COMMUNITY WEST BANCSHARES /
Form 10-Q
November 07, 2014

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

FORM 10-Q

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

For the quarterly period ended September 30, 2014 or

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

For the transition period from _________ to _________

Commission File Number: 000-23575

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

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

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

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

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

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

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

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

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

Common stock of the registrant issued and outstanding of 8,202,733 as of October 31, 2014.

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The financial statements included in this Form 10-Q should be read in conjunction with Community West Bancshares' Annual Report on Form 10-K for the fiscal year ended December 31, 2013.

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

COMMUNITY WEST BANCSHARES
CONSOLIDATED BALANCE SHEETS

	September 30, 2014 (unaudited)	December 31, 2013
	(in thousands, except share amounts)	
Assets:		
Cash and due from banks	$1,463	$1,449
Federal funds sold	22	23
Interest-earning demand in other financial institutions	27,857	18,006
Cash and cash equivalents	29,342	19,478
Money market investments	99	99
Investment securities - available-for-sale, at fair value; amortized cost of $22,673 at September 30, 2014 and $18,937 at December 31, 2013	22,526	18,472
Investment securities - held-to-maturity, at amortized cost; fair value of $8,975 at September 30, 2014 and $10,101 at December 31, 2013	8,578	9,688
Federal Home Loan Bank stock, at cost	1,716	1,870
Federal Reserve Bank stock, at cost	1,373	1,373
Loans:		
Held for sale, at lower of cost or fair value	67,376	64,399
Held for investment, net of allowance for loan losses of $9,236 at September 30, 2014 and $12,208 at December 31, 2013	422,665	397,606
Total loans	490,041	462,005
Other assets acquired through foreclosure, net	475	3,811
Premises and equipment, net	2,978	2,983
Other assets	15,015	19,221
Total assets	$572,143	$539,000
Liabilities:		
Deposits:		
Non-interest-bearing demand	$63,185	$52,461
Interest-bearing demand	277,743	258,445
Savings	16,218	16,158
Certificates of deposit	127,604	109,071
Total deposits	484,750	436,135
Other borrowings	18,000	30,000
Convertible debentures	—	1,442
Other liabilities	3,639	3,867
Total liabilities	506,389	471,444
Stockholders’ equity:		
Preferred stock — no par value, 10,000,000 shares authorized; 7,796 shares issued and outstanding at September 30, 2014 and 15,600 at December 31, 2013	7,796	15,600
Common stock — no par value, 20,000,000 shares authorized; 8,202,733 shares issued and outstanding at September 30, 2014 and 7,866,783 at December 31, 2013	41,917	40,165

Retained earnings	16,127	12,065
Accumulated other comprehensive loss	(86)	(274)
Total stockholders' equity	65,754	67,556
Total liabilities and stockholders' equity	$572,143	$539,000

See the accompanying notes.

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COMMUNITY WEST BANCSHARES
CONSOLIDATED INCOME STATEMENTS (unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(in thousands, except per share amounts)			
Interest income:				
Loans, including fees	$6,695	$6,871	$20,367	$20,515
Investment securities and other	208	210	619	586
Total interest income	6,903	7,081	20,986	21,101
Interest expense:				
Deposits	709	719	2,039	2,238
Other borrowings and convertible debt	126	328	524	1,136
Total interest expense	835	1,047	2,563	3,374
Net interest income	6,068	6,034	18,423	17,727
Provision for loan losses	(1,178)	(1,563)	(3,560)	(2,843)
Net interest income after provision for loan losses	7,246	7,597	21,983	20,570
Non-interest income:				
Other loan fees	279	229	720	844
Gains from loan sales, net	57	62	150	334
Document processing fees	103	114	297	369
Service Charges	72	75	215	245
Other	41	197	344	493
Total non-interest income	552	677	1,726	2,285
Non-interest expenses:				
Salaries and employee benefits	2,888	3,102	9,308	9,956
Occupancy, net	479	452	1,377	1,365
Professional services	436	308	1,167	913
Loan servicing and collection	187	511	586	1,111
Advertising and marketing	129	94	429	374
Data processing	144	128	425	403
Stock option	29	12	270	43
FDIC assessment	83	283	253	809
Depreciation	82	78	238	226
Net (gain) loss on sales/write-downs of foreclosed real estate and repossessed assets	(18)	184	(168)	360
Other	440	487	1,550	1,445
Total non-interest expenses	4,879	5,639	15,435	17,005
Income before provision for income taxes	2,919	2,635	8,274	5,850
Income taxes	1,207	—	3,414	—
Net income	1,712	2,635	4,860	5,850
Dividends and accretion on preferred stock	176	262	778	786
Discount on partial redemption of preferred stock	—	—	(144)	—
Net income available to common stockholders	$1,536	$2,373	$4,226	$5,064
Earnings per share:				
Basic	$0.19	$0.30	$0.52	$0.75
Diluted	$0.18	$0.29	$0.51	$0.60
Weighted average number of common shares outstanding:				

Basic	8,200	7,865	8,120	6,731
Diluted	8,494	8,395	8,512	8,883
Dividends declared per common share	$0.02	$—	$0.02	$—

See the accompanying notes.

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COMMUNITY WEST BANCSHARES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(in thousands)			
Net income	$1,712	$2,635	$4,860	$5,850
Other comprehensive income (loss), net:				
Unrealized income (loss) on securities available-for-sale (AFS), net (tax effect of ($23), $83, ($130), $180 for each respective period presented)	34	(119)	188	(257)
Net other comprehensive income (loss)	34	(119)	188	(257)
Comprehensive income	$1,746	$2,516	$5,048	$5,593

See the accompanying notes.

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

	Preferred Stock		Common Stock		Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Stockholders' Equity
	Shares	Amount	Shares	Amount			
	(in thousands)						
Balance, December 31, 2013:	16	$15,600	7,867	$40,165	$ (274)	$12,065	$ 67,556
Net income	—	—	—	—	—	4,860	4,860
Exercise of stock options	—	—	18	52	—	—	52
Conversion of debentures	—	—	318	1,430	—	—	1,430
Stock option expense	—	—	—	270	—	—	270
Preferred stock redemption and discount	(8)	(7,804)	—	—	—	144	(7,660)
Dividends on preferred stock	—	—	—	—	—	(778)	(778)
Dividends on common stock	—	—	—	—	—	(164)	(164)
Other comprehensive income, net	—	—	—	—	188	—	188
Balance, September 30, 2014	8	$7,796	8,203	$41,917	$ (86)	$16,127	$ 65,754

See the accompanying notes.

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COMMUNITY WEST BANCSHARES

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

	Nine Months Ended September 30,	
	2014	2013
	(in thousands)	
Cash flows from operating activities:		
Net income	$4,860	$5,850
Adjustments to reconcile net income to cash provided by operating activities:		
Provision for loan losses	(3,560)	(2,843)
Depreciation	238	226
Stock-based compensation	270	43
Deferred income taxes	(581)	—
Net accretion of discounts and premiums for investment securities	(31)	—
(Gains)/Losses on:		
Sale of repossessed assets, net	(168)	360
Sale of loans, net	(150)	(334)
Loans originated for sale and principal collections, net	(2,827)	4,841
Changes in:		
Other assets	5,369	4,121
Other liabilities	1,238	852
Servicing rights, net	168	133
Net cash provided by operating activities	4,826	13,249
Cash flows from investing activities:		
Principal pay downs and maturities of available-for-sale securities	1,438	4,181
Purchase of available-for-sale securities	(5,132)	(8,033)
Proceeds from principal pay downs and maturities of securities held-to-maturity	1,099	1,870
Loan originations and principal collections, net	(22,427)	(2,762)
Liquidation of restricted stock, net	154	1,002
Net increase in interest-bearing deposits in other financial institutions	—	371
Proceeds from held for investment loan sales	—	5,101
Purchase of premises and equipment, net	(233)	(143)
Proceeds from sale of other real estate owned and repossessed assets, net	3,552	2,951
Net cash (used in) provided by investing activities	(21,549)	4,538
Cash flows from financing activities:		
Net increase (decrease) in deposits	48,615	(3,129)
Net decrease in borrowings	(12,034)	—
Exercise of stock options	52	21
Cash dividends paid on common stock	(164)	—
Redemption of preferred stock	(7,660)	—
Cash dividends paid on preferred stock	(2,222)	—
Net cash provided by (used in) financing activities	26,587	(3,108)
Net increase in cash and cash equivalents	9,864	14,679
Cash and cash equivalents at beginning of year	19,478	27,891
Cash and cash equivalents at end of period	$29,342	$42,570
Supplemental disclosure:		
Cash paid during the period for:		
Interest	$2,513	$3,399

Income taxes	2,301	462
Non-cash investing and financing activity:		
Transfers to other assets acquired through foreclosure, net	928	5,753
Preferred stock dividends declared, not paid	—	585
Conversion of debentures	1,408	6,410

See the accompanying notes.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of operations

Community West Bancshares (“CWBC”), incorporated under the laws of the state of California, is a bank holding company providing full service banking through its wholly-owned subsidiary Community West Bank, N.A. (“CWB” or the “Bank”). These entities are collectively referred to herein as the “Company.”

Basis of presentation

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

Use of estimates

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

Interim financial information

The accompanying unaudited consolidated financial statements as of September 30, 2014 and 2013 have been prepared in a condensed format, and therefore do not include all of the information and footnotes required by GAAP for complete financial statements. These statements have been prepared on a basis that is substantially consistent with the accounting principles applied to our audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2013.

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

Reclassifications

Certain amounts in the consolidated financial statements as of December 31, 2013 and for the three and nine months ended September 30, 2013 have been reclassified to conform to the current presentation. The reclassifications have no effect on net income, comprehensive income or stockholders’ equity as previously reported.

Loans Held For Sale

Loans which are originated and intended for sale in the secondary market are carried at the lower of cost or estimated fair value determined on an aggregate basis. Valuation adjustments, if any, are recognized through a valuation allowance by charges to lower of cost or fair value provision. Loans held for sale are mostly comprised of SBA, commercial agriculture and single family residential loans. The Company did not incur any lower of cost or fair value provision in the three and nine months ended September 30, 2014 and 2013.

Loans Held for Investment and Interest and Fees from Loans

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

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

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

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Nonaccrual loans: For all loan types, when a borrower discontinues making payments as contractually required by the note, the Company must determine whether it is appropriate to continue to accrue interest. Generally, the Company places loans in a nonaccrual status and ceases recognizing interest income when the loan has become delinquent by more than 90 days or when management determines that the full repayment of principal and collection of interest is unlikely. The Company may decide to continue to accrue interest on certain loans more than 90 days delinquent if they are well secured by collateral and in the process of collection. Other personal loans are typically charged off no later than 180 days delinquent.

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

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

Troubled debt restructured loan (“TDR”): A TDR is a loan on which the Company, for reasons related to the borrower’s financial difficulties, grants a concession to the borrower that the Company would not otherwise consider. These concessions included but are not limited to term extensions, rate reductions and principal reductions. Forgiveness of principal is rarely granted and modifications for all classes of loans are predominately term extensions. A TDR loan is also considered impaired. Generally, a loan that is modified at an effective market rate of interest may no longer be disclosed as a troubled debt restructuring in years subsequent to the restructuring if it is not impaired based on the terms specified by the restructuring agreement.

Allowance for Loan Losses and Provision for Credit Losses

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

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

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

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

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

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

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

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

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

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

Commercial, CRE and SBA Loans

Charge-offs on these loan categories are taken as soon as all or a portion of any loan balance is deemed to be uncollectible. A loan is considered impaired when, based on current information, it is probable that the Company will be unable to collect the scheduled payments of principal and/or interest under the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and/or interest payments. Loans that experience insignificant payment delays or payment shortfalls generally are not classified as impaired. Generally, loan balances are charged-down to the fair value of the collateral, if, based on a current assessment of the value, an apparent deficiency exists. In the event there is no perceived equity, the loan is charged-off in full. Unsecured loans which are delinquent over 90 days are also charged-off in full.

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

Consumer loans and residential mortgages secured by one-to-four family residential properties, HELOC and manufactured housing loans in which principal or interest is due and unpaid for 90 days, are evaluated for impairment. Loan balances are charged-off to the fair value of the property, less estimated selling costs, if, based on a current appraisal, an apparent deficiency exists. In the event there is no perceived equity, the loan is generally fully charged-off. Other consumer loans which are not secured and unpaid over 90-120 days are charged-off in full.

Consumer Loans

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

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

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

- Manufactured Housing – The ALL is calculated on the basis of loss history and risk rating, which is primarily a function of delinquency. In addition, the loss results are adjusted based upon qualitative factors that affect this specific portfolio.

The Company evaluates and individually assesses for impairment loans generally greater than $500,000, classified as substandard or doubtful in addition to loans either on nonaccrual, considered a TDR or when other conditions exist which lead management to review for possible impairment. Measurement of impairment on impaired loans is determined on a loan-by-loan basis and in total establishes a specific reserve for impaired loans. The amount of impairment is determined by comparing the recorded investment in each loan with its value measured by one of three methods:

- The expected future cash flows are estimated and then discounted at the effective interest rate.

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

- The loan's observable market price.

