State Bank of India (California)

Financial Report
March 31, 2013

McGladrey

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Independent Auditor's Report on the Financial Statements

To the Board of Directors
State Bank of India (California)
Los Angeles, CA

Report on the Financial Statements

We have audited the accompanying financial statements of State Bank of India (California) (the Bank), which comprise the balance sheets as of March 31, 2013 and 2012, and the related statements of income, comprehensive income, 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 (U.S. GAAP); this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's 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 of 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 auditor's 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 control relevant to the entity's 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of 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, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with U.S. GAAP.

McGladrey LLP

Los Angeles, CA
May 8, 2013

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State Bank of India (California)

Balance Sheets
March 31, 2013 and 2012

Assets	**2013**	2012
Cash and Cash Equivalents	**$ 139,374,954**	$ 86,248,281
Securities Available for Sale, at fair value	**130,158,483**	116,976,102
Loans	**515,257,360**	566,477,702
Allowance for Loan Losses	**(14,210,481)**	(12,001,837)
Net loans	**501,046,879**	554,475,865
Foreclosed Assets Held for Sale	**7,200,000**	11,055,972
Furniture, Fixtures and Equipment, net	**3,077,615**	2,809,167
FHLB Stock, at cost	**3,810,600**	3,655,300
Prepaid and Recoverable Income Taxes	**4,448,383**	1,570,859
Interest Receivable and Other Assets	**3,272,959**	5,298,295
Due From Affiliate	**577,269**	772,269
Deferred Tax Assets, net	**9,039,562**	6,866,872
	$ 802,006,704	$ 789,728,982

Liabilities and Stockholder's Equity		
Liabilities		
Deposits	**$ 635,545,809**	$ 625,111,948
FHLB borrowings	**40,750,000**	40,750,000
Interest payable and other liabilities	**3,195,947**	1,949,482
Total liabilities	**679,491,756**	667,811,430
Commitments and Contingencies (Notes 7 and 12)		
Stockholder's Equity		
Common stock, $100 par value:		
Authorized 2,000,000 shares, issued and outstanding 945,000 shares	**94,500,000**	94,500,000
Additional contributed capital	**1,500,000**	1,500,000
Retained earnings	**27,280,609**	25,500,131
Accumulated other comprehensive income (loss)	**(765,661)**	417,421
Total stockholder's equity	**122,514,948**	121,917,552
	$ 802,006,704	$ 789,728,982

See Notes to Financial Statements.

State Bank of India (California)

Statements of Income
Years Ended March 31, 2013 and 2012

	2013	2012
Interest income:		
Interest on loans	**$ 30,063,563**	$ 33,799,229
Securities	**2,294,688**	2,956,080
Total interest income	**32,358,251**	36,755,309
Interest expense:		
Deposits	**6,222,264**	6,609,676
Borrowed funds	**1,000,705**	1,137,320
Total interest expense	**7,222,969**	7,746,996
Net interest income	**25,135,281**	29,008,313
Provision for loan losses	**3,381,259**	5,642,950
Net interest income after provision for loan losses	**21,754,023**	23,365,363
Noninterest income:		
Income from foreign currency exchange transactions	**2,203,800**	3,012,355
Gain on sale of securities available for sale	**429,002**	1,635,434
Other noninterest income	**1,342,728**	822,205
Total noninterest income	**3,975,530**	5,469,994
Noninterest expense:		
Salaries and employee benefits	**10,548,137**	8,958,222
Occupancy expense	**2,100,675**	1,934,714
Furniture, fixtures and equipment expense	**820,127**	598,794
Advertising expense	**193,714**	171,087
Foreclosed assets expense	**3,690,981**	3,516,875
FDIC and other deposit assessments	**1,092,180**	1,258,283
Other operating expense	**5,031,329**	4,387,543
Total noninterest expense	**23,477,143**	20,825,518
Income before provision for income taxes	**2,252,410**	8,009,839
Provision for income tax expense	**471,932**	7,403,662
Net income	**$ 1,780,478**	$ 606,177

See Notes to Financial Statements.

State Bank of India (California)

Statements of Comprehensive Income
Years Ended March 31, 2013 and 2012

	2013	2012
Net income	**$ 1,780,478**	$ 606,177
Other comprehensive income before tax:		
Unrealized holding loss arising during period, net of tax	**(1,461,933)**	(1,263,342)
Reclassification adjustment for gains realized in net income, net of tax	**278,851**	1,063,032
Other comprehensive (loss)	**(1,183,082)**	(200,310)
Comprehensive income	**$ 597,396**	$ 405,867

See Notes to Financial Statements.

State Bank of India (California)

Statements of Changes in Stockholder's Equity
Years Ended March 31, 2013 and 2012

	Shares Outstanding	Common Stock Issued	Common Stock To be Issued	Additional Contributed Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, March 31, 2011	695,000	$ 69,500,000	$ 25,000,000	$ 1,500,000	$ 24,893,954	$ 617,731	$ 121,511,685
Issuance of common stock	250,000	25,000,000	(25,000,000)	-	-	-	-
Net income	-	-	-	-	606,177	-	606,177
Other comprehensive loss	-	-	-	-	-	(200,310)	(200,310)
Balance, March 31, 2012	945,000	94,500,000	-	1,500,000	25,500,131	417,421	121,917,552
Net income	-	-	-	-	1,780,478	-	1,780,478
Other comprehensive loss	-	-	-	-	-	(1,183,082)	(1,183,082)
Balance, March 31, 2013	**945,000**	**$ 94,500,000**	**$ -**	**$ 1,500,000**	**$ 27,280,609**	**$ (765,661)**	**$ 122,514,948**

See Notes to Financial Statements.

