentures are unsecured obligations of Community West Bancshares and are subordinated to all other present and future debts including deposits and borrowings and are not insured by the Federal Deposit Insurance Corporation. Proceeds from the offering will be used to further strengthen the capital position of the Company and support its strategic growth opportunities. The Company's Board of Directors will retain discretion in the allocation and use of the proceeds of the offering.

Evaluation of subsequent events - Subsequent events have been evaluated through the date the financial statements were issued.

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

This discussion is designed to provide insight into management's assessment of significant trends related to the Company's consolidated financial condition, results of operations, liquidity, capital resources and interest rate sensitivity. It should be read in conjunction with the unaudited interim consolidated financial statements and notes thereto and the other financial information appearing elsewhere in this report.

Forward Looking Statements

This Report on Form 10-Q 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. The Company does not undertake any obligation to revise or update publicly any forward-looking statements for any reason.

The following discussion should be read in conjunction with the Company's financial statements and the related notes provided under "Item 1—Financial Statements" above.

Overview of Earnings Performance

For the 1Q10, net income was $51,000 compared to net loss of $6.7 million for 1Q09.

The significant factors impacting net income for 1Q10 were:

- The provision for loan losses was $3.1 million for 1Q10 compared to $12.6 million for 1Q09 reflecting significant, though moderating, levels of non-performing loans and net charge-offs.

- The decline in rates paid on funding sources contributed to a continued improvement in the margin which increased to 4.48% for 1Q10 compared to 3.56% for 1Q09.

- Resulting from the improvement in margin, net interest income increased by $1.5 million to $7.3 million for 1Q10 from $5.8 million for 1Q09.

- The strategic decision in 1Q09 to discontinue SBA lending east of the Rocky Mountains contributed to a decline in salaries and employee benefits to $3.0 million for 1Q10 from $3.5 million for 1Q09.

Debenture Offering

On May 4, 2010, the Company announced its intention to offer $8 million, and up to $8.8 million with oversubscription privileges, of convertible subordinated debentures which will pay interest at 9% until conversion, redemption or maturity. The Company has filed a registration statement (including a prospectus) with the SEC for this offering. The effective date of the prospectus was May 10, 2010. The debentures, which will mature 10 years from the date of issuance, will be sold in $1,000 increments and pay interest quarterly on January 15, April 15, July 15 and October 15. The debentures may be redeemed by the Company after January 1, 2014. Prior to maturity or redemption, the debentures can be converted into common stock at $3.50 per share if converted prior to July 1, 2013, $4.50 per share between July 2, 2013 and July 1, 2016 and $6.00 per share from July 2, 2016 until maturity or redemption. The debentures will be initially offered to shareholders as of April 30, 2010 on a pro-rata basis. Each shareholder will be given the right to purchase one $1,000 debenture for each 750 shares owned. All remaining debentures not subscribed for in the offering will be offered to the general public and to existing shareholders alike. The debentures are unsecured obligations of Community West Bancshares and are subordinated to all other present and future debts including deposits and borrowings and are not insured by the Federal Deposit Insurance Corporation. Proceeds from the offering will be used to further strengthen the capital position of the Company and support its strategic growth opportunities. The Company's Board of Directors will retain discretion in the allocation and use of the proceeds of the offering.

Critical Accounting Policies

A number of critical accounting policies are used in the preparation of the Company's consolidated financial statements. These policies relate to areas of the financial statements that involve estimates and judgments made by management. These include: provision and allowance for loan losses and servicing rights. These critical accounting policies are discussed in the Company's 2009 Form 10-K with a description of how the estimates are determined and an indication of the consequences of an over or under estimate.