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

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

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

- Concentrations of credit
- International risk
- Trends in volume, maturity, and composition
- Volume and trend in delinquency
- Economic conditions
- Outside exams
- Geographic distance
- Policy and changes
- Staff experience and ability

Off Balance Sheet and Credit Exposure

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

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

Foreclosed Real Estate and Repossessed Assets

Foreclosed real estate and other repossessed assets are recorded at fair value at the time of foreclosure less estimated costs to sell. Any excess of loan balance over the fair value less estimated costs to sell of the other assets is charged-off against the allowance for loan losses. Any excess of the fair value less estimated costs to sell over the loan balance is recorded as a loan loss recovery to the extent of the loan loss previously charged-off against the allowance for loan losses; and, if greater, recorded as a gain on foreclosed assets. Subsequent to the legal ownership date, management periodically performs a new valuation and the asset is carried at the lower of carrying amount or fair value less estimated costs to sell. Operating expenses or income, and gains or losses on disposition of such properties, are recorded in current operations.

Income Taxes

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

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Management evaluates the Company's deferred tax assets for recoverability using a consistent approach which considers the relative impact of negative and positive evidence, including the Company's historical profitability and projections of future taxable income. The Company is required to establish a valuation allowance for deferred tax assets and record a charge to income if management determines, based on available evidence at the time the determination is made, that it is more likely than not that some portion or all of the deferred tax assets may not be realized.

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

Earnings Per Share

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

Recent Accounting Pronouncements

In July 2013, the FASB issued guidance within ASU 2013-11, "Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists." The amendments in ASU 2013-11 to Topic 740, Income Taxes, updates the presentation of an unrecognized tax benefit in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. However, to the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

In January 2014, the FASB issued guidance within ASU 2014-04, "Receivables - Troubled Debt Restructurings by Creditors: Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure." The amendments in ASU 2014-04, Subtopic 310-40, Receivables -Troubled Debt Restructurings by Creditors, clarify that an in-substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure, or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the amendments require interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. ASC 2014-04 are effective for the Company using either a modified retrospective transition method or a prospective transition method for reporting periods beginning after December 15, 2014. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial statements.

In May 2014, the FASB issued guidance codified within ASU 2014-09, “Revenue Recognition - Revenue from Contracts with Customers,” which amends the guidance in former Topic 605, Revenue Recognition. The Company is currently evaluating the impact of the provisions in this standard on the Company’s consolidated financial statements.

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2. INVESTMENT SECURITIES

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

	September 30, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Securities available-for-sale	(in thousands)			
U.S. government agency notes	$7,895	$ 43	$ (98)	$7,840
U.S. government agency collateralized mortgage obligations ("CMO")	14,712	12	(102)	14,622
Equity securities: Farmer Mac class A stock	66	-	(2)	64
Total	$22,673	$ 55	$ (202)	$22,526
Securities held-to-maturity				
U.S. government agency MBS	$8,578	$ 398	$ (1)	$8,975
Total	$8,578	$ 398	$ (1)	$8,975

	December 31, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Securities available-for-sale	(in thousands)			
U.S. government agency notes	$7,867	$ -	$ (389)	$7,478
U.S. government agency MBS	61	3	-	64
U.S. government agency CMO	10,943	11	(93)	10,861
Equity securities: Farmer Mac class A stock	66	3	-	69
Total	$18,937	$ 17	$ (482)	$18,472
Securities held-to-maturity				
U.S. government agency MBS	$9,688	$ 442	$ (29)	$10,101
Total	$9,688	$ 442	$ (29)	$10,101

At September 30, 2014 and December 31, 2013, $31.0 million and $28.0 million of securities at carrying value, respectively, were pledged to the Federal Home Loan Bank (“FHLB”), as collateral for current and future advances.

The Company had no investment security sales in the first nine months of 2014 or 2013.

The maturity periods and weighted average yields of investment securities at September 30, 2014 and December 31, 2013 were as follows:

	September 30, 2014									
	Less than One Year		One to Five Years		Five to Ten Years		Over Ten Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
Securities available-for-sale	(dollars in thousands)									
U.S. government agency notes	$7,840	2.0 %	$-	-	$-	-	$-	-	$7,840	2.0 %
U.S. government agency CMO	-	-	8,145	1.0 %	2,842	0.6 %	3,635	1.1 %	14,622	1.0 %

Farmer Mac class A stock	-	-	-	-	-	-	-	-	64	-
Total	$7,840	2.0 %	$8,145	1.0 %	$2,842	0.6 %	$3,635	1.1 %	$22,526	1.3 %
Securities held-to-maturity										
U.S. government agency										
MBS	$-	-	$2,858	4.3 %	$5,720	2.4 %	$-	-	$8,578	3.0 %
Total	$-	-	$2,858	4.3 %	$5,720	2.4 %	$-	-	$8,578	3.0 %

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	December 31, 2013									
	Less than One Year		One to Five Years		Five to Ten Years		Over Ten Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
Securities available-for-sale	(dollars in thousands)									
U.S. government agency notes	$7,478	1.9 %	$-	-	$-	-	$-	-	$7,478	1.9 %
U.S. government agency MBS	-	-	-	-	64	2.2 %	-	-	64	2.2 %
U.S. government agency CMO	-	-	5,075	0.6 %	3,854	0.6 %	1,932	0.9 %	10,861	0.7 %
Farmer Mac class A stock	-	-	-	-	-	-	-	-	69	-
Total	$7,478	1.9 %	$5,075	0.6 %	$3,918	0.6 %	$1,932	0.9 %	$18,472	1.2 %
Securities held-to-maturity										
U.S. government agency MBS	$-	-	$2,641	4.4 %	$7,047	2.7 %	$-	-	$9,688	3.1 %
Total	$-	-	$2,641	4.4 %	$7,047	2.7 %	$-	-	$9,688	3.1 %

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

	September 30, 2014		December 31, 2013	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Securities available for sale	(in thousands)			
Due in one year or less	$7,895	$ 7,840	$7,867	$ 7,478
After one year through five years	8,172	8,145	5,070	5,075
After five years through ten years	2,859	2,842	3,945	3,918
After ten years	3,681	3,635	1,989	1,932
Farmer Mac class A stock	66	64	66	69
	$22,673	$ 22,526	$18,937	$ 18,472
Securities held to maturity				
Due in one year or less	$-	$ -	$-	$ -
After one year through five years	2,858	3,054	2,641	2,815
After five years through ten years	5,720	5,921	7,047	7,286
After ten years	-	-	-	-
	$8,578	$ 8,975	$9,688	$ 10,101

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

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

	September 30, 2014		
	Less Than Twelve Months	More Than Twelve Months	Total

Securities available-for-sale	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
	(in thousands)					
U.S. government agency notes	$-	$-	$98	$5,898	$98	$5,898
U.S. government agency CMO	65	6,789	37	4,183	102	10,972
Equity securities: Farmer Mac class A stock	2	64	-	-	2	64
	$67	$6,851	$135	$10,081	$202	$16,932
Securities held-to-maturity						
U.S. Government-agency MBS	$1	$1,073	$-	$-	$1	$1,073
Total	$1	$1,073	$-	$-	$1	$1,073

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	December 31, 2013					
	Less Than Twelve Months		More Than Twelve Months		Total	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
Securities available-for-sale	(in thousands)					
U.S. government agency notes	$389	$7,478	$ -	$ -	$389	$7,478
U.S. government agency CMO	93	6,958	-	-	93	6,958
Equity securities: Farmer Mac class A stock	-	-	-	-	-	-
	$482	$14,436	$ -	$ -	$482	$14,436
Securities held-to-maturity						
U.S. Government-agency MBS	$29	$1,063	$ -	$ -	$29	$1,063
Total	$29	$1,063	$ -	$ -	$29	$1,063

As of September 30, 2014 and December 31, 2013, there were twelve and nine securities, respectively, in an unrealized loss position.

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

The unrealized losses are primarily due to increases in market interest rates over the yields available at the time the underlying securities were purchased. The fair value is expected to recover as the bonds approach their maturity date, repricing date or if market yields for such investments decline. Management does not believe any of the securities are impaired due to reasons of credit quality. Accordingly, as of September 30, 2014 and December 31, 2013, 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 and Agriculture Loans

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.

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. 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.

Historically, the Company elected to use the amortizing method for the treatment of servicing assets and measured for impairment on a quarterly basis through a discounted cash flow analysis prepared by an independent third party using industry prepayment speeds. In connection with the sale of a group of SBA loans in 2012, the Company recorded a servicing asset and elected to measure this asset at fair value in accordance with ASC 825-10 – Fair Value Option to better reflect the impact of subsequent changes in interest rates.

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 sold unguaranteed loans. These servicing liabilities are calculated based on the present value of the estimated future servicing costs associated with each loan. The balance of the remaining servicing liabilities at September 30, 2014 was not material to the Company's financial position or results of operations.

The Company may also periodically sell certain SBA loans into the secondary market, on a servicing-released basis, typically for a cash premium. As of September 30, 2014 and December 31, 2013, the Company had approximately $42.1 million and $47.6 million, respectively, of SBA loans included in loans held for sale. As of September 30, 2014 and December 31, 2013, the principal balance of SBA loans serviced for others was $25.4 million and $30.7 million, respectively.

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

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As of September 30, 2014 and December 31, 2013, the Company had $24.1 million and $16.8 million of USDA loans included in loans held for sale, respectively. As of September 30, 2014 and December 31, 2013, the principal balance of USDA loans serviced for others was $1.4 million and $2.5 million, respectively.

The following table presents the I/O strips activity as of the periods presented:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(in thousands)			
Beginning balance	$329	$394	$334	$426
Adjustment to fair value	(11)	(18)	(16)	(50)
Ending balance	$318	$376	$318	$376

The key data assumptions used in estimating the fair value of the I/O strips as of the periods presented were as follows:

	September 30,	
	2014	2013
Weighted-average constant prepayment rate	5.39 %	5.17 %
Weighted-average life (in years)	6	6
Weighted-average discount rate	10.53%	12.74%

A sensitivity analysis of the fair value of the I/O strips to changes in certain key assumptions is presented in the following table:

	September 30,	
	2014	2013
	(in thousands)	
Discount Rate		
Increase in fair value from 100 basis point decrease	$9	$11
Decrease in fair value from 100 basis point increase	(9)	(10)
Constant Prepayment Rate		
Increase in fair value from 10 percent decrease	5	5
Decrease in fair value from 10 percent increase	(4)	(5)

The following is a summary of the activity for servicing assets accounted for under the amortization method:

Three Months Ended September 30,		Nine Months Ended September 30,	
2014	2013	2014	2013

	(in thousands)			
Beginning balance	$211	$326	$268	$383
Amortization	(29)	(28)	(86)	(85)
Ending balance	$182	$298	$182	$298

The following is a summary of the activity for servicing assets accounted for under the fair value method:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(in thousands)			
Beginning balance	$275	$304	$300	$348
Adjustment to fair value	(57)	(4)	(82)	(48)
Ending balance	$218	$300	$218	$300

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The key data and assumptions used in estimating the fair value of servicing rights as of the periods presented were as follows:

	September 30, 2014	September 30, 2013
Weighted-average constant prepayment rate	5.66 %	4.62 %
Weighted-average life (in years)	9	9
Weighted-average discount rate	10.79%	13.48%

A sensitivity analysis of the fair value of servicing assets to change in certain key assumptions is presented in the following table:

	September 30, 2014 (in thousands)	2013
Discount Rate		
Increase in fair value from 100 basis points decrease	$10	$12
Decrease in fair value from 100 basis points increase	(9)	(11)
Constant Prepayment Rate		
Increase in fair value from 10 percent decrease	5	6
Decrease in fair value from 10 percent increase	(5)	(5)

This sensitivity analysis generally cannot be extrapolated because the relationship of a change in one key assumption to the change in the fair value of the Company's servicing rights usually is not linear. In addition, the effect of changing one key assumption without changing other assumptions is not a viable option.

Mortgage Loans

From time to time, 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 September 30, 2014, the Company had $1.5 million in outstanding mortgage loan interest rate lock commitments. The value of related derivative instruments was not material to the Company's financial position or results of operations. The Company had no commitments of this nature at December 31, 2013. At September 30, 2014 the Company had $1.2 million of mortgage loans held for sale.

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4. LOANS HELD FOR INVESTMENT

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

	September 30, 2014	December 31, 2013
	(in thousands)	
Manufactured housing	$169,910	$172,055
Commercial real estate	164,277	142,678
Commercial	48,703	45,647
SBA	20,433	24,066
HELOC	14,820	15,418
Single family real estate	14,065	10,150
Consumer	175	184
	432,383	410,198
Allowance for loan losses	9,236	12,208
Deferred fees, net	238	45
Discount on SBA loans	244	339
Total loans held for investment, net	$422,665	$397,606

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

	September 30, 2014						
	Current	30-59 Days Past Due	60-89 Days Past Due	Over 90 Days Past Due	Total Past Due	Total	Recorded Investment Over 90 Days and Accruing
	(in thousands)						
Manufactured housing	$169,742	$ -	$ 99	$ 69	$ 168	$169,910	$ -
Commercial real estate:							
Commercial real estate	122,634	-	-	-	-	122,634	-
SBA 504 1st trust deed	28,739	-	-	-	-	28,739	-
Land	2,341	-	-	-	-	2,341	-
Construction	10,563	-	-	-	-	10,563	-
Commercial	48,703	-	-	-	-	48,703	-
SBA	20,412	-	-	21	21	20,433	-
HELOC	14,526	-	-	294	294	14,820	-
Single family real estate	13,698	231		136	367	14,065	-
Consumer	175	-	-	-	-	175	-
Total	$431,533	$ 231	$ 99	$ 520	$ 850	$432,383	$ -

	December 31, 2013						
	Current	30-59 Days Past Due	60-89 Days Past Due	Over 90 Days	Total Past Due	Total	Recorded Investment Over 90 Days

				Past Due			and Accruing
	(in thousands)						
Manufactured housing	$170,647	$1,076	$135	$197	$1,408	$172,055	$ -
Commercial real estate:							
Commercial real estate	96,393	-	-	-	-	96,393	-
SBA 504 1st trust deed	33,798	-	-	467	467	34,265	-
Land	1,817	140	-	-	140	1,957	-
Construction	10,063	-	-	-	-	10,063	-
Commercial	45,605	42	-	-	42	45,647	-
SBA (1)	23,613	149	-	304	453	24,066	-
HELOC	15,393	25	-	-	25	15,418	-
Single family real estate	10,084	-	-	66	66	10,150	66
Consumer	184	-	-	-	-	184	-
Total	$407,597	$1,432	$135	$1,034	$2,601	$410,198	$ 66

(1) $0.4 million of the $0.5 million SBA loans past due are guaranteed by the SBA.