State Bank of India (California)

Statements of Cash Flows
Years Ended March 31, 2013 and 2012

	2013	2012
Cash Flows From Operating Activities		
Net income	**$ 1,780,478**	$ 606,177
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	**3,381,259**	5,642,950
Loss on disposal of furniture, fixtures and equipment		-
Depreciation and amortization	**673,541**	505,637
Gain on sale of securities	**(429,002)**	(1,635,434)
Loss on sale and write-down on other foreclosed assets	**2,683,972**	2,372,371
Amortization of premiums on securities, net	**(3,065,986)**	(1,235,213)
Increase (decrease) in interest receivable and other assets	**(1,014,683)**	4,305,344
Changes in deferred income taxes	**(1,383,969)**	2,562,249
Decrease in interest payable and other liabilities	**1,246,465**	12,128
Net cash provided by operating activities	**3,872,075**	13,136,209
Cash Flows From Investing Activities		
Proceeds from maturities and calls of securities	**-**	11,000,000
Proceeds from sale of securities	**10,779,821**	27,415,863
Purchase of securities available for sale	**(63,280,687)**	(88,774,306)
Principal reduction on securities available for sale	**40,841,670**	24,480,232
Increase (decrease) in due from affiliate	**195,000**	(282,757)
Net decrease in loans	**50,210,222**	37,371,438
Proceeds from sale of foreclosed assets	**1,172,000**	3,791,208
Acquisition of furniture, fixtures and equipment	**(941,989)**	(1,125,229)
(Purchases) redemption of FHLB stock	**(155,300)**	99,500
Net cash provided by investing activities	**38,820,737**	13,975,949
Cash Flows From Financing Activities		
Net increase in deposits	**10,433,861**	13,349,663
Proceeds from FHLB borrowings	**-**	20,000,000
Repayment of FHLB borrowings	**-**	(48,500,000)
Net cash provided by (used in) financing activities	**10,433,861**	(15,150,337)
Net increase in cash and cash equivalents	**53,126,673**	11,961,821
Cash and Cash Equivalents, beginning of year	**86,248,281**	74,286,460
Cash and Cash Equivalents, end of year	**$ 139,374,954**	$ 86,248,281

(Continued)

State Bank of India (California)

Statements of Cash Flows (Continued)
Years Ended March 31, 2013 and 2012

	2013	2012
Schedule of Noncash Investing and Financing Activities		
Net transfer of loans to foreclosed assets	**$ -**	$ 15,889,551
Change in unrealized gain on securities available for sale, net of deferred tax of 2013 ($788,721) and 2012 ($133,541)	**$ 1,183,082**	$ 200,310
Supplemental Disclosures of Cash Flow Information		
Cash paid for interest	**$ 7,898,100**	$ 7,637,500
Cash paid for income taxes	**$ 3,788,035**	$ 4,056,067

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, real estate and consumer loans to its customers, substantially all of whom are small and middle-market businesses or residents in the Bank's service area. Generally, those loans are collateralized by business assets and/or real estate. Concentration of credit risk is fully described in Note 3.

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 (U.S. GAAP) and practices within the banking industry.

Use of estimates: The preparation of the financial statements in conformity with U.S. 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 investments and the realization 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 bank, Federal Home Loan Bank (FHLB), the Federal Reserve Bank and certificate of deposit investments with maturity dates less than 90 days. Cash flows from loans and deposits are reported net.

The Bank is required to maintain reserve balances in cash with the Federal Reserve Bank. The total of these reserve requirements approximated $1,086,000 and $792,000 as of March 31, 2013 and 2012, 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 sheets as of the trade date. Debt securities that the Bank might not hold until maturity and marketable equity securities 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. 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.

Note 1. Nature of Business and Summary of Significant Accounting Policies (Continued)

The Bank reduces the asset value when it considers the declines in the value of debt securities and marketable equity securities to be other than temporary and records the estimated loss in noninterest income. The Bank conducts other-than-temporary impairment analysis on an annual 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.

For debt securities the Bank considers:

- The cause of the price decline—general level of interest rates and industry and issuer-specific factors
- The issuer's financial condition, near-term prospects and current ability to make future payments in a timely manner
- The issuer's ability to service debt
- Any change in agencies' ratings at evaluation date from acquisition date and any likely imminent action

If the Bank intends to sell an impaired security, it records an other-than-temporary loss in an amount equal to the entire difference between the fair value and amortized cost. If a security is determined to be other-than-temporarily impaired but the Bank does not intend to sell the security, only the credit portion of the estimated loss is recognized in earnings, with the other portion of the loss recognized in other comprehensive income.

The securities portfolio is an integral part of the Bank's asset/liability management process. The Bank manages these investments to provide liquidity, manage interest rate risk and maximize portfolio yield within capital risk limits approved by management and the Board of Directors and monitored by the Asset/Liability Management Committee (ALCO). The Bank recognizes realized gains and losses on the sale of these securities in noninterest income using the specific identification method.

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.

Note 1. Nature of Business and Summary of Significant Accounting Policies (Continued)

Federal Home Loan Bank stock: The Bank is a member of the FHLB of San Francisco and, as such, is required to maintain a minimum investment in stock of the FHLB that varies with the level of loans eligible to be pledged and advances outstanding with the FHLB. The stock is bought from and sold to the FHLB 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 Accounting Standards Codification (ASC) 942-325-35. 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 FHLB as compared to the capital stock amount and the length of time this situation has persisted, (b) commitments by the FHLB 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 FHLB and (d) the liquidity position of the FHLB. No impairment losses have been recorded during the years ended March 31, 2013 and 2012.

