2010 • Annual Report

Farmers & Merchants Bank®

California's Strongest Bank®

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Financial Report

2010 Annual Report

Farmers & Merchants Bank®

California's Strongest Bank®


THE MOSLER SAFE CO.
HAMILTON, OHIO, U.S.A.

Dear Fellow Shareholders:

Farmers & Merchants Bank of Long Beach finished 2010 in a position of strength.

As the banking industry experienced challenging times in the last several years, we have been able to further distinguish ourselves from the competition as an organization with a strong set of values, integrity and financial prowess. Farmers & Merchants continued to grow in 2010, as non-interest expenses declined and profitability increased during a critical transitional period for the economy.

The Bank's solid financial performance is a testament to more than a century of experience serving Southern California. Adaptability and resilience are key characteristics to succeeding in a rocky economic environment, and these traits, along with our drive and commitment to achieve the highest industry standards, contributed to Farmers & Merchants' success.

Interest income for the year ended December 31, 2010 was $178.9 million, compared with $189.6 million reported for the same period in 2009. Interest expense for the year totaled $12.0 million, compared with $18.4 million in 2009, primarily reflecting the lower interest rate environment.

Provision for loan losses declined to $26.0 million in 2010 from $40.8 million for 2009, as more stability returned to the economy during the year. The Bank's allowance for loan losses as a percentage of loans outstanding was 2.69% at December 31, 2010, compared with 2.85% at December 31, 2009.

Even though the economy made incremental improvements in 2010, we continued to keep a close watch on non-performing loans and controlling operating costs. These measures help ensure Farmers & Merchants' long-term stability, along with our chief financial officer's stellar maintenance of the Bank's investment securities portfolio.

Non-interest expense for 2010 was $74.4 million, compared with $77.5 million in 2009. The Bank's ability to control costs contributed to Farmers & Merchants' efficiency ratio of 39.88%, which is stronger than the industry's average.

Closely monitoring costs, a sound approach to lending practices and improving economic conditions enhanced Farmers & Merchants' profitability for the year. The Bank's net income for 2010 was $53.0 million, or $405.06 per diluted share, compared with $40.7 million, or $310.82 per diluted share, for 2009.

We understand that Farmers & Merchants' ability to achieve strong financial results ultimately serves the best interests of our shareholders. Demonstrating our commitment, the Bank has paid a dividend for more than a century.

Solid Foundation

The Bank's healthy balance sheet further confirms our financial strength. During the year, our executive team managed loan and deposit growth with the necessary acumen and discipline that are fundamental to the Bank's foundation.

At December 31, 2010, net loans increased to $2.01 billion from $1.97 billion at December 31, 2009. The Bank's deposits grew 5.7% to $3.00 billion at the end of 2010 from $2.84 billion at December 31, 2009. Non-interest bearing deposits represented 33.4% of total deposits at December 31, 2010, versus 31.6% of total deposits at December 31, 2009. Total assets increased to $4.26 billion at the close of 2010 from $3.98 billion at December 31, 2009.

Farmers & Merchants Bank Executive Team
(Pictured from Left to Right) Daniel K. Walker, Kenneth G. Walker, W. Henry Walker, John W. H. Hinrichs

At December 31, 2010, the Bank remained "well-capitalized" under all regulatory categories, with a total risk-based capital ratio of 26.59%, a Tier 1 risk-based capital ratio of 25.33%, and a Tier 1 leverage ratio of 14.31%. The minimum ratios for capital adequacy for a well-capitalized bank are 10.00%, 6.00% and 4.00%, respectively.

The Next Chapter

Maintaining a solid foundation is a priority for our Bank, as we establish new relationships with depositors, borrowers, and shareholders, as well as strengthen existing ties to the community.

Delivering products that resonate with our customer base is a priority, and Farmers & Merchants is well positioned to do so.

We deeply value our connection to the communities we serve throughout Southern California, whether it's a generations-old relationship with a customer or cultivating a new partnership that begins at one of our 22 branches. Appealing to a broad audience is also important, and we recently introduced "Student Checking" to help young people get their start with opening an account, as well as enabling parents to teach their children financial responsibility and money management skills.

With 104 years of banking experience in Southern California, we take great pride in helping our customers realize their goals. In the year ahead, we will remain focused on maintaining our strength, delivering superior service to our customers and value to our shareholders, and continuing to make a difference in the communities we serve.

On behalf of our board of directors and management team, we thank our employees, customers and shareholders for their continued support in making Farmers & Merchants one of the strongest banks in California.

Daniel K. Walker
Chairman of the Board and President

W. Henry Walker
Chief Executive Officer

• Meet the Executives •

F&M's outstanding performance is driven by the strength of its executive officers. By adhering to the principles of founder C.J. Walker, this year the Bank grew to more than $4 billion in assets for the first time in its history.

Kenneth G. Walker

President, Main Office

Kenneth G. Walker, the grandson of Farmers & Merchants Bank's (F&M) founder C.J. Walker, is a smiling, upbeat, vibrant testament to the Bank's rich legacy and storied heritage. Currently serving as the Walker Family patriarch, he was F&M's chief executive officer for nearly three decades. Today, he continues to lead the charge with his daily presence on the platform of the Main Office by working at the original desk that his grandfather C.J. once occupied. He is still greeting customers—a symbol of the Bank's continued commitment to make customers its number one priority.

"Farmers & Merchants Bank has been around long before me, and it will continue to stand strong well into the future—a sign that community and family can (and will) overcome any obstacle or challenge."

Daniel K. Walker

Chairman of the Board and President

Daniel K. Walker has been with Farmers & Merchants Bank for more than 36 years, and he has held nearly every position in the company. From his first job as an elevator operator at the age of 14, to the executive titles he now holds, his dedication to growing and strengthening the F&M organization is unsurpassed. Perhaps best known for his kind, encouraging personality among everyone he interacts with, Daniel currently serves as chairman of the board and president for Farmers & Merchants Bank and assumes the same roles for Farmers and Merchants Trust Company.

"Employees are the heartbeat of our company and are truly our greatest asset, providing unparalleled service and the friendly faces that help make us California's Strongest Bank®."

• Meet the Executives •

W. Henry Walker

Chief Executive Officer

W. Henry Walker began his career with Farmers & Merchants Bank (F&M) in 1983 on the teller line. In 2008, nearly three decades later, he was named chief executive officer. Under his leadership, F&M instituted new programs to include regional managers who oversee the health and viability of every branch they are assigned to and the Customer Service Concierge program, ensuring customers are attended to in an efficient manner. With his guidance, the Bank is integrating information technology and other innovative efforts into F&M's customer-centric experience.

"F&M looks forward to strong growth in the future as we adjust to a new paradigm of business, including the integration of technological advances to help us meet and exceed customer expectations."

John W. H. Hinrichs

Chief Financial Officer and Executive Vice President

John Hinrichs has dedicated the past 50 years of his life working alongside three generations of F&M CEOs. During this time, John has diligently managed the Bank's operations as its chief financial officer and executive vice president, and his track record for balancing revenues and expenses has afforded F&M long-term financial stability and profitability, even during the depths of the most recent financial downturn. His noteworthy career included being awarded the prestigious CFO Lifetime Achievement Award 2009 by the *Orange County Business Journal*.

"It gives me great pleasure to make decisions each day in collaboration with others who fully embrace F&M's business philosophy of growth, while also maintaining a conservative posture."

Farmers & Merchants Bank Board of Directors
(Pictured from Left to Right) William G. Hayter, Richard W. Darling, Timothy M. Wilson, Lawrence J. McLaughlin, Daniel K. Walker–Chairman of the Board, Timothy W. Jackert, Walter M. Florie

• Board of Directors •

Richard W. Darling ~ *Board Member Since 2008*

Mr. Darling, who also served as a board member between 1994 and 2007, is the retired president of Bremco Construction, a general contractor specializing in projects for major industrial and commercial corporations, where he still serves in an advisory capacity on a daily basis.

Walter M. Florie ~ *Board Member Since 2007*

Mr. Florie, who formerly held executive positions at Union Bank for almost three decades, is now president and chief executive officer and director of the Earl B. and Loraine H. Miller Foundation, an organization focused on children and their health care needs in the Greater Long Beach Community.

William G. Hayter ~ *Board Member Since 1988*

Mr. Hayter, who previously served as president of the Pacific Hospital Foundation, director of the Long Beach YMCA, and counsel for the Boy Scouts of America, is a practicing attorney specializing in business, estate planning and trust administration.

Timothy W. Jackert ~ *Board Member Since 2008*

Mr. Jackert served as chief financial officer at Memorial Medical Center Foundation in Long Beach for 38 years.