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Allowance for Loan Losses

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(in thousands)			
Beginning balance	$10,496	$12,456	$12,208	$14,464
Charge-offs	(318)	(692)	(750)	(1,959)
Recoveries	236	1,453	1,338	1,992
Net (charge-offs) recoveries	(82)	761	588	33
Provision	(1,178)	(1,563)	(3,560)	(2,843)
Ending balance	$9,236	$11,654	$9,236	$11,654

As of September 30, 2014 and December 31, 2013, the Company had reserves for credit losses on undisbursed loans of $0.1 million which were included in Other liabilities.

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

	For the Three Months Ended September 30,							
	Manufactured Housing	Commercial Real Estate	Commercial	SBA	HELOC	Single Family Real Estate	Consumer	Total
2014	(in thousands)							
Beginning balance	$4,753	$ 1,985	$ 1,503	$1,750	$ 238	$ 265	$ 2	$10,496
Charge-offs	(112)	-	-	(140)	-	(66)	-	(318)
Recoveries	37	13	38	144	3	1	-	236
Net charge-offs	(75)	13	38	4	3	(65)	-	(82)
Provision	(225)	(459)	(137)	(320)	(51)	14	-	(1,178)
Ending balance	$4,453	$ 1,539	$ 1,404	$1,434	$ 190	$ 214	$ 2	$9,236
2013								
Beginning balance	$5,691	$ 2,654	$ 1,529	$2,073	$ 311	$ 197	$ 1	$12,456
Charge-offs	(379)	(157)	(32)	(76)	-	(48)	-	(692)
Recoveries	119	1,135	45	149	1	4	-	1,453
Net charge-offs	(260)	978	13	73	1	(44)	-	761
Provision	(80)	(1,266)	(365)	132	(32)	48	-	(1,563)
Ending balance	$5,351	$ 2,366	$ 1,177	$2,278	$ 280	$ 201	$ 1	$11,654

	Nine Months Ended September 30,							
	Manufactured Housing	Commercial Real Estate	Commercial	SBA	HELOC	Single Family Real Estate	Consumer	Total
2014	(in thousands)							
Beginning balance	$5,114	$ 2,552	$ 2,064	$1,951	$ 280	$ 245	$ 2	$12,208
Charge-offs	(516)	(16)	-	(152)	-	(66)	-	(750)

Recoveries	75	844	114	281	21	3	-	1,338
Net charge-offs	(441)	828	114	129	21	(63)	-	588
Provision	(220)	(1,841)	(774)	(646)	(111)	32	-	(3,560)
Ending balance	$4,453	$ 1,539	$ 1,404	$1,434	$ 190	$ 214	$ 2	$9,236
2013								
Beginning balance	$5,945	$ 2,627	$ 2,325	$2,733	$ 634	$ 198	$ 2	$14,464
Charge-offs	(1,088)	(161)	(149)	(355)	(39)	(136)	(31)	(1,959)
Recoveries	248	1,185	154	396	2	7	-	1,992
Net charge-offs	(840)	1,024	5	41	(37)	(129)	(31)	33
Provision	246	(1,285)	(1,153)	(496)	(317)	132	30	(2,843)
Ending balance	$5,351	$ 2,366	$ 1,177	$2,278	$ 280	$ 201	$ 1	$11,654

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

	Manufactured Housing	Commercial Real Estate	Commercial	SBA	HELOC	Single Family Real Estate	Consumer	Total Loans
Loans Held for Investment as of September 30, 2014:	(in thousands)							
Recorded Investment:								
Impaired loans with an allowance recorded	$4,782	$ 2,846	$ 3,270	$1,604	$381	$608	$ -	$13,491
Impaired loans with no allowance recorded	2,561	887	45	21	-	93	-	3,607
Total loans individually evaluated for impairment	7,343	3,733	3,315	1,625	381	701	-	17,098
Loans collectively evaluated for impairment	162,567	160,544	45,388	18,808	14,439	13,364	175	415,285
Total loans held for investment	$169,910	$ 164,277	$ 48,703	$20,433	$14,820	$14,065	$ 175	$432,383
Unpaid Principal Balance								
Impaired loans with an allowance recorded	$5,236	$ 3,005	$ 5,015	$8,258	$392	$651	$ -	$22,557
Impaired loans with no allowance recorded	4,004	2,936	50	121	-	192	-	7,303
Total loans individually evaluated for impairment	9,240	5,941	5,065	8,379	392	843	-	29,860
Loans collectively evaluated for impairment	162,567	160,544	45,388	18,808	14,439	13,364	175	415,285
Total loans held for investment	$171,807	$ 166,485	$ 50,453	$27,187	$14,831	$14,207	$ 175	$445,145
Related Allowance for Credit Losses								
Impaired loans with an allowance recorded	$421	$ 110	$ 292	$95	$5	$44	$ -	$967
Impaired loans with no allowance recorded	-	-	-	-	-	-	-	-
Total loans individually evaluated for impairment	421	110	292	95	5	44	-	967
Loans collectively evaluated for impairment	4,032	1,429	1,112	1,339	185	170	2	8,269
Total loans held for investment	$4,453	$ 1,539	$ 1,404	$1,434	$190	$214	$ 2	$9,236

	Manufactured Housing	Commercial Real Estate	Commercial	SBA	HELOC	Single Family Real Estate	Consumer	Total Loans
Loans Held for Investment as of December 31, 2013:	(in thousands)							

Recorded Investment:								
Impaired loans with an allowance recorded	$6,368	$ 2,322	$ 3,583	$1,607	$615	$645	$ -	$15,140
Impaired loans with no allowance recorded	2,782	1,628	254	210	-	106	-	4,980
Total loans individually evaluated for impairment	9,150	3,950	3,837	1,817	615	751	-	20,120
Loans collectively evaluated for impairment	162,905	138,728	41,810	22,249	14,803	9,399	184	390,078
Total loans held for investment	$172,055	$ 142,678	$ 45,647	$24,066	$15,418	$10,150	$ 184	$410,198
Unpaid Principal Balance								
Impaired loans with an allowance recorded	$6,962	$ 2,367	$ 3,956	$8,045	$630	$664	$ -	$22,624
Impaired loans with no allowance recorded	4,536	3,834	235	1,610	-	244	-	10,459
Total loans individually evaluated for impairment	11,498	6,201	4,191	9,655	630	908	-	33,083
Loans collectively evaluated for impairment	162,905	138,728	41,810	22,249	14,803	9,399	184	390,078
Total loans held for investment	$174,403	$ 144,929	$ 46,001	$31,904	$15,433	$10,307	$ 184	$423,161
Related Allowance for Credit Losses								
Impaired loans with an allowance recorded	$618	$ 159	$ 437	$139	$29	$57	$ -	$1,439
Impaired loans with no allowance recorded	-	-	-	-	-	-	-	-
Total loans individually evaluated for impairment	618	159	437	139	29	57	-	1,439
Loans collectively evaluated for impairment	4,496	2,393	1,627	1,812	251	188	2	10,769
Total loans held for investment	$5,114	$ 2,552	$ 2,064	$1,951	$280	$245	$ 2	$12,208

A valuation allowance is established for an impaired loan when the fair value of the loan is less than the recorded investment. In certain cases, portions of impaired loans are charged-off to realizable value instead of establishing a valuation allowance and are included, when applicable in the table below as "Impaired loans without specific valuation allowance under ASC 310." The valuation allowance disclosed above is included in the allowance for loan losses reported in the consolidated balance sheets as of September 30, 2014 and December 31, 2013.

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

	September 30, 2014	December 31, 2013
	(in thousands)	
Impaired loans with a specific valuation allowance under ASC 310	$13,491	$ 15,140
Impaired loans without a specific valuation allowance under ASC 310	3,607	4,980
Total impaired loans	$17,098	$ 20,120
Valuation allowance related to impaired loans	$967	$ 1,439

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The following tables summarize impaired loans by class of loans:

	September 30, 2014	December 31, 2013
	(in thousands)	
Manufactured housing	$7,343	$ 9,150
Commercial real estate :		
Commercial real estate	2,411	2,805
SBA 504 1st trust deed	1,322	1,005
Land	-	140
Construction	-	-
Commercial	3,315	3,837
SBA	1,625	1,817
HELOC	381	615
Single family real estate	701	751
Consumer	-	-
Total	$17,098	$ 20,120

The following table summarizes average investment in impaired loans by class of loans and the related interest income recognized as of and for the periods ended:

	Three Months Ended September 30,			
	2014		2013	
	Average Investment in Impaired Loans	Interest Income	Average Investment in Impaired Loans	Interest Income
	(in thousands)			
Manufactured housing	$7,240	$ 260	$9,454	$ 85
Commercial real estate:				
Commercial real estate	2,333	-	7,811	10
SBA 504 1st trust deed	1,265	18	1,089	4
Land	-	-	-	-
Construction	-	-	-	-
Commercial	3,206	17	2,789	142
SBA	1,560	3	1,790	34
HELOC	453	-	397	3
Single family real estate	668	1	747	1
Consumer	-	-	-	-
Total	$16,725	$ 299	$24,077	$ 279

	Nine Months Ended September 30,			
	2014		2013	
	Average Investment	Interest Income	Average Investment	Interest Income

	in Impaired Loans		in Impaired Loans	
	(in thousands)			
Manufactured housing	$8,072	$ 404	$9,528	$ 182
Commercial real estate:				
Commercial real estate	2,539	-	8,875	94
SBA 504 1st	1,029	48	1,163	28
Land	68	-	-	-
Construction	-	-	-	-
Commercial	3,447	69	3,831	208
SBA	1,671	9	1,432	136
HELOC	526	8	313	3
Single family real estate	707	3	452	10
Consumer	-	-	-	-
Total	$18,059	$ 541	$25,594	$ 661

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

	September 30, 2014	December 31, 2013
	(in thousands)	
Nonaccrual loans	$17,475	$ 23,263
SBA guaranteed portion of loans included above	(6,536)	(6,426)
Total nonaccrual loans, net	$10,939	$ 16,837
Troubled debt restructured loans, gross	$10,052	$ 12,308
Loans 30 through 89 days past due with interest accruing	$-	$ 161
Allowance for loan losses to gross loans held for investment	2.14 %	2.98 %

The accrual of interest is discontinued when substantial doubt exists as to collectibility of the loan; generally at the time the loan is 90 days delinquent. Any unpaid but accrued interest is reversed at that time. Thereafter, interest income is no longer recognized on the loan. Interest income may be recognized on impaired loans to the extent they are not past due by 90 days. Interest on nonaccrual loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all of the principal and interest amounts contractually due are brought current and future payments are reasonably assured. Foregone interest on nonaccrual and troubled debt restructured loans for the three months ended September 30, 2014 and 2013 were $0.3 million and $0.5 million, respectively. Foregone interest on nonaccrual and trouble debt restructured loans for the nine months ended September 30, 2014 and 2013 were $1.0 million and $1.4 million, respectively.

The following table presents the composition of nonaccrual loans, net of government guarantees, by class of loans:

	September 30, 2014	December 31, 2013
	(in thousands)	
Manufactured housing	$1,536	$ 6,235
Commercial real estate:		
Commercial real estate	2,411	2,806
SBA 504 1st trust deed	1,048	726
Land	-	140
Construction	-	-
Commercial	3,315	3,837
SBA	1,619	1,803
HELOC	381	615
Single family real estate	629	675
Consumer	-	-
Total	$10,939	$ 16,837

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

The Company utilizes an internal asset classification system as a means of reporting problem and potential problem loans. Under the Company's risk rating system, the Company classifies problem and potential problem loans as "Special Mention," "Substandard," "Doubtful" and "Loss". Substandard loans are inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected. Loans classified as Doubtful, have all the weaknesses inherent in those classified Substandard with the added characteristic that the weaknesses present make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. The possibility of loss is extremely high, but because of certain important and reasonably specific pending factors, which may work to the advantage and strengthening of the loan, its classification as an estimated loss is deferred until its more exact status may be determined. Pending factors include proposed merger, acquisition or liquidation procedures, capital injection, perfecting liens on additional collateral and refinancing plans. Loans classified Loss are considered uncollectible and of such little value that their continuance as bankable loans is not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing off this loan even though partial recovery may be affected in the future. Losses are taken in the period in which they surface as uncollectible. Loans that do not currently expose the Company to sufficient risk to warrant classification in one of the aforementioned categories but possess weaknesses that deserve management's close attention are deemed to be Special Mention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or in the institution's credit position at some future date. Special Mention assets are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification. Risk ratings are updated as part of our normal loan monitoring process, at a minimum, annually.