Loans: Loans are reported at their outstanding principal balances net of any unearned income, cumulative charge-offs, unamortized deferred fees and costs on originated loans and unamortized premiums or discounts on purchased loans and allowances for loans and leases. Unearned income, deferred fees and costs, and discounts and premiums are amortized to interest income over the contractual life of the loan using the interest method. Loan commitment fees are generally deferred and amortized into noninterest income on a straight-line basis over the commitment period.

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 in five to 10 years, and terms that 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.

Note 1. Nature of Business and Summary of Significant Accounting Policies (Continued)

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.

Consumer loans: Consumer loans generally have higher interest rates than mortgage loans. The risk involved in consumer loans is the type and nature of the collateral and, in certain cases, the absence of collateral. Consumer loans include second mortgage and home equity loans, education loans, vehicle loans and other secured and unsecured loans that have been made for a variety of consumer purposes.

Allowance for loan losses: The allowance for loan losses, which includes the reserve for unfunded lending commitments, represents management's estimate of probable losses inherent in the Bank's lending activities. The allowance for loan losses represents the estimated probable loan losses in funded commercial loans while the reserve for 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.

In addition, the Federal Deposit Insurance Corporation (FDIC) and the California Department of Financial Institutions (CDFI), as an integral part of their examination process, review the allowance for loan losses. These agencies may require additions to the allowance based on their judgment about information available at the time of their examinations.

The Bank performs periodic and systematic detailed reviews of its lending portfolios to identify credit risks and to assess the overall collectibility of those portfolios. The allowance of certain homogeneous loan portfolios, which generally consist of certain commercial loans is based on aggregated portfolio segment evaluations generally by product type. Loss forecast models are utilized for these segments, which consider a variety of factors including, but not limited to, historical loss experience, estimated defaults or foreclosures based on portfolio trends, delinquencies, economic conditions and credit scores. These models are updated on a quarterly basis in order to incorporate information reflective of the current economic environment. The remaining commercial portfolios are reviewed on an individual loan basis. Loans subject to individual reviews 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, current economic conditions, industry performance trends, geographic or obligor concentrations within each portfolio segment, and any other pertinent information (including individual valuations on nonperforming loans in accordance with Financial Accounting Standards Board (FASB) ASC 360-10 (formerly Statement of Financial Accounting Standards No. 114), *Accounting by Creditors for Impairment of a Loan*, result in the estimation of the allowance for loan losses. The historical loss experience is updated quarterly to incorporate the most recent data reflective of the current economic environment.

Note 1. Nature of Business and Summary of Significant Accounting Policies (Continued)

If necessary, a specific allowance for loan losses is established for individual impaired commercial loans. A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect all amounts due, including principal and interest, according to the contractual terms of the agreement, and once a loan has been identified as individually impaired, management measures impairment in accordance with FASB ASC 360-10. Individually impaired loans are measured based on the present value of payments expected to be received, observable market prices, or for loans that are dependent on the collateral for repayment, the estimated fair value of the collateral. If the recorded investment in impaired loans exceeds the present value of payments expected to be received, a specific allowance is established as a component of the allowance for loan losses. Loans for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings (TDR) and classified as impaired.

The allowance for loan losses includes two components that are allocated to cover the estimated probable losses in each loan category based on the results of the Bank's detailed review process described above. The first component covers those commercial loans that are either nonperforming or impaired. The second component covers performing commercial loans. Included within this second component of the allowance for loan losses and determined separately from the procedures outlined above are reserves which are maintained to cover uncertainties that affect the Bank's estimate of probable losses including domestic and global economic uncertainty and large single name defaults. Management evaluates the adequacy of the allowance for loan losses based on the combined total of these two components.

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 sheets whereas the allowance for loan losses related to the reserve for unfunded lending commitments is reported on the balance sheets in interest payable and other liabilities. Provision for loan losses related to the loan portfolio is reported in the statements of income in the provision for loan losses. The Bank reviews and adjusts the allowance quarterly.

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.
- The loan is 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 (Continued)

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 collectibility 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 collectibility 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 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, the Bank generally fully charges off or charges down to net realizable value for loans secured by collateral 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.

Impaired loans: The Bank considers a loan to be impaired when, based on the determination of current information and events, the Bank will not be able to collect all amounts due according to the loan contract, including scheduled interest payments. The Bank's impaired loans include commercial real estate (CRE) and commercial and industrial (C&I) loans for which the Bank determines that the Bank will not be able to collect all amounts due, on both accrual and nonaccrual status.

When the Bank identifies a loan as impaired, the Bank measures the impairment based on the present value of expected future cash flows, discounted at the loan's effective interest rate. When collateral is the sole source of repayment for the loan, the Bank may measure impairment based on the fair value of the collateral. If foreclosure is probable, the Bank uses the current fair value of the collateral less selling costs, instead of discounted cash flows.

Note 1. Nature of Business and Summary of Significant Accounting Policies (Continued)

If the Bank determines that the value of an impaired loan is less than the recorded investment in the loan (net of previous charge-offs, deferred loan fees or costs and unamortized premium or discount), the Bank recognizes impairment. When the value of an impaired loan is calculated by discounting expected cash flows, interest income is recognized using the loan's effective interest rate over the remaining life of the loan.

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 to the borrower that the Bank would not otherwise consider, the related loan is classified as a TDR. The Bank strives to identify borrowers in financial difficulty early and work with them to modify their loan to more affordable terms before it reaches nonaccrual status. 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.

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.