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Results of Operations-First Quarter Comparison

The following table sets forth for the periods indicated, certain items in the consolidated statements of income of the Company and the related changes between those periods:

| | Three Months Ended March 31, 2010 | 2009 | Increase (Decrease) |
|---|---|---|---|
| | (dollars in thousands, except per share amounts) | | |
| Interest income | $9,942 | $10,217 | $(275) |
| Interest expense | 2,647 | 4,454 | (1,807) |
| Net interest income | 7,295 | 5,763 | 1,532 |
| Provision for loan losses | 3,074 | 12,555 | (9,481) |
| Net interest income (loss) after provision for loan losses | 4,221 | (6,792) | 11,013 |
| Non-interest income | 839 | 1,168 | (329) |
| Non-interest expenses | 4,971 | 5,807 | (836) |
| Income (loss) before provision for income taxes | 89 | (11,431) | 11,520 |
| Provision (benefit) for income taxes | 38 | (4,702) | 4,740 |
| Net income (loss) | $51 | $(6,729) | $6,780 |
| Preferred stock dividends | 262 | 261 | 1 |
| Net income (loss) applicable to common stockholders | $(211) | $(6,990) | $6,779 |
| (Loss) per common share: | | | |
| Basic | $(.04) | $(1.18) | $1.14 |
| Diluted | $(0.4) | $(1.18) | $1.14 |
| Dividends per common share | $- | $- | $- |
| Comprehensive income (loss) | $65 | $(6,626) | $6,691 |

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

| | Three Months Ended March 31, 2010 versus 2009 | | |
|---|---|---|---|
| | | Change due to | |
| | Total change | Rate | Volume |
| | | (in thousands) | |
| Loans, net | $(218) | $(288) | $70 |
| Investment securities | (50) | (62) | 12 |
| Other | (7) | - | (7) |
| Total interest-earning assets | (275) | (350) | 75 |
| | | | |
| Deposits | (1,299) | (1,460) | 161 |
| Other borrowings | (508) | (277) | (231) |
| Total interest-bearing liabilities | (1,807) | (1,737) | (70) |
| Net interest income | $1,532 | $1,387 | $145 |

Net Interest Income

Net interest income increased by $1.5 million for 1Q10 compared to 1Q09. Total interest income declined by $275,000. While average interest earning assets grew to $661 million for 1Q10 compared to $656 million for 1Q09, yields declined to 6.10% from 6.31%.

The decline in rates paid on funding sources from 3.78% for 1Q09 to 2.82% for 1Q10 benefited the Bank in a reduction of $1.8 million in interest expense. The net impact of the decline in yields on interest earning assets and the decline in rates on interest-bearing liabilities was an increase in the margin from 3.56% for 1Q09 to 4.48% for 1Q10.

Provision for Loan Losses
The provision for loan losses was $3.1 million for 1Q10 compared to $12.6 million for 1Q09.

The following schedule summarizes the provision, charge-offs and recoveries for 1Q10 by loan category:

| | Three Months Ended March 31, 2010 (in thousands) | | | | | |
|---|---|---|---|---|---|---|
| | Allowance 12/31/09 | Provision | Charge-offs | Recoveries | Net Charge-offs | Allowance 03/31/10 |
| Real estate | $3,012 | $(273) | $(34) | $2 | $(32) | $2,707 |
| Manufactured housing | 2,255 | 913 | (462) | - | (462) | 2,706 |
| Commercial | 3,448 | (486) | (21) | 4 | (17) | 2,945 |
| SBA | 4,801 | 2,391 | (1,680) | 37 | (1,643) | 5,549 |
| Other installment | 217 | 529 | (245) | 1 | (244) | 502 |
| Total | $13,733 | $3,074 | $(2,442) | $44 | $(2,398) | $14,409 |

In response to continuing challenges in the loan portfolio, the Company has increased the allowance for loan losses for loans held-for-investment from 2.67% at December 31, 2009 to 2.84% at March 31, 2010.

The percentage of net non-accrual loans to the total loan portfolio increased modestly to 2.93% as of March 31, 2010 from 2.62% at December 31, 2009.