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The following tables present gross loans by risk rating:

	September 30, 2014				
	Pass	Special Mention	Substandard	Doubtful	Total
	(in thousands)				
Manufactured housing	$154,193	$ -	$ 15,717	$ -	$169,910
Commercial real estate:					
Commercial real estate	116,058	-	6,576	-	122,634
SBA 504 1st trust deed	25,286	2,131	1,322	-	28,739
Land	2,341	-	-	-	2,341
Construction	10,563	-	-	-	10,563
Commercial	45,238	-	3,460	5	48,703
SBA	13,023	181	1,677	-	14,881
HELOC	13,932	-	888	-	14,820
Single family real estate	13,192	-	873	-	14,065
Consumer	175	-	-	-	175
Total, net	$394,001	$ 2,312	$ 30,513	$ 5	$426,831
SBA guarantee	-	-	5,439	113	5,552
Total	$394,001	$ 2,312	$ 35,952	$ 118	$432,383

	December 31, 2013				
	Pass	Special Mention	Substandard	Doubtful	Total
	(in thousands)				
Manufactured housing	$158,533	$ -	$ 13,522	$ -	$172,055
Commercial real estate:					
Commercial real estate	89,319	3,600	3,474	-	96,393
SBA 504 1st trust deed	33,012	248	1,005	-	34,265
Land	1,817	-	140	-	1,957
Construction	10,063	-	-	-	10,063
Commercial	41,147	327	4,150	23	45,647
SBA	14,773	136	2,053	-	16,962
HELOC	13,806	491	1,121	-	15,418
Single family real estate	9,226	-	924	-	10,150
Consumer	184	-	-	-	184
Total, net	$371,880	$ 4,802	$ 26,389	$ 23	$403,094
SBA guarantee	-	-	6,719	385	7,104
Total	$371,880	$ 4,802	$ 33,108	$ 408	$410,198

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

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

	For the Three Months Ended September 30, 2014					
	Number of Loans	Pre-Modification Recorded Investment	Post Modification Recorded Investment	Balance of Loans with Rate Reduction	Balance of Loans with Term Extension	Effect on Allowance for Loan Losses
	(dollars in thousands)					
Manufactured housing	-	$ -	$ -	$ -	$ -	$ -
Total	-	$ -	$ -	$ -	$ -	$ -

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	For the Nine Months Ended September 30, 2014					
	Number of Loans	Pre-Modification Recorded Investment	Post Modification Recorded Investment	Balance of Loans with Rate Reduction	Balance of Loans with Term Extension	Effect on Allowance for Loan Losses
	(dollars in thousands)					
Manufactured housing	5	$ 272	$ 272	$ 272	$ 272	$ 10
Total	5	$ 272	$ 272	$ 272	$ 272	$ 10

	For the Three Months Ended September 30, 2013					
	Number of Loans	Pre-Modification Recorded Investment	Post Modification Recorded Investment	Balance of Loans with Rate Reduction	Balance of Loans with Term Extension	Effect on Allowance for Loan Losses
	(dollars in thousands)					
Manufactured housing	4	$ 265	$ 265	$ 265	$ 265	$ 15
Commercial real estate	-	-	-	-	-	-
Commercial	4	3,501	3,501	-	3,501	221
SBA	-	-	-	-	-	-
Single family real estate	1	147	147	147	147	12
Total	9	$ 3,913	$ 3,913	$ 412	$ 3,913	$ 248

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	For the Nine Months Ended September 30, 2013					
	Number of Loans	Pre-Modification Recorded Investment	Post Modification Recorded Investment	Balance of Loans with Rate Reduction	Balance of Loans with Term Extension	Effect on Allowance for Loan Losses
	(dollars in thousands)					
Manufactured housing	18	$ 1,431	$ 1,405	$ 444	$ 1,405	$ 170
Commercial real estate	2	655	655	-	655	45
Commercial	6	4,011	4,011	-	4,011	256
SBA	1	87	87	-	87	16
Single family real estate	1	147	147	147	147	12
Total	28	$ 6,331	$ 6,305	$ 591	$ 6,305	$ 499

The average rate concessions were 70 basis points for the nine months ended September 30, 2014 and 200 basis points and 163 basis points for the three and nine months ended September 30, 2013, respectively. The average term extension in months was 180 for the third quarter and year to date 2014, respectively, and 65 months for the third quarter 2013 and 96 months for the year to date 2013, respectively.

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The following tables present TDR's by class for which there was a payment default during the period:

	Three Months Ended September 30,					
	2014			2013		
	Number of Loans	Recorded Investment	Effect on Allowance for Loan Losses	Number of Loans	Recorded Investment	Effect on Allowance for Loan Losses
	(dollars in thousands)					
Manufactured housing	-	$ -	$ -	-	$ -	$ -
Total	-	$ -	$ -	-	$ -	$ -

	Nine Months Ended September 30,					
	2014			2013		
	Number of Loans	Recorded Investment	Effect on Allowance for Loan Losses	Number of Loans	Recorded Investment	Effect on Allowance for Loan Losses
	(dollars in thousands)					
Manufactured housing	1	$ 18	$ 1	5	$ 375	$ 9
Total	1	$ 18	$ 1	5	$ 375	$ 9

A TDR loan is deemed to have a payment default when the borrower fails to make two consecutive payments or the collateral is transferred to repossessed assets.

At September 30, 2014 there were no material loan commitments outstanding on TDR loans.

5. OTHER ASSETS ACQUIRED THROUGH FORECLOSURE

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(in thousands)			
Balance, beginning of period	$610	$4,100	$3,811	$1,889
Additions	137	850	822	5,845
Dispositions and receivables from participants	(290)	(791)	(4,326)	(3,399)
Gains (losses) on sales, net	18	(184)	168	(360)
Balance, end of period	$475	$3,975	$475	$3,975

6. FAIR VALUE MEASUREMENT

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

- Level 1— Observable quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

- Level 2— Observable quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, matrix pricing or model-based valuation techniques where all significant assumptions are observable, either directly or indirectly in the market.

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- Level 3— Model-based techniques where all significant assumptions are not observable, either directly or indirectly, in the market. These unobservable assumptions reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques may include use of discounted cash flow models and similar techniques.

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

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

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

Management uses its best judgment in estimating the fair value of the Company's financial instruments; however, there are inherent limitations in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates presented herein are not necessarily indicative of the amounts the Company could have realized in a sales transaction at September 30, 2014 or December 31, 2013. The estimated fair value amounts for September 30, 2014 and December 31, 2013 have been measured as of period-end, and have not been reevaluated or updated for purposes of these consolidated financial statements subsequent to those dates. As such, the estimated fair values of these financial instruments subsequent to the reporting date may be different than the amounts reported at the period-end.

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

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

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

	Fair Value Measurements at the End of the Reporting Period Using:			
September 30, 2014	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value

Assets:	(in thousands)			
Investment securities available-for-sale	$64	$ 22,462	$ -	$22,526
Interest only strips	-	-	318	318
Servicing assets	-	-	218	218
	$64	$ 22,462	$ 536	$23,062

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December 31, 2013	Fair Value Measurements at the End of the Reporting Period Using:			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value
Assets:	(in thousands)			
Investment securities available-for-sale	$69	$ 18,403	$ -	$18,472
Interest only strips	-	-	334	334
Servicing assets	-	-	300	300
	$69	$ 18,403	$ 634	$19,106

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

On certain SBA loan sales that occurred prior to 2003, the Company retained I/O strips which represent the present value of excess net cash flows generated by the difference between (a) interest at the stated rate paid by borrowers and (b) the sum of (i) pass-through interest paid to third-party investors and (ii) contractual servicing fees. I/O strips are classified as Level 3 in the fair value hierarchy. The fair value is determined on a quarterly basis through a discounted cash flow analysis prepared by an independent third party using industry prepayment speeds. I/O strip valuation adjustments are recorded as additions or offsets to loan servicing income. For additional information see Note 3 “Loan Sales and Servicing” beginning on page 15.

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

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

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

	Fair Value Measurements at the End of the Reporting Period Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Active Markets for Similar Assets (Level 2)	Unobservable Inputs (Level 3)
	(in thousands)			
As of September 30, 2014:				
Impaired loans	$6,160	$ -	$6,160	$ -
Loans held for sale	72,077	-	72,077	-
Foreclosed real estate and repossesed assets	475	-	475	-
	$78,712	$ -	$78,712	$ -
As of December 31, 2013:				
Impaired loans	$7,105	$ -	$7,105	$ -
Loans held for sale	68,766	-	68,766	-
Foreclosed real estate and repossesed assets	3,811	-	3,811	-
	$79,682	$ -	$79,682	$ -

The Company records certain loans at fair value on a non-recurring basis. When a loan is considered impaired an allowance for a loan loss is established. The fair value measurement and disclosure requirement applies to loans measured for impairment using the practical expedients method permitted by accounting guidance for impaired loans. Impaired loans are measured at an observable market price, if available or at the fair value of the loan's collateral, if the loan is collateral dependent. The fair value of the loan's collateral is determined by appraisals or independent valuation. When the fair value of the loan's collateral is based on an observable market price or current appraised value, given the current real estate markets, the appraisals may contain a wide range of values and accordingly, the Company classifies the fair value of the impaired loans as a non-recurring valuation within Level 2 of the valuation hierarchy. For loans in which impairment is determined based on the net present value of cash flows, the Company classifies these as a non-recurring valuation within Level 3 of the valuation hierarchy.

Loans held for sale are carried at the lower of cost or fair value. The fair value of loans held for sale is based on what secondary markets are currently offering for portfolios with similar characteristics or based on the agreed-upon sale price. As such, the Company classifies the fair value of loans held for sale as a non-recurring valuation within Level 2 of the fair value hierarchy. At September 30, 2014 and December 31, 2013, the Company had loans held for sale with an aggregate carrying value of $67.4 million and $64.4 million respectively.

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

FAIR VALUES OF FINANCIAL INSTRUMENTS

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

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

	September 30, 2014				
	Carrying	Fair Value			
	Amount	Level 1	Level 2	Level 3	Total
Financial assets:	(in thousands)				
Cash and cash equivalents	$29,342	$29,342	$-	$-	$29,342
Interest-bearing deposits in other financial institutions	99	99	-	-	99
FRB and FHLB stock	3,089	-	3,089	-	3,089
Investment securities	31,104	64	31,437	-	31,501
Loans, net	490,041	-	496,072	9,970	506,042
Financial liabilities:					
Deposits	484,750	-	485,022	-	485,022
Other borrowings	18,000	-	18,152	-	18,152

	December 31, 2013				
	Carrying	Fair Value			
	Amount	Level 1	Level 2	Level 3	Total
Financial assets:	(in thousands)				
Cash and cash equivalents	$19,478	$19,478	$-	$-	$19,478
Interest-bearing deposits in other financial institutions	99	99	-	-	99
FRB and FHLB stock	3,243	-	3,243	-	3,243
Investment securities	28,160	69	28,504	-	28,573
Loans, net	462,005	-	457,890	11,576	469,466
Financial liabilities:					
Deposits	436,135	-	436,094	-	436,094
Other borrowings	31,442	-	32,017	-	32,017

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

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

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

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

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

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

Loans – For most loan categories, the fair value is estimated using discounted cash flows utilizing an appropriate discount rate and historical prepayment speeds. For certain adjustable loans that reprice on a frequent basis carrying value approximates fair value. As a result, the fair value for loans is categorized as Level 2 in the fair value hierarchy. Fair values of impaired loans using a discounted cash flow method to measure impairment have been categorized as Level 3.

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

Other borrowings – The fair value is estimated using a discounted cash flow analysis based on rates for similar types of borrowing arrangements. The carrying value of FRB advances approximates the fair value due to the short term nature of these borrowings. The fair value measurement of other borrowings is categorized as Level 2.

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

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The estimated fair value of standby letters of credit outstanding at September 30, 2014 and December 31, 2013 was insignificant. Loan commitments on which the committed interest rates were less than the current market rate are also insignificant at September 30, 2014 and December 31, 2013.

7. OTHER BORROWINGS AND CONVERTIBLE DEBENTURES

Federal Home Loan Bank Advances – The Company through the bank has a blanket lien credit line with the FHLB. FHLB advances are collateralized in the aggregate by CWB's eligible loans and securities. Total FHLB advances were $18.0 million at September 30, 2014 and $30.0 million at December 31, 2013, borrowed at fixed rates with a weighted average rate of 2.74% and 2.77%, respectively. The Company also had a $35.0 million letter of credit with FHLB at September 30, 2014 to secure public funds. At September 30, 2014, CWB had pledged to the FHLB, $31.0 million of securities and $88.0 million of loans. At September 30, 2014, CWB had $71.6 million available for additional borrowing. At December 31, 2013, CWB had pledged to the FHLB, $28.0 million of securities and $27.3 million of loans. At December 31, 2013, CWB had $61.4 million available for additional borrowing. Total FHLB interest expense for the three and nine months ended September 30, 2014 and 2013 was $0.1 million and $0.5 million, and $0.3 million and $0.7 million, respectively.

Federal Reserve Bank – CWB has established a credit line with the FRB. Advances are collateralized in the aggregate by eligible loans. There were no outstanding FRB advances as of September 30, 2014 and December 31, 2013. CWB had $87.1million and $123.9 million in borrowing capacity as of September 30, 2014 and December 31, 2013, respectively.

Convertible Debentures - In 2010, the Company completed an offering of $8.1 million convertible subordinated debentures. The debentures were a general unsecured obligation and were subordinated in right of payment to all present and future senior indebtedness. The debentures paid interest at 9% until conversion, redemption or maturity. Effective March 10, 2014, the Company exercised its early redemption rights and called the outstanding debentures. As of the nine months ended September 30, 2014, $1.4 million debentures were converted to 317,550 shares of common stock and $34,000 to cash.