Foreclosed assets: Foreclosed assets obtained through the Bank's lending activities primarily include real estate. These assets are recorded at net realizable value 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.

Note 1. Nature of Business and Summary of Significant Accounting Policies (Continued)

- 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.

Financial instruments: The Bank's financial instruments consist of cash and cash equivalents, loans-net, securities available for sale, FHLB stock, interest receivable, deposits, FHLB borrowings and interest payable.

Fair value: The Bank measures the fair values of its financial instruments based on the fair value hierarchy under applicable accounting guidance that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs to determine the exit price. The Bank categorizes its financial instruments, based on the priority of inputs to the valuation technique, into a three-level hierarchy, as discussed below. Available-for-sale debt and marketable equity securities, and certain other assets are carried at fair value in accordance with applicable accounting guidance.

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. Level 2 assets and liabilities include debt securities with quoted prices that are traded 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.

Note 1. Nature of Business and Summary of Significant Accounting Policies (Continued)

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.

Income taxes: The Bank evaluates two components of income tax expense: current and deferred. Current income tax expense approximates taxes to be paid or refunded for the current period. The Bank determines deferred income taxes using the balance sheet method. Under this method, the net deferred tax asset or liability is 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.

California franchise taxes are provided for using the separate return reporting approach. In 2012, the Bank has entered into a tax sharing agreement with its Parent Bank, which is currently awaiting approval by the Federal Reserve Bank, New York.

Comprehensive income: U.S. 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, are components of comprehensive income. Gains and losses on available-for-sale securities are included in net income upon sale of the securities. Other-than-temporary impairment charges are included in net income 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. As of March 31, 2013 and 2012, advertising expenses included in noninterest expense approximated $194,000 and $171,000, respectively.

Reclassifications: Certain reclassifications were made to the prior year financial statements to conform with the current presentation.

Note 2. Securities Available for Sale

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

	2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government agency collateralized mortgage obligations and mortgage-backed securities, residential	$ 129,593,168	$ 411,192	$ (1,763,060)	$ 128,241,301
Municipal bonds	1,841,417	75,766	-	1,917,182
	$ 131,434,585	$ 486,958	$ (1,763,060)	$ 130,158,483

	2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government agency collateralized mortgage obligations and mortgage-backed securities, residential	$ 114,440,153	$ 1,210,615	$ (579,708)	$ 115,071,060
Municipal bonds	1,840,247	64,795	-	1,905,042
	$ 116,280,400	$ 1,275,410	$ (579,708)	$ 116,976,102

For the years ended March 31, 2013 and 2012, the realized gross gains aggregated $429,002 and $1,635,434, respectively. There were no losses on sales of securities during the years ended March 31, 2013 and 2012.

The amortized cost and fair value of securities at March 31, 2013 and 2012, 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:

	Amortized Cost	Fair Value
Due after five years	$ 1,841,417	$ 1,917,183
U.S. government agency collateralized mortgage obligations and mortgage-backed securities	129,593,168	128,241,300
	$ 131,434,585	$ 130,158,483

Note 2. Securities Available for Sale (Continued)

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:

	2013					
	Less Than 12 Months		12 Months or More		Fair Value	Unrealized Loss
Collaterized mortgage obligations and mortgage-backed securities	$ 79,336,300	$ (1,367,036)	$ 14,508,276	$ (396,024)	$ 93,844,576	$ (1,763,060)

	2012					
	Less Than 12 Months		12 Months or More		Fair Value	Unrealized Loss
Collaterized mortgage obligations and mortgage-backed securities	$ 57,766,757	$ (575,356)	$ 130,128	$ (4,452)	$ 57,896,883	$ (579,708)

For all of the investment securities, the unrealized losses are generally due to changes in interest rates and, as such, are considered by the Bank to be temporary.

Securities available for sale of $67,437,902 and $70,044,007 were pledged to the state of California against deposits maintained at the Bank at March 31, 2013 and 2012, respectively.

Note 3. Loans and Allowance for Loan Losses

The composition of the loan portfolio is as follows:

	2013	2012
Commercial and industrial	$ 149,550,329	$ 136,917,094
Commercial real estate (including Small Business Administration loans)	366,171,698	429,939,013
Others	201,339	450,097
	515,923,366	567,306,204
Less net deferred loan origination fees	666,006	828,502
	515,257,360	566,477,702
Less allowance for loan losses	14,210,481	12,001,837
Loans, net	$ 501,046,879	$ 554,475,865

The Bank pledges loans to secure borrowings from the FHLB as part of the Bank's liquidity management strategy. Loans pledged approximated $415.1 million and $366.8 million for March 31, 2013 and 2012, respectively.

At March 31, 2013 and 2012, the Bank has concentrations representing 10 percent or more of the total loan portfolio in commercial real estate (CRE) loans. CRE loans comprised 71 percent and 76 percent of total gross loans as of March 31, 2013 and 2012, respectively. The hotel loans represent 40.1 percent of total gross loans as of March 31, 2013.

Note 3. Loans and Allowance for Loan Losses (Continued)

Allowance for loan losses: The allowance for loan losses (ALL) is management's estimate of loan losses inherent in the loan portfolio at the balance sheet date. The Bank has an established process to determine the adequacy of the ALL that assesses the losses inherent in the Bank's portfolio and related unfunded credit commitments. While the Bank attributes portions of the allowance to specific portfolio segments, the entire allowance is available to absorb loan losses inherent in the total loan portfolio.

