Farmers & Merchants Bank®

Financials

2011 ANNUAL REPORT

FARMERS & MERCHANTS BANK OF LONG BEACH
2011 ANNUAL REPORT

Contents

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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, 2011 and 2010, 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, 2011 and 2010, 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

Irvine, California
April 27, 2012

FARMERS & MERCHANTS BANK OF LONG BEACH
BALANCE SHEETS

	December 31, 2011	December 31, 2010
	(In thousands, except share and per share data)	
Assets		
Cash and due from banks:		
Non-interest-bearing balances	$ 57,394	$ 49,628
Interest-bearing balances	278,525	48,509
Total cash and due from banks	335,919	98,137
Securities held-to-maturity (fair value of $1,633,061 and $1,513,158)	1,564,841	1,471,046
Securities available-for-sale (amortized cost of $533,026 and $494,985)	548,289	506,297
Loans, net	2,028,507	2,014,440
Other real estate owned, net	23,036	37,300
Investments in low-income communities	43,566	11,350
Bank premises and equipment, net	55,155	51,650
Accrued interest receivable	16,464	17,134
Net deferred tax assets	28,583	27,032
Other assets	14,985	28,020
Total assets	**$ 4,659,345**	**$ 4,262,406**
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits:		
Demand, non-interest bearing	$ 1,263,162	$ 1,004,272
Demand, interest bearing	300,984	261,961
Savings and money market savings	909,794	754,446
Time deposits	919,538	983,314
Total deposits	3,393,478	3,003,993
Securities sold under agreements to repurchase	555,992	628,192
Other liabilities	39,659	7,141
Total liabilities	3,989,129	3,639,326
Commitments and contingencies		
Stockholders' equity:		
Common stock, par value $20; authorized 250,000 shares; issued and outstanding 130,928 shares	2,619	2,619
Surplus	12,044	12,044
Retained earnings	646,708	601,861
Accumulated other comprehensive income	8,845	6,556
Total stockholders' equity	670,216	623,080
Total liabilities and stockholders' equity	**$ 4,659,345**	**$ 4,262,406**

See accompanying notes to financial statements.

FARMERS & MERCHANTS BANK OF LONG BEACH
STATEMENTS OF INCOME

	Years Ended December 31, 2011	Years Ended December 31, 2010
	(In thousands, except per share data)	
Interest income:		
Loans	$ 115,395	$ 115,928
Securities held-to-maturity	48,734	47,563
Securities available-for-sale	13,980	14,666
Deposits with banks	497	774
Total interest income	178,606	178,931
Interest expense:		
Deposits	7,920	9,999
Securities sold under agreements to repurchase	1,535	2,043
Total interest expense	9,455	12,042
Net interest income	169,151	166,889
Provision for loan losses	14,200	25,950
Net interest income after provision for loan losses	154,951	140,939
Non-interest income:		
Service charges on deposit accounts	5,114	5,073
Gains on sale of securities	174	870
Merchant bankcard fees	1,257	1,209
Escrow fees	924	790
Other income	6,436	7,489
Total non-interest income	13,905	15,431
Non-interest expense:		
Salaries and employee benefits	41,814	40,165
FDIC and other insurance expense	4,671	4,881
Occupancy expense	5,501	5,696
Equipment expense	5,435	5,102
Other real estate owned expense, net	3,441	6,298
Amortization of investments in low-income communities	3,894	150
Legal and professional fees	3,896	2,436
Marketing and promotional expense	3,934	3,004
Other expense	5,842	6,696
Total non-interest expense	78,428	74,428
Income before income tax expense	90,428	81,942
Income tax expense	31,310	28,909
Net income	**$ 59,118**	**$ 53,033**
Basic and diluted earnings per common share	$ 451.53	$ 405.06

See accompanying notes to financial statements.

FARMERS & MERCHANTS BANK OF LONG BEACH
STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31, 2011	2010
	(In thousands)	
Net income	$ 59,118	$ 53,033
Other comprehensive income, net of tax:		
Unrealized losses on securities:		
Unrealized holding gains (losses) arising during period	2,289	(2,547)
Other comprehensive income (loss)	2,289	(2,547)
Comprehensive income	**$ 61,407**	**$ 50,486**

See accompanying notes to financial statements.

FARMERS & MERCHANTS BANK OF LONG BEACH
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(IN THOUSANDS)

	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity
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	-	-	-	(2,547)	(2,547)
Balance, December 31, 2010	**$ 2,619**	**$ 12,044**	**$ 601,861**	**$ 6,556**	**$ 623,080**
Net income	-	-	59,118	-	59,118
Cash dividends	-	-	(14,271)	-	(14,271)
Other comprehensive income, net of tax	-	-	-	2,289	2,289
Balance, December 31, 2011	**$ 2,619**	**$ 12,044**	**$ 646,708**	**$ 8,845**	**$ 670,216**

See accompanying notes to financial statements.

FARMERS & MERCHANTS BANK OF LONG BEACH
STATEMENTS OF CASH FLOWS

	Years Ended December 31, 2011	2010
	(In thousands)	
Cash flows from operating activities:		
Net income	$ 59,118	$ 53,033
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,117	4,224
Net amortization on securities	22,953	21,674
Provision for loan losses	14,200	25,950
Reduction of reserve for losses on unfunded loan commitments	(221)	(247)
Deferred income tax (benefit) expense	(3,821)	875
Gain on sale of securities available-for-sale	(174)	(870)
Gain on sale of other real estate owned	(3,360)	(502)
Provision for other real estate owned	3,676	3,861
Amortization of investments in low-income communities	3,893	150
Decrease (increase) in accrued interest receivable	670	(707)
Decrease in other assets	13,645	4,222
Increase in other liabilities	1,327	1,039
Total adjustments	56,905	59,669
Net cash provided by operating activities	116,023	112,702
Cash flows from investing activities:		
Proceeds from maturities of securities held-to-maturity	462,880	426,540
Purchases of securities held-to-maturity	(546,311)	(647,847)
Proceeds from sale of securities available-for-sale	6,049	36,543
Proceeds from maturities of securities available-for-sale	255,935	202,665
Purchases of securities available-for-sale	(333,168)	(310,461)
Net increase in loans	(45,932)	(112,854)
Purchases of bank premises and equipment	(5,353)	(3,091)
Proceeds from sale of other real estate owned	30,059	5,189
Capitalized expenditures on other real estate owned	(258)	-
Payments of senior lien on other real estate owned	(173)	-
Increase in investments in low-income communities	(4,983)	(11,500)
Net cash used in investing activities	(181,255)	(414,816)
Cash flows from financing activities:		
Net increase in deposits	389,485	161,003
Net (decrease) increase in securities sold under agreements to repurchase	(72,200)	83,626
Dividends paid	(14,271)	(14,271)
Net cash provided by financing activities	303,014	230,358
Net increase (decrease) in cash and cash equivalents	237,782	(71,756)
Cash and cash equivalents at beginning of year	98,137	169,893
Cash and cash equivalents at end of year	**$ 335,919**	**$ 98,137**

See accompanying notes to financial statements.

