State Bank of India
(California)

FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Years Ended March 31, 2016 and 2015

STATE BANK OF INDIA (CALIFORNIA)

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BAKER TILLY

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INDEPENDENT AUDITORS' REPORT

To the Stockholder
State Bank of India (California)
Los Angeles, California

We have audited the accompanying financial statements of State Bank of India (California), which comprise the balance sheets as of March 31, 2016 and 2015, and the related statements of operations, comprehensive loss, changes in stockholder's equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the Auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entities' preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entities' internal controls. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of State Bank of India (California) as of March 31, 2016 and 2015 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Baker Tilly Virchow Krause, LLP

Milwaukee, Wisconsin
May 13, 2016

STATE BANK OF INDIA (CALIFORNIA)

BALANCE SHEETS
As of March 31, 2016 and 2015

Assets	2016	2015
Cash and cash equivalents	$ 23,333,364	$ 45,534,749
Securities available for sale, at fair value	101,889,746	123,392,566
Loans	523,986,822	543,141,845
Allowance for loan losses	(9,019,474)	(8,195,220)
Net loans	514,967,348	534,946,625
Foreclosed assets held for sale	-	4,185,000
Furniture, fixtures and equipment, net	1,393,238	2,259,759
Federal Home Loan Bank stock, at cost	3,492,000	3,170,600
Prepaid and recoverable income taxes	2,086,664	2,075,042
Interest receivable and other assets	2,811,488	2,971,724
Deferred tax assets, net	-	6,864,968
Totoal assets	$ 649,973,848	$ 725,401,033
Liabilities and Stockholder’s Equity		
Liabilities		
Deposits	$ 494,510,354	$ 549,404,730
Federal Home Loan Bank borrowings	38,000,000	50,000,000
Interest payable and other liabilities	2,738,911	1,975,745
Total liabilities	535,249,265	601,380,475
Stockholder’s Equity		
Common stock, $100 par value:		
Authorized 2,000,000 shares, issued and outstanding as of March 31, 2016 and 2015 were 945,000 shares	94,500,000	94,500,000
Additional contributed capital	1,500,000	1,500,000
Retained earnings	18,203,425	27,921,675
Accumulated other comprehensive income (loss)	521,158	98,883
Total stockholder’s equity	114,724,583	124,020,558
Total liabilities and stockholder's equity	$ 649,973,848	$ 725,401,033

See notes to financial statements.

STATE BANK OF INDIA (CALIFORNIA)

STATEMENTS OF OPERATIONS
For the Years Ended March 31, 2016 and 2015

	2016	2015
Interest income:		
Loans and fees	$ 22,961,224	$ 22,475,949
Securities	2,423,190	2,682,962
Total interest income	25,384,414	25,158,911
Interest expense:		
Deposits	4,316,768	4,233,335
Borrowed funds	672,653	698,601
Total interest expense	4,989,421	4,931,936
Net interest income	20,394,993	20,226,975
Provision for loan losses	4,215,000	3,039,819
Net interest income after provision for loan losses	16,179,993	17,187,156
Noninterest income:		
Income from foreign currency exchange transactions	1,375,721	2,050,812
Other noninterest income	2,646,000	1,505,293
Total noninterest income	4,021,721	3,556,105
Noninterest expense:		
Salaries and employee benefits	11,670,491	12,264,691
Occupancy expense	2,706,048	2,465,566
Furniture, fixtures and equipment expense	964,521	715,169
Advertising expense	120,753	101,497
Foreclosed assets expense	210,534	1,755,169
FDIC and other deposit assessments	1,679,210	1,571,666
Other operating expense	4,508,677	5,697,845
Total noninterest expense	21,860,234	24,571,603
Loss before provision for income taxes	(1,658,520)	(3,828,342)
Income tax expense (benefit)	8,059,730	(1,598,912)
Net loss	$ (9,718,250)	$ (2,229,430)

See notes to financial statements.

STATE BANK OF INDIA (CALIFORNIA)

STATEMENTS OF COMPREHENSIVE LOSS
For the Years Ended March 31, 2016 and 2015

	2016	2015
Net loss	$ (9,718,250)	$ (2,229,430)
Other comprehensive income:		
Net unrealized holding gain arising during period, net of income taxes of ($65,921) and $281,450 in 2016 and 2015, respectively	422,275	422,175
Other comprehensive income	422,275	422,175
Comprehensive loss	$ (9,295,975)	$ (1,807,255)

See notes to financial statements.

STATE BANK OF INDIA (CALIFORNIA)

STATEMENTS OF CHANGES IN STOCKHOLDER'S EQUITY
For the Years Ended March 31, 2016 and 2015

	Common Stock		Additional		Accumulated Other	
	Shares Outstanding	Issued	Contributed Capital	Retained Earnings	Comprehensive Income (Loss)	Total
Balance, April 1, 2014	945,000	$ 94,500,000	$ 1,500,000	$ 30,151,105	$ (323,292)	$ 125,827,813
Comprehensive income:						
Net loss	-	-	-	(2,229,430)	-	(2,229,430)
Other comprehensive income	-	-	-	-	422,175	422,175
Balance, March 31, 2015	945,000	$ 94,500,000	$ 1,500,000	$ 27,921,675	$ 98,883	$ 124,020,558
Net loss				(9,718,250)		(9,718,250)
Other comprehensive income					422,275	422,275
Balance, March 31, 2016	945,000	$ 94,500,000	$ 1,500,000	$ 18,203,425	$ 521,158	$ 114,724,583

See notes to financial statements.

STATE BANK OF INDIA (CALIFORNIA)

STATEMENTS OF CASH FLOWS
For the Years Ended March 31, 2016 and 2015

	2016	2015
Cash Flows From Operating Activities		
Net loss	$ (9,718,250)	$ (2,229,430)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Provision for loan losses	4,215,000	3,039,819
Valuation allowance on deferred tax assets	9,177,000	-
Loss on disposal of furniture, fixtures and equipment	8,114	44,995
Depreciation	964,521	715,169
Gain on sale of foreclosed assets	(195,610)	-
Loss on sale and write-down on foreclosed assets	-	1,436,000
Amortization of premiums on securities, net	2,126,628	2,441,604
Decrease (increase) in interest receivable and other assets	(2,097,496)	(279,484)
Increase (decrease) in interest payable and other liabilities	763,166	(1,031,632)
Net cash provided by operating activities	5,243,073	4,137,041
Cash Flows From Investing Activities		
Purchase of securities available for sale	(5,661,783)	(17,567,734)
Principal reduction on securities available for sale	25,394,329	24,729,865
Net change in loans	15,764,276	(95,111,436)
Proceeds from sale of foreclosed assets	4,380,610	2,659,000
Acquisition of furniture, fixtures and equipment	(106,114)	(296,161)
Purchase of Federal Home Loan Bank stock	(321,400)	-
Proceeds from sale of Federal Home Loan Bank stock	-	601,500
Net cash provided (used in) by investing activities	39,449,918	(84,984,966)
Cash Flows From Financing Activities		
Net decrease in deposits	(54,894,376)	(3,611,280)
Proceeds from Federal Home Loan Bank borrowings	237,000,000	24,000,000
Repayments of Federal Home Loan Bank borrowings	(249,000,000)	(9,750,000)
Net cash (used in) provided by financing activities	(66,894,376)	10,638,720
Net decrease in cash and cash equivalents	(22,201,385)	(70,209,205)
Cash and cash equivalents, beginning of year	45,534,749	115,743,954
Cash and cash equivalents, end of year	$ 23,333,364	$ 45,534,749
Supplemental Disclosures of Cash Flow Information		
Cash paid for interest	$ 5,221,132	$ 4,961,766
Cash paid for income taxes	$ -	$ 109,761

See notes to financial statements.

NOTE 1 – Nature of Business and Summary of Significant Accounting Policies

Nature of business: State Bank of India (California) (the Bank) is a California State Chartered Bank and a wholly owned subsidiary of the State Bank of India (the Parent Bank), a corporation in India. The Bank provides community-based retail and commercial banking services through nine branches in California and one branch in the District of Columbia (Washington, D.C.).

The Bank grants commercial and real estate loans to its customers, substantially all of whom are small and middle-market businesses or residents in the Bank's service areas. Generally, those loans are collateralized by business assets and/or real estate to customers primarily in the state of California.