	March 31, 2013			
Allowance for loan losses	Commercial	Commercial Real Estate	Others	Total Allowance for Loan Losses
Beginning balance	$ 2,894,583	$ 9,202,572	$ (95,318)	$ 12,001,837
Charge-offs	(2,423,976)	(1,356,649)	-	(3,780,625)
Recoveries	466,307	2,125,000	16,703	2,608,010
Provision	2,202,353	1,178,906	-	3,381,259
Ending balance	$ 3,139,267	$ 11,149,829	$ (78,615)	$ 14,210,481
Individually evaluated for impairment	$ -	$ 1,822,094	$ -	$ 1,822,094
Collectively evaluated for impairment	3,044,036	9,308,825	35,526	12,388,387
	$ 3,044,036	$ 11,130,919	$ 35,526	$ 14,210,481

	March 31, 2013			
Loans	Commercial	Commercial Real Estate	Others	Total Loans
Individually evaluated for impairment	$ -	$ 61,723,004	$ -	$ 61,723,004
Collectively evaluated for impairment	149,507,551	303,825,466	201,339	453,534,356
Ending balance	$ 149,507,551	$ 365,548,470	$ 201,339	$ 515,257,360

	March 31, 2012			
Allowance for loan losses	Commercial	Commercial Real Estate	Others	Total Allowance for Loan Losses
Beginning balance	$ 2,970,579	$ 18,415,226	$ 227	$ 21,386,032
Charge-offs	(653,883)	(14,559,717)	(119,545)	(15,333,145)
Recoveries	238,000	44,000	24,000	306,000
Provision	339,887	5,303,063	-	5,642,950
Ending balance	$ 2,894,583	$ 9,202,572	$ (95,318)	$ 12,001,837
Individually evaluated for impairment	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	3,376,505	8,625,206	126	12,001,837
	$ 3,376,505	$ 8,625,206	$ 126	$ 12,001,837

Note 3. Loans and Allowance for Loan Losses (Continued)

	March 31, 2012			
Loans	Commercial	Commercial Real Estate	Others	Total Loans
Individually evaluated for impairment	$ 3,672,683	$ 78,719,321	$ -	$ 82,392,004
Collectively evaluated for impairment	133,648,522	349,987,079	450,097	484,085,698
Ending balance	$ 137,321,205	$ 428,706,400	$ 450,097	$ 566,477,702

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 ALL. 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) or by the fair value, less cost to acquire and sell, of any underlying collateral in a timely manner. Pass assets 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.

Special Mention: A special mention asset is an asset that has potential weaknesses that deserve management's close attention. 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 an institution 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 of the company and/or collateral. 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 so much more severe 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.

Note 3. Loans and Allowance for Loan Losses (Continued)

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, 2013 and 2012.

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 table below presents a breakdown of outstanding commercial loans by risk category at March 31:

	2013			
	Commercial and Other	Commercial Real Estate Construction	Commercial Real Estate Other	Total
Grade:				
Pass	$ 148,050,775	$ 4,153,970	$ 309,891,855	$ 462,096,600
Special Mention	669,042	1,077,303	17,585,994	19,332,339
Substandard	989,073	-	32,839,348	33,828,421
Doubtful	-	-	-	-
	$ 149,708,890	$ 5,231,273	$ 360,317,197	$ 515,257,360

	2012			
	Commercial and Other	Commercial Real Estate Construction	Commercial Real Estate and Other	Total
Grade:				
Pass	$ 131,942,741	$ 3,853,180	$ 340,168,738	$ 475,964,659
Special Mention	1,205,781	-	19,502,660	20,708,441
Substandard	4,147,527	-	65,657,075	69,804,602
Doubtful	-	-	-	-
	$ 137,296,049	$ 3,853,180	$ 425,328,473	$ 566,477,702

Note 3. Loans and Allowance for Loan Losses (Continued)

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

	2013						
	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	$ 91,885	$ -	$ -	$ 91,885	$ 149,617,005	$ 149,708,890	$ -
Commercial real estate, construction	-	-	-	-	5,231,273	5,231,273	-
Commercial real estate, other	19,310,104	1,142,361	11,701,856	32,154,321	328,162,876	360,317,197	-
	$ 19,401,989	$ 1,142,361	$ 11,701,856	$ 32,246,206	$ 483,011,154	$ 515,257,360	$ -

	2012						
	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	$ 1,310,603	$ -	$ -	$ 1,310,603	$ 136,010,602	$ 137,321,205	$ -
Commercial real estate, construction	-	-	-	-	3,853,180	3,853,180	-
Commercial real estate, other	8,730,758	-	12,974,227	21,704,985	403,598,332	425,303,317	-
	$ 10,041,361	$ -	$ 12,974,227	$ 23,015,588	$ 543,462,114	$ 566,477,702	$ -

The Bank does not have any loans that are 90 days or more past due and still accruing. The following table presents the loans on nonaccrual status at March 31:

	2013	2012
Commercial	$ -	$ 2,364,080
Commercial real estate, other	11,701,856	34,392,872
	$ 11,701,856	$ 36,756,952
Interest income not recognized	$ 1,485,127	$ 1,630,174

Note 3. Loans and Allowance for Loan Losses (Continued)

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 that were modified under TDR at March 31:

	2013		
	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial and industrial	-	$ -	$ -
Commercial real estate	10	49,895,573	47,576,712
	10	$ 49,895,573	$ 47,576,712

	2012		
	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial and industrial	3	$ 3,556,250	$ 2,724,065
Commercial real estate	14	74,605,610	74,166,520
	17	$ 78,161,860	$ 76,890,585

Out of modified loans of $47,576,712 and $76,890,585 as of March 31, 2013 and 2012, respectively, $47,576,712 and $59,760,585 are in compliance with their modified terms and the balance of $6,712,000 and $17,130,000 are included in nonaccrual loans as of March 31, 2013 and 2012, respectively.