	Years Ended December 31, 2011	2010
	(In thousands)	
Supplemental disclosures of cash flow information		
Cash paid during the year for:		
Interest	$ 9,535	$ 12,155
Income taxes	30,673	29,574
Non-cash investing and financing activities:		
Transfers to other real estate owned and other assets from loans	$ 17,665	$ 40,170
Loans to facilitate the sale of other real estate owned	1,850	2,284
Transfers to bank premises from other real estate owned	2,270	-

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 a California-state chartered community bank, the deposits at which are insured by the FDIC. The Bank offers a broad range of banking products and services to individuals, professionals and small to medium-sized businesses. As of December 31, 2011 the Bank operates 21 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 consumer loans and offers other customary banking products and services to its customers.

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 90% of the loan portfolio at December 31, 2011 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 has been significant over the last several years. 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 significant downturn in the Southern California real estate market could materially and adversely affect the business of the Bank because a significant portion of the Bank's 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 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 Loan Fees

Loans are reported at the principal amounts outstanding, net of the allowance for loan losses, 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 accrual 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.

Troubled Debt Restructured Loans

A loan is classified as a troubled debt restructuring ("TDR") 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. TDR loans 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. Loans classified as TDRs are reported as impaired loans.

Allowance for Loan Losses

The allowance for loan losses is maintained at a level deemed appropriate by the Bank to adequately provide for known and inherent risks in the loan portfolio at the balance sheet date. The allowance is based upon a continuing review of the portfolio, past loan loss experience, current economic conditions which may affect the borrowers' ability to pay, and the underlying collateral value of the loans. 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

Allowance for Loan Losses, continued

The allowance for loan losses consists of two components: specific allowances and general allowances. To determine the adequacy of the allowance in each of these two components, two primary methodologies are employed, the individual loan review analysis methodology and the classification migration methodology. These methodologies support the basis for determining allocations between the various loan segments and the overall adequacy of our allowance to provide for probable losses inherent in the loan portfolio. These methodologies are further supported by additional analysis of relevant factors such as the historical losses in the portfolio, and environmental factors which include trends in delinquency and non-accrual, and other significant factors, such as the national and local economy, the volume and composition of the portfolio, strength of management and loan staff, underwriting standards, and the concentration of credit.

The Bank's management allocates a specific allowance for "Impaired Loans", in accordance with Accounting Standard Codification ("ASC") Section 310-10-35. For non-impaired loans, a general allowance is established for those loans internally classified and risk graded Pass, Watch, Special Mention, or Substandard based on historical losses in the specific loan portfolio and a reserve based on environmental factors determined for that loan group. The level of the general allowance is established to provide coverage for management's estimate of the credit risk in the loan portfolio by various loan segments not covered by the specific allowance.

The Bank's loan portfolio, excluding impaired loans which are evaluated individually, is categorized into several segments for purposes of determining allowance amounts by loan segment. The loan segments management currently evaluate are: commercial real estate, real estate construction, single-family residence, multi-family residence, equity lines, credit cards, commercial, consumer and farmland. Within these segments, management then evaluates loans not classified, which are referred to as "pass" loans, separately from classified loans. The classified loans are further grouped into three credit risk rating categories: "special mention," "substandard" and "doubtful," which management defines as follows.

Special Mention: Loans classified as special mention have a potential weakness that requires management's attention. If not addressed, these potential weaknesses may result in further deterioration in the borrower's ability to repay the loan.

Substandard: Loans classified as substandard have a well-defined weakness or weaknesses that jeopardize the collection of the debt. They are characterized by the possibility that the Bank will sustain some loss if the weaknesses are not corrected.

Doubtful: Loans classified as doubtful have all the weaknesses as those classified as substandard, with the additional trait that the weaknesses make collection or repayment in full highly questionable and improbable.

In addition, management may refer to the loans classified as "substandard" and "doubtful" together as "classified loans." For additional information on classified loans, see Note 6, *Loans and Allowances for Loan Losses.*

The Bank's federal and state banking regulators, as an integral part of their examination process, periodically review the Bank's allowance for loan losses. The Bank's regulators may require the Bank to recognize additions to the allowance based on their judgments related to information available to them at the time of their examinations.

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	Shorter of useful lives or the terms of the lease

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 at the date of transfer. 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.

Investments in Low-Income Communities

The Bank invests in limited liability companies and partnerships that make investments in commercial enterprises and affordable housing project located in low income communities, which qualify for Federal or State income tax credits. The Bank's interests are accounted for utilizing the cost method of accounting.

Securities Sold Under Agreements to Repurchase

The Bank sells certain securities under agreements to repurchase. The agreements are treated as collateralized financing transactions and the obligations to repurchase securities sold are reflected as a liability in the accompanying balance sheets. The securities underlying the agreements remain in the applicable asset accounts.

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.

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

Reserve for Losses on Unfunded Loan Commitments

The Bank maintains a reserve for losses on unfunded loan 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.

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.

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.

Comprehensive Income

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

Earnings Per Share (EPS) Data

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, 2011 and 2010.

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

Earnings Per Share (EPS) Data, **continued**

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, 2011 and 2010.

	2011	2010
	(In thousands, except share and per share data)	
Basic and diluted earnings per share:		
Net income available to common stockholders	$ 59,118	$ 53,033
Weighted average number of common shares outstanding	130,928	130,928
Weighted basic and diluted earnings per common share	$ 451.53	$ 405.06

Recent Accounting Pronouncements

In April 2011, the FASB issued ASU 2011-02 *A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring*. ASU 2011-02 clarifies the guidance on a creditor's evaluation of whether a restructuring constitutes a troubled debt restructuring. A restructuring constitutes a troubled debt restructuring if it meets both of the following criteria: (a) the restructuring constitutes a concession; and (b) the debtor is experiencing financial difficulties. ASU 2011-02 was effective for interim and annual periods beginning on or after June 15, 2011, and was applied retrospectively to restructurings occurring on or after January 1, 2011. Adoption of ASU 2011-02 did not have a significant impact on the Bank's financial statements.

In April 2011, the FASB issued ASU 2011-03 *Transfers and Servicing: Reconsideration of Effective Control for Repurchase Agreements*. ASU 2011-03 improves the accounting for repurchase agreements and other similar transactions by removing the following: the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms even in the event of default by the transferee, and the collateral maintenance implementation guidance related to that criterion. ASU 2011-03 will be effective for interim and annual periods beginning on or after December 15, 2011, and will be applied prospectively. Adoption of ASU 2011-03 is not expected to have a significant impact on the Bank's financial statements.

In June 2011, the FASB issued ASU 2011-05 *Presentation of Comprehensive Income*. ASU 2011-05 requires that all non-owner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In the two-statement approach, the first statement should present total net income and its components followed consecutively by a second statement that should present total other comprehensive income, the components of other comprehensive income, and the total of comprehensive income. ASU 2011-05 will be effective for interim and annual periods beginning on or after December 15, 2011, and will be applied retrospectively. Adoption of ASU 2011-05 is not expected to have a significant impact on the Bank's financial statements.

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. The impaired loans categorized as Level 3 also include loans whose fair values are based on unobservable inputs such as cash flows discounted at the effective loan rate and management's judgment.