Included in the Company's held for investment portfolio is the category "Other installment" which consists primarily of home equity lines of credit (HELOC) loans. Recent guidance issued by the SEC characterized these types of loans as higher-risk. The HELOC portfolio of $20.7 million consists of credits secured by residential real estate in Santa Barbara and Ventura counties. In 1Q10, there were charge-offs of $244,000 in this portfolio. As of March 31, 2010, 0.5% of the portfolio is past due and 0.7% is on non-accrual status. The allowance for loan losses for this portfolio is $378,000, or 1.8%. The Company believes that, overall, this portfolio is adequately supported by real estate collateral.

Non-Interest Income
Non-interest income includes gains from sale of loans, loan document fees, service charges on deposit accounts, loan servicing fees and other revenues not derived from interest on earning assets. Total non-interest income decreased by $329,000, or 28.2%, for 1Q10 compared to 1Q09, primarily due to lower loan servicing fee income. Of the $306,000 decline in loan servicing fees, $261,000 resulted from higher amortization of the servicing assets and adjustments to the value of the I/O strip for 1Q10 compared to 1Q09.

Non-Interest Expenses
Non-interest expenses declined $836,000, or 14.4%, for 1Q10 compared to 1Q09. The strategic decision to discontinue SBA lending east of the Rocky Mountains as of April 1, 2009 contributed to a decline in salaries and employee benefits to $3.0 million for 1Q10 from $3.5 million for 1Q09. Also contributing to a reduction in non-interest expenses for 1Q10 was the decline of $435,000 in the reserve for unfunded loan commitments compared to 1Q09.

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Interest Rates and Differentials

The following table illustrates average yields on interest-earning assets and average rates on interest-bearing liabilities for the periods indicated:

| | Three Months Ended March 31, 2010 | | 2009 | |
|---|---|---|---|---|
| Interest-earning assets: | (dollars in thousands) | | | |
| Interest-earning deposits in other financial institutions: | | | | |
| Average balance | $819 | | $1,115 | |
| Interest income | 6 | | 7 | |
| Average yield | 2.95 | % | 2.84 | % |
| Federal funds sold: | | | | |
| Average balance | $4,217 | | $11,052 | |
| Interest income | 3 | | 9 | |
| Average yield | 0.31 | % | 0.33 | % |
| Investment securities: | | | | |
| Average balance | $45,766 | | $44,437 | |
| Interest income | 399 | | 449 | |
| Average yield | 3.54 | % | 4.09 | % |
| Gross loans: | | | | |
| Average balance | $610,137 | | $599,574 | |
| Interest income | 9,534 | | 9,752 | |
| Average yield | 6.34 | % | 6.60 | % |
| Total interest-earning assets: | | | | |
| Average balance | $660,939 | | $656,178 | |
| Interest income | 9,942 | | 10,217 | |
| Average yield | 6.10 | % | 6.31 | % |
| Interest-bearing liabilities: | | | | |
| Interest-bearing demand deposits: | | | | |
| Average balance | $204,944 | | $67,103 | |
| Interest expense | 808 | | 283 | |
| Average cost of funds | 1.60 | % | 1.71 | % |
| Savings deposits: | | | | |
| Average balance | $17,992 | | $15,226 | |
| Interest expense | 108 | | 115 | |
| Average cost of funds | 2.43 | % | 3.05 | % |
| Time certificates of deposit: | | | | |
| Average balance | $272,171 | | $367,367 | |
| Interest expense | 1,143 | | 2,960 | |
| Average cost of funds | 1.70 | % | 3.27 | % |
| Other borrowings: | | | | |
| Average balance | $84,489 | | $117,678 | |
| Interest expense | 588 | | 1,096 | |
| Average cost of funds | 2.82 | % | 3.78 | % |
| Total interest-bearing liabilities: | | | | |
| Average balance | $579,596 | | $567,374 | |
| Interest expense | 2,647 | | 4,454 | |
| Average cost of funds | 1.85 | % | 3.18 | % |
| | | | | |
| Net interest income | $7,295 | | $5,763 | |
| Net interest spread | 4.25 | % | 3.13 | % |
| Average net margin | 4.48 | % | 3.56 | % |

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In calculating interest rates and differentials:

- 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 periods indicated. Amounts outstanding are averages of daily balances during the applicable periods.