Federal Funds Purchased Lines – The Company has federal funds borrowing lines at correspondent banks totaling $30.0 million. There was no amount outstanding as of September 30, 2014 and December 31, 2013.

8. STOCKHOLDERS' EQUITY

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	Unrealized holding gains (losses) on AFS		Unrealized holding gains (losses) on AFS	
	(in thousands)			
Beginning balance	$(120)	$(103)	$(274)	$35
Other comprehensive income before reclassifications	34	(119)	188	(257)
Amounts reclassified from accumulated other comprehensive income	-	-	-	-
Net current-period other comprehensive income	34	(119)	188	(257)

Ending Balance	$(86)	$(222)	$(86)	$(222)

There were no reclassifications out of accumulated other comprehensive income for the three months ended September 30, 2014 or 2013.

Preferred Stock

The Company's Series A Preferred Stock paid cumulative dividends at a rate of 5% per year until February 15, 2014 then increased to a rate of 9% per year. 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.

In 2012, the United States Department of the Treasury sold all of the Series A Preferred Stock to third party purchasers unaffiliated with the Company. The Company did not receive any proceeds from this auction, nor were any of the terms modified in connection with the sales.

On June 4, 2013, four members of the Board of Directors purchased 1,100 shares of the Company's Series A Cumulative Perpetual Preferred stock from private investors.

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On June 20, 2014, the Company completed the redemption of 50% of the Company's Series A Preferred Stock. The Company redeemed 7,804 shares of stock for $7.7 million and recognized a discount on the partial redemption of $144,000.

On October 6, 2014 the Company redeemed an additional $0.8 million of Series A Preferred Stock.

During the three and nine months ended September 30, 2014, the Company recorded $0.2 million and $0.8 million, respectively of dividends on preferred stock. During the three months and nine months ended September 30, 2013, the Company recorded $0.3 million and $0.8 million, respectively of dividends and accretion of the discount on preferred stock.

Common Stock Warrant

The Warrant issued as part of the TARP provides for the purchase of up to 521,158 shares of the common stock, at an exercise price of $4.49 per share ("Warrant Shares"). The Warrant is immediately exercisable and 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. In the second quarter of 2013, the Treasury sold its warrant position to a private investor. Pursuant to the Securities Purchase Agreement, the private investor has agreed not to exercise voting power with respect to any Warrant Shares.

Common Stock Issuance

During the first quarter of 2014, the Company issued 316,872 shares of common stock in conjunction with debenture conversions.

9. EARNINGS PER SHARE

The following table presents a reconciliation of basic earnings per share and diluted earnings per share:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(in thousands, except per share amounts)			
Net income	$1,712	$2,635	$4,860	$5,850
Less: dividends and accretion on preferred stock and discount on partial redemption	176	262	634	786
Net income available to common stockholders	$1,536	$2,373	$4,226	$5,064
Add: debenture interest expense and costs, net of income taxes	-	23	103	222
Net income for diluted calculation of earnings per common share	$1,536	$2,396	$4,329	$5,286
Weighted average number of common shares outstanding - basic	8,200	7,865	8,120	6,731
Weighted average number of common shares outstanding - diluted	8,494	8,395	8,512	8,883
Earnings per share:				
Basic	$0.19	$0.30	$0.52	$0.75
Diluted	$0.18	$0.29	$0.51	$0.60

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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 Company’s unaudited interim consolidated financial statements and notes thereto included herein and the audited consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2013, and the other financial information appearing elsewhere in this report.

Forward Looking Statements

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

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

- general economic conditions, either nationally or locally in some or all areas in which business is conducted, or conditions in the real estate or securities markets or the banking industry which could affect liquidity in the capital markets, the volume of loan origination, deposit flows, real estate values, the levels of non-interest income and the amount of loan losses;
- changes in existing loan portfolio composition and credit quality, and changes in loan loss requirements;
- legislative or regulatory changes which may adversely affect the Company’s business, including but not limited to the impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act and the regulations required to be promulgated thereunder;
- the Company’s success in implementing its new business initiatives, including expanding its product line, adding new branches and successfully building its brand image;
- changes in interest rates which may reduce net interest margin and net interest income;
- increases in competitive pressure among financial institutions or non-financial institutions;
- technological changes which may be more difficult to implement or more expensive than anticipated;
- changes in borrowing facilities, capital markets and investment opportunities which may adversely affect the business;
- changes in accounting principles, policies or guidelines which may cause conditions to be perceived differently;
- litigation or other matters before regulatory agencies, whether currently existing or commencing in the future, which may delay the occurrence or non-occurrence of events longer than anticipated;
- the ability to originate and purchase loans with attractive terms and acceptable credit quality;
- the ability to attract and retain key members of management; and

- the ability to realize cost efficiencies.

For additional information regarding risks that may cause our actual results to differ materially from any forward-looking statements, see “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2013 and in item 1A of Part II of this Quarterly Report.

Financial Overview and Highlights

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

Financial Result Highlights for the Third Quarter of 2014

Net income available to common shareholders of the Company of $1.7 million, or $0.18 per diluted share for the third quarter of 2014 compared to a net income available to common shareholders of $2.4 million or $0.29 per diluted share for the third quarter of 2013.

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

- Net income of $1.7 million for the third quarter of 2014 compared to a net income of $2.6 million for the third quarter of 2013.
- Net interest margin for the third quarter of 2014 declined to 4.31% compared to 4.54% for the third quarter of 2013.
- Total loans increased to $490.0 million at September 30, 2014 compared to $462.0 million at December 31, 2013.
- Provision for loan losses was ($1.2 million) for the third quarter of 2014 compared to ($1.6 million) for the third quarter of 2013. The Company has been experiencing a downward trend in net charge-offs and improved credit quality and related analytics, which resulted in a reduction of the allowance for loan losses.
- Non-interest expenses decreased to $4.9 million compared to $5.6 million in the third quarter of 2013.
- Net nonaccrual loans decreased to $10.9 million at September 30, 2014, compared to $16.8 million at December 31, 2013 and from $15.3 million at September 30, 2013.
- Allowance for loan losses was $9.2 million at September 30, 2014, or 2.14% of total loans held for investment compared to 2.98% at December 31, 2013 and 3.01% one year ago.
- Total deposits increased to $484.8 million at September 30, 2014 from $436.1 at December 31, 2013.
- Other assets acquired through foreclosure declined to $0.5 million at September 30, 2014 from $3.8 million at December 31, 2013 and $4.0 million at September 30, 2013.\
- Book value per common share increased 13.3% to $7.07 at September 30, 2014, compared to $6.24 at September 30, 2013.

The impact to the Company from these items, and others of both a positive and negative nature, will be discussed in more detail as they pertain to the Company's overall comparative performance for the three and nine months ended September 30, 2014 throughout the analysis sections of this report.

Critical Accounting Policies

A number of critical accounting policies are used in the preparation of the Company's consolidated financial statements. These policies relate to areas of the financial statements that involve estimates and judgments made by management. These include provision and allowance for loan losses and servicing rights. These critical accounting policies are discussed in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2013 with a description of how the estimates are determined and an indication of the consequences of an over or under estimate.

RESULTS OF OPERATIONS

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(in thousands, except per share amounts)			
Net income available to common stockholders	$1,536	$2,373	$4,226	$5,064
Basic earnings per share	0.19	0.30	0.52	0.75
Diluted earnings per share	0.18	0.29	0.51	0.60
Total assets	572,143	535,481		
Gross loans	499,277	451,362		
Total deposits	484,750	431,091		
Total stockholders' equity	65,754	64,648		

Book value per common share	7.07		6.24					
Net interest margin	4.31	%	4.54	%	4.50	%	4.55	%
Return on average assets	1.19	%	1.95	%	1.16	%	1.47	%
Return on average stockholders' equity	10.44	%	16.54	%	9.54	%	13.62	%

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The following table sets forth a summary financial overview for the comparable three and nine months ended September 30, 2014 and 2013:

	Three Months Ended September 30,		Increase	Nine Months Ended September 30,		Increase
	2014	2013	(Decrease)	2014	2013	(Decrease)
	(in thousands, except per share amounts)					
Consolidated Income Statement Data:						
Interest income	$6,903	$7,081	$ (178)	$20,986	$21,101	$ (115)
Interest expense	835	1,047	(212)	2,563	3,374	(811)
Net interest income	6,068	6,034	34	18,423	17,727	696
Provision for credit losses	(1,178)	(1,563)	385	(3,560)	(2,843)	(717)
Net interest income after provision for credit losses	7,246	7,597	(351)	21,983	20,570	1,413
Non-interest income	552	677	(125)	1,726	2,285	(559)
Non-interest expenses	4,879	5,639	(760)	15,435	17,005	(1,570)
Income before income taxes	2,919	2,635	284	8,274	5,850	2,424
Income taxes	1,207	-	1,207	3,414	-	3,414
Net income	1,712	2,635	(923)	4,860	5,850	(990)
Dividends and accretion on preferred stock	176	262	(86)	778	786	(8)
Discount on partial redemption of preferred stock	-	-	-	(144)	-	(144)
Net income available to common stockholders	$1,536	$2,373	$ (837)	$4,226	$5,064	$ (838)
Income per share - basic	$0.19	$0.30	$ (0.11)	$0.52	$0.75	$ (0.22)
Income per share - diluted	$0.18	$0.29	$ (0.11)	$0.51	$0.60	$ (0.09)

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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 September 30,					
	2014			2013		
	Average Balance	Interest	Average Yield/Cost (2)	Average Balance	Interest	Average Yield/Cost (2)
Interest-Earning Assets	(in thousands)					
Federal funds sold and interest-earning deposits (5)	$29,927	$21	0.28 %	$42,260	$24	0.23 %
Investment securities	34,016	187	2.18 %	28,810	186	2.56 %
Loans (1)	495,213	6,695	5.36 %	455,646	6,871	5.98 %
Total earnings assets	559,156	6,903	4.90 %	526,716	7,081	5.33 %
Nonearning Assets						
Cash and due from banks	1,695			958		
Allowance for loan losses	(10,432)			(12,621)		
Other assets	21,476			20,499		
Total assets	$571,895			$535,552		
Interest-Bearing Liabilities						
Interest-bearing demand deposits	$278,028	297	0.42 %	$255,008	300	0.47 %
Savings deposits	15,991	48	1.19 %	16,456	71	1.71 %
Time deposits	127,694	364	1.13 %	106,131	348	1.30 %
Total interest-bearing deposits	421,713	709	0.67 %	377,595	719	0.76 %
Convertible debentures	-	-	0.00 %	1,443	77	21.17 %
Other borrowings	18,000	126	2.78 %	34,000	251	2.93 %
Total interest-bearing liabilities	439,713	835	0.75 %	413,038	1,047	1.01 %
Noninterest-Bearing Liabilities						
Noninterest-bearing demand deposits	62,646			55,130		
Other liabilities	4,477			4,170		
Stockholders' equity	65,059			63,214		
Total Liabilities and Stockholders' Equity	$571,895			$535,552		
Net interest income and margin (3)		$6,068	4.31 %		$6,034	4.54 %
Net interest spread (4)			4.15 %			4.32 %

(1) Includes nonaccrual loans.
(2) Annualized.
(3) Net interest margin is computed by dividing net interest income by total average earning assets.
(4) Net interest spread represents average yield earned on interest-earning assets less the average rate paid on interest-bearing liabilities.
(5) Certain amounts have been reclassified to conform to the current year presentation.

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	Nine Months Ended September 30,							
	2014				2013			
	Average Balance	Interest	Average Yield/Cost (2)		Average Balance	Interest	Average Yield/Cost (2)	
Interest-Earning Assets	(in thousands)							
Federal funds sold and interest-earning deposits (5)	$27,538	$57	0.28	%	$34,934	$58	0.22	%
Investment securities	33,073	562	2.27	%	28,613	528	2.47	%
Loans (1)	487,033	20,367	5.59	%	457,705	20,515	5.99	%
Total earnings assets	547,644	20,986	5.12	%	521,252	21,101	5.41	%
Nonearning Assets								
Cash and due from banks	1,648				1,003			
Allowance for loan losses	(11,303)				(13,652)			
Other assets	23,758				21,681			
Total assets	$561,747				$530,284			
Interest-Bearing Liabilities								
Interest-bearing demand deposits	$270,202	827	0.41	%	$258,663	902	0.47	%
Savings deposits	16,010	160	1.34	%	16,372	225	1.84	%
Time deposits	122,483	1,052	1.15	%	101,957	1,111	1.46	%
Total interest-bearing deposits	408,695	2,039	0.67	%	376,992	2,238	0.79	%
Convertible debentures	322	30	12.46	%	5,336	393	9.85	%
Other borrowings	23,685	494	2.79	%	34,000	743	2.92	%
Total interest-bearing liabilities	432,702	2,563	0.79	%	416,328	3,374	1.08	%
Noninterest-Bearing Liabilities								
Noninterest-bearing demand deposits	56,940				52,985			
Other liabilities	3,980				3,532			
Stockholders' equity	68,125				57,439			
Total Liabilities and Stockholders' Equity	$561,747				$530,284			
Net interest income and margin (3)		$18,423	4.50	%		$17,727	4.55	%
Net interest spread (4)			4.33	%			4.33	%

(1) Includes nonaccrual loans.
(2) Annualized.
(3) Net interest margin is computed by dividing net interest income by total average earning assets.
(4) Net interest spread represents average yield earned on interest-earning assets less the average rate paid on interest-bearing liabilities.
(5) Certain amounts have been reclassified to conform to the current year presentation.