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, 2011, and at December 31, 2010:

	As of December 31, 2011			
	Fair Value Measurements Using			Total at
	Level 1	Level 2	Level 3	Fair Value
		(In thousands)		
Assets				
On a recurring basis:				
Securities available-for-sale	$ -	$ 548,289	$ -	$ 548,289
On a non-recurring basis:				
Impaired loans	-	103,070	37,730	140,800
Other real estate owned	-	10,045	12,991	23,036
Total assets	$ -	$ 661,404	$ 50,721	$ 712,125

NOTE 2 – Fair Value Measurements, continued

	As of December 31, 2010			
	Fair Value Measurements Using			Total 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	48,604	117,940
Other real estate owned	-	11,710	25,590	37,300
Total assets	$ -	$ 587,343	$ 74,194	$ 661,537

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, 2011 and 2010, 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:

	2011	
	Carrying Value	Estimated Fair Value
	(In thousands)	
Loans, net of allowance for loan losses	$ 2,028,507	$ 2,052,436
Deposits:		
Demand, non-interest bearing	$ 1,263,162	$ 1,263,162
Demand, interest bearing	300,984	300,984
Savings and money market savings	909,794	909,794
Time deposits	919,538	919,538
	$ 3,393,478	$ 3,393,478

	2010	
	Carrying Value	Estimated Fair Value
	(In thousands)	
Loans, net of allowance for loan losses	$ 2,014,440	$ 2,018,186
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

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, 2011				
Federal agency - Debt	$ 4,141	$ 82	$ -	$ 4,223
State and municipal securities	326,339	21,676	59	347,956
Federal agency - MBS	1,114,111	44,423	-	1,158,534
CMOs - Federal agency	114,495	1,984	117	116,362
Corporate securities	5,755	231	-	5,986
Total securities held-to-maturity	$ 1,564,841	$ 68,396	$ 176	$ 1,633,061
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

The following table is a summary of the estimated maturities of securities held-to-maturity as of December 31, 2011:

	Amortized Cost	Fair Value
	(In thousands)	
Due in 1 year or less	$ 9,613	$ 9,741
Due after 1 year through 5 years	72,582	76,383
Due after 5 years through 10 years	189,265	204,274
Due after 10 years	64,775	67,767
Federal agency - MBS	1,114,111	1,158,534
CMOs - Federal agency	114,495	116,362
	$ 1,564,841	$ 1,633,061

There were no sales of securities held-to-maturity in 2011 or 2010. There were no transfers of securities from held-to-maturity to available-for-sale in 2011 or 2010.

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, 2011 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	$ 9,173	$ 59	$ -	$ -	$ 9,173	$ 59
CMOs - Federal agency	28,766	117	-	-	28,766	117
Total temporarily impaired securities	$ 37,939	$ 176	$ -	$ -	$ 37,939	$ 176

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, 2011, there were 14 and 0 held-to-maturity securities with unrealized losses less than 12 months and 12 months or longer, respectively.

At December 31, 2011, 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 $1.04 billion and $1.05 billion at December 31, 2011 and December 31, 2010, respectively, were pledged to secure public deposits and for other purposes required by law.

Interest income on tax-exempt securities was $10.1 million for the year ended December 31, 2011, and $8.0 million for the year ended December 31, 2010.

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, 2011				
Federal agency - Debt	$ 153,114	$ 262	$ 37	$ 153,339
State and municipal securities	163,903	4,510	39	168,374
Federal agency - MBS	181,325	9,952	-	191,277
CMOs - Federal agency	31,861	611	-	32,472
Corporate securities	2,823	12	8	2,827
Total securities available-for-sale	$ 533,026	$ 15,347	$ 84	$ 548,289
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

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, 2011:

	Amortized Cost	Fair Value
	(In thousands)	
Due in 1 year or less	$ 72,546	$ 72,622
Due after 1 year through 5 years	145,762	147,746
Due after 5 years through 10 years	57,162	59,168
Due after 10 years	44,370	45,004
Federal agency - MBS	181,325	191,277
CMOs - Federal agency	31,861	32,472
	$ 533,026	$ 548,289

Proceeds from sales of securities available-for-sale were $6.05 million during 2011 and $36.5 million during 2010. Gross realized gains on sale of securities available-for-sale were $174,000 in 2011 and $870,000 in 2010.

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, 2011 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	$ 63,976	$ 37	$ -	$ -	$ 63,976	$ 37
State and municipal securities	29,908	39	-	-	29,908	39
Corporate securities	2,609	8	-	-	2,609	8
Total temporarily impairedsecurities	$ 96,493	$ 84	$ -	$ -	$ 96,483	$ 84

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, 2011, there were 53 and 0 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, 2011, 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, 2011 and December 31, 2010:

	Before-Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount
		(In thousands)	
Year ended December 31, 2011			
Unrealized gains on securities:			
Unrealized holding gains arising during period	$ 3,951	$ (1,662)	$ 2,289
Other comprehensive losses	$ 3,951	$ (1,662)	$ 2,289
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)

NOTE 6 – LOANS AND ALLOWANCE FOR LOAN LOSSES

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. Loans are generally expected to be paid off from the operating profits of the borrowers, refinancing by another lender or through sale by the borrowers of the secured collateral.

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

	December 31, 2011	December 31, 2010
	(In thousands)	
Commercial loans	$ 178,030	$ 114,377
Real estate construction loans	81,278	110,985
Loans secured by real estate	1,680,287	1,685,675
Equity lines	127,251	135,795
Installment and other loans	20,542	23,661
Gross Loans	2,087,388	2,070,493
Less: Allowance for loan losses	(58,463)	(55,627)
Unamortized deferred loan fees, net	(418)	(426)
Loans, net	$ 2,028,507	$ 2,014,440
Loans held for sale	$ 4,713	$ 1,241

NOTE 6 – Loans and Allowance for Loan Losses, continued

The following table segregates the major loan categories between those loans that were individually evaluated for impairment and those loans that were collectively evaluated for impairment.

	December 31, 2011			December 31, 2010		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
	(In thousands)					
Type of Loans						
Commercial loans	$ 4,324	$ 173,706	$ 178,030	$ 1,604	$ 112,773	$ 114,377
Real estate construction loans	14,594	66,683	81,277	28,637	82,348	110,985
Loans secured by real estate	121,853	1,558,434	1,680,287	88,658	1,597,017	1,685,675
Equity lines	803	126,448	127,251	451	135,344	135,795
Installment and other loans	-	20,543	20,543	-	23,661	23,661
Total	**$ 141,574**	**$ 1,945,814**	**$ 2,087,388**	**$ 119,350**	**$ 1,951,143**	**$ 2,070,493**

The following tables present summaries of the activity in the allowance for loan losses by loan type for the years ended December 31, 2011 and 2010:

	Commercial Loans	Real Estate Construction Loans	Loans Secured by Real Estate	Equity Lines	Installment and Other Loans	Total
	(In thousands)					
December 31, 2009	**$ 1,898**	**$ 9,582**	**$ 36,388**	**$ 2,424**	**$ 7,460**	**$ 57,752**
Provision	487	10,863	11,883	242	2,475	25,950
Charge-Offs	(369)	(9,597)	(15,066)	(541)	(3,472)	(29,045)
Recoveries	488	112	3	4	363	970
December 31, 2010	**$ 2,504**	**$ 10,960**	**$ 33,208**	**$ 2,129**	**$ 6,826**	**$ 55,627**
Provision	4,994	(3,169)	15,646	(1,842)	(1,429)	14,200
Charge-Offs	(1,398)	(400)	(10,473)	(150)	(1,736)	(14,157)
Recoveries	768	949	210	515	351	2,793
December 31, 2011	**$ 6,868**	**$ 8,340**	**$ 38,591**	**$ 652**	**$ 4,012**	**$ 58,463**
The ending balance of the allowance is composed of amounts applicable to loans:						
Individually evaluated for impairment	$ 109	$ 213	$ 345	$ -	$ -	$ 667
Collectively evaluated for impairment	$ 6,759	$ 8,127	$ 38,246	$ 652	$ 4,012	$ 57,796

The Bank's classification migration methodology utilized a three-year look-back period in 2010. In 2011, the look-back period was extended to a four-year period. Had the Bank utilized a three-year look-back period in 2011, the historical loss rates used in the classification migration methodology would have been lower.