For the 2013 modified loans, there was no forgiveness of principal.

The following table presents the outstanding loans that 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.

	2013		
	Impaired Loans		
	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
Commercial and industrial	$ -	$ -	$ -
Commercial real estate	68,002,177	61,723,004	1,822,095
	$68,002,177	$ 61,723,004	$ 1,822,095

Note 3. Loans and Allowance for Loan Losses (Continued)

	2012		
	Impaired Loans		
	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
Commercial and industrial	$ 4,130,665	$ 4,130,665	$ -
Commercial real estate	85,019,327	85,019,327	-
	$ 89,149,992	$ 89,149,992	$ -

Average impaired loans outstanding during March 31, 2013 and 2012 totaled $47,215,000 and $42,556,000, respectively. There was no interest income recognized on a cash basis on impaired loans during the years ended March 31, 2013 and 2012.

Note 4. Furniture, Fixtures and Equipment

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

	2013	2012
Furniture and fixtures	$ 827,161	$ 480,659
Leasehold improvements	3,070,418	2,894,383
Equipment	1,066,939	712,954
Furniture and equipment, residences	79,253	68,413
Software	1,047,468	1,208,517
Computer hardware	613,340	497,629
	6,704,579	5,862,555
Less accumulated depreciation and amortization	3,626,964	3,053,388
	$ 3,077,615	$ 2,809,167

Note 5. Deposits

Deposits consist of the following at March 31:

	2013	2012
Noninterest-bearing demand	$ 52,648,439	$ 38,564,133
Savings	24,105,800	18,698,462
Money market	94,402,932	85,121,944
Negotiable order of withdrawal (NOW)	6,323,241	6,477,759
Certificates of deposit of $100,000 or more	342,200,503	306,818,428
Certificates of deposit under $100,000	115,864,894	169,431,222
	$ 635,545,809	$ 625,111,948

For the years ended March 31, 2013 and 2012, the Bank had deposits from single entities totaling $60,000,000 and $100,904,000, respectively, which were in excess of 5 percent of total deposits.

Note 5. Deposits (Continued)

Interest expense on time certificates of deposit with balances of $100,000 or more amounted to $3,716,897 and $3,619,724 for the years ended March 31, 2013 and 2012, respectively.

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

	2013	2012
Three months or less	$ 69,849,615	$ 158,620,163
Over three months through one year	203,989,196	207,926,268
Over one year through three years	150,328,591	76,332,626
Over three years	33,897,995	33,370,593
	$ 458,065,397	$ 476,249,650

At March 31, 2013 and 2012, the Bank's brokered deposits totaled $3,466,000 and $54,865,700, respectively.

Note 6. Income Taxes

The provision for income tax expense 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. California Franchise Taxes are provided for using the separate company reporting approach. In 2012, the Bank entered into a tax sharing agreement with the Parent Bank. The tax sharing agreement is currently awaiting approval by the Federal Reserve Bank, New York.

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

	2013	2012
Current:		
Federal	$ 2,799,379	$ -
State	(943,478)	4,841,413
Total current	1,855,901	4,841,413
Deferred:		
Federal	(1,205,755)	1,514,231
State	(178,214)	1,048,018
Total deferred	(1,383,969)	2,562,249
	$ 471,932	$ 7,403,662

Note 6. Income Taxes (Continued)

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

	2013	2012
Deferred tax assets:		
Allowance for loan losses	$ 5,842,122	$ 5,138,319
Federal net operating loss	-	334,269
Interest on nonaccrual loan	1,282,829	469,823
Foreclosed asset valuation allowance	1,088,134	59,268
Unrealized loss on securities available for sale	510,441	-
Vacation accrual	97,837	71,974
State franchise tax	295,557	1,238,289
Other accruals	37,378	-
Total deferred tax assets	9,154,298	7,311,942
Deferred tax liabilities:		
Depreciation and amortization	(45,404)	(97,465)
Unrealized gain on securities available for sale	-	(278,281)
FHLB stock dividends	(69,332)	(69,324)
Total deferred tax liabilities	(114,736)	(445,070)
	$ 9,039,562	$ 6,866,872

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 permanent differences and provision to return adjustments.

Note 7. Commitments 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 outstanding loan commitments as follows at March 31:

	2013	2012
Loans	$ 26,787,101	$ 42,992,102
Standby letters of credit	8,186,278	3,200,113
Commercial letters of credit	3,675,897	6,583,340

Note 7. Commitments and Contingencies (Continued)

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 Uniform Commercial Code filings and the majority of standby letters of credit are secured by certificates of deposit.

Lease commitments: The Bank's head office moved to its new location on September 7, 2012. The branch premises are leased from unaffiliated parties under various leases, expiring through December 2020. 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 $1,505,023 and $1,423,981 for the years ended March 31, 2013 and 2012, respectively.

The Bank leases equipment under noncancelable operating leases expiring through November 2017. 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 years ended March 31, 2013 and 2012 was $104,381 and $93,097, respectively.

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

Years Ending March 31,	Premises	Equipment	Total
2014	$ 1,382,693	$ 75,730	$ 1,458,423
2015	1,390,773	69,508	1,460,281
2016	1,461,354	54,531	1,515,885
2017	1,396,002	38,339	1,434,341
2018	1,450,571	4,400	1,454,971
Thereafter	5,411,915	-	5,411,915
	$ 12,493,308	$ 242,508	$ 12,735,816

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 Bank/Related Party

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

	2013	2012
Assets, loan participation with affiliates	$ 8,205,548	$ 5,620,481
Liabilities, demand deposit, noninterest bearing with Parent Bank	$ 7,337,850	$ 6,550,377

Note 8. Transactions With Parent Bank/Related Party (Continued)

For the years ended March 31, 2013 and 2012, the Bank recognized management fees of $27,472 and $193,901, respectively, representing certain shared expenses with its Parent Bank.