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The table below sets forth the relative impact on net interest income of changes in the volume of earning assets and interest-bearing liabilities and changes in rates earned and paid by the Company on such assets and liabilities. For purposes of this table, nonaccrual loans have been included in the average loan balances.

	Three Months Ended September 30, 2014 versus 2013 Increase (Decrease) Due to Changes in			Nine Months Ended September 30, 2014 versus 2013 Increase (Decrease) Due to Changes in		
	Volume	Rate	Total	Volume	Rate	Total
	(in thousands)					
Loans, net	$535	$(711)	$(176)	$1,226	$(1,374)	$(148)
Investment securities and other	(23)	21	(2)	(30)	63	33
Total interest income	512	(690)	(178)	1,196	(1,311)	(115)
Deposits	75	(85)	(10)	159	(358)	(199)
Other borrowings	(122)	(80)	(202)	(336)	(276)	(612)
Total interest expense	(47)	(165)	(212)	(177)	(634)	(811)
Net increase (decrease)	$559	$(525)	$34	$1,373	$(677)	$696

(1) Changes due to both volume and rate have been allocated to volume changes.

Comparison of interest income, interest expense and net interest margin

The Company’s primary source of revenue is interest income. Interest income for the three and nine months ended September 30, 2014 was $6.9 million and $21.0 million, respectively, a slight decrease from the three and nine months ended September 30, 2013 which were $7.1 million and $21.1 million, respectively. Total interest income in the third quarter and first nine months of 2014 benefited by increased loan originations mostly in the commercial real estate and commercial portfolios. These increases were offset by decreased interest income from manufactured housing and SBA loans. The loan portfolio continues to have compression in the yields on loans. The annualized yield on interest-earning assets for the third quarter 2014 compared to 2013 decreased 43 basis points to 4.90% due to decreased yields on loans and investment securities. The yield on earning assets for the nine months ended September 30, 2014 compared to 2013 also declined to 5.12% from 5.41%.

Interest expense for the three and nine months ended September 30, 2014 compared to 2013 decreased by $0.2 million and $0.8 million, respectively. This decline for the third quarter comparable periods was primarily due to decreased interest paid on FHLB advances and convertible debentures of $0.2 million. The annualized average cost of interest-bearing deposits also declined across all deposit types by nine basis points to 0.67% for the three months ended September 30, 2014 compared to the same period in 2013. During the first nine months of 2014 the Company’s non-interest bearing demand deposits grew by $10.7 million contributing to a decline in total cost of deposits to 0.59%. The average cost of other borrowings also declined for the comparable periods as $12.0 million of higher cost FHLB advances matured and the convertible debentures were converted to equity. Total cost of funds declined to 0.79% from 0.96% for the nine months ended September 30, 2014 compared to the same period of 2013.

The net impact of the changes in yields on interest-earning assets and the rates paid on interest-bearing liabilities was a decrease in the interest margin from 4.54% for the third quarter of 2013 to 4.31% for the third quarter of 2014. For the first nine months of 2014, the net interest margin decreased to 4.50% compared to 4.55% for the first nine months of 2013.

Provision for loan losses

The provision for loan losses in each period is reflected as a charge against earnings in that period. The provision for loan losses is equal to the amount required to maintain the allowance for credit losses at a level that is adequate to absorb probable credit losses inherent in the loan portfolio. The provision for loan losses was ($1.2 million) for the third quarter of 2014 compared to $(1.6 million) for the third quarter of 2013. The provision benefit for the three months ended September 30, 2014 resulted primarily from $1.1 million from reduced historical loss factors and $0.2 million from improvements in impaired loans partially offset by $0.1 million due to loan growth and net charge offs. The provision benefit in the third quarter of 2013 was mostly due to $0.8 million of net recoveries, $0.4 million from reduced historical loss factors, $0.2 million reduction in impaired loan reserves and $0.2 million from decreased loan balances. As the result of the improvements in credit quality, historical loss rates and net recoveries the ratio of allowance for loan losses to loans held for investment decreased from 3.01% at September 30, 2013 to 2.14% at September 30, 2014.

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The provision for loan losses for the nine months ended September 30, 2014 was ($3.6 million) compared to ($2.8 million) for the first nine months of 2013. The Company has been experiencing improvements in historical loss factors as well as increased credit quality including net recoveries on loans previously charged off.

The following schedule summarizes the provision, charge-offs (recoveries) by loan category for the three and nine months ended September 30, 2014 and 2013:

For the Three Months Ended September 30,

	Manufactured Housing	Commercial Real Estate	Commercial	SBA	HELOC	Single Family Real Estate	Consumer	Total
2014	(in thousands)							
Beginning balance	$4,753	$ 1,985	$ 1,503	$1,750	$ 238	$ 265	$ 2	$10,496
Charge-offs	(112)	-	-	(140)	-	(66)	-	(318)
Recoveries	37	13	38	144	3	1	-	236
Net charge-offs	(75)	13	38	4	3	(65)	-	(82)
Provision	(225)	(459)	(137)	(320)	(51)	14	-	(1,178)
Ending balance	$4,453	$ 1,539	$ 1,404	$1,434	$ 190	$ 214	$ 2	$9,236
2013								
Beginning balance	$5,691	$ 2,654	$ 1,529	$2,073	$ 311	$ 197	$ 1	$12,456
Charge-offs	(379)	(157)	(32)	(76)	-	(48)	-	(692)
Recoveries	119	1,135	45	149	1	4	-	1,453
Net charge-offs	(260)	978	13	73	1	(44)	-	761
Provision	(80)	(1,266)	(365)	132	(32)	48	-	(1,563)
Ending balance	$5,351	$ 2,366	$ 1,177	$2,278	$ 280	$ 201	$ 1	$11,654

Nine Months Ended September 30,

	Manufactured Housing	Commercial Real Estate	Commercial	SBA	HELOC	Single Family Real Estate	Consumer	Total
2014	(in thousands)							
Beginning balance	$5,114	$ 2,552	$ 2,064	$1,951	$ 280	$ 245	$ 2	$12,208
Charge-offs	(516)	(16)	-	(152)	-	(66)	-	(750)
Recoveries	75	844	114	281	21	3	-	1,338
Net charge-offs	(441)	828	114	129	21	(63)	-	588
Provision	(220)	(1,841)	(774)	(646)	(111)	32	-	(3,560)
Ending balance	$4,453	$ 1,539	$ 1,404	$1,434	$ 190	$ 214	$ 2	$9,236
2013								
Beginning balance	$5,945	$ 2,627	$ 2,325	$2,733	$ 634	$ 198	$ 2	$14,464
Charge-offs	(1,088)	(161)	(149)	(355)	(39)	(136)	(31)	(1,959)
Recoveries	248	1,185	154	396	2	7	-	1,992
Net charge-offs	(840)	1,024	5	41	(37)	(129)	(31)	33
Provision	246	(1,285)	(1,153)	(496)	(317)	132	30	(2,843)
Ending balance	$5,351	$ 2,366	$ 1,177	$2,278	$ 280	$ 201	$ 1	$11,654

The percentage of net nonaccrual loans to the total loan portfolio has decreased to 2.19% as of September 30, 2014 from 3.55% at December 31, 2013.

The allowance for loan losses compared to net nonaccrual loans has increased to 84.4% as of September 30, 2014 from 72.5% as of December 31, 2013. Total past due loans declined to $0.9 million as of September 30, 2014 from $2.6 million as of December 31, 2013. Of these past due amounts $0.4 million was guaranteed by the SBA as of December 31, 2013.

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Non-Interest Income

The Company earned non-interest income primarily through fees related to services provided to loan and deposit customers, gains from loan sales, and other.

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

	Three Months Ended September 30,		Increase	Nine Months Ended September 30,		Increase
	2014	2013	(Decrease)	2014	2013	(Decrease)
	(in thousands)					
Other loan fees	$279	$229	$ 50	$720	$844	$ (124)
Gains from loan sales, net	57	62	(5)	150	334	(184)
Document processing fees	103	114	(11)	297	369	(72)
Service charges	72	75	(3)	215	245	(30)
Other	41	197	(156)	344	493	(149)
Total non-interest income	$552	$677	$ (125)	$1,726	$2,285	$ (559)

Total non-interest income decreased by $0.1 million, or 18.5%, for the third quarter of 2014 compared to 2013, primarily due to decreased other income primarily loan servicing and other gains from loan deficiency judgments. Loan servicing continued to decline as the related SBA loans had payments and several prepayments. Other loan fees increased slightly in the third quarter of 2014 compared to 2013 due to increased prepayment penalties received on loans that paid off before maturity.

Total non-interest income for the nine months ended September 30, 2014 compared to 2013 declined by $0.6 million mostly the result of the decrease in new mortgage loan originations and sales and SBA loan prepayment penalty fees. Other income declined from loan servicing related to SBA loans as the outstanding sold portfolio continues to pay down and one-time miscellaneous income recorded at the holding company in 2013.

Non-Interest Expenses

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

	Three Months Ended September 30,		Increase	Nine Months Ended September 30,		Increase
	2014	2013	(Decrease)	2014	2013	(Decrease)
	(in thousands)					
Salaries and employee benefits	$2,888	$3,102	$ (214)	$9,308	$9,956	$ (648)
Occupancy expense, net	479	452	27	1,377	1,365	12
Professional services	436	308	128	1,167	913	254
Loan servicing and collection	187	511	(324)	586	1,111	(525)
Advertising and marketing	129	94	35	429	374	55
Data processing	144	128	16	425	403	22
Stock option expense	29	12	17	270	43	227
FDIC assessment	83	283	(200)	253	809	(556)

Depreciation	82	78	4	238	226	12
Net (gain) loss on sales/write-downs of foreclosed real estate and repossessed assets	(18)	184	(202)	(168)	360	(528)
Other	440	487	(47)	1,550	1,445	105
Total non-interest expenses	$4,879	$5,639	$ (760)	$15,435	$17,005	$ (1,570)

Total non-interest expenses for the third quarter of 2014 compared to 2013 decreased by $0.8 million, or 13.5% primarily due to improved credit quality. Loan servicing and collection expenses declined by $0.3 million in the third quarter 2014 compared to 2013 due to declined loan collection and foreclosed asset expenses. Salaries and employee benefit expenses were $0.2 million lower in the third quarter of 2014 compared to 2013 mostly from severance and commissions paid in 2013 when the SBA office in Roseville was closed.   Net (gain) loss on sales/write-downs of foreclosed real estate and repossessed assets improved by $0.2 million compared to the third quarter of 2013 as asset values improved. The FDIC insurance assessment was reduced by $0.2 million in the third quarter of 2014 compared to 2013 due to improvement in the Company and release from the regulatory agreements. Partially offsetting these declined expenses were increased costs associated with professional services and other expenses of $0.1 million mostly the result of increased legal and consulting expenses.

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Total non-interest expenses for the nine months ended September 30, 2104 compared to 2013 decreased by $1.6 million or 9.2% mostly from decreases in salaries and benefits, FDIC assessment expense, net loss on sales/write-downs of foreclosed real estate and repossessed assets, and loan servicing and collection expense. Salaries and benefits expense declined for the first nine months of 2014 compared to 2013 primarily from $0.5 million less deferred commissions on SBA loans held for sale of and salary and severance expense paid in 2013 for the Roseville SBA office closed in the second quarter of 2013 and $0.1 million decrease in other personnel expenses. The $0.6 million reduction in the FDIC assessment was a result of the Bank's upgrade. Net loss on sales/write-downs of foreclosed real estate and repossessed assets improved by $0.5 million for the first nine months of 2014 compared to 2013 due to a net gain from foreclosed asset sales instead of a net loss from sales on foreclosed assets in the prior year nine month period as the result of some improvements in values. Loan servicing and collection expense decreased mostly due to decreased loan collection and foreclosed assets expenses of $0.5 million. These decreases were partially offset by increased professional services expense, stock option expense, and other expense. The $0.3 million increase in professional services was primarily from legal costs. The increase in stock option expense of $0.2 million was due to non-qualified stock option grants given to directors in the first quarter which immediately vested. The increase in other expense of $0.1 million was primarily related to the recognition of deferred costs with the call of the convertible debentures.

Income Taxes

The income tax provision for the third quarter and first nine months of 2014 was $1.2 million and $3.4 million, respectively, compared to no income tax expense in 2013. In the first nine months of 2013, the Company's deferred tax asset was fully reserved. As the Company recorded taxable income, the release of this valuation allowance offset the tax expense incurred.

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts and their respective tax basis including operating losses and tax credit carryforwards. Net deferred tax assets are reported in the consolidated balance sheet as a component of total assets.

Accounting standards Codification Topic 740, Income Taxes, requires that companies assess whether a valuation allowance should be established against their deferred tax assets based on the consideration of all available evidence using a "more likely than not" standard. The determination of whether a valuation allowance for deferred tax assets is appropriate is subject to considerable judgment and requires an evaluation of all positive and negative evidence with more weight given to evidence that can be objectively verified. Each period, management considers both positive and negative evidence and analyzes changes in near-term market conditions as well as other factors which may impact future operating results.