NOTE 6 – Loans and Allowance for Loan Losses, continued

The following is a summary of non-accrual loans as of December 31, 2011 and 2010 and the related net interest income foregone for the years then ended:

	2011	2010
	(In thousands)	
Nonaccrual loans		
Outstanding balance	$ 126,052	$ 92,694
Average balance	113,841	90,516
Interest income recorded	1,134	296
Interest income foregone	5,029	4,214

The following table presents the aging of the loan portfolio by type as of December 31, 2011 and as of December 31, 2010:

	As of December 31, 2011					
	30 - 59 Days Past Due	60 - 89 Days Past Due	90 Days & Over Still Accruing	Non-accrual	Current	Total
			(In thousands)			
Type of Loans						
Commercial loans	$ -	$ -	$ 141	$ 4,134	$ 173,755	$ 178,030
Real estate construction loans	2,766	-	-	14,594	63,918	81,278
Loans secured by real estate	5,036	428	144	106,521	1,568,158	1,680,287
Equity lines	96	-	-	803	126,352	127,251
Installment and other loans	720	343	108	-	19,371	20,542
Total loans	**$ 8,618**	**$ 771**	**$ 393**	**$ 126,052**	**$ 1,951,554**	**$ 2,087,388**

	As of December 31, 2010					
	30 - 59 Days Past Due	60 - 89 Days Past Due	90 Days & Over Still Accruing	Non-accrual	Current	Total
			(In thousands)			
Type of Loans						
Commercial loans	$ 324	$ 1,000	$ 3,398	$ 1,455	$ 108,200	$ 114,377
Real estate construction loans	1,691	-	225	26,974	82,095	110,985
Loans secured by real estate	19,852	7,364	2,957	63,814	1,591,688	1,685,675
Equity lines	524	457	341	451	134,022	135,795
Installment and other loans	825	419	108	-	22,309	23,661
Total loans	**$ 23,216**	**$ 9,240**	**$ 7,029**	**$ 92,694**	**$ 1,938,314**	**$ 2,070,493**

NOTE 6 – Loans and Allowance for Loan Losses, continued

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 $88.9 million at December 31, 2011 and $50.6 million at December 31, 2010. The following tables present TDRs as of each year-end.

	December 31, 2011			December 31, 2010		
	Accrual	Non-accrual	Total	Accrual	Non-accrual	Total
			(In thousands)			
Type of Loans						
Commercial loans	$ 190	$ 219	$ 409	$ 150	$ 247	$ 397
Real estate construction loans	-	11,579	11,579	1,663	7,954	9,617
Loans secured by real estate	15,333	61,108	76,441	24,843	15,693	40,536
Equity lines	-	431	431	-	-	-
Total	**$ 15,523**	**$ 73,337**	**$ 88,860**	**$ 26,656**	**$ 23,894**	**$ 50,550**

Nonaccrual loans and performing restructured loans are considered impaired for reporting purposes. For the indicated periods, the following table contains financial information on impaired loans by major categories:

	As of December 31, 2011						
	Unpaid Principal Balance	Recorded Invt with No ALLL	Recorded Invt with Allowance	Related ALLL	Total	Average Recorded Investment	Interest Income Recognized
				(In thousands)			
Type of Loan							
Commercial loans	$ 4,324	$ 3,999	$ 325	$ (109)	$ 4,215	$ 3,811	$ 25
Real estate construction loans	14,594	12,773	1,821	(213)	14,381	16,556	367
Loans secured by real estate	121,853	105,805	16,048	(345)	121,508	35,032	1,639
Equity lines	803	803	-	-	803	783	2
Installment and other loans	-	-	-	-	-	-	-
Total	**$ 141,574**	**$ 123,380**	**$ 18,194**	**$ (667)**	**$ 140,907**	**$ 56,182**	**$ 2,033**

	As of December 31, 2010						
	Unpaid Principal Balance	Recorded Invt with No ALLL	Recorded Invt with Allowance	Related ALLL	Total	Average Recorded Investment	Interest Income Recognized
				(In thousands)			
Type of Loan							
Commercial loans	$ 1,604	$ 1,325	$ 279	$ (27)	$ 1,577	$ 4,093	$ 322
Real estate construction loans	28,637	25,183	3,454	(95)	28,542	27,479	130
Loans secured by real estate	88,658	76,071	12,587	(1,047)	87,611	26,898	445
Equity lines	451	297	154	(4)	447	369	-
Installment and other loans	-	-	-	-	-	3	-
Total	**$ 119,350**	**$ 102,876**	**$ 16,474**	**$ (1,173)**	**$ 118,177**	**$ 58,842**	**$ 897**

NOTE 6 – Loans and Allowance for Loan Losses, continued

The following tables present the credit risk rating categories for loans by portfolio segment as of the dates indicated. Nonclassified loans are those with a credit risk rating of either pass or special mention, while classified loans are those with a credit risk rating of either substandard or doubtful.

	December 31, 2011			December 31, 2010		
	Nonclassified	Classified	Total	Nonclassified	Classified	Total
	(In thousands)					
Year Ended December 31, 2010						
Commercial loans	$ 174,719	$ 3,311	$ 178,030	$ 111,156	$ 3,221	$ 114,377
Real estate construction loans	64,567	16,711	81,278	71,948	39,037	110,985
Loans secured by real estate	1,488,381	191,906	1,680,287	1,550,440	135,235	1,685,675
Equity lines	120,139	7,112	127,251	133,227	2,568	135,795
Installment and other loans	20,433	109	20,542	23,551	110	23,661
Total	**$ 1,868,239**	**$ 219,149**	**$ 2,087,388**	**$ 1,890,322**	**$ 180,171**	**$ 2,070,493**

Activities in the reserve for unfunded loan commitments included in other liabilities in the accompanying balance sheet for the years ended December 31, 2011 and 2010 were as follows:

	December 31,	
	2011	2010
	(In thousands)	
Balance, beginning of year	$ 2,272	$ 2,519
Reduction of reserve for losses on unfunded loan commitments	(220)	(247)
Balance, end of year	$ 2,052	$ 2,272

NOTE 7 – BANK PREMISES AND EQUIPMENT

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

	December 31,	
	2011	2010
	(In thousands)	
Land	$ 21,806	$ 20,354
Buildings and building improvements	40,093	36,352
Furniture, fixtures and equipment	26,541	25,466
Leasehold improvements	3,594	3,594
Construction in progress	1,453	740
	$ 93,487	$ 86,506
Less accumulated depreciation and amortization	(38,332)	(34,856)
	$ 55,155	$ 51,650

Depreciation and amortization expense was $4.1 million in 2011 and $4.2 million in 2010.