A summary of the Bank's significant accounting policies is as follows:

Accounting policies: The accounting and reporting policies of the Bank are in accordance with United States generally accepted accounting principles (GAAP).

Use of estimates: The preparation of the financial statements in conformity with GAAP requires management to make estimates based on assumptions about future economic and market conditions that affect the reported amounts of assets and liabilities at the date of the financial statements and income and expenses during the reporting period and the related disclosures. Although the Bank's estimates contemplate current conditions and how the Bank expects them to change in the future, it is reasonably possible that actual results could differ from those estimates and could be worse than anticipated in those estimates, which could materially affect the Bank's results of operations and financial condition. A material estimate that is particularly susceptible to significant change in the near term is the allowance for loan losses. Other estimates significant to the financial statements include the fair value of securities and the valuation of deferred tax assets.

Cash and cash equivalents: For the purpose of the statement of cash flows, cash and cash equivalents include cash on hand, cash items in process of collection, amounts due from correspondent banks, the Federal Home Loan Bank, and the Federal Reserve Bank and certificate of deposit investments with maturity dates less than 90 days.

The Bank is required to maintain reserve balances in cash with the Federal Reserve Bank. The total of these reserve requirements approximated $910,000 and $946,000 as of March 31, 2016 and 2015, respectively.

The Bank maintains amounts due from banks which, at times, may exceed federally insured limits. The Bank has not experienced any losses in such accounts.

Securities available for sale: Debt securities are classified based on management's intention on the date of purchase and recorded on the balance sheet as of the trade date. Debt securities that the Bank might not hold until maturity are classified as securities available for sale and reported at estimated fair value. Any decision to sell a security classified as available-for-sale would be based on various factors, including significant movements in interest rates, changes in the maturity mix of the Bank's assets and liabilities, liquidity needs, regulatory capital considerations and other similar factors. Unrealized gains and losses, after applicable taxes, are reported as other comprehensive income or loss. The Bank recognizes realized gains and losses on the trade date and determined using the specific identification method.

NOTE 1 – Nature of Business and Summary of Significant Accounting Policies (cont.)

Unamortized premiums and discounts are recognized in interest income over the contractual life of the security using the interest method. As principal repayments are received on securities (i.e., primarily mortgage-backed securities) a pro-rata portion of the unamortized premium or discount is recognized in interest income so that the effective interest rate on the remaining portion of the security continues unchanged.

Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors, such as credit loss assumptions. The Bank reduces the asset value when it considers the declines in the value to be other than temporary and records the estimated loss due to credit losses in earnings. Estimated losses due to other than credit losses are recorded in other comprehensive income. The Bank conducts other-than-temporary impairment analysis on a quarterly basis. The initial indicator of other-than-temporary impairment for both debt and equity securities is a decline in market value below the amount recorded for an investment, and the severity and duration of the decline. In determining whether an impairment is other than temporary, the Bank considers the length of time and the extent to which market value has been less than cost, any recent events specific to the issuer and economic conditions of its industry, and the Bank's ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery.

Federal Home Loan Bank stock: The Bank is a member of the Federal Home Loan Bank of San Francisco and, as such, is required to maintain a minimum investment in stock of the Federal Home Loan Bank that varies with the level of loans eligible to be pledged and advances outstanding with the Federal Home Loan Bank. The stock is bought from and sold to the Federal Home Loan Bank based upon its $100 par value. The stock does not have a readily determinable fair value and, as such, is classified as restricted stock, carried at cost and evaluated for impairment in accordance with GAAP. In accordance with this guidance, the stock's value is determined by the ultimate recoverability of the par value rather than by recognizing temporary declines. The determination of whether the par value will ultimately be recovered is influenced by criteria such as (a) the significance of the decline in net assets of the Federal Home Loan Bank as compared to the capital stock amount and the length of time this situation has persisted, (b) commitments by the Federal Home Loan Bank to make payments required by law or regulation and the level of such payments in relation to the operating performance, (c) the impact of legislative and regulatory changes on the customer base of the Federal Home Loan Bank and (d) the liquidity position of the Federal Home Loan Bank. No impairment losses have been recorded during the years ended March 31, 2016 and 2015.

Loans: Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of deferred loan fees and costs, and an allowance for loan loss. Deferred fees are amortized to interest income over the contractual life of the loan using the interest method.

NOTE 1 – Nature of Business and Summary of Significant Accounting Policies (cont.)

The Bank's loan portfolio consists of the following types of loans:

Commercial real estate loans: Commercial real estate loans are primarily secured by apartment buildings, office and industrial buildings, warehouses, small retail shopping centers and various special purpose properties, including hotels, restaurants and nursing homes. Although terms vary, commercial real estate loans generally have amortization periods of 15 to 30 years, as well as balloon payments of five to 10 years, and terms which may provide that the interest rates thereon may be adjusted annually at the Bank's discretion, based on a designated index.

Commercial real estate and multifamily real estate loan underwriting standards are governed by the loan policies in place at the time the loan is approved. These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Commercial real estate lending typically involves higher loan principal amounts and repayment of these loans is generally largely dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. Commercial real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. The properties securing the Bank's commercial real estate portfolio are diverse in terms of type and geographic location.

Commercial and industrial loans: Commercial and industrial loans are loans, or lines of credit, for commercial, corporate and business purposes, including issuing letters of credit. The Bank's commercial business loan portfolio is comprised of loans for a variety of purposes and generally is secured by receivables, equipment, machinery and other business assets. Commercial business loans generally have terms of 10 years or less and may have interest rates that float in accordance with a designated published index. Substantially all of such loans are secured and backed by the personal guarantees of the owners of the business. Commercial and industrial loans are underwritten after evaluating and understanding the borrower's ability to operate profitably and prudently expand its business. The Bank's management examines current and projected cash flows to determine the ability of the borrower to repay his/her obligations as agreed. Commercial and industrial loans are primarily made based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. The actual cash flows from borrowers, however, may differ from projected amounts and the collateral securing these loans may fluctuate in value.

Allowance for loan losses: The allowance for loan losses ("ALL"), which includes the reserve for unfunded lending commitments, represents management's estimate of probable losses inherent in the Bank's loan portfolio. The allowance for loan losses represents the estimated probable loan losses in funded loans while the liability for loss or unfunded lending commitments, including commercial and standby letters of credit and binding unfunded loan commitments, represents estimated probable credit losses on these unfunded credit instruments based on utilization assumptions. Credit exposures deemed to be uncollectible are charged against these accounts. Cash recovered on previously charged-off amounts are recorded as recoveries to these accounts.

NOTE 1 – Nature of Business and Summary of Significant Accounting Policies (cont.)

The ALL consists of specific reserves on certain impaired loans and general reserves for non-impaired loans. Specific reserves reflect estimated losses based on regular analyses of all impaired non-homogenous loans. These analyses involve a high degree of judgment in estimating the amount of loss associated with specific loans, including estimating the amount and timing of future cash flows and current collateral values. The general reserve is based on the Bank's historical loss experience, which is updated quarterly. The general reserve portion of the ALL also includes consideration of certain qualitative factors such as 1) changes in the nature, volume and terms of loans, 2) changes in lending personnel, 3) changes in the quality of the loan review function, 4) changes in nature and volume of past-due, nonaccrual and/or classified loans, 5) changes in concentration of credit risk, 6) changes in economic and industry conditions, 7) changes in legal and regulatory requirements, 8) unemployment and inflation statistics, and 9) changes in underlying collateral values.

There are many factors affecting the ALL; some are quantitative while others require qualitative judgment. The process for determining the ALL (which management believes adequately considers potential factors which might possibly result in credit losses) includes subjective elements and, therefore, may be susceptible to significant change. To the extent actual outcomes differ from management estimates, additional provision for loan loss could be required that could adversely affect the earnings or financial position in future periods. Allocations of the ALL may be made for specific loans but the entire ALL is available for any loan that, in management's judgment, should be charged-off or for which an actual loss is realized. As an integral part of their examination process, various regulatory agencies review the ALL as well. Such agencies may require that changes in the ALL be recognized when such regulators' credit evaluations differ from those of management based on information available to the regulators at the time of their examinations.

In addition to the allowance for loan losses, the Bank also estimates probable losses related to unfunded lending commitments, such as letters of credit and financial guarantees, and binding unfunded loan commitments. Unfunded lending commitments are subject to individual reviews and are analyzed and segregated by risk according to the Bank's internal risk rating scale. These risk classifications, in conjunction with an analysis of historical loss experience, utilization assumptions, current economic conditions, performance trends within specific portfolio segments and any other pertinent information, result in the estimation of the reserve for unfunded lending commitments.