Parent Bank's New York branch: For the year ended March 31, 2013, there is a receivable from the Parent Bank's New York branch of $577,269, of which $397,269 relates to the overpayment of installment taxes using the Water's Edge method, and $180,000 relates to reimbursements of management fees.

For the year ended March 31, 2012, there is a receivable from the Parent's New York branch of $397,296, which relates to the overpayment of installment taxes using the Water's Edge Method.

Note 9. Dividend Policy

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, 2013 and 2012.

Note 10. Federal Home Loan Bank Advances

At March 31, 2013, the Bank, under the FHLB's blanket lien pledging option, pledged eligible debt securities and mortgage loans as collateral to provide for borrowing capacity. For each of the years ended March 31, 2013 and 2012, the FHLB advances aggregated $40,750,000. 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, with terms up to 360 months. The FHLB advances are fully secured and bear interest at rates between 1.47 percent and 3.40 percent. The advances have a weighted-average interest rate of 2.46 percent, and mature between April 2014 and April 2016.

For the years ending March 31, the scheduled maturities of FHLB advances are as follows:

Years Ending March 31,	Amount
2015	$ 14,750,000
2016	6,000,000
2017	20,000,000
	$ 40,750,000

Note 11. 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, 2013 and 2012, the Bank's short exposure related to Indian rupees was $457,810 and $2,623,893, respectively. For financial statement purposes, foreign currency liability is included in noninterest-bearing demand deposits.

Realized gains from foreign currency transactions are included in noninterest income and amounted to $2,203,799 and $3,012,355 for the years ended March 31, 2013 and 2012, respectively.

Note 12. 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 requires 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, 2013, that the Bank meets all capital adequacy requirements to which it is subject.

As of February 2012, the most recent notification from the CDFI 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.

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

	2013					
	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	$ 129,794	25.26%	$ 41,088	≥8%	$ 51,360	≥10%
Tier 1 capital, to risk-weighted assets	123,281	23.98%	20,544	≥4%	30,816	≥6%
Tier 1 capital, to average assets	123,281	15.24%	32,363	≥4%	40,454	≥5%

Note 12. Regulatory Matters (Continued)

	2012					
	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	$ 128,813	22.20%	$ 46,421	≥8%	$ 58,026	≥10%
Tier 1 capital, to risk-weighted assets	121,500	20.94%	23,210	≥4%	34,816	≥6%
Tier 1 capital, to average assets	121,500	15.25%	31,878	≥4%	39,847	≥5%

The California Financial Code provides that a bank may not make a cash distribution to its stockholders in excess of the lesser of the Bank's undivided profits or the Bank's net income for its last three fiscal years less the amount of any distribution made to the Bank's stockholders during the same period (Note 9).

On March 20, 2013, the Bank entered into a Consent Order (the Order) with the FDIC and CDFI. Under the Order, the Bank agreed to, among other things, the following provisions:

- The Bank shall have and retain qualified management, which must be approved by the FDIC Regional Director and the Commissioner of the CDFI.

- Within 60 days from the effective date of the Order, the Bank is required to obtain an independent study of the management and personnel structure of the Bank.

- Within 30 days from the effective date of the Order, the Board is required to increase its participation in the affairs of the Bank, assuming full responsibility for the approval of sound policies and objectives and for the supervision of all of the Bank's activities, consistent with the role and expertise commonly expected for directors of banks of comparable size.

- Within 30 days from the effective date of the Order, the Bank is required to eliminate all assets classified as "loss" that have not been previously collected or charged off.

- Within 120 days from the effective date of this Order, the Bank shall reduce adversely classified assets to not more than 30 percent of the Bank's Tier 1 Capital and allowance for loan and lease losses.

- Beginning with the effective date of the Order, the Bank shall not extend any additional credit to any borrower who has a loan or other extension of credit that has been classified as "doubtful" or "substandard" and is uncollected, unless at least a majority of the members of the Board vote to adopt a written resolution, which finds that the extension of the additional credit would be in the best interest of the Bank.

- Beginning with the effective date of the Order, the Bank shall not extend any additional credit to any borrower who has a loan or other extension of credit that has been charged-off or classified.

- Within 120 days from the effective date of the Order, the Bank shall develop a written plan addressing retention of profits, and set forth a comprehensive budget covering the period January 2013 to December 2016.

Note 12. Regulatory Matters (Continued)

- Within 60 days from the effective date of the Order, the Bank shall 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.

- Within 90 days from the effective date of the Order, the Bank shall develop, adopt and implement policies and procedures to address the credit administration deficiencies.

- Within 60 days from the effective date of the Order, the Bank shall establish a satisfactory audit program.

- Within 60 days from the effective date of the Order, the Bank shall 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.

- Within 60 days from the effective date of the Order, the Bank shall develop or revise, adopt and implement a written policy governing transactions between the Bank and affiliates.

- Within 90 days from the effective date of the Oder, the Bank shall eliminate and/or correct all violations of law.

- During the life of the Order, the Bank shall file with the FDIC Reports of Condition and Income that accurately reflect the financial condition of the Bank.

- During the life of the Order, the Bank shall not establish any new branches or other offices of the Bank.