NOTE 7 – Bank Premises and Equipment, continued

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 $994,000 in 2011 and $1.2 million in 2010, net of sublease income of $590,000 and $590,000, respectively. Annual minimum lease commitments at December 31, 2011 were:

Year Ending December 31,	Commitments (In thousands)
2012	$ 1,370
2013	1,389
2014	1,126
2015	1,025
2016	771
Thereafter	1,533

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, 2011 and 2010, other real estate owned was $23.0 million, net of reserve for OREO of $13.4 million and $37.3 million, net of reserve for OREO of $10.1 million, respectively. The following table summarizes OREO by property type at the dates indicated:

	December 31, 2011	December 31, 2010
	(In thousands)	
Commercial real estate	$ 4,010	$ 6,746
Construction and land development	18,585	27,883
Single family residence	441	2,671
Total OREO, net	$ 23,036	$ 37,300

The components of OREO expense, net are as follows:

	2011	2010
	(In thousands)	
Operating and maintenance expense	$ 4,996	$ 4,198
Provision for losses	3,676	3,861
Rental income	(1,871)	(1,259)
Net gain on sale	(3,360)	(502)
	$ 3,441	$ 6,298

NOTE 9 – INVESTMENTS IN LOW-INCOME COMMUNITIES

The Bank has invested in certain limited liability companies and partnerships that make investments in commercial enterprises and affordable housing project located in low income communities. The Bank's investments totaled $43.6 million and $11.4 million at December 31, 2011 and December 31, 2010, respectively. Unfunded commitments related to these investments totaled $31.1 million at December 31, 2011, which were recorded under accrued interest payable and other liabilities. There were no unfunded commitments at December 31, 2010.

The remaining tax credits to be utilized over a multiple-year period are $47.4 million for Federal and $1.1 million for State at December 31, 2011. The Bank's usage of tax credits approximated $3.7 million for 2011 and $3.0 million for 2010.

NOTE 10 – TIME DEPOSITS

The following is a summary of time deposits:

	December 31, 2011	December 31, 2010
	(In thousands)	
Time deposits less than $100,000	$ 245,620	$ 274,643
Time deposits of $100,000 and over	673,918	708,671
	$ 919,538	$ 983,314

Interest expense on time deposits of $100,000 and over totaled $4.8 million and $6.2 million for the years ended December 31, 2011, and 2010, respectively.

At December 31, 2011, the maturity distribution of the Bank's time deposits was as follows:

Year of Maturity	Amount
	(In thousands)
2012	$ 778,989
2013	78,381
2014	30,914
2015	20,934
2016	10,320
	$ 919,538

NOTE 11 – SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

At December 31, 2011 and 2010, securities sold under agreements to repurchase totaled $556.0 million and $628.2 million and carried weighted average interest rates of 0.20% and 0.26%, respectively. The securities underlying these agreements were U.S. Government agency obligations, state and municipal securities, and mortgage-backed securities with carrying values of $665.6 million and $681.5 million and fair values of $692.6 million and $704.5 million, at December 31, 2011 and 2010, 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 11 – Securities Sold Under Agreements to Repurchase, continued

The average outstanding amounts of securities sold under agreements to repurchase (based upon daily balances) were $622.3 million in 2011 and $609.1 million in 2010. The weighted average interest rates were 0.25% in 2011 and 0.34% in 2010, and the maximum amounts outstanding during the periods were $700.0 million and $737.3 million, respectively. All agreements in 2011 and 2010 are short term with maturities in a range of 6 to 8 weeks.

NOTE 12 – INCOME TAXES

The provision for income taxes for the years ended December 31, 2011 and 2010 is comprised of the following:

	2011	2010
	(In thousands)	
Current income taxes:		
Federal	$ 26,608	$ 21,418
State	7,915	6,616
Total current income tax expense	34,523	28,034
Deferred income taxes:		
Federal	(2,132)	691
State	(1,081)	184
Total deferred income tax expense (benefit)	(3,213)	875
Total income tax expense	$ 31,310	$ 28,909

Significant temporary differences that give rise to the deferred tax assets and liabilities as of December 31, 2011 and December 31, 2010 are as follows:

	2011	2010
	(In thousands)	
Deferred tax assets		
Allowance for loan losses	$ 27,740	$ 26,541
Depreciation and amortization	1,232	1,562
Gain/loss on sale of OREO	6,336	4,834
Gross deferred tax assets	$ 35,308	$ 32,937
Deferred tax liabilities		
Discount accretion income	(35)	(34)
State income taxes	(262)	(481)
Fair value adjustments on securities available-for-sale	(6,418)	(4,756)
Other, net	(10)	(634)
Gross deferred tax liabilities	$ (6,725)	$ (5,905)
Net deferred tax assets	$ 28,583	$ 27,032

NOTE 12 – Income Taxes, continued

The Federal tax rate was 35% for 2011 and 2010. A reconciliation of income tax expense and the amount computed by applying the "expected" Federal income tax rate to income before income taxes follows:

	2011	2010
Federal income tax rate	35.0%	35.0%
State income taxes, net of Federal benefit	5.2%	5.4%
Tax exempt income	(3.9%)	(3.4%)
Other	(1.7%)	(1.7%)
	34.6%	35.3%

In assessing the realization of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent on the generation of future taxable income during the periods in which those temporary differences become deductible.

Based upon our taxpaying history and estimates of taxable income over the years in which the items giving rise to the deferred tax assets are deductible, management believes it is more likely than not the Bank will realize the benefits of these deductible differences. Therefore, no valuation allowance was considered necessary as of December 31, 2011 and December 31, 2010.

The Bank has adopted the provisions of ASC 740-10, *Accounting for Uncertainty in Income Taxes*, which prescribes the requirements for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The ASC 740-10 standard requires that all tax positions be assessed and to the extent the position is more likely than not to be sustained on its technical merits, a benefit be recognized based on the greatest amount that is more likely than not to be sustained.

Management's evaluation of tax positions was performed for those tax years which remain open to audit. As of December 31, 2011, all the federal and state returns filed since 2007 are subject to adjustment upon audit. The Bank may, from time to time, be assessed interest or penalties by taxing authorities, although any such assessments historically have been minimal and immaterial to our financial results. In the event we are assessed for interest and/or penalties, such amounts will be classified in the financial statements as income tax expense.The Bank has concluded that there are no significant uncertain tax positions as of December 31, 2011.

NOTE 13 – 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.

NOTE 13 – Commitments, Contingencies and Off-Balance Sheet Risk, continued

***Lending,* continued**

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

	December 31, 2011	December 31, 2010
	(In thousands)	
Commitments to extend credit	$ 462,755	$ 321,662
Standby letters of credit	26,323	38,858
	$ 489,078	$ 360,520

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.

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, 2011, the Bank is not a party to any material litigation.

NOTE 14 – RELATED PARTY TRANSACTIONS

The Bank and Queen City Investments, Inc. ("Queen City"), which is the parent company of the Farmers & Merchants Trust Company of Long Beach (the "Trust Company."), may be considered affiliated parties as significant percentages of the outstanding shares of the Bank and Queen City are held by common shareholders, including by certain directors and/or executive officers of the Bank. In addition, certain executive and other officers of the Bank serve as officers and/or directors of Queen City Investments and/or its subsidiaries, including the Trust Company.