The allowance for loan losses related to the loan portfolio is netted against loans on the balance sheet whereas the liability for loss for unfunded lending commitments is reported on the balance sheet in interest payable and other liabilities. Provision for loan losses related to the loan portfolio is reported in the statements of operations as the provision for loan losses.

Nonaccrual and past due loans: The Bank generally places loans on nonaccrual status when:

- The full and timely collection of interest or principal becomes uncertain.
- They are 90 days past due for interest or principal, unless both well-secured and in the process of collection.
- Part of the principal balance has been charged off and no restructuring has occurred.

NOTE 1 – Nature of Business and Summary of Significant Accounting Policies (cont.)

When the Bank places a loan on nonaccrual status, the Bank reverses the accrued unpaid interest receivable against interest income and amortization of any net deferred fees is suspended. A loan will remain in accruing status provided it is both well-secured and in the process of collection. If the ultimate collectability of a loan is in doubt and the loan is on nonaccrual, the cost recovery method is used and cash collected is applied to first reduce the principal outstanding. Generally, the Bank returns a loan to accrual status when all delinquent interest and principal become current under the terms of the loan agreement and collectability of remaining principal and interest is no longer doubtful.

For modified loans, the Bank underwrites at the time of a restructuring to determine if there is sufficient evidence of sustained repayment capacity based on the borrower's financial strength, including documented income, debt to income ratios and other factors. If the borrower has demonstrated performance under the previous terms and the underwriting process shows the capacity to continue to perform under the restructured terms, the loan will remain in accruing status. When a loan classified as a troubled debt restructuring (TDR) performs in accordance with its modified terms, the loan either continues to accrue interest (for performing loans) or will return to accrual status after the borrower demonstrates a sustained period of performance (generally six consecutive months of payments, or equivalent, inclusive of consecutive payments made prior to the modification). Loans will be placed on nonaccrual status and a corresponding charge-off is recorded if the Bank believes it is probable that principal and interest contractually due under the modified terms of the agreement will not be collectible.

The Bank's loans are considered past due when contractually required principal or interest payments have not been made on the due dates.

Loan charge-off policies: For commercial loans secured by collateral, the Bank generally fully charges off or writes down to net realizable value when:

- Management judges the loan to be uncollectible.
- Repayment is deemed to be protracted beyond reasonable time frames.
- The loan has been classified as a loss by either the Bank's internal loan review process or the Bank's banking regulatory agencies.
- The customer has filed bankruptcy and the loss becomes evident owing to a lack of assets.
- The loan is 180 days past due unless both well-secured and in the process of collection.

Troubled debt restructuring: In situations where, for economic or legal reasons related to a borrower's financial difficulties, the Bank grants a concession for other than an insignificant period of time or a reduction in interest rate that the Bank would not otherwise consider, the related loan is classified as a TDR. These modified terms may include rate reductions, principal forgiveness, term extensions, payment forbearance and other actions intended to minimize the Bank's economic loss and to avoid foreclosure or repossession of the collateral. For modifications where the Bank forgives principal, the entire amount of such principal forgiveness is immediately charged off. Loans classified as TDRs are considered impaired loans.

NOTE 1 – Nature of Business and Summary of Significant Accounting Policies (cont.)

TDRs are separately identified for impairment disclosures and are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a TDR is considered to be a collateral dependent loan, the loan is reported at the fair value of the collateral. For TDRs that subsequently default, the Bank determines the amount of reserve in accordance with the accounting policy for the allowance for loan losses. A TDR may be accrual or nonaccrual status based on the performance of the borrower and management's assessment of collectability. A TDR on nonaccrual is returned to accrual after performing in accordance with the modified terms for a sufficient period.

Foreclosed assets: Foreclosed assets obtained through the Bank's lending activities primarily include real estate. These assets are recorded at the lower of amortized cost or fair value, net of selling costs with a charge to the allowance for loan losses at foreclosure. The Bank allows up to 90 days after foreclosure to finalize determination of net realizable value. Thereafter, changes in net realizable value are recorded to noninterest expense. The net realizable value of these assets is reviewed and updated periodically depending on the type of property.

Transfers of financial assets: Transfers of financial assets are accounted for as sales only when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when: (1) the assets have been isolated from the Bank, (2) the transferee obtains the right to pledge or exchange the assets it received, and no condition both constrains the transferee from taking advantage of its right to pledge or exchange and provides more than a modest benefit to the transferor, and (3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets. In addition, for transfers of a portion of financial assets (for example, participations of loan receivables), the transfer must meet the definition of a participating interest in order to account for the transfer as a sale.

Following are the characteristics of a participating interest:

- Pro rata ownership in an entire financial asset.
- From the date of the transfer, all cash flows received from entire financial assets are divided proportionately among the participating interest holders in an amount equal to their share of ownership.
- The rights of each participating interest holder have the same priority, and no participating interest holder's interest is subordinated to the interest of another participating interest holder. That is, no participating interest holder is entitled to receive cash before any other participating interest holder under its contractual rights as a participating interest holder.
- No party has the right to pledge or exchange the entire financial asset unless all participating interest holders agree to pledge or exchange the entire financial asset.

Other off-balance-sheet instruments: In the ordinary course of business, the Bank enters into off-balance-sheet financial instruments consisting of commitments to extend credit, commercial letters of credit and standby letters of credit. Such financial instruments are recorded in the financial statements when they are funded.

NOTE 1 – Nature of Business and Summary of Significant Accounting Policies (cont.)

Fair value: Under applicable accounting guidance, fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The Bank determines the fair values of its financial instruments based on the fair value hierarchy established under applicable accounting guidance, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value

The Bank categorizes its assets that are carried at fair value based on the priority of inputs to the valuation technique as discussed below.

The following describes the three-level hierarchy:

- Level 1: Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities and derivative contracts that are traded in an active exchange market, as well as certain U.S. Treasury securities that are highly liquid and are actively traded in over-the-counter markets.

- Level 2: Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities less frequently than exchange-traded. Instruments and derivative contracts whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data.

  This category generally includes U.S. government and agency mortgage-backed debt securities, corporate debt securities and derivative contracts.

- Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

For more information on the fair value of the Bank's financial instruments see Note 13.

Furniture, fixtures and equipment: Furniture, fixtures and equipment are stated at cost, less accumulated depreciation. Depreciation is computed on a straight-line basis over the estimated useful lives of the respective assets or the lesser of the term of the lease, for leasehold improvements. Upon sale or retirement of such assets, the related cost and accumulated depreciation are eliminated from the accounts and gains or losses are reflected in operations. Repairs and maintenance expenditures not anticipated to extend asset lives are charged to operations as incurred.

NOTE 1 – Nature of Business and Summary of Significant Accounting Policies (cont.)

Income taxes: The Bank determines income tax expense using the liability method. Current income tax expense approximates taxes to be paid or refunded for the current period. Deferred tax assets and liabilities are based on the tax effects of the differences between the book and tax bases of assets and liabilities, and recognizes enacted changes in tax rates and laws in the period in which they occur. Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are recognized subject to management's judgment that realization is more likely than not. A tax position that meets the "more likely than not" recognition threshold is measured to determine the amount of benefit to recognize. The tax position is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon settlement. Interest and penalties are recognized as a component of income tax expense.

The Bank is no longer subject to U.S. Federal income tax examinations by the Internal Revenue Service for years before March 31, 2012. However, the Bank's Federal income tax returns for 2013 to 2016 are subject to examination by the IRS, generally for three years after they were filed.

Prior to 2014, the Bank determined its California franchise tax using the Water's Edge Method based on a proportionate share of combined U.S. income with the Parent Bank and, accordingly, was different than that based on the Bank's stand-alone taxable income or taxable loss. In January 2014, a tax sharing agreement was approved by the Reserve Bank of India. The tax sharing agreement was approved by the Parent Bank and the Bank in February 2014. Under the tax sharing agreement, and as required by banking regulations for transactions with affiliated parties, the Bank's California franchise tax is to be computed under both the Water's Edge Method and a stand-alone basis, with the Bank's liability being the lesser of the two amounts.