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

- Net interest income is the difference between the interest and fees earned on loans and investments and the interest expense paid on deposits and other liabilities. The amount by which interest income will exceed interest expense depends on the volume or balance of 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 margin is net interest income expressed as a percentage of average earning assets. It is used to measure the difference between the average rate of interest earned on assets and the average rate of interest that must be paid on liabilities used to fund those assets. To maintain its net interest margin, the Company must manage the relationship between interest earned and paid.

Financial Condition

Average total assets increased by $9.4 million, or 1.4%, to $682.1 million for 1Q10 compared to $672.7 million 1Q09. Average total gross loans increased by $10.5 million, or 1.8%, to $610.1 million for 1Q10 from $599.6 million for 1Q09. Average deposits also increased by 10.4% from $484.9 million for 1Q09 to $535.1 million for 1Q10.

The book value per common share declined to $7.70 at March 31, 2010 from $7.74 at December 31, 2009.

| Selected balance sheet accounts (dollars in thousands) | March 31, 2010 | December 31, 2009 | Increase (Decrease) | Percent of Increase (Decrease) |
|---|---|---|---|---|
| Cash and cash equivalents | $14,812 | $5,511 | $9,301 | 168.8 % |
| Investment securities available-for-sale | 17,642 | 17,670 | (28) | (0.2)% |
| Investment securities held-to-maturity | 20,103 | 22,678 | (2,575) | (11.4)% |
| Loans-Held for sale | 95,976 | 102,574 | (6,598) | (6.4)% |
| Loans-Held for investment, net | 492,506 | 500,866 | (8,360) | (1.7)% |
| Total Assets | 677,666 | 684,216 | (6,550) | (1.0)% |
| | | | | |
| Total Deposits | 540,099 | 531,392 | 8,707 | 1.6 % |
| Other borrowings | 74,000 | 89,000 | (15,000) | (16.9)% |
| | | | | |
| Total Stockholders' Equity | 60,182 | 60,307 | (125) | (0.2)% |

The following schedule shows the balance and percentage change in the various deposits:

| | March 31, 2010 | December 31, 2009 | Increase (Decrease) | Percent of Increase (Decrease) |
|---|---|---|---|---|
| | | (dollars in thousands) | | |
| Non-interest-bearing deposits | $39,566 | $37,703 | $1,863 | 4.9 % |
| Interest-bearing deposits | 221,116 | 191,905 | 29,211 | 15.2 % |
| Savings | 20,181 | 16,396 | 3,785 | 23.1 % |
| Time certificates of $100,000 or more | 179,803 | 173,594 | 6,209 | 3.6 % |
| Other time certificates | 79,433 | 111,794 | (32,361) | (28.9)% |
| Total deposits | $540,099 | $531,392 | $8,707 | 1.6 % |

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Nonaccrual, Past Due and Restructured Loans

A loan is considered impaired when, based on current information, it is probable that the Company will be unable to collect the scheduled payments of principal 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 or payment shortfalls on a case-by-case basis. When determining the possibility of impairment, management considers the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. For collateral-dependent loans, the Company uses the fair value of collateral method to measure impairment. All other loans are measured for impairment based on the present value of future cash flows. Impairment is measured on a loan-by-loan basis for all loans in the portfolio.

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

| | March 31, 2010 | December 31, 2009 |
|---|---|---|
| | (in thousands) | |
| Impaired loans without specific valuation allowances | $10,737 | $13,699 |
| Impaired loans with specific valuation allowances | 7,104 | 716 |
| Specific valuation allowances allocated to impaired loans | (2,360) | (622) |
| Impaired loans, net | $15,481 | $13,793 |

The following schedule reflects the average investment in impaired loans:

| | Three Months Ended March 31, 2010 | 2009 |
|---|---|---|
| | (in thousands) | |
| Average investment in impaired loans | $14,560 | $5,788 |
| Interest income recognized on impaired loans | $87 | $2 |