Lawrence J. McLaughlin ~ *Board Member Since 1990*

Mr. McLaughlin, who formerly was a principal and managing partner of a Los Angeles-based law firm for more than three decades, is now a principal at Megandrew Mineral Co., a Girard, Texas-based petroleum development company.

Timothy M. Wilson ~ *Board Member Since 2005*

Mr. Wilson is president of Mitchell Land & Improvement Co., a Southern California-based real estate development company where he previously served as executive vice president and chief operating officer.

• Meet the Managers •

Regional Managers

Selected for their local expertise, F&M's regional managers are responsible for the health and viability of the branches they oversee.

Juan Arreola
First Vice President

Serving F&M for more than 20 years.

Scott Dowds
Senior Vice President

Serving F&M for more than 17 years.

O.J. Gause
First Vice President

Serving F&M for more than 6 years.

Bret Holloway
Senior Vice President

Serving F&M for more than 26 years.

Rick Lange
Senior Vice President

Serving F&M for more than 8 years.

Phil Sblendorio
Senior Vice President

Serving F&M for more than 29 years.

Jeff Spinelli-Faris
Senior Vice President

Serving F&M for more than 25 years.

• 2010 Goal Setting Winners •

Department of the Year

Residential Lending

Back row (Left to Right): Joe McGreevy, Mike Osorio, Pattie Frazier, Andrew Sprague, Lucy Ortiz

Front row (Left to Right): Jane Lucas, Somatra But, Malida Young, Javada Reyes, Chhoeun Chhean, Melissa Jones, Mary Cuan

The Residential Lending Department surpassed its goals for the year by employing commonsense underwriting, conforming to extensive regulations and adhering to the values of honesty and integrity during a time of economic uncertainty. The department—described as the "best team ever" by Manager Patricia Frazier—received 100% on its Home Mortgage Disclosure Act evaluation and maintains an impeccable track record for mortgage retention. It focuses on each individual loan and remains committed to a customer-centric philosophy that is unmatched in the industry. The Residential Lending Department's strength in equity and assets makes it the fourth-largest loan portfolio in the bank. With a wide range of products that provide a competitive advantage, the department is driven by an ability to motivate those individuals on the front lines, but also by its know-how when it comes to working collaboratively as a team. All staff members are cross-trained, enabling the department to run smoothly even when certain members are out of the office.

Branch of the Year

Rossmoor Office

Back row (Left to Right): Natalie Girgis, Jeff Hagan, Mary Lay, Sam Maka, Caressa Basham, Spencer Grant, Kathy Erickson

Front row (Left to Right): Al Stone, Rosemarie Sandoval, Lori McEwen, Liezel Anderson, Ashley Wirth, Farida Mojadidi

Not pictured: Rebecca Hurd, Don Relaniza

By creating a positive workplace environment for staff and constantly enhancing the banking experience for customers, F&M's Rossmoor office increased its net income by more than 15%, while loans outstanding and core deposits jumped more than 10% and 11%, respectively. The Rossmoor branch also positioned itself for growth by integrating a customer service program, where one representative oversees the rest of the team to ensure the highest level of customer service standards are being adhered to and that each customer is tended to in an efficient manner. By establishing new efforts and finding new ways to put customers first, the Rossmoor branch continues to play an instrumental role in the growth of F&M Bank.

• Meet the Managers •

Longevity

One of F&M's unique attributes is the tenure of its employees.
F&M salutes branch managers with more than 25 years of service.

Lorie Stack
Vice President
East Long Beach
Serving F&M for
more than 43 years.

James Robison
Senior Vice President
Artesia
Serving F&M for
more than 38 years.

Sandy Thomas
Vice President
Garden Grove
Serving F&M for
more than 34 years.

Jeff Hagan
Vice President
Rossmoor
Serving F&M for
more than 34 years.

Phil Sblendorio
Senior Vice President
Main
Serving F&M for
more than 29 years.

Bret Holloway
Senior Vice President
Belmont Shore
Serving F&M for
more than 26 years.

• Long Beach Rescue Mission •

As the CEO of Farmers & Merchants Bank (F&M), and with a longstanding history of personal and corporate philanthropy, W. Henry Walker, through a series of compelling commercials, urged other local executives to invest in the Long Beach Rescue Mission (LBRM). His endorsement of the mission encouraged leaders in Long Beach to invest in providing shelter for hundreds of men, women and children. Walker's passionate plea in asking for support for the LBRM extends to his personal life where he and his family spend time buying toys and celebrating Christmas with women and children in transition at the Lydia House, a part of the LBRM, every year.

• Long Beach Symphony Orchestra •

An ardent supporter of the Long Beach Symphony Orchestra (LBSO) for more than a decade, and steadfastly committed to the communities in which it conducts business, F&M stepped up relief efforts when LBSO was faced with closing its doors due to insufficient funds. In addition to F&M's annual $70k donation, it set up a sustainability fund and contributed $100k toward the $800k fundraising goal needed to support the balance of the orchestral season. Moreover, F&M CEO W. Henry Walker developed a special program, Symphony Checking, to bolster funding efforts. When a Symphony supporter opened a new account with F&M, the bank donated $200 back to the Symphony. The Symphony Checking program is continuing in 2011.

• Toys for Tots •

Farmers & Merchants Bank (F&M) is proud to be a steadfast supporter of Toys for Tots, having donated more toys than any other locally owned business in the region. For the fifth consecutive year, F&M Bank supplied donation boxes in 22 branches for employees and customers to provide toys to the underserved children of Long Beach and Orange County. This past Christmas, F&M was able to provide 4,000 toys that were matched with each child's wish list.

• Pink Checking and Fourth of July Parade •

Farmers & Merchants Bank (F&M) partnered with the Orange County Affiliate of Susan G. Komen for the Cure in the fight to end breast cancer forever. At the 2010 Fourth of July Parade in Huntington Beach, nearly 50 survivors marched on behalf of F&M to raise awareness. The parade also served as a launching pad for F&M's Pink Checking program. For each qualified person that opened a new checking account and kept it active for 90 days, F&M donated $125, the average cost of a mammogram, to the YWCA, a grantee organization of the Komen Orange County Affiliate.

• Branch Promotions •

F&M held inspirational open-house events at the Tustin, Garden Grove and San Juan Capistrano branches—not only to raise awareness in the fight against breast cancer but also to spotlight local individuals and their moving stories. At the Tustin office, F&M remembered Branch Manager Marcia Evans' mother who passed away from breast cancer 20 years earlier. San Juan Capistrano recognized former Operations Manager Lupe Ramos and longtime customer Robin Matherson, both cancer survivors, who shared their personal battles to overcome the disease. Congresswoman Loretta Sanchez of the 47th District, along with Miss Garden Grove, Leah Cecil, and her court, attended the Garden Grove open house to promote the importance of early detection and the search for a cure for breast cancer. The branch open houses promoted F&M's support of the Komen Orange County Affiliate and encouraged registrations for the upcoming Race for the Cure.

Photo courtesy of Orange County Register

• F&M Presenting Sponsorship of the 2010 Komen OC Race for the Cure •

F&M's partnership with the Orange County Affiliate of Susan G. Komen for the Cure began two years ago when CEO W. Henry Walker served as a Pink Tie Guy and the bank endorsed the first-ever Music for the Cure program. F&M's support continued as a presenting sponsor of the 2010 Komen Orange County Race for the Cure. The Sept. 26 race drew more than 30,000 people to Newport Beach and featured Komen founder Nancy Brinker leading the charge. F&M enlisted a team of employees who raised money and participated in the race, while Marketing Director Trinka Rowsell delivered an empowering speech at the survivor ceremony.

• 2010 Women of Courage Program •

The second annual "Women of Courage" program honored customers and prospects in Orange County who displayed courage, tenacity and strength in business and the community.

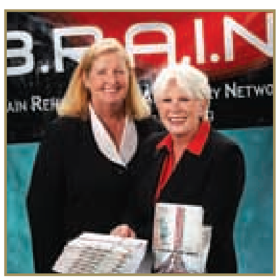
Once again, F&M hosted the awards breakfast for honorees at Zov's Bistro in Tustin on October 21, 2010. The event was tied to F&M's partnership with the National Association of Women Business Owners, Orange County (NAWBO OC) and its annual Remarkable Women event.

F&M executives congratulate Women of Courage honorees in Orange County.

• 2010 Women of Courage Honorees •

Connie Black
Apria
Fullerton
customer since 2007

Selected by Fullerton Branch Manager Scott Dowds for building multiple successful businesses while raising three children and earning a degree in nursing.