The Bank and the Trust Company have entered into an Employee Leasing Agreement whereby the Bank provides the Trust Company with the services of various Bank employees and in return the Trust Company pays fees to the Bank for such employee services. In 2011 and 2010, the Trust Company paid the Bank $427,000 and $445,000, respectively, under this arrangement. In addition, the Bank and the Trust Company have entered into an Exchange of Services Agreement for the exchange of various other services, which agreement provides for the periodic settlement between the parties of the differences in the values of respective services provided by one party to the other. Under this arrangement, the Bank provides administrative, accounting and data processing services as well as office space to the Trust Company and the Trust Company provides trustee and financial management services to the Bank and maintains deposits with the Bank. In 2011 the Trust Company paid the Bank $143,000 for the difference between the values of services exchanged between the parties in 2010 and in 2010 the Trust Company paid the Bank $102,000 for the difference between the values of services exchanged between the parties in 2009.

NOTE 14 – Related Party Transactions, continued

The Bank also leases a branch location from Queen City and pursuant to this lease, the Bank paid $294,000 and $270,000, respectively, in rent for each of the years ended December 31, 2011 and 2010.

At December 31, 2011 and December 31, 2010, no loan was extended to an affiliated party.

NOTE 15 – 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 $3.3 million and $3.2 million to the profit-sharing plan in 2011 and 2010, respectively. At December 31, 2011 and December 31, 2010, no shares of the Bank's stock are held by the trust created by the plan.

NOTE 16 – 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.

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, 2011, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2011, 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, 2011:						
Total Capital (to Risk-Weighted Assets)	$ 692,729	27.94%	≥ $ 198,365	≥ 8.0%	≥ $ 247,956	≥ 10.0%
Tier 1 Capital (to Risk-Weighted Assets)	$ 661,370	26.67%	≥ $ 99,182	≥ 4.0%	≥ $ 148,774	≥ 6.0%
Tier 1 Capital (to Average Assets)	$ 661,370	14.26%	≥ $ 185,476	≥ 4.0%	≥ $ 231,845	≥ 5.0%

NOTE 16 – Regulatory Matters, continued

	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%

NOTE 17 – SUBSEQUENT EVENTS

The Bank has evaluated events that have occurred subsequent to December 31, 2011, and through April 27, 2012, the date that these financial statements were issued. There have been no subsequent events that have occurred during the period that would require recognition in the consolidated financial statements or its disclosure in 2011.

Farmers & Merchants Bank®

fmb.com

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EQUAL HOUSING OPPORTUNITY

Farmers & Merchants Bank®

Partners in Education

2011 ANNUAL REPORT

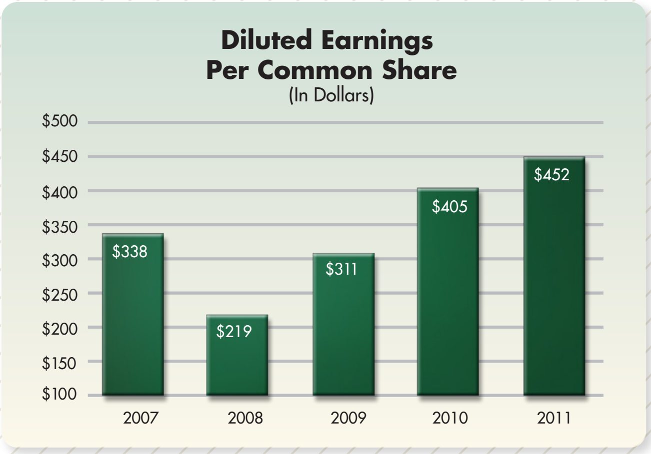
CORPORATE PROFILE

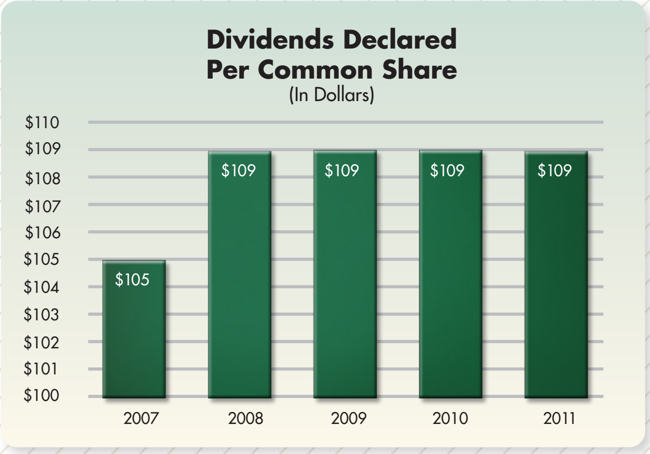
Farmers & Merchants Bank of Long Beach is a full-service, California-state-chartered community bank with $4.66 billion in total assets at December 31, 2011. Founded in Long Beach in 1907 by C.J. Walker, the Bank specializes in commercial and small business banking, along with business loan programs, and has 21 offices located throughout Los Angeles and Orange counties.

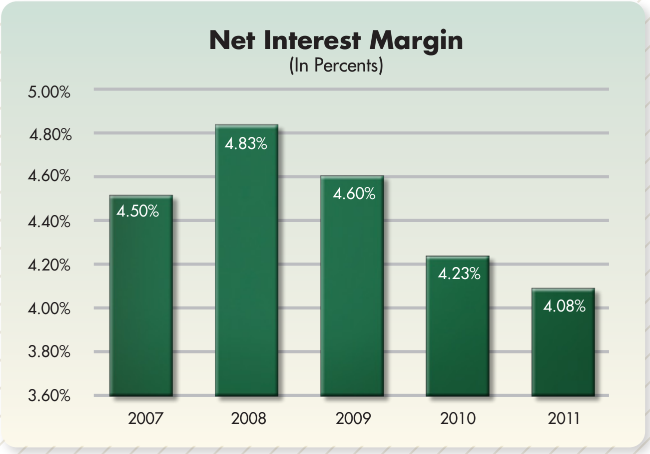
Farmers & Merchants Bank of Long Beach is one of the strongest banks in the country as measured by a variety of industry standards, and continues to uphold its founder's philosophy that safeguarding our customers' money is a sacred trust and giving back to the community is the wisest investment a business can make.