The Bank regularly reviews the carrying amount of its deferred income tax assets to determine if the establishment of a valuation allowance is necessary. If based on the available evidence it is more likely than not that all or a portion of the Bank's deferred income tax assets will not be realized in future periods, a deferred income tax valuation allowance would be established. Consideration is given to various positive and negative factors that could affect the realization of the deferred income tax assets. In evaluating this available evidence, management considers, among other things, historical financial performance, expectation of future earnings, the ability to carry back losses to recoup taxes previously paid, length of statutory carry forward periods, experience with operating loss and tax credit carry forwards not expiring unused, tax planning strategies and timing of reversals of temporary differences. Significant judgment is required in assessing future trends and the timing of reversals of temporary differences. The Bank's evaluation is based on current tax laws as well as management's expectations of future performance.

The Bank is subject to the income tax laws of the U.S., its states and municipalities. These tax laws are complex and subject to different interpretations by the taxpayer and the relevant governmental taxing authorities. The accounting guidance for income taxes prescribes a comprehensive model for how Bank's should recognize, measure, present, and disclose in their financial statements uncertain tax positions taken or expected to be taken on a tax return. Under the guidance, tax positions shall initially be recognized in the financial statements when it is more likely than not the position will be sustained upon the examination by the tax authorities. Such tax positions shall initially and subsequently be measured as the largest amount of tax benefit that is greater than 50% likelety to be realized upon ultimate settlement with the tax authority assuming full knowledge of the position and all relevant facts. Interest and penalites related to income tax expense are recorded as income tax expense, net of federal and state tax benefit, when the amounts can be reasonably determined.

NOTE 1 – Nature of Business and Summary of Significant Accounting Policies (cont.)

Comprehensive income: GAAP requires that recognized revenue, expenses, gains and losses be included in net income.

Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the equity section of the balance sheets, such items, along with net income or loss, are components of comprehensive income. Gains and losses on available-for-sale securities are included in earnings upon sale of the securities. Other-than-temporary impairment charges due to credit losses are included in earnings at the time of the charge.

Currency transactions: In the ordinary course of business, the Bank enters into foreign currency transactions, specifically the purchase and sale of Indian currency known as Rupees. Rupees are recorded at cost in the financial statements at the time of purchase. Realized gains and losses are recognized at the prevailing market exchange rate on a weekly or monthly basis.

Impairment of long-lived assets and intangibles: The Bank reviews its long-lived assets for impairment annually or when events or circumstances indicate that the carrying amount of these assets may not be recoverable. An asset is considered impaired when the expected undiscounted cash flows over the remaining useful life are less than the net book value. When impairment is indicated for an asset, the amount of impairment loss is the excess of the net book value over its fair value.

Advertising: Advertising costs are expensed as of the first date the advertisements take place. For the years ended March 31, 2016 and 2015, advertising expenses included in non-interest expense approximated $120,753 and $101,497, respectively.

Reclassifications: Certain amounts previously reported have been reclassified to conform with the current presentation.

Recent Accounting Pronouncements: In December 2012, the FASB issued a proposed ASU, Financial Instruments – Credit Losses (Subtopic 825-15). The final publication of the rule is expected to be issued by the FASB in 2016. In its proposed ASU, the FASB sets forth a “current expected credit loss” (“CECL”) model. The CECL model uses a single “expected credit loss” measurement objective for the allowance for credit loss. Under this model, the allowance for expected credit losses would reflect management’s current estimate of the contractual cash flows that the company does not expect to collect, based on its assessment of credit risk as of the reporting date. Under the CECL model, the estimate of expected credit losses must reflect both the possibility that a credit loss results and the possibility that no credit loss results. The proposed amendments of the CECL model would broaden the information an organization is required to consider in developing its credit loss estimate. Specifically, the proposed amendments would require that its estimate be based on relevant information about past events, current conditions, and reasonable and supportable forecasts that affect the expected collectability of the financial assets’ remaining contractual cash flows. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. Management is currently evaluating the impact this guidance will have on the Company’s financial condition and results of operations.

NOTE 1 – Nature of Business and Summary of Significant Accounting Policies (cont.)

In February 2016, the FASB issued ASU 2016-02, “Leases (Topic 842).” The amendments in this update increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The amendments permit lessee’s to make an accounting policy election by class of underlying assets not to recognize lease assets and lease liabilities. For finance leases, the amendments in this update require a lessee to 1) recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, on the balance sheet; 2) recognize interest on the lease liability separately from amortization of the right-of-use asset in the statement of comprehensive income; 3) classify repayments of the principal portion of the lease liability within financing activities and payments of interest on the lease liability and variable lease payments within operating activities in the statement of cash flows. For operating leases, the amendments in this update require a lessee to 1) recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, on the balance sheet; 2) recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term on a generally straight-line basis; 3) classify all cash payments within operating activities in the statement of cash flows. The amendments are effective for fiscal years beginning after December 15, 2018 and for interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. Management is currently evaluating the impact this guidance will have on the financial condition, results of operations or liquidity of the Bank.

In January 2015, the FASB issued ASU No. 2015-01 “Income Statement - Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items”. The amendment eliminates from U.S. GAAP the concept of extraordinary items. Subtopic 225-20, Income Statement – Extraordinary and Unusual Items, required that an entity separately classify, present, and disclose extraordinary events and transactions. Presently, an event or transaction is presumed to be an ordinary and usual activity of the reporting entity unless evidence clearly supports its classification as an extraordinary item. If an event or transaction meets the criteria for extraordinary classification, an entity is required to segregate the extraordinary item from the results of ordinary operations and show the item separately in the income statement, net of tax, after income from continuing operations. The entity also is required to disclose applicable income taxes and either present or disclose earnings-per-share data applicable to the extraordinary item. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. A reporting entity may apply the amendments prospectively or retrospectively to all prior periods presented in the financial statements. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. The adoption of this guidance is not expected to have a material impact on the financial condition, results of operations or liquidity of the Bank.

NOTE 2 – Securities Available for Sale

The amortized cost and fair value of securities available for sale are summarized as follows at March 31:

	2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government agency collateralized mortgage obligations and mortgage-backed securities, residential	$ 90,942,159	$ 611,525	$ (245,172)	$ 91,308,512
U.S. Treasury securities	5,313,081	128,119	-	5,441,200
SBA Pool Securities	4,564,919	18,484	(8,068)	4,575,335
Municipal bonds	548,429	16,270	-	564,699
	$ 101,368,588	$ 774,398	$ (253,240)	$ 101,889,746

	2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government agency collateralized mortgage obligations and mortgage-backed securities, residential	$ 109,536,090	$ 529,577	$ (556,828)	$ 109,508,839
U.S. Treasury securities	5,402,615	96,235	-	5,498,849
SBA Pool Securities	5,882,575	43,767	-	5,926,342
Municipal bonds	2,406,482	52,054	-	2,458,536
	$ 123,227,762	$ 721,632	$ (556,828)	$ 123,392,566

For the years ended March 31, 2016 and 2015, the realized gains aggregated $20,718 and $0, respectively. There were no losses on sales of securities during the years ended March 31, 2016 and 2015.

NOTE 2 – Securities Available for Sale (cont.)

The amortized cost and fair value of securities at March 31, 2016 and 2015, by contractual maturity, are shown below. Given certain interest rate environments, some or all of these securities may be called by their issuers prior to the scheduled maturities. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Therefore, mortgage-backed securities and collateralized mortgage obligations are not included in the maturity categories in the following maturity summary:

As of March 31, 2016	Amortized Cost	Fair Value
Due after five years through ten years	$ 2,504,345	$ 2,522,828
Due after ten years	2,609,004	2,617,206
U.S. Treasury securities	5,313,081	5,441,200
U.S. government agency collateralized mortgage obligations and mortgage-backed securities	90,942,158	91,308,512
	$ 101,368,588	$ 101,889,746

As of March 31, 2015	Amortized Cost	Fair Value
Due after ten years	$ 8,289,057	$ 8,384,878
U.S. Treasury securities	5,402,615	5,498,849
U.S. government agency collateralized mortgage obligations and mortgage-backed securities	109,536,090	109,508,839
	$ 123,227,762	$ 123,392,566

Unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous loss position, are as follows at March 31:

2016	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
US Government Agency collaterized mortgage obligations and mortgage-backed securities	$ 4,136,087	$ (6,522)	$ 31,075,154	$ (238,650)	$ 35,211,241	$ (245,172)
SBA Pool Securities	2,052,506	(8,068)	-	-	2,052,506	(8,068)
	$ 6,188,593	$ (14,590)	$ 31,075,154	$ (238,650)	$ 37,263,747	$ (253,240)

2015	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
US Government Agency collaterized mortgage obligations and mortgage-backed securities	$ 21,066,171	$ (157,834)	$ 38,454,871	$ (398,994)	$ 59,521,042	$ (556,828)
	$ 21,066,171	$ (157,834)	$ 38,454,871	$ (398,994)	$ 59,521,042	$ (556,828)

NOTE 2 – Securities Available for Sale (cont.)