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

| | March 31, 2010 | December 31, 2009 |
|---|---|---|
| | (dollars in thousands) | |
| Nonaccrual loans | $40,469 | $40,265 |
| SBA guaranteed portion of loans included above | (22,814) | (24,088) |
| Nonaccrual loans, net | $17,655 | $16,177 |
| | | |
| Troubled debt restructured loans, gross | $7,149 | $7,013 |
| Loans 30 through 89 days past due with interest accruing | $15,054 | $17,686 |
| Allowance for loan losses to gross loans (including loans held for sale) | 2.39% | 2.23% |

CWB generally repurchases the guaranteed portion of SBA loans from investors when those loans become past due 120 days. After the foreclosure and collection process is complete, the SBA reimburses CWB for this principal balance. Therefore, although these balances do not earn interest during this period, they generally do not result in a loss of principal to CWB.

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## Liquidity and Capital Resources

### Liquidity Management

The Company has established policies as well as analytical tools to manage liquidity. Proper liquidity management ensures that sufficient funds are available to meet normal operating demands in addition to unexpected customer demand for funds, such as high levels of deposit withdrawals or increased loan demand, in a timely and cost effective manner. The most important factor in the preservation of liquidity is maintaining public confidence that facilitates the retention and growth of core deposits. Ultimately, public confidence is gained through profitable operations, sound credit quality and a strong capital position. The Company's liquidity management is viewed from a long-term and short-term perspective, as well as from an asset and liability perspective. Management monitors liquidity through regular reviews of maturity profiles, funding sources and loan and deposit forecasts to minimize funding risk. The Company has asset/liability committees (ALCO) at the Board and Bank management level to review asset/liability management and liquidity issues.

The Company has a blanket lien credit line with the Federal Home Loan Bank ("FHLB"). Advances are collateralized in the aggregate by CWB's eligible loans and securities. Total FHLB advances were $74 million and $68 million at March 31, 2010 and December 31, 2009, respectively, borrowed at fixed rates. At March 31, 2010, CWB had securities and loans pledged to FHLB with carrying value of $37.7 million and $105 million, respectively. At December 31, 2009, CWB had securities and loans pledged with carrying value of $40.3 million and $92.3 million, respectively. Total FHLB interest expense for the three months ended March 31, 2010 and 2009 was $571,000 and $1.1 million, respectively. At March 31, 2010, CWB had $30 million available for additional borrowing.

CWB has established a credit line with the Federal Reserve Bank. Advances are collateralized in the aggregate by eligible loans for up to 28 days. The discount rate was raised to 0.75% from 0.50% in February 2010. There were no outstanding FRB advances as of March 31, 2010 and $21 million outstanding as of December 31, 2009. Interest expense on these advances for the three months ended March 31, 2010 was $17,000.

CWB also maintains four federal funds purchased lines for a total borrowing capacity of $23.5 million. Of the $23.5 million in borrowing capacity, two of the lines for $10.0 million require the Company to furnish acceptable collateral.

The Company has not experienced disintermediation and does not believe this is a likely occurrence, although there is significant competition for core deposits. The liquidity ratio of the Company was 19% at March 31, 2010 compared to 18% at December 31, 2009. The Company's liquidity ratio fluctuates in conjunction with loan funding demands. The liquidity ratio consists of cash and due from banks, deposits in other financial institutions, available for sale investments, federal funds sold and loans held for sale, divided by total assets.

CWBC's routine funding requirements primarily consist of certain operating expenses and TARP-CPP preferred dividends. Normally, CWBC obtains funding to meet its obligations from dividends collected from its subsidiary and has the capability to issue debt securities. Federal banking laws regulate the amount of dividends that may be paid by banking subsidiaries without prior approval. CWB anticipates that for 2010, it will fund its expenses and TARP-CPP preferred dividends from its own funds and will not receive dividends from its bank subsidiary.

### Interest Rate Risk

The Company is exposed to different types of interest rate risks. These risks include: lag, repricing, basis and prepayment risk.