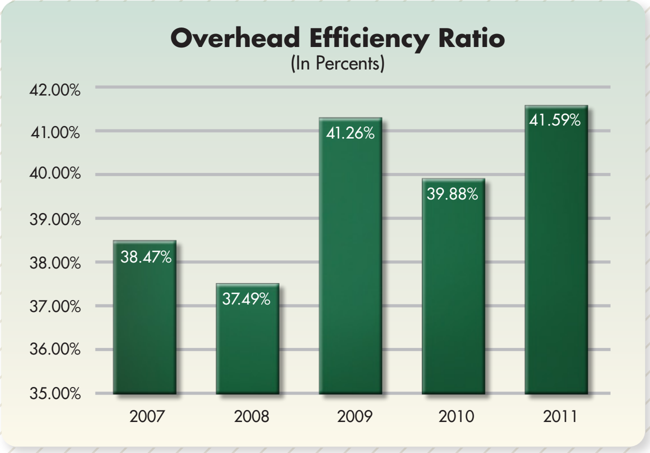
PARTNERS IN EDUCATION

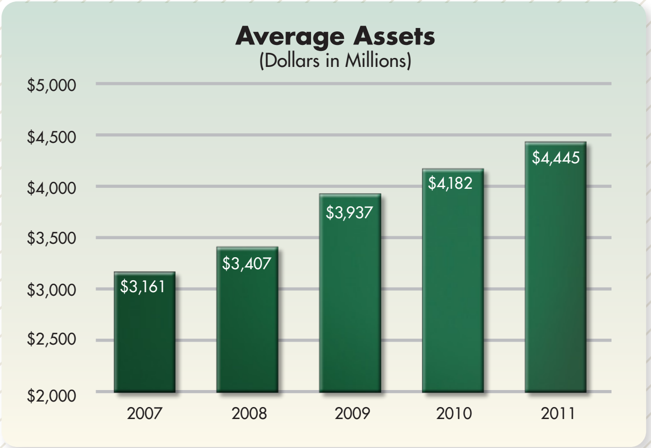
At Farmers & Merchants Bank, it is important to build upon our relationship with the community and forge new ties. The theme of this year's annual report, "Partners in Education," is one way we are connecting with the future of the communities we serve. From financing construction loans that help schools grow their campuses, to providing resources that make it easier for teachers and students to succeed, F&M Bank values the strength and achievements of its partners. We invite you to read the profiles on the following pages to see how F&M is partnering with educators to enhance the community.

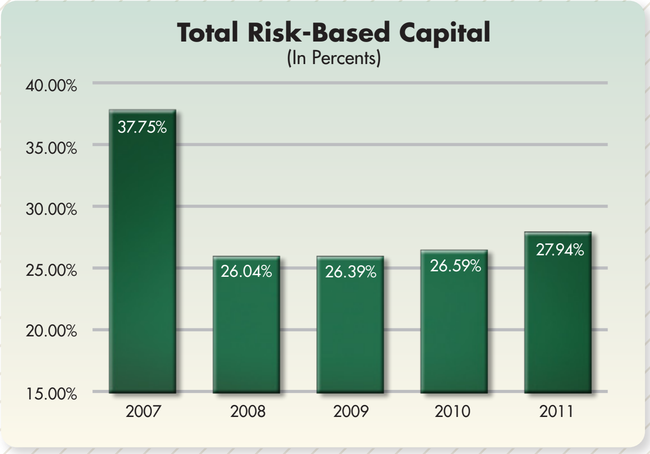

Diluted Earnings
Per Common Share
(In Dollars)
$500
$450
$400
$350
$300
$250
$200
$150
$100
$338
$219
$311
$405
$452
2007
2008
2009
2010
2011


Dividends Declared
Per Common Share
(In Dollars)
$110
$109
$108
$107
$106
$105
$104
$103
$102
$101
$100
$105
$109
$109
$109
$109
2007
2008
2009
2010
2011


Net Interest Margin
(In Percents)
5.00%
4.80%
4.60%
4.40%
4.20%
4.00%
3.80%
3.60%
4.50%
4.83%
4.60%
4.23%
4.08%
2007
2008
2009
2010
2011


Overhead Efficiency Ratio
(In Percents)
42.00%
41.00%
40.00%
39.00%
38.00%
37.00%
36.00%
35.00%
38.47%
37.49%
41.26%
39.88%
41.59%
2007
2008
2009
2010
2011


Average Assets
(Dollars in Millions)
$5,000
$4,500
$4,000
$3,500
$3,000
$2,500
$2,000
$3,161
$3,407
$3,937
$4,182
$4,445
2007
2008
2009
2010
2011


Total Risk-Based Capital
(In Percents)
40.00%
35.00%
30.00%
25.00%
20.00%
15.00%
37.75%
26.04%
26.39%
26.59%
27.94%
2007
2008
2009
2010
2011

Dear Fellow Shareholders:

Farmers & Merchants Bank of Long Beach achieved solid financial results in 2011, reporting double-digit percent increases in net income for the third consecutive year, while maintaining a strong balance sheet.

Global and domestic economies posed challenges throughout the year, and our conservative lending practices and disciplined approach to managing an unsettled economic environment were critical for the Bank's success.

Interest income for the year ended December 31, 2011 was $178.6 million, compared with $178.9 million for the same period in 2010. Interest expense for the year totaled $9.5 million, compared with $12.0 million in 2010, primarily reflecting the continued lower interest rate environment. At the same time, non-interest bearing demand accounts grew 25.8% and time deposits decreased 6.5% in 2011.

Provision for loan losses declined to $14.2 million in 2011 from $26.0 million for 2010, amid stabilizing economic conditions. The Bank's allowance for loan losses as a percentage of loans outstanding was 2.80% at December 31, 2011, compared with 2.69% at December 31, 2010.

Non-interest expense for 2011 was $78.4 million, compared with $74.4 million in 2010. Farmers & Merchants remains focused on controlling expenses as costly regulations persist for the banking industry.

Despite these hurdles, the hard work and efforts of the entire team at Farmers & Merchants led to a profitable year. The Bank's net income for 2011 rose to $59.1 million, or $451.53 per diluted share, from $53.0 million, or $405.06 per diluted share, for 2010.

Additionally, we continued to pay a dividend in 2011, demonstrating our commitment to enhancing shareholder value.

Strong and Stable

The strength of Farmers & Merchants' balance sheet attests to the overall health of the Bank, and that is a function of the talent and acumen of our finance team, which is led by Chief Financial Officer John Hinrichs.

At December 31, 2011, net loans increased to $2.03 billion from $2.01 billion at December 31, 2010. The Bank's deposits grew 13.0% to $3.39 billion at the end of 2011, from $3.00 billion at December 31, 2010. Non-interest bearing deposits represented 37.2% of total deposits at December 31, 2011, versus 33.4% of total deposits at December 31, 2010. Total assets increased to $4.66 billion at the close of 2011 from $4.26 billion at December 31, 2010.

Farmers & Merchants remained "well-capitalized" under all regulatory categories at December 31, 2011, with a total risk-based capital ratio of 27.94%, a Tier 1 risk-based capital ratio of 26.67%, and a Tier 1 leverage ratio of 14.26%. The minimum ratios for capital adequacy for a well-capitalized bank are 10.00%, 6.00% and 5.00%, respectively.

As the Bank enters its 105th year of serving Southern California, educating our youth about banking is one way we are connecting with the future of the communities we serve.

Our values and commitment to the community are reminiscent of the fundamentals instilled more than a century ago. But it is Farmers & Merchants' devotion to serve future generations with integrity and unparalleled service that is unbound by time.

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

ORANGE COUNTY HIGH SCHOOL OF THE ARTS (OCHSA) – DR. RALPH S. OPACIC, FOUNDER AND EXECUTIVE DIRECTOR

Art and banking are two words that rarely surface in the same sentence. And yet these words are inextricably linked.

Dr. Ralph S. Opacic, Ed.D., knows this all too well as the founder and executive director of the award-winning Orange County High School of the Arts (OCHSA). He is credited for bringing together the finest artist-teachers and academic instructors in Southern California.