For all of the investment securities, the unrealized losses relate principally to the general change in interest rate levels that have occurred since the securities' purchase dates and such unrecognized losses or gains will continue to vary with general interest rate level fluctuations in the future. At March 31, 2016 and 2015, 16 and 15 securities, respectively, have been in a continuous loss position for over twelve months. Management does not have the intent to sell and has determined it is unlikely the Bank will be required to sell the securities before anticipated recovery; therefore, no declines are deemed to be other than temporary.

Securities available for sale of $564,699 and $92,567,184 were pledged to state and municipal account holders against deposits maintained at the Bank at March 31, 2016 and 2015, respectively.

NOTE 3 – Loans and Allowance for Loan Losses

The following table presents total loans outstanding by portfolio segment and class of financing receivable at March 31:

	2016	2015
Commercial and industrial	$ 147,365,654	$ 188,938,590
Commercial real estate	377,418,325	354,955,688
Others	6,171	83,297
	524,790,150	543,977,575
Less net deferred loan origination fees	803,328	835,730
	523,986,822	543,141,845
Less allowance for loan losses	9,019,474	8,195,220
Loans, net	$ 514,967,348	$ 534,946,625

The Bank pledges loans to secure borrowings from the Federal Home Loan Bank of San Francisco (FHLB) as part of the Bank's liquidity management strategy. Loans pledged approximated $381.4 million and $380.5 million at March 31, 2016 and 2015, respectively.

At March 31, 2016 and 2015, the Bank has concentrations representing 10 percent or more of the total loan portfolio in Commercial Real Estate comprised 72% and 66% of total gross loans as of March 31, 2016 and 2015, respectively. Hotel loans represent 33% of total gross loans as of March 31, 2016 and 2015, respectively.

NOTE 3 – Loans and Allowance for Loan Losses (cont.)

The following tables present a rollforward of the allowance for loan loss by portfolio segment and class and by evaluation method at March 31:

March 31, 2016

Allowance for loan losses	Commercial	Commercial Real Estate	Others	Total Allowance for Loan Losses
Beginning balance	$ 4,265,508	$ 3,929,712	$ -	$ 8,195,220
Charge-offs	(1,232,147)	(2,968,672)	-	(4,200,819)
Recoveries	79,501	730,572	-	810,073
Provision	(763,782)	4,978,782	-	4,215,000
Ending balance	$ 2,349,080	$ 6,670,394	$ -	$ 9,019,474
Individually evaluated for impairment	$ -	$ 111,191	$ -	$ 111,191
Collectively evaluated for impairment	2,349,080	6,559,203	-	8,908,283
	$ 2,349,080	$ 6,670,394	$ -	$ 9,019,474

March 31, 2016

Loans	Commercial	Commercial Real Estate	Others	Total Loans
Individually evaluated for impairment	$ 2,566,082	$ 12,561,730	$ -	$ 15,127,812
Collectively evaluated for impairment	144,799,572	364,856,595	6,171	509,662,338
Ending balance	$ 147,365,654	$ 377,418,325	$ 6,171	$ 524,790,150

March 31, 2015

Allowance for loan losses	Commercial	Commercial Real Estate	Others	Total Allowance for Loan Losses
Beginning balance	$ 2,651,178	$ 8,673,085	$ (43,810)	$ 11,280,453
Charge-offs	(3,755,384)	(2,720,500)	-	(6,475,884)
Recoveries	(147,437)	498,269	-	350,832
Provision	5,517,151	(2,521,142)	43,810	3,039,819
Ending balance	$ 4,265,508	$ 3,929,712	$ -	$ 8,195,220
Individually evaluated for impairment	$ 211,480	$ 676,036	$ -	$ 887,516
Collectively evaluated for impairment	4,054,028	3,253,676	-	$ 7,307,704
	$ 4,265,508	$ 3,929,712	$ -	$ 8,195,220

March 31, 2015

Loans	Commercial	Commercial Real Estate	Others	Total Loans
Individually evaluated for impairment	$ 943,067	$ 15,847,184	$ -	$ 16,790,251
Collectively evaluated for impairment	187,995,523	339,108,504	83,297	527,187,324
Ending balance	$ 188,938,590	$ 354,955,688	$ 83,297	$ 543,977,575

NOTE 3 – Loans and Allowance for Loan Losses (cont.)

Credit quality: The Bank monitors credit quality as indicated by evaluating various attributes and utilizes such information in the evaluation of the adequacy of the allowance for loan losses. Commercial loans are subject to individual risk assessment using internal borrower and collateral quality ratings. The Bank's ratings are aligned to Pass and Criticized categories. The Criticized category includes Special Mention, Substandard, Doubtful and Loss categories which are defined by banking regulatory agencies. These categories are described below:

Pass: A pass asset is well protected by the current worth and paying capacity of the obligator (or guarantors, if any) and by the fair value, less cost to acquire and sell, of any underlying collateral in a timely manner. Pass assets may also include certain assets considered Watch, which are still protected by the worth and paying capacity of the borrower but deserve closer attention and a higher level of credit monitoring due to deteriorated cash flow, global cash flow, liquidity and/or collateral conditions. Included in the Pass grading are exceptional assets. An exceptional asset is a loan that meets at least three of the following: (1) the loan balance is secured by verified and pledged cash or cash equivalent: (2) the cash flow and/or liquidity of the borrower has been verified and is in excess of Bank policy; (3) the collateral value represents less than 50 percent loan to value; (4) historic loss experience is at zero.

Special Mention: A special mention asset is an asset that may have potential weaknesses or weaknesses are not yet fully known and requires management immediate determination. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or in the Bank's credit position at some future date. While a higher level of loss reserves may be established, Special Mention loans are not adversely classified and do not expose the Bank to sufficient risk to warrant adverse classification. Credits in this category display some potential weakness that merits further monitoring. The credit risk is relatively minor yet constitutes an unwarranted risk.

Substandard: A substandard asset is an asset that is inadequately protected by the current sound worth and paying capacity of the obligor and/or of the collateral pledged, if any. Substandard credits have well-defined weaknesses that may jeopardize the liquidation or timely collection of the debt. There has generally been a material deterioration in the financial condition (cash flow) from the collateral, global cash flow that includes the collateral, the borrower, the guarantor(s) and may include deterioration of the collateral value. Substandard credits have a distinct possibility of loss if the deficiencies are not corrected. Although there may not be a specific potential loss apparent in any particular substandard credit, the Bank expects to suffer some loss on the overall portfolio of substandard loans.

Doubtful: A doubtful asset is an asset with the same characteristics as substandard credits, but those weaknesses are well defined (but not yet fully quantified) and more severe than a substandard risk graded loan that, based on current information available, collection or liquidation in full is highly improbable. The Bank must expect that interest income will be lost as well as some portion of principal repayment. All loans classified doubtful are to be placed on nonaccrual status. Doubtful credits have a high probability of loss, but because there is a reasonable expectation that certain events may occur within an acceptable time period (not to exceed one year) that will cure the default, a classification of Loss is deferred until its more exact status may be determined.

Loss: An asset, or portion thereof, classified as Loss is considered uncollectible and of such little value that its continuance on the Bank's books as an asset is not warranted. This does not mean that they have no recovery value. Recovery, if any, may be long-term in nature and, therefore, it is not practical or desirable to defer writing off the asset. This classification is based upon current facts, not probabilities. Loans that are classified Loss are to be charged off. Therefore, there is no balance to report at March 31, 2016 and 2015.

NOTE 3 – Loans and Allowance for Loan Losses (cont.)

Consumer loans are assessed for credit quality based on the contractual aging status of the loan and payment activity. Such assessment is completed at the end of each reporting period.