Sue Rueb
B.R.A.I.N.
Huntington Beach
customer since 2002

Selected by our Huntington Beach Branch Manager Marty Hartsock for advocating for people who suffer from brain injuries, including her daughter, Kristen.

Claudia Kihano Parker
Parker Law Group, Inc.
Laguna Hills
customer since 2008

Selected by Laguna Hills Assistant Branch Manager Brian Nakamura for venturing out on her own to form Parker Law Group, which has represented many high-profile clients since opening two years ago.

Liz Schmidt
Organic and Healthy
Lake Forest
customer since 2008

Selected by Lake Forest Branch Manager Tom Sauchelli for launching a business dedicated to healthy living after surviving a life-threatening illness early in life.

• 2010 Women of Courage Honorees •

Marcia Manker
Orange Coast Memorial Medical Center
Newport Beach
customer since 1998

Selected by Newport Beach Branch Manager Bob Fish for her leadership at Orange Coast Memorial Medical Center and longstanding commitment to providing safe, quality medical care.

Delores Marikian
YMCA of Orange
Orange
customer since 2000

Selected by Branch Manager Robert Schoeffler for her commitment to providing affordable after-school care, daycare and activities for Orange County children.

Marty Thompson
WE CARE
Rossmoor
customer since 1999

Selected by Branch Manager Jeff Hagan for her dedication to connecting needy families in northwest Orange County with services from local organizations through WE CARE.

Ruth DeNault
DeNault's Hardware
San Clemente
customer since 2008

Selected by Branch Manager Ada Baker for her lifelong commitment to giving back to the community while building a thriving hardware business from the ground up.

Pam Lytle
Landmark Realtors
San Juan Capistrano
customer since 2003

Selected by Assistant Branch Manager Dee White for overcoming obstacles in her personal and professional life with grace and determination.

Donna Lee
Global Partnership, LLC
Garden Grove
customer since 2007

Selected by Branch Manager Sandy Thomas for rebuilding her family business with bravery and determination after it was severely crippled during the recent economic downturn.

Teresa & Patricia Saldivar
Teresa's Jewelers
Santa Ana
customer since 2010

Selected by Branch Manager Paula Garcia-Young for starting a jewelry business in a male-dominated industry and becoming respected leaders in the Santa Ana community.

Suzanne Sotomey
Eaton Corporation
Tustin
prospective customer

Selected by Branch Manager Marcia Evans for her tenacity, drive and leadership within the male-dominated aerospace industry and her recent mission to Kenya—part of her lifelong commitment to empower women in Africa as a native of Ghana.

2010 Financial Report

Farmers & Merchants Bank®

KPMG LLP
Suite 2000
355 South Grand Avenue
Los Angeles, CA 90071-1568

Independent Auditors' Report

The Board of Directors
Farmers & Merchants Bank of Long Beach:

We have audited the accompanying balance sheets of Farmers & Merchants Bank of Long Beach (the Bank) as of December 31, 2010 and 2009, and the related statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Bank's management. 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Farmers & Merchants Bank of Long Beach as of December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

KPMG LLP

Los Angeles, California
April 28, 2011

Farmers & Merchants Bank of Long Beach
Balance Sheets

	December 31, 2010	December 31, 2009
	(In thousands, except share and per share data)	
Assets		
Cash and due from banks:		
Non-interest-bearing balances	$ 49,628	$ 46,402
Interest-bearing balances	48,509	123,491
Total cash and due from banks	98,137	169,893
Securities held-to-maturity (fair value of $1,513,158 and $1,282,767)	1,471,046	1,240,312
Securities available-for-sale (amortized cost of $494,985 and $453,963)	506,297	469,672
Loans, net	2,014,440	1,967,705
Other real estate owned	37,300	19,600
Bank premises and equipment, net	51,650	52,783
Accrued interest receivable	17,134	16,427
Net deferred tax assets	27,032	26,161
Other assets	39,370	18,216
Total assets	**$ 4,262,406**	**$ 3,980,769**
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits:		
Demand, non-interest bearing	$ 1,004,272	$ 898,186
Demand, interest bearing	261,961	254,905
Savings and money market savings	754,446	626,320
Time deposits	983,314	1,063,579
Total deposits	3,003,993	2,842,990
Securities sold under agreements to repurchase	628,192	544,566
Accrued interest payable and other liabilities	7,141	6,348
Total liabilities	3,639,326	3,393,904
Commitments and contingencies		
Stockholders' equity:		
Common stock, par value $20; authorized 250,000 shares; issued and outstanding 130,928 shares	2,619	2,619
Surplus	12,044	12,044
Retained earnings	601,861	563,099
Accumulated other comprehensive income	6,556	9,103
Total stockholders' equity	623,080	586,865
Total liabilities and stockholders' equity	**$ 4,262,406**	**$ 3,980,769**

See accompanying notes to financial statements.

Farmers & Merchants Bank

Farmers & Merchants Bank of Long Beach
Statements of Income

	Years Ended December 31,	
	2010	2009
	(In thousands, except per share data)	
Interest income:		
Loans	$ 115,928	$ 121,745
Securities held-to-maturity	47,563	48,773
Securities available-for-sale	14,666	18,388
Deposits with banks	774	654
Total interest income	178,931	189,560
Interest expense:		
Deposits	9,999	15,707
Securities sold under agreements to repurchase	2,043	2,664
Total interest expense	12,042	18,371
Net interest income	166,889	171,189
Provision for loan losses	25,950	40,800
Net interest income after provision for loan losses	140,939	130,389
Non-interest income:		
Service charges on deposit accounts	5,073	5,771
Gains on sale of securities	870	-
Merchant bankcard fees	1,209	1,230
Escrow fees	790	673
Other income	7,489	5,470
Total non-interest income	15,431	13,144
Non-interest expense:		
Salaries and employee benefits	40,165	38,834
FDIC and other insurance expense	4,881	6,211
Occupancy expense	5,696	6,038
Equipment expense	5,102	4,964
Other real estate owned expense, net	6,298	10,326
Legal and professional fees	2,436	2,291
Marketing and promotional expense	3,004	2,035
Printing and supplies	831	901
Postage and delivery	1,154	1,252
Other expense	4,861	4,678
Total non-interest expense	74,428	77,530
Income before income tax expense	81,942	66,003
Income tax expense	28,909	25,308
Net income	**$ 53,033**	**$ 40,695**
Basic and diluted earnings per common share	$ 405.06	$ 310.82

See accompanying notes to financial statements.

Farmers & Merchants Bank of Long Beach

Statements of Comprehensive Income

	Years Ended December 31, 2010	Years Ended December 31, 2009
	(In thousands)	
Net income	$ 53,033	$ 40,695
Other comprehensive income, net of tax:		
Unrealized losses on securities:		
Unrealized holding losses arising during period	(2,547)	(481)
Other comprehensive loss	(2,547)	(481)
Comprehensive income	**$ 50,486**	**$ 40,214**

See accompanying notes to financial statements.

Farmers & Merchants Bank

Farmers & Merchants Bank of Long Beach

Statements of Changes in Stockholders' Equity

(IN THOUSANDS)

	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance, December 31, 2008	**$ 2,619**	**12,044**	**536,675**	**9,584**	**$ 560,922**
Net income	-	-	40,695	-	40,695
Cash dividends	-	-	(14,271)	-	(14,271)
Other comprehensive loss, net of tax benefit	-	-	-	(481)	(481)
Balance, December 31, 2009	**$ 2,619**	**12,044**	**563,099**	**9,103**	**$ 586,865**
Net income	-	-	53,033	-	53,033
Cash dividends	-	-	(14,271)	-	(14,271)
Other comprehensive loss, net of tax benefit	-	-	-	(2,547)	(2,547)
Balance, December 31, 2010	**$ 2,619**	**12,044**	**601,861**	**6,556**	**$ 623,080**

See accompanying notes to financial statements.