- Lag Risk – lag risk results from the inherent timing difference between the repricing of the Company's adjustable rate assets and liabilities. For instance, certain loans tied to the prime rate index may only reprice on a quarterly basis. However, at a community bank such as CWB, when rates are rising, funding sources tend to reprice more slowly than the loans. Therefore, for CWB, the effect of this timing difference is generally favorable during a period of rising interest rates and unfavorable during a period of declining interest rates. This lag can produce some short-term volatility, particularly in times of numerous prime rate changes.

- Repricing Risk – repricing risk is caused by the mismatch in the maturities / repricing periods between interest-earning assets and interest-bearing liabilities. If CWB was perfectly matched, the net interest margin would expand during rising rate periods and contract during falling rate periods. This is so since loans tend to reprice more quickly than do funding sources. Typically, since CWB is somewhat asset sensitive, this would also tend to expand the net interest margin during times of interest rate increases. However, the margin relationship is somewhat dependent on the shape of the yield curve.

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- Basis Risk – item pricing tied to different indices may tend to react differently, however, all CWB's variable products are priced off the prime rate.

- Prepayment Risk – prepayment risk results from borrowers paying down / off their loans prior to maturity. Prepayments on fixed-rate products increase in falling interest rate environments and decrease in rising interest rate environments. Since a majority of CWB's loan originations are adjustable rate and set based on prime, and there is little lag time on the reset, CWB does not experience significant prepayments. However, CWB does have more prepayment risk on its manufactured housing loans and its mortgage-backed investment securities.

Management of Interest Rate Risk

To mitigate the impact of changes in market interest rates on the Company's interest-earning assets and interest-bearing liabilities, the amounts and maturities are actively managed. Short-term, adjustable-rate assets are generally retained as they have similar repricing characteristics as our funding sources. CWB sells mortgage products and a portion of its SBA loan originations. While the Company has some interest rate exposure in excess of five years, it has internal policy limits designed to minimize risk should interest rates rise. Currently, the Company does not use derivative instruments to help manage risk, but will consider such instruments in the future if the perceived need should arise.

Loan sales - The Company's ability to originate, purchase and sell loans is also significantly impacted by changes in interest rates. Increases in interest rates may also reduce the amount of loan and commitment fees received by CWB. A significant decline in interest rates could also decrease the size of CWB's servicing portfolio and the related servicing income by increasing the level of prepayments.

Capital Resources

The Company (on a consolidated basis) and CWB are subject to various regulatory capital requirements administered by the Federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory - and possibly additional discretionary - actions by regulators that, if undertaken, could have a direct material effect on the Company's and CWB's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and CWB must meet specific capital guidelines that involve quantitative measures of the Company's and CWB's assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Company's and CWB's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

The Federal Deposit Insurance Corporation Improvement Act ("FDICIA") contains rules as to the legal and regulatory environment for insured depository institutions, including increased supervision by the federal regulatory agencies, increased reporting requirements for insured institutions and regulations concerning internal controls, accounting and operations. The prompt corrective action regulations of FDICIA define specific capital categories based on the institutions' capital ratios. The capital categories, in declining order, are "well capitalized", "adequately capitalized", "undercapitalized", "significantly undercapitalized" and "critically undercapitalized". To be considered "well capitalized", an institution must have a core or leverage capital ratio of at least 5%, a Tier I risk-based capital ratio of at least 6%, and a total risk-based capital ratio of at least 10%. Tier I risk-based capital is, primarily, common stock and retained earnings, net of goodwill and other intangible assets.