The following table provides a breakdown of outstanding loans by risk category:

2016

	Commercial and industrial	Commercial Real Estate	Other	Total
Grade:				
Pass	$ 132,575,038	$ 335,613,410	$ 6,171	$ 468,194,619
Watch	3,550,756	17,436,755	-	20,987,511
Special mention	4,873,150	7,529,736	-	12,402,886
Substandard	6,366,710	16,404,832	-	22,771,542
Doubtful	-	433,592	-	433,592
	$ 147,365,654	$ 377,418,325	$ 6,171	$ 524,790,150

2015

	Commercial and industrial	Commercial Real Estate	Other	Total
Grade:				
Grade:				
Pass	$ 181,756,671	$ 313,558,981	$ 83,297	$ 495,398,949
Watch	-	12,852,229	-	12,852,229
Special mention	943,670	6,923,644	-	7,867,314
Substandard	6,238,249	21,620,834	-	27,859,083
Doubtful	-	-	-	-
	$ 188,938,590	$ 354,955,688	$ 83,297	$ 543,977,575

STATE BANK OF INDIA (CALIFORNIA)

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended March 31, 2016 and 2015

NOTE 3 – Loans and Allowance for Loan Losses (cont.)

The following table provides a breakdown of outstanding commercial loans by delinquency status at March 31:

	2016						
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans	Recorded Investment Greater Than 90 Days and Accruing
Commercial and other industrial	$ -	$ -	$ 3,854,872	$ 3,854,872	$ 143,510,782	$ 147,365,654	$ 3,854,872
Commercial real estate	-	-	8,909,619	8,909,619	368,508,706	377,418,325	399,596
Other	-	-		-	6,171	6,171	-
	$ -	$ -	$ 12,764,491	$ 12,764,491	$ 512,025,659	$ 524,790,150	$ 4,254,468

	2015						
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans	Recorded Investment Greater Than 90 Days and Accruing
Commercial and industrial	$ -	$ -	$ 669,724	$ 669,724	$ 188,268,866	$ 186,676,030	$ -
Commercial real estate	-	-	8,414,820	8,414,820	346,540,868	357,218,248	-
Other	-	-	-	-	83,297	83,297	-
	$ -	$ -	$ 9,084,544	$ 9,084,544	$ 534,893,031	$ 543,977,575	$ -

Nonperforming loans as of March 31,

	2016	2015
Nonaccrual loans other than trouble debt restructurings	$ 12,222,427	$ 7,089,491
Nonaccrual loans restructured in a troubled debt restructuring	2,675,385	1,995,053
Total nonperforming loans	$ 14,897,812	$ 9,084,544
Retructuring loans, accruing	$ 230,000	$ 7,432,365

NOTE 3 – Loans and Allowance for Loan Losses (cont.)

The Bank has two loans with a recorded investment of $4.3 million that are 90 days or more past due and still accruing due to the loans being past their contractual maturity dates and the borrower continues to make payments. The following table presents the loans on non-accrual status at March 31:

	2016	2015
Commercial	$ 2,336,082	$ 669,724
Commercial real estate, other	12,561,730	8,414,820
	$ 14,897,812	$ 9,084,544
Interest income not recognized	$ 1,997,043	$ 1,613,702

Impaired loans: The Bank's impaired loans include loans on nonaccrual status and loans modified in a TDR, whether on accrual or nonaccrual status. The Bank is not committed to lend additional funds to debtors whose loans have been modified. The following table presents the outstanding loans which were modified under TDR at March 31:

	2016		
	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial real estate	2	$ 8,478,574	$ 2,675,385
Commercial	1	230,000	230,000
	3	$ 8,708,574	$ 2,905,385

	2015		
	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial real estate	3	$ 14,577,400	$ 9,427,418
	3	$ 14,577,400	$ 9,427,418

NOTE 3 – Loans and Allowance for Loan Losses (cont.)

The table below presents a summary of the post-modification balance of loans restructured during the twelve months ended March 31:

	2016			
	Total Count	Balance	Count	Reduction of Interest Rate
Commercial	1	$ 230,000	1	$ 230,000

	2015			
	Total Count	Balance	Count	Reduction of Interest Rate
Commercial real estate	1	$ 1,731,991	1	$ 1,731,991

The following table presents the outstanding loans which were considered impaired, including modified loans at March 31. These impaired loans may have estimated impairment, which is included in the allowance for loan losses.

	2016		
	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
Commercial real estate	$ 18,953,464	$ 12,561,730	$ 111,191
Commercial	2,566,082	2,566,082	-
	$ 21,519,546	$ 15,127,812	$ 111,191

	2015		
	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
Commercial real estate	$ 20,795,037	$ 15,847,184	$ 676,036
Commercial	3,663,567	943,067	211,480
	$ 24,458,604	$ 16,790,251	$ 887,516

Average impaired loans outstanding during March 31, 2016 and 2015 totaled $17.660 million and $12.033 million, respectively. There was no interest income recognized on a cash basis on impaired loans during the years ended March 31, 2016 and 2015.

NOTE 4 – Furniture, Fixtures and Equipment

Furniture, fixtures and equipment is summarized as follows at March 31:

	2016	2015
Furniture and fixtures	$ 935,119	$ 852,086
Leasehold improvements	3,035,474	3,538,145
Equipment	803,262	781,815
Software	1,161,090	1,136,331
Computer hardware	1,080,393	628,545
	7,015,338	6,936,922
Less accumulated depreciation and amortization	5,622,100	4,677,163
	$ 1,393,238	$ 2,259,759

Depreciation expense for the years ended March 31, 2016 and 2015 was $964,521 and $715,169, respectively.

NOTE 5 – Deposits

Deposits consist of the following at March 31:

	2016	2015
Noninterest bearing demand	$ 64,302,254	$ 56,596,913
Savings	25,767,624	26,926,613
Money market	166,923,070	138,988,256
Negotiable order of withdrawal (NOW)	6,086,425	6,331,711
Certificates of deposit of $250,000 or more	63,662,177	159,759,067
Certificates of deposit under $250,000	167,768,804	160,802,170
	$ 494,510,354	$ 549,404,730

As of March 31, 2016, the Bank had deposits from a single entity totaling $33.556 million, which were in excess of 5% of total deposits. As of March 31, 2015, the Bank had deposits from two entities each in excess of 5% of total deposits, for a combined total of $110.315 million.

NOTE 5 – Deposits (cont.)

The scheduled maturities of certificates of deposit, including brokered deposits, are as follows at March 31:

	2016	2015
Three months or less	$ 49,277,875	$ 84,685,713
Over three months through one year	119,255,961	127,351,667
Over one year through three years	56,762,906	82,971,957
Over three years	6,134,239	25,551,900
	$ 231,430,981	$ 320,561,237

At March 31, 2016 and 2015, the Bank's brokered deposits totaled $489,000 and $738,000, respectively.

NOTE 6 – Income Taxes

The provision for income tax expense (benefit) is based on income reported for financial statement purposes, adjusted for permanent differences between reported financial and taxable income. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

The provision for income tax expense (benefit) is summarized as follows at March 31:

	2016	2015
Current:		
Federal	$ 1,254,528	$ (1,311,108)
State	(126,271)	(287,804)
Total current	1,128,257	(1,598,912)
Deferred:		
Federal	(2,033,884)	-
State	(211,644)	-
Total deferred	(2,245,528)	-
Valuation allowance	9,177,000	-
Total income tax expense (benefit)	$ 8,059,729	$ (1,598,912)

NOTE 6 – Income Taxes (cont.)

The components of the net deferred tax assets are as follows at March 31:

	2016	2015
Deferred tax assets:		
Allowance for loan losses	$ 3,712,000	$ 4,642,000
Net operation loss	3,978,000	-
Foreclosed asset valuation allowance	-	1,770,000
Depreciation	546,000	1,000
Vacation accrual	198,000	129,000
State franchise tax	-	43,000
Other Accruals	845,000	1,521,472
Total deferred tax assets	9,279,000	8,106,472
Deferred tax liabilities:		
Unrealized gain or securities available for sale	-	(65,922)
FHLB stock dividends	(59,000)	(69,000)
State franchise tax	(43,000)	-
Federal benefit of California state tax	-	(1,152,000)
Deferred loan interest	-	46,000
Total deferred tax liabilities	(102,000)	(1,240,922)
Net deferred tax asset	9,177,000	6,865,550
Valuation allowance	(9,177,000)	-
	$ -	$ 6,865,550

Differences between income tax expense at statutory federal tax rates and the effective income tax rate in the accompanying financial statements are primarily a result of the provision of a full valuation allowance against the net deferred tax asset and California Franchise Taxes, as determined under the Unitary Tax Method.