- Within 90 days of the effective date of the Order, the Bank shall comply in all material respects with the Bank Secrecy Act and its rules and regulations.

- Within 30 days of the end of the first quarter following the effective date of the Order, and within 30 days of the end of each quarter thereafter, the Bank shall furnish written progress reports to the Regional Director and the Commissioner.

- Within 60 days from the effective date of the Order, the Bank was required to develop and implement an internal loan review policy and system that ensure timely and accurate credit risk ratings.

- Within 60 days from the effective date of the Order, the Bank was required to revise its lending policy to reflect current practices and to establish reasonable exposure limits and sublimits for out-of-area lending, construction lending and participations purchased.

- The Bank shall not engage in any expansionary activities, including opening any branches, without the prior written consent of the FDIC and CDFI.

- Within 30 days from the effective date of the Order, the Bank was required to eliminate and/or correct the contravention of interagency policy set forth in the Report of Examination.

Note 12. Regulatory Matters (Continued)

- Within 30 days of the end of the first quarter following the effective date of the Order, and within 30 days of the end of each quarter thereafter, the Bank shall furnish written progress reports to the FDIC and CDFI detailing the form and manner of any actions taken to secure compliance with the Order and the results thereof.

- Following the effective date of the Order, the Bank shall provide a copy of the Order or otherwise furnish a description of the Order to its shareholders.

Noncompliance with these requirements could result in additional regulatory actions.

Note 13. Fair Value Measurement

Under applicable accounting guidance fair value is defined as the exchange price that would be received for an asset 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. There are three levels of inputs that may be used to measure fair value.

Level 1, 2 and 3 valuation techniques: Financial instruments are considered Level 1 when valuation can be based on quoted prices in active markets for identical assets or liabilities. Level 2 financial instruments are valued using quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or models using inputs that are observable or can be corroborated by observable market data of substantially the full term of the assets or liabilities. Financial instruments are considered Level 3 when their values are determined using pricing models, discounted cash flow methodologies or similar techniques and at least one significant model assumption or input is unobservable and when determination of the fair value requires significant management judgment or estimation.

For the years ended March 31, 2013 and 2012, the application of valuation techniques applied to similar assets and liabilities has been consistent.

In determining the appropriate levels, the Bank performs a detailed analysis of the assets and liabilities subject to fair value measurement. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3.

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:

Available-for-sale debt securities: The fair values for AFS debt 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 available-for-sale debt 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 collateralized debt obligation 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.

Note 13. Fair Value Measurement (Continued)

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 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 value assigned, in the quoted prices in active markets column, 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			
	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)
U.S. government agency, residential collateralized mortgage obligations and mortgage-backed securities, 2013	$ 130,158,483	$ -	$ 130,158,483	$ -
U.S. government agency, residential collateralized mortgage obligations and mortgage-backed securities, 2012	$ 116,976,102	$ -	$ 116,976,102	$ -

	Assets Measured at Fair Value on a Nonrecurring Basis			
	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)
Foreclosed assets	$ 7,200,000	$ -	$ -	$ 7,200,000
Collateral-dependent impaired loans, including loans with partial charge-offs, 2013	61,723,004	-	-	61,723,004
	$ 68,923,004	$ -	$ -	$ 68,923,004
Foreclosed assets	$ 11,055,972	$ -	$ -	$ 11,055,972
Collateral-dependent impaired loans, including loans with partial charge-offs, 2012	82,417,160	-	-	82,417,160
	$ 93,473,132	$ -	$ -	$ 93,473,132

Note 14. 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 disclosures represent financial instruments in which the ending balance at March 31, 2013 and 2012 is not carried at fair value in its entirety on the Bank's balance sheets.

Due to the wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Bank's disclosures and those of other financial institutions may not be meaningful.

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, time deposits placed approximate 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.

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.

Stock in FHLB: The carrying amount of stock in the FHLB 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, 2013 and 2012 is insignificant. Loan commitments on which the committed interest rate is less than the current market rate are also insignificant at March 31, 2013 and 2012.

Note 14. Fair Value of Financial Instruments (Continued)

Interest rate risk: The Bank assumes interest rate risk (the risk that general interest rate levels will change) as a result of its normal operations. As a result, fair value of the Bank's financial instruments will change when interest rate levels change and that change may be either favorable or unfavorable to the Bank. Management attempts to match maturities of assets and liabilities to the extent believed necessary to minimize interest rate risk. However, borrowers with fixed-rate obligations are less likely to prepay in a rising rate environment and more likely to prepay in a falling rate environment. Conversely, depositors who are receiving fixed rates are more likely to withdraw funds before maturity in a rising rate environment and less likely to do so in a falling rate environment. Management monitors rates and maturities of assets and liabilities and attempts to minimize interest rate risk by adjusting terms of new loans and deposits and by investing in securities with terms that mitigate the Bank's overall interest rate risk.

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

	2013		2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	$ 139,374,954	$ 139,374,954	$ 86,248,281	$ 86,248,281
Loans, net	501,046,879	506,432,931	554,475,865	558,173,148
FHLB stock	3,810,600	3,810,600	3,655,300	3,655,300
Interest receivable	2,234,995	2,234,995	2,813,900	2,813,900
Financial liabilities:				
Deposits	$ 635,545,809	$ 635,947,782	$ 625,111,948	$ 624,548,071
FHLB borrowings	40,750,000	42,520,475	40,750,000	42,786,040
Interest payable	997,639	997,639	1,672,762	1,672,762

Note 15. Subsequent Events

The Bank has evaluated the effects of subsequent events that have occurred through May 8, 2013, 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.