"We know we have a passion for the arts, but sometimes we lack the business acumen. And that's where a partner like Farmers & Merchants Bank comes in," said Opacic, who recently worked with the Bank to help facilitate the school's expansion. "To do that, you need partners who are committed to the community, not only from a banking perspective, but also from the perspective of giving back to the community."

In 2010, F&M helped OCHSA solidify a $30-million financing deal for the purchase of the former OC Pavilion, which has become the school's state-of-the-art Margaret A. Webb Theatre. The facility is replete with moveable stages, a capacity of more than 500, and a professional kitchen.

OCHSA honored the Bank with its prestigious Community Partner Award in May 2011. Opacic said the award demonstrates F&M's commitment to investing in its community, especially at a time when the economy isn't exactly robust.

"We were able to double our square footage and increase our enrollment thanks to Farmers & Merchants," he said. "And it wasn't just a business transaction for us or the Bank. We were working as partners committed to enhancing the community."

HICKORY ELEMENTARY SCHOOL – EDNA SCHUMACHER, PRINCIPAL

As the principal of Hickory Elementary School in Torrance, Calif., Edna Schumacher knows what it takes to keep kids interested and engaged in school. It requires keeping teachers and students motivated and inspired.

That's why she is sending her teachers to continuing education classes through the University of California, Los Angeles to learn new methods of teaching math. The program is called Cognitively Guided Instruction, and it is based on more than 20 years of research that has helped teachers map out how basic number concepts and skills develop in early grades.

"We want our teachers to learn new approaches to teaching that enlightens and excites them, and we greatly appreciate support from businesses like Farmers & Merchants Bank of Long Beach," said Schumacher, whose school received a grant from the Bank to help pay for tuition. "We believe this is the kind of collaboration that ultimately enhances our community."

F&M's Torrance branch recently adopted Hickory Elementary as part of the Torrance Area Chamber of Commerce Adopt-A-School partnership program. Ned Stromme, branch manager, said helping Hickory is even more meaningful because he remembers when he was a student at the school.

"It is very gratifying to be able to give back to a school that played a significant role in my life," said Stromme, who attended Hickory four decades ago. "And when students come visit our branch, I make sure they know I remember the Hickory Hounds cheer."

MATER DEI HIGH SCHOOL – PATRICK MURPHY, PRESIDENT

Mater Dei High School requires its students to complete at least 80 hours of community service in order to graduate.

The school expects its business partners to uphold the very same values.

"We want to have a relationship with an organization that cares about its neighborhood," said Patrick Murphy, president of the Santa Ana, Calif.-based school. "And it was clear from the beginning that F&M was truly devoted to serving the community.

"You often have to go through five different layers when trying to connect with a management team at large, national banks. At F&M, you meet with the owners."

As the school grows to become one of the leading Catholic high schools in the nation, so does its relationship with Farmers & Merchants Bank. Whether F&M is helping Mater Dei finance construction loans or meet day-to-day banking needs, the two organizations share a similar passion: education.

The school and the Bank recently partnered to teach money management skills to students. The initiative includes "Money Smarts," a handbook that provides age-appropriate financial tips; in-class educational presentations by F&M banking professionals; outreach to parents; access to a financial education blog; and an official Mater Dei alumni debit card.

In addition to keeping an eye out for students, Murphy said F&M's attention to detail truly sets the Bank apart from its competitors.

"A single check had come to our organization that didn't look right. Instead of letting it coast through like other banks, F&M notified us immediately," Murphy said. "And that's just one more example of the Bank's commitment to the community it serves."

LONG BEACH UNIFIED SCHOOL DISTRICT – CHRISTOPHER J. STEINHAUSER, SUPERINTENDENT

In 1968, the Long Beach Unified School District was in need of $1.9 million to finance the construction of Elizabeth Hudson Elementary School. The district advertised the sale of bonds to raise the money, but there were no takers.

That's when Gus Walker, second-generation president of Farmers & Merchants Bank, stepped in and purchased the entire bond issue. Today, the Bank's decades-long legacy of serving as a loyal partner to the community's school system remains steadfast.

The district not only banks with F&M, its superintendent, Christopher J. Steinhauser, remembers growing up as a customer.

"F&M has been with me through thick and thin," said Steinhauser, who received his first line of credit from the Bank more than three decades ago. "It was $200 back then and taught me the necessary discipline to watch my spending habits."

But Steinhauser learned another life lesson from the Bank. This time it was from a senior vice president turned chief financial officer.

In the early 1980s, Steinhauser began renting an apartment where the landlord just so happened to be John Hinrichs, who was a senior vice president of F&M at the time. "Mr. Hinrichs was a kind man who you respected deeply," Steinhauser said. "And as a newlywed couple, let me tell you how helpful it was when we actually made money on our deposit.

"It's hard to find a landlord who cares about making you money," Steinhauser said.
To this day, Steinhauser carries two F&M credit cards in his wallet: one for the district and one for himself.

BOARD MEMBER PROFILES

Daniel K. Walker
Chairman of the Board since 2003
Mr. Walker is president of Farmers & Merchants Bank of Long Beach, where he has served in various positions since 1975.

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.

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

Independent Auditor
KPMG LLP
600 Anton Boulevard, Suite 700
Costa Mesa, CA 92626-7651

Legal Counsel
Paul Hastings LLP
695 Town Center Drive, 17th Floor
Costa Mesa, CA 92626

Investor Relations
PondelWilkinson Inc.
1880 Century Park East, Suite 350
Los Angeles, CA 90067

Transfer Agent
American Stock Transfer and Trust Company
6201 15th Avenue, Brooklyn, NY 11219

Securities 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.

Main—Long Beach
302 Pine Ave.
Long Beach, CA 90802
(562) 437-0011

Belmont Shore
4827 E. Second St.
Long Beach, CA 90803
(562) 621-1430

Bixby Knolls
4545 California Ave.
Long Beach, CA 90807
(562) 984-3600

East Long Beach
3140 E. Anaheim St.
Long Beach, CA 90804
(562) 621-1400

Fullerton
315 N. Harbor Blvd.
Fullerton, CA 92832
(714) 578-1945

Garden Grove
10422 Garden Grove Blvd.
Garden Grove, CA 92843
(714) 590-3880

Huntington Beach
7125 Yorktown Ave.
Huntington Beach, CA 92648
(714) 465-3131

Laguna Hills
24300 Paseo de Valencia
Laguna Hills, CA 92653
(949) 340-3150

Lake Forest
23772 Rockfield Blvd.
Lake Forest, CA 92630
(949) 460-7900

Lakewood
5101 Lakewood Blvd.
Lakewood, CA 90712
(562) 602-8378

Los Altos
2302 Bellflower Blvd.
Long Beach, CA 90815
(562) 799-7271

Memorial—Long Beach
2801 Atlantic Ave.
Long Beach, CA 90806
(562) 989-7862

Newport Beach
4695 MacArthur Ct., Ste. 130
Newport Beach, CA 92660
(949) 241-8280

Orange
1220 E. Katella Ave.
Orange, CA 92867
(714) 288-8450

Rolling Hills Estates
27525 Indian Peak Rd.
Rolling Hills Estates, CA 90274
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