The Bank regularly reviews the carrying amount of its deferred tax assets to determine if the establishment of a valuation allowance is necessary. If based on the available evidence, it is more likely than not that all or a portion of the Bank's deferred tax assets will not be realized in future periods, a deferred tax valuation allowance would be established. Consideration is given to all positive and negative evidence related to the realization of the deferred tax assets.

In evaluating this available evidence, management considers, among other things, historical financial performance, expectation of future earnings, the ability to carry back losses to recoup taxes previously paid, length of statutory carry forward periods, experience with operating loss and tax credit carry forwards not expiring unused, tax planning strategies and timing of reversals of temporary differences. Significant judgment is required in assessing future earnings trends and the timing of reversals of temporary differences. The Bank's evaluation is based on current tax laws as well as management's expectations of future performance.

NOTE 6 – Income Taxes (cont.)

In particular, additional scrutiny must be given to deferred tax assets of an entity that has incurred pre-tax losses during the most recent years because it is significant negative evidence that is objective and verifiable and therefore difficult to overcome. The Bank had pre-tax losses for 2016 and 2015, and the Bank's management considered this factor in its analysis of deferred tax assets. As a result the Bank recorded a $9,177,000 valuation allowance against its net deferred tax assets.

NOTE 7 – Commitment and Contingencies

Financial instruments with off-balance-sheet risk: In the normal course of business, the Bank enters into financial commitments to meet the financing needs of its customers. These financial commitments include commitments to extend credit, standby letters of credit and commercial letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk not recognized in the Bank's financial statements.

The Bank's exposure to loan loss in the event of nonperformance on commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments as it does for loans.

The Bank has loan commitments outstanding as follows at March 31:

	2016	2015
Loans	$ 13,144,369	$ 26,153,153
Standby letters of credit	$ 2,070,492	$ 1,987,530
Commercial letters of credit	$ 1,363,326	$ 3,601,544

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. Standby letters of credit are conditional commitments to guarantee the performance of a Bank customer to a third party. Since some of the commitments and standby letters of credit are expected to expire without being drawn upon, the total amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank, is based on management's credit evaluation of the customer. The majority of the Bank's commitments to extend credit are secured by UCC filings and the majority of standby letters of credit are secured by certificates of deposit.

Lease commitments: Branch premises are leased from unaffiliated parties under various leases, expiring through August 2022. The terms of the lease agreements also require the payment of various expenses incidental to the use of the premises. Rent expense under these leases aggregated $2,142,240 and $1,829,999 for the years ended March 31, 2016 and 2015, respectively.

NOTE 7 – Commitment and Contingencies (cont.)

The Bank leases equipment under noncancelable operating leases expiring through August 2023. The terms of the lease agreements require the payment of various expenses incidental to the use of the equipment. Lease expense charged to operations for the year ended March 31, 2016 and 2015 was $101,972 and $124,605, respectively.

For the years ending March 31, the future minimum rental commitments under noncancelable operating leases are as follows:

Years Ending March 31,	Premises	Residental	Equipment	Total
2017	$ 1,368,492	$ 344,045	$ 56,604	$ 1,769,141
2018	1,163,428	-	43,788	1,207,216
2019	1,342,331	-	35,358	1,377,689
2020	1,287,084	-	21,736	1,308,820
2021	1,146,965	-	-	1,146,965
Thereafter	1,485,935	-	-	1,485,935
	$ 7,794,235	$ 344,045	$ 157,486	$ 8,295,766

Contingencies: In the normal course of business, the Bank is involved in various legal proceedings. In the opinion of management, any liability resulting from such proceedings will not have a material effect on the Bank's financial statements.

NOTE 8 – Transactions with Parent/Related Party

The Bank had the following assets and liabilities resulting from transactions with the Parent Bank and its affiliates at March 31:

	2016	2015
Foreign curency purchases	$ 160,953,617	$ 206,387,634
Liabilities, demand deposit, noninterest bearing deposits with parent	$ 1,811,149	$ 3,096,840

To facilitate foreign currency transactions with its customers, the Bank purchases foreign currency from the Parent Bank. These purchases are at market rates and terms.

As discussed in Note 1, the Bank entered into a tax sharing agreement with the Parent Bank in February 2014. The impact of the tax sharing agreement is reflected in the Bank's tax expense for the years ended March 31, 2015 and 2016.

For the years ended March 31, 2016 and 2015, the Bank recognized management fees of $11,000 and $100,000, respectively, representing certain shared expenses with its Parent Bank.

NOTE 9 – Federal Home Loan Bank Advances

At March 31, 2016, the Bank, under the FHLB's blanket lien pledging option, pledged eligible debt securities and mortgage loans as collateral to provide for borrowing capacity. As of March 31, 2016 and 2015, the FHLB advances aggregated $38,000,000 and $50,000,000, respectively. The eligible loan types to secure advances are first mortgages on multi-family residences and commercial properties. The Bank's borrowing capacity from the FHLB is up to 25 percent of its assets. At March 31, 2016, the FHLB advance is fully secured and bears interest at 0.42 percent and matures April 2016 and continues to be renewed on a short-term basis thereafter.

NOTE 10 – Foreign Currency Transactions

The Bank enters into foreign currency exchange transactions to purchase Indian Rupees for its customers on a regular basis. The Bank has both long and short exposure in its foreign exchange transactions depending on the Bank's foreign currency position at the end of any accounting period. Long exposure indicates the Bank has foreign currency in excess of its needs, while a short exposure indicates the Bank requires additional foreign currency to meet its needs. The Bank is exposed to market risk as foreign currency exchange rates may fluctuate. Management attempts to minimize this risk through internal policies related to the maximum amount of exposure that can exist on any given day. The Bank does not enter into hedge contracts to reduce foreign currency exposure. At March 31, 2016 and 2015, the Bank's short exposure related to Indian Rupees was $(2,076,936) and $(352,474), respectively. For financial statement purposes, foreign currency liability is included in non-interest-bearing demand deposits.

Realized gains from foreign currency transactions are included in non-interest income and amounted to $1,375,721 and $2,050,812 for the years ended March 31, 2016 and 2015, respectively.

NOTE 11 – Regulatory Matters

The Bank is 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 the regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weighting and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table that follows) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of March 31, 2016, that the Bank meets all capital adequacy requirements to which it is subject.

As of June 2013, the most recent notification from the California State Department of Banking Operations (CADBO) categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the table.

NOTE 11 – Regulatory Matters (cont.)

The Bank's actual and required capital amounts and ratios are presented below as of March 31 (dollar amounts in thousands):

	2016					
	Actual		For Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital, to risk-weighted assets	$ 120,607,721	22.71%	$ 42,479,440	≥8%	$ 53,099,300	≥10%
Tier 1 capital, to risk-weighted assets	$ 113,940,721	21.46%	$ 31,859,580	≥6%	$ 42,479,440	≥8%
Tier 1 capital, to average assets	$ 113,940,721	16.96%	$ 26,871,360	≥4%	$ 33,589,200	≥5%
Common equity tier 1 capital, to risk-weighted assets	$ 113,940,721	21.46%	$ 23,894,685	≥4.5%	$ 34,514,545	≥6.5%

	2015					
	Actual		For Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital, to risk-weighted assets	$ 124,138,125	22.11%	$ 44,908,640	≥8%	$ 56,135,800	≥10%
Tier 1 capital, to risk-weighted assets	$ 117,056,125	20.85%	$ 33,681,480	≥6%	$ 44,908,640	≥8%
Tier 1 capital, to average assets	$ 117,056,125	16.98%	$ 27,578,000	≥4%	$ 34,472,500	≥5%
Common equity tier 1 capital, to risk-weighted assets	$ 117,056,125	20.85%	$ 25,261,110	≥4.5%	$ 36,488,270	≥6.5%

Dividends paid by the Bank are subject to various State of California regulatory limitations. Dividends that may be paid by the Bank without the express approval of the Commissioner of the Department of Financial Institutions, are limited to:

- 35 percent of the net income of the Bank for the year to which the dividend payment relates to;
- The retained earnings of the Bank; or
- The net income of the Bank for its last three fiscal years, less the amount of any distributions made by the Bank during such period.