Farmers & Merchants Bank of Long Beach
Statements of Cash Flows

	Years Ended December 31, 2010	2009
	(In thousands)	
Cash flows from operating activities:		
Net income	$ 53,033	$ 40,695
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,224	4,209
Net amortization on securities	21,674	13,089
Provision for loan losses	25,950	40,800
Reduction of reserve for losses on unfunded loan commitments	(247)	(249)
Deferred income tax expense (benefit)	875	(7,211)
Gain on sale of securities available-for-sale	(870)	-
Gain on sale of other real estate owned	(502)	(859)
Provision for other real estate owned	3,861	8,180
Increase in accrued interest receivable	(707)	(1,573)
Increase in other assets	(7,128)	(13,143)
Increase (decrease) in accrued interest payable and other liabilities	1,039	(732)
Total adjustments	48,169	42,511
Net cash provided by operating activities	101,202	83,206
Cash flows from investing activities:		
Proceeds from maturities of securities held-to-maturity	426,540	342,899
Purchases of securities held-to-maturity	(647,847)	(629,897)
Proceeds from sale of securities available-for-sale	36,543	-
Proceeds from maturities of securities available-for-sale	202,665	136,784
Purchases of securities available-for-sale	(310,461)	(187,331)
Net increase in loans	(112,854)	(105,352)
Purchases of bank premises and equipment	(3,091)	(1,460)
Proceeds from sale of other real estate owned	5,189	17,083
Net cash used in investing activities	(403,316)	(427,274)
Cash flows from financing activities:		
Net increase in deposits	161,003	167,171
Net increase in securities sold under agreements to repurchase	83,626	151,364
Dividends paid	(14,271)	(14,271)
Net cash provided by financing activities	230,358	304,264
Net decrease in cash and cash equivalents	(71,756)	(39,804)
Cash and cash equivalents at beginning of year	169,893	209,697
Cash and cash equivalents at end of year	**$ 98,137**	**$ 169,893**
Supplemental disclosures of cash flow information		
Cash paid during the year for:		
Interest	$ 12,155	$ 18,762
Income taxes	29,574	32,700
Non-cash investing and financing activities:		
Transfers to other real estate owned and other assets from loans	$ 40,170	$ 43,123
Loans to facilitate the sale of other real estate owned	2,284	8,970

See accompanying notes to financial statements.

NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Farmers & Merchants Bank of Long Beach (the “Bank”) is an FDIC-insured community bank offering a broad range of banking products and services to individuals, professionals and small to medium-sized businesses. As of December 31, 2010 the Bank operates 22 branches in California’s South Los Angeles County and Orange County. The Bank accepts demand and time deposits, funds loans including real estate, construction, and SBA loans and offers other business-oriented banking products.

The Bank’s operations, like those of other financial institutions operating in Southern California, are significantly influenced by economic conditions in Southern California, including local economies, the strength of the real estate market, and the fiscal and regulatory policies of the federal and state government and the regulatory authorities that govern financial institutions. No individual or single group of related accounts is considered material in relation to the total assets or deposits of the Bank. However, approximately 93% of the loan portfolio at December 31, 2010 consisted of real estate related loans, including commercial loans and construction loans secured by real estate. There has been a slow-down in the real estate market due to negative economic trends and credit market disruptions, the impact of which are not yet completely known or quantified. The Bank has observed tighter credit underwriting and higher premiums on liquidity, both of which may continue to place downward pressure on real estate values. Any further downturn in the real estate market could materially and adversely affect the business because a significant portion of the loan portfolio is secured by real estate. The ability to recover on defaulted loans by selling the real estate collateral would then be diminished and the Bank would be more likely to suffer losses on defaulted loans. Substantially all of the Bank’s real property collateral is located in Southern California. Consequently, the results of operations and financial condition are dependent upon the general trends in the Southern California economies and, in particular, the commercial and residential real estate markets. If there is a further decline in real estate values, especially in Southern California, the collateral of the loans would provide less security. Real estate values could be affected by, among other things, a worsening of the economic conditions, an increase in foreclosures, a decline in home sale volumes, an increase in interest rates, earthquakes and other natural disasters particular to California. Further, the Bank may experience an increase in the number of borrowers who become delinquent, file for protection under bankruptcy laws or default on their loans or other obligations to the Bank given a sustained weakness or weakening in business and economic conditions generally in the principal markets in which the Bank does business. An increase in number of delinquencies, bankruptcies or defaults could result in higher level of nonperforming assets, net charge-offs and provision for loan losses.

Basis of Financial Statement Presentation

The accounting and reporting policies of Farmers & Merchants Bank of Long Beach are in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) and conform to general practice within the banking industry. The policies that materially affect the determination of financial position, results of operations and cash flow are summarized below.

Use of Estimates

In preparing the financial statements, in conformity with U.S. GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and income statement for the year. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of the allowance for loan losses, the carrying value of securities available-for-sale, the valuation of other real estate owned and fair value disclosures.

NOTE 1 – Nature of Operations and Summary of Significant Accounting Policies, continued

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents consist of cash and due from banks.

Securities Held-to-maturity and Securities Available-for-sale

The Bank classifies its securities into one of two categories: held-to-maturity and available-for-sale. Securities held-to-maturity are those for which the Bank has the ability and positive intent to hold until maturity. All other securities are classified as available-for-sale.

Securities held-to-maturity are recorded at cost, adjusted for the amortization of premiums and accretion of discounts on a level-yield basis. Securities available-for-sale are carried at fair value. Unrealized holding gains and losses, net of the related tax effect, on securities available-for-sale are excluded from income and reported as a separate component of stockholders' equity identified as accumulated other comprehensive income until realized. Transfers of securities between categories, if any, are recorded at fair value at the date of the transfer. Unrealized holding gains or losses included in the separate component of equity for securities transferred from available-for-sale to held-to-maturity would be maintained and amortized into income over the remaining life of the security as an adjustment to the yield in a manner consistent with the amortization of premium or accretion of discount on the associated security.

If a decline in market value of any held-to-maturity or available-for-sale security below cost is deemed other-than-temporary, the security is written down to its fair value which becomes the new cost basis and an impairment loss is recognized. In estimating other-than-temporary impairment losses, management considers, among other things, (i) the length of time and the extent of which the fair value has been less than cost, (ii) the financial condition and near-term prospects of the issuer, and (iii) the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Any impairment on securities the Bank intends, or is more likely than not required to sell, is recognized in earnings as the entire difference between the amortized cost and its fair value. Any impairment on securities the Bank does not intend, or it is not more likely than not required to sell before recovery, is separated into an amount representing the credit loss, which is recognized in earnings and the amount related to all other factors, which is recognized in other comprehensive income. The new cost basis is not changed for subsequent recoveries in fair value.

Premiums and discounts are amortized and accreted over the life of the related securities available-for-sale and securities held-to-maturity as an adjustment to yield using the interest method. Realized gains and losses on the sale of securities available-for-sale and securities held-to-maturity are included in non-interest income as gain (loss) on sale of securities and are derived using the specific-identification method for determining the cost of securities sold.

Loans and Allowance for Loan Losses

Loans are reported at the principal amounts outstanding, net of unamortized non-refundable loan fees and related direct loan origination costs. Deferred net fees and costs are recognized in interest income on an effective yield basis over the contractual loan term. Interest on loans is accrued as earned.

NOTE 1 – Nature of Operations and Summary of Significant Accounting Policies, continued

Nonaccrual Loans

It is the Bank's general practice for interest accruals on loans to be discontinued whenever the payment of interest or principal is 90 days past due. Whenever the accrual of interest is discontinued, previously accrued but uncollected interest income is reversed. Accrual of interest is resumed only when principal and interest are brought fully current and when in management's judgment such loans are deemed fully collectible as to both principal and interest. The accrual of interest on loans that are more than 90 days past due may continue if the loans are well secured, in the process of collection, and management deems it appropriate.

Impaired Loans

The Bank considers a loan impaired when it is probable that the Bank will be unable to collect all amounts due according to its contractual terms. The amount of an impairment is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or measured against the value of the loan's underlying collateral, if the loan is collateral dependent. Impairment losses are included in the allowance for loan losses through the provision for loan losses. Cash receipts on impaired loans receivable are applied to reduce the principal amount of such loans until the principal has been recovered and are recognized as income thereafter.

Restructured Loans

A loan is classified as a troubled debt restructuring when a borrower is experiencing financial difficulties that lead to a restructuring of the loan, and the Bank grants concessions to the borrower in the restructuring that it would not otherwise consider. These concessions may include interest rate reductions, principal forgiveness, extension of maturity date and other actions intended to minimize potential losses. Loans restructured may be excluded from restructured loan disclosures in years subsequent to the restructuring if the loans are in compliance with their modified terms. Generally, a nonaccrual loan that is restructured remains on nonaccrual for a period of six months to demonstrate that the borrower can meet the restructured terms. However, the borrower's performance prior to restructuring, or other significant events at the time of restructuring may be considered in assessing whether the borrower can meet the new terms and may result in the loan being returned to accrual status after a shorter performance period. If the borrower's performance under the new terms is not reasonably assured, the loan remains classified as a nonaccrual loan.