The Company evaluated the need for a valuation allowance at September 30, 2014. Based on the assessment of all the positive and negative evidence, management concluded that it is more likely than not that all of the $3.9 million net deferred tax asset will be realized based upon future taxable income. The positive evidence considered by management in arriving at the conclusion that a valuation allowance is not necessary included more than six consecutive profitable quarters, the Company is not in a three-year cumulative loss position, the Company's strong pre-crisis earnings history and growth in pre-tax earnings and significant improvement in credit measures, which improve both the sustainability of profitability and management's ability to forecast future credit losses. The regulatory agreements have also been terminated. All these factors were given the appropriate weighting in our analysis and management concluded that such positive evidence was sufficient to overcome the weight of negative evidence related to operating losses in prior years. There was no valuation allowance on deferred tax assets at September 30, 2014. The Company's deferred tax asset was $5.0 million and fully reserved at September 30, 2013. This reserve was eliminated as of December 31, 2013.

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

Balance Sheet Analysis

The ability to originate new loans and attract new deposits is essential to the Company's asset growth. Total assets increased to $572.1 million at September 30, 2014 from $539.0 million at December 31, 2013. Total gross loans including loans held for sale, increased $25.1 million to $499.3 million at September 30, 2014 from $474.2 million at December 31, 2013. Total deposits increased to $484.8 million at September 30, 2014 from $436.1 million at December 31, 2013.

The book value per common share was $7.07 at September 30, 2014 compared to $6.60 at December 31, 2013.   The increase was primarily due to earnings net of new stock issued upon debenture conversions at a dilutive price of $4.50 per share.

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Selected Balance Sheet Accounts

	September 30, 2014	December 31, 2013	Increase (Decrease)	Percent Increase (Decrease)
	(dollars in thousands)			
Cash and cash equivalents	$29,342	$19,478	$9,864	50.6%
Investment securities available-for-sale	22,526	18,472	4,054	21.9%
Investment securities held-to-maturity	8,578	9,688	(1,110)	(11.5)%
Loans - held for sale	67,376	64,399	2,977	4.6%
Loans - held for investment, net	422,665	397,606	25,059	6.3%
Total assets	572,143	539,000	33,143	6.1%
Total deposits	484,750	436,135	48,615	11.1%
Other borrowings and convertible debentures	18,000	31,442	(13,442)	(42.8)%
Total stockholder's equity	65,754	67,556	(1,802)	(2.7)%

The following table shows the amounts of loans held for investment by type of loan at the end of each of the periods indicated.

	September 30, 2014	December 31, 2013
	(in thousands)	
Manufactured housing	$169,910	$172,055
Commercial real estate	164,277	142,678
Commercial	48,703	45,647
SBA	20,433	24,066
HELOC	14,820	15,418
Single family real estate	14,065	10,150
Consumer	175	184
	432,383	410,198
Less:		
Allowance for loan losses	9,236	12,208
Deferred costs, net	238	45
Discount on SBA loans	244	339
Total loans held for investment, net	$422,665	$397,606

The Company had $67.4 million of loans held for sale at September 30, 2014 compared to $64.4 million at December 31, 2013.

Concentrations of Lending Activities

The Company’s lending activities are primarily driven by the customers served in the market areas where the Company has branch offices in the Central Coast of California. The Company monitors concentrations within five broad categories: geography, industry, product, call code, and collateral. The Company makes manufactured housing, commercial, SBA, construction, real estate and consumer loans to customers through branch offices located in the Company’s primary markets. The Company’s business is concentrated in these areas and the loan portfolio includes significant credit exposure to the manufactured housing and commercial real estate markets of these areas. As of September 30, 2014 and December 31, 2013, manufactured housing loans comprised 34.0% and 36.3%, respectively of total loans. As of September 30, 2014 and December 31, 2013, commercial real estate loans accounted for approximately 32.9% and 30.1% of total loans, respectively. Approximately 48.2% and 62.2% of these commercial real estate loans were owner-occupied at September 30, 2014 and December 31, 2013, respectively. Substantially all of these loans are secured by first liens with an average loan to value ratios of 48.6% and 48.5% at September 30, 2014 and December 31, 2013, respectively. The Company was within established policy limits at September 30, 2014 and December 31, 2013.

Credit Quality

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

	Three Months Ended September 30,	
	2014	2013
	(in thousands)	
Nonaccrual loans, net	$10,939	$15,277
Troubled debt restructured loans, gross	10,052	12,288
Nonaccrual loans to gross loans	2.19 %	3.38 %
Net charge-offs (annualized) to average loans	0.07 %	(0.67)%
Allowance for loan losses to nonaccrual loans	84.43 %	76.28 %
Allowance for loan losses to gross loans	1.85 %	2.58 %

The overall credit quality of the loan portfolio has improved as reflected in the continued decline in past due loans, nonaccrual loans and Troubled debt restructured loans ("TDR"). Total nonaccrual loans decreased by $4.8 million during the third quarter 2014 compared to the second quarter 2014 and $5.9 million from December 31, 2013. TDR loans declined slightly during the quarter and $2.3 million year to date 2014.

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

	September 30, 2014	December 31, 2013
	(in thousands)	
Nonaccrual loans	$17,475	$ 23,263
SBA guaranteed portion of loans included above	(6,536)	(6,426)
Total nonaccrual loans, net	$10,939	$ 16,837
TDR loans, gross	$10,052	$ 12,308
Loans 30 through 89 days past due with interest accruing	$-	$ 161
Allowance for loan losses to gross loans held for investment	2.14 %	2.98 %

Impaired loans

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

A loan is considered a TDR when concessions have been made to the borrower and the borrower is in financial difficulty. These concessions include but are not limited to term extensions, rate reductions and principal reductions. Forgiveness of principal is rarely granted and modifications for all classes of loans are predominantly term extensions. TDR loans are also considered impaired.

The following schedule summarizes impaired loans and specific reserves by loan class as of the periods indicated:

	Manufactured Housing	Commercial Real Estate	Commercial	SBA	HELOC	Single Family Real Estate	Consumer	Total Loans
Impaired Loans as of September 30, 2014:	(in thousands)							
Recorded Investment:								
Impaired loans with an allowance recorded	$4,782	$ 2,846	$ 3,270	$1,604	$ 381	$ 608	$ -	$13,491
Impaired loans with no allowance recorded	2,561	887	45	21	-	93	-	3,607
Total loans individually evaluated for impairment	7,343	3,733	3,315	1,625	381	701	-	17,098
Related Allowance for Loan Losses								
Impaired loans with an allowance recorded	421	110	292	95	5	44	-	967
Impaired loans with no allowance recorded	-	-	-	-	-	-	-	-
Total loans individually evaluated for impairment	421	110	292	95	5	44	-	967
Total impaired loans, net	$6,922	$ 3,623	$ 3,023	$1,530	$ 376	$ 657	$ -	$16,131

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	Manufactured Housing	Commercial Real Estate	Commercial	SBA	HELOC	Single Family Real Estate	Consumer	Total Loans
Impaired Loans as of December 31, 2013:	(in thousands)							
Recorded Investment:								
Impaired loans with an allowance recorded	$6,368	$ 2,322	$ 3,583	$1,607	$ 615	$ 645	$ -	$15,140
Impaired loans with no allowance recorded	2,782	1,628	254	210	-	106	-	4,980
Total loans individually evaluated for impairment	9,150	3,950	3,837	1,817	615	751	-	20,120
Related Allowance for Loan Losses								
Impaired loans with an allowance recorded	618	159	437	139	29	57	-	1,439
Impaired loans with no allowance recorded	-	-	-	-	-	-	-	-
Total loans individually evaluated for impairment	618	159	437	139	29	57	-	1,439
Total impaired loans, net	$8,532	$ 3,791	$ 3,400	$1,678	$ 586	$ 694	$ -	$18,681

Total impaired loans continued to decline in the third quarter of 2014 by $3.0 million, or 15.0% compared to December 31, 2013. The majority of this decrease was in manufactured housing loans which decreased by $1.8 million from the end of 2013. During the third quarter of 2014, $0.2 million of manufactured housing loans became impaired. There were no new impaired loans recorded in the remaining loan portfolio categories.

The accrual of interest is discontinued when substantial doubt exists as to collectability of the loan; generally at the time the loan is 90 days delinquent. Any unpaid but accrued interest is reversed at that time. Thereafter, interest income is no longer recognized on the loan. Interest income may be recognized on impaired loans to the extent they are not past due by 90 days. Interest on nonaccrual loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all of the principal and interest amounts contractually due are brought current and future payments are reasonably assured. Foregone interest on nonaccrual and troubled debt restructured loans for the three months ended September 30, 2014 and 2013 were $0.3 million and $0.5 million, respectively. Foregone interest on nonaccrual and trouble debt restructured loans for the nine months ended September 30, 2014 and 2013 were $1.0 million and $1.4 million, respectively.

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

	At September 30, 2014			At December 31, 2013		
	Nonaccrual Balance	%	Percent of Total Loans	Nonaccrual Balance	%	Percent of Total Loans
	(dollars in thousands)					
Manufactured housing	$1,536	14.04 %	0.31 %	$6,235	37.03 %	1.31 %
Commercial real estate	3,459	31.63	0.69	3,672	21.81	0.77
Commercial	3,315	30.30	0.66	3,837	22.79	0.81
SBA	1,619	14.80	0.32	1,803	10.71	0.38
HELOC	381	3.48	0.08	615	3.65	0.13

Single family real estate	629	5.75	0.13	675	4.01	0.14
Consumer	-	-	-	-	-	-
Total nonaccrual loans	$10,939	100.00%	2.19 %	$16,837	100.00%	3.55 %

Net nonaccrual loans decreased $5.9 million or 35.0%, from $16.8 million at December 31, 2013 to $10.9 million at September 30, 2014. During the third quarter 2014, $4.8 million of manufactured housing loans were returned to accrual status due to sustained payment performance. The percentage of net nonaccrual loans to the total loan portfolio has decreased to 2.19% as of September 30, 2014 from 3.55% at December 31, 2013 and 3.38% at September 30, 2013.

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.

Total gross troubled debt restructured loans ("TDR") have declined $2.3 million or 18.3% to $10.1 million at September 30, 2014 from $12.3 million at December 31, 2013. The Company recorded no new TDR loans in the third quarter of 2014.

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The following schedule summarizes the average investment in impaired loans by loan class and the interest income recognized:

	September 30,			
	2014		2013	
	Average Investment in Impaired Loans	Interest Income	Average Investment in Impaired Loans	Interest Income
	(in thousands)			
Manufactured housing	$7,240	$ 260	$9,454	$ 85
Commercial real estate:				
Commercial real estate	2,333	-	7,811	10
SBA 504 1st trust deed	1,265	18	1,089	4
Land	-	-	-	-
Construction	-	-	-	-
Commercial	3,206	17	2,789	142
SBA	1,560	3	1,790	34
HELOC	453	-	397	3
Single family real estate	668	1	747	1
Consumer	-	-	-	-
Total	$16,725	$ 299	$24,077	$ 279

	Nine Months Ended September 30,			
	2014		2013	
	Average Investment in Impaired Loans	Interest Income	Average Investment in Impaired Loans	Interest Income
	(in thousands)			
Manufactured housing	$8,072	$ 404	$9,528	$ 182
Commercial real estate:				
Commercial real estate	2,539	-	8,875	94
SBA 504 1st	1,029	48	1,163	28
Land	68	-	-	-
Construction	-	-	-	-
Commercial	3,447	69	3,831	208
SBA	1,671	9	1,432	136
HELOC	526	8	313	3
Single family real estate	707	3	452	10
Consumer	-	-	-	-
Total	$18,059	$ 541	$25,594	$ 661

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Allowance For Loan Losses

The following table summarizes the allocation of allowance for loan losses by loan type. However allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Allowance for loan losses:	(dollars in thousands)			
Balance at beginning of period	$10,496	$12,456	$12,208	$14,464
Provisions charged to operating expenses:				
Manufactured housing	(225)	(80)	(220)	246
Commercial real estate	(459)	(1,266)	(1,841)	(1,285)
Commercial	(137)	(365)	(774)	(1,153)
SBA	(320)	132	(646)	(496)
HELOC	(51)	(32)	(111)	(317)
Single family real estate	14	48	32	132
Consumer	-	-	-	30
Total Provision	(1,178)	(1,563)	(3,560)	(2,843)
Recoveries of loans previously charged-off:				
Manufactured housing	37	119	75	248
Commercial real estate	13	1,135	844	1,185
Commercial	38	45	114	154
SBA	144	149	281	396
HELOC	3	1	21	2
Single family real estate	1	4	3	7
Consumer	-	-	-	-
Total recoveries	236	1,453	1,338	1,992
Loans charged-off:				
Manufactured housing	112	379	516	1,088
Commercial real estate	-	157	16	161
Commercial	-	32	-	149
SBA	140	76	152	355
HELOC	-	-	-	39
Single family real estate	66	48	66	136
Consumer	-	-	-	31
Total charged-off	318	692	750	1,959
Net charge-offs	82	(761)	(588)	(33)
Balance at end of period	$9,236	$11,654	$9,236	$11,654

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Potential Problem Loans

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

	September 30, 2014			
	Number of Loans	Loan Balance (1)	Percent	Percent of Total Loans
	(dollars in thousands)			
Manufactured housing	123	$9,679	34.27 %	1.94 %
Commercial real estate	10	16,261	57.56	3.26
Commercial	5	373	1.32	0.07
SBA	15	646	2.29	0.13
HELOC	5	1,115	3.95	0.22
Single family real estate	3	171	0.61	0.03
Consumer	-	-	-	-
Total	161	$28,245	100.00 %	5.65 %

(1) Loan balance includes $3.0 million guaranteed by government agencies

	December 31, 2013			
	Number of Loans	Loan Balance (1)	Percent	Percent of Total Loans
	(dollars in thousands)			
Manufactured housing	70	$5,001	25.54 %	1.05 %
Commercial real estate	9	7,654	39.08	1.61
Commercial	13	2,160	11.03	0.46
SBA	13	3,282	16.76	0.69
HELOC	7	1,314	6.71	0.28
Single family real estate	3	173	0.88	0.04
Total	115	$19,584	100.00 %	4.13 %

(1) Loan balance includes $3.8 million guaranteed by government agencies

Investment Securities

Investment securities are classified at the time of acquisition as either held-to-maturity or available-for-sale based upon various factors, including asset/liability management strategies, liquidity and profitability objectives, and regulatory requirements. Held-to-maturity securities are carried at amortized cost, adjusted for amortization of premiums or accretion of discounts. Available-for-sale securities are securities that may be sold prior to maturity based upon asset/liability management decisions. Investment securities identified as available-for-sale are carried at fair value. Unrealized gains or losses on available-for-sale securities are recorded as accumulated other comprehensive income in stockholders' equity.