The Bank paid no dividends for the years ended March 31, 2016 and 2015.

On March 6, 2013, the Board of Directors of the Bank executed a Stipulation and Consent to the Issuance of an Amended Consent Order ("Consent Order"), jointly issued by the Federal Deposit Insurance Corporation (FDIC) and California Department of Business Oversight (CADBO).Pursuant to the Consent Order, the Bank has taken certain actions to address issues identified by the FDIC and CADBO.

NOTE 11 – Regulatory Matters (cont.)

The Consent Order requires the Bank to, among other things, (i) retain qualified management; (ii) obtain an independent study of management; (iii) increase Board oversight; (iv) eliminate all loans classified "Loss"; (v) reduce adversely classified assets that have not previously been charged off, to not more than 30 percent of the Bank's Tier 1 Capital and allowance for loan and lease losses; (vi) not extend, directly or indirectly, any additional credit to, or for the benefit of, any borrower who has a loan or other extension of credit from the Bank that has been charged-off or classified, in whole or in part, "Doubtful", "Substandard" or "Loss" and is uncollected; (vii) develop a written plan, approved by the Board, for systematically reducing the level of nonperforming assets and/or assets listed on the Bank's watch list to an acceptable level; (viii) develop or revise, adopt, and implement a written plan addressing retention of profits, and setting forth a comprehensive budget covering the period January 2013 to December 2016; (ix) develop, adopt and implement policies and procedures to address the credit administration deficiencies identified; (x) establish a satisfactory audit program; (xi) develop or revise, adopt, and implement a policy for the operation of the Bank in such a manner as to provide adequate internal routine and control policies consistent with safe and sound banking practices; (xii) develop or revise, adopt, and implement a written policy governing transactions between the Bank and affiliates; (xiii) file with the FDIC Reports of Condition and Income which accurately reflect the financial condition of the Bank as of the end of the period for which the reports are filed; (xiv) comply in all material respects with the BSA and its rules and regulations; (xv) develop, adopt, and implement a written compliance program; and (xvi) ensure that its Bank Secrecy Act ("BSA") compliance program is managed by a qualified officer who has the required authority, responsibility, training, resources, and management reporting structure to ensure compliance with BSA program requirements and BSA-related regulations. The Consent Order will remain in effect until terminated, modified, or suspended in writing by the FDIC or CADBO. The Bank has provided a written response to the FDIC and CADBO regarding the Bank's plans to comply with these requirements. The compliance with these items is monitored by management and the Board on a monthly basis.

NOTE 12 – Fair Value Measurement

The following is a description of the Bank's methodologies used to measure and disclose the fair value of its financial assets and liabilities on a recurring and nonrecurring basis**.**

Securities available for sale: The fair values for AFS securities are generally based on quoted market prices or market prices for similar assets. Liquidity is a significant factor in the determination of the fair values of AFS securities. Market price quotes may not be readily available for some positions, or positions within a market sector where trading activity has slowed significantly or ceased such as certain collateral default obligations positions and other asset backed securities.

Some of these instruments are valued using a net asset value approach, which considers the value of the underlying securities. Underlying assets are valued using external pricing services. Situations of liquidity generally are triggered by the market's perception of credit uncertainty regarding a single company or a specific market sector. In these instances, fair value is determined based on limited available market information and other factors, principally from reviewing the issuer's financial statements and changes in credit ratings made by one or more rating agencies.

Collateral-dependent impaired loans: The Bank does not record loans at fair value on a recurring basis. However, from time to time, fair value adjustments are recorded on these loans to reflect partial write-downs, through charge-offs or specific reserve allowances that are based on the current appraised or market-quoted value of the underlying collateral. Fair value estimates for collateral-dependent

NOTE 12 – Fair Value Measurement (cont.)

impaired loans are obtained from real estate brokers or other third-party consultants (Level 3). The fair value of noncollateral-dependent loans is estimated using a discounted cash flow model.

Foreclosed assets: The values assigned as Level 2 represent fair value of the properties as established by recently conducted appraisal of the property. The carrying values represent the actual sales contracts from an all-cash purchase price from third-party buyers to purchase the property.

	Assets Measured at Fair Value on a Recurring Basis on March 31			
	Carrying Value at March 31	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2016				
U.S. government agency, residential collateralized mortgage obligations and mortgage-backed securities	$ 91,308,512	$ -	$ 91,308,512	$ -
U.S. Treasury securities	5,441,200	-	5,441,200	-
SBA Pool Securities	4,575,335	-	4,575,335	-
Municipal bonds	564,699	-	564,699	-
	$ 101,889,746	$ -	$ 101,889,746	$ -
2015				
U.S. government agency, residential collateralized mortgage obligations and mortgage-backed securities	$ 109,508,839	$ -	$ 109,508,839	$ -
U.S. Treasury securities	5,498,849	-	5,498,849	-
SBA Pool Securities	5,926,342	-	5,926,342	-
Municipal bonds	2,458,536	-	2,458,536	-
	$ 123,392,566	$ -	$ 123,392,566	$ -

	Assets Measured at Fair Value on a Nonrecurring Basis on March 31			
	Carrying Value at March 31	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2016				
Impaired loans, including loans with partial charge-offs	$ 15,127,812	$ -	$ 15,127,812	$ -
2015				
Foreclosed assets	$ 4,185,000	$ -	$ 4,185,000	$ -
Impaired loans, including loans with partial charge-offs	16,790,251	-	16,790,251	-
	$ 20,975,251	$ -	$ 20,975,251	$ -

NOTE 13 – Fair Value of Financial Instruments

The fair values of financial instruments have been derived, in part, by the Bank's assumptions, the estimated amount and timing of future cash flows and estimated discount rates. Different assumptions could significantly affect these estimated fair values. Accordingly, the net realizable values could be materially different from the estimates presented below. In addition, the estimates are only indicative of the value of individual financial instruments and should not be considered an indication of the fair value of the Bank.

The following methods and assumptions were used to estimate the fair value for financial instruments:

Cash and cash equivalents: The carrying value of short-term financial instruments, including cash and cash equivalents and time deposits placed, approximates the fair value of these instruments. These financial instruments generally expose the Bank to limited credit risk and have no stated maturities or have short-term maturities and carry interest rates that approximate market.

Securities: the fair value of securities available for sale is determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs) or matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs).

Loans: For variable rate loans that reprice frequently and have no significant change in credit risk, fair value is based on carrying value. The fair value of fixed rate loans is estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. The fair value of impaired loans is estimated using discounted cash flow analyses or underlying collateral values, where applicable.

Deposits: The fair value for certain deposits with stated maturities was calculated by discounting contractual cash flows using current market rates for instruments with similar maturities. For deposits with no stated maturities, the carrying amount was considered to approximate fair value and does not take into account the significant value of the cost advantage and stability of the Bank's long-term relationships with depositors.

FHLB borrowings: Fair value for FHLB borrowings is based on discounted cash flows using current rates being offered for similar terms.

Federal Home Loan Bank Stock: The carrying amount of stock in the Federal Home Loan Bank at cost represents fair value as these equity securities may only be sold back to the issuer at par value.

Interest receivable and payable: The carrying amount of interest receivable and payable approximates fair value.

Fair value of commitments: The estimated fair value of fee income on letters of credit at March 31, 2016 and 2015 is insignificant.

NOTE 13 – Fair Value of Financial Instruments (cont.)

The carrying amounts and fair values of financial instruments are as follows at March 31:

	2016		2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	$ 23,333,364	$ 23,333,364	$ 45,534,749	$ 45,534,749
Securities	101,889,746	101,889,746	123,392,566	123,392,566
Loans, net	514,967,348	518,009,180	534,946,625	537,137,642
FHLB stock	3,492,000	3,492,000	3,170,600	3,170,600
Interest receivable	1,421,335	1,421,335	1,553,664	1,553,664
Financial liabilities:				
Deposits	494,510,354	483,455,519	549,404,730	533,984,838
FHLB borrowings	38,000,000	38,002,315	50,000,000	50,512,085
Interest payable	506,486	506,486	728,631	728,631

NOTE 14 – Subsequent Events

The Bank has evaluated the effects of subsequent events that have occurred through May 13, 2016, the date when the financial statements were available to be issued, and there have been no material events that would require recognition in the Bank's financial statements or disclosure in the notes to the financial statements.