Allowance for Loan Losses

The Bank accounts for the credit risk associated with lending activities through its allowance for loan losses and provision for loan losses. The provision is the expense recognized in the statements of income to adjust the allowance to the levels deemed appropriate by management, as determined through application of the Bank's allowance methodology procedures. The provision for loan losses reflects management's judgment of the adequacy of the allowance for loan losses. It is determined through quarterly analytical reviews of the loan portfolios and consideration of such other factors as the Bank's loan loss experience, trends in problem loans, concentrations of credit risk, underlying collateral values, and current economic conditions, as well as the results of the Bank's ongoing credit review process. As conditions change, the level of provisioning and the allowance for loan losses may change. Loans which are deemed to be uncollectible are charged off and deducted from the allowance. The provision for loan losses and recoveries on loans previously charged off are added to the allowance.

NOTE 1 – Nature of Operations and Summary of Significant Accounting Policies, continued

Bank Premises and Equipment

Bank premises and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation is computed on a straight-line method based on the estimated useful lives of the assets:

Type	Estimated Useful Life
Buildings	20 to 30 years
Building improvements	20 to 30 years
Furniture, fixtures, and equipment	3 to 7 years

Leasehold improvements are capitalized and amortized on a straight-line basis over the term of the lease or the estimated useful lives of the improvements, whichever is shorter. Construction in process is carried at cost and includes land acquisition, architectural fees, general contractor fees, capitalized interest and other costs related directly to the construction of a property. Maintenance and repairs are charged to expense. Gains or losses on sale or retirement of assets are reported in equipment expense.

Other Real Estate Owned

Other real estate owned (OREO) represents the collateral acquired through foreclosure in full or partial satisfaction of the related loan and is recorded at fair value as established by a current appraisal, adjusted for estimated selling costs. The excess of the carrying amount of a loan over the fair value of real estate acquired less cost to sell is charged to the allowance for loan losses. OREO values are reviewed on an ongoing basis and any decline in value is charged against OREO expense and included in the allowance for OREO in the period in which they are identified. Operating expenses of such properties, net of related income, and gains and losses on their disposition are included in OREO expense, net.

Operating Leases

The Bank enters into a variety of lease contracts generally for premises and equipment. Lease contracts that do not transfer substantially all of the benefits and risks of ownership and do not meet the accounting requirements for capital lease classification are treated as operating leases. The Bank accounts for the payments of rent on these contracts on a straight-line basis over the lease term. At inception of the lease term, any periods for which no rents are paid and/or escalation clauses are stipulated in the lease contract are included in the determination of the rent expense and recognized ratably over the lease term.

Income Taxes

Income taxes are accounted for under the asset and liability method. Under this method, the deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The Bank has adopted the provisions of ASC 740-10, *Accounting for Uncertainty in Income Taxes,* which prescribes a recognition threshold and measurement standard for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. ASC 740-10 requires that the Bank recognize in the financial statements the impact of a tax position, if that position is more likely than not to be sustained on audit, based on the technical merits of the position.

NOTE 1 – Nature of Operations and Summary of Significant Accounting Policies, continued

***Income Taxes,* continued**

The Bank may, from time to time, be assessed interest or penalties by taxing authorities. In the event a reserve for interest and penalties is established pursuant to ASC 740-10, or, if any such interest and penalties are assessed by a tax authority, such amounts will be classified in the financial statements as income tax expense.

Reserve for Losses on Unfunded Loan Commitments

The Bank maintains a reserve for losses on unfunded loan sheet commitments to absorb losses inherent in those commitments upon funding. The commitments include unfunded loan commitments, standby letters of credit and commercial lines of credit. The Bank's methodology for assessing the appropriateness of this allowance is the same as that used for the allowance for loan losses and incorporates an assumption based upon historical information of likely utilization. See accounting policy "Loans and Allowance for Loan Losses." The reserve for losses on unfunded loan commitments is classified as other liabilities and the change in this reserve is recognized in noninterest expense.

Comprehensive Income

Comprehensive income consists of net income and net unrealized gains (losses) on securities available-for-sale arising or reclassified during the period, and is presented in the statements of comprehensive income.

Earnings Per Share (EPS) Data

The table below is a reconciliation of the numerators and denominators used in the calculation of basic and diluted EPS for the years ended December 31, 2010 and 2009. Basic EPS is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock that then would share the earnings of the Bank. There were no securities or other contracts to issue common stock at December 31, 2010 and 2009.

	2010	2009
	(In thousands, except share and per share data)	
Basic and diluted earnings per share:		
Net income available to common stockholders	$ 53,033	$ 40,695
Weighted average number of common shares outstanding	130,928	130,928
Weighted basic and diluted earnings per common share	$ 405.06	$ 310.82

NOTE 2 – FAIR VALUE MEASUREMENTS

FASB ASC 820, *Fair Value Measurements and Disclosures*, defines fair value, establishes a framework for measuring fair value including a three-level valuation hierarchy, and expands disclosures about fair value measurements. Fair value is defined as the exchange price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date reflecting assumptions that a market participant would use when pricing an asset or liability. The three-level inputs to measure the fair value of assets and liabilities are as follows:

NOTE 2 – Fair Value Measurements, continued

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2 - Observable prices in active markets for similar assets or liabilities; prices for identical or similar assets or liabilities in markets that are not active; directly observable market inputs for substantially the full term of the asset and liability; market inputs that are not directly observable but are derived from or corroborated by observable market data.
Level 3 - Unobservable inputs based on the Bank's own judgments about the assumptions that a market participant would use.

The Bank uses the following methodologies to measure the fair value of its financial assets on a recurring and non-recurring basis:

Securities available-for-sale - The Bank measures all securities by using quoted market prices for similar securities or dealer quotes, a Level 2 measurement. This category generally includes federal agency debt securities, state and municipal securities, mortgage-backed securities, asset-backed securities and corporate bonds.

Impaired loans - The Bank does not record loans at fair value on a recurring basis. However, from time to time, nonrecurring fair value adjustments to collateral-dependent impaired loans are recorded based on either current appraised value of the collateral, a Level 2 measurement, or management's judgment and estimation of value reported on old appraisals which are then adjusted based on recent market trends, a Level 3 measurement.

Other real estate owned - The fair value of OREO is generally based on third-party appraisals, which are reviewed and approved by the Bank's Credit Administration Department. OREO measured at fair value based on third-party appraisals or observable market data is classified in Level 2 of the fair value hierarchy. In certain circumstances, fair value may be determined using a combination of inputs including appraised values, broker price opinions and recent market activity. The weighing of each input in the calculation of fair value is based on management's assumptions regarding market conditions. These assumptions cannot be observed in the market. OREO measured at fair value using non-observable inputs is classified in Level 3 of the fair value hierarchy.

The following table presents the Bank's hierarchy for its assets and liabilities measured at fair value on a recurring and non-recurring basis at December 31, 2010, and at December 31, 2009:

	As of December 31, 2010			
	Fair Value Measurements Using			Table at
	Level 1	Level 2	Level 3	Fair Value
	(In thousands)			
Assets				
On a recurring basis:				
Securities available-for-sale	$ -	$ 506,297	$ -	$ 506,297
On a non-recurring basis:				
Impaired loans	-	69,336	48,696	118,032
Other real estate owned	-	11,710	25,590	37,300
Total assets	$ -	$ 587,343	$ 74,286	$ 661,629

NOTE 2 – Fair Value Measurements, continued

	As of December 31, 2009			
	Fair Value Measurements Using			Table at
	Level 1	Level 2	Level 3	Fair Value
	(In thousands)			
Assets				
On a recurring basis:				
Securities available-for-sale	$ -	$ 469,672	$ -	$ 469,672
On a non-recurring basis:				
Impaired loans	-	45,971	20,564	66,535
Other real estate owned	-	7,959	11,641	19,600
Total assets	$ -	$ 523,602	$ 32,205	$ 555,807

NOTE 3 – FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments are defined under FASB ASC 825-50, *Financial Instruments-Disclosures,* as cash, evidence of an ownership in an entity, or a contract that conveys or imposes on an entity the contractual right or obligation to either receive or deliver cash or another financial instrument. A significant portion of the Bank's assets and liabilities are financial instruments as defined under FASB ASC 825-50.

The following presents a description of the Bank's financial instruments and the methodologies and assumptions used to estimate their fair value. Much of the information used to determine fair value is highly subjective. When applicable, readily available market information has been utilized. However, for a significant portion of the Bank's financial instruments, active markets do not exist. Therefore, considerable judgments were required in estimating fair value of certain items. The subjective factors include, among other things, the estimated timing and amount of cash flows, risk characteristics, credit quality and interest rates, all of which are subject to change. Since the fair value is estimated as of December 31, 2010 and 2009, the amounts that will actually be realized could be significantly different.

Cash and Cash Equivalents

The carrying value of cash and cash equivalents approximates the fair value because of the short maturity of such assets.

Securities Held-to-maturity and Securities Available-for-sale

The Bank used market quotes for similar or identical securities in an actively traded market to determine the fair values of securities held-to-maturity and securities available-for-sale as disclosed in Notes 4 and 5, respectively.

Loans

Fair values were estimated for portfolios of loans with similar financial characteristics. Each loan category was further segmented into fixed and adjustable rate interest terms and by performing and nonperforming categories. The fair value of performing loans was calculated by discounting scheduled cash flows through the estimated maturity using estimated market discount rates that reflect the credit and interest rate risk inherent in the loan. The entire allowance for loan losses was applied to classified loans including nonaccruals. Accordingly, they are considered to be carried at fair value as the allowance for loan losses represents the estimated discount for credit risk for the applicable loans.

NOTE 3 – Fair Value of Financial Instruments, continued

Deposits

The fair value of demand deposits, savings and money market saving accounts was determined to approximate the carrying value as they are immediately withdrawable. For fixed maturity time deposits, the fair value was estimated by discounting expected cash flows by the current offering rates of term deposits with similar maturities. In accordance with FASB ASC 825-10, *Financial Instruments-Overall* no value has been assigned to the Bank's long-term relationship with its deposit customers (core deposit intangibles) since it is not a financial instrument as defined under FASB ASC 825-10.

Securities Sold Under Agreements to Repurchase

The fair value of securities sold under agreements to repurchase approximates their carrying value due to the terms and nature of the obligations.

Off-Balance Sheet Financial Instruments

As the standby letters of credit and commitments to lend have terms that are consistent with current market terms, the Bank estimates that the fair value of the fees charged to enter into such agreements to be nominal.

The following table presents estimated fair value information for the Bank's loans and deposits at December 31:

	2010	
	Carrying Value	Estimated Fair Value
	(In thousands)	
Loans, net of allowance for loan losses	$ 2,014,440	$ 2,221,682
Deposits:		
Demand, non-interest bearing	$ 1,004,272	$ 1,004,272
Demand, interest bearing	261,961	261,961
Savings and money market savings	754,446	754,446
Time deposits	983,314	983,314
	$ 3,003,993	$ 3,003,993

	2009	
	Carrying Value	Estimated Fair Value
	(In thousands)	
Loans, net of allowance for loan losses	$ 1,967,705	$ 2,136,057
Deposits:		
Demand, non-interest bearing	$ 898,186	$ 898,186
Demand, interest bearing	254,905	254,905
Savings and money market savings	626,320	626,320
Time deposits	1,063,579	1,063,579
	$ 2,842,990	$ 2,842,990

NOTE 4 – SECURITIES HELD-TO-MATURITY

The following is a summary of securities held-to-maturity:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
At December 31, 2010				
Federal agency - Debt	$ 38,578	$ 312	$ -	$ 38,890
State and municipal securities	256,436	6,318	2,954	259,800
Federal agency - MBS	1,048,349	37,080	2,635	1,082,794
CMOs - Federal agency	122,622	3,774	95	126,301
Corporate securities	5,061	312	-	5,373
Total securities held-to-maturity	$ 1,471,046	$ 47,796	$ 5,684	$ 1,513,158
At December 31, 2009				
Federal agency - Debt	$ 59,949	$ 612	$ 574	$ 59,987
State and municipal securities	146,876	6,347	111	153,112
Federal agency - MBS	897,136	31,764	65	928,835
CMOs - Federal agency	131,272	4,472	147	135,597
Corporate securities	5,079	172	15	5,236
Total securities held-to-maturity	$ 1,240,312	$ 43,367	$ 912	$ 1,282,767

The following table is a summary of the estimated maturities of securities held-to-maturity as of December 31, 2010:

	Carrying Value	Estimated Fair Value
	(In thousands)	
Due in 1 year or less	$ 13,766	$ 13,989
Due after 1 year through 5 years	66,445	69,946
Due after 5 years through 10 years	141,270	142,879
Due after 10 years	78,594	77,249
Federal agency - MBS	1,048,349	1,082,794
CMOs - Federal agency	122,622	126,301
	$ 1,471,046	$ 1,513,158

There were no sales of securities held-to-maturity in 2010 or 2009. There were no transfers of securities from held-to-maturity to available-for-sale in 2010 or 2009.

Gross unrealized losses on held-to-maturity securities and the fair value of the related held-to-maturity securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2010 were as follows:

	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(In thousands)			
State and municipal securities	$ 85,532	$ 2,930	$ 984	$ 24	$ 86,516	$ 2,954
Federal agency - MBS	302,535	2,635	-	-	302,535	2,635
CMOs - Federal agency	16,499	95	-	-	16,499	95
Total temporarily impaired securities	$ 404,566	$ 5,660	$ 984	$ 24	$ 405,550	$ 5,684

NOTE 4 – Securities Held-to-Maturity, continued

The Bank's held-to-maturity portfolio is primarily comprised of mortgage-backed securities issued or guaranteed by FNMA (Fannie Mae) or GNMA (Ginnie Mae). The unrealized losses on mortgage-backed securities are primarily attributable to declining market prices caused by accelerated prepayments on the mortgages resulting from a lower interest rate environment. At December 31, 2010, there were 224 and 2 held-to-maturity securities with unrealized losses less than 12 months and 12 months or longer, respectively.

At December 31, 2010, management believes that held-to-maturity securities in an unrealized loss position were temporary in nature, and therefore no impairment losses were recognized in the statement of income. Because the Bank has the ability and intent to hold these investments until a market price recovery or maturity, these held-to-maturity securities are not considered other-than-temporarily impaired.

Total securities with a carrying value of approximately $1.05 billion and $976.8 million at December 31, 2010 and December 31, 2009, respectively, were pledged to secure public deposits and for other purposes required by law.

Interest income on tax-exempt securities was $8.0 million for the year ended December 31, 2010, and $6.6 million for the year ended December 31, 2009.

NOTE 5 – SECURITIES AVAILABLE-FOR-SALE

The following is a summary of securities available-for-sale:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(In thousands)		
At December 31, 2010				
Federal agency - Debt	$ 94,868	$ 1,574	$ 58	$ 96,384
State and municipal securities	186,882	2,013	1,242	187,653
Federal agency - MBS	156,247	8,561	78	164,730
CMOs - Federal agency	56,780	530	-	57,310
Corporate securities	208	12	-	220
Total securities available-for-sale	$ 494,985	$ 12,690	$ 1,378	$ 506,297
At December 31, 2009				
Federal agency - Debt	$ 96,943	$ 4,503	$ -	$ 101,446
State and municipal securities	125,204	2,172	161	127,215
Federal agency - MBS	216,522	9,079	448	225,153
CMOs - Federal agency	15,084	587	28	15,643
Corporate securities	210	5	-	215
Total securities available-for-sale	$ 453,963	$ 16,346	$ 637	$ 469,672

NOTE 5 – Securities Available-For-Sale, continued

The following table is a summary of the estimated maturities of securities available-for-sale as of December 31, 2010:

	Carrying Value	Estimated Fair Value
	(In thousands)	
Due in 1 year or less	$ 59,289	$ 60,395
Due after 1 year through 5 years	123,989	125,029
Due after 5 years through 10 years	44,815	45,426
Due after 10 years	53,865	53,407
Federal agency - MBS	156,247	164,730
CMOs - Federal agency	56,780	57,310
	$ 494,985	$ 506,297

Proceeds from sales of securities available-for-sale were $36.5 million during 2010. Gross realized gains on sale of securities available-for-sale in 2010 were $870,000. There were no sales of securities available-for-sale in 2009.

Gross unrealized losses on available-for-sale securities and the fair value of the related available-for-sale securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2010 were as follows:

	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(In thousands)			
Federal agency - Debt	$ 10,270	$ 58	$ -	$ -	$ 10,270	$ 58
State and municipal securities	104,833	1,236	517	6	105,350	1,242
Federal agency - MBS	7,446	78	-	-	7,446	78
Total temporarily impaired securities	$ 122,549	$ 1,372	$ 517	$ 6	$ 123,066	$ 1,378

The unrealized losses on mortgage-backed securities are primarily attributable to declining market prices caused by accelerated prepayments on the mortgages resulting from a lower interest rate environment. At December 31, 2010, there were 167 and 1 available-for-sale securities with unrealized losses less than 12 months and 12 months or longer, respectively. Whenever the cost of an investment security exceeds its fair value, management evaluates, among other factors, general market conditions, the duration and extent to which cost is more than fair value.

At December 31, 2010, management believes that available-for-sale securities in an unrealized loss position were temporary in nature, and therefore no impairment losses were recognized in the income statement. Because the Bank has the ability and intent to hold these investments until a market price recovery or maturity, these available-for-sale securities are not considered other-than-temporarily impaired.

NOTE 5 – Securities Available-For-Sale, continued

The following represents the related tax effect allocated to each component of other comprehensive income for the year ended December 31, 2010 and December 31, 2009:

	Before-Tax Amount	Tax Benefit	Net-of-Tax Amount
		(In thousands)	
Year ended December 31, 2010			
Unrealized losses on securities:			
Unrealized holding losses arising during period	$ (4,396)	$ 1,849	$ (2,547)
Other comprehensive losses	$ (4,396)	$ 1,849	$ (2,547)
Year ended December 31, 2009			
Unrealized losses on securities:			
Unrealized holding losses arising during period	$ (830)	$ 349	$ (481)
Other comprehensive losses	$ (830)	$ 349	$ (481)

NOTE 6 – LOANS AND ALLOWANCE FOR LOAN LOSSES

The following is a summary of the major categories of loans:

	December 31, 2010	December 31, 2009
	(In thousands)	
Commercial	$ 114,732	$ 93,450
Real estate	1,821,394	1,694,967
Construction	110,986	206,745
Consumer	23,381	30,424
	2,070,493	2,025,586
Less: Allowance for loan losses	(55,627)	(57,751)
Unamortized deferred loan fees, net	(426)	(130)
Loans, net	$ 2,014,440	$ 1,967,705

Activities in the allowance for loan losses for the years ended December 31, 2010 and 2009 were as follows:

	December 31, 2010	December 31, 2009
	(In thousands)	
Balance, beginning of year	$ 57,751	$ 53,794
Provision for loan losses	25,950	40,800
Charge-offs	(29,044)	(37,014)
Recoveries	970	171
Balance, end of year	$ 55,627	$ 57,751

The loan portfolio is composed mainly of credit extended to borrowers in Southern California with the majority of loans secured by real estate, even though a substantial amount of the Bank's loans are intended for business purposes. There is no concentration of loans to borrowers in a specific industry within the commercial loan portfolio.

NOTE 6 – Loans and Allowance for Loan Losses, continued

The following table summarizes our nonaccrual loans:

	Year Ended December 31, 2010	2009
	(In thousands)	
Nonaccrual loans		
Outstanding balance	$ 92,694	$ 56,856
Average balance	90,516	62,605
Interest income recorded	296	360
Interest income foregone	4,214	2,632

Loans 90 days or more past due as to interest and/or principal which remain on accrual status approximated $6.9 million at December 31, 2010 and $13.2 million at December 31, 2009.

Included in the Bank's loan portfolio are troubled debt restructured loans which are those loans whose terms have been modified because of a deterioration in the financial condition of the borrower. The total amount of troubled debt restructured loans was $50.6 million at December 31, 2010 and $35.2 million at December 31, 2009.

For the indicated periods, the following table contains financial information on impaired loans:

	As of and for the Year Ended December 31, 2010	2009
	(In thousands)	
Recorded investment with related allowance	$ 16,474	$ 47,421
Recorded investment with no related allowance	102,876	30,501
Allowance on impaired loans	(1,173)	(11,387)
Net recorded investment in impaired loans	$ 118,177	$ 66,535
Average total recorded investment in impaired loans	$ 112,100	$ 75,198

Interest income recognized on impaired loans during 2010 and 2009 was $537,000 and $258,000, respectively. At December 31, 2010 the bank had no commitments to lend additional funds to debtors whose loans are non-performing.

The Bank had outstanding loan commitments of $321.7 million and $339.6 million at December 31, 2010 and 2009, respectively. Substantially, all of the Bank's loan commitments are on a variable rate basis and are comprised of real estate loan commitments. Activities in the reserve for unfunded loan commitments included in other liabilities in the accompanying balance sheet for the years ended December 31, 2010 and 2009 were as follows:

	December 31, 2010	2009
	(In thousands)	
Balance, beginning of year	$ 2,519	$ 2,768
Reduction of reserve for losses on unfunded loan commitments	(247)	(249)
Charge-offs	-	-
Recoveries	-	-
Balance, end of year	$ 2,272	$ 2,519

NOTE 7 – BANK PREMISES AND EQUIPMENT

The following is a summary of bank premises and equipment at December 31:

	December 31, 2010	December 31, 2009
	(In thousands)	
Land	$ 20,354	$ 19,173
Buildings and building improvements	36,352	36,330
Furniture, fixtures and equipment	25,466	24,415
Leasehold improvements	3,594	3,518
Construction in progress	740	77
	$ 86,506	$ 83,513
Less accumulated depreciation and amortization	(34,856)	(30,730)
	$ 51,650	$ 52,783

Depreciation and amortization expense was $4.2 million in 2010 and $4.2 million in 2009.

The Bank is committed under operating leases on certain premises and equipment. Certain leases require the Bank to pay property taxes and insurance. Rental expense was $1.2 million in 2010 and $1.2 million in 2009, net of sublease income of $590,000 and $512,000, respectively. Annual minimum lease commitments at December 31, 2010 were:

	(In thousands)
2011	$ 1,264
2012	977
2013	986
2014	732
2015	732
Thereafter	1,777

Management expects that in the normal course of business, leases that expire will be renewed or replaced by other leases.

NOTE 8 – OTHER REAL ESTATE OWNED

At December 31, 2010 and 2009, other real estate owned was $37.3 million, net of reserve for OREO of $10.1 million and $19.6 million, net of reserve for OREO of $6.5 million, respectively. The following table summarizes OREO by property type at the dates indicated:

	December 31, 2010	December 31, 2009
	(In thousands)	
Commercial real estate	$ 6,746	$ 3,584
Construction and land development	27,883	13,458
Single family residence	2,671	2,558
Total OREO, net	$ 37,300	$ 19,600

NOTE 8 – Other Real Estate Owned, continued

The components of OREO expense, net are as follows:

	2010	2009
	(In thousands)	
Operating and maintenance expense	$ 4,198	$ 3,396
Provision for losses	3,861	8,180
Rental income	(1,259)	(391)
Net gain on sale	(502)	(859)
	$ 6,298	$ 10,326

NOTE 9 – TIME DEPOSITS

The following is a summary of time deposits:

	December 31,	
	2010	2009
	(In thousands)	
Time deposits less than $100,000	$ 274,643	$ 303,060
Time deposits of $100,000 and over	708,671	760,519
	$ 983,314	$ 1,063,579

Interest expense on time deposits of $100,000 and over totaled $6.2 million and $10.0 million for the years ended December 31, 2010, and 2009, respectively.

At December 31, 2010, the maturity distribution of the Bank's time deposits was as follows:

	(In thousands)
2011	$ 855,358
2012	67,710
2013	19,637
2014	20,276
2015	20,333
	$ 983,314

NOTE 10 – SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

At December 31, 2010 and 2009, securities sold under agreements to repurchase totaled $628.2 million and $544.6 million and carried weighted average interest rates of 0.26% and 0.44%, respectively. The securities underlying these agreements were U.S. Government agency obligations, state and municipal securities, and mortgage-backed securities with carrying values of $681.5 million and $612.5 million and fair values of $704.5 million and $635.5 million, at December 31, 2010 and 2009, respectively. The securities underlying these agreements are held by a custodian bank until the maturity of the agreement. The identical securities will be repurchased by the Bank.

NOTE 10 – Securities Sold Under Agreements to Repurchase, continued

The average outstanding amounts of securities sold under agreements to repurchase (based upon daily balances) were $609.1 million in 2010 and $495.0 million in 2009. The weighted average interest rates were 0.34% in 2010 and 0.54% in 2009, and the maximum amounts outstanding during the periods were $737.3 million and $571.0 million, respectively. All agreements in 2010 and 2009 are short term with maturities in a range of 6 to 8 weeks.

NOTE 11 – INCOME TAXES

The provision for income taxes for the years ended December 31, 2010 and 2009, is comprised of the following:

	2010	2009
	(In thousands)	
Current income taxes:		
Federal	$ 21,418	$ 24,671
State	6,616	7,848
Total current income tax expense	28,034	32,519
Deferred income taxes:		
Federal	691	(5,554)
State	184	(1,657)
Total deferred income tax expense (benefit)	875	(7,211)
Total income tax expense	$ 28,909	$ 25,308

Significant temporary differences that give rise to the deferred tax assets and liabilities as of December 31, 2010 and December 31, 2009 are as follows:

	2010	2009
	(In thousands)	
Deferred tax assets		
Allowance for loan losses	$ 26,541	$ 27,628
Depreciation and amortization	1,562	1,214
Gain/loss on sale of OREO	4,834	3,488
Other, net	-	592
Gross deferred tax assets	$ 32,937	$ 32,922
Deferred tax liabilities		
Discount accretion income	(34)	(36)
State income taxes	(481)	(120)
Fair value adjustments on securities available-for-sale	(4,756)	(6,605)
Other, net	(634)	-
Gross deferred tax liabilities	$ (5,905)	$ (6,761)
Net deferred tax assets	$ 27,032	$ 26,161

Based on management's review of the recoverability of the net deferred tax asset above, no valuation allowance was considered necessary as of December 31, 2010 and December 31, 2009.

NOTE 11 – Income Taxes, continued

The Federal tax rate was 35% for 2010 and 2009. A reconciliation of income tax expense and the amount computed by applying the "expected" Federal income tax rate to income before income taxes follows:

	2010	2009
Federal income tax rate	35.0%	35.0%
State income taxes, net of Federal benefit	5.4%	6.1%
Tax exempt income	(3.4%)	(3.5%)
Other	(1.7%)	0.7%
	35.3%	38.3%

The Bank has concluded that there are no significant uncertain tax positions as of December 31, 2010. The Bank has not recorded a liability for uncertain tax positions as of December 31, 2010 and December 31, 2009.

NOTE 12 – COMMITMENTS, CONTINGENCIES AND OFF-BALANCE SHEET RISK

Lending

In the normal course of business, there are various outstanding commitments and contingencies, such as financial instruments with off-balance sheet risk, which are not reflected in the accompanying financial statements. These financial instruments primarily consist of commitments to extend credit and standby letters of credit issued to meet the financing needs of the Bank's customers. Management does not anticipate any material losses as a result of these transactions.

Commitments to extend credit and standby letters of credit only represent exposure to risk in the event the contract is drawn upon and the other party to the contract defaults. The actual credit risk of these transactions depends upon the credit worthiness of the customer and on the value of any related collateral. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

The following presents a summary of the financial instruments described above as of the dates indicated:

	December 31,	
	2010	2009
	(In thousands)	
Commitments to extend credit	$ 321,662	$ 339,553
Standby letters of credit	38,858	41,917
	$ 360,520	$ 381,470

Substantially, all of the Bank's loan commitments are on a variable rate basis and are comprised of real estate loan commitments.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Where appropriate, cash or other security support is held as collateral.

NOTE 12 – Commitments, Contingencies and Off-Balance Sheet Risk, continued

Legal Matters

From time to time, the Bank is a defendant or plaintiff in various legal proceedings, including litigation arising in the ordinary course of its business. To date, none of these types of litigation has had a material effect on the Bank's financial position or results of operations and, as of December 31, 2010, the Bank is not a party to any material litigation.

NOTE 13 – RELATED PARTY TRANSACTIONS

At December 31, 2010 and December 31, 2009, no loan was extended to an affiliated party.

The Bank and Farmers & Merchants Trust Company of Long Beach (the "Trust Co.") are affiliated parties as a substantial percentage of the outstanding shares of the Bank and the parent company of the Trust Co. are held by common shareholders, which include Richard Darling, William Hayter, Lawrence McLaughlin, Daniel K. Walker, Kenneth G. Walker and W. Henry Walker, each of whom is either a director and/or an officer of the Bank. In addition, certain officers and/or directors of the Bank are also officers and/or directors of the parent company of the Trust Co. and its subsidiaries, including the Trust Co. The Bank provides administrative, accounting and data processing services as well as office space to the Trust Co. The Trust Co. provides trustee and financial management services to the Bank and maintains deposits with the Bank. The Bank and the Trust Co. have entered into an agreement for the exchange of services, which will result in a periodic settlement of amounts owed. This agreement was unanimously approved by their respective audit committees and Boards of Directors. The Trust Co. paid the Bank $102,000 and $66,000, respectively, pursuant to the agreement for the exchange of services for each of the years ended December 31, 2010 and 2009.

The Bank leases a branch location from the Trust Co.'s parent corporation. The Bank paid $270,000 and $268,000, respectively, in rent pursuant to this lease for each of the years ended December 31, 2010 and 2009.

NOTE 14 – PROFIT-SHARING PLAN

The Bank has a noncontributory profit-sharing plan in which employees are eligible to participate at year-end if they have been employed for at least 1,000 hours during the year. The Bank contributed $3.2 million and $3.3 million to the profit-sharing plan in 2010 and 2009, respectively. At December 31, 2010 and December 31, 2009, no shares of the Bank's stock are held by the trust created by the plan.

NOTE 15 – REGULATORY MATTERS

The Bank is subject to various regulatory capital requirements administered by the Federal and State banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly, additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the 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 weightings, and other factors.

NOTE 15 – Regulatory Matters, continued

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) 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 December 31, 2010, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2010, the most recent notification from the Federal Reserve Bank 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. There are no conditions or events since that notification that management believes have changed the institution's category.

The Bank's actual regulatory capital amounts and ratios are also presented in the table.

	Actual		For Capital Adequacy Purposes:		To Be Well Capitalized Under Prompt Corrective Action Provisions:	
	Amount	Rate	Amount	Rate	Amount	Rate
			(Dollars in thousands)			
As of December 31, 2010:						
Total Capital						
(to Risk-Weighted Assets)	$ 647,287	26.59%	≥ $ 194,714	≥ 8.0%	≥ $ 243,393	≥ 10.0%
Tier 1 Capital						
(to Risk-Weighted Assets)	$ 616,524	25.33%	≥ $ 97,357	≥ 4.0%	≥ $ 146,036	≥ 6.0%
Tier 1 Capital						
(to Average Assets)	$ 616,524	14.31%	≥ $ 172,362	≥ 4.0%	≥ $ 215,453	≥ 5.0%

	Actual		For Capital Adequacy Purposes:		To Be Well Capitalized Under Prompt Corrective Action Provisions:	
	Amount	Rate	Amount	Rate	Amount	Rate
			(Dollars in thousands)			
As of December 31, 2009:						
Total Capital						
(to Risk-Weighted Assets)	$ 606,895	26.39%	≥ $ 183,965	≥ 8.0%	≥ $ 229,956	≥ 10.0%
Tier 1 Capital						
(to Risk-Weighted Assets)	$ 577,761	25.12%	≥ $ 91,983	≥ 4.0%	≥ $ 137,974	≥ 6.0%
Tier 1 Capital						
(to Average Assets)	$ 577,761	14.29%	≥ $ 161,736	≥ 4.0%	≥ $ 202,170	≥ 5.0%

NOTE 16 – SUBSEQUENT EVENTS

The Bank has evaluated events that have occurred subsequent to December 31, 2010, and through April 28, 2011, the date that these financial statements were issued. Subsequent to December 31, 2010, the Bank discovered a defalcation carried out by a former vice-president totaling $2.0 million, which will result in a recognition of an operational loss in 2011. The Bank is currently pursuing all available options for recovery, including filing a claim with the insurance company.

Farmers & Merchants Bank of Long Beach
Corporate Information

Board of Directors
Daniel K. Walker, Chairman of the Board
Richard W. Darling
Walter M. Florie
William G. Hayter
Timothy W. Jackert
Lawrence J. McLaughlin
Timothy M. Wilson

Principal Officers
Daniel K. Walker, Chairman of the Board and President
W. Henry Walker, Chief Executive Officer
Kenneth G. Walker, President, Main Office
John W. H. Hinrichs, Chief Financial Officer

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Legal Counsel
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Costa Mesa, CA 92626

Investor Relations
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Los Angeles, CA 90067

Transfer Agent
American Stock Transfer and Trust Company
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Security Listing
Farmers & Merchants Bank's common stock is traded on the OTC Markets system (OTCQB) under the symbol FMBL.

Corporate Headquarters
302 Pine Avenue
Long Beach, CA 90802

Certain statements in this annual report may be forward-looking statements. Readers of this annual report should understand that all such forward-looking statements are inherently subject to risk and uncertainties, some of which cannot be predicted or quantified. Future events and actual results could differ materially from those set forth in, contemplated by or underlying such forward-looking statements and the Bank's actual results or outcomes could differ materially from those anticipated.

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Lakewood
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