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Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the following table) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier 1 leverage capital (as defined) to adjusted average assets (as defined). The Company's and CWB's actual capital amounts and ratios as of March 31, 2010 and December 31, 2009 are also presented in the table below:

| (dollars in thousands) | Total Capital | Tier 1 Capital | Risk-Weighted Assets | Adjusted Average Assets | Total Risk-Based Capital Ratio | | Tier 1 Risk-Based Capital Ratio | | Tier 1 Leverage Ratio | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | (dollars in thousands) | | | | | | | |
| March 31, 2010 | | | | | | | | | | |
| CWBC (Consolidated) | $66,723 | $59,897 | $ 538,162 | $681,969 | 12.40 | % | 11.13 | % | 8.78 | % |
| Capital in excess of well capitalized | | | | | $12,907 | | $27,607 | | $25,799 | |
| CWB | 66,108 | 59,281 | 538,195 | 682,001 | 12.28 | % | 11.01 | % | 8.69 | % |
| Capital in excess of well capitalized | | | | | $12,289 | | $26,989 | | $25,181 | |
| | | | | | | | | | | |
| December 31, 2009 | | | | | | | | | | |
| CWBC (Consolidated) | $66,984 | $60,029 | $ 549,207 | $681,101 | 12.20 | % | 10.93 | % | 8.81 | % |
| Capital in excess of well capitalized | | | | | $12,063 | | $27,077 | | $25,974 | |
| CWB | 66,175 | 59,219 | 549,240 | 681,129 | 12.05 | % | 10.78 | % | 8.69 | % |
| Capital in excess of well capitalized | | | | | $11,251 | | $26,265 | | $25,163 | |
| | | | | | | | | | | |
| Well capitalized ratios | | | | | 10.00 | % | 6.00 | % | 5.00 | % |
| Minimum capital ratios | | | | | 8.00 | % | 4.00 | % | 4.00 | % |

The Company and CWB each met the minimum ratios required to be classified as "well capitalized" under generally applicable regulatory guidelines.

## Supervision and Regulation

Banking is a complex, highly regulated industry. The banking regulatory scheme serves not to protect investors, but is designed to maintain a safe and sound banking system, to protect depositors and the FDIC insurance fund, and to facilitate the conduct of sound monetary policy. In furtherance of these goals, Congress and the states have created several largely autonomous regulatory agencies and enacted numerous laws that govern banks, bank holding companies and the banking industry. Consequently, the Company's growth and earnings performance, as well as that of CWB, may be affected not only by management decisions and general economic conditions, but also by the requirements of applicable state and federal statutes and regulations and the policies of various governmental regulatory authorities, including the Board of Governors of the Federal Reserve Bank ("FRB"), the FDIC, and the Office of the Comptroller of the Currency ("OCC"). For a detailed discussion of the regulatory scheme governing the Company and CWB, please see the discussion in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2009 under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operation – Supervision and Regulation."

## ITEM 4T. CONTROLS AND PROCEDURES

The Company's Chief Executive Officer and Chief Financial Officer, with the participation of the Company's management, carried out an evaluation of the effectiveness of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(e). Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer believe that, as of the end of the period covered by this report, the Company's disclosure controls and procedures are effective in making known to them material information relating to the Company (including its consolidated subsidiaries) required to be included in this report.

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

There was no change in the Company's internal control over financial reporting, known to the Chief Executive Officer or the Chief Financial Officer, that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is involved in various litigation of a routine nature that is 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.

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

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

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

Not applicable

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

Exhibits.

31.1 Certification of Chief Executive Officer of the Registrant pursuant to Rule 13a-14(a) or Rule 15d-14(a), promulgated under the Securities Exchange Act of 1934, as amended.

31.2 Certification of Chief Financial Officer of the Registrant pursuant to Rule 13a-14(a) or Rule 15d-14(a), promulgated under the Securities Exchange Act of 1934, as amended.

32.1* Certification of Chief Executive Officer and Chief Financial Officer of the Registrant pursuant to Rule 13a-14(b) or Rule 15d-14(b), promulgated under the Securities Exchange Act of 1934, as Amended, and 18 U.S.C. 1350.

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

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## SIGNATURES

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

COMMUNITY WEST BANCSHARES
(Registrant)

Date: May 14, 2010

/s/ Charles G. Baltuskonis
Charles G. Baltuskonis
Executive Vice President and
Chief Financial Officer

On Behalf of Registrant and as
Principal Financial and Accounting Officer

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EXHIBIT INDEX

| Exhibit Number | Description of Document |
|---|---|
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