The investment securities portfolio of the Company is utilized as collateral for borrowings, required collateral for public deposits and to manage liquidity, capital, and interest rate risk.

The carrying value of investment securities was as follows:

	September 30, 2014	December 31, 2013
	(in thousands)	
U.S. government agency notes	$7,840	$ 7,478
U.S. government agency mortgage backed securities ("MBS")	8,578	9,752
U.S. government agency collateralized mortgage obligations ("CMO")	14,622	10,861
Equity securities: Farmer Mac class A stock	64	69
	$31,104	$ 28,160

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Other Assets Acquired Through Foreclosure

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(in thousands)			
Balance, beginning of period	$610	$4,100	$3,811	$1,889
Additions	137	850	822	5,845
Dispositions and receivables from participants	(290)	(791)	(4,326)	(3,399)
Gains (losses) on sales, net	18	(184)	168	(360)
Balance, end of period	$475	$3,975	$475	$3,975

Other assets acquired through foreclosure consist primarily of properties acquired as a result of, or in-lieu-of, foreclosure. Properties or other assets (primarily manufactured housing) are classified as other real estate owned and other repossessed assets and are reported at fair value at the time of foreclosure less estimated costs to sell. Costs relating to development or improvement of the assets are capitalized and costs related to holding the assets are charged to expense. At September 30, 2014 and 2013, the Company had a valuation allowance on foreclosed assets of $19,000 and $0.5 million, respectively.

Deposits

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

	September 30, 2014	December 31, 2013	Increase (Decrease)	Percent Increase (Decrease)
	(dollars in thousands)			
Non-interest-bearing demand deposits	$63,185	$52,461	$ 10,724	20.4 %
Interest-bearing demand deposits	277,743	258,445	19,298	7.5
Savings	16,218	16,158	60	0.4
Time deposits of $100,000 or more	113,694	95,979	17,715	18.5
Other time deposits	13,910	13,092	818	6.2
Total deposits	$484,750	$436,135	$ 48,615	11.1 %

Convertible Debentures

In 2010, the Company completed an offering of $8.1 million convertible subordinated debentures. The debentures were a general unsecured obligation and were subordinated in right of payment to all present and future senior indebtedness. The debentures paid interest at 9% until conversion, redemption or maturity. Effective March 10, 2014, the Company exercised its early redemption rights and called the outstanding debentures. As of the nine months ended September 30, 2014, $1.4 million debentures were converted to 317,550 shares of common stock and $34,000 to cash.

Liquidity and Capital Resources

Liquidity Management

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

The ability to have readily available funds sufficient to repay fully maturing liabilities is of primary importance to depositors, creditors and regulators. Our liquidity, represented by cash and amounts due from banks, federal funds sold and non-pledged marketable securities, is a result of our operating, investing and financing activities and related cash flows. To ensure funds are available when necessary, on at least a quarterly basis, we project the amount of funds that will be required, and we strive to maintain relationships with a diversified customer base. Liquidity requirements can also be met through short-term borrowings or the disposition of short-term assets.

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

CWB has a blanket lien credit line with the Federal Home Loan Bank ("FHLB"). Advances are collateralized in the aggregate by CWB's eligible loans and securities. Total FHLB advances were $18.0 million and $30.0 million at September 30, 2014 and December 31, 2013, respectively, borrowed at fixed rates. The Company also had a $35 million letter of credit with FHLB at September 30, 2014 to secure public funds. At September 30, 2014, CWB had pledged to the FHLB, $31.0 million of securities and $88.0 million of loans. At September 30, 2014, CWB had $71.6 million available for additional borrowing. At December 31, 2013, CWB had pledged to the FHLB, $28.0 million of securities and $27.3 million of loans.

CWB has established a credit line with the Federal Reserve Bank ("FRB"). There were no outstanding FRB advances as of September 30, 2014 and December 31, 2013. CWB had $87.1 million and $123.9 million in borrowing capacity as of September 30, 2014 and December 31, 2013, respectively.

The Company has federal funds borrowing lines at correspondent banks totaling $30.0 million and $25.0 million at September 30, 2014 and December 31, 2013, respectively. There was no amount outstanding as of September 30, 2014 and December 31, 2013.

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 20.9% and 19.0% at September 30, 2014 and December 31, 2013, respectively. The Company's liquidity ratio fluctuates in conjunction with loan funding demands. The liquidity ratio consists of the sum of cash and due from banks, deposits in other financial institutions, available for sale investments, federal funds sold and loans held for sale, divided by total assets.

CWBC's routine funding requirements primarily consist of certain operating expenses and preferred dividends. Normally, CWBC obtains funding to meet its obligations from dividends collected from the Bank and has the capability to issue debt securities. Federal banking laws regulate the amount of dividends that may be paid by banking subsidiaries without prior approval.

Capital Resources

The Company 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 business and 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 their assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The 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.

Quantitative measures established by regulation to ensure capital adequacy require the Company and CWB 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). At September 30, 2014 and December 31, 2013, the Company and CWB met all capital adequacy requirements to which they were subject.

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As of September 30, 2014 and December 31, 2013, the Company and CWB met the minimum capital ratio requirements to be classified as well-capitalized, as defined by the banking agencies.

The Company's and CWB's actual capital amounts and ratios as of September 30, 2014 and December 31, 2013 are presented in the table below:

	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
September 30, 2014	(dollars in thousands)						
CWBC (Consolidated)	$71,528	$65,800	$454,786	$571,855	15.73 %	14.47 %	11.51 %
Capital in excess of well capitalized					$26,049	$ 38,513	$37,207
CWB	$70,266	$64,538	$454,708	$571,572	15.45 %	14.19 %	11.29 %
Capital in excess of well capitalized					$24,795	$ 37,256	$35,959
December 31, 2013							
CWBC (Consolidated)	$74,712	$67,773	$432,958	$534,408	17.26 %	15.65 %	12.68 %
Capital in excess of well capitalized					$31,416	$ 41,796	$41,053
CWB	$72,886	$67,391	$432,802	$531,503	16.84 %	15.57 %	12.68 %
Capital in excess of well capitalized					$29,606	$ 41,423	$40,816
Well-capitalized ratios					10.00 %	6.00 %	5.00 %
Minimum capital ratios					8.00 %	4.00 %	4.00 %

Supervision and Regulation

Banking is a complex, highly regulated industry. The primary goals of the regulatory scheme are to maintain a safe and sound banking system, protect depositors and the Federal Deposition Insurance Corporation's ("FDIC") insurance fund, and facilitate the conduct of sound monetary policy. In furtherance of these goals, Congress and the states have created several largely autonomous regulatory agencies and enacted numerous laws that govern banks, bank holding companies and the financial services industry. Consequently, the growth and earnings performance of the Company can be affected not only by management decisions and general economic conditions, but also by the requirements of applicable state and federal statutes, regulations and the policies of various governmental regulatory authorities, including the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency ("OCC"), and FDIC.

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

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

For a detailed discussion of the regulatory scheme governing the Company and CWB, please see the discussion in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2013 under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operation – Supervision and Regulation."

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Certain qualitative and quantitative disclosures about market risk is set forth in Item 7A of the Company’s Annual Report on Form 10-K for the year ended December 31, 2013. There has been no material change in these disclosures as previously disclosed in the Company’s Form 10-K. For further discussion of interest rate risk, see “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations - Liquidity Management - Interest Rate Risk.”

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ITEM 4. CONTROLS AND PROCEDURES

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

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

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated whether there was any change in internal control over financial reporting that occurred during the quarter ended September 30, 2014 and determined that there was no change in internal control over financial reporting that occurred during the quarter ended September 30, 2014 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

On or about December 16, 2013, CWB was served with the Summons and Complaint in the action entitled Residential Funding Company, LLC v. Community West Bank, N.A., United States District Court for the District of Minnesota, Case No. 0:13-CV-03468-JRT-JJK. The Summons was issued and Complaint filed on December 13, 2013. Generally, Residential Funding Company, LLC ("RFC") seeks damages in excess of $75,000 for breach of contract and indemnification for certain unspecified residential mortgage loans originated by CWB and sold to RFC in accordance with an agreement. RFC alleges that some $22 million in loans were sold over the course of the agreement. RFC further alleges that CWB made certain representations and warranties with respect to the loans and that CWB failed to comply with such representations and warranties.

RFC alleges it placed the loans from CWB into residential mortgage backed securitizations trusts ("Trusts") and issued certificates in the Trusts to outside investors. The loans CWB sold to RFC were eventually included along with numerous other third party lender loans in 30 different Trusts. RFC alleges that, over time, the loans defaulted or became delinquent and, from 2008 until May 14, 2012, RFC faced numerous claims and lawsuits stemming from the loans. RFC alleges that it had to file for bankruptcy protection to defend the claims. RFC claims all the lawsuits against RFC filed by investors in the Trusts allege that the securitizations were defective in a variety of ways, including borrower fraud, missing or inaccurate documentation, fraudulent appraisals and misrepresentations concerning occupancy. RFC alleges that CWB was responsible for the problems with the loans in this action and that numerous other lenders were responsible in the other actions RFC has filed. RFC also alleges that it was forced to settle many of the claims in the bankruptcy court but continues to litigate other claims. RFC alleges that under its agreement with CWB, CWB agreed to indemnify RFC for losses or repurchase the loans at RFC's option.

Since the Complaint is so vague and ambiguous concerning the "agreement", the specific loans in question and the circumstances surrounding the approval of such loans, CWB filed a Motion to Dismiss under Rule 12(b)(6) of the

Federal Rules of Civil Procedure or, in the alternative, a Motion for More Definite Statement under Rule 12(e). In response, RFC filed a First Amended Complaint ("FAC"). The FAC contains the same deficiencies as the original Complaint and, as such, on May 5, 2014, CWB filed a Motion to Dismiss under Rule 12(b)(6) and a Motion for More Definite Statement. A hearing date had been set on the motion for August 4, 2014.

It is CWB's position to vigorously defend this action and CWB knows of no evidence that would support RFC's allegations of wrongdoing by CWB. Due to the preliminary stage of the pleadings and without the benefit of discovery, it is not possible to predict the probable outcome. This action is just one of many filed by RFC against various banks pending in courts in New York and Minnesota, among others. CWB has entered into a Joint Defense Agreement with other defendants in some of the other cases.

On March 5, 2014, RFC filed a Motion to Transfer Venue to the U.S. Bankruptcy Court for the Southern District of New York ("SDNY"). RFC argues that transfer will serve the interests of justice ensuring that (1) common issues are resolved in a common forum, (2) the SDNY Bankruptcy Court is already familiar with the claims, (3) convenience factors buttress the propriety of transfer, and (4) transfer is appropriate despite the fact that the agreement between the parties provides for Minnesota as the forum for resolutions of disputes. RFC's motion indicates that this is one of 83 recently commenced actions in which such a transfer motion has been filed. CWB opposed the motion and on August 4, 2014, after hearing oral arguments the Judge decided to take the matter under submission.

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On October 14, 2014, the Judge granted the motion in part and denied the motion in part. The Judge granted CWB's motion to dismiss on the contract claim as to all loans CWB sold to RFC before May 14, 2006 on the grounds that they were time barred. The Court denied CWB's motion claiming that the statute of limitations barred RFC's claim for indemnity as well, ruling that the indemnity claim does not begin until the plaintiff suffers a loss, and therefore may not be time barred.

On October 15, 2014, the Judge set a case management conference for November 11, 2014 in this matter and the other seven matters which are assigned to the same Judge. On October 28, 2014, CWB served and filed its answer to the FAC, denying the material allegations of the FAC and asserting numerous defenses thereto.

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

ITEM 1A. RISK FACTORS

Investing in our common stock involves various risks which are particular to our Company, our industry and our market area. Several risk factors that may have a material adverse impact on our business, operating results and financial condition are discussed in Item 1A of Part I of the Company's Annual Report on Form 10-K for the year ended December 31, 2013. There has been no material change in the Company's risk factors as previously disclosed in the Company's Form 10-K.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibits.

10.37 Employment and Confidentiality Agreement, dated July 31, 2014, among Community West Bank, Community West Bancshares and Kristine Price.

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.

101INS – XBRL Instance Document
101SCH – XBRL Taxonomy Extension Schema Document
101CAL – XBRL Taxonomy Calculation Linkbase Document
101DEF – XBRL Taxonomy Extension Definition Linkbase Document
101LAB – XBRL Taxonomy Label Linkbase Document
101PRE – XBRL Taxonomy Presentation Linkbase Document

* 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: November 7, 2014	BY